

POLB(12)96

MAY 2012

**POST OFFICE LIMITED MATTERS – DISPUTE RESOLUTION
PRIVILEGED AND CONFIDENTIAL – CLAIMS OVER £500K OR THOSE OF A SENSITIVE NATURE**

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
Horizon claims	POL/HF/CD	Rod Ismay of POL	<p>POL has received notification of a total of five (5) claims from former subpostmasters (SPMs). Each has alleged wrongful termination of contract (based on (1) alleged defects in POL's internal processes and (2) alleged defects with the Horizon system). Each is seeking damages in the sum of c.£150,000.</p> <p>Despite reports in the media that Shoosmiths have consulted on a further 85 cases, POL has not been notified of any additional claims.</p> <p>A third party fraud investigator is to be appointed (following consultation with various MPs) to review up to 10 cases where Horizon is alleged to have caused the losses. It is anticipated that no further court action will be taken pending the outcome of that investigation.</p>	<p>In respect of four of the five claims, Shoosmiths have not taken any further action to date to progress the claim. There is no litigation in progress.</p> <p>POL has been successful in having the fifth claim struck out and is currently seeking costs from the former postmaster concerned.</p>	Bond Pearce

IRRELEVANT

MAY/JUNE 2012

POST OFFICE LIMITED MATTERS - TOP 10 CRIMINAL CASES

PRIVILEGED AND CONFIDENTIAL

DESCRIPTION	TOTAL VALUE	STATUS	RECOVERY
Subpostmaster of Fairway Post Office, Port Talbot to be prosecuted for theft plus fraud plus Retriant order applied for.	£85,872.07	to issue summons	
Birmingham Subpostmaster pleaded guilty to theft. Sentenced to 8 months' imprisonment suspended for 2 years with 200 hours unpaid work.	£20,000	CASE COMPLETED	£5,000 compensation and £1,000 costs
Officer in charge at Crown Office at Swiss Cottage found guilty on 2 counts of theft.	£46,500	confiscation proceedings fixed for 23 July 2012.	Compromised confiscation figure of £46,500 (not index-linked) plus costs being considered with payment out of defendant's pension
A manager employed in the Post Office at London Road in Sunningdale to be prosecuted for theft.	£27,824.51	to issue summons	
Subpostmaster of Post Office branch at High Wych to be summoned for fraud..	£38,284.68	Hearing at Isle of Wight magistrates' court 25/06/12	
Subpostmaster at Midway House pleaded guilty to theft.	£23,399.31	Defendant sentenced to 2 years' imprisonment concurrent	Confiscation time table set to recover £23,399.31
Subpostmaster at Droylsden prosecuted for theft.	£406,515.43	Hearing 6/07/12	Confiscation time table set to recover £406,515.43
Nominated Subpostmaster at Illeybrook Square Post Office pleaded guilty to theft.	£114,095.00	Defendant sentenced to 20 months' imprisonment	Confiscation time table set to recover £114,095.
Subpostmaster at Broughton Sub-Post Office, Kettering to be prosecuted for fraud	£9,425.90	to issue summons	Repaid in full £9,425.90
Two Post Office Assistants at the Fazakerley Post Office, Liverpool admitted covering shortages by delaying the processing of business deposits to Santander. Case concerned 40 deposit slips being suppressed to total value of £34,115.50	£34,115.50	Hearing at Liverpool magistrates' court 21/06/2012.	

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POST OFFICE LTD BOARD

Sealings 16 May – 26 June 2012

Seal Register

The Directors are invited to consider the seal register and approve the affixing of the common seal of the company to the documents set out against items numbered 797 to 801 inclusive in the seal register.

"The Directors resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 797 to 801 inclusive in the seal register is hereby confirmed."

Alwen Lyons
Company Secretary
26 June 2012

POST OFFICE LIMITEDDate
26/06/2012

Register of Sealings

Company Number
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
797	23/05/2012	23/05/2012	Lease of premises at 26a Wellington Road, Rhyl, Denbighshire LL18 1AD	Helen Perkins	to Jean Reynolds
798	23/05/2012	23/05/2012	Rent Deposit Deed relating to premises at 26a Wellington Road, Rhyl, Denbighshire LL18 1AD	Helen Perkins	to Jean Reynolds
799	23/05/2012	23/05/2012	Deed of Variation (in duplicate) between the Landlord (The Mayor and Burgesses of the London Borough of Redbridge) and the Company as Tenant, in respect of the Ground Floor Lock-Up Shop known as 203 and 205 Manford Way, Hainault	Helen Perkins	to Jean Reynolds
800	06/06/2012	06/06/2012	Supplemental Agreement (in duplicate) relating to extension of Franchise Agreement for Rutherglen branch (Send & Spend Limited)	Helen Perkins	Denise Reid, The Markets branch, 6-16 New York Street, Leeds LS2 7DZ
801	19/06/2012	19/06/2012	Pursuant to long term loan agreements dated 22 March 2012, a letter (x 3 copies) confirming consent for the transfer of advances, made to the British Postal Museum & Archive by Royal Mail Group Limited and Post Office Limited as Lenders, to a new bank account.	Helen Perkins	to Susan Crichton

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POLCAG0512

Post Office Limited
(company no: 2154540)

Notes of the Post Office Communications Action Group Meeting
held at 148 Old Street, London
on 29 May 2012

Present:

Paula Vennells	(PV)	Chief Executive (Chair)
Alana Renner	(AR)	Communications Director
Kevin Gilliland	(KG)	Network & Sales Director
Martin Moran	(MM)	Commercial Director
Mike Granville	(MG)	Head of Stakeholder Relations
Ronan Kelleher	(RK)	Head of PR & Media
Richard Walden	(RW)	Head of Corporate Communications
Stuart Taylor	(ST)	Head of External Relations, Wales

Apologies:

Nick Kennett	(NK)	Director of Financial Services
Kevin Sellar	(KS)	Head of Government Services
Sue Huggins	(SH)	GM Network Services & Transformation
Shane O'Riordain	(SOR)	Communications Director RMG

Guests:

Stewart Fox-Mills	(SFM)	Head of Marketing
John Willcock	(JW)	Head of Financial Services
Nick Beal	(NB)	Head of Network Development
David Simpson	(DS)	Head of News, RMG

POLCAG01/05

Previous Meeting Notes

The notes from the previous meeting were agreed.

Action – PV asked ST to ensure that the CAG actions are captured and shared in the format used for the Post Office Board Meetings.

POLCAG02/05

Previous Action Points – All Completed

Action – the CAG asked AR to report back on the key Post Office messaging for the RMG Report & Accounts.

Action – AR to speak to Ronan Kelleher.

Completed

DS suggested that outside of the monthly CAG process then both communications teams would benefit from a weekly catch-up.

Action – AR to consider this approach and reply to **DS**.

Completed

Action – AR to bring back to the CAG the PR approach to be used to support the wider marketing effort.

Completed

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Action – MG to ensure that SPAD contact is assimilated into the wider plan.

Completed

Action - RW to check and feed back to **SH**.

Completed

POLCAG03/05

Post Office Integrated Comms Plan

The CAG **noted** and **reviewed** the Integrated Communications Plan (May – Sept 2012). The meeting offered the following observations:

A key event taking place at the end of the month is the ND12 Go On Digital Conference. PV is speaking on Day 1. The event includes a series of Post Office Champions workshops, facilitated by Maggie Philbin. It concludes with the presentation of the Digital Champion of the Year Awards, presented to Llangadog Post Office couple, Win and Richard Morgan.

1. Action - PV asked AR to ensure that all the activities contained within the plan are given both named owners and detailed completion timescales.

PV **asked** that a follow-up communication on the subject of the Scottish Local Authority FOOG session be included on the plan timeline.

The CAG discussed the likely timing of any mutualisation announcement from BIS. **MG** advised that whilst BIS has not confirmed any specific date, it has been suggested that the response to the consultation will be issued before summer recess.

On a wider communication subject, **PV** asked for a progress update on the redesign and development of corporate pages for the website. **AR/MM** responded by confirming that a reskin of the website is underway and that the corporate pages are drafted and awaiting sign-off.

PV stated that the images used at the recent Vision Launch event did not represent the current brand identity for the business and these should not be used for other events.

2. Action – SFM and RW to liaise and prepare new style images and share these with PV.

POLCAG04/05

RMG Comms Update (Verbal Update)

DS provided a brief update on key Royal Mail communication matters.

RMG Report & Accounts – this is provisionally planned for publication on the 28 June.

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3. Action - the CAG asked AR to liaise with Chris Day on the Post Office submission to the RMG report.

Gold Medal Winners Olympic Stamps – RM is planning to issue a press release naming the 500 Post Office branches where the Olympic Gold Medal Winner stamps will be available. The provisional release timing is mid June. DS reflected on the good integration between internal and external communication messaging in support of this major initiative.

RM Modernisation Programme – the programme continues apace and DS reminded the CAG of the importance of ensuring that RM and PO network change activity is shared to access the potential impact on external customers and stakeholders.

SFM – suggested that it would be beneficial for RM to benchmark how Australia Post used the Sydney Games to leverage business and brand profile.

PV thanked DS for his contribution to the meeting and wished to place on record her personal thanks and that of Post Office Ltd for David's advice and support over many years. David leaves RMG in June. The CAG wished DS well for the future.

POLCAG05/05

Projects Eagle and Polo (Verbal Update)

JW provided a verbal update on the key FS-related projects.

Eagle – it is hoped that the discussions around the Eagle changes are close to completion. A firm date has yet to be agreed for communicating the changes.

Polo - a proof of concept pilot is scheduled to start in selected Post Office branches in East Anglia on the 22 October. Work continues with BOI on the IT build aspects. It is likely to be September until a final go / no go decision is made on the project.

POLCAG06/05

Annual Report and Accounts

AR shared with the CAG the key elements of the approach to be taken in respect of the preparation and communication of the full year RMG Report & Accounts. This will be the final combined set of financial results, and as such, RM will inevitably dominate the coverage. A press release and press briefings are being prepared. The Post Office Communications team is contributing to both the statement and the supportive Q&A brief. The tactic is for Post Office to take a low-key approach to the R&A. **KG** suggested a challenge to that stance and said that Post Office should be more proactive and bold in telling our story. **AR** responded by reminding the meeting of the complicated external agenda which is unravelling over the next few months. This includes the publication of reports of major significance to the company. Specifically, these include the R&As; the BIS

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Select Committee report; the Post Office Network Report; and the report on Mutualisation. The key is deciding whether the Post Office's best interests are served by adopting a proactive or reactive approach to each topic.

4. Action – PV asked AR to compile a more detailed timeline of the key ticket issues for circulation in advance of the June meeting.

POLCAG07/05

Handled with Care - PR & IC Plan

RW and RK took the meeting through the PR and IC plan that supports the 'Handled with Care' brand marketing strategy. **The CAG noted and endorsed the approach.**

In line with the new brand values of Care, Challenge and Commit, then a company-wide 'first line fix' communications campaign is to be rolled out. This includes wider business messages to be inserted into sessions with Subpostmasters, e.g. Step Branch briefings and Rural Branch Network forums.

5. Action – MM to liaise with Harry Clarke about this campaign, with the CAG asking MM to join the Customer Complaints Group.

6. Action – MM shared that it has been identified that an elevator style Post Office story speech would be really useful for FOOG colleagues when they meet external clients and stakeholders. AR to provide please.

POLCAG08/05

June Meeting Agenda

A presentation on the feedback from the Vision Launch and the workplan moving forward will be presented at the June meeting.

7. Action – RW to prepare and share a presentation at the June meeting

At the June CAG, the further elements of the overall engagement strategy with stakeholders will be shared, covering; BIS, Other Government Departments, Devolved Administrations and Special Interest Groups.

8. Action – MG to prepare a paper and deliver a presentation at the June meeting.

POLCAG9/05

Agenda Standing Items

The CAG agreed that the following should be standing items on future meeting agendas:

- Integrated Communication Plan Update (Alana Renner)
- FS Update on Financial Services Projects (Nick Kennett)
- RMG Communications Update (Shane O'Riordain)

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POLCAG10/05

AOB

Vision Launch Review

PV recognised the fantastic job that the Communications team had done in executing the Vision event. In advance of formal structured feedback, then all of the anecdotal feedback so far has been overwhelmingly positive. Well done and thank you to all those concerned.

Action – the CAG asked for a digest of the Vision event feedback and the wider workplan of how the key messages are being cascaded throughout the company to be shared at the June meeting. **Action** – **RW**

Justice for Spmrs - engagement with MPs

PV shared with the CAG her recent experience of meeting with two prominent MPs on their concerns over the accuracy and validity of the Horizon system, following lobbying from Subpostmasters at branches where financial discrepancies have been discovered. **PV** praised the work of Angela Van Den Bogerd, Head of Network Services, in meticulously unpicking the MPs claims step by step and turning an openly initial hostile stance into one of understanding and acknowledgement of our position on the cases concerned.

PV stated that the MPs concerned have now asked Post Office colleagues to meet a larger group of MPs who have similar complaints from constituents to demonstrate the robustness of the Horizon system.

POLCAG11/05

DONM: The next meeting will be held at 9.30am on Thursday, 21 June in Room 107.

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POST OFFICE LTD
Post Office Employee Survey Results Topline: April 2012

Overall Summary:

- All employees surveyed in April 2012 (10th-30th) with a **76% response rate** (5744 responses). This was a 2% decrease from September 2011 (5790 responses).
- **Engagement Index of 64%**. This is a 6% increase from the 58% in September 2011. The February 2010 score was 39% (although this used a different model and survey provider from the September 11 and April 12 surveys).
- All 12 Engagement Index Questions increased – with notable increases in support for business strategy (9 points) and employer advocacy as an employer (7 points).
- Engagement Score above Retail Norm (58%) and RMG overall (56%).

DIRECTORATE SCORES	
The Engagement Index is calculated from the average score against the 12 key questions below. The score represents the %age of respondents who agree with the statement.	
No. of responses	5744
Job satisfaction at the present time	73 (67)
Feeling motivated in your current job	66 (60)
My job gives me a sense of personal fulfilment	61 (55)
Post Office gets the best out of me	65 (62)
I support Post Office's strategy and direction	58 (49)
I have confidence in the decisions made by the Post Office senior management team	39 (33)
I understand the relationship between my individual goals and Post Office's goals	63 (58)
Optimistic about your own future within Post Office	55 (47)
I am proud to work for the Post Office	76 (73)
I would recommend Post Office as an employer to a friend or family member	64 (57)
I would like to be with Post Office in two years' time	79 (77)
I value Post Office's culture	67 (62)
Engagement Index	64 (58)

Directorate Engagement Index	
Communications	88 (NA)
HR	77 (80)
Finance	74 (71)
Commercial	72 (63)
Legal and Compliance (inc. MD Office)	67 (67)
Operations	65 (58)
Financial Services	62 (69)
Network and Sales	62 (58)

(Score) = September 2011

Score = April 2012

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POST OFFICE LTD

Post Office Employee Survey Results Topline: April 2012

Organisational Focus

- The key areas identified by Ipsos MORI as driving engagement in Post Office are well-being, talent and development and communication & co-operation. Once we have the detailed reports available over the coming weeks we will be forming a detailed organisational action plan.
- We will also develop People Plans by function, informed by both the people strategy and employee survey results.

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POST OFFICE LTD
Post Office Employee Survey Results Topline: April 2012

Engagement Roadmap

June	July	August	September	Ongoing
<ul style="list-style-type: none"> Engagement survey results communicated across the business (this includes individual reports for each Crown and Supply Chain unit and central team) 	<ul style="list-style-type: none"> Organisational Action plan presented to ExCo (4th July) Sessions held with each Director and lead team to explore survey findings in depth Ambassador led focus groups on back of survey to establish qualitative context to data 	<ul style="list-style-type: none"> Directorate Action Plans created within the framework of the people strategy and incorporating survey results 	<ul style="list-style-type: none"> Local units with action plans developed 	<ul style="list-style-type: none"> Best practice shared and celebrated across the business

POLB(12)100

POST OFFICE LTD

Noting Paper

Post Office Bonus Scorecard for 2012/2013

1.0 Purpose

The purpose of this paper is to:

- 1.1 Update the Board on the outstanding bonus worthy measure in the Post Office Scorecard 2012/2013 which was to be confirmed following the Board meeting held on 23 May 2012.

2.0 Changes

- 2.1 The Board agreed the Post Office Scorecard and bonus worthy measures on 23 May 2012. However, the Crown Contribution Measure was still to be defined.
- 2.2 The Executive Committee has now defined this measure as Crown Loss. Appendix 1 shows the full scorecard measures and targets.

3.0 Conclusion

- 3.1 The Board is asked to note the definition of the Crown Contribution Measure as Crown Loss and note that this measure is subject to bonus.

Pauline Holroyd

June 2012

Appendix 1

Proposed Scorecard for the financial year 2012/2013

		Key Performance Indicators	Bonus Weighting	2012-13			2011-12
				On plan	Target	Stretch	Outturn
		Growth					
New	1	Total Revenue (excluding NSP) £m (Bonus)	25%	£1,000.6m (98.5%)	£1,015.8m	£1,046.3m (103%)	£979.7m
	2	Total Net Income (excl NSP) £m			£897.9m		£895.3m
	3	Operating profit £m (Bonus)	25%	£84.0m	£84.0m	£92.4m (110%)	£61.3m
	4	Free cashflow £m			(£85.3m)		(£15.0m)
New	5	Collections & Returns ability to serve RM (Milestones)			8		N/A
New	6	FOoG bid wins (value won vs value bid for) (Rev £m)			£11.7m		N/A
New	7	Financial Specialists' pay to income ratio % ³					
		Customer					
	8	Customer Satisfaction			88.0%		86.9%
Changed	9	Queue time % < 5 minutes - Top 1k branches (Bonus)	12.5%	77.5%	78.9%	82.8% (105%)	77.5%
Changed	10	Welcome & Farewell - (mystery shopped) - Top 1k branches			85.9%		81.4%
	11	Call Centres 3D (Bonus) ¹	12.5%	95% (95%)	100.0%	110% (110%)	105.2%
Changed	12	Retail Standards (actual) - Top 1k branches			84.9%		84.1%
	13	Horizon availability			99.6%		99.5%
Changed	14	Branch - Compliance (new basket)			95.0%		94.3%
		Modernisation					
New	15	Crown Loss £m (Year 1) (Bonus)	12.5%	£(42)m	£(40)m	£(36)m	£(46)m
	16	Engagement Index % (Once a year)			65%		64%
New	17	Network Conversions (Mains & Locals) (Bonus) ²	12.5%	960	1,200	1,345	N/A
New	18	IT Transformation (Milestones)			12		N/A

6 Proposed Bonus Worthy Metrics

¹ This is a basket of measures covering grade of service, quality and cost and has been re-based.

² The threshold and target for Network Conversions are in line with those used in the LTIP scheme.

³ This is scheduled to be measured from the half year onwards

NB: The performance conditions for the LTIP awarded, April 2012 are Net Income and Deficit Reduction with Network Contract Conversions acting as a gateway.

POST OFFICE LIMITED

GLOSSARY OF TERMS

AEI	Application, Enrolment and Identity
ARC	Audit, Risk and Compliance Committee
ATMs	Cash machines
BAU	Business As Usual
BIS	Department for Business, Innovation and Skills (formerly DTI)
Bol	Bank of Ireland (joint venture partner)
CAG	Communications Action Group
CMA	Communication Managers Association
CWU	Communication Workers' Union
DVLA	Driver and Vehicle Licensing Agency
DWP	Department for Work and Pensions
Eagle	Bol contract negotiations
EBIT	Earnings Before Interest and Tax
ExCo	Executive Committee
FOoG	Front Office of Government
FRES	First Rate Exchange Services
FRESH	First Rate Exchange Services Holdings
IDA	Identity Assurance (Services)
IPS	Identity and Passport Services (Passport "Check and Send")
Junction	Call centre for Travel Insurance product
LDF	Leadership Development Forum
MDA	Master Distribution Agreement
MSA	Master Services Agreement
Mulberry	Crown Offices' Profitability Project
NFSP	National Federation of Sub-Postmasters
NSP	Network Subsidy Payment
NT	Network Transformation
NTP	Network Transformation Programme
Penguin	Proposal for pre-paid card platform
PID	Project Initiation Document
PO	Purchase Order
POCa	Post Office Card Account (designed for receiving benefit, state pensions and tax credit payments)
POFS	Post Office Financial Services
POL	Post Office Limited
POL IC	Post Office Investment Committee
Polo	Proposal for Post Office Current Accounts
Remco	Directors and senior managers with pay terms previously set by the RMG Remuneration Committee
RMG	Royal Mail Group
RMHB	Royal Mail Holdings Board
ShEx	Shareholder Executive
SIA	Security Investment Authority
SLP	Senior Leadership Population - senior managers at the grade below Remco
SLT	Senior Leadership Team - top managers within POL (may include Remco, SLP and other grades)
SPMO	Strategic Project Management Office
UKBA	UK Borders Agency

Post Office Limited

POST OFFICE LIMITED
(Company Number 2154540)

Meeting of the MUTUALISATION SUB-COMMITTEE
to be held at 2.45pm on Wednesday 4 July 2012
at Gatwick Mail Centre, James Watt Way, Crawley, West Sussex RH10 9AA

14.45	1	Governance:		Alice Perkins
		• Committee Chairman		
		• Terms of Reference	MUT(12)1	
15.00	2	Mutualisation noting paper	MUT(12)2	Belinda Crowe
15.30	3	Finance workstreams	MUT(12)3	Chris Day
16.00	4	Stakeholder Forum	MUT(12)4	Paula Vennells
		• Terms of Reference		
16.40	5	Any other business		Alice Perkins

Members:

Alice Perkins (Chairman)
Chris Day
Alasdair Marnoch
Paula Vennells

Company Secretary

Alwen Lyons

In Attendance:

Belinda Crowe
Simon Baker

MUT(12)1**MUTUALISATION SUB-COMMITTEE**

PURPOSE	The Mutualisation Sub-Committee is responsible to the Board for ensuring that the work to develop proposals for the mutualisation of Post Office Limited is provided with strategic direction, involves the appropriate level of stakeholder involvement and has adequate support, and that mutualisation proposals are presented to the Post Office Board and Government in line with agreed requirements.
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ROLE	JOB TITLE	CURRENT INCUMBENT
CHAIR	Chairman	Alice Perkins
MEMBERS	Chief Executive Chief Finance Officer Non-executive Director	Paula Vennells Chris Day Alasdair Marnoch
OTHER ATTENDEES	Legal & Compliance Director (pro tem) Strategy Director (when in post) Consultant support (as required) Mutualisation Programme Manager ShEx representative (as required)	Susan Crichton Susan Barton Belinda Crowe Simon Baker Will Gibson
SECRETARIAT	Company Secretary (or Assistant Company Secretary)	Alwen Lyons (Helen Perkins)

FREQUENCY	Monthly initially, moving to quarterly once the mutualisation programme is fully established.
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QUORUM	Two Directors
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AREAS OF CONTROL

- Providing strategic direction for the POL mutualisation programme and its workstreams
- Ensuring that plans are in place for engagement with all key stakeholders including, but not limited to, Government, sub-postmasters and mistresses, independent agents and POL employees.
- Ensuring appropriate resources have been provided for the programme and workstreams, with due consideration for the balance between costs and benefits
- Reporting to the Board of POL, and liaising between the Board, Government and external advisers on progress towards mutualisation.
- Recommending to the Board and Government the framework and optimal arrangements for mutualisation.

SPECIFIC POWERS & AUTHORITIES

The Committee shall have access to any executive director or employee of the Company to obtain information or support in order to fulfil its objectives.

The Committee may request reports from the Executive Committee or from any sub-committee of that body involved in operational decisions which could have an impact on proposed mutualisation.

Decisions with Cash or P&L impact will be in line with existing delegated authorities: decisions with an impact of up to £0.5 million on a cumulative basis in each financial year will reside with the Committee; those with an impact over £0.5 million in any financial year will require POL Board approval. Examples of decisions with an impact of less than £0.5 million may include:

- Approval of Consultancy spend
- Approval of amendments to incentive arrangements

Commitments which may have an impact of a non-cash or non P&L nature may be entered into by the Committee, again in line with existing delegated authorities, up to an estimated value of £10 million. Commitments above this level and all final decisions concerning a structural change of the business to permit greater stakeholder involvement will require POL Board approval and, where relevant, notification to and consent from the Shareholder Executive, as set out in the Articles of Association.

REPORTING ARRANGEMENTS

The Mutualisation Sub-Committee shall report regularly to the full POL Board on progress towards mutualisation.

Minutes of meetings of the Committee will be provided to the Board for information.

MUT 12(2)

POST OFFICE LTD

POST OFFICE MUTUALISATION

1. Purpose

The purpose of this paper is:

- 1.1 To note the latest position on Post Office mutualisation and the Government's response to its consultation.
- 1.2 To approve the establishment of an internal POL Mutualisation Programme Board to develop the next stages of the mutualisation agenda and oversee and coordinate all mutualisation workstreams.

2. Background

- 2.1 On 4 July Government publishes the response to its consultation on "Building a Mutual Post Office", launched in September 2011.
The document concludes, in summary *:
 - The purpose of the mutual must be to serve the public benefit.
 - POL will establish a stakeholder forum to define the public benefit purpose of the Post Office.
 - A mutual Post Office will be subject to an asset lock arrangement to protect the public interest whilst giving flexibility for the Post Office to remain competitive.
 - The constitution of a mutual Post Office should include a mechanism for the payment of profit distributions, subject to consistency with its public benefit purpose. Investment requirements to ensure the ongoing delivery of that purpose should take precedence.
 - Profit distributions should not come at the expense of increased taxpayer funding for the 'social', uncommercial part of the network. The mutual must be incentivised to ensure as much of the network as possible is sustainable without reliance on the Government.
 - POL is to work with its stakeholders to consider more detailed aspects of the mutual model, including the optimal balance of representation of a Post Office mutual.
 - The future membership of a mutual Post Office should include staff and sub-postmasters. There must also be a formal conduit for any mutual to engage with consumers.

* The summary is correct at the time of drafting this paper but may be subject to change before publication. A full copy of the final document will be circulated on a "restricted" basis in advance of the sub committee meeting.

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- A mutual should include a representative body to provide oversight of the Board and represent the membership. Its remit and composition will be defined by POL and its stakeholders.
- The Board must have the clear autonomy to run the business in a manner consistent with the mutual's purpose.
- A formal transfer of ownership should only take place when commercial sustainability and financial stability have been achieved and it represents good value for money for the taxpayer. Working with its stakeholders, the Post Office and Government should agree the criteria against which the financial stability and commercial sustainability of the Post Office should be assessed.
- Government will retain an ownership stake at least until commercial sustainability is reached. In the meantime, Government will continue to be closely involved in the development of the mutual model and the definition of its public benefit purpose.
- Government will retain a mechanism to ensure that it can intervene if required to protect the public benefit, upon a transfer of ownership to a mutual.

1.2 In terms of next steps, the Government Response says:

- The conclusions in this document do not fix a timetable for implementation of mutualisation. The timetable will be dictated by the point at which the Government, the Post Office and its stakeholders are satisfied that it has attained the financial stability and sufficient commercial sustainability to create a sound basis for transferring ownership, informed by the Post Office's success in introducing its new network models and growing its business and dependant on the successful establishment of a positive culture of working together to achieve the shared goal of building a successful Post Office that is run for the public benefit.
- The generation of a culture of mutualism within the business will be a vital precursor to any ownership transfer.
- The Post Office and its stakeholders will build further a culture of engagement and customer responsiveness.
- The Post Office will establish a stakeholder forum to recommend a definition of the purpose of the Post Office for the public benefit.
- The Post Office and its stakeholders will collaborate to develop more detailed aspects of the mutual model, including its membership and the balance of representation; and governance arrangements such as the role of the representative body.

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- The Post Office's commercial strategy must be introduced successfully with revenue growth and the introduction of new 'Local' and 'Main' branch models.
 - The Post Office, working with its stakeholders, will develop criteria against which financial stability and commercial sustainability can be measured. Government will monitor progress against these criteria to assess suitability for a transfer of ownership.
 - Government must endorse the proposal on a basis that represents value for money for the taxpayer. As required by the Postal Services Act 2011, the Government must report to Parliament in advance of a vote on whether to mutualise.
 - Parliament must debate and vote in favour of the transfer of ownership to a mutual.
- 2.3 Government has now handed the baton over to POL to take forward the work. Government want to remain closely involved as the work develops. Proposals on the detail of mutualisation should be worked through with stakeholders and agreed by the Post Office Board and Government. This now gives an excellent opportunity to start to shape and influence mutualisation policy, think creatively about the options available to us and influence the agenda going forward.

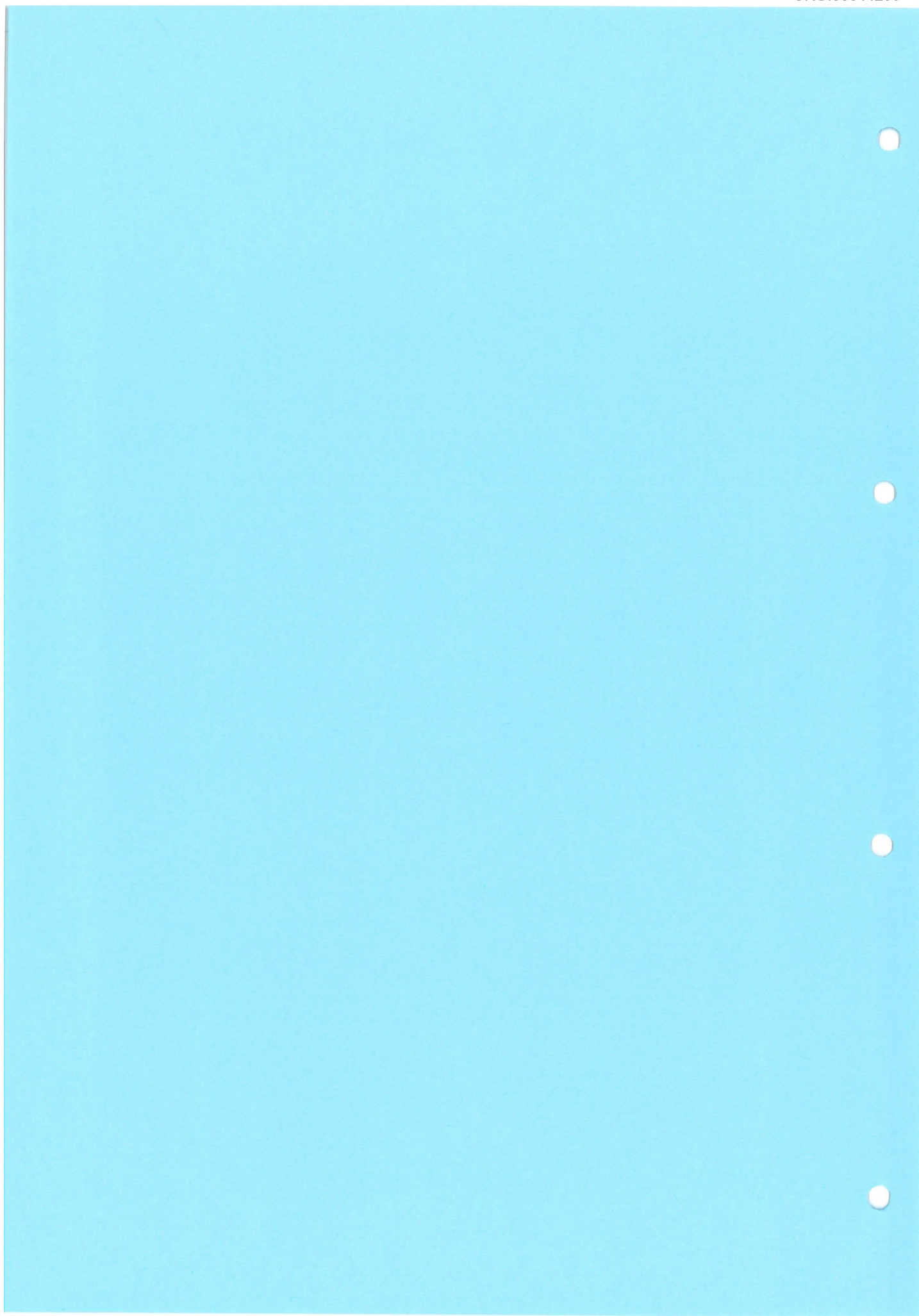
3. Proposal

- 3.1 To ensure that all workstreams necessary to inform decisions on mutualisation are properly steered, developed and co-ordinated, we propose that POL establish an internal Mutualisation Programme.
- 3.2 The Mutualisation Programme Board will be chaired by the POL Chief Executive, who will report to the PO Board sub-committee on the work of the Programme. The Board will comprise relevant members of the POL Executive Committee and will be supported by a Programme Manager.
- 3.3 The largest and most complicated workstreams are likely to be those related to finance. These are also the most urgent and it is important that work begins on them at once. As such, they are the subject of a specific Committee discussion under agenda item 3.

4. Recommendation

- 4.1 The sub-committee is asked to note the summary of the Government response to "Building a Mutual Post Office".
- 4.2 The sub-committee is requested to approve the establishment of a POL Mutualisation Programme. Its Terms of Reference and details of the workstreams will be presented to the next meeting of the sub-committee.

Belinda Crowe
June 2012



- Distribution Why?

MUT(12)3

POST OFFICE LIMITED

Finance workstreams

1. Purpose

1.1 The purpose of this paper is to:

- Take the sub-committee's view on the financial issues which need to be worked through in relation to mutualisation.
- Seek the approval of the sub-committee to establish a financial workstream as part of the POL Mutualisation Programme to work through the issues and define financial stability and commercial stability.

2. Introduction

2.1 Whilst it would be possible for POL to undertake mutualisation on an informal basis now (indeed it could be argued POL has operated on that basis recently through ColleagueShare & Share In Success for employees and agents), for POL to become a formal mutual a number of financial conditions would have to be met.

In particular, in line with the Government response to the consultation 'Building a Mutual Post Office', Post Office Ltd must achieve financial stability and commercial sustainability before becoming a mutual. It is for POL to define what that means in practice, working with stakeholders and Government. What that means in practice requires us to consider in more detail a number of issues.

2.2 The main ones are:

1. Government funding would need to be paid on a "service contract" basis that allows POL to build value and provide an ongoing commitment for the public good/community service. Currently, POL is effectively paid the minimum for it to remain a Going Concern during the defined funding period, which has often been as short as 12 months. For example, during the current funding period POL's value will reduce by c£150m. Obviously this change may substantially increase POL's funding requirement. This would probably involve agreeing with Government which branches they will pay for, how the segments will be defined (eg by profit; by location etc) and what conditions they will require.

The reason this will be required is to allow value to be obtained from the subsidised part of the business – in the way the subsidy currently works, this is not possible.

2. Cashflow needs to be generative after all costs and distributions. It is difficult to be specific as to how much this needs to be but for a business the size of POL £50m to £100m pa would seem reasonable.

The reason this will be required is that, for the business to be sufficiently solvent that a distribution can be made, it must plan for a positive cashflow over its plan period.

3. POL would have to have substantial net assets before it could realistically distribute – again this is hard to estimate but an increase of £100m to £300m on POL's current position would seem reasonable to absorb downsides to plan.

Again this is required as a buffer in case of a downturn in POL's business – the alternative would probably be further funding from government which would defeat a key objective of mutualisation.

4. The working capital facility would need securing on a long term basis – currently it is due to expire in March 2016.

This is required to fund POL's working capital requirements - in particular, network cash.

5. Identifying options for sources for long term funding.

POL needs to be able to secure funding and capital for investment.

6. How to incentivise branches, specifically the non-profitable branches.

It will be important to ensure that all branches are properly incentivised to build the business.

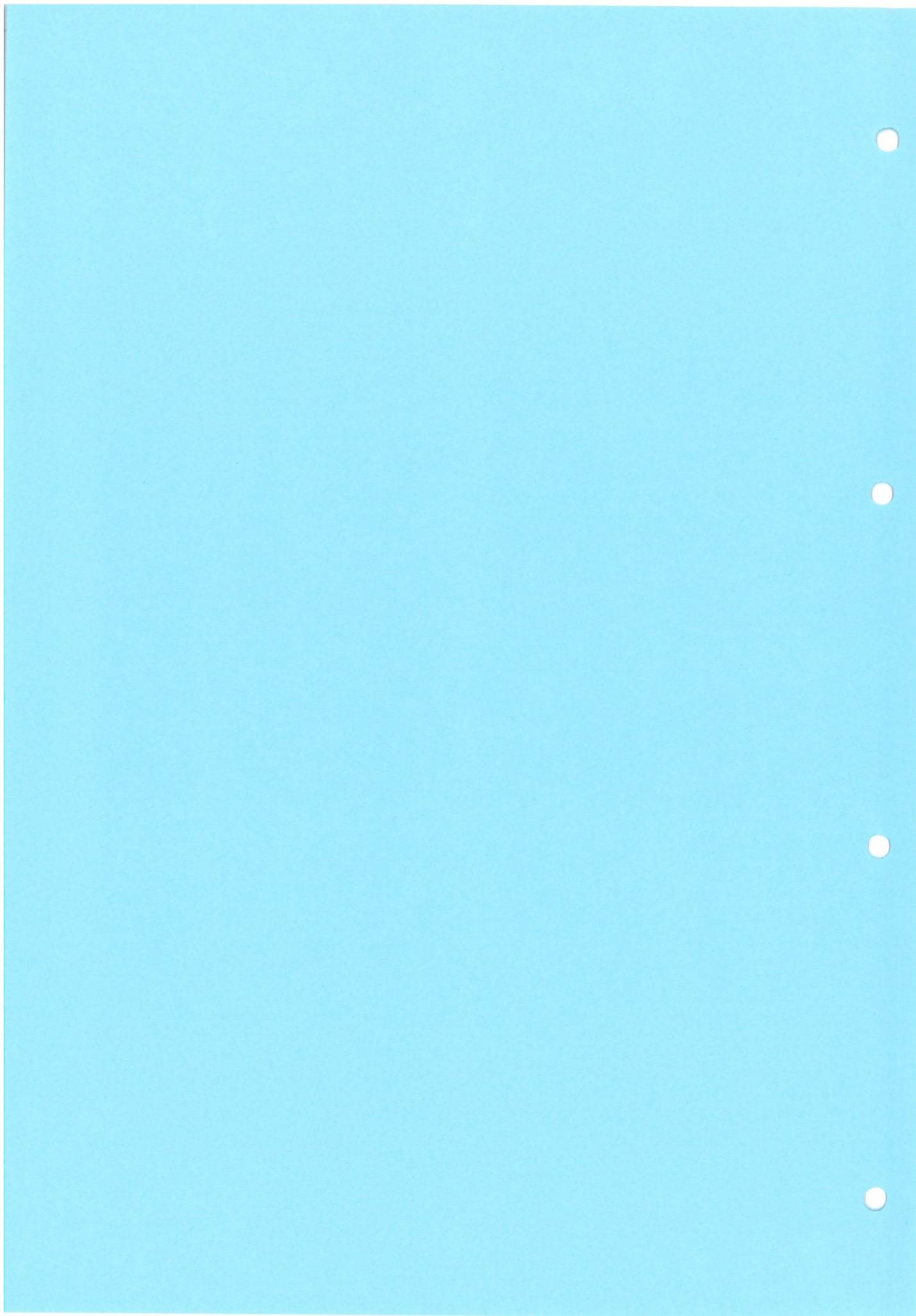
3. Further issues

- 3.1 If Government funding is paid for a service there may be VAT issues.
- 3.2 The funding may result in any upside being distributed but downsides being paid by Government as there will not be any other source of funding to keep POL solvent.
- 3.3 Action would be required to restructure POL's balance sheet so that the Share Premium could become a distributable reserve – this may require a court action which would, of course, be in the public domain. ✓
- 3.4 POL would need to escape impairment before it could distribute.
- 3.5 It could be difficult to distribute reserves whilst undertaking a large restructuring programme because of the uncertainty in the near future – eg even BP stopped their dividends during their Mexico oil crisis.
- 3.6 The existing funding agreement would need completely re-writing and probably approving by Brussels even if the amount of money paid to POL remained the same. Why?

4. Recommendation

- 4.1 The committee is invited to:

- Agree that the lists of issues identified above are the ones that need to be explored.
- Identify which ones should be dealt with as a priority.
- Agree to set up a workstream as part of the POL Mutualisation Programme to define what is meant by financial stability and commercial viability and deal with all the issues listed above.



MUT (12)4

POST OFFICE LTD

STAKEHOLDER FORUM

1. Purpose

The purpose of this paper is:

- 1.1 To request the sub-committee's approval for the establishment of a stakeholder forum.
- 1.2 To approve the Terms of Reference ("ToRs") of the stakeholder forum. (**Appendix 1**)

2. Background/Rationale

- 2.1 In his speech at the NFSP conference in May, Norman Lamb announced that the Post Office will set up a stakeholder forum to begin the next steps on the path to mutualisation. This is confirmed in the Government response to mutualisation published on 4 July 2012 which says: '...the Post Office will therefore establish a stakeholder forum. It will be structured in a way to enable input from the widest ranges of stakeholders, either directly or through representative groups, including representatives of stakeholders from across the spectrum of subpostmasters, directly employed staff, multiple retailers who operate Post Offices, consumers and Government. Its particular focus will be working with the Post Office to define the business's public benefit purpose.'
- 2.2 The particular focus of the forum will be to define the public purpose of the Post Office, around which a future mutual could be built.
- 2.3 Government has passed responsibility to Post Office Limited to set up and run the forum. The conclusions of the forum, in the form of a definition of the public benefit purpose of the Post Office, will be presented to ExCo, the Post Office Board and then Government.

3. Proposal

- 3.1 For the forum to be effective, its membership needs to be small enough to enable meaningful and substantive discussion, but it must be structured and directed in a way that requires the members to carry out research and consult with those they represent, to ensure that the forum benefits from the widest range of input. The success of the forum will be judged on the quality of its work and also the ability of a diverse group of stakeholders to work together towards a common goal.
- 3.2 To ensure that the forum works in the most effective way, we propose to seek the advice of a small group of experts in negotiation and engagement: David MacLeod, David Erdal and Margot Van Boeschoten. A meeting is being arranged with to explain the nature of the task and the forum and seek their advice, and possibly ongoing assistance, with the establishment and running of the forum to ensure its success.
- 3.3 The proposed ToRs are intended to:
 - reflect the terms of the Government announcement
 - confine the work of the forum to carrying out the task as announced by Government so that its effectiveness can be tested before any decision is made in relation to it undertaking any further work. If the forum works well it could be used to undertake or contribute to further work on mutualisation. However, work needs to progress on other aspects of mutualisation, which should also be developed with input from stakeholders at some stage in the development process.

The forum should be created in such a way that does not preclude other mutualisation workstreams starting as necessary in advance of the completion of the work of the stakeholder forum and, where necessary, involving different stakeholders or stakeholder representatives.

- 3.4 As part of its consultation on "Building a Mutual Post Office", Government has already hosted what might be considered the precursor to the Stakeholder Forum. The meeting was chaired by Norman Lamb, the Government Minister responsible for the Post Office. The membership of the Stakeholder Forum proposed in the ToRs reflects attendance at this meeting.

4. Options

- 4.1. The forum will have no decision making authority. It will act only in an advisory capacity.
- 4.2. The forum must use the research already conducted by Government and POL on public perceptions, customer segmentation etc. rather than commissioning new work.
- 4.3 The definition of the purpose of the Post Office must be agreed by the ExCo and the POL Board before being passed to Government for approval.
- 4.4 The sub-committee may identify and commission from the Forum new work to inform mutualisation, as it sees fit.

5. Recommendations

- 5.1 The sub-committee is requested to approve the proposal for the establishment of the stakeholder forum and to note the proposed use of external experts.
- 5.2 The sub-committee is asked to approve the Terms of Reference for the stakeholder forum.

Paula Vennells
June 2012

Appendix 1

TERMS OF REFERENCE

POL STAKEHOLDER FORUM

PURPOSE	The role of the POL Stakeholder Forum is for POL and its key stakeholders to work together to define the public purpose of the Post Office to provide a basis for the journey to Mutualisation.
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ROLE	JOB TITLE
CHAIR	Paula Vennells
MEMBERS	Representatives from: NFSP, CWU, Unite, Consumer Focus, Age UK, Local Government, ShEx
OTHER ATTENDEES	Ad-hoc relevant directors
SECRETARIAT	Mutualisation Programme Manager

FREQUENCY	Flexible, as required.
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QUORUM	NFSP, CWU, Unite and 2 other representatives
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RESPONSIBILITIES:
To develop an agreed, clear and compelling definition of the public purpose of the Post Office which incorporates its public and business benefits, in consultation with the widest range of interested parties.

SPECIFIC POWERS & AUTHORITIES (Subject to Delegated Authorities)
This is not a decision-making forum. The conclusions of the forum will be submitted to the POL ExCo and Board and to Government for approval.

