

Post Office Limited – Strictly Confidential

**POST OFFICE LTD BOARD MEETING (Company Number 2154540)**

**Meeting to be held at 9am on 26 February 2014  
in the Boardroom at 148 Old Street, London EC1V 9HQ**

0900	1	Project Sparrow and Prosecuting Authority	Chris Aujard/Angela Van-Den-Bogerd/Belinda Crowe
1030		<b>BREAK</b>	
1045	2	Business Transformation – Operating Model and Strategic Cost Reduction Update	Chris Day/Lesley Sewell
1145	3	Mutualisation – Public Purpose Statement	Mark Davies
1245		<b>LUNCH</b>	
1315	4	Update on Network Transformation and Crowns/ Industrial Relations Update	Kevin Gilliland/Neil Hayward
1345	5	Chief Executive's Report	Paula Vennells
1415	6	Financial Performance Update	Chris Day
1445	7	Adoption/confirmation of Policies	Alwen Lyons
1455	8	Minutes of Previous Meeting and matters arising Committee Minutes for noting Status report update	Alice Perkins
1500	9	<u>Items for Noting</u> <ul style="list-style-type: none"><li>• Data Centre Procurement</li><li>• Cyber/Information Security Update</li><li>• Significant Litigation Report</li><li>• Health and Safety Report</li><li>• Sealings</li></ul>	Alwen Lyons
1515	10	Any other business	
		Date of next meeting: 26 March 2014	
1525		<b>CLOSE</b>	

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**POST OFFICE LTD BOARD**

**Review of the Current Prosecution Policy**

**1. Purpose**

- 1.1 This paper has been prepared following the recent meeting of the ARC in order:
  - to provide the Board with a summary of the discussions that took place at that meeting; and
  - to seek the Board's approval to the implementation of a new Prosecution Policy, "Option B" in the paper that was considered and endorsed by the ARC at that meeting (a copy of which is attached to this paper as **Appendix A**), and that the policy should be reviewed at least once a year.
- 1.2 This paper also reflects comments made by the ExCo on this matter at its meeting on 13 February at which it too endorsed Option B.

**2. Background**

- 2.1 The ARC first formally considered changes to the Post Office's current prosecution policy at its November meeting. Following an extensive discussion on that matter it remitted the paper for further consideration and asked for the broad options set out therein to be refined and the implications explored.
- 2.2 On 11 February the ARC considered the attached paper and broadly endorsed Option B - *Pursuing a prosecutions policy more focussed on more egregious misconduct* - e.g. higher value cases/cases involving vulnerable members of society/cases of involving particularly wilful wrongdoing, and engaging with the police in relation to other matters - as set in that paper but on the clear understanding that the policy would be regularly reviewed (at least once a year) with a view to considering whether, in light of the experience that had then been gained, any further changes would be appropriate.
- 2.3 The ARC also commissioned a paper from the Communications Director setting out the potential narrative that could be used to communicate the change in policy on a reactive basis. A copy of his paper is set out in **Appendix B**.

**3. Activities/Current Situation**

- 3.1 The ARC's discussion was wide ranging and challenged the paper in a number of areas. Although it was felt that Option C represented a simpler and "cleaner" end state than Option B, on balance, it was agreed pro tem to endorse Option B, with the discussion turning on a few key points, including:

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- The need to adopt a new prosecution policy which allows the optionality to take account of the other planned developments in the business. In this regard it was noted that through the Branch Support Programme, the Post Office is changing its approach to contract breach, suspension and the training and support it provides to SPMRs but that these changes had not yet had time to work their way through the system. The full effect of the Branch Support Programme was unclear, and ideally it would be helpful to have a clearer understanding of how these changes interact with the factors set out in the paper before making any decision which limits optionality and allows, should it prove necessary, the potential to reverse the decision. This issue was also discussed at the ExCo meeting held immediately after the ARC meeting, and it was felt there that these changes introduced by the Branch Support Programme would need very careful monitoring. This programme is the subject of a separate paper included with this Item.
- The fact that there are a number of factors which distinguish Post Office from other financial institutions, all of which are content not to pursue their own prosecutions. These include scale, our unique relationship with sub-postmasters, the amount of cash that is handled by our branches (and in many cases by individuals who are not employees), our large number of vulnerable customers who are more easily defrauded, and the fact that public money is at stake.
- The interaction between any change in policy and the current heightened stakeholder interest in the mediation scheme (which is the subject of a separate paper within this Item) and related matters. It was noted that any change of policy may be closely scrutinised, with the possibility of an erroneous inference being drawn that the Post Office had been wrong to pursue prosecutions in the past (leading counsel had in any event reviewed the paper and confirmed that such an inference would, as a matter of law, be entirely incorrect). This was compounded by the fact that the Post Office will shortly be launching the procurement process for the replacement to the Horizon system – something which was due to happen now in any case; again this factor pointed in the direction of a more gradualist approach.
- The need to maintain an effective deterrent against wrong doing, given the public trust placed in the Post Office. In this context it was noted the CPS were currently very resourced constrained, and were unlikely to have the appetite to pursue other than the most serious cases of theft or fraud committed by SPMRs.

3.2 At both the ExCo meeting and the ARC meeting a discussion was had about the civil recovery process and it was noted that the option of using the civil courts to recover debts remained open to the Post Office in cases where, under the current policy a prosecution would have been brought, but where under the revised policy, it would not. It was noted that, in terms of recovery rates, past performance was not necessarily a good guide to predict future performance, given the often radically different circumstances in which these cases were brought. The volume of other changes taking place in the

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network also meant that this type of extrapolation would, in any event, be difficult. ExCo in particular felt that careful regular monitoring of recoveries going forward was required.

3.3 The ARC requested information about the composition of the applicants in the mediation scheme and the following statistics were (in advance of the meeting) provided:

- Of the 147 applicants to the scheme, **49 applicants** were subject to criminal prosecution.
- Of those, no prosecutions happened within the last 2 years, but one applicant was subject to criminal prosecution in 2011, 6 applicants were subject to criminal prosecution in 2010 and 4 applicants were subject to criminal prosecution in 2009.
- We believe (but are trying to verify) that **31 applicants** were subject to some form of recovery processes. This includes recovery via Post Office Ltd's "normal" debt recovery processes (e.g. by issuing a letter of demand) and recovery through the use of full civil court proceedings.
- We are currently aware that, of those 31 cases, civil court proceedings were issued against at least **16 applicants**, of which 8 were dealt with in the last 2 years.
- External solicitors also recovered debts from at least 5 applicants (without initiating court proceedings), of which 2 were dealt with in the last 2 years.

3.4 ExCo also discussed the impact that any change in prosecution policy would have on the so called "stacked cases". (These cases are ones where an investigation into a loss or alleged loss, and the SPMR is waiting hear of the outcome of those investigations). In accordance with the existing policy we are already in the process of notifying around 10 SPMRs that no further action will be taken in relation to their case. Of the remaining 30 cases, it was noted that should the Board adopt Option B then each case will need to be individually re-assessed against the policy, with the likely result that a number of the stacked cases will not be taken forward; with the individual being notified of this fact as soon as possible. This may generate further media interest in the Post Office's approach to prosecution either via the individuals themselves or JFSA.

3.5 Finally the ARC discussed whether any policy change should not at this stage be made available on Post Office's website. The feeling was that the policy should not be published, but that Post Office should prepare appropriate reactive lines in case it was necessary to discuss the changes – for example if directly questioned at the forthcoming meeting with James Arbuthnot and other interested MPs. To support this, the Communications Director has prepared the attached draft communications briefing paper (**Appendix B**) which will be revised following feedback from the Board.

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**4 Recommendations**

The Board is asked to:

- 4.1 Note the summary of the discussions that took place at that the ARC and ExCo meetings;
- 4.2 Approve the implementation of a new Prosecution Policy, "Option B", as detailed in Appendix A ; and
- 4.3 Agree that the policy should be reviewed at least once a year.

**Chris Aujard**  
**18 February 2014**

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**Appendix A**

**POST OFFICE AUDIT, RISK AND COMPLIANCE COMMITTEE**

**Prosecutions Policy**

**1. Purpose**

The purpose of this paper is to:

- seek the ARC's views on proposed changes to the prosecutions policy and the way in which POL will prosecute criminal cases in the future; and
- update the ARC with respect to certain aspects of the Branch Support Programme.

**2. Background**

2.1 At its meeting on 19 November 2013, the Committee considered whether or not there was merit in formally amending the prosecutions policy and if so what the substance of those amendments should be. It was agreed at that meeting that before any firm decision could be taken in this regard:

- (a) further work needed to be done to understand the financial and other consequences of amending the policy, particularly if it were the case that the amendments resulted in fewer cases being referred to the criminal courts;
- (b) the Committee needed a clearer understanding of the work that was being done as part of the Branch Support Programme and the impact this would have on detecting (and preventing) losses at an earlier stage; and
- (c) it would be helpful to understand how banks and other large companies dealt with criminal loss caused by employees.

2.2 In this connection it is probably useful to note that in a report for POL Brian Altman QC observed that, "Post Office Ltd's prosecution role is perhaps anachronistic...", and that we are "the only commercial organisation (albeit Government owned) I have been able to identify (apart from RMG that retains a prosecution function) that has a commercially based, sophisticated private prosecution role, supported by experienced and dedicated teams of investigators and lawyers. To that extent it is exceptional if not unique."

**3. Activities/Current Situation**

3.1 The way in which prosecutions have historically been brought was set out in some detail in the paper on prosecutions considered by the Committee in November. In that paper it was noted that typically we prosecute subpostmasters for False Accounting combined with Theft, and/or Fraud. The prosecutions are brought in accordance with the Code for Crown Prosecutors and the choice of charge is largely dependent on whether we have obtained an admission of guilt, or other compelling evidence that the Defendant has taken money directly from us, or have only secured evidence that the Defendant covered up losses by falsely recording the branch's financial position (e.g. to avoid paying losses back and/or to keep their branch) on the Horizon system. As will be recalled, typically Defendants plead guilty to a charge of False Accounting, with the charge of Theft then being dropped.

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3.2 In terms of the volume and cost of cases, over the past few years we have averaged about 250 investigations into possible criminal conduct a year, of which about 50 resulted in criminal prosecutions. The financial losses (to POL) in those cases where a prosecution was brought ranged between £1,738 and £175,260 per incident in 2012/2013, and £2,347 and £192,990 in 2013/2014. The average cost of bringing a criminal prosecution the in 2012-2013 financial period was about £7,500 (£3,600 for the costs of our internal security investigators, plus £3,900 for our external solicitors).

3.3 The amount recovered from Defendants in respect of stolen, misappropriated or unaccounted for stock or money in the cases closed so far in the 2013/2014 period was £741,182, or approximately £10,500 per case. Total losses in those cases were £1,603,932, implying a recovery rate of 46%. These figures must, however, be treated with a degree of caution, as any amounts recovered must be seen as coincidental consequence of the current policy on prosecutions. It is well established that the purpose of criminal prosecutions is to punish and deter wrongdoing, **not** to recover financial loss: this must be our guiding principle. Should we bring a prosecution for any other reason, Post Office and its Board run the risk of being accused of abusing the Criminal Justice System, with attendant reputational damage.

3.4 POL does however frequently initiate actions in the civil courts for debts it believes are due and owing to it by subpostmasters. In 2012/13, the civil debt team (a team which is entirely separate to the criminal team) recovered approximately £1.9 million, and instructed external lawyers in 100 cases, at an average cost per case in 2012-2013 of about £1,200 (£400 for the costs of Former Agent Accounting Team, plus £800 for our external solicitors). It is not proposed at this stage to review the civil recovery process, as it outside the scope of the work undertaken by Project Sparrow. That said, the way that POL interacts with subpostmasters generally is in scope for the Branch Support Programme.

#### **4. Options Considered**

4.1 As noted in the November paper, broadly the options considered comprised:

- (a) **Preserving the status quo** – i.e. retaining prosecutorial capability and continuing with a prosecutions policy which is substantially the same as that which has been used in the past;
- (b) **Pursuing a prosecutions policy more focussed on more egregious misconduct** - e.g. higher value cases/cases involving vulnerable members of society/cases of involving particularly wilful wrongdoing, and engaging with the police in relation to other matters; and
- (c) **Ceasing all prosecutorial activities** but instead actively involving the police/CPS etc where it is felt that they are likely to take matters forward.

4.2 For a variety of reasons, option (a) did not gain a large degree of support from the Committee at its meeting in November and for that reason is not the focus of this paper. Similarly, given that we have been advised by leading Counsel that, due to budgetary constraints, the CPS is unlikely to have an appetite to prosecute all but the most serious cases, and there would be a substantial lead in time as we would need to open negotiations with the Director of Public Prosecutions about implementation which would take time and still leaves us in our current position. Also, if option (c) were commenced, it would not be for Post Office to implement or review the policy but for the CPS. For these reasons option (c) is not discussed in

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any great detail, though should the Committee decide that it is an option worth exploring further much of the analysis in the following paragraphs, particularly with respect to cost and financial implications will still be of relevance. Instead, the balance of this paper focuses on option (b), and the possible "filters" that could be applied to our prosecution policy in order to ensure that only cases displaying an appropriate "fact pattern" are prosecuted.

4.3 One of the "filters" that could be applied is financial: currently there are no formal financial limits set out in our prosecution policy (though in practice de minis amounts are not pursued), an approach which gives us a run rate of approximately 50 criminal cases a year. If a financial filter were applied then (based on our analysis of historic cases) the number prosecutions would (be likely to) reduce as follows:

- £15,000 - approx. 25 cases a year
- £20,000 - approx. 20 cases a year
- £30,000 - approx. a dozen a year
- £100,000 - one or two cases a year (and these could possibly be of interest to the CPS)

In order to ensure that an appropriate balance is struck between providing a suitable deterrent, and POL not being viewed as being too heavy handed, it is recommended that a financial limit be introduced into the policy as a matter to "take into account" when deciding whether to initiate proceedings. The significance of this "guide" figure would be that cases involving losses of an amount less than it would not typically be prosecuted **save where** there are highly compelling or special circumstances (e.g. the victims of the conduct are elderly or otherwise vulnerable members). It is proposed that this figure be fixed, initially, at £20,000.

4.4 It is also suggested that factors other than financial ones should be expressly introduced into any revised prosecutions policy. After discussion with our prosecutions team and taking into account the fact patterns displayed in those cases that are being considered by the mediation scheme, it is proposed that those factors include:

- whether the losses in question have been repaid;
- whether the facts disclose a pattern of deliberate conduct designed to materially benefit him/her, or whether the fact pattern discloses inadvertence/poor book-keeping skills or "muddle-headedness";
- the degree of sophistication of the alleged wrongdoing;
- the number of incidents;
- the extent to which any members of the public suffered loss, and if so whether they were from vulnerable groups in society;
- the period of the alleged offending;
- the cost of bringing the prosecution; and
- whether there are any alternative, more suitable, remedies available to POL.

4.5 It should be noted that, although POL is still currently able to bring cases where the evidence concerned is extracted from the Horizon system, there is a strong risk that in such cases a defence will be mounted to the effect that the Horizon system cannot be relied upon. We have been advised that in these cases, there is a strong likelihood that such a defence would be successful, at least until such time as a new independent expert is identified and has familiarised himself with the system. This is likely to take around 12 weeks, and cost up to £200,000. Accordingly, at least until

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such time as the dimensions of this work are fully understood, as a practical (i.e. evidential) matter court proceedings will not be started in such cases. In addition there may be material on-going costs per case for the independent expert as the systems change through the usual business change programmes.

4.6 For completeness, and at the request of the Committee, we have also considered how other retailers, financial institutions and quasi-public organisations respond to criminal conduct within their organisations. Although definitive information is hard to obtain, it appears that:

- Most retailers and financial institutions maintain in-house security/investigative functions, which pass evidence of crime (often CCTV footage) over to the police and then support any actions taken by the external prosecutor (e.g. CPS). Other than Royal Mail Group, we have not identified any commercial organisations that habitually bring private prosecutions.
- Although Virgin Media recently conducted a high profile, high value (c. £144 million) private prosecution of a set-top box fraud, this was conducted with the police and appears to have been an exceptional step rather than a “business as usual” activity.
- Quasi-public organisations (e.g. TfL) and charities (e.g. RSPCA) are also known to bring private prosecutions. However these are typically brought against external persons (e.g. fare dodgers or animal abusers), and not employees or others involved in the organisations’ day-to-day operations.

4.7 In the November paper, a number of other factors were identified as possibly relevant to our approach to prosecutions (e.g. brand inconsistency, engagement with subpostmasters). In addition to these, which remain relevant, the following should be noted:

- Cost of Compliance with Duty of Disclosure: The continuing duty to act properly as a prosecutor required us (through our external solicitors) to review the prosecutions of 325 individuals to ensure that the Second Sight report did not affect the safety of any convictions. The cost of this review was approx. £180,000. We will need to do similar reviews every time new information comes to light which may call into question the safety of a conviction. To seek to minimise the need for this, we have instituted a weekly, cross-business conference call at which branch accounting issues can be raised. The estimated external cost of these calls is approx. £27,000 a year.
- Wasted management time and money: To date, we have spent approximately £5million seeking to address the concerns raised over our Horizon system and the criminal prosecutions. It has also taken up a considerable number of man hours of senior management at a time of significant, strategic and fast change in the company.

**5. Commercial Impact/Costs**

5.1 The immediate financial impact of the above policy approach, assuming that no other changes are made, would be that the sums of money that are currently recovered via the criminal law system (£741,182 in the 2013/2014 period), would no longer be as readily recoverable. As explained in the November paper, however, it would be open to us to use the civil courts to recover losses, though this is a more time consuming process, and there is greater scope for assets to be hidden from view. The recovery rate per case pursued through the Civil Courts will be difficult to

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ascertain given that a number of Subpostmasters subject to criminal proceedings are in financial difficulties, the impact of this on the recovery process is unknown.

5.2 However, if POL can deal with problems that arise in subpostmasters' offices before they turn in to significant financial losses, the financial impact of any change in the prosecutions policy should be greatly reduced. This in part is the aim of the BIP, the key elements of which include:

- gathering better MI from the network systems;
- providing better training and support to subpostmasters and branch staff;
- identifying problem losses earlier;
- liaising with the relevant persons sooner; and
- reviewing how we respond when a subpostmaster has materially breached his obligations to us.

5.3 Appendix A provides an overview of the Branch Support Programme and the actions that have and will be taken.

5.4 It should also be noted that any decision made now with respect to the future conduct of criminal prosecutions will have an immediate impact on so-called "in motion" cases. These cases, which are the subject of the separate paper due to be considered at the next meeting of the ARC/Board, are ones where no decision to prosecute has been made, but where the subpostmaster concerned has been interviewed under caution, and is waiting to hear whether or not a charge will be brought. Given that a number of cases now date back to late summer last year, when a decision was made to suspend all prosecutorial activity, POL should communicate its decision in this regard as soon as possible. The working assumption is that there could be some adverse publicity as and when the decision is communicated to subpostmasters and if delayed too long could lead to our management of the cases being called into question. It is anticipated that the number of "in motion" cases will materially reduce if we were to apply the filters referred to in this paper.

**6. Proposal**

6.1 It is proposed that:

- a) A revised prosecution policy be implemented and applied against more stringent financial and conduct criteria set out in paragraphs 4.3 and 4.4.
- b) Consideration be given to whether the policy be published on our website and if so what elements of it, to comply with best practice and transparency while not undermining our ability to implement the policy.
- c) The new policy, its interpretation and application be reviewed by a committee of ExCo every twelve months.
- d) An individual within Post Office Limited be appointed to take responsibility for deciding whether or not an individual case should be prosecuted against that policy (currently this accountability is shared across a number of individuals).
- e) Any prosecutions be conducted through an external law firm.
- f) The Communications team maintain a living strategy for dealing with all PR issues arising from any and all prosecutions.
- g) In conjunction with the Branch Support Programme, we work to improve our civil recovery operation to maximise the losses it can recover.

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**7. Key Risks/Mitigation**

These pertain mainly to the potential increased risk of fraud, and being seen to be "soft" with public money, but should be capable of being addressed by enhanced MI and improvements to the control framework etc.

**8. Long term considerations – horizon scan**

8.1 Not taking action now in relation to the prosecutions policy could lead to, or exacerbate, the impact of further adverse publicity regarding Post Office's treatment of sub-postmasters.

8.2 Taking this action may assist in developing better stakeholder engagement.

**9. Communications Impact**

9.1 The Communications team is already heavily involved in Project Sparrow, and they have seen this paper.

**10. Recommendations**

The ExCo/ARC is asked to approve the proposals set out in paragraph 6 above.

**Chris Aujard**  
7 February 2014

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**Appendix A**

This appendix referred to the Branch Support Programme, on which a full Board paper is included as part of this Item.

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**Appendix B**

**Prosecutions Policy Reactive Briefing (DRAFT)**

**1. Communications Recommendation**

It is recommended that we take a reactive communications approach with regard to the Prosecutions Policy. The rationale for this is that a proactive approach could be misinterpreted and journalists could broaden their story and coverage of the Post Office (Horizon, the Scheme, and approach to any cases of alleged criminality in the network). This would have the potential to widen media coverage around the Scheme and into new areas and with enhanced interest. We would also need to be mindful of the impact that communicating any changes may have on the Network. We have discussed this approach with the Network Team.

**2. Key messages**

- Post Office constantly reviews its systems and processes, including its security and investigations procedures, to ensure they are in line with changing business needs.
- The people working in the over 11,500 Post Office branches across the UK are pillars of the community and must act consistently with the position of trust they hold. The public would be surprised if we did not take action where public money may have been misappropriated.
- The overwhelming majority of people who work in our branch network are professional, honest and provide the highest standards of service possible.
- We treat possible criminal conduct very seriously and will proceed with a criminal prosecution where there is sufficient evidence and public interest in taking action.

**3. Reactive Briefing to be used if there is a leak on changes to prosecution process**

**How does the Post Office decide whether to prosecute?**

The Post Office treats all suspected cases of possible criminal conduct very seriously, and will consider each case on the facts of the individual case. In deciding whether a case should proceed to criminal prosecution the Post Office must be satisfied that it meets the two stages of the test set out in The Code for Crown Prosecutors. The first is whether there is sufficient evidence to justify a prosecution and the second is whether the prosecution would be in the public interest. A criminal prosecution will only be pursued by the Post Office if both stages are satisfied in the specific circumstances of the individual case.

**Have you changed your approach to prosecutions?/I've heard you've changed them as a result of the investigation into the Horizon system?**

Now that we are an independent business, separate from Royal Mail (April 2012) we are undergoing one of the biggest transformation programmes in our history, as well as keeping existing practices under review. Post Office constantly reviews its systems and processes,

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including its security and investigations procedures, to ensure they are in line with changing business needs and industry practices.

**But if you have made changes you must feel that people have been wrongly prosecuted or that there are unsafe convictions?**

No, this is not the case. While we may make changes to ensure our processes are in line with current business needs and industry practices, we have always pursued prosecutions in accordance with the Code.

**If pressed/or for use in MP/Opinion Former briefings**

I am sure that our customers and stakeholders would expect us to take action where we suspect criminal conduct within our network.

However, we must of course ensure that all our policies and practices, including those in respect to security matters, properly reflect our business needs. We have therefore reviewed our approach to prosecutions in line with these current needs and of course how they fit with the public interest factors of the Code e.g. the harm caused to the victims of any suspected criminal activity, its impact on the community, and whether prosecution is a proportionate response.

**For background In terms of costs the Code specifies that prosecutors should consider:**

"The cost to the CPS prosecution service and the wider criminal justice system, especially where it could be regarded as excessive when weighed against any likely penalty (Prosecutors should not decide the public interest on the basis of this factor alone. It is essential that regard is also given to the public interest factors identified when considering the other questions in paragraphs 4.12 a) to g), but cost is a relevant factor when making an overall assessment of the public interest)." -

**So is this a cost cutting exercise?**

No, but in line with the Code, the costs of bringing a prosecution can be a factor along with other public interest factors such as the vulnerability of any victims of the suspected activity and its impact on the community.

**Will this reduce the number of prosecutions?**

Now that we are an independent business, separate from Royal Mail (April 2012) we are undergoing one of the biggest transformation programmes in our history, as well as keeping existing practices under review. It is too early to say what difference all of these changes will have on the number of prosecutions we bring, which are in any event assessed on a case by case basis.

**Will cases currently awaiting trial be reconsidered against any change in policy?**

The particular circumstances of each current case is constantly reviewed and assessed against the Code's test.

**How many cases do you prosecute a year?**

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The majority of the tens of thousands of people who work in our branch network are professional, honest and provide the highest standards of service possible. Currently we bring around 50 prosecutions a year. This equates to less than 0.1 per cent in relation to the number of people who work across our network.

**You dropped a number of cases recently. Why is this?**

As is prudent we continue to review the facts and circumstances of individual cases to ensure they continue to satisfy the Code's test. If at any time we consider that the test is no longer met we will not proceed with the case – this is something that we have always done and indeed are required to do.

**4. The following Q&As to have on hold if JFSA become aware that a number of cases are currently awaiting prosecution.**

**I have heard that a number of cases have been awaiting prosecution for some time. You must be worried that there are issues with your investigation and prosecution process?**

We treat possible criminal conduct very seriously and will only proceed with a criminal prosecution where this is sufficient evidence and public interest in taking action. Investigating these cases can be complex and time consuming. Each case is dealt with individually and is constantly reviewed to determine whether it meets the Code's test for prosecutions.

**How many cases are on hold?**

We don't discuss cases which may result in prosecution.

**Mark Davies  
Communications Director  
18 February 2014**

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**POST OFFICE LTD BOARD**

**Initial Complaint Review and Mediation Scheme**

**1. Issue**

1.1 This paper updates the Board on the challenges facing the Initial Complaint Review and Mediation Scheme (the Scheme) and the steps being taken to address them.

**2. Summary**

2.1 At the moment the Scheme faces a number of serious challenges that Post Office are working hard to manage and mitigate. This paper covers the following issues:

- Slower than expected Scheme performance
- An increasing expectation gap
- A high cost base
- An attempt by both the Working Group and Second Sight to broaden their scope
- General stakeholder management challenges
- A Second Sight generic report

**3. Consideration**

**Scheme Performance**

3.1 Out of an original 147 applications, 139 are still in the Scheme at various stages. Scheme performance is slower than expected due to a number of factors – higher than expected application numbers, more complicated legal assurance process (particularly in respect of risks around criminal prosecution) than originally envisaged, a need to reinforce the Fujitsu team providing data to the investigators and a learning curve for the new investigators around the style and approach required. Currently there are five reports with Second Sight (with four due on 27 February), 19 are undergoing legal assurance and 18 are currently under Post Office investigation. 64 applicants are still to submit their detailed case questionnaires, having had funding approved.

3.2 For Post Office there is a delicate balance to be struck in terms of the thoroughness of the quality assurance necessary to manage risk on individual cases and more broadly, learning the lessons from early cases and the speed of processing the reports. We have revised the initial QA process now that initial report quality has increased and learning has increased. This has reduced the steps required and will save a small amount of time.

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3.3 The Working Group has also decided to add a “draft report” circulation stage to the overall process – which adds two weeks but gives Post office a right of reply to findings in Second Sight’s reports and could add additional steps as cases move through the process.

**Increasing Expectation Gap**

3.4 Our current estimate is that we will receive claims stated to be in the region of £100M. Applying the settlement policy, Bond Dickinson has estimated the claims to be valued at £6M. This figure comes with a significant health warning, as it is calculated from a sample of 33 cases and generalised to a likely population of 130. It is also not based on the merits of a claim, but instead on the likely value of a claim should it be fully successful.

3.5 The programme team has had limited opportunity to engage with advisors on the substance of the claims, as the advisors limit their engagement with Post Office to administrative matters. However, we have taken every opportunity to discuss levels of claims with Second Sight and the Working Group when opportunity arises. It is, however, likely that the gap will remain large due to high claims for consequential losses and potentially negotiation positioning by advisors in terms of the level of claim.

**High Resource Demands**

3.6 Currently there are 22 Post Office staff investigating cases, a programme team is occupied full time administering the Scheme and supporting the weekly Working Group case discussions and the monthly face to face meetings. Two sets of lawyers are engaged reviewing the cases (Bond Dickinson providing civil and general advice and Cartwright King reviewing from a criminal law perspective). This has led to costs to date of £1.1M and a projected cost of around £5M, excluding settlement costs.

**Working Group and Second Sight Scope**

3.7 Efforts have been ongoing to agree an engagement letter with Second Sight and Terms of Reference with the Working Group. Currently both are being disputed in terms of scope (with JFSA and Second Sight seeking wider scope than Post Office is comfortable with) and with Second Sight seeking to water down the clause restricting their ability to act against the Post Office in the future. It also appears that the Chair is amenable to a wider scope for the Working Group.

3.8 Both issues have been escalated to ExCo, and the Chief Executive is due to meet Second Sight and the Chair of the Working Group on Monday to discuss these issues. Post Office has alerted BIS, and are working through a number of scenarios to strengthen the resource available to the Scheme to ensure that Second Sight remain engaged in the Scheme and that the Scheme completes in a timely manner.

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**General Stakeholder Management**

3.9 The Post Office Chairman and Chief Executive have held a positive meeting with James Arbuthnot MP. James will be holding a follow up meeting with MPs on 24 March where Post Office will brief them on progress on the Scheme. The professional advisors are also proving difficult to manage and there are signs that at least some are attempting to act as a collective to challenge the timelines and fee levels imposed by the Scheme although we do not know whether that will materialise.

3.10 The programme team are working closely with the Communications Directorate to plan for the Arbuthnot meeting, and have engaged the Chair of the Working Group to deal with issues relating to the advisors.

**Second Sight Reports**

3.11 The Second Sight team are due to submit the first of their individual case reports to the Working Group on 27 February. They are also working on a generic report designed to travel with the individual reports, although it is unlikely that will be ready for 27 February. Our working assumption is that the reports will be critical of Post Office (whether evidenced or not) and from the time those reports are submitted there is the potential for them to become public, and this likelihood increases when the reports are presented to the applicants potentially a week later. We are working with the Communications team in preparation for that.

**4. Conclusion**

4.1 The programme currently carries a substantial level of risk which is being managed with support of colleagues across the business, including ExCo. It will be important to maintain this focus as we move into a critical delivery phase for the programme.

4.2 This paper is intended to inform a Board discussion of the latest developments, including an update from the Chief Executive following her meetings with the Chair of the Working Group and Second Sight, and the various options for managing the risks and issues set out above.

**Belinda Crowe  
20 February 2014**

**In Strictest Confidence**

**POST OFFICE LTD BOARD**

**Branch Support Programme**

**1. Purpose**

The purpose of this paper is to:

- 1.1 Update the Post Office Board on the Branch Support Programme.

**2. Background**

- 2.1 The Branch Support Programme was initiated in July 2013 to review the level of support the Post Office provided to subpostmasters to operate their post offices and to introduce improved levels of support having taken feedback from subpostmasters.
- 2.2 As the findings of the Branch Support Programme unfolded it became evident that the scope of this programme needed to be wider to ensure that the required cultural change is to be embedded within the Post Office.

**3. Branch Support Programme – Purpose and Scope**

- 3.1 The purpose of the Branch Support Programme is to improve the effectiveness and efficiency of the support we provide to our subpostmasters and operators in the running of their Post Offices from an operational and engagement perspective.
- 3.2 What is in and out of the scope of this programme is detailed below:

<b>In Scope</b>	<b>Out of Scope</b>
Cash, stock & stores management Finance Service Centre (FSC) NBSC & HSD Training – design & delivery Audit – design & delivery Communications Structure design for the network and admin support function touch points IT Spmr/operator selection process Spmr contract breaches Sales support – delivery methods Product design, delivery & Comms Crown – where the touch points are the same for the Crown network then these are in scope Refinement of network operating models	Crown network as an entity Supply Chain as an entity NTP as an entity Wider business organisational design

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**4. Programme Outputs – Quick Wins**

In the process of mapping the “As is” and “To be” processes “Quick wins” have already been / will be implemented by end March 2014. Our focus has been on addressing the key issues raised in the Second Sight interim report and some of the themes from the Mediation Scheme cases (which is the subject of a separate Board paper), although a number of these improvements were already in train within the Post Office.

**4.1 Subpostmaster Contract Breaches** - we have reviewed our approach to how we respond to material contract breaches by subpostmasters and made the following improvements:

- Where a potential breach of contract has occurred our approach is to work with the subpostmaster to establish the facts and then take the appropriate action, keeping the subpostmaster in post and the branch operational, unless in the usually low number of cases where not to precautionary suspend the subpostmaster would carry a high risk of damage to POL’s reputation and / or a high risk to POL’s assets or where a customer has been directly involved in a potential fraud by the subpostmaster. This has resulted in a significant reduction in precautionary suspension and termination cases as evidenced at appendix 1. Examples of some of the cases are detailed at appendix 2. These branches are then monitored so if the initial problem were to reoccur we can respond quickly.
- If the precautionary suspension rate were to continue at the Q3 run rate of 14 i.e. 56 p.a. this would result in a reduction of c.900 process hours p.a. This could increase to a saving of 1400 process hours p.a. if appeals were to continue at emerging run rate of 12 p.a.
- Based on what we are seeing from recent cases, this new approach should have a positive impact on the recovery of losses, as for the subpostmaster to remain in post they would need to either make good the loss in full or agree repayment terms. A sample check of seven recent cases showed 60% of loss paid in total and repayment terms agreed for 40%. The net effect on P&L for former and current agent debt is a credit of £235k at period 10 (cumulative position) and whilst there would be other factors affecting this position the new precautionary suspension process will be one of the contributing factors.
- In March we are introducing suspended termination, a new category of action in dealing with material breaches of contract. This is where the subpostmaster has materially breached the contract and would have previously had their contract terminated. The new Suspended Termination category is where mitigating circumstances are such that the decision is to award a suspended termination is made; the subpostmaster remains in post on the condition that if a further material breach of contract occurs in an agreed period (set by the nature of the first breach and typically a year) then the contract termination may be triggered.

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**4.2 Early Identification Tool** - this is a real-time data tool from Fujitsu.

- It will support earlier identification and intervention of accounting and transactional anomalies which could be an indicator of non-conformance or fraud.
- The real-time element will enable analysis to be undertaken at the point it happens rather than waiting for historical data to be gathered.
- The pilot called HORice will be run in March and if the results are as we expect this tool could highlight problems and associated losses at a significantly earlier stage; there have been specific historical cases of significant losses (for example £185k) where having this data would have identified a pattern within one to two months rather than after 1 year.

**4.3 Accounting Losses Support** – we have refined our processes to react more responsively to reports of unexplained losses from subpostmasters:

- Where unexplained accounting discrepancies are raised by subpostmasters either via NBSC or some other route e.g. flag case these are passed to the Branch Support Team for resolution.
- The Branch Support team will assess whether the case is satisfactorily closed or whether further training is required.
- If further training is required the Branch Support team will action this.
- If further investigation is required the Branch Support team will pass to the Mediation Case Managers for assessment and further investigation as appropriate.
- Longer term, calls to NBSC will be categorised and analysed to establish root cause and resolution.

**4.4 Training** - we have improved the training approach by:

- Introducing an introductory call to the new subpostmaster two weeks before they take up post.
- Having earlier contact with the Subpostmaster following their initial training and replacing the month 1 telephone call with a branch visit.
- Reviewing the effectiveness of the balancing work-aid to help subpostmasters identify and hopefully resolve balancing problems earlier.
- Longer term, we are considering options on how best to optimise e-learning in our initial training to subpostmasters and on an ongoing basis.

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**5. Programme Outputs – Longer Term**

- 5.1 The Branch Support Programme has 9 work streams that capture all the touch points the subpostmaster has with Post Office in running their branch. These are: pre-appointment process; operational support; physical support; performance management; training; communication; IT; early warning/intervention approach; leavers process.
- 5.2 The milestone plan including costs and benefits for each of the workstreams will be completed by the end of March 2014, with interdependencies mapped.
- 5.3 The proposed ways of working for each workstream will include an ongoing review mechanism that ensures continuous improvement is embedded into business as usual.

**6. Commercial Impact/Costs**

- 6.1 The business case for this Programme is being developed and will be presented to POLIC for consideration in due course. Indicatively, benefits of c. £9m have been identified, to be realised over 14/15 and 15/16. However, as the majority of the benefits relate to headcount reduction, plans and therefore the associated cost of realising them (e.g. VR costs) are yet to be determined. This will be worked through following the completion of the workstream milestone plans at the end of March. As well as affordability, the implementation of the Programme will also be subject to the plans of the wider Business Transformation Programme.

**7. Success Criteria**

- 7.1 The Programme has two main key performance indicators (KPIs) – Agent Engagement and Operational Cost Reduction:
  - Agent Engagement - the formal measure is the subpostmaster annual engagement survey and in particular the support category of the survey. This will be supplemented with Pulse surveys undertaken at quarterly intervals.
  - Operational Cost Reduction - the cost of support to the network will be baselined as part of this Programme. Headline numbers suggest that 40% of the current support to the network is spent on recovery support ie correcting things that haven't been done right first time

- 7.2 Each of the nine workstreams will have performance measurements that feed into the two main KPIs.

**8. Interdependencies**

- 8.1 Other business programmes identified as having key interdependencies with this Programme are:
  - Initial Complaint Review and Mediation Scheme.  
Sponsor – Chris Aujard. Programme led by Belinda Crowe

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- Network Transformation.  
Sponsor – Kevin Gilliland. Neil Ennis, Programme Director.
- Business Transformation.  
Sponsor – Lesley Sewell. Programme led by Brian Deveney.

**9. Key Stakeholder Communication**

9.1 **The NFSP** – has been engaged on two fronts:

- As a stakeholder in the Branch Support Programme and has input to the gap analysis stage of the process.
- In the high level thinking on a revised approach to Subpostmaster material breaches of contract.

9.2 **Wider Communications** – the development of branch communication plan is underway to listen and respond across the broad business spectrum. This includes:

- The link between the Branch Support Programme and the Initial Mediation Scheme with any improvement opportunity being impact tested and/or aligned with “The Scheme” before being implemented.
- The Branch User Forum
- The Agent Engagement Survey.

**10. Governance**

10.1 The Branch Support Programme will operate with a formal programmatic approach supported by the necessary governance and resource. The rationale for this is that a cultural change in behaviours will be required and therefore the right support in each of the workstreams and business areas will be needed to ensure that the changes are managed effectively and successfully embedded within the organisation with pace.

10.2 The Programme Board will meet monthly with monthly updates provided to ExCo and POL Board.

**11. Recommendations**

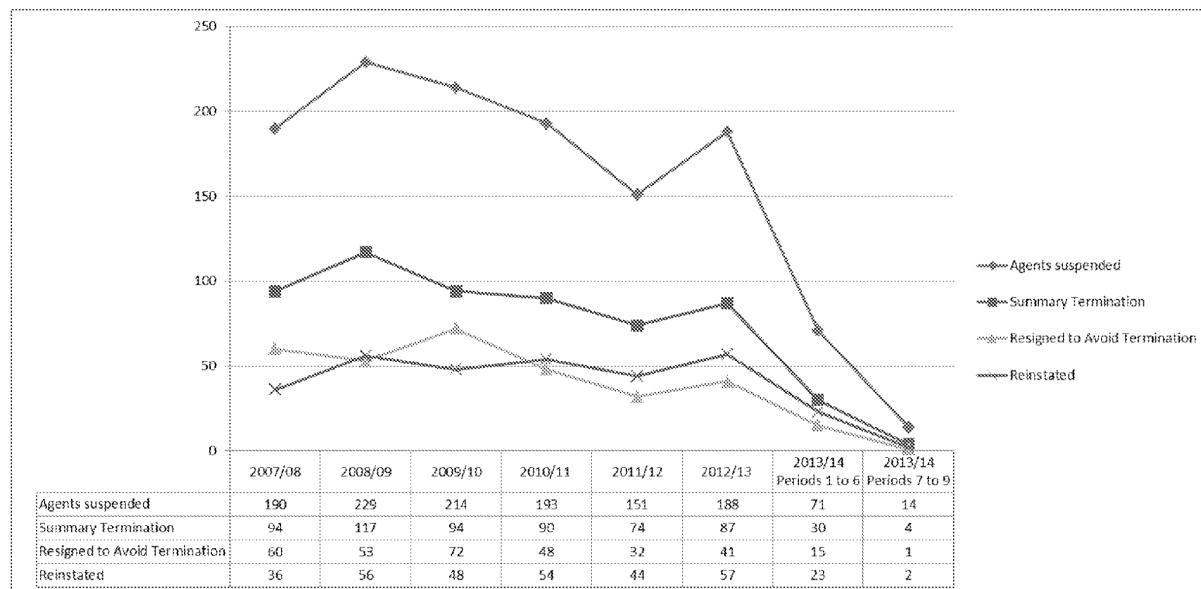
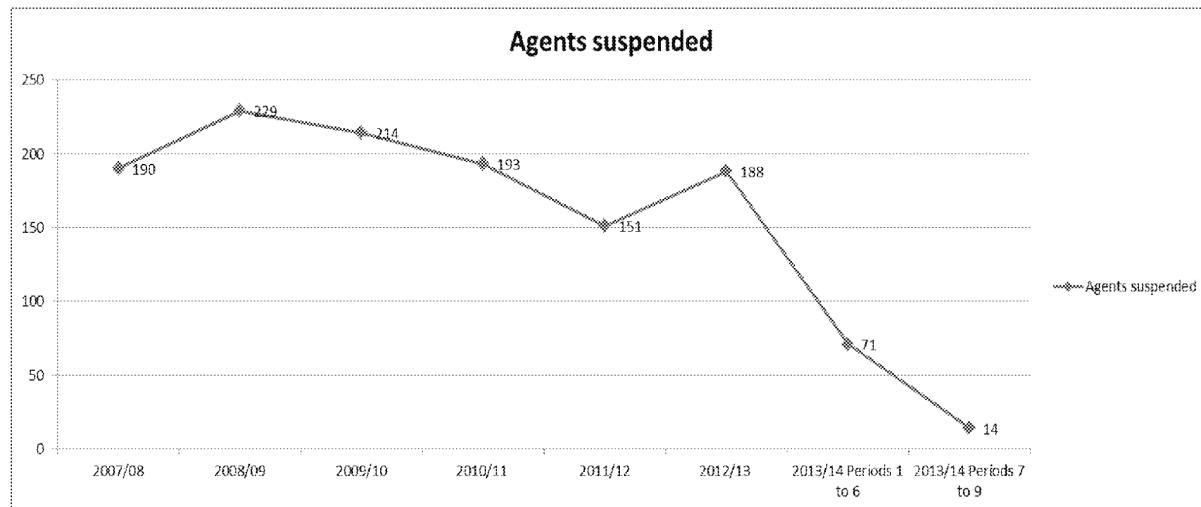
The Board is asked to:

11.1 Note the update and actions set out above.

**Kevin Gilliland**  
20<sup>th</sup> Feb 2014

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**Appendix 1**



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**Appendix 2**  
**Subpostmaster Contract Breaches – New Approach Examples**

<b>No Precautionary Suspension Examples – these are where under the previous approach precautionary suspensions would have happened.</b>	
<b>Date of Audit</b>	<b>Decision in respect of Contract breach</b>
<b>Sept 2013 Risk Based Audit</b>	Audit result was £1112.98 short. As this was over the £1K threshold this would have previously led to a precautionary suspension pending investigation. Three cheques totalling £800 were missing – the response from Spmr was vague in relation to where they were. Rather than suspend, upon making good the full amount of the loss on the day the branch was re-opened and service maintained. The Spmr later attended a meeting with the Contracts Advisor in relation to the contract breach.
<b>October 2013 Risk Based Audit</b>	Audit result was £5401.44 short which would have led to automatic precautionary suspension. Spmr claimed historic stamp shortage (2008) and part Transaction Correction had been disputed. The loss was made good on day. The Spmr was kept in post. The investigation and the interview with the Spmr taking place at a later date. Written warning was issued.
<b>November 2013 Audit following cash check escalation</b>	Audit result was £17,818.42 short. It was clear from Field Support Advisor (auditor) on site that this was down to OIC who failed to appear with safe keys which would have previously led to automatic precautionary suspension. The Spmr accepted full responsibility and undertook to repay at earliest opportunity in full (received within 7 days). The Spmr was kept in post and interviewed at a later date. The Spmr has since left as part of a commercial transfer.
<b>December 2013 Special Request Audit</b>	Audit result was £36148.04 short. Staff member had been manipulating cheques within the account – these cheques were not being received by the processing centre. The staff member was son of the Spmr who had left him in charge without proper controls. The Spmr accepted full responsibility for loss, removed her son from the branch and entered into repayment arrangements with us to repay the loss. Previously the Spmr would have been precautionary suspended whilst the investigation was completed but in this instance the investigation was but was done on the day. As the Spmr is a pluralist if suspended she would have been suspended from both branches.
<b>Precautionary Suspension Examples – these are cases that under the new approach warrant precautionary suspension</b>	
<b>Date of Audit</b>	<b>Decision in respect of Contract breach</b>
<b>November 2013 Risk Based Audit</b>	Audit result was £33,388.14 short. During the audit the Spmr admitted taking £29k and giving it to his brother to buy a car. Precautionary suspension took place and following interview with Contract Advisor the Spmr's contract was terminated. The debt is still outstanding. A temporary Spmr is running the branch.
<b>September 2013 Risk Based Audit</b>	Audit result was £7488.00 short. The Spmr admitted misuse of funds to keep business running as struggling to maintain. He was precautionary suspended because no reasonable explanation and funds would have continued to be at risk. He later resigned to avoid termination

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## POST OFFICE LTD BOARD

### Business Transformation Programme

#### 1. Purpose

The purpose of this paper is to update the Board on progress to date with the Business Transformation Programme (the programme).

#### 2. Background

- 2.1. The 2020 Strategy is based on the four key pillars as shown in the diagram below. A key tenet of this strategy is the development and introduction of a new organisation and operating model that is streamlined and cost effective.



- 2.2. In 2013 we performed extensive market testing, including a trip to India. The advice from the market testing was that we should procure a Transformation Partner(s) to help maximise the benefits of the new business operating model. The partner will bring the capacity and experience that we will need to deliver the operating model.
- 2.3. In November 2013 we updated the Board on the findings. This programme was commissioned to examine the business case for engaging a Transformation Partner(s).
- 2.4. The programme would also seek to understand the preferred engagement model and prepare for a partner(s) selection exercise in April 2014 (assuming the business case is compelling).
- 2.5. We engaged Alsbridge Consultants, who are experts in this area, to support us in analysing the partner market, building a business case and preparing to go to market in April.
- 2.6. In January a second Post Office delegation, including Paula Vennells, travelled to India to visit a number of transformation delivery organisations. The group were again impressed by the capability of these organisations and could see significant

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opportunities to assist in not only reducing our cost base but also increasing our revenue.

**3. Options Being Considered**

**Target Operating Model (TOM)**

- 3.1. The Target Operating Model (TOM) design is a key element of both the 2020 Strategy and our ability to successfully complete the Business Transformation Programme. We recognise there are options in developing an appropriate TOM for Post Office. The approach the programme proposes to develop the TOM and achieve the timelines required by the 2020 strategy is:
  - Develop a high level options paper to define the next level of the TOM within the three tier framework laid out in the 2020 Strategy (Corporate, Customer, Service Delivery)
  - Utilise the best practice input from the market and tailor this to reflect the Post Office requirements and the 2020 Strategy
  - Further refine the model with input from a Business Process Mapping partner (see detail in 3.5 below)
  - Finalise the TOM with the Transformation Partner(s) to ensure we have full and joint accountability for the delivery of the 2020 strategy.
- 3.2. At all stages of the proposed journey the ExCo will have the opportunity to approve the TOM development and the Board will be kept updated. Several key areas of focus will be (this list is not exhaustive):
  - Customer Experience
  - Brand Purpose
  - Customer Value Propositions/ SME
  - Channel Strategy
  - People, Culture & Ways of Working
  - Branch Support Programme (subpostmasters)
  - Standardisation and Shared Capabilities.
- 3.3. There is a broad scope of business transformation activity already underway in Post Office under these headings shaping the TOM. We continue to work with the major programmes across the business to determine the optimum phasing to merge them into the business transformation programme and ensure we deliver a single, effective solution that is targeted on the future TOM. NB work from the Branch Support Programme will continue but will eventually be incorporated into the Business Transformation process, the first stage being the Business Process Mapping (BPM).
- 3.4. A key consideration is to align the current operating plans by pillar to ensure a customer lens is applied, this work is currently underway.

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**Business Process Mapping**

- 3.5. Detailed Business Process Mapping (BPM) is a pre-requisite activity for any transformation programme. We plan to procure an independent partner to support this process. There are benefits of doing this early and with a separate partner to the Transformation Partner(s). They include:
  - The output will be used to inform the procurement dialogue process with the Transformation Partner(s) allowing more contractual certainty
  - We will use the expertise of this partner to further refine the TOM. The BPM partner will also provide a high level transformation plan for comparison with the final plan from our future Transformation Partner(s)
  - Based on our current timelines this will accelerate benefits delivery from the Transformation Partner(s) by circa three months as we will have established our "As Is" processes in key areas
  - Any quick wins identified as part of the BPM process will be actioned and delivered to secure benefit in FY 2014/15. These will be included in the business operating plans.
- 3.6. We intend to complete detailed mapping on seven business areas: Product Design and Introduction; Product Sales and Support; Supply Chain (Not Cash); Financial and IT support. These areas cover the main activity from product concept through to product sales and support, and have been chosen as they provide the bulk of our activity and cost based on the scope. Part of the BPM product and sales reference will be to improve the processes for subpostmasters, so that they become more effective and efficient at product introduction and sales.
- 3.7. This work is planned be carried out between March and June 2014 by an independent partner who will be identified and engaged over the next two weeks. We will update the Board on this point at the meeting

**Transformation Partner(s)**

- 3.8. In order to achieve the required timelines for benefits realisation the programme has commenced preparation of the procurement process for a Transformation Partner(s). The early work will be carried out in parallel with the TOM & BPM work and the output of both will inform the relevant stages of the procurement process.
- 3.9. Several options are currently being considered and examined to determine the best market engagement strategy for a partner. The options of multiple partners, multiple lots and single partner are being analysed against time, complexity, cost and public procurement rules.
- 3.10. We are also considering the different disciplines and specialisms in the supplier market such as IT, BPO, Customer Insight and Contact Centre and how Post Office requirements align to these. Post Office is already addressing some of these areas:
  - We are currently in the market to transform our IT Supply Chain by aligning to a towers model. This will bring best of breed IT services to Post Office and create a competitive tension between suppliers
  - Customer Insight is being addressed through the Customer Management programme
  - The Contact Centre strategy is currently being scoped. Again, this will be aligned to the overall TOM.

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- 3.11. Also included in our analysis of the options will be our requirement to have the Transformation Partner(s) provide investment in terms of people, process and technology and to be rewarded based on their performance and delivery of benefits. This model is now becoming accepted by leading players in the market as indicated in 4.1 below.
- 3.12. Full details of the analysis to date and the criteria used are provided in Appendix 1 identifying the Pros & Cons for the various options. Our requirement is for the partner(s) to be jointly accountable for delivering alternative sourcing strategies, efficiencies through end to end process redesign, innovation and investment in our transformation journey. On this basis, early output of the analysis is indicating that the best solution for Post Office is a single transformation partner.

**4. Long-term Horizon Scan**

- 4.1. Alsbridge completed an independent and unattributed market engagement on behalf of Post Office with four market leaders in this area; Accenture, Capgemini, HP & IBM. Key feedback included:
  - All four are interested in the opportunity;
  - All four are willing to invest if the scope is wide enough;
  - Remuneration tied to business outcomes is acceptable to all;
  - None are currently willing to consider large scale transfer of Post Office staff as this model is no longer usual practice for the four organisations contacted.
- 4.2. The programme has currently developed a high level business case and will report back to the Board in March with a full business case.
- 4.3. In order to finalise the business case and the procurement scope, any constraints on potential long term solutions (e.g outsourcing, offshoring, franchising, joint venture etc) need to be identified and agreed by ExCo and the Board.

**5. Risk Management**

- 5.1. Timelines for the programme and securing a partner(s) are very aggressive; securing a dedicated team of Post Office subject matter experts is a critical requirement and we are working through the resource requirements in conjunction with ExCo.
- 5.2. Post Office currently does not have sufficient supplier management skills across the organisation to let commercial contracts and ensure we manage the partner(s) and our own people to drive continual benefit from the contract, not least because market dynamics are changing quickly. We will ensure this skill set is developed as part of the retained organisation.
- 5.3. The risk that Industrial Relations may be strained by the implications of business transformation will be addressed through Stakeholder and Communications plans.
- 5.4. The timing of the programme and the potential solutions may have a political impact around the 2015 general election. The Public Affairs team are looking at this further as part of their current communications/stakeholder plan.

**6. Communications**

- 6.1. Due to the sensitivity of the programme and the potential people impact communications is a major work stream. This includes internal, stakeholder and press

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relations. The Communications and Corporate Affairs team is developing the programme's communications strategy and plans.

- 6.2. The overall programme plan will govern the timetable, methodology and content for communications activity.
- 6.3. A scoping session with the relationship owners for our critical stakeholder groups (Union, NFSP, Press, Gov/BIS) will be held by the end of February to inform the above.

**7. Schedule of Board Updates**

7.1. The Transformation Programme will return to the Board as follows:

- March - to seek approval of the business case and authorisation to proceed with procurement
- June - to update on progress as we finish PQQ evaluation and shortlist for competitive dialogue
- September - to update on progress as we complete dialogue and issue Invitations to Submit Final Tender
- November - to seek approval to award contract.

**8. Recommendations**

Board is asked to:

- 8.1. Note the progress made to date.
- 8.2. Support the proposed approach for TOM development; BPM approach; Transformation Partner(s) procurement.
- 8.3. Confirm any programme constraints (ref 4.3).

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**Appendix 1**

**Business Transformation Programme**

1. The key requirements that we have identified from our transformation partner(s) are as follows:

- Proven business wide transformation capability.
- Rapid achievement of benefits.
- Investment – ability to financially engineer the upfront costs and smooth the cost to POL.
- Innovation – ability to bring best practice / leading edge solutions to POL across all areas of the business.
- Appetite to be contracted on business outcomes:
  - Cost reduction targets
  - Revenue growth
  - Margin improvement
- Ability to leverage spend across the entire POL business; including any areas that are currently out of scope.
- Solution supports the 2020 Strategic objectives.
- Solution supports the vision of one view of the customer.
- POL need to retain access to perpetual licences around IPR on exit.

2. A separate design and delivery partner model would have the following profile:

**Pros**

- Quicker commencement of design phase for transformation plan.
- More certainty around TOM design - clearer gateway control at end of design phase.
- Possibility of POL implementing some quick wins during 2nd phase procurement process for the delivery partner.
- Easier to specify requirements for both design and delivery contracts.
- Larger potential supplier market for the design option – focus on consultancy rather than ‘run’.

**Cons**

- Potential rework between design and delivery partners. Validation of transformation strategy and TOM and its deliverability may fundamentally alter the deal economics and therefore the design of future solutions.
- Transformation responsibility split between design and delivery partners – future liability for non-performance especially if TOM is outcome specific can lead to significant contractual friction and non-performance.
- There is a risk that you may not attract the key suppliers in the transformation market if they are only being asked to deliver a plan that is not their own.
- Slower to delivery commencement & benefits realisation due to 2 stage procurement.
- More stringent ‘requirement’ definition; the ‘Design’ becomes a firm requirement for the delivery partner; this reduces the delivery partners ability to deliver innovative solutions in the future.
- More expensive – design fees have to be paid up front, cannot then be leveraged against ‘run-rate’ reductions.
- Potentially more difficult to get delivery partner investment – separating ‘continuous improvement’ from execution of agreed ‘transformation’ to achieve the TOM.
- Two procurement phases will increase cost and time as well as putting significant additional resource demands on POL personnel.
- Potential loss of IP if the design partner withdraws after design completion – how do you know enough to implement what they design.

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3. A single transformation partner model would have the following profile:

Pros

- Single partner responsible for realising transformation benefits, this allows us to contract for outcomes based on the joint transformation plan.
- Quicker to delivery commencement & benefits realisation – only one procurement process.
- No upfront design fees – design costs can be amortised and built into overall run costs.
- Possible to financially engineer the overall transformation deal.
- No potential rework between design and delivery partners.
- Transformation responsibility sits with single partner clear line of accountability for performance / non-performance.
- Potential for business outcome SLA's & financial reward.

Cons

- More difficult to specify requirements for transformation contract.
- Less certainty around TOM design until the partner is selected.
- Smaller qualified supplier market – transformational partners vs 'best-in-class' process execution, may not be the most cost effective in terms of 'run-rate' reductions.
- Risk of 'lock-in' to a supplier's proprietary solution, balanced against incremental business benefit.

4. To mitigate the risks we have identified in a single partner model, we propose to take the following mitigating actions:

- Ensure the contract contains sufficient requirements definition and tie supplier rewards to required outcomes.
- Ensure the contract contains requirements for joint working and sufficient gateway approvals during design phase to facilitate a jointly developed TOM.
- Build glide-path cost reduction commitments into the contract. Incorporate workable incentivisation mechanism for sharing additional savings below committed target levels.
- Ensure the contract contain non-exclusivity and provides for partial termination and protection in terms of IPR licences / transfer upon exit. Also, ensure robust exit provisions and termination assistance in place.
- Secure a partner to complete Business Process Mapping and to scope the transformation plan and TOM in advance of the transformation partner.

5. Multiple lots across multiple suppliers

- The option of splitting various elements such as HR, F&A and other specialisms to create multiple suppliers is being considered.
- The current view is this would create complexity in the procurement and dilute the overall attractiveness of the deal to the larger transformation suppliers. It is acknowledged that this approach may deliver some additional benefits, however, given the limited size and scale of this activity in Post Office the additional benefits of this approach were outweighed by the overall benefits available from a single partner.

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## **POST OFFICE LTD EXECUTIVE COMMITTEE**

### **Statement of Public Purpose**

#### **1. Purpose**

1.1 The purpose of this paper is to invite the Board to:

- note the results of the research undertaken as part of the Public Engagement Exercise into the Public Purpose of the Post Office;
- approve the proposal and arrangements for the next steps in publishing the Public Purpose of the Post Office;
- agree governance arrangements for monitoring of the public purpose; and
- note the developments in the creation of the Post Office Advisory Council.

#### **2. Background**

2.1 In the response to its consultation 'Building a Mutual Post Office' (July 2012) Government set out that a definition of the public purpose, developed collaboratively with stakeholders, should be undertaken as a first step towards the potential mutualisation of the Post Office.

2.2 The response set out the Government's wish for the Post Office to engage with stakeholders to create a statement capturing the business' public benefit, referring to the social need behind many of its services alongside the role of the network at the heart of many communities.

2.3 The response stated that 'mutual businesses...require a clear vision around which the wide ownership base can coalesce', citing Arup's mission as a commitment to good design, and John Lewis Partnership's stated purpose as being the happiness of its members. The response went on: "For the Post Office, defining an appropriate level of service and those customers' needs it must meet, alongside the interests of those within the business who work to meet those needs, will be a vital prelude to mutualisation. This will enable codification of the Post Office's purpose within a future mutual's constitution."

#### **3 Activities/Current Situation**

3.1 The Post Office established a Stakeholder Forum in October 2012 comprising stakeholders and experts from a range of organisations to begin defining its public purpose. Paula Vennells chaired the Stakeholder Forum, which comprised the NFSP, CWU, Unite, Age UK, Consumer Futures, CAB, British Youth Council, Mutuo and the BBC.

3.2 Two working groups were established to produce the content of the public purpose. One group looked at the Public Purpose from the perspective of those delivering post office services, the other from the perspective of the consumer. These discussions resulted in two versions of a Public Purpose Statement and Principles **Annex 1**. It was agreed that these two statements and principles would be tested

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with the public and wider stakeholders through an engagement study across a range of audiences.

- 3.3 A research agency, Truth, was appointed by the Post Office to conduct the research and report back to the Public Engagement Working Group (this included the communication leads for each of the members of the Stakeholder Forum).
- 3.4 The Public Engagement Working Group started an engagement and research exercise on 30<sup>th</sup> August 2013 to get the views of the public and wider stakeholder groups. The result of this was a very comprehensive piece of research which covered all nations and included colleagues, subpostmasters, the general public, customers, small businesses and those members of the public that are traditionally hard to reach (elderly and the digitally excluded). The research included surveys, workshops and interviews – a short selection of quotes from the research are included in **Annex 2**. The full research document will be available on Boardpad.
- 3.5 The conclusions from the research were presented to the Public Engagement working group in November and the Stakeholder forum in December 2013. The research identified three broad themes which resonated with those who took part; those of community, trust and accessibility,
- 3.6 We have reviewed the research, comments from the public engagement working group and the Stakeholder Forum and drafted a Public Purpose Statement at **Annex 3**. The statement seeks to capture the essence of the Post Office, draw out the commercial reality of the business and show how our public purpose sets us apart from other businesses.

#### **4 Options Considered**

- 4.1 In developing this proposal we have (a) considered what other organisations say about their Public Purpose, (b) sought to ensure that the language used is clear and simple to understand, and (c) considered where the Public Purpose complements the Post Office's Securing the Future: 2020 Strategy.
- 4.2 We have also considered governance issues in relation to the Public Purpose statement. It will be critical, for the public purpose to succeed, that a range of metrics sit behind it, which can be published externally to show progress in relation to delivery. A number of potential measures could be utilised in relation to delivery, ranging from network accessibility criteria to customer satisfaction scores and engagement data. A summary of potential measures is at **Annex 4** with a draft scorecard at **Annex 5**.

#### **5 Proposal**

- 5.1 Subject to Board approval, the statement will be put to BIS ministers before launch. Options are set out in point 7.5 below.
- 5.2 The Board's view on governance arrangements is sought. At its meeting in March, the Board judged that it would be appropriate for the Board itself, or the Audit, Risk and Compliance Committee to take the responsibility for monitoring delivery against the public purpose. Views are sought as to whether this remains the view of the Board.

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## **6 Key Risks/Mitigation**

- 6.1 There is the risk that the Public Purpose may be misinterpreted or misused by some organisations / individuals. In addition, there may be parties that do not fully agree or sign-up to the Public Purpose statement. However, a thorough process and research project has been undertaken, stakeholders were invited to take part in that process and there was broad consensus on the key themes that should be included in the Public Purpose statement.
- 6.2 There is a further risk that it is used by organisations or individuals to suggest that the Post Office should not pursue commercial aims: we have sought to mitigate this, and Exco is satisfied that this has been achieved, by stressing our commercial position in the first sentence: it is important to stress that without the commercial business, the Post Office cannot achieve its public purpose.
- 6.3 We have also considered the interplay with the Post Office Advisory Council. The council will hold its first meeting on March 19 and an update on progress towards establishing the council is at **Annex 6**. There is a risk of members believing they or the Council 'hold' the public purpose statement. We will ensure this is avoided through handling at the first meeting, through an interactive session which explores the way in which the Council will sit alongside the public purpose but not have a role in holding the business to account for its delivery. Nor will the Council have a role in defining or amending the Public Purpose statement.

## **7. Communications Impact**

- 7.1 For the first time in our history we will have a clear definition of why the Post Office exists and its public purpose: a definition forged by our customers and our people. The Public Purpose represents a powerful opportunity for our organisation, particularly within the context of the development of mutual ways of working. It will present a vision around which we have the opportunity to motivate colleagues, subpostmasters, stakeholders and most importantly customers.
- 7.2 Ultimately the Public Purpose statement will play a key communications role in challenging perceptions about the business and will provide a vehicle around which we will be able to articulate the ways in which we are different from other businesses. Alongside the development of our brand through marketing activity, it will support commercial priorities through demonstrating to our customers (existing and new) that the Post Office is unique because of our public purpose.
- 7.3 The Public Purpose also strongly relates to the development of mutual ways of working. We can use the Public Purpose statement to galvanise colleagues in all parts of the business around a common purpose to increase engagement and bring a renewed emphasis on customer excellence.
- 7.4 We will launch the public purpose with a full external and internal communications strategy which will include an integrated campaign assessing what customers want most from their communities and linking this back to the public purpose.
- 7.5 There are a number of factors to consider in terms of timing. While we could launch this initiative alongside the launch of the Advisory Council, there is the potential for creating an unhelpful link between the two initiatives which is inappropriate (as set out in point 6.3 above). There are also other communications factors to consider in the weeks ahead such as the Sparrow mediation scheme and the industrial relations climate. We would like to maximise coverage and

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internal engagement around the public purpose and avoid a collision with other issues. As such we propose to develop further options for launch, including the potential to do so around the Annual Report and Accounts (on which the proposed theme is 'heart of the community').

**8. Recommendations**

8.1 The Board is asked to:

- note the results of the research undertaken as part of the Public Engagement Exercise into the Public Purpose of the Post Office; and
- consider and agree the proposed Public Purpose statement and arrangements for the next steps in its publication and its governance.

**Mark Davies**  
**Communications Director**  
**February 2014**

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**Annex 1**

**Stakeholder Forum Output**

As a mutual Post Office we will be accountable to the public, customers, our people and their representatives for the delivery of the Public Purpose

<p><b>Public Purpose from the perspective of those who deliver Post Office services</b></p> <p><b>Public Benefit Purpose</b></p> <p><b>The Post Office exists to deliver trusted, vital and valued products and services which are universally accessible</b></p> <p><b>We will do this by</b></p> <ul style="list-style-type: none"><li>• Making a positive contribution to all of the communities we serve</li><li>• Developing a dynamic, enterprising, ethical and commercially sustainable business by continually evolving - investing in our infrastructure, products, services and people to ensure we secure the business for the future.</li><li>• Keeping our customers at the heart of what we do, building relationships based on trust and integrity.</li><li>• Staying true to our core of financial, government and postal services, continuing to modernise and expand into new markets; ensuring we are always providing our customers with relevant, value for money services.</li><li>• Providing a high quality, responsive service that offers choice to meet the needs of our customers.</li><li>• Inspiring, engaging and fairly rewarding our people. Developing them to ensure they have the highest standards of excellence and professionalism. They are proud to be a part of the Post Office.</li></ul>	<p><b>The public purpose from the perspective of the Consumer</b></p> <p><b><i>The public purpose of the Post Office</i></b></p> <p><b>The Post Office is accessible and accountable to all its customers, treating them fairly and offering them the products and services that they need and can trust.</b></p> <p><b>Key elements</b></p> <ul style="list-style-type: none"><li>• Promises to provide the services people want and treat people fairly</li><li>• Member involvement in the direction of the organisation</li><li>• Sustainability</li><li>• Future-proof business planning</li><li>• Ethical attitudes in its behaviour towards its customers and its dealings with business partners</li></ul>
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**Annex 2**

**Public Purpose Research Quotes (from the Public Engagement Exercise)**

“In our community it provides a much needed banking system. [Our] nearest town [is] 17 miles away. It provides a person to answer many questions both financial and social.” **Source: Customers, qualitative questionnaire**

“The Post Office plays such an important role in the communities they serve. They are often the social fabric that glues the community together.” **Source: Those delivering the service, qualitative questionnaire**

“I have given a score of 9 for both statements because I believe that the products and services the Post Office provides are very important and affect the quality of life of many members of our society.” **Source: Customers, qualitative questionnaire**

“It is not just a commercial set up like a supermarket the staff are normally local and care very much about providing the ultimate service to their neighbours in the community.” **Source: Customers, qualitative questionnaire**

“Always being open and honest, and always fighting to give customers the best customer and best products and service.” **Source: Customers, qualitative questionnaire**

“PO provides access to key services associated with Government in a familiar and secure environment. The brand is one that most people recognise, and more importantly trust.” **Source: Customers, qualitative questionnaire**

‘The Post Office is the heart of most communities, it’s not just about the service we offer it is a social experience for many people as well, sometimes the only time some people get out and see anyone’ **Source: Those delivering the service, qualitative questionnaire**

‘It is a focal point of any community as it deals with all aspects, pensions car tax, insurance, posting letters and parcels. It is vital to all our communities as it keeps people together.” **Source: Customers, qualitative questionnaire**

“I highlighted ‘keeps’ as well, because you want to keep your customers. I think you’ve got to focus on how to keep them, throughout every Post Office not just individually.” **Source: Customers, qualitative workshop, Cardiff**

“It’s all about involvement. If you cut out your customers from your decision-making processes you’re going to alienate them.” **Source: SMEs, qualitative workshop, Cardiff**

“Everybody looks for value for money. And you feel you get it at the Post Office.” **Source: Customers, qualitative workshop, Belfast**

“What’s relevant to one person isn’t going to be relevant to another. It feels like a descriptive word that doesn’t really have any value.” **Source: SMEs, qualitative workshop, Belfast**

“This is about everybody being treated the same, Black, White Protestant, Catholic etc.” **Source: Customers, qualitative workshop, Belfast**

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“This is about more than just the service. It’s about the extra stuff – the meeting point, the information point, the place that people can come and talk. More than the sum of its parts.”  
**Source: Customers, qualitative workshop, Belfast**

“I kept thinking promises can be broken. I don’t know why, it was at the back of my mind so I just didn’t like the word.” **Source: Those delivering the service, qualitative workshop, Cardiff**

“What you want may not be possible.” **Source: Customers, qualitative workshop, Belfast**

“Most of it is about things you need not things you want. Post Office is straight-up, its not going to come up with these ‘Buy One Get One Free’ type thing.” **Source: Customers, qualitative workshop, Belfast**

“It’s about good standards, morals, fair. It’s not like the banking service.” **Source: Customers, qualitative workshop, Belfast**

“I like the word ‘secures’ the business. It’s got to be secure. I like ‘future’. No future, no existence.” **Source: Those delivering the service, qualitative workshop, Cardiff**

“Its fine for them to grow, just keep the customer at the heart.” **Source: Customers, qualitative workshop, Belfast**

“I don’t really care what it invests in its infrastructure; I just want the service to be provided for me.” **Source: SMEs, qualitative workshop, Belfast**

“Every other part of the high street is evolving and sometimes Post Office feels archaic. Its important it evolves as otherwise it become s obsolete.” **Source: SMEs, qualitative workshop, London**

“I thought it doesn’t really belong in the Public Purpose. The public going into any place, a shoe shop or a Burger King, will expect the people there to be trained to do what they’re doing.”  
**Source: Those delivering the service, qualitative workshop, Edinburgh**

“We don’t know what the future holds. We have a ten-year deal with the Royal Mail so maybe we won’t stay true to that, but we should stay relevant to providing services that customers want, that are more important.” **Source: Those delivering the service, qualitative workshop, Belfast**

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**Annex 3**

**The Public Purpose of the Post Office – draft**

The Post Office is a commercial multi-channel business set apart by its public purpose: that of providing customers with key products and services through an unrivalled community presence across the UK.

Our public purpose is driven by a belief in the power of communities and the crucial role they play in all our lives in bringing collective focus which supports the common good.

**To deliver our Public Purpose we will run our organisation by following four principles:**

1. Keep customers at the heart of everything we do
2. Build relationships based on trust
3. Treat everybody with fairness, honesty and respond to different people's needs
4. Make a positive social and economic contribution to all the communities we serve

**As an organisation we pledge to:**

- Maintain ethical attitudes in all our behaviours
- Provide access to vital and valued products and services in our branches, online and on the phone
- Invest in the organisation to secure the business for the future
- Listen to the views of customers, colleagues and those with a special interest in the Post Office
- Develop and engage ourselves and our partners to ensure they provide the highest level of service

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## Annex 4

## Measuring our performance against the public purpose

The chart below sets out potential metrics for measuring our performance against the public purpose statement.

Principle	Potential measures
Keep customers at the heart of everything we do	Customer Panel Customer Surveys and feedback Government accessibility criteria (including for key groups) Assisted Digital development Customer Satisfaction Scores Customer Helpline numbers results
Build relationships based on trust	BREC Brand Study Government Services offered Engagement data/tools
Treat everybody with fairness and honesty and respond to different people's needs	Product Development: Customer Value Propositions Customer satisfaction figures
Make a positive social and economic contribution to all the communities we serve	CSR strategy/Your Charity Community Enterprise Fund Community index report Investment in NT, Crown and Community branches Product / Service awards won Industry metrics
<b>Pledge</b>	
Maintain ethical attitudes in all our behaviours	Post Office staff values and behaviours Engagement metrics
Provide access to vital and valued products and services	Product development and growth
Invest in the organisation to secure the business for the future	Strategy 2020 Community branch investment/development Development of customer propositions Business transformation
Listen to the views of customers, colleagues and those with a special interest in the Post Office	Mutual Ways of Working: - Post Office Advisory Council - Branch User Forums - Subpostmaster Engagement Survey - Communications framework - Engagement metrics
Develop and engage ourselves and our partners to ensure they provide the highest level of service	Post Office Learning and Development Policy Employee engagement survey

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## Annex 5

## Example Public Purpose Scorecard

Example of the translation of the Public Purpose measures into a scorecard – it's for illustration purposes pending finalisation of the Public Purpose statement. It's designed to demonstrate that clear measurement tracked over time can be undertaken with respect to the Public Purpose.

Key Performance Indicator	Target	Year to date	Q1	Q2	Q3	Q4
<b>Post Office Public Purpose</b>						
<b>Principle</b>						
Keep customers at the heart of everything we do						
Customer Satisfaction Scores						
Geographical accessibility criteria for Government						
Accessibility for key groups e.g. elderly						
Customer Helpline results						
Build relationships based on trust						
BREC Brand Measures						
Treat everybody with fairness and honesty and respond to different people's needs						
Customer satisfaction figures						
Make a positive social and economic contribution to all the communities we serve						
Community Index Report						
Number of branches accepted investment (NT, Community, CEF)						
<b>Pledge</b>						
Maintain ethical attitudes in all our behaviours						
Post Office staff values and behaviours						
Engagement metrics						
Provide access to vital and valued products and services						
Accessibility of key groups e.g. SMEs						
Invest in the organisation to secure the business for the future						
Network and Crown Transformation Investment						
Community branch investment/development						
Listen to the views of customers, colleagues and those with a special interest in the Post Office						
Subpostmaster Engagement Survey						
Post Office Advisory Council – member survey						
Business user forum – member survey						
Develop and engage ourselves and our partners to ensure they provide the highest level of service						
Employee engagement survey						

As part of the Love Where You Live Campaign we will be producing an annual **Community Index Report** which will enable us to measure the role of the Post Office in local communities as well as other community measures of interest to the public and media.

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**Annex 6**

**Post Office Advisory Council**

In parallel to our work defining the Public Purpose, substantial progress has been made to establish the Post Office Advisory Council. The aim of the Council is to provide a formal mechanism for the Post Office to engage customers, staff and stakeholders on matters of mutual interest and to improve stakeholder understanding of, and engagement in, Post Office business.

A “call to action” advert asking individuals to apply to join the Council was placed in the national press in early January. Membership opportunities were also advertised through our internal and external channels, as well as via a range of stakeholder networks.

Applications closed on 31st January, with more than 300 received from a broad range of customers, employees and sub-postmasters. A substantial number are of a very high quality. A sifting process led to a shortlist of 30, with interviews to be completed by February 21.

In addition to the wide range of applications from customers, staff and subpostmasters, there has been interest in membership of the Council from organisations as diverse as Google, the British Youth Council, E-on and John Lewis.

We also have invited four key stakeholders to nominate one representative each to sit on the council: CWU, CMA/Unite, NFSP and Consumer Futures.

The working group set up to establish the Council has a high degree of confidence that it will represent a diverse range of interests, and provide a suitable balance of interests.

The proposed membership will be discussed with the Non Executive Directors on the POAC working group and will be finalised by 28th February with letters of appointment sent shortly afterwards.

The inaugural meeting will take place on 19th March. The aim of the first meeting will be to build understanding of the role of the Council and Post Office strategy.

<b>Post Office Advisory Council - Shape</b>		
	<b>Category</b>	<b>Potential member</b>
1	<b>Customer 1</b>	Pensioner
2	<b>Customer 2</b>	Ebayer
3	<b>Customer 3</b>	SME
4	<b>Customer 4</b>	SME
5	<b>Customer 5</b>	Working age benefits claimant
6	<b>Customer 6</b>	POL Website user
7	<b>Customer 7</b>	FS Customer
8	<b>Post Office Employee - Crown</b>	
9	<b>Post Office Employee - Head Office</b>	
10	<b>Subpostmaster - Main</b>	
11	<b>Subpostmaster - Local</b>	
12	<b>Multiple</b>	Tesco

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<b>13</b>	<b>Multiple</b>	McColls
<b>14</b>	<b>Business organisation</b>	John Lewis
<b>15</b>	<b>Commercial / Marketing Individual</b>	E.ON
<b>16</b>	<b>Financial Individual</b>	
<b>17</b>	<b>Digital individual</b>	Google
<b>18</b>	<b>Special interest Group</b>	British Youth Council
<b>19</b>	<b>Special interest Group</b>	
<b>20</b>	<b>Voluntary/Community</b>	Leonard Cheshire
<b>21</b>	<b>Voluntary/community</b>	
<b>22</b>	<b>Academia/Think Tank</b>	Royal Society of Arts
<b>23</b>	<b>CWU nominee</b>	
<b>24</b>	<b>Unite nominee</b>	
<b>25</b>	<b>NFSP nominee</b>	
<b>26</b>	<b>Consumer Futures nominee</b>	

## POST OFFICE LTD BOARD

### Network & Sales

#### 1. Purpose

- 1.1 To update the POL Board on progress with Network Transformation, discussions with the NFSP and Crown Transformation.

#### 2. Network Transformation

- 2.1 The programme is on target to meet this financial year's original targets, beating the reduced targets that were foreseen as a result of the announcement of the revised strategy. At 31<sup>st</sup> January, there were 2730 contracts signed against a target of 2571. This includes the deal to convert 191 McColls branches to the local model, which is confirmation that the local model is attractive to good retailers. As well as the ongoing pipeline of new operator and independent converter contracts, further deals are under discussion with Blakemore and Tesco for their Locals, and One Stop and McColls for their remaining Mains.
- 2.2 At 31<sup>st</sup> January, there were 1577 Main and Local branches open. The programme is confident it can deliver the required beat rate of 47 a week to meet the year-end target of 1950. We have placed a very strong focus on openings this financial year, so a peak beat rate is now scheduled for late February and March of consistently over 60 a week, which would give us over 2000 openings.
- 2.3 As expected, there was a big increase in agents completing the retail surveys just before the deadline at the end of January. At survey close, over 8,000 agents had submitted – a 96% response rate, which was at the upper end of expectations. A whole series of communications were used over the two month period; this included letters, Horizon alerts, Subspace online, branch focus articles, field engagement, workshops and repeated outbound calls as the deadline approached. A further period of one week is being used to try once more to contact the 300 or so agents who have not yet responded.
- 2.4 The programme is currently analysing the results of the survey in detail. Overall results are in line with expectations; the most positive outcome is that the number of branches whom we may need to advertise compulsorily is around half the number previously projected. This is both because new branches have come forward to convert, while also many branches with poor retail have recognised voluntarily that leaving the business with enhanced compensation is their best option.
- 2.5 Locals who the survey shows have limited retail but who have not volunteered to leave will either need to submit their plans to create a strong retail or Post Office will advertise their branches. Careful engagement is planned to handle these branches over the coming weeks, while the Communications team is prepared for the expected media and stakeholder interest.
- 2.6 As planned, the closure of the survey allows the programme to refine its estimates for future volumes – and therefore to refine the Stratplan targets with BIS. Following these conversations during February/March, targets will be set for the next financial year.

### 3. Long term relationship with the NFSP

- 3.1 We are progressing towards completion the draft MOU prepared in late 2013 and the subsequent framework agreement. We have had a series of meetings over the last couple of weeks with NFSP and the main focus of these has been to resolve the main issue raised, namely establishing pre-agreed parameters which enable the NFSP to maintain their independence and make challenges to Post Office whilst receiving payments from us that represent their main source of income.
- 3.2 The original draft MOU made reference to NFSP not engaging in activities which are actively detrimental to the Post Office. NFSP were looking to put some parameters around this, as were we. The key point here is that whilst we would not expect them to be silent on all issues, anything that undermines our commercial position and the implementation of NT would not be acceptable.
- 3.1 It is clear that NFSP want to complete the deal and we are currently considering with the Post Office legal team which provisions can be included in the MOU to (i) address the issue outlined at 3.2; (ii) refer to a dispute resolution/escalation process that will be detailed in the subsequent framework agreement; and (iii) if a dispute cannot be resolved following the DR process, provide termination rights for Post Office in the event of NFSP disclosing confidential information or inciting subpostmasters to breach their contracts, and/or engaging in activity opposed to Network Transformation. The position on these points has been discussed with the NFSP but not yet agreed.
- 3.2 George Thomson seems committed to completing the rest of the discussions (primarily in conjunction with our respective lawyers) to enable signing of the MOU in early March. Our current thinking is that the subsequent framework agreement will be launched publicly after NFSP conference (i.e. in June) – this minimises the possibility of challenges and tensions in the most sensitive period around March and April.
- 3.3 To enable this, the detailed framework agreement will be drafted through the course of March/April/ May. This agreement will outline in detail the Dispute Resolution Process, joint review process and support/grant payment mechanisms.
- 3.4 As well as the long term agreement, George Thomson's main focus externally since special conference has been on ensuring that his team are delivering support to the Network Transformation workshops Post Office ran in December and January. Feedback from Post Office teams at all of these events is that this support from NFSP has been very strong. They have been 'on message', proactive and prepared to stand up to challenges from attendees.
- 3.5 We are working through with them how we engage on other aspects of the implementation. This is primarily through: joint workshops to define their role in support for delivering non-viable exits; identification of potential new locations for volunteer exits; participation in community/commercial transfer/model type review panels; and working groups in refining model design, models product set and opening hours.
- 3.6 This is likely to take place in earnest now the retail survey is complete. NFSP are updated regularly on the statistics via the NT team. These workshops will also enable us to keep in dialogue around any issues they have (largely coming from specific offices and anecdotally) around the shape of the network (i.e. number of Mains vs. Locals) and model complexity (i.e. keeping them informed of our intent towards product simplification).

3.7 The new Network Transformation structure includes a dedicated team analysing data on each model's performance to refine and continue to develop our thinking. George Thomson has had an initial meeting with the new General Manager Network Transformation, Ian Kennedy. Model performance information will be reviewed as part of the programme and the NFSP will be able to input into and shape any action that is needed following this analysis. He is happy with this level of engagement.

#### 4. Crown Transformation

- 4.1 The full programme of branch transformations to the new Crown branch blueprint got underway in September 2013. The programme delivered 46 completed transformations by the end of Q3 against a target of 45. The programme is confident that the target of 117 transformations by the end of the financial year will be met.
- 4.2 Staff training to support transition to new ways of working in transformed branches is well underway, with over 750 staff trained as at 31st January, and an average of 80 staff a week currently going through CTP's two day off-site training programme.
- 4.3 Significant progress has been made in the process to deliver cost savings required in the 292 Crown branches that are being retained. A Voluntary Redundancy (VR) preference exercise was oversubscribed and we have used this to work with the CWU and select applicants for redundancy. All applicants have now been notified whether or not they have been selected for VR. Staff savings total 503 Full Time Equivalents – meeting the target of 500 needed to hit our £12.7m target for counter staff savings.
- 4.4 Securing CWU support for the redundancy process required extensive engagement during the talks of the last two months. The programme's confidence in its required staff savings has increased significantly now that the VR offers have been issued, and that this has been done with CWU support.
- 4.5 A large proportion of the staff saving benefit is linked to the rollout of a new NCR Self Service kiosk which will replace the existing Wincor Post & Go kiosks in greater numbers and with a wider product offering. The first new kiosk has been in live operation in the Model Office since November. A small number of defects emerging from live testing, together with a small number of changes required by Royal Mail in order to secure their concurrence are being addressed prior to commencing the rollout to branches..
- 4.6 Branch mergers and relocations at Houndsditch, Derby, Sheffield and Milton Keynes were successfully completed in May and June 2013. Five other mergers have entered the public consultation process since then (Brazennose, Stockwell, Kennington Park, Highbury / Islington, and Sutton). As consultations complete, feedback is reviewed and engagement made with Consumer Futures before any announcement is made.
- 4.7 The franchising project has moved on significantly since the last update, with 22 of the 70 branches in scope to franchise now forecast to 'go live' with new partners by the end of March. The first franchise branches under CTP (Cannock and Uckfield) opened to customers on 30th January. 32 franchise opportunities were re-advertised in November 2013, creating c150 new expressions of interest which the franchising team are working through.

4.8 It should be noted that we are seeing an unprecedented demand for detail from Consumer Futures on the design for each franchise branch, as well as formal requests for information used to justify the original decisions made as to which branches would be franchised versus retained. The programme is working with the Exco and legal teams to find a middle ground on information sharing with Consumer Futures, such that it does not introduce new programme risks, nor set onerous precedents for future programmes.

4.9 Despite the progress of the programme, the Crown P&L for FY13/14 is likely to outturn at around a £27m loss versus our target of a £23m loss.

- On income, performance has been lower than projected for this financial year. The £23m target was dependent on an increase in income of £2m, however we now forecast to see a decrease in income of c£2m, resulting in a net gap of c£4m against our start of year target.
- On costs, there have been a number of variances, both positive and negative from the start of year plan. Although there have been delays to in-year staff savings, these have been mitigated by other cost savings not in the start of year projections.

4.10 The programme remains high risk but our target of a break-even P&L run rate by the end of FY14/15 is still achievable. To achieve this will require income and central cost targets to be achieved in line with next year's budget.

**Kevin Gilliland**

**17<sup>th</sup> February 2014**

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**POST OFFICE LTD BOARD**  
**Chief Executive's Report**

**1. Mails**

- While mails income performance improved in January and was £0.9m above budget for the month, overall the year to date figure of £289m remains £18.7m behind budget (94%). We are targeting further performance improvements in Q4 through additional staff incentives for Special Delivery and Parcel Force Worldwide products, active prospecting to attract more small business customers, flash campaigns at Valentine's Day and Mother's Day and a tie-in with RM's 'We Love Parcels' campaign in March.
- We now have over 19,000 Drop & Go customers, with annual average expenditure on each account of £1,440 which has generated income of £1.9m over the year to date (125% of budget). A network incentive has been agreed to drive further sign-ups, with a focus on both encouraging regular account usage and capturing data to support a more targeted approach to selling mails and other services to SMEs.
- We are expecting to launch the Ebay returns service in July (subject to them meeting their own development timetable), which will give us non-exclusive access to their projected volumes of 17 million items per year. In addition, Amazon, ASOS and a number of smaller retailers have agreed in principle to use our Click & Collect service and are now working on the technical developments required for integration, which should mean they're ready for launch by the summer. Landing these retailers will be essential to underpin the assumption made in our 2014/15 budget that we will deliver a £15m increase in income from collections and returns. We would still like to see a more urgent and collaborative approach from RM to securing other retailers in this fast moving marketplace, a point which was emphasised at a joint workshop last week with senior RM executives (including Emily Pang, who is close to Moya Greene). We will keep the Board closely updated on developments with these discussions.

**2. Financial Services (FS)**

- The current account pilot was successfully extended to 110 branches on 20 January, with balanced PR coverage and smooth implementation of the staff training programme and IT developments. Applications have been averaging at over 30 a day, in line with our initial expectations for the extended pool of branches, and we now have over 1,400 accounts open in total. We are closely monitoring the rate of sales conversions and providing branches with additional support to improve their customer targeting and data capture processes to reduce the number of failed applications. An outdoor advertising campaign commenced in the relevant areas on 10 February and we are launching a 6 week gift card switching incentive to encourage primary account holding.
- The full year outturn for mortgage lending is forecast to be around £1bn – short of the original target of £1.2bn but still a substantial increase on last year's figure of £675m and on track to deliver our income target of £3.05m for the year. Importantly the sales momentum is continuing to build as we approach the new financial year, with the additional value generated by the mortgage specialists and wider FS sales structure starting to take effect. This was demonstrated by the fact that in January - normally a

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quiet month for mortgages – we achieved a record £18m of in-branch applications, contributing to a total of £102.5m (including direct applications) which was just ahead of budget. Alongside the TV, digital and press advertising campaign launched on 20 January, we will be extending the use of direct marketing activities for mortgages, credit cards and other FS products, incorporating the lessons from our data analytics trial which improved the customer response rate from less than 0.01% to 4.8% with the support of scripted follow up calls.

- Following ratification by the FS sub-committee, we have now finalised the new contract with MoneyGram for international money transfers, which should generate additional revenue of £34m over the next 7 years.
- We have made good progress in our bilateral negotiations with NS&I on the extension of the Premium Bonds contract. Once these discussions are completed the next step will be for NS&I to negotiate with Treasury the underpinning funding arrangements. While the precise outcome of this process remains uncertain, we are increasingly confident that a satisfactory solution will be found.

### 3. Government services

- It appears that a degree of consensus was reached on the continuing need for a POCA style product beyond 2017 at a ministerial meeting on 29 January attended by Iain Duncan-Smith (Secretary of State DWP), Vince Cable (Secretary of State BIS), Danny Alexander (Chief Secretary to the Treasury), Steve Webb (Pensions Minister) and Jenny Willets (Post Office Minister). However, there is still clearly an element of DWP that would prefer to keep their options open for as long as possible, and so the final shape of any announcement before the election remains to be determined.
- We are continuing to work with DWP officials in the meantime to develop a proposition that best meets their requirements while being commercially viable for the Post Office. In the case of pensioners this is likely to be a simple product much like the existing POCA, which can be procured under our existing framework contract for counter services. However, for working age customers who will qualify for Universal Credit DWP remain interested in a product with additional budgeting facilities – but they are not yet committing the long-term funding required to make this commercially sustainable and it would fall outside the scope of our framework contract. We are therefore proceeding cautiously on this issue, engaging constructively where we can but not making commitments that could prove to be unprofitable. Given the wider uncertainty over the timetable for Universal Credit, it may be that DWP change their thinking on this in any case.
- Following a series of meetings with DVLA, including with their new Chief Executive (Oliver Morley) on 11 February, we have agreed to work together in order to explore options to return our contract with them to the agreed level of profitability (11.8%), offsetting the impact of the proposed removal of tax discs and other volume shortfalls. This will start with a full day commercial workshop at the beginning of March. While we are reassured by their commitments, we will need to maintain the pressure on them to ensure this translates into tangible improvements in the contractual terms.

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#### 4. HomePhone and Broadband

- Call centre performance has been stable throughout January and February with over 80% of calls answered in less than 20 seconds and abandoned calls less than 5%, in line with the SLA targets. There has been a slight increase in the number of abandoned calls in February as we ramp up the collections processes and we are also closely monitoring technical support due to the flooding issues across the country. Whilst the levels of complaints is still higher than we would like, the number of new complaints continues to decline across all channels and are being dealt with within the agreed timescales.
- Levels of sales are beginning to pick up as confidence recovers in the service. Encouragingly, we are seeing strong growth in our online sales where we are running 60% above target, driven by improvements in the customer journey, endorsements from Martin Lewis of moneysavingexpert.com and the trialling of pay per click advertising which has delivered encouraging preliminary results. We will continue to push this channel during Q4 and the next financial year.
- The re-launch plan for the service has also been finalised, starting with a £50 bill credit offer for customers signing up from 31 March. New pricing will come into force from 14 April, with HomePhone line rentals increasing by £1 per month to £13 but our combined phone and broadband rentals reducing by up to £1.80 per month. Together with a re-alignment in our calls pricing, these changes will improve the competitive positioning of our broadband services and increase our profitability across the portfolio whilst maintaining our price differential with BT on HomePhone. We are also running sessions with the network to restore confidence and drive engagement with the product set, including through a new offer where colleagues can receive free broadband when they take our phone service.

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# **POST OFFICE LIMITED**

## **Performance Report**

**January 2014**

**Produced By : Financial Control and Compliance Team**

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## Headlines

### January 2014

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#### Profit & Loss

**P10 operating profit of £17.3m was £7.0m favourable to budget..**

- **P10 net income** was £0.4m adverse with mails (excluding Retail and Lottery) £0.8m favourable so showing a small recovery from P9. The main drivers of the adverse variance were Financial Services (£0.9m) and Lottery (£0.7m). The main products with a shortfall against budget continue to be second class labels £0.8m, Lottery £0.7m and ATMs £0.5m.
- **P10 costs** were £6.3m favourable comprising of £0.6m lower staff costs due to bonus provision reduction, £3.1m favourable subpostmaster costs due primarily to lower sales and £2.5m lower non staff costs due to purchase order scrutiny carried out in the period resulting in a write back across non staff and projects costs for work completed below its original cost.

**YTD operating profit at P10 was £103.4m, which was £18.6m favourable to budget of £84.8m, and flat with prior year.**

- **YTD net income** performance of £728.3m remains the key concern with an adverse variance of £28.7m compared to budget (mainly Mails £18.8m and Lottery £6.1m).
- **YTD staff costs** are on track although the managers' unconsolidated lump sums in lieu of pay award are yet to be confirmed and accrued.
- **YTD subpostmaster costs** were £30.5m favourable to budget, mainly due to lower sales income £18.1m and sales mix £3.3m (parcels), £2.2m WHS provision and £2.7m budgeted for 2013-14 but incurred in 2012-13.
- **YTD non people costs** were £10.7m favourable to budget, driven by £6.3m VAT recovery relating to H1 and the last year and £6.1m due to the scrutiny of purchase orders mentioned above, which is offset by the adverse variance due to Horizon costs originally budgeted for in the prior year.
- **YTD Project costs** were £3.8m favourable with the underspend driven by the movement of separation costs to exceptional items and some client funding and delays compared to original plan in Financial Services.

**Following a P10 review of risks and opportunities the CFO FY PBIT forecast was increased to £110m driven by cost improvements despite the continued income shortfalls.**

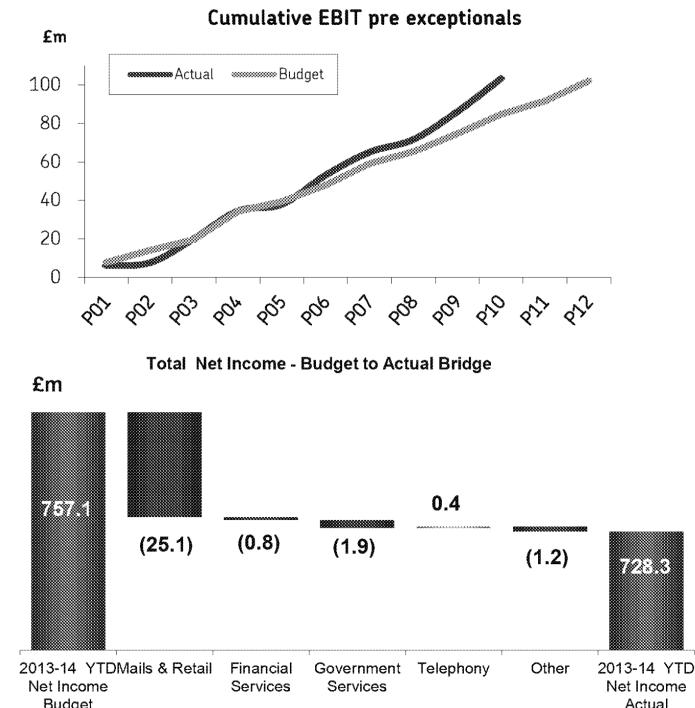
#### Cashflow

The YTD cashflow was an inflow of £189m which is £154m favourable to the P10 budget of £35m and £55m favourable to the latest FYF of £134m. The main driver for the favourable variance is the slower than planned capex and exceptions expenditure on the transformation projects.

#### Crown P&L - YTD

The Crown loss is £2.1m adverse to budget. Income was £2.2m adverse and costs were £0.3m adverse, whilst the share of JV was £0.4m favourable.

*Note: The non staff figure now consolidates Interbusiness into this one line reflecting the change in relationship with Royal Mail which is now treated as a third party supplier.*



#### Financials

Total Net Income (excl NSP) £m (Bonus)

Operating profit £m (Bonus)

Free cashflow £m

Crown Profit (Loss) £m (Bonus)

#### Non Financials

Queue time % < 5 minutes - Top 1k branches

NT Conversions - (Mains & Locals) (Bonus)

Year to Date		
Act	Target	Var
728.3	757.1	(28.7)
103.4	84.8	18.6
189.0	34.5	154.5
(21.9)	(19.8)	(2.1)

81.8%	80.2%	1.6%
2730	2579	151

## Profit &amp; Loss Statement

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January 2014



£m	Current Month			Prior Year Period			Year to Date			Prior Year YTD		Full Year			Prior Year	Prior Year
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q2 Forecast	Budget	Variance	Outturn	Variance	
<b>TOTAL GROSS INCOME</b>	<b>86.8</b>	<b>88.3</b>	<b>(1.5)</b>	<b>84.4</b>	<b>2.3</b>	<b>822.0</b>	<b>852.1</b>	<b>(30.1)</b>	<b>849.9</b>	<b>(27.9)</b>	<b>998.8</b>	<b>1,012.2</b>	<b>(13.4)</b>	<b>1,023.6</b>	<b>(24.8)</b>	
Cost of Sales	(8.8)	(9.9)	1.1	(10.3)	1.5	(93.6)	(95.0)	1.4	(99.0)	5.4	(111.2)	(112.2)	1.0	(121.2)	10.0	
<b>TOTAL NET INCOME</b>	<b>78.0</b>	<b>78.4</b>	<b>(0.4)</b>	<b>74.2</b>	<b>3.9</b>	<b>728.3</b>	<b>757.1</b>	<b>(28.7)</b>	<b>750.8</b>	<b>(22.5)</b>	<b>887.6</b>	<b>900.0</b>	<b>(12.5)</b>	<b>902.4</b>	<b>(12.8)</b>	
Staff Costs	(22.4)	(23.0)	0.6	(24.0)	1.6	(216.0)	(216.5)	0.5	(213.2)	(2.8)	(259.2)	(256.1)	(3.1)	(257.4)	(1.6)	
Subpostmaster Costs	(38.7)	(41.9)	3.1	(39.3)	0.6	(376.1)	(406.5)	30.5	(394.9)	18.9	(468.9)	(480.0)	11.1	(478.1)	9.2	
Non-Staff Costs (including Interbusiness)	(19.5)	(22.0)	2.5	(23.3)	3.8	(209.4)	(220.1)	10.7	(207.4)	(2.1)	(261.2)	(257.6)	(3.6)	(260.7)	(0.5)	
Depreciation	(0.0)	(0.1)	0.1	(0.1)	0.0	(0.3)	(0.8)	0.5	(0.8)	0.5	(0.8)	(0.9)	0.0	(0.4)	(0.4)	
<b>Total Expenditure (pre P0OC)</b>	<b>(80.6)</b>	<b>(86.9)</b>	<b>6.3</b>	<b>(86.7)</b>	<b>6.1</b>	<b>(801.8)</b>	<b>(843.9)</b>	<b>42.1</b>	<b>(816.3)</b>	<b>14.5</b>	<b>(990.1)</b>	<b>(994.5)</b>	<b>4.4</b>	<b>(996.7)</b>	<b>6.6</b>	
FRES - Share Of Operating Profits	1.3	1.4	(0.1)	1.4	(0.1)	29.5	28.2	1.3	28.6	0.9	33.0	31.5	1.5	31.9	1.1	
<b>EBIT - BAU</b>	<b>(1.4)</b>	<b>(7.2)</b>	<b>5.8</b>	<b>(11.1)</b>	<b>9.8</b>	<b>(43.9)</b>	<b>(58.6)</b>	<b>14.7</b>	<b>(36.8)</b>	<b>(7.1)</b>	<b>(69.5)</b>	<b>(63.0)</b>	<b>(6.6)</b>	<b>(62.4)</b>	<b>(7.1)</b>	
One off Project costs (P0OC)	(0.6)	(1.8)	1.2	(4.3)	3.7	(21.9)	(25.8)	3.8	(34.3)	12.3	(28.5)	(35.0)	6.5	(53.4)	24.9	
<b>EBIT - Post Project Costs</b>	<b>(2.0)</b>	<b>(9.0)</b>	<b>7.0</b>	<b>(15.5)</b>	<b>13.5</b>	<b>(65.9)</b>	<b>(84.4)</b>	<b>18.6</b>	<b>(71.1)</b>	<b>5.2</b>	<b>(98.0)</b>	<b>(98.0)</b>	<b>0.0</b>	<b>(115.8)</b>	<b>17.8</b>	
Network Payment	19.2	19.2	0.0	19.8	(0.6)	169.2	169.2	0.0	174.3	(5.1)	200.0	200.0	0.0	210.0	(10.0)	
<b>EBIT pre exceptionals items</b>	<b>17.3</b>	<b>10.2</b>	<b>7.0</b>	<b>4.3</b>	<b>12.9</b>	<b>103.4</b>	<b>84.8</b>	<b>18.6</b>	<b>103.3</b>	<b>0.1</b>	<b>102.0</b>	<b>102.0</b>	<b>0.0</b>	<b>94.2</b>	<b>7.8</b>	
Interest	0.2	(0.5)	0.7	0.1	0.2	2.7	(4.0)	6.7	(0.9)	3.6	(2.0)	(5.0)	3.0	(0.8)	(1.2)	
Impairment	(14.4)	(17.4)	3.0	(8.3)	(6.1)	(73.7)	(130.6)	56.9	(48.2)	(25.5)	(140.0)	(167.5)	27.5	(65.6)	(74.4)	
Exceptionals & Redundancy & Severance Costs	(21.4)	(18.4)	(3.0)	(5.6)	(15.8)	(17.4)	(151.6)	134.2	(45.1)	27.7	(37.9)	(184.4)	146.5	(77.0)	39.1	
Government Grant Utilisation	42.7	22.3	20.4	9.8	32.9	221.8	276.0	(54.2)	65.2	156.6	253.1	316.9	(13.8)	98.2	154.9	
Profit/(Loss) On Asset Sale	0.9	0.0	0.9	0.0	0.9	3.4	0.0	3.4	(28.0)	31.4	2.5	0.0	2.5	(27.7)	30.2	
Colleague Share/ Business Transformation Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(3.3)	3.3	
<b>Total Profit/(Loss) Before Tax</b>	<b>25.2</b>	<b>(3.8)</b>	<b>29.0</b>	<b>0.3</b>	<b>24.9</b>	<b>240.2</b>	<b>74.6</b>	<b>165.6</b>	<b>46.2</b>	<b>193.9</b>	<b>177.7</b>	<b>62.0</b>	<b>115.7</b>	<b>18.0</b>	<b>159.7</b>	

**Period vs. Budget**  
Operating profit (EBIT) of £17.3m was £7.0m favourable to budget.

**BAU** was £5.8m favourable:

- Lower subpostmaster pay of £3.1m, £1.3m related to lower sales and £0.9m related to a better than expected VAT recovery rate and £0.6m WHS provision release.
- Lower non staff costs of £2.5m due primarily to the scrutiny of purchase orders, offset by increased marketing costs, and
- Lower staff costs of £0.6m reflecting the reduced bonus provision.

Offset by:

- Lower income of £0.4m, due primarily to Financial Services.

**One-off** variance of £1.2m favourable relating to slower P0OC expenditure in the period.

**Below EBIT**

Impairments were favourable due to slower progress than plan on NTP.

**YTD vs. Budget**  
Operating profit (EBIT) of £103.4m was £18.6m favourable to budget.

**BAU** variance of £14.7m favourable was mainly due to:

- Lower subpostmaster costs of £30.5m mainly due to; £18.1m relates to lower sales income, £3.3m sales mix (parcels), £2.2m WHS provision and £2.7m budgeted but incurred in 2012-13.
- Lower non staff costs of £10.7m due to VAT recovery relating to H1 and prior year of £6.3m, purchase order efficiency drive of £6.1m as in period commentary, offset by Horizon costs originally budgeted for in prior year, but incurred this year.
- Lower staff costs of £0.5m, and
- Higher FRES JV income of £1.3m.

Offset by:

- Lower income of £28.7m, mainly Mails £18.8m and Lottery £6.1m, Mails performance was impacted by lower parcel volumes following the RM price changes in April, but new parcel formats have been introduced at the end of October. Lottery continues to underperform.

**Project One-off** variance of £3.8m favourable. The underspend is driven by the movement of Separation costs to exceptionals and slower spend in previous periods.

**Below EBIT**

Exceptional costs are favourable mainly due to a £102m unbudgeted credit relating to the change in pensions terms. The underlying variance is due to slower pace of capital spend and operating exceptionals, including agents compensation, compared to budget. Government grant utilisation follows this trend, but also included utilisation against the remaining 2012/13 exceptional costs. The profit on sale related to the lease surrender of Midway House.

**YTD vs. Prior Year**  
Operating profit (EBIT) of £103.4m was £0.1m favourable to prior year.

**Like for like BAU** adverse variance of £7.1m was mainly due to:

- Lower net income of £22.5m. The variance versus prior year is driven primarily by the stamps buy forward ahead of last year's price increase and lower parcel volumes this year. Government Services also decreased as a result of lower rates from the new DVLA contract and falling Card Account customers. NS&I income fell as NS&I migrated its customers to its online channel.
- Higher staff cost of £2.8m adverse to prior year due to higher pension costs, pay awards and increased headcount, and
- Higher non staff costs of £2.1m due to increased IT costs (mainly Horizon), timing of marketing spend, and the removal of the FX bureau rebate received in H1 last year partially offset by the increased VAT recovery this year.

Offset by:

- Subpostmaster costs £18.9m favourable variance to POL; £11.9m due to lower sales, predominantly Mails including buy forward pre price increase, £2.8m lower fixed pay from unfreezing the Core Tier Payment and roll out of Locals and £3.2m accrual release relating to the DVLA rate accrual, partially offset by £1.0m increase in Mails Segregation payments.
- Higher JV income of £0.9m.

**Non like for like** favourable variance of £7.2m was due to:

- Lower project costs of £12.3m, and
- Lower Network payment of £5.1m.

**Below EBIT**

NT exceptionals including compensation are ahead of the equivalent pace in 2012/13. 2013/14 grant utilisation includes £30m against 2012/13 exceptional costs not covered by the 2012/13 grant.

## CFO High Level Profit Forecast At Period 10

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January 2014

£'m	Period 10					Explanation of items	P10vP9
	Income	JV Income	Costs	NSP	EBIT		
Budget	900	32	(1,030)	200	102	(0)	
<b>Downsides</b>							
Mails income	(27)			(27)	Worsening trend requires greater recovery action.	(4)	
Lottery income	(7)			(7)	Continuing trend with no improvement	0	
Gov't Services income	(4)			(4)	No IDA income -£2m; POCA -£1m, Motoring -£1m	0	
FS income	(5)			(5)	ATM's -£2m; 'unassigned income' -£2m; Other products -£2m	0	
Other income/ POOC contingency	(5)		5	0	Income challenge £5m matched with POOC budget	0	
Staff efficiency		(2)		(2)	Original ExCo agreed task (was £3m)	0	
Staff cost risk on phasing of CTP		(1)		(1)	Delay to VR letters during union negotiations costing c£100k per week	0	
Fujitsu costs		(2)		(2)	Expected last year	0	
IT&C efficiency task		(3)		(3)	Strategy's accepted task	0	
Mails segregation penalty		(3)		(3)	Full likely penalty taken but offset by mitigating action to negotiate income below	(2)	
Bonuses	(1)		(1)	(1)	PY flowthrough	0	
Agents pay - sales impact	22		22			2	
NT Locals delays	(2)		(2)			0	
Agents segregation payments	(1)		(1)	(1)	£1m budgeted and £2m expected	0	
POOC overspend	(2)		(2)		Underlying overspend - Sparrow	0	
VAT on expenditure with Royal Mail	(1)		(1)	(1)	RM charges incur VAT from October net of saving from VAT recovery rate improving in H2	0	
Non staff savings task		(1)		(1)	Finance task not underpinned	0	
	(48)	0	8	0	(40)	(4)	
<b>Mitigating actions</b>							
Mails income - dangerous goods	6		6		Additional income, not as high as £7.8m originally expected	(1)	
Mails income - format changes/campaigns	2		2		Shoebox from end Oct and International conformance reduced in P10 reflecting performance	(4)	
Mails segregation	3		3		Income to negotiate for correcting action (to offset penalty above)	3	
Lottery price rise		0			Camelot price rise from 3rd October has not had desired impact	0	
Gov't - UKBA Cost of Sales correction		0			Now confirmed no correction required	(1)	
Gov't - volume trends	2		2		Passports and UKBA AEI volumes	0	
DVLA change control	1		1		Release income for work related to tax disc removal	1	
IDA	1		1		Opportunity to reclaim investment costs from Govt programme	1	
FS income - Santander volumes	2		2		Horizon volumes higher than clients; now taken and completed.	0	
FS income - Junction deal	3		3		£2.5m backdated additional commissions when Junction deal is signed.	0	
FRES upside (higher ATVs)	1		1		Deal now signed and booked in P8		
					Aligns to FRES budget, could be further upside as higher ATVs - on track	0	
PhotoMe income	1		1		£1m backdated income now mostly recognised	0	
Supply Chain external income	2		2		Volume related	0	
IT&C savings	3		3			0	
Telephony implementation	2		2		3 month saving from amortisation of set up costs, due to delayed migration. Taken in YTD	0	
Agents mix	5		5		Budgeting point on mix	0	
Agents DVLA timing	3		3		DVLA lump sum payments were accrued last year but budget did not assume this. In YTD position	0	
POOC	5		5		Separation to exceptions; Cust Mgt to capex	0	
Contingency		0			Removed at P10 as the forecast was refined	3	
Agents VAT	1		1			0	
Agents pay - sales recovery	(4)		(4)		Estimated	4	
Agents WHS provision utilisation	3		3		Provision relating to original contract utilised but not in budget	3	
Other savings	1		1			1	
VAT upside	5		5		Impact of higher recovery rate in 12-13 and H1 13-14 now fully brought to forecast	2	
	23	1	24	0	48	0	
<b>Latest View at P10</b>	<b>875</b>	<b>33</b>	<b>(998)</b>	<b>200</b>	<b>110</b>	<b>12</b>	<b>8</b>

## Crown Profit &amp; Loss Statement



January 2014

£m	Period			Prior Year Period		Year To Date			Prior Year YTD		Full Year			Prior Year
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q3 Forecast	Budget	Variance	
<b>Income and Distributions</b>														
Variable income														
- Mails	3.6	3.6	(0.0)	3.2	0.4	33.7	36.7	(3.0)	37.8	(4.1)	39.7	43.2	(3.5)	44.8
- Financial Services	2.4	2.3	0.1	2.2	0.2	24.2	23.9	0.2	25.7	(1.5)	28.5	28.2	0.3	30.4
- Government Services	2.1	1.8	0.3	2.2	(0.0)	17.8	16.5	1.3	20.9	(3.1)	21.2	20.2	1.0	26.4
- Telephony	0.1	0.1	(0.0)	0.1	(0.0)	0.6	0.9	(0.3)	1.1	(0.5)	0.8	1.3	(0.4)	1.3
Fixed income	2.7	2.2	0.5	2.4	0.3	21.5	20.6	0.9	23.5	(2.0)	25.5	24.8	0.7	28.2
Gamma/ Other	0.6	0.9	(0.3)	1.1	(0.5)	10.0	12.3	(2.3)	9.1	1.0	12.0	14.7	(2.7)	10.9
Renewals and Retentions	1.6	1.6	(0.0)	1.4	0.2	15.5	14.7	0.9	8.7	6.8	18.5	17.7	0.8	11.1
<b>Total Income including Gamma/other</b>	<b>13.0</b>	<b>12.5</b>	<b>0.5</b>	<b>12.5</b>	<b>0.5</b>	<b>123.4</b>	<b>125.6</b>	<b>(2.2)</b>	<b>126.8</b>	<b>(3.4)</b>	<b>146.2</b>	<b>150.1</b>	<b>(3.9)</b>	<b>153.2</b>
Direct Product Costs	(0.3)	(0.3)	(0.0)	(0.7)	0.4	(5.2)	(5.2)	(0.1)	(5.9)	0.7	(4.8)	(5.0)	0.1	(8.3)
Branch costs														
- Staff	(10.1)	(9.9)	(0.2)	(11.0)	0.9	(91.2)	(90.5)	(0.7)	(97.4)	6.2	(106.5)	(106.0)	(0.4)	(117.9)
- Property	(3.5)	(3.3)	(0.3)	(3.3)	(0.2)	(29.6)	(29.8)	0.2	(29.3)	(0.4)	(35.3)	(35.4)	0.0	(36.9)
- Other branch costs	(0.3)	(0.3)	(0.0)	(0.4)	0.0	(3.5)	(3.2)	(0.3)	(4.5)	1.0	(4.3)	(4.7)	0.4	(6.3)
Infrastructure costs	(1.8)	(1.7)	(0.1)	(1.9)	0.1	(18.5)	(17.9)	(0.7)	(18.1)	(0.4)	(22.7)	(22.9)	0.1	(22.5)
Allocated central costs	(0.9)	(1.1)	0.2	(0.7)	(0.2)	(5.7)	(7.0)	1.3	(5.3)	(0.4)	(9.0)	(8.4)	(0.6)	(7.7)
<b>Total Expenditure</b>	<b>(17.1)</b>	<b>(16.7)</b>	<b>(0.3)</b>	<b>(18.0)</b>	<b>1.0</b>	<b>(153.9)</b>	<b>(153.6)</b>	<b>(0.3)</b>	<b>(160.6)</b>	<b>6.7</b>	<b>(182.6)</b>	<b>(182.2)</b>	<b>(0.4)</b>	<b>(199.7)</b>
JV Share of Profits	0.4	0.4	(0.0)	0.4	0.0	8.6	8.2	0.4	7.4	1.1	9.6	9.1	0.5	9.6
<b>Statutory PBIT</b>	<b>(3.7)</b>	<b>(3.8)</b>	<b>0.1</b>	<b>(5.2)</b>	<b>1.5</b>	<b>(21.9)</b>	<b>(19.8)</b>	<b>(2.1)</b>	<b>(26.3)</b>	<b>4.4</b>	<b>(26.8)</b>	<b>(23.0)</b>	<b>(3.8)</b>	<b>(37.0)</b>

## Summary

Income £2.2m less than plan.

- Mails - An on target performance was delivered in the month as the phasings issues from Period 9 reversed. The Retail income gap was closed further as full opportunity was taken to maximise sales of commemorative coins with focus activity within the Chinese community.
- Main drivers of favourable Government income are UK Visa & Immigration (UKVI) (due to backlog in applications) £0.8m, ID Services £0.8m. Passports delivered an uplift in P10 of £0.2m as the main sales spike got underway bringing the YTD position to £0.4m, this is offset by Motorist services (DVLA Licences and AEI) which are £0.6m behind target.
- Financial Services - Savings continue to deliver an above target performance with all products in the portfolio delivering on target performance in the month.

Costs are £0.3m higher than plan:

- Staff overspend due to delays in CTP partially offset by savings from industrial action.
- Other mainly driven by VAT recovery and a purchase order efficiency drive.

FYF is £3.8m adverse to budget reflecting the lower Mails income.

## Cost Management update

January 2014

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### Progress since P9 update

#### Value and confidence

- £1.6m of Marketing savings in FY14/15 have been re-allocated to fund marketing for the new mobile phone offering and have been removed.
- Negotiations have restarted on Official Mail (following Royal Mail disengagement) to finalise price reductions that will deliver savings of £1.2m in FY14/15.
- The net impact on Value in FY14/15 is a decrease of £1.6m to £42.1m.

#### Delivery and governance

Analysis of FY14/15 budget submissions shows that, of the £42.1m of potential savings identified, £34.2m has been incorporated (82%). The change from the previous £36.2m is principally due to the marketing reallocation noted above.

The graph to the right shows a "Delivery Status" based measure which analyses:

- Initiatives that are in delivery (i.e. savings are accruing): Currently, initiatives contributing £6.2m of cost reductions in FY14/15 are already in delivery.
- Initiatives that are in the budget, but are not yet in delivery.
- Initiatives that are at an early stage and are not in the budget.

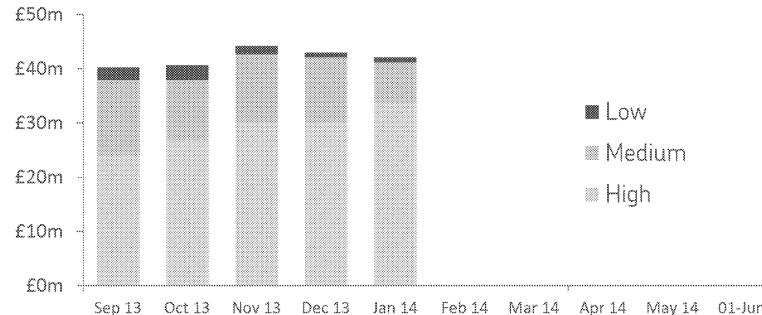
This will be used to illustrate the impact of initiatives as they are delivered in FY14/15 and to track the development of early stage ideas into delivery.

Next steps are to finalise implementation plans for all initiatives commencing Q1 FY14/15 and to consolidate people-change plans for an organisation-wide view.

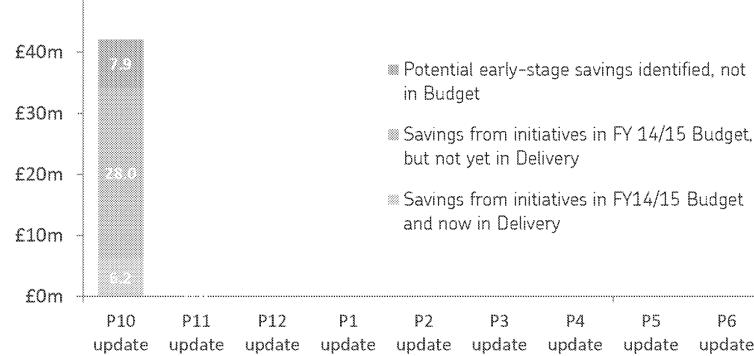
#### Strategic initiatives for FY15/16 and beyond

The strategic cost transformation programme is making good progress in defining our requirements of a strategic transformation partner, and is on track to go to market in Q4 FY13/14. As planned, the team will return to the Board in February 2014 with an update, and in March 2014 for approval to go to market.

### Cost reduction opportunities: Confidence and value FY14/15



### FY14/15 cost reduction initiatives, by stage of delivery

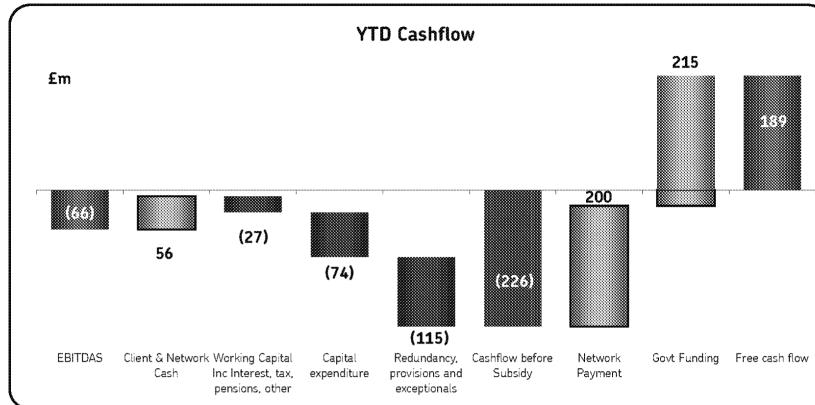


Overview of high impact initiatives (excluding CTP)	Directorate	FTE impact	FY14/15 (£m) Confidence				Delivery status	Significant changes since P9 update
			L	M	H	Total		
- Procurement savings in Network and Supply Chain (£2.6m Facilities Management; £1.2m Fleet Maintenance; £1.5m Official Mails, £1.0m Branch consumables etc)	Network & Supply Chain				6.2	<b>6.2</b>	0.8	Fleet Maintenance savings are in delivery £0.8m budget impact in FY14/15.
- Reduce cash delivery frequency and move to single person operation	Supply Chain	50		1.8		<b>1.8</b>	Planning	£0.2m increase in benefits to reflect full year impact.
- Reduce cost and volume of Official Mail	Finance			1.3		<b>1.3</b>	Planning	Progress has been made on epayslips. Negotiations on price restarted, following Royal Mail disengagement.
- Restructure Commercial to reduce duplication and increase customer focus	Commercial	10		1.1		<b>1.1</b>	Planning	
- Manchester Cash Centre Closure	Supply Chain	20		0.7	<b>0.7</b>	0.7	0.7	Initiative is in delivery - FY14/15 impact £0.7m.
- Restructure Audit and Training team in the Agency network	Network	20		0.7		<b>0.7</b>	Planning	
- Deliver remainder of Finance Roadmap Programme savings	Finance	15		0.7	<b>0.7</b>	0.7	Planning	
- Restructure call centres transferring from Royal Mail and improve efficiency	Network	20		0.6	<b>0.6</b>	0.6	Planning	

# Cashflow Analysis

## January 2014

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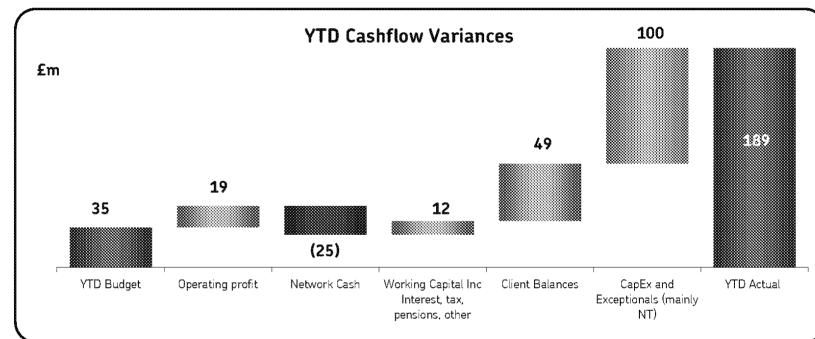
### Cashflow

The YTD cash inflow of £189m is £154m favourable to budget of £35m. This favourable variance is forecast to be maintained and outturn at c.£130m at year end. The current favourable variance is mainly due to:

- Capital expenditure and exceptional items combined are £100m favourable to budget due to lower than planned NTP and CTP expenditure.
- Client balances are £49m favourable driven by DVLA balance favourable contractual settlement changes.
- Operating profit is £19m favourable to budget.
- Working capital is net £12m favourable.

Offset by:

- Network Cash balances are £25m adverse to the budget which is driven by higher cheque and debit card transactions due to HMRC self assessment payments paid at branches being higher than expected.



£m	YTD		Full Year	
	Actual	CFO Q3 Forecast	Budget	Variance
<b>Working Capital</b>	<b>103.3</b>	<b>102.0</b>	<b>102.0</b>	<b>0.0</b>
Working Capital	(44.5)	(41.2)	(41.2)	0.0
Client Balances	1.9	(11.4)	(44.4)	33.0
Network Cash	53.7	114.6	114.6	0.0
Capital Expenditure	(73.8)	(110.0)	(167.5)	57.5
Government funding	215.0	215.0	215.0	0.0
NSP in advance	30.8	0.0	0.0	0.0
Exceptional Items	(115.4)	(141.5)	(198.8)	57.3
Other	9.3	1.2	(1.3)	2.5
<b>Free cashflow before interest, tax</b>	<b>180.3</b>	<b>128.7</b>	<b>(21.6)</b>	<b>150.3</b>
Interest	(1.5)	(2.0)	(5.0)	3.0
Tax	10.2	10.3	10.3	0.0
<b>Free Cashflow</b>	<b>189.0</b>	<b>137.0</b>	<b>(16.3)</b>	<b>153.3</b>

£m	Prior Year		P10		
	P10	Opening	Actual	Budget	var
Retail, Cash Centres	538	650	518	522	4
Bureau	53	59	48	44	(4)
Cheques, debit cards	75	161	250	225	(25)
<b>Network Cash</b>	<b>666</b>	<b>870</b>	<b>816</b>	<b>791</b>	<b>(25)</b>

	Opening	P10
<b>Headroom (£m)</b>	<b>838</b>	<b>923</b>

Business Scorecard  
 January 2014

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Key Performance Indicators	Current Month			Year to Date			Prior Year	Full Year			2012-13 Outturn
	Act	Target	Var	Act	Target	Var		Latest view	Target	Var	
<b>Growth</b>											
Total Net Income (excl NSP) £m (Bonus 20%)	78.0	78.4	(0.4)	728.3	757.1	(28.7)	750.8	875.0	900.0	(25.0)	902.4
Operating profit £m (Bonus 25%)	17.3	10.2	7.0	103.4	84.8	18.6	103.3	110.0	102.0	8.0	94.2
Earnings before ITDA and Subsidy £m*	(1.9)	(8.9)	7.0	(65.5)	(83.6)	18.1	(70.3)	(89.2)	(97.2)	8.0	(115.4)
Free cashflow £m	67.7	29.3	38.5	189.0	34.5	154.5	231.6	137.0	(16.3)	153.3	132.2
<b>Customer</b>											
Customer Satisfaction**	85.4%	88.0%	(2.6)%	87.3%	88.0%	(0.7)%	87%	87%	88%	(1)%	87%
Easy to do business with (Bonus 20%)**	36%	44%	(8)%	42%	44%	(2)%	N/A	43%	44%	(1)%	N/A
Net Promoter score**	(2)	5	(7)	(3)	5	(2)	N/A	(3)	5	(3)	N/A
Queue time % < 5 minutes - Top 1k branches	84.4%	85.1%	(0.7)%	81.8%	80.2%	1.6%	80.4%	81%	81%	0.0%	80.7%
Horizon availability	99.8%	99.7%	0.1%	99.9%	99.7%	0.2%	99.8%	99.9%	99.7%	0.2%	99.8%
Branch - Compliance (new basket)	90.4%	98.0%	(7.6)%	97.6%	98.0%	(0.4)%	98.6%	98%	98%	0.0%	97.8%
<b>People</b>											
Engagement Index % (Once a year) (Bonus 10%)	51%	56%	(5)%	51%	56%	(5)%	55%	51%	56%	(5)%	55%
(No.) % of BME appointments over total recruits at senior leadership and senior manager	20%	4%	16%	11%	4%	7%	N/A	10%	4%	6%	N/A
(No.) % of Female appointments over total recruits at senior leadership and senior manager	60%	40%	20%	50%	40%	10%	N/A	49%	40%	9%	N/A
<b>Modernisation</b>											
Crown Profit (Loss) £m (Bonus 12.5%)	(3.7)	(3.8)	0.1	(21.9)	(19.8)	(2.1)	(26.3)	(26.8)	(23.0)	(3.8)	(37.0)
NT Conversions - contract signatures (Mains & Locals) (Bonus 12.5%)***	323	210	113	2,730	2,579	151	672	3,000	3,000	0	1,450
NT Branches Open (Mains & Locals)***	110	113	(3)	1,577	1,723	(146)	N/A	1,950	1,950	0	507

Bonus worthy metrics

\* ITDA Interest, Tax, Depreciation, Amortisation

\*\* Monthly = 3 month average. YTD = 12 month average

\*\*\* YTD and FY = cumulative including prior years

## Network Transformation Scorecard

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January 2014

Reporting prior months data (i.e. one month in arrears)



Key Performance Indicators			Current Month %			Ave E's per branch		
			Actual	Control Group	Var	Actual Sample Size	Actual	Control Group
<b>MAINS</b>								
POL	Finance Approved Investment per Mains £000	-	-	-			(42)	(42)
	<b>Total Income: Post vs Pre Conversion</b>						0	0
	Branches live 6-12 months	(8)%	(12)%	4%		315	(780)	(995)
	Branches live 12-24 months	(15)%	(12)%	(3)%		21	(1478)	(995)
	Branches live 24-36 months	10%	(4)%	14%		6	1223	(482)
	<b>Focus Income: Post vs Pre Conversion</b>							1550
	Branches live 6-12 months	4%	(2)%	6%		315	87	(34)
	Branches live 12-24 months	(4)%	(2)%	(2)%		21	(88)	(34)
	Branches live 24-36 months	8%	8%	0%		6	229	(54)
							118	110
Agent	<b>Agents Remuneration: Post vs Pre Conversion</b>						813	813
	Branches live 6-12 months	6%	(6)%	12%		315	411	(402)
	Branches live 12-24 months	(1)%	(6)%	5%		21	(76)	(402)
	Branches live 24-36 months	17%	(4)%	21%		6	1543	(236)
	<b>Customer Sessions</b>						1779	1779
	Branches live 6-12 months	3%	(1)%	4%		315	21	
	Branches live 12-24 months	(7)%	(5)%	(2)%				
	Branches live 24-36 months	8%	(4)%	13%		6		
	<b>Operator Feedback on Retail Sales Performance</b>						43	43
	Operator Satisfaction	6%					107	107
Customer		Actual	Target	Var	Actual Sample Size			
	Average Increase in Opening Hours	35%	20%	15%	887			
	Customer Satisfaction	98%	90%	8%	30			
	Queuing Times	2m 18s	< 5 mins	2m 42s	121			
<b>LOCALS</b>								
POL	Finance Approved Investment per Local £000	-	-	-			(11)	(11)
	<b>Total Net Impact: Post vs Pre Conversion</b>						0	0
	<b>Branches live 6-12 months</b>							
	Income	(19)%	(12)%	(8)%		112	(586)	(405)
	Actual Fixed pay savings						931	(181)
	Actual Net impact						345	0
	<b>Branches live 12-24 months</b>							
	Income	(19)%	(12)%	(8)%		64	(732)	(405)
	Actual Fixed pay savings						856	(327)
	Actual Net impact						124	0
Agent	<b>Branches live 24-36 months</b>							
	Income	(3)%	(3)%	1%		22	(74)	(103)
	Actual Fixed pay savings						585	29
	Actual Net impact						510	0
								167
	<b>Customer Sessions</b>							
	Branches live 6-12 months	7%	1%	6%		112		
	Branches live 12-24 months	4%	(3)%	7%		64		
	Branches live 24-36 months	14%	(1)%	14%		22		
	<b>Operator Feedback on Retail Sales Performance</b>						9	9
	Operator Satisfaction	11%					23	23
Customer		Actual	Target	Var	Actual Sample Size			
	Average Increase in Opening Hours	111%	80%	33%	547			
	Customer Satisfaction	96%	90%	6%	30			
	Queuing Times	1m 41s	< 5 mins	3m 19s	31			

Financials are compared against the control group (2399 Mains and 4879 Locals). Customer metrics are against programme targets. Customer Sessions are based on actuals transactions captured in the Horizon system. Operator and Customer satisfaction scores are conducted through branch surveys. 1421 live branches within the 2407 contracts signed - End Dec 2013  
 0-6 Months (July 13- Dec 13) - 610, 6-12 Months (Jan 13 - June 13) - 484, 12-24 Months (Jan 12- Dec 12) - 186, > 24 Months (prior to Jan 2012) - 141  
 NB: The scorecard includes 427 branches of the 1094 (6-12 months), 85 branches of the 186 (12-24 months) and 28 branches of the 141(24-36 months). Branches with a break in customer session or branches that had previously received overscale payments have been excluded.

**Mains**  
**Financial performance**  
 Income against all areas including the control group are showing a decline between pre (2011/12) and post (2013/14) conversion due to a change in trading weeks between the month of December. Agents Pay has also been affected by this but to a lesser extent due to the pay cut period.

**Income**

- 6-12 months are generally performing stronger than control group on focus products, in particular Special Delivery & International Express, Cash Withdrawals, Growth Bonds and insurance products. Focus products require a more sophisticated sales conversation.
- 12-24 months & 24-36 months are a much smaller sample size with mixed results. However Cash Withdrawals and Travel Money are performing stronger than the control group in most branches.

**Agents Pay**

- Overall increase across all groups is in line with the combination of income performance and enhanced pay rates for Mains contracts.

**Non financial performance**

- Customer satisfaction in both Mains and Locals continues to be consistently above 90%.

**Locals**  
**Financial performance**  
 Income against all areas including the control group is showing a decline between pre (2011/12) and post (2013/14) conversion due to a change in trading weeks between the month of December.

**Total Income**

- The Local model assumption was that income would reduce by c5% due to the removal of certain products.
- Branches open between 6 & 24 months are showing a decline against control group of 8%.
- Products such as bill payments, etop ups, cash withdrawals and moneygram continue to perform stronger against control group.
- Growth in these products - with associated footfall - has been offset in income terms by poorer performance on more complicated products.
- Loss of income has been more than offset by savings in agents fixed pay.

**Non financial performance**

**Customer sessions**

- Retailers are benefiting from greater footfall that should support their retail growth.
- The footfall is delivering quicker but lower value Post Office sales which in turn should allow the retailer to utilise their staff in different ways or reduce their staff costs.
- Customer Satisfaction and extended opening hours all remain positive.

**Operator Satisfaction**

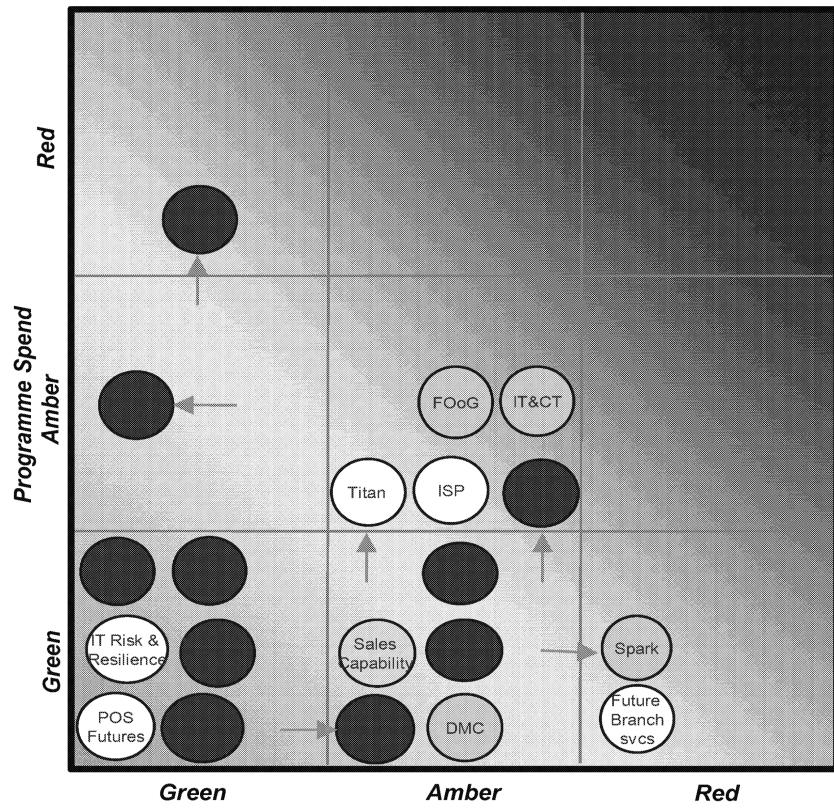
- Recognition that Local operators want more support after opening to ensure they manage their post office effectively within the retail environment. A new (but small) team of Local relationship managers has recently been established (Dec), but clearly there is a lot of work to do to meet this need.

## Change Management Overview

January 2014

Highlights heatmap status of key transformation programmes, and points of escalation to Transformation Board on selected projects including resulting Transformation Board action / guidance. Also highlights wider points of discussion / action.

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### Summary of key items of TB Discussion

**IT&CT** - Transformation Board discussed the review of the Data Centre procurement, that concluded it would not deliver the necessary quality and price objectives needed and was therefore cancelled without award. More detailed impacts on other programmes such as remaining Towers, the IT portfolio and Separation (including Finance Roadmap) is currently being undertaken by the programme and will be reported back to the Transformation Board.

**Collections & Returns** - Transformation Board discussed the latest position with the initial retailer that has been live since November. Transaction volumes have been small, however this has enabled live testing of systems and processes to enable refinement for next retailers. Operational issues that have been identified are being addressed between Network and Commercial with Royal Mail. Difficulty in ability to demonstrate to potential clients a consistent performance as well as a clear understanding of network availability (opening hours) are impacting Royal Mail's confidence in Post Office's ability to provide a quality service and therefore putting future client take on at risk.

**PO Energy (Spark)** - Transformation Board were made aware of an emerging view from the programme team to delay this programme due to challenges around network capacity, the potential lack of an assisted sales model, the continued political attention around energy and potential regulatory changes. A paper will be submitted to the 18th February ExCo to summarise latest position and agree recommendations.

**Future Branch Services** - Transformation Board discussed the delay to issuing requirements for the EUC (End User Computing) procurement whilst the future branch operating model are defined. This analysis is being co-ordinated by the Commercial team working with Network and driven by commercial requirements.

**Titan** - The Transformation Board discussed the review of the programme by Peachtree partners, who are developing a Target/Business Operating Model and associated changes to the Business Case and Delivery Plan.

**Pre Paid Card** - Transformation Board were made aware that the product was soft launched on 30th Jan 2014 though there is currently some uncertainty of timescales for real-time load build and Vocalink changes required to support full launch.

**Network Transformation** - Transformation Board discussed the classification of Network Transformation programme as Red for benefits. It was felt that although financial benefits will not meet original 2013-14 budget (set before programme targets were agreed), the status was not an accurate representation of the programme's progress to deliver benefits and wider achievements. It was agreed that a review of how delivery is illustrated in Transformation Board material would be undertaken.

**Enterprise wide themes** - A number of enterprise themes were identified which are currently presenting a potential risk to achieving the objectives of our major change programmes, key areas being:

- Improving sales capability including sales model and ability to operationalize our plans
- Engagement of our people (hearts and minds)
- Industrial Relations
- Third party dependencies
- Third party capabilityHow we can improve our performance of managing key business partners
- Capability of achieving the 2014-15 change plan
- Ability of receiving business to absorb 2014-15 change plan

These themes will be discussed in more detail at the March Transformation Board where next steps will be agreed.

HP&BB	Home Phone & Broad Band migration
Polo	Current Account
C&R	Mails Collections & Returns
FRP	Finance Roadmap Plan
NT	Network Transformation
FOoG	Front Office of Government
IT&CT	IT and Change Transformation
ISP	Independence & Separation Programme
Wave	Mobile proposition
Titan	Travel Insurance delivery model
DMC	Digital & Multi Channel
Spark	Energy proposition

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## **POST OFFICE LTD BOARD**

### **Policy Adoption**

#### **1. Purpose**

1.1 The purpose of this paper is to inform the Board of the Anti-Bribery Policy, External Data Protection Policy and Data Sharing Policy recently adopted by the ExCo.

#### **2. Background**

2.1 At the meeting on 13 February 2014 the ExCo reviewed and adopted the following policies:

- **Anti-Bribery** – This policy outlines the approach and responsibilities and sets out the expected standards of behaviour to minimise the risk of bribery for the Post Office. The policy includes an updated gifts and hospitality procedure which identifies that the Risk & Compliance team will maintain a register of all gifts and hospitality given and received. The register will be regularly reviewed and an annual summary reported to the Risk & Compliance Committee
- **External Data Protection Policy (Information Security)** – This policy outlines the approach and commitment to managing the personal information, whether provided to us directly by our customers or by our business partners, in a manner compatible with the obligation to comply with the Data Protection Act 1998. It sets out the Post Office's mandatory expectations of all those persons who have access to personal information held by Post Office and how to handle such personal information.
- **Data Sharing Policy (Information Security)** – This policy sets out Post Office's approach to sharing information with 3rd party organisations and where that shared data is personal information ensures this is shared in compliance with obligations under the Data Protection Act 1998.

2.2 Full policies are attached as appendices A – C.

#### **3. Activities/Current Situation**

3.1 These are new policies for the Post Office. They are to be held centrally on the Post Office Intranet and will be subject to review on an annual basis.

#### **4. Recommendations**

4.1 The Board is asked to note and confirm the adoption of the policies listed above.

**Alwen Lyons  
19 February 2014**



## Post Office

### Anti-Bribery Policy

The purpose of this Policy is to set standards of behaviour that minimise the risk of bribery for Post Office. The principles underpinning this Policy are the same in every country in which we operate, regardless of business sector, local customs and practices. Anyone who is employed by, or performs services for, or on behalf of, Post Office anywhere in the world in any capacity (including contractors, agents and operators, and their assistants) is bound by this Policy.

#### Version History

Version Number	Date	Editor	Status
0.1	16/12/13	Georgina Blair	Draft
0.2	31/12/13	Georgina Blair	Draft
0.3	08/01/14	Georgina Blair	Draft
0.4	09/01/14	Georgina Blair	Draft
1.0	16/01/14	Rob Bolton	Final

## Version History

Date	Version	Updated by	Change summary
16/01/2014	1.0	Rob Bolton	Amended to identify as final version

## Document Location

The latest version of this document can be found in the Post Office SharePoint Policy Library

## For Sign-off - This document has been approved by the following people:

Name	Title - Department	Date of Sign off
David Mason	Head of Risk Governance	13/01/2014
Chris Aujard	General Counsel	16/01/2014
Risk & Compliance Committee		20/01/2014
ExCo		

## For Information - This document will be distributed to the following people:

Name	Title - Department

This policy will be reviewed annually. Next review date January 2015.

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## 1. Purpose

The purpose of this Policy is to set standards of behaviour that minimise the risk of bribery for Post Office. The principles underpinning this Policy are the same in every country in which we operate, regardless of business sector, local customs and practices.

Business partners are expected to act ethically and may be required to comply with this Policy in all their dealings with or for Post Office.

## 2. Scope and definitions

This policy applies to anyone who is employed by, or performs services for, or on behalf of, Post Office anywhere in the world in any capacity (including agents, operators and contractors).

A *bribe* is any advantage (financial or non-financial) which is promised, offered or given and is intended to induce *improper performance* (even if ineffective). *Improper performance* means carrying out a function or activity in breach of an expectation of good faith, impartiality or trust.

## 3. Governing principles

Post Office has a zero tolerance policy on bribery. Anybody employed by or performing services for or on behalf of Post Office

- must never promise, offer or give a bribe
- must never request or accept a bribe.

No employee will suffer demotion, penalty or other adverse consequences for refusing to pay or receive bribes or for reporting the suspicion that bribes may have been offered or accepted to Post Office, even if the refusal may result in Post Office losing business

All employees must adhere to the standards contained within Post Office's Gifts and Hospitality Approvals Procedure and the Conflicts of Interest Policy.

Any breach of this Policy, or any procedure implementing it, will be treated as a very serious matter by the company and may result in disciplinary action, including termination of employment and reporting to the appropriate authorities.

## 4. Business dealings and contacts

All dealings with public officials or private individuals and enterprises must be open and transparent and conducted in a proper and appropriate way. This will ensure that no bribery or corruption takes place, and will also avoid any appearance or suggestion of improper activity.

Post Office only works with business partners who have been approved as required by Post Office's risk-based due diligence processes. Such third parties must agree contractually to comply with this Policy or have an equivalent Policy in place.

Contractors must be asked to ensure that any subcontractor will comply with the principles set out in this Policy and so on throughout any supply chain.

Any remuneration payable to agents, operators, contractors or other business partners acting on behalf of Post Office must be appropriate for the services carried out (which is to be determined objectively as far as possible). All payments must be paid through bona fide channels, must not be made in cash and must never be made through off-shore accounts.

## 5. Reporting concerns

Any Post Office employee with any knowledge of or suspicions that bribery or corruption has taken place or may do so, anywhere within (or related to) Post Office, must immediately report their concerns to

- their line manager in the first instance;
- the Risk & Compliance team if the line manager cannot be contacted or cannot resolve the query; or
- the external Speak Up line in complete confidence (Tel: [REDACTED] **GRO** [REDACTED])

All reports of suspected bribery must be passed to the Risk and Compliance team to log.

## 6. Roles and responsibilities

All Post Office employees are responsible for complying with this Policy and with the Gifts and Hospitality approvals procedure at Appendix A.

The Risk and Compliance team maintains a register of gifts and hospitality, and of suspected incidents of bribery, and this is reviewed regularly and an annual summary provided to the Risk and Compliance Committee and to the Post Office Board.

Any serious incidents of bribery will be escalated by the Head of Risk Governance to the Chairman of the Audit and Risk Committee.

## 7. Risk

Post Office has zero tolerance for bribery and all processes and procedures are designed to minimise the risk of bribery occurring. A risk assessment has been completed and the areas of the business at highest risk of bribery have been identified as Commercial, Procurement and the branch network. This policy is designed to target those areas but also applies throughout the rest of the business.

## 8. Contact

For further information about this policy contact the Risk and Compliance team on  
riskandcompliance [REDACTED] **GRO** [REDACTED]

## Appendix A

### Post Office Limited Gifts and Hospitality Approvals Procedure

#### Gifts

No gift should be offered or accepted if it is intended to induce improper behaviour. In general the giving and receiving of gifts is not permitted with the exception of low value promotional items costing under £25 each, such as pens, calendars, diaries, notepads and paperweights.

- In a situation where refusal to give or accept a gift would cause embarrassment or offence, such as when giving or receiving a gift from an overseas postal administration in an official capacity as a representative of Post Office, the gift must not appear lavish or extravagant and should not cost more than £200.
- Before giving any gift costing more than £25, written approval must be obtained from your line manager and forwarded to the Risk & Compliance team at riskandcompliance GRO
- If you receive a gift worth more than £25 you must notify your line manager in writing, and forward the details to the Risk & Compliance team at riskandcompliance GRO
- The Risk & Compliance team will maintain a Register of all Gifts given and received.

#### Hospitality

Hospitality may only be given and accepted where it has a clear and demonstrable link with a legitimate business purpose, e.g. an organised event or a meal at which business is to be discussed. In relation to offers of hospitality, numbers on both sides should be limited to those whose presence is necessary to progress the business in hand. The giving and receiving of hospitality and entertainment is subject to the following rules:

- You must obtain prior permission from your line manager before accepting or giving hospitality.
- The hospitality must be reasonable (not lavish or extravagant), proportionate to its purpose and must ordinarily be below £100 per person in value.
- You must send details of all hospitality offered and accepted, including details of the host business (if not Post Office Limited), the number of people attending and the businesses they represent (if Post Office Limited is the host), with details of the location of the hospitality and the cost per person, along with written approval from your line manager, to the Risk & Compliance team at riskandcompliance GRO
- The Risk & Compliance team will maintain a Register of all Hospitality given and received.

You must beware of accepting any hospitality and entertainment which might compromise your performance of official business, or which might reasonably appear to have improperly influenced a business decision. Any attempt at entrapment, blackmail, or any suggestion that preferential treatment or divulgence of confidential information is expected in return for hospitality and entertainment, must be reported to your line manager and the Risk & Compliance team.



## EXTERNAL DATA PROTECTION POLICY

### Document Control

#### 1. Overview

Owner:	CIO	Enquiry Point:	Head of Information Security
Version:	2.0	Effective From:	01 Feb 2014
Last updated:	December 2013	Last review date:	02/12/2013
Review Period:	December 2014		

#### 2. Revision History

Version	Date	Author	Amendment Details
V1	Sep 2013	Jacqueline Gazey	Initial Draft
V2	Dec 2013	Michael Hall	Minor corrections and version history added

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**Post Office Limited  
External Data Protection Policy**

## **1 Introduction**

The processing and protection of personal information is of paramount importance to Post Office Limited (**Post Office**) in order to safeguard its reputation as one of the countries most trusted brands.

This Policy documents our approach and commitment to managing the personal information in our care, whether provided to us directly by our customers or by our business partners, in a manner compatible with our and our business partners' obligations to comply with the Data Protection Act 1998. It sets out Post Office's mandatory expectations of all those persons who have access to personal information held by Post Office on how to handle such personal information.

Adherence to this policy and associated standards is a mandatory requirement for all Post Office Representatives). Failure to comply with this policy may affect our reputation and cause our business partners not to trust our ability to manage the personal information which we hold. Compliance with this policy is essential to maintaining the confidence in our brand and our service.

## **2 Purpose**

This Policy is aimed at all Post Office Representatives that handle personal information

The purpose of this policy is to outline the manner in which Post Office should process personal information. It sets out Post Office's expectations of its employees, sub-postmasters, agents, contractors, consultants, suppliers, partners and other contracted third parties (**Post Office Representatives**) when processing personal information entrusted to Post Office, in meeting its governing principles (set out below in section 6) relating to the use of personal information across Post Office, whether the information relates to Post Office Representatives, customers or other individuals.

## **3 Scope**

This policy addresses all processing of personal information by Post Office Representatives whether this is information we hold directly on our customers or information we hold on behalf of our business partners.

Personal information includes all information, whether processed in electronic or structured paper form, relating to a living individual who can be identified from that information.

Processing of personal information includes the collection, use, processing, transmitting, disclosure or storage and retention of personal information. Post Office, its suppliers and contracted third must adopt procedures necessary to comply with this policy.

#### **4 Status of this policy**

This policy has been approved by the Post Office Board. It is managed and maintained on behalf of the Board and the Executive Team by Post Office's Privacy Team.

#### **5 Responsibility for compliance**

Post Office handles personal information on its own behalf as well as that of its business partners. The controller of the information is the party who is legally responsible for complying with the Data Protection Act 1998.

Post Office is the controller of personal information relating to individuals such as its employees, customers and prospective customers. In some cases this responsibility for customer information is shared with our Joint Venture partners who are the providers of the products and services we offer.

Where Post Office handles personal information on behalf of its business partners as a Data Processor, such as our Front Office of Government proposition, the compliance requirements will be dictated to Post Office by the appropriate Data Controller.

#### **6 Governing principles**

Personal information must always be handled by Post Office Representatives in accordance with the obligations placed on us by the Data Protection Act 1998 whether directly or through contract. This means that personal information must be:

- processed fairly and lawfully
- processed solely for the purposes it was collected for or where Post Office processes personal information on their behalf as instructed to Post Office by our business partners
- kept relevant, accurate and, where necessary, up to date
- Retained only for as long as it is necessary for the purposes it was collected, or as instructed by our business partners
- Processed in accordance with the rights granted to individuals by the Act
  - The right to access personal information about the individual
  - The right to demand the data controller cease processing likely to cause unwarranted damage or distress
  - The right to stop direct marketing
  - Rights in respect of fully automated decisions that significantly affect the individual
  - Right to claim compensation for damage (or damage or distress) caused by a failure to comply with the Data Protection Act.
- be kept secure against unauthorised or unlawful access and against accidental loss, destruction or damage by using appropriate technical and organisational measures – this includes the following:

- the processing of personal information should not be outsourced to agents or processors of Post Office without proper controls and contract clauses in place as established by Post Office's Privacy Manager (and the permission of the relevant business partner, where necessary).
- personal information should not be disclosed to any 3<sup>rd</sup> parties without consideration to the privacy and confidentiality commitment we have or where Post Office processes personal information on behalf of its business partners, the prior consent of that relevant business partner where required.
- Managed in accordance with Post Office's policies and procedures and where Post Office is a Data Processor, with any specific instructions provided to Post Office by the relevant Data Controller business partner.

- Not transferred overseas without additional controls being adopted to protect the rights and freedoms of the individuals as agreed with Post Office's Privacy Manager or where Post Office processes personal information on behalf of its business partners the prior consent of the relevant business partner where required

## 7 Accountability

Each member of the Executive Committee is responsible for compliance within their area of responsibility. Post Office's Privacy Team has responsibility for supporting the delivery of this policy and monitoring compliance with it. However, each Post Office Representative has responsibility for ensuring that they adhere to the policy.

Any Post Office Representative who considers that this policy has not been followed should raise this matter with the Privacy Team.

## 8 Post Office's Privacy Governance Structure

This needs to be appended once POL Exco have agreed approach

## 9 Further advice

Further advice may be obtained from your Post Office's Privacy Team who can be contacted by email at dataprotection [REDACTED] **GRO** [REDACTED]

## 10 Policy Review

This policy is scheduled for review December 2014.

## **Appendix (i) Supporting Information**

### Requests for access to personal information

Any individual is entitled to make a subject access request for details of personal information held about them. Where Post Office receives such requests for personal information belonging to our business partners, the process for meeting such a request sits with that business partner and Post Office will handle such requests in accordance with the instructions from our business partner.

### Responsibilities of Post Office Representatives

If any Post Office Representative has access to or uses personal information about other people (e.g. customer or employee personal information) he or she must comply with this policy and the requirements set out in all other Post Office data protection standards, policies and procedures (see below).

Each Post Office Representative is responsible for ensuring that any personal information which he or she accesses or uses is kept securely and not disclosed in any way to any unauthorised third party.

### Training

Where appropriate, training will be provided to Post Office Representatives on data protection issues and the handing of our business partner's personal information. Where required by our business partner to deliver specific training, such as the business partners own data protection training, Post Office will ensure that appropriate staff receive such training.

### Risk assessments and audits

Periodic data protection risk assessments and audits may be carried out to assess compliance with this policy and data protection laws.

### Other Post Office standards, policies and procedures relating to data protection

- Post Office Data Protection Policy (Internal)
- Code of Business Standards
- Conduct Code
- Information Security Policy & Guidance



## Data Protection – Data Sharing Policy

### Document Control

#### 1. Overview

Owner:	CIO	Enquiry Point:	Head of Information Security
Version:	3.0	Effective From:	01 Feb 2014
Last updated:	December 2013	Last review date:	02/12/2013
Review Period:	December 2014		

#### 2. Revision History

Version	Date	Author	Amendment Details
V1	Sep 2013	Jacqueline Gazey	Initial Draft
V2	Nov 2013	Ole Christensen	Draft with corrections
V3	Dec 2013	Michael Hall	Minor corrections and version history added

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## Introduction

This Policy sets out Post Office's approach to sharing information with 3<sup>rd</sup> party organisations (Recipient Organisations) and where that shared data is personal information ensures this is shared in compliance with obligations under the Data Protection Act 1998. Post Office will share information in connection with:

- The Prevention & detection of crime and prosecution of offenders
- The prevention and recovery of any loss to Post Office or one of its business partners
- National Security matters
- Anti-Money Laundering
- The protection and safety of missing or vulnerable people

Any sharing by Post Office of information to 3<sup>rd</sup> party organisations will be subject to considerations of sensitivity, confidentiality, privacy, ownership and copyright. In becoming a recipient of Post Office information, 3<sup>rd</sup> party organisations agree to process that information in line with this Policy.

Post Office information consists of personal information and business sensitive information – together referred to in this policy as "Shared Data"

## Background

The Data Protection Act 1998 covers the processing of personal information and establishes rules to protect individuals in respect of the security and use of their personal information.

Post Office shares information with a number of 3<sup>rd</sup> party organisations in its endeavours to protect its business, staff, customers, other individuals and its associates.

## *Data Sharing*

Data sharing involves the disclosure of information from one or more organisations to a third party organisation or organisations. Specifically for Post Office, data sharing can take the form of:

- a systematic disclosure of information collected by Post Office to its key contacts on a regular basis such as text blasts and reports
- Post Office and other organisations pooling information and making it available to each other for a common purpose
- exceptional, one-off disclosures of personal data by Post Office in unexpected or emergency situations
- exceptional, one-off requests by 3<sup>rd</sup> party organisations, such as solicitors, for information held by Post Office

## Scope

This Policy covers all Post Office departments and 3<sup>rd</sup> party organisations that share Post Office personal information and business data for the purposes highlighted in section 1 below.

For the purposes of this Policy, personal information is considered to be any information that relates to a living individual who can be identified directly from the information, or from the information and other information, which is in the possession of, or is likely to come into the possession of, Post Office or the recipient organisation. This includes any expression of opinion about the individual(s) and any indication of the intentions of the Post Office or any other organisation in respect of the individual(s).

## Responsibility

It is the responsibility of the signatories to this Policy to ensure it is followed in respect of the processing of shared data.

## Policy.

### 1. *Limitations on use of the data*

Post Office will share information for the following purposes:

- The Prevention & detection of crime and prosecution of offenders
- The prevention, investigation and recovery of any loss to Post Office or one of its business partners
- National Security matters
- Anti-Money Laundering
- The protection and safety of missing or vulnerable people

By accepting shared data from Post Office, 3<sup>rd</sup> party recipients agree to limit their use of the shared data to these purposes only.

Where the shared data is sensitive personal information relating to:

- health information,
- racial or ethnic origin,
- religious or other similar belief,
- trade union membership,
- sexual orientation or
- offences or proceedings for an offence

the 3<sup>rd</sup> party recipient understands that the information may only be processed for:

- the prevention and detection of crime where such processing is in the significant public interest where such processing must necessarily be carried out without the explicit consent of the individual;
- meeting obligations placed on the organisations by way of S68 of the Serious Crime Act 2007<sup>1</sup>;
- any legal proceedings (including prospective legal proceedings).
- The protection and safety of missing or vulnerable people where the processing is in the vital interest of the individual (or another person) in the case where consent is not available;

For shared data coming in to Post Office from one of its business partners, the same restrictions will apply.

Where a recipient of Post Office shared data wish to use the information for other purposes, Post Office's prior permission should be sought on a case-by-case basis.

## ***2. Obligation to ensure proportionality***

Post Office recognises that it is likely to be reasonable and necessary to share data in its aim to protect its staff, customers and business. Post Office will ensure that the nature of the data it shares is proportional to the above aims and will not share identifiable personal information when other methods that respect individuals' rights to privacy are viable.

## ***3. Obligations on the parties in respect of data quality***

Post Office will only share data where it is satisfied that the information is relevant to the purpose of the sharing and, to the best of our knowledge, accurate.

Where there is a requirement to keep shared data up to date on an on-going basis, the 3<sup>rd</sup> party recipient must make provisions for updates to the data on a case-by-case basis or agree its update requirements with Post Office through a bespoke data sharing arrangement

Post Office recognises that there is a requirement for information to be retained only as long as it is necessary for the purposes outlined in section 1. All recipients of Post Office shared data should have a documented retention policy outlining its intentions in respect of the archiving and destruction of this information once it has served its purpose.

## ***4. Rights of the individual***

The Data Protection Act gives rights to individuals in respect of the processing of their personal information and those key to a data sharing initiative are:

- Right of access to information;
- Right to demand an organisation cease processing personal information about them on the grounds that it will cause (unwarranted) damage or distress;

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<sup>1</sup> Please note - S68 of the Serious Crime Act makes it an offence to further disclose information covered by this obligation.

- Right to object to any fully automated decisions that significantly affect the individual;
- Right to claim compensation for any damage or distress caused through a breach of the Act.

In accepting personal information from Post Office, the recipient organisations accept that they will be responsible for handling any requests they receive directly from individuals in compliance with the requirements of the Data Protection Act 1998 and will adopt suitable procedures to react to individuals exercising their rights.

## **5. Security**

Post Office takes the security of shared data very seriously. It will ensure that any information it shares with recipient organisations is transferred in a manner that protects the information, such protection being appropriate to the nature of the information and any resultant harm that could come from inappropriate disclosure, loss or destruction to that information.

Recipient organisations must ensure that shared data they receive from Post Office is adequately protected by:

- Adopting an Information Security Policy that recognises the controls required to protect this information
- Taking physical, technical and organisation security measures to protect the information
- Providing training to staff that have access to this information on the importance of keeping the information secure
- Checking the reliability of staff that are granted access to the information through formal vetting procedures appropriate to the nature of the data the staff member can see.

The recipient organisation agrees to advise Post Office immediately if, as the recipient of information, your contact information changes, your role changes or the need for sharing Post Office information stops or changes

## **6. Overseas Transfers**

Post Office's written permission is required where Post Office shared data, disclosed to a recipient organisation that is likely to hold or allow access to the data from overseas locations. Such permission may be refused after considering the nature of the data, purpose of the processing and Post Office's obligations under the Data Protection Act 1998

## **7. Data Sharing using Data Protection Act 1998 exemptions**

Where Post Office is approached by a 3<sup>rd</sup> party organisation that is making a request for Post Office's Personal Information that may fall within the scope of an exemption within the Data Protection Act 1998, these requests will be considered on a case by case basis.

Post Office will apply the same considerations when using these exemptions to request other organisations for personal information.

## ***8. Status of this Policy***

This policy has been approved by the Post Office Executive Committee and is managed and maintained on their behalf by Post Office's Data Protection and Privacy Team.

## Appendix (i): Obligations on Recipient Organisations

In accepting shared data from Post Office, the recipient organisation understands that it must:

- a) Comply with its own obligations under the current and future Data Protection and Privacy legislation in respect of the processing of any personal data being disclosed or shared.
- b) Only use the shared data for the purposes established in this Policy and not to use it for any other purpose without the prior written consent of Post Office.
- c) Adopt adequate technical and organisational security measures to protect the shared data from unauthorised or unlawful processing and accidental loss, destruction or damage.
- d) Advise Post Office immediately if, as the recipient of information, the contact information changes, recipients role changes or the need for sharing Post Office shared data stops or changes
- e) Ensure the reliability of staff that have access to the shared data and agree that only those individuals that have a genuine business need to see that data will have access to it.
- f) Only retain the shared data while there is a business need to process it and securely destroy the data in line with a documented retention schedule, as required by this Policy.
- g) With regard to shared data that is personal information, respect the rights granted to individuals under the Data Protection Act 1998, adopting procedures to react to individuals exercising their rights in order to comply with the requirements of the Act.
- h) Take appropriate steps to maintain the quality of the shared data.
- i) Not transfer shared data outside the European Economic Area without Post Office's prior written permission as outlined in section 6 of this Policy.
- j) The recipient of shared data understand that Post Office Limited is subject to the Freedom of Information Act 2000 and as such this Policy and information about those organisation that share data may be subject to disclosure under this Act.

## Appendix (ii): Recipient Organisations

Post Office will share information with organisations, such as those that fall into the following categories:

- Law enforcement agencies
- Government bodies and agencies
- Public authorities
- Post Office product providers, for example the Bank of Ireland
- Post Office business Associates, for example Transport for London.
- Financial Services institutions, for example High Street Banks
- Sub-Post Masters
- Royal Mail
- Credit reference and fraud prevention agencies
- Financial Conduct Authority
- Legal advisors



Name of Organisation:

Nominated Signatory Name:

In accepting personal information from Post Office, the recipient organisation named above understands that it must:

- a) Comply with its own obligations under the current and future Data Protection and Privacy legislation in respect of the processing of any personal data being disclosed or shared.
- b) Only use the shared data for the purposes established in this Policy and not to use it for any other purpose without the prior written consent of Post Office.
- c) Adopt adequate technical and organisational security measures to protect the shared data from unauthorised or unlawful processing and accidental loss, destruction or damage.
- d) Advise Post Office immediately if, as the recipient of information, the contact information changes, recipients role changes or the need for sharing Post Office shared data stops or changes
- e) Ensure the reliability of staff that have access to the shared data and agree that only those individuals that have a genuine business need to see that data will have access to it.
- f) Only retain the shared data while there is a business need to process it and securely destroy the data in line with a documented retention schedule, as required by this Policy.
- g) With regard to shared data that is personal information, respect the rights granted to individuals under the Data Protection Act 1998, adopting procedures to react to individuals exercising their rights in order to comply with the requirements of the Act.
- h) Take appropriate steps to maintain the quality of the shared data.
- i) Not transfer shared data outside the European Economic Area without Post Office's prior written permission as outlined in section 6 of this Policy.
- j) The recipient of shared data understand that Post Office Limited is subject to the Freedom of Information Act 2000 and as such this Policy and information about those organisation that share data may be subject to disclosure under this Act

I acknowledge receipt of Post Office's Data Sharing Policy V1 and agree to process Post Office information in accordance with the standards recorded in this Policy.

Signed:

Dated:

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 POST OFFICE LIMITED BOARD  
 Status Report

<b>No.</b>	<b>REFERENCE</b>	<b>ACTION</b>	<b>BY WHOM</b>	<b>STATUS</b>
		<b>1. Network Transformation and Crown Offices</b>		
1a	October 2013 POLB 13/100(d)	Consider more radical options post-2015 to drive automation and further reduce the property requirement.	Harry Clarke	The CTP programme, together with the Crown's network team, will review the post-2015 Crown's strategy once detailed planning for FY14/15 is finalised, and report back in Q4. An update will be provided to the February Board.
1b	January 2014 POLB 14/2(d)	Further discussion on NT targets to come to the February Board.	CFO	To February Board
		<b>2. Finance</b>		
2a	July 2013 POLB 13/48(g)	Produce analysis to explain economics of the Crown and agents network models and set up a workshop for those NEDs who would find it helpful.	Chris Day	Crown Complete (October Board). Agents – date tbd.
2b	January 2014 POLB 14/5(f)	Ensure that there is common understanding of the position and the precise definition of 'break even' between the Business and BIS via the final budget presentation.	CFO	On-going
2c	January 2014 POLB 14/5(h)	The mitigation for each risk contained in the Budget paper to be included in the Budget Book.	CFO	Completed.
2d	January 2014 POLB 14/5(i)(ii)	Produce and circulate a Budget Book in approximately 4 weeks taking into account the Board discussions.	CFO	Completed, to be circulated on 21 February
2e	January 2014 POLB 14/5(i)(iii)	A conference call to be offered to Board members who wished to discuss the Budget Book further.	CoSec	For discussion at the February Board
		<b>3. Strategy</b>		
3a	September	Provide a paper for January Board covering the opportunities in the Energy	Martin George	March Board

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	2013 POLB 13/87(e) & October 2013 POLB 13/104(e)	market.		
3b	January 2014 POLB 14/3(b)	Clarify Business Transformation Objectives, including the impact of public procurement, for discussion at the next Board meeting.	CFO	February Board
3c	January 2014 POLB 14/4(a)	The Business to analyse its products by contribution and to recommend to the Board a list of products which would be deprioritised for the next 18 months, so providing opportunities to reduced costs and focus on the areas of greatest return.	CFO	In progress. A high-level distribution analysis has been completed; further work is underway to refine allocations and develop the prioritisation aspect.
3d	January 2014 POLB 14/7(e)	The digital and multi-channel programme to be considered as part of the Business Transformation. The CEO suggested that the new Head of Digital present at a future Board meeting.	<b>Martin George</b>	We have engaged a search firm (Odgers) and are currently looking for a Head of Digital. In the meantime, we have created a Digital Board to create a roadmap and manage its implementation as well as moving responsibility for digital marketing into the Marketing team. The Digital team will report directly to the Commercial Director and be responsible for defining, developing and delivering the digital aspects of an omni-channel customer experience. 2014 sees the introduction of a number of important projects such as the launch of a mobile website and common digital platform, as well as a wide range of trials.

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				The Board can be briefed on the status of the digital delivery agenda at any time.	
3e	January 2014 POLB 14/13(a)	Agree the agenda for the inaugural Post Office Advisory Council meeting.	CEO/Tim Franklin	Draft agenda discussed with TF, NM and PV on 14 February	
		<b>4. NFSP &amp; Trade Association</b>			
4a	October 2013 POLB 13/98(c)	Ensure that the final legal framework agreement with the NFSP includes specific termination rights.	Kevin Gilliland/Chris Aujard	To February Board	
4b	January 2014 POLB 14/7(b)	A noting paper offering reassurance that if the legal agreement with the NFSP had no specific reference to their support for the 'cliff' it did ensure they would support any move to this position if it was required. Paper to come to the February Board.	Kevin Gilliland/Chris Aujard	To February Board	
		<b>5. Project Sparrow &amp; Prosecuting Authority</b>			
5a	July 2013 POLB 13/51(g) September 2013 POLB 13/95(b)	Review of Second Sight report to be provided to ARC explaining how we awarded and managed the contract and include an internal 'lessons learned' review for Project Sparrow.	Belinda Crow/Alwen Lyons	To March ARC	
5b	January 2014 POLB 14/7(g)	February ARC to consider an update on Sparrow including lessons learned along with the Prosecuting Authority paper. Papers for this ARC to be circulated to the full Board, and an update on Project Sparrow to be presented at the full Board in February.	Alasdair Marnoch/CoSec	To February ARC and Board	
5c	September 2013 POLB 13/93(b)	Produce a noting paper to clarify whether any claims on the Business from the Horizon work would be covered by Professional Indemnity or Directors & Officers insurance and whether we had alerted our underwriters. Ensure that the appropriate notifications are made.	CFO/Alasdair Marnoch	Appropriate notification to underwriters has been made. Work assessing claims is continuing and the insurance position will be considered in light of this.	
5d	January 2014 POLB 14/7(f)	Clarification on whether the Terms of Reference agreed with 2 <sup>nd</sup> Sight precluded them from working with claimants against the Post Office.	Chris Aujard	Included in the B48s circulated to the Board	

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<b>6. Risk</b>				
6a	November 2013 POLB 13/128(f)	ARC to review the top 6+4 risks at its February meeting. Include in Board agenda for March meeting.	<b>Alasdair Marnoch/ Alwen Lyons</b>	To March ARC and March Board.
<b>7. Mutualisation</b>				
7a	November 2013 POLB 13/133(a)	Public Purpose Statement to be submitted to the January Board.	<b>Mark Davies</b>	To February Board

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**Post Office Ltd Board  
Data Centre Tower Procurement**

**1. Purpose**

The purpose of this paper is to:

- 1.1 Update the Board on the status of the procurement of a Data Centre Tower.

**2. Background**

- 2.1 As previously agreed by the Executive Committee and the Board, Post Office is re-procuring the IT supply chain to meet the demands of our business strategy and Royal Mail Group separation activities.
- 2.2 Following previous ExCo approval, OJEU compliant procurements were initiated (using a competitive dialogue process), for our whole IT supply chain, including a Services Integrator.
- 2.3 The market was engaged to provide Data Centre services to meet our strategic objectives; successful separation from RMG, improving timeliness and agility in change delivery, introducing more variability into the cost base, lowering the cost of IT service.
- 2.4 The Data Centre Tower services include the facilities, technology infrastructure and supporting operational service capability on which we run our business applications such as Horizon, core finance and HR systems.
- 2.5 To maximise efficiency providers typically offer services in a number of configurations, described as Public Cloud, Private Cloud, Hosting and Co-Location services. The key differences between them relate to the degree of exclusivity required and who supplies the technology infrastructure (the provider or the customer)<sup>1</sup>.
- 2.6 Post Office requires a mix of all four configurations to support the range of technology and applications that are used across the business.

**3. Activities/Current Situation**

- 3.1 Four bidders (Fujitsu, Capita, CSC and HP) were invited to submit responses to an Invitation to Submit Proposed Solution (ISPS). Only one bidder, Fujitsu expressed an interest to bid, the remaining three bidders withdrew, predominantly due to the high degree of Co-Location services Post Office required.
- 3.2 The Programme Board reviewed the procurement and authorised continuing with a sole bidder, Fujitsu. Following completion of dialogue and approval at Programme Board an Invitation to Submit Final Tender (ISFT) was issued to Fujitsu in November 2013.
- 3.3 Fujitsu submitted a bid in December 2013 and a number of clarification requests were made and meetings held. The bid was evaluated against price and quality criteria, with scores moderated for consistency. To ensure price/value for money could be assessed against a sole bid, Gartner was engaged to provide a Market

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<sup>1</sup> In a Public Cloud configuration there is little or no exclusivity and the infrastructure is delivered by the provider. Private Cloud and Hosting provide different degrees of exclusivity, whilst, in a Co-Location configuration the provider delivers exclusive use of a dedicated area (secure space and power) and the customer provides the technology infrastructure.

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Price Assessment (MPA). The results of this evaluation indicated that the bid in its current form did not meet Post Office's objectives for a number of key reasons:-

- The solution proposed did not reflect the Post Office's requirement for a leveraged, outcome based solution as set out in the ISFT.
- The time and quality of the implementation plan does not meet Post Office's stated requirements in the ISFT and placed obligations on Post Office that cannot be met.
- It did not meet our value for money criteria based on the Gartner MPA. The additional costs of the bid over the Gartner MPA were between £16m and £18m over the term of the contract.
- It did not demonstrate a sufficient level of agility; there was no basis for forecasting implementation costs and timescales for future change.

3.4 A range of options was carefully considered in reviewing the procurement process and the risks and impacts to our strategic objectives, including consideration of the impact to our relationship with Fujitsu.

- **Accept the bid in its current form:** The bid was not aligned to our strategy; accepting it in its current form does not meet our delivery requirements or achieve the strategic objectives and does not demonstrate value for money.
- **Continue the process and propose a rebid:** Post Office has a low confidence in a revised bid meeting the required standard and Post Office objectives; the impact to our Separation timelines was untenable.
- **Cancel the procurement process and consider alternatives:** This was the preferred option; the current process was not meeting our strategic objectives.

3.5 The IT Transformation Programme Board reviewed the procurement process and considered whether to continue. It determined that the procurement, even if continued, does not meet our strategic objectives. This decision was endorsed by ExCo. The bidder was advised of Post Office's decision in a meeting held on the 31<sup>st</sup> January. The procurement was formally cancelled on the 7<sup>th</sup> of February 2014 without award of contract.

**Next steps**

3.6 A plan is now being considered and taken forward to procure Data Centre services through alternative methods; -

- Short term: Look at exploiting existing contracts to secure continuity of services, and to enable us to meet our Separation activities.
- Medium term: Secure Data Centre services from a supplier appointed through the Solutions Delivery Framework or through use of a framework contract such as G-Cloud.
- Strategic Term: Review our IT supply chain strategy to accelerate provision of hosting services within our existing Towers rather than through a single Data Centre Tower.

3.7 An Independent internal review of the procurement including lessons learnt will be conducted in due course; the report and actions cascaded across our Transformation Programmes and Commercial Teams and will be shared with ExCo.

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3.8 A detailed update of the changes to the IT Strategy and the impact of this decision will be presented to the Executive Committee and Post Office Board in April.

**4. Options Considered**

Covered in Section 3.4

**5. Commercial Impact/Costs**

5.1 Sunk costs associated with the Data Centre procurement currently amount to £1.1m.

5.2 Future costs are expected to be in the region of £6.2m:

- In order to support in-flight initiatives, such as Separation, we need to secure both short and medium-term Data Centre services. The anticipated additional cost of doing this is £3.4m.
- Longer-term, the Data Centre solution is expected to cost £2.8m to deliver (not including on-going run costs).

5.3 The existing business case for the Data Centre procurement includes £2.4m to transition services to the new Data Centre. Taking this into account, the additional spend to deliver the short, medium and long term solutions is £3.8m.

5.4 In summary, the impact on the existing Strategic Plan assumptions are:

- FY 2013/14: £0.9m under budget
- FY 2014/15: £1.9m additional funds required.
- Subsequent years: £2.8m additional funds required.

5.5 All of these costs are subject to challenge during a detailed planning phase and will be subject to the usual business sign-off processes,

5.6 Operational Expenditure: For planning purposes we have estimated an upper limit increase of £850k in FY2015/16 and £500k in FY2016/17 for the revised Data Centre services. Actual costs will be finalised as part of the detailed planning phase.

5.7 There is no anticipated change to the timing of the benefits realisation in the IT Transformation Programme as a result of cancelling the Data Centre procurement.

**6. Key Risks/Mitigation**

6.1 Cancellation of the procurement process carries the risk that Fujitsu may be motivated to pursue a legal challenge to seek loss of profits and/or bid costs. Fujitsu's bid costs are estimated to be circa £1m. An award for damages may be higher. Risk mitigations include:

- The ISFT documents issued by Post Office specifically allow Post Office to cancel the procurement process and preclude bidders from reclaiming costs; however this may not prevent Fujitsu from seeking a route to challenge.
- Post Office engaged legal Counsel throughout the procurement to advise on the procurement, associated risks and take appropriate mitigating actions.

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6.2 Fujitsu may seek to link our current Intellectual Property Rights (IPR) position with the decision not to award a Data Centre contract. There is no commercial link, as this would contravene Public Procurement Regulations.

**7. Long term considerations – horizon scan**

7.1 Fujitsu may use its position to leverage value from Post Office at the termination or extension of current contracts.

7.2 Fujitsu are competing on other procurements and have responded with expressions of interest on future procurements. The Data Centre procurement decision does not impact our expectations or consideration of Fujitsu as a strategic partner to Post Office.

**8. Communications Impact**

8.1 Cancelling the procurement sends a clear message to the Market and to our key stakeholders that Post Office is a commercial organisation and mindful of the need to ensure that procurements fully satisfy key strategic and commercial objectives and extract maximum value for the 'Public Purse'

8.2 There was a requirement to communicate this decision across the current supply chain, to bidders involved in current and future procurements and to Royal Mail Group. Consideration of Post Office's longstanding relationship with Fujitsu has been managed in the key messages.

8.3 Post Office Board have been advised.

8.4 Cancelling the Data Centre procurement does not impact customers, colleagues, branches or unions.

**9. Conclusion**

9.1 Post Office has taken a decision to cancel a procurement process that does not meet its strategic objectives or demonstrate value for money for the 'public purse'.

9.2 Plans for an alternative Data Centre solution will be taken forward.

9.3 Associated risks to time and cost are tolerable.

**10. Recommendations**

The Board is asked to note that:

10.1 The Data Centre procurement has been cancelled without award.

10.2 There will be an update to the IT Strategy shared with ExCo and the Post Office Board in April 2014.

10.3 The impacts to the Benefits Case will be presented to the IT Transformation Programme Board, Post Office Investment Committee, Executive Committee, and Post Office Board in April 2014.

**Lesley Sewell  
20 February 2014**

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**Post Office Ltd Board**

**Cyber Security and Information Assurance**

**1. Purpose**

The purpose of this paper is to:

- 1.1 Update the Board on UK Cyber Security industry initiatives;
- 1.2 Update the Board on key Information Security and Assurance Group (ISAG) activities;
- 1.3 Outline risk reduction activities being implemented at Post Office in Cyber Security.

**2. Industry Initiatives**

- 2.1 Since the inaugural Cyber Security noting paper dated 15 January 2014, Post Office has participated in a Government Consultation for a new Standard to address Cyber Security. The anticipated time to develop the Standard is 18 months. This is led by BIS with backing from all major Government Departments and aims to develop a Cyber Security Standard for adoption across Public and Private sectors. The consultation is in line with the intention set out in the National Cyber Security Strategy<sup>1</sup> paper to address the increasing threat to UK PLC.
- 2.2 The Consultation is in the early stages, but BIS are aware that Industry, including Post Office, is appealing for a Standard that will:
  - Not be too onerous to implement;
  - Be applicable to organisations who have outsourcing arrangements and have a reliance on supply chains;
  - Provide real value in terms of measuring success against on-going and emerging risks
  - Include Mobile technology, which has the potential for severe compromise if not managed adequately.
- 2.3 It is proposed, and supported by Post Office representation that the Cyber Security Standard will be interoperable with current 'good practice' standards such as ISO27001<sup>2</sup>, rather than inventing something new, this will limit the impact on Post Office. ExCo will be updated on further developments that may affect Post Office regarding the proposed Standard.

**3. Activities/Current Situation**

Building on last month's report on activities:

- 3.1 There are currently eleven active incidents or breaches that ISAG are aware of; at this time none are assessed by ISAG as being of significant risk to Post Office. These will be discussed at the next Information Security Committee.

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<sup>1</sup> National Cyber Security Strategy 2011 and 2013 Published by Cabinet Office

<sup>2</sup> ISO27001: An International Standard covering the specification and management of an organisation's Information Security Management System.

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**3.2 Incident Summary**

Following on from January's noting paper; during the period of mid January 2014 to the end of January 2014, there have been three new reported incidents all of which are limited and contained.

Three of the eleven cases are on the Agenda for the next Information Security Committee meeting for formal closure.

**3.3 Contractual Due Diligence**

ISAG are working with the Company Secretariat to ensure that there is adherence by all parties to the sign-off process by ISAG (among other key teams) before contracts are signed with suppliers.

Work is continuing with the Sourcing team and a Pre-Qualification Questionnaire for Information Security has been introduced to tighten up the Information Security requirements of new product and service acquisitions. All future procurements will now include input from technical, data protection and compliance colleagues within ISAG (dependent on the nature of the project).

A formal project gating certificate has now been drafted and will ensure ISAG requirements are agreed prior to project sign-off.

**3.4 Marketing Due Diligence**

Regular engagement continues with Marketing due to the high level of reliance on processing personal information. This is proving to be successful and helps promote Post Office to our suppliers as an Information Security focussed company.

**3.5 IT Supply Chain Transition to ATOS**

Regular meetings continue with the Atos team across many disciplines and service categories, key areas include but are not limited to:

- Governance and Risk.
- Incident response and management.
- Business Continuity requirements.
- Segregation of responsibilities.
- Requirements and Controls are being assessed around data exports to non-European locations.

**3.6 Risks**

Risk and Compliance Tool

A suitable tool has been selected for ISAG, which will help calculate and manage risks in support of both internal policies and external certifications. This is being put in place as a result of an audit finding from 2013.

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Reporting Risk

All Information Security and Assurance unmitigated risks continue to be logged locally and escalated to the Risk and Compliance Committee as appropriate.

Assessing the Cyber Security Threat Landscape

The information Security and Assurance Group actively participates in industry events, providing valuable peer interaction and demonstrating Post Offices commitment to protecting its organisation.

ISAG also maintains contact with a number of external authorities to gain knowledge of known and emerging threats. These include but are not limited to:

- CPNI – Centre for the Protection of the National Infrastructure – access to their Secure Restricted Extranet for Cyber Security and guidance updates.
- CESG – Communications and Electronic Security Group – regular updates that are communicated to ISAG team members and other colleagues as appropriate.
- British Computer Society Forensic Forum for Cyber Security – regular updates are provided to ISAG team members.
- National Archives – Quarterly meetings for Senior Information Risk Owner (SIRO), regular information updates are received and communicated to appropriate colleagues.

3.7 Policies

All Information Security policies are now signed off, and have been communicated to all colleagues, save for the Acceptable Use Policy which is subject to additional supporting activity and is a paper for ExCo information and noting.

3.8 Training and Awareness

Key training and communication activities remain on schedule for April and July 2014 – rollouts to central and branch colleagues respectively.

ISAG are currently engaged with HR representatives to ensure ISAG Policies are reflected in colleague communications and HR policies.

**4. Request**

4.1 The Board is asked to note the update and actions set out above.

**Julie George/Lesley Sewell  
18 February 2014**

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FEBRUARY 2014

**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/R W	Belinda Crowe / Angela van den Bogerd	<p>The Mediation Scheme, Business Improvement Programme and approach to prosecutions referred to in this update are the subject of separate reports to the Board this month.</p> <p>POL has received various claims from subpostmasters (SPMs) alleging defects in the Horizon system and POL's internal processes.</p> <p>These allegations were initially made in 5 claims brought through solicitors Shoosmiths. Similar allegations have been made through:</p> <ul style="list-style-type: none"> <li>- SPMs' MPs;</li> <li>- the "Justice for Subpostmasters Alliance" (JFSA);</li> <li>- defences to court proceedings brought by POL to recover debts from SPMs; and</li> <li>- direct contact with POL.</li> </ul> <p>Following discussions with James Arbuthnot MP and JFSA, in July 2012 independent investigator Second Sight Support Services Ltd (Second Sight) was appointed to carry out a review into these allegations.</p> <p>On 08.07.13, Second Sight published a</p>	<p>Following the Second Sight Report, on 27.08.13 POL launched a Mediation Scheme aimed at resolving individual complaints made about Horizon. POL has also been developing and implementing a Business Improvement Program to improve the way POL supports SPMs run their branches.</p> <p>The Scheme received 147 applications before applications closed on 18.11.13. The applications are now being progressed through the Scheme under the direction of a Working Group chaired by retired Court of Appeal Judge Sir Anthony Hooper, and comprising representatives from POL, Second Sight, and JFSA.</p> <p>To ensure POL continues to comply with the evidential, public interest, and disclosure standards required for prosecutions, POL has also completed a review of criminal prosecutions brought against SPMs which used Horizon data. POL has also reviewed its approach to prosecutions generally.</p> <p>To date, no claim has been made against POL in the civil courts, and no appeal has</p>	Bond Dickinson

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			<p>Report finding shortcomings in POL's internal training and support to SPMs on the Horizon system, but no systemic problems with Horizon itself.</p> <p>been made against any conviction in the criminal courts, following Second Sight's Report.</p> <p>POL is not currently issuing any new criminal summons, although it did continue those cases already underway before Second Sight's Report was published. There are currently only 5 live criminal cases before the courts (of which 3 concern post-conviction financial recovery only).</p>	
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**PART (B) – PRINCIPAL CRIMINAL CASES BROUGHT BY POST OFFICE LIMITED**

DESCRIPTION	STATUS
Sub postmaster accused of theft of £78,660.63.	<p>Defendant pleaded guilty on 05/02/13 and was sentenced to 2 years' imprisonment.</p> <p>On 12/07/13 a Confiscation Order was made in the sum of £59,500. The Defendant had 6 months to pay that sum or receive a further 19 months' imprisonment. Payment was not made within that time, and the matter is now with the Court's Confiscation Unit to progress.</p>
Subpostmaster accused of two offences of theft of £175,260 and £9,999.43, and two offences of false accounting regarding the same sums.	<p>On 11/10/13 the Defendant was convicted of theft of c.£175k and sentenced to 2 years' imprisonment. As a consequence of this conviction, no evidence was offered with respect to the theft or false accounting of the c.£10k.</p> <p>Confiscation proceedings have been initiated by POL and are proceeding to a timetable set by the Crown Court. The next hearing of this matter will be on 04/04/2014.</p>
Subpostmaster accused of fraud of £115,172.11.	<p>Defendant pleaded guilty and on 03/05/13 was sentenced to 16 months' imprisonment.</p> <p>POL has recovered £61,000 to date, and is looking to deal with the outstanding sum under a Consent Order. POL may withdraw its Confiscation proceedings if a Consent Order can be agreed.</p>

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## POST OFFICE LTD BOARD

### Health & Safety Report

#### 1. Purpose

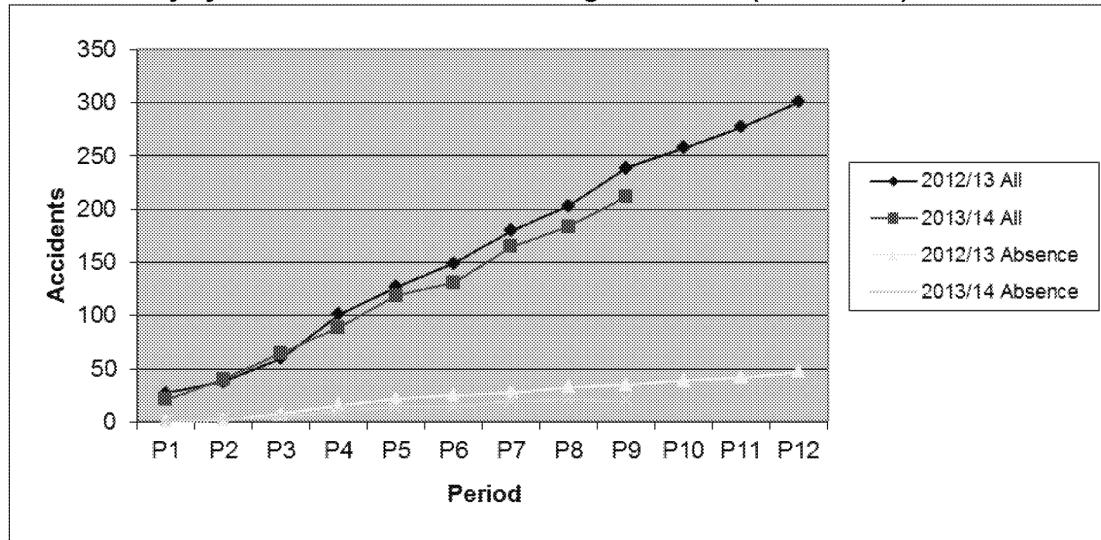
The purpose of this paper is to:

- 1.1 Provide an update on safety performance.
- 1.2 Outline risk reduction activities.

#### 2. Current Situation

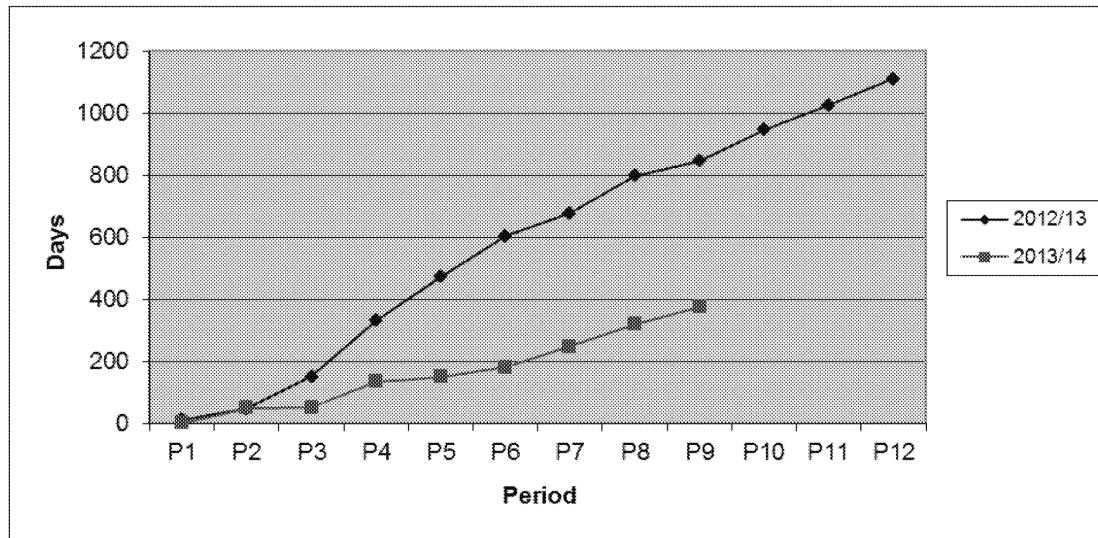
- 2.1 Injury accidents, up to period 9, are showing a favourable trend against last year, and against the target reduction of 5%. Accidents involving absence have decreased from 35 to 20 compared to the same period last year. The "per 1000 staff in post" comparison indicator, which takes account of head count fluctuation year on year, is showing a favourable trend for both 'all accidents' and 'absence' accidents. (Table 1)

**Table 1 All Injury accidents and those resulting in absence (Cumulative)**

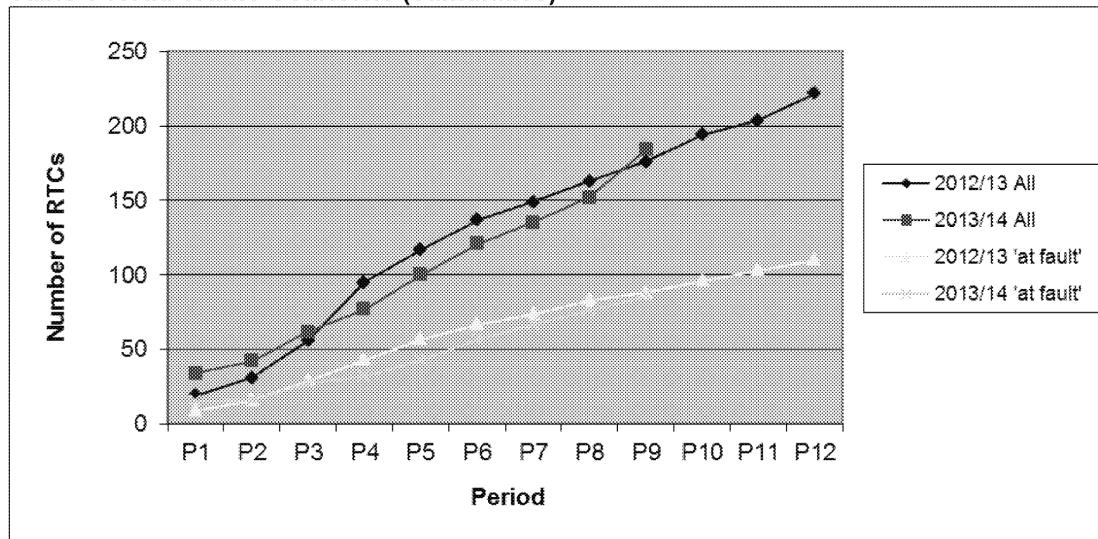


- 2.2 The number of days lost due to accidents is showing a significant reduction compared to the same period last year and against a target reduction of 5%. This reduction is predominantly due to the absence of major injuries and indicates that not only is there a favourable trend in the frequency of accidents there is also a favourable trend in a reduction of the severity of those accidents. (Table 2 below refers)
- 2.3 Claims for personal injury as a result of an accident at work are showing an improving trend on past years in terms of both volume and value.

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**Table 2 Days lost resulting from injury accidents (Cumulative)**

2.4 The total number of road traffic collisions (RTCs) up to and including period 9 is up 4.5% on last year. The number of incidents where the Post Office driver is 'at fault' is 2.3% down against the same year to date period as last year. (Table 3) Road risk reduction opportunities continue to be the subject of analysis at the Road Risk Forum with a view to identifying improvement activities in addition to those already in place. (3.1 below) Reversing incidents are currently becoming a cause for concern and will be the subject of additional attention. Injuries as a result of road traffic collisions are infrequent. Road traffic collisions account for less than 3% of the overall number of injury accidents, however they have the potential for high impact in terms of injury and loss.

**Table 3 Road Traffic Collisions (cumulative)**

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- 2.5 The majority of accidents currently fall into three main categories: lifting and handling, stepping and striking and outdoor falls. These are high frequency events with, in the majority, relatively low severity. The lower frequency types of incident can carry the potential for very high impact, for example, assaults and road traffic collisions. .
- 2.6 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are down from 42 to 32 cumulative for the past 9 months. Physical injuries during robberies, of which there have been 8, a reduction of 5 on last year, remain relatively minor in severity. Five of the 32 robberies were enabled by the presence and/or threat of use of fire arms however on no occasions were the firearms discharged. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)
- 2.7 Robberies and attempted robberies on the Post Office network, cumulative to period 9, are lower than last year – 78 compared to 83 – 39 of the 78 were successful. Injuries sustained during robberies are down from 21 to 15. Robberies take place predominantly at sub post offices. Supporting activities have been introduced to continue to mitigate this risk and are identified at 3.2. (Appendix 1 – Significant Incidents refers).
- 2.8 Burglaries and attempted burglaries (which do not involve personal attack) have decreased slightly from 66 to 65 compared to the same 9 month period last year – 15 of the 65 incidents were successful..

### 3. Activities

#### 3.1 Road Risk

Current activities to mitigate road risk are:

- Road risk forum in place to scope and develop road risk reduction initiatives and activities
- Analysis of effectiveness of face to face training given to top 50 high risk drivers has indicated that accidents amongst this community have reduced significantly following the refresher training
- Analysis of and interventions for reversing incidents
- Eye sight checks for operational drivers are in place
- Technical accident reduction interventions on new vehicles e.g. Reversing aids
- Analysis and evaluation of data (e.g. risk profiles) to determine further accident reduction interventions
- Introduction of coloured 'high visibility' seat belts on new vehicles
- Safety team input and concurrence for vehicle specification and changes
- Safe driver of the year award
- Weekly case conferences to ensure consistent approach to accident investigation, follow up activity and sharing of best practice

#### 3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

- Active liaison activities with the police and increased police support activity
- Liaison with Met. Police on the increase in gun enabled robberies
- Introduction of new deterrent technologies e.g. Smartwater – a solution that contains a unique identifier that is released automatically in the event of a

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robbery, spraying those involved and enabling identification of the individuals involved in the robberies

- Significant reduction in opportunities for duress type robberies linked to the introduction of single person vehicles
- Increased security support visits to Post Offices in 'hotspot' areas
- 'Darker nights' security awareness campaign
- Increased use of crime alert communication techniques to Post Offices
- Trialling new point of transfer arrangements to reduce exposure
- Increased use of surveillance vehicles
- A three month 'Crime stopper' campaign in the West Midlands has commenced, aimed at reducing cash in transit robberies

3.3 Health and Wellbeing

Current activities to enhance wellbeing

- Programme of visits to all Post Office sites to offer and encourage the use of health check equipment that provides a wide range of indicators on physical wellbeing
- Plans in place to re-visit all Post Office Crown Branches and Supply Chain sites within 18 months
- Health and wellbeing 'Team Talk' modules
- Health and wellbeing poster themed campaigns
- Online wellbeing monitoring tool to support health check initiative
- Roll out of mental health awareness programme

3.4 Safety

The Post Office occupational health and safety management system (OHSMS) is certified by external auditors to the standards required by British Standard OHSAS 18001.

**4. Residual Risks**

4.1 Driving activities have the potential for high impact/loss and therefore remain as a significant residual risk. However, the actions identified above are aimed at mitigating that risk and improving performance.

**5. Recommendation**

The Post Office Ltd Board is asked to:

5.1 Note the overall safety performance  
5.2 Note the risk reduction activities.

**Neil Hayward**  
**February 2014**

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**Appendix 1**

<b>Significant Incidents (Period 9)</b>				
<b>Crowns and Network</b>				
<b>Location</b>	<b>Loss</b>	<b>Circumstances</b>	<b>Physical Injuries</b>	<b>Any further details</b>
Norris Green SPSO Liverpool L11 1BQ	£66k	Sat 18/01 13:00 The Post Office was closed and the SPMR was refilling the ATM, two males rushed into the Branch and grabbed a staff member putting a knife to his throat, the ATM money was taken.	Nil	
Higham Lane Coventry CV11 6AS	£7k	Thurs 23/01 23:15. Three masked males were waiting outside armed with crowbars when the shop was closing. The assailants forced the front door and threatened the two staff members, forcing them in to the secure area of the PO. One male threatened to shoot them, although no gun was seen. The Bidi safe was opened and the PO money and shop money was taken, along with the main safe keys, and PO drawer and Bidi safe keys. The males fled out of the back door.	Nil	
Hornsea SPSO Hull HU18 1LN	£27.5k	Mon 27/01 18:46. The shop assistant was on his own in the shop when two masked males entered. The SPMR returned to find shop assistant tied up on the floor with a shotgun against his head. SPMR was forced to open up the secure area and hand over cash. Assailants left via the back door.	Nil	
<b>Supply Chain (Cash, delivery and collection)</b>				
Nil				

**POST OFFICE LIMITED BOARD**

**Sealings 15 January 2014 – 18 February 2014 inclusive**

**Register of Sealings**

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 1118 to 1128 inclusive in the seal register.

"The Directors resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1118 to 1128 inclusive in the seal register is hereby confirmed."

**Alwen Lyons  
Company Secretary  
18 February 2014**

## POST OFFICE LIMITED

### Register of Sealings

**Date**  
18/02/2014

**Company Number**  
2154540

<b>Seal Number / File Ref.</b>	<b>Date of Sealing</b>	<b>Date of Authority</b>	<b>Description of Document</b>	<b>Persons Attesting To Document</b>	<b>Destination of Document</b>
1118	17/02/2014	16/01/2014	Licence to underlet and change use relating to 22 Market Square, Poplar, London, E14 6AB between Poplar Housing and Regeneration Community Association Limited, POL and Iridium Assets Limited	Piero D'Agostino	Jean Reynolds
1119	17/01/2014	17/01/2014	Agreement in respect of the management of required changes to the CRC Energy Efficiency Scheme Participant Group following the listing of Royal Mail plc on 15 October 2013 between Royal Mail Group Limited and POL	Piero D'Agostino	Jean Reynolds
1120	22/01/2014	20/01/2014	Licence for alterations relating to 1-7 South Mall, Edmonton Green Shopping Centre, London, E9 between St Modwen Developments (Edmonton) Limited and POL	Piero D'Agostino	Jean Reynolds
1121	27/01/2014	16/01/2014	Lease Unit G11 Kings Walk Shopping Mall, 122 Kings Road, Chelsea, London, SW3 4TR between O & H (Chelsea) Nominee Limited and O & H (Chelsea) (No.2) Nominee Limited.	Gill Catcheside	Jean Reynolds
1122	30/01/2014	30/01/2014	Licence to underlet and change use relating to 22 Market Square, Poplar, London, E14 6AB between Poplar Housing and Regeneration Community Association Limited, POL and Iridium Assets Limited	Alwen Lyons	Jean Reynolds
1123	30/01/2014	30/01/2014	Lease for alterations relating to Ground Floor, Stanway House, Almondsbury Business Centre, Bristol, BS32 4QH between Fairfax Shelf 1 LLP and POL	Alwen Lyons	Jean Reynolds
1124	30/01/2014	30/01/2014	Licence to carry out works relating to Ground Floor, Stanway House, Almondsbury Business Centre, Bristol, BS32 4QH between Fairfax Shelf 1 LLP and POL.	Alwen Lyons	Jean Reynolds
1125	11/02/2014	11/02/2014	Licence to Assign premises at The Post Office forming part of the premises known as 1 Heathfield Terrace, Chiswick, London W4 4JF between Post Office Limited and Yasmin Zorha Syed and Siya Limited.	Gill Catcheside	To Jean Reynolds
1126	11/02/2014	11/02/2014	Rent Deposit Deed relating to premises at The Post Office forming part of the premises known as 1 Heathfield	Gill Catcheside	To Jean Reynolds

## POST OFFICE LIMITED

### Register of Sealings

Date  
18/02/2014

Company Number  
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
			Terrace, Chiswick, London W4 4JF between Post Office Limited and Siya Limited and Yasmin Zorha Syed .		
1127	13/02/2014	13/02/2014	Agreement for lease of 160/161 Upper Street, Islington between Christopher Theodore Eliades, Vincent Daniel Goldstein and POL	Alwen Lyons	Jean Reynolds
1128	17/02/2014	17/02/2014	Agreement for lease of premises at Unit 19, Kingsway Shopping Centre, Newport, Gwent between UBS Global Asset Management (UK) Limited and POL	Alwen Lyons	Jean Reynolds