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Post Office Limited – Strictly Confidential

POST OFFICE LTD BOARD MEETING (Company Number 2154540)

Meeting to be held at 9.30 am on 27th November 2013 in the Boardroom at 148 Old Street, London EC1V 9HQ

The meeting will be preceded by a NEDs' breakfast from 8.00 am at the Zetter, 86 – 88 Clerkenwell Road, EC1M 5RJ

0930	1	Update on Horizon	Chris Aujard/ Angela Van D-B/ Belinda Crowe
1000	2	Target operating model (including outsourcing)	Chris Day/ Lesley Sewell
1040	3	Risk Update: Report from ARC	Alasdair Marnoch
1105		BREAK	
1120	4	First impressions from the Commercial Director	Martin George
1200	5	Mutualisation • Public Purpose Statement	Sue Barton/ Belinda Crowe
1230		BREAK	
1245		**LUNCH to be joined by Robin Budenberg**	
1345	6	FS/Network incentives for front line staff	Nick Kennett/ Kevin Gilliland
1410	7	Funding Update	Sue Barton
1430	8	CTP & NTP update • Locals income • Deployment of the new NT strategy	Kevin Gilliland/ Sue Barton
1445	9	Chief Executive's Report	Paula Vennells
1510	10	Financial Performance Update including Cost Reduction	Chris Day
1530	11	Minutes of Previous Meeting and matters arising Committee Minutes for noting Status report update	Alice Perkins
1535	12	Items for Noting • Managing External Resources • Significant Litigation Report • Health and Safety Report • Sealings	Alwen Lyons
1545	13	Any other business • Personal Injury Referral Fees update	Nick Kennett
		Date of next meeting: 21 January 2014, to be preceded by a Board dinner on 20 January 2014	
1600		**CLOSE**	

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POST OFFICE LIMITED – BOARD PAPER

Project Sparrow Update

1. Purpose

The purpose of this paper is to provide the Board with an update on Project Sparrow.

2. Background

2.1 In the last (October) CEO report to the Board, an update was given on the then current status of Project Sparrow. The purpose of this paper is to provide a high level summary of the project as it now stands, focussing on developments since the last Board meeting.

3. Current Situation

3.1 Project Sparrow as initially conceived comprised two main initiatives, both of which were launched in response to the Second Sight Report released in July 2013. The first, and most time-critical of these initiatives was concerned with establishing a mediation scheme (and related activities), whilst the second focussed both on developing a business improvement program (BIP), aimed at assisting sub-postmasters in their business dealings with Post Office, and on implementing improvements to the overall control framework.

3.2 Until relatively recently these two initiatives were, for governance purposes, treated as one project and were both being overseen by the Project Sparrow Steering Group. The Steering Group has, however, recently agreed that the Post Office's interests would be better served, and greater focus would be achieved, by separating these activities into two distinct projects with Belinda Crowe being appointed as Programme Director for the first (the mediation scheme) and Angela Van Den Bogerd acting as Programme Director for the second (the BIP).

3.3 As at the date of the last CEO report the mediation scheme had received 64 applications from sub-postmasters. As of 18 November 2013 (the date on which the scheme officially closed) some 140 applications had been received of which 82 have been approved to proceed to the next stage (ie the stage at which the applicant submits a "Case Questionnaire" setting out the details of his/her claim) and 9 applications had been rejected. The remaining 49 have been held over for consideration at the next meeting of the "Working Group" scheduled for 22 November 2013.

3.4 As previously trailed, the Working Group that has been established to oversee the operation of the scheme is chaired by Sir Anthony Hooper. It meets weekly by telephone to discuss individual applications and holds face-to-face meetings once a month for more detailed discussions, including discussions as to the overall efficacy and operation of the scheme.

3.5 The scheme has received more applications than originally anticipated (140 as against an initial planning estimate of 75) and, given this fact and the complexity of some of the applications, additional resources have now been allocated to the project, principally aimed at ensuring that each application is investigated thoroughly and professionally. It is expected that the full team will be in place by 6 December 2013.

3.6 The increased number of applications will also increase the overall costs of the scheme, much of which will be incurred on a "per case" basis. Thus, an initial budget of £1.3m (ex vat) based on 75 applications has been increased to £2.2m (ex vat) for 130 cases proceeding all the way through to a concluded mediation. This does not include the costs of any financial compensation which may be offered to facilitate resolution of individual cases (as to which, see para's 3.8 and 3.9 below).

3.7 Notwithstanding this increase in resources, it is currently anticipated that the time required to process all applications through the scheme will now extend into the Q2 2014. This will also extend Second Sight's involvement in the Scheme given its role of recommending whether a case is suitable for mediation after it has considered the results of our investigations. This role was ascribed to Second Sight to add a level of independence, and therefore creditability, to the scheme. The Working Group (and the Chair in particular) remains tasked with ensuring that applications are efficiently progressed through each stage of the scheme.

3.8 On 19 November 2013, ExCo considered a draft policy prepared by the project team with a view to ensuring that our approach to resolving individual applications was consistent across the piste. In developing this policy, however, it did become clear that certain applicants are expecting significant financial settlements, and certainly ones larger than those envisaged by our policy. Accordingly, work is now being undertaken to see what sensibly can be done to bridge this "expectations gap".

3.9 The project team will also continue to refine this policy as the applications progress through the scheme into actual "mediations".

3.10 The first phase of the BIP (looking at improvements to our sub-postmaster training and support processes) was launched in November, informed in part by the new Branch User Forum, the inaugural meeting of which took place on 19 November 2013. The meeting was well represented by subpostmasters and Crown employees, who fully supported the Forum's purpose and objectives. Forum meetings will inform the wider plans for reforms to our organisational structure and culture over the next 6-12 months.

As foreshadowed in the last CEO report, a paper reviewing our overall policy for investigating and prosecuting future (criminal) cases was presented to the ARC on 18 November 2013 and a verbal update on that matter will be given at the Board meeting.

4. Recommendations

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

Chris Aujard
21 November 2013

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POST OFFICE LTD Board

Operating Model and Strategic Cost Reduction - November 2013

1. Purpose

1.1. The purpose of this paper is to update the Board on our approach to delivering the strategic cost reduction targets that form part of our 2020 strategy.

1.2. The Board is asked to note this paper.

2. Background

2.1. The 2020 business strategy includes a number of challenging targets that will enable us to become a commercially sustainable business. We must take 25% out of our operating costs and significantly grow our income.

2.2. We have been through a tactical cost saving exercise and identified savings across the business for FY2013/14 and FY2014/15. The scope of the savings does not deliver the 25% called for in our strategy.

2.3. In early 2013 we engaged Accenture and Capita to assess the potential efficiencies in our current operating model and the savings they identified were also less than 25% of our cost base.

2.4. To achieve our strategic cost-saving target we must think differently and this is why we have proposed a new operating model. The new model is customer focussed and will give us the opportunity for strategic cost reduction.

2.5. We will continue to focus on tactical cost reduction as we develop our strategic cost reduction programme and deliver the new operating model.

3. Current Situation

3.1. Validating our operating model

- In September a Post Office delegation travelled to India to visit a number of outsourcing organisations. The group were impressed by the maturity and capability of the services offered by these organisations. Outsourcing has moved on from being a cost takeout play, based on labour arbitrage; it now offers an opportunity to improve processes, add value and grow income.
- In tandem with the visit to India, we engaged 6 major consulting and outsourcing firms to challenge and validate our proposed operating model, with a particular focus on the Service Delivery element of this.
- We have received majority validation of the operating model. The range of responses tells us that there is an opportunity to take circa 25% out of our cost base by implementing the new model.
- As part of the supplier responses we received excellent feedback on the customer centric nature of our model. The suppliers cited this as a key enabler to drive up income.
- Areas such as customer analytics, contact centre consolidation and driving business-to-business sales were all identified by the suppliers as ways to increase income.

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3.2. Delivering our operating model, strategic cost reduction and increased value to the organisation.

- To ensure that we deliver the maximum value with our new operating model and to strategically reduce costs, we must give careful consideration to how it is implemented.
- The advice from the market testing (5 of the 6 suppliers) was that we should procure a transformation partner to help us maximise the benefits of the operating model. We do not have the capacity or experience in the business to deliver this on our own.
- The transformation partner will bring the industry knowledge, process expertise and dedicated focus that is needed to deliver this change.
- The transformation partner will determine the right sourcing option for each initiative within the operating model. Business Process Outsourcing is not the only way to address our cost challenge; we must also look at how we can streamline the processes that we retain. Our transformation partner will provide and manage the supply chain to deliver the change in the organisation.
- Before going to market to procure this partner there are a number of questions that we need to answer to ensure we take the correct approach, with the right commercial construct.
- We have established a project to look at the business case for engaging a transformation partner, understand the preferred engagement model and prepare for a partner selection exercise (assuming the business case is compelling). Brian Deveney has been tasked with leading this study.
- We will be visiting a range of companies that have been through a similar process and have experience of working with a large transformation partner.
- The support of the business units is vital to the success of this next phase. The ExCo are fully supportive of this initiative and have committed to provide resources to ensure its success.
- We must embrace this opportunity for change and allow the transformation partner to look at all areas of the business.
- Our aim is to complete the next phase of work in time to engage the market early in 2014.

3.3. We have already engaged with a company that has successfully transformed their business with the help of a partner. We met with Steve Owen, the Director of Operations and Commercial management at National Savings & Investments. Some key takeaways that will inform our approach were:

- NS&I started as an organisation of over 4,200 employees and are now 120 strong, solely focussed on core business activity.
- As a business we must be clear about why we are starting out on this journey and what a successful outcome looks like. What are we transforming our business from and to?
- We must trust our partner and foster an environment of complete openness.
- The commercial construct should be based on business outputs.
- A key role of the transformation partner is to drive cultural change.

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4. Commercial Impact/Costs

4.1. The business case will be delivered as part of the next phase of work. From our market engagement to date we believe that the new operating model can deliver the cost reduction called for in the 2020 strategy. We also believe that the operating model will be a vehicle to deliver Customer Insight and Analytics processes which could lead to revenue generating opportunities.

5. Long term considerations – horizon scan

5.1. To derive full value from our new operating model we must ensure that the transformation partner is correctly incentivised to deliver value, the contractual terms being the mechanism to do this.

5.2. As a business we must be open to the changes that come with the new operating model, if we limit the scope of the transformation partner or resist the changes that they implement then we won't succeed. It is important that we work in a collaborative manner and embed the new processes and knowledge in our retained organisation.

5.3. We will keep the board up to date with our progress and we will seek approval from the board at key stages of the process (before issuing an OJEU, before naming a preferred bidder etc.).

5.4. The next update that the board will receive is planned for February 2014.

6. Communications Impact

6.1. Clearly, due to the ramifications of a new operating model, we need to manage the communications very carefully. Our communications team will be fully engaged throughout the process.

6.2. Until we are ready to go to market, we will keep the working group to a minimum although this will need to include representatives from each directorate.

6.3. As part of the activity that will define the go-to-market approach, we will deliver a full communication plan to engage with key internal and external stakeholders.

7. Recommendations

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

Lesley Sewell (CIO) & Chris Day (CFO)
20 November 2013

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POST OFFICE LTD BOARD

Risk Management Update November 2013

1. Purpose

The purpose of this paper is to:

1.1 update the Board on the ExCo assessment of risks facing Post Office in the achievement of its strategic objectives; and

1.2 update the Board on the progress made with implementing a risk management framework and developing a risk management culture in Post Office.

2. Key risks

2.1 ExCo has continued to refine its assessment of the key risks in achieving its strategic objectives through an iterative process of workshops, facilitated by the Risk Management function. As a result, ExCo has identified six critical risks which require top management attention. These are:

2.2 Allegations relating to the integrity of the Horizon system

ExCo Owner: Chris Aujard

There is a risk that the allegations relating to the integrity of the Horizon system, if not contained, could raise wider questions over the robustness of our core systems and our ability to operate, damaging (amongst other matters) current partnerships, new areas of expansion and public and government confidence.

Key Impacts: Reputational – Consumer Confidence | Long term brand damage | reduced brand strength with potential partnerships/joint ventures | political impact.

Key Controls & assurance: Project Sparrow and the related Business Improvement Programme | Sparrow lessons learned work | Risk Function to carry out review.

2.3 Failure to deliver top line growth in line with strategic plans

ExCo Owner: Martin George & Nick Kennett

Failure to meet our strategic imperative to protect channel income whilst growing our retail business will ultimately prevent our ability to reach commercial sustainability. In particular lack of growth in FS will have a detrimental impact on delivery of the strategic plan. Non delivery of growth targets will reduce the appeal of the franchise model impacting Network Transformation. There is an immediate threat that long term growth targets could become unachievable if we do not respond quickly to competitors.

Key Impacts: Inability to reach commercial sustainability | Reduces appeal of Franchise model

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Key Causes: Failure to respond to shifting consumer behaviour | Failure to respond to the competitive market with pace | Capability of people | Operational failures – process and systems | Brand damage/image, particularly significant to FS business (with a growth target of 70% by 2020) | Overly optimistic planning assumptions | poor industrial relations

Key controls & assurance: Quarterly performance reviews | Weekly Trading Board | Commercial plan in place

2.4 Operating Model fails to deliver requisite cost savings

ExCo Owner: Chris Day

Reduction of costs and sustained cost management are imperative if we are to generate the level of profitability required to make Post Office commercially sustainable. A multi-faceted programme of transformation coupled with challenging growth targets can conflict with a cost reduction programme.

Key Impacts: Inability to reach commercial sustainability

Key Causes: Failure/Pace of Network Transformation | Culture – not cost conscious | Conflict with other priority programme e.g. NT | Fixed cost creep as growth targets met | Union opposition

Key controls & assurance: Benefits realisation project | NAO value for money standard | external benchmarking

2.5 Inadequate people capability or capacity to deliver transformational change and the strategic plan

Exec Owner: Fay Healey

The capability of our people is critical to successful delivery of all facets of the strategy. There is a risk that we cannot retain; recruit and effectively performance manage our people to the level of capability required within the necessary timeframe. Additionally, as we continue to grow our capability there is a risk that the pool of existing talent is oversubscribed increasing pressure and reducing their effectiveness.

Key Impacts: Transformation unachievable

Key Causes: Inability to retain talent – through poorly conceived or poorly executed change management (overworked), Lack of engagement, lack of development | Inability to attract talent – brand, pay etc | Ineffective training and development

Key controls & assurance: tactical skills development | Talent development programme | FS Academy |performance management | Carry out gap analysis against the skills required to deliver the 2020 plan.

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2.6 Non-delivery of Network Transformation Programme

Exec Owner: Kevin Gilliland

Short term issue regarding the successful engagement of the NFSP in supporting NTP.

In the longer term, failure to deliver network transformation in a timely fashion would result in a non-viable business model requiring additional subsidy from the Government or closure of branches, neither of which are sustainable options. There is an immediate risk that if we do not move quickly, we may find that we cannot secure the retail partners we need to secure the future of our network.

Key Impacts: Increased Costs | Reduced Income growth | Unable to meet Customer needs | Credibility of leadership.

Key Causes: Unattractive proposition | Poor project execution | Poor communication/engagement with agents | Non-delivery of growth.

Key controls & assurance: McKinsey & BIS reviews | stakeholder engagement plan | RM project audit | 2nd line risk review.

2.7 Strike action within supply chain could damage ability to distribute cash to network (IR/CWU)

Exec Owner: Kevin Gilliland

Whilst there are multiple controls, and back up plans, in place to mitigate the risk of a breakdown in cash distribution there is a risk that these will be insufficient to deal with a with continued strike action. The impact of branches not receiving the cash they need to serve our most vulnerable customers would be detrimental to the Post Office reputation.

Key Impacts: Reputational Damage

Key Causes: Poor communication/engagement with unions | Union demands at odds with strategic direction of becoming a commercially sustainable business

Key controls & assurance: internal & external communications plans | 3rd party contingency planning | Working group examining alternative carriers/ways of working.

2.8 In addition to the above risks, ExCo identified three further risks which require continuous monitoring, specifically:

- **the risk of regulatory action or reputational damage from FS mis-selling;**
- **the maintaining the security and integrity of Post Office data; and**
- **the successful delivery and operation following IT transformation**

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2.9 It is important to note that all nine of these risks are interdependent and should be viewed collectively to determine the overall impact on the strategic plan.

In addition to the controls outlined above, the management of these risks is reviewed by ExCo on a weekly basis to provide assurance that plans are delivering the required outcomes.

3. Progress on implementation of a risk management framework

3.1 The following activities are complete in respect of the delivery of the risk management plan:

- Recruitment of all current template roles is now finalised with two recruits already in post and the remaining two starting over the next few weeks, bringing the Risk Management function up to full strength;
- As referred to above, ExCo has carried out a risk identification and assessment session, together with two subsequent reviews to refine this assessment;
- Each directorate lead team (with the exception of Communications – scheduled for 28th Nov and Corporate Services) has conducted a similar risk workshop to identify risks at the next level down from the enterprise view;
- The Risk & Compliance Committee has been restructured to focus on management of risks in Post Office and to oversee progress against the plan;
- The Risk Function has started professional training in risk management to enhance their current experience and knowledge;
- On-going benchmarking with other organisations has been established; and
- A review of the risk management software has been completed.

3.2 By the end of the financial year it is expected that risk management will be active at tier 1 (ExCo) and tier 2 (directorate lead team) with continuous support from the Risk Function's business partners who will act as full-time risk champions to facilitate and monitor the approach. In this context, active means:

- Risks are regularly reviewed;
- Risks are owned by an accountable individual;
- Risk appetite and target levels of risk have been agreed;
- Controls and assurance measures for significant risks have been established; and
- Action plans are in place to manage risks and are regularly monitored for effectiveness.

3.3 In addition to the above, a road map for developing risk management in the Post Office will be submitted to the ARC for approval in February 2014, setting out the key milestones across a 1,3 and 5 year horizons.

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4. Recommendations

4.1 The Board is asked to:

- Note the update and actions set out above; and
- Provide feedback on the actions outlined above.

Chris Aujard
General Counsel
21 November 2013

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Top Board Risks

1. **FS** – our plan depends on FS growth which is fairly risky due to the complexities of the BOI relationship and our 'uncertain' shape of distribution channels

   Financial Services does not deliver – weak implementation and unforeseen risks

   Macro – Financial Service markets move more rapidly than anticipated in our current plans and we are unable to respond in time

   Failure to deliver FS strategy and maintain our reputation for 'trust'

   Banking partner – failure to provide pipeline of competitive FS products to deliver our branded retailer ambitions

   Financial Services compliance

   The Financial services strategy fails to deliver the revenue requirements of the strategic plan

2. **Delivery of NT** i.e. it is too slow/expensive/noisy

   Inability to deliver network conversions in time: e.g. NFSP and inability to implement conversions in a timely fashion and hence competitive pressure make business non-viable

   NT does not work. We need it to transform the network into a viable competitive estate – at good value for money for the taxpayer. It might not work – either because the strategy is flawed or because it is badly executed

   Failure to transform agency network effectively – missing the once in a generation (lifetime!!) opportunity to optimise public value delivery

3. **IT change** – slippage/expense/security/reliability

   IT transformation – cost over-runs/customer data inadequate

   Weak IT/IT failure/digital offering weak

   Systems

4. **Top team capability and succession** – specifically, pace and in transforming the position

   Lack of succession plan for the CEO

   Top team - the people on our leadership team are not good enough/don't stay to do what needs to be done

   Insufficient management bandwidth and siloed thinking

5. **Royal Mail** – privatisation will change our contract/their priorities and endanger our plan

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Royal Mail

Missing mails opportunity SME'S

6. **Politics** – our shareholder won't make tough decisions for good political reasons (NT especially)

   Political – current political goodwill dissipates over time perhaps exacerbated by PO mistakes (rather like the Police and now NHS) – AM

   Slowing down of NT as a result of short-term stakeholder/political reluctance

   Support from the Shareholder for our strategy, especially in relation to NTP and requiring subpostmasters ' to choose'

   Post Office is unable to convince stakeholders of the need to effect the changes required to deliver financial sustainability

   Government ownership

7. **Operations issues -** Fallout from Horizon issues seriously damages public and government confidence in the Post Office

   Further operational issues uncovered (but considered lower risk and lower impact)

   Unforeseen shock (cf unexpected network problems, rainbow, SS) [Mitigation better Horizon scanning and good forward looking KPI]

   Brand reputation takes a serious blow and damages news areas of expansion, e.g. SME

8. **Strategy** - Post Office is unable to cope with the change required to deliver the strategy

   unable to achieve growth targets

   Execution – management bandwidth limitations with a small number (50?) critical to the delivery of the PO strategy

9. Development of the **digital channels** happens too slowly and we fail to engage younger customer groups and maximise our business opportunities in growth areas

   Failure to deliver multichannel solutions/left as physical/exceptions channel

10. **Cost reduction** is too difficult to deliver due to union opposition

    Financial – unable (unwilling) to reduce costs sufficiently quickly to both achieve targets and also mitigate against revenue shortfalls

11. Failure to accelerate topline growth in mails and FS in the next 2/3 years, in order to underpin the business ambitions

12. **Competition**

13. **IA** backdrop distracts management and hampers financial turnaround

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Joining The Post Office

First Impressions

Year One Deliverables

26/11/13

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First Impressions

- The opportunity is genuine and exciting
- Our people, brand, network and customers are real assets
- Strong sense across POL of what could be
- Momentum is gathering pace
- 2020 strategic direction is compelling
- Multi-channel, customer focused profitable retailer is a credible destination and worth striving for
- Stakeholder engagement remains imperative

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But.....

- 2020 strategy needs a more detailed Commercial agenda
- Commercial leadership and specialist capability must be significantly strengthened – especially retail expertise
- Customer focus must be radically increased
- Cultural evolution must continue at pace (commercial, customer, outcomes, teamwork)
- Less is more – we must focus on what really matters
- Transformation must be customer focused, adopting service profit chain mentality
- Our future is about more than financial services
- Time is of the essence!

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WHAT ARE MY IMMEDIATE PRIORITIES?

Deliver Today

And

Create Tomorrow

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WHAT ARE MY IMMEDIATE PRIORITIES?

- Familarisation – Meet, listen, challenge, understand
- ExCo – Listen, challenge, understand, own
- Deliver – Today's numbers and key projects
- Brand – Role/purpose, narrative, target market
- Digital – In context of multi-channel retailer
- People – Leadership team, organisation, capability development (core and differentiating)
- Customer – Scorecard, CVP's, single view, lifetime value, share of wallet, data

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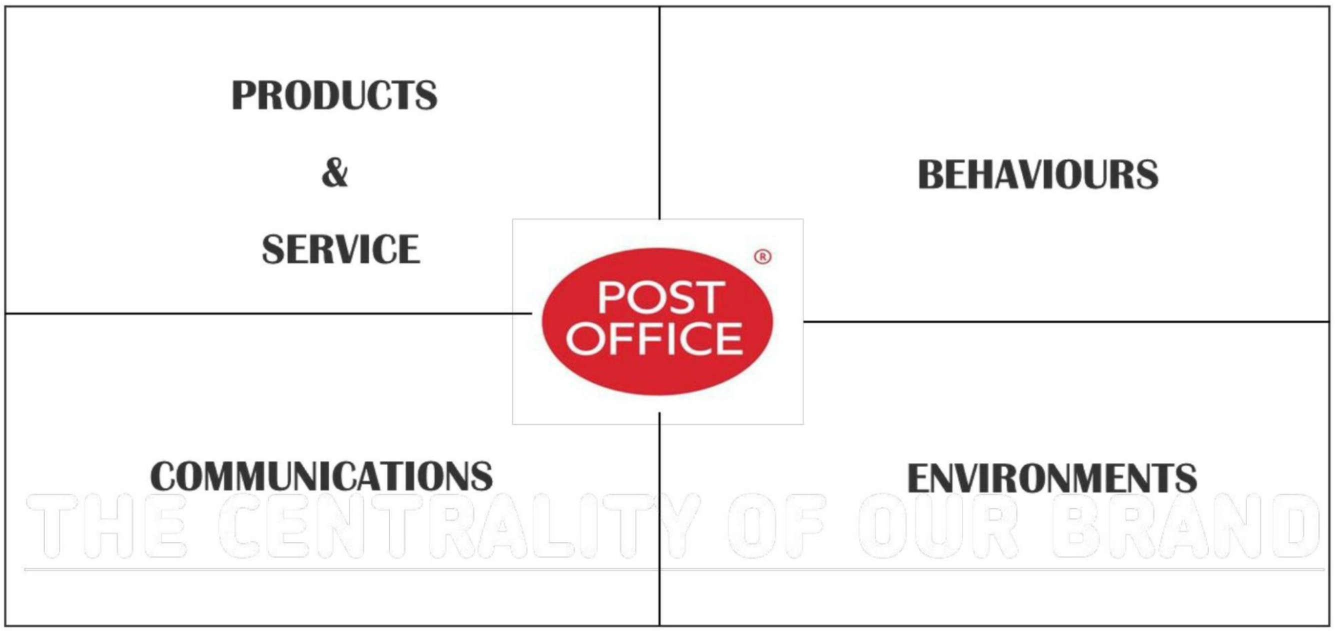
THE CENTRALITY OF OUR BRAND



WHY DO WE EXIST? WHO FOR? WHAT NEEDS ARE WE ADDRESSING?

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WHAT NEEDS TO CHANGE

- Insight to identify key drivers of advocacy (to enable executive ownership)
- Consistent segmentation to inform proposition development
- Category leaders to own P&L (or at least contribution)
- Best practice retailer approaches must be adopted (e.g. MIS, Trading Board, sales promotion, P.O.S, culture)
- Selling and service approach to reflect customer needs – online; call centres; in-branch (self service, transaction, consultation)
- Data to "frontline" to enable informed sales process and customer behaviour change
- Customer journeys and customer experience to be blueprinted
- Partnership philosophy to be implemented with key suppliers
- Communication must cause re-appraisal of Post Office

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OUTCOMES IN 2013/14

- Deliver P7 revenue forecast
- 2020 Commercial plan agreed (words and numbers)
- Key projects progressed (including energy, telephony, POca, retail, SME)
- Digital: Roadmap agreed and Q4 priorities delivered
- Brand: Purpose/role, narrative and target market agreed
- Leadership team, organisation and processes must be 'fit for purpose'
- Customer profile radically increased

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HOW WILL I CONTRIBUTE?

- Team player: Leader, member, supporter
- Passionate, committed, resilient, innovative
- Outcome oriented
- Customer focused
- Values driven
- Learning mindset
- Bring outside in

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WHAT SUPPORT WOULD I APPRECIATE FROM THE BOARD?

- Support and challenge
- Champion our customers and our people at all times
- No Compromise on pace and delivery!!

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POST OFFICE LTD BOARD
Financial Services and Crown Incentive Schemes

1. Purpose

1.1 At the meeting of the Board in July 2013, directors asked management to provide feedback on the review by Mercer Ltd ("Mercers") of the financial services branch incentive program, and provide an update on actions. The review was subsequently extended to cover all Crown incentive schemes, and other relevant Network Sales schemes.

1.2 The paper provides this update and also sets out the overall incentive proposals across Financial Services (FS) and Crown sales.

1.3 This is a joint FS and Network & Sales paper and is tabled for noting.

2. Background

2.1 Key to building FS sales capability is that the incentives for their sale promote and reward appropriate behaviour and compliant selling.

2.2 It is also critical to ensure that an incentive scheme meets the increasing requirements of the Financial Conduct Authority (FCA) that such programs drive outcomes that satisfy customers' needs.

2.3 Post Office employed Mercers, a specialist remunerations consulting firm, to review the current incentive schemes and make appropriate recommendations. While the initial work related specifically to Financial Specialists, due to the inter-relationship with the Crown Network, the scope was widened to cover Crown incentives and the wider Network where financial services sales occur.

2.4 In 2011 we looked to make changes to the FS scheme. Whilst the CWU supported these changes, it was rejected by colleagues under ballot.

2.5 The current incentive structure is not driving profitable outcomes, with financial specialists having access to three separate payment opportunities being:

- £1,000 addition to base salary (this is quasi salary and is not at-risk);
- If the colleague sells products worth £1,750 s/he will receive a pensionable uplift of £1,000 in the following year;
- In year 2 if the colleague delivers income of £3,500, a further £1,000 is added in Year 3; however if this is not achieved the increment in year 3 reduces to £1,000. There is a maximum of an additional £3,000;
- In addition, the financial specialist can receive a bonus based on the performance of the branch – the payment varies between £0 and £1,000.

2.6 In 2012/13:

- All financial specialists received the level 1 allowance of £1,000;
- 70 received the level 2/3 allowance of £2,000 - £3,000;
- The average branch performance payment was £960;
- The total scheme cost was £660,000, with an average payment of £2,200.

3. Key Findings from Mercers

3.1 Mercers concluded that the current FS sales incentive program is not fit-for-purpose and does not recognise or differentiate between effective and non-effective performance (either in the quality of the sales process or in its outcome). For example:

- Financial Specialists can receive a bonus despite not having achieved their targets based on the wider branch performance; only 5 percent of the 2012/13 incentive paid related to financial services sales;
- Strong and weak individual performance does not result in a materially different bonus outcome;
- The current structure is focused solely on sales volumes, with limited requirement for compliance or customer satisfaction;
- Financial Specialists generally do not understand the incentive model and how their performance can result in bonus payments.

3.2 Mercers are of the view that the current incentive program would likely be deemed non-compliant by the FCA. However, it is so in-effective that it does not encourage appropriate selling.

3.3 The weakness of the current program has been evident in savings:

- Over 54 percent of all FS' sales are savings products, which are rate dependent and often 'sell themselves';
- When interest rates are less competitive, overall FS sales performance falls significantly, confirming that FSs focus on this 'easy sell', rather than engaging with customers on their wider needs.

3.4 Mercers strongly recommended that the current program be withdrawn and replaced. They were also of the view that their conclusions and concerns were applicable to other schemes operating in the wider network.

4. New incentive schemes

4.1 The FCA has indicated that it is looking for financial institutions to set incentive schemes to be focused on behaviours or satisfaction. While some banks (e.g. Barclays) have stated that they are implementing a model based solely on customer satisfaction, this would not be appropriate for the Post Office as the business has little history of driving sales outcomes. A hybrid model was proposed by Mercers.

4.2 The new incentive schemes have been developed with Mercers; they will be aligned and implemented across the new financial services sales network, into Crown branches and across the broader Network as appropriate.

4.3 The FS schemes set out in 2.5 above will cease and be replaced by a single scheme. The base £1,000 uplift (not at risk) will be incorporated in base salary; all the other components will be fully performance based.

4.4 The key components of the new scheme, which will be payable quarterly, are:

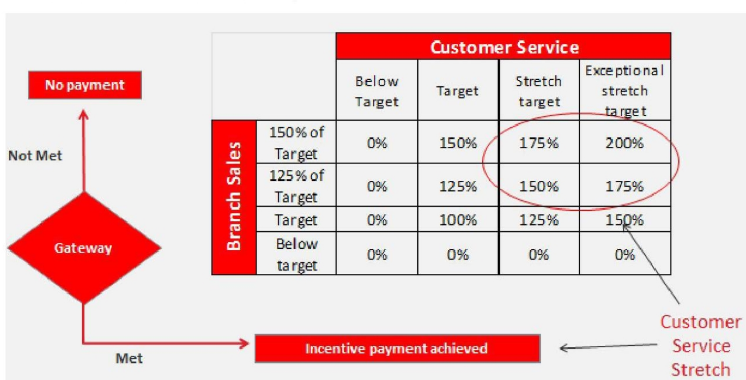
- Financial services compliance and quality of sales will be a 'gateway'; if compliance standards are not met, no bonus will be payable for the period.
- Area level roles will be scorecard driven. Whilst score cards are already used for Crown Area Mangers, we are significantly changing the weighting and aligning them for all Area teams. The scorecard covers three components – customer services delivery, sales (both 40 percent) and staff engagement (20 percent). Each individual on a score card scheme is given a score out of 100 percent. They are then ranked against applicable peers and then given a PDR rating accordingly, which will determine their incentive payment.

- Branch managers will also align to customer service delivery, profit outcomes and staff engagement. The weightings of these will change significantly.
- Individual seller and branch based roles will operate on a matrix payment structure and be aligned to customer service delivery and relevant sales outcomes. Once compliance gateway and minimum customer service requirements are met for these schemes, a performance target of at least 100% must be achieved to be eligible for an incentive payment.
- The non-financial services schemes (e.g. Mails specialists) will have a compliance gateway and then operate on a matrix payment structure, driven by performance and customer service.
- For the Crown network, appropriate schemes will be aligned to the Crown profit objectives and will be factored up or down based on Crown profit performance. Currently Crown Area Managers are factored up or down based on POL profitability.
- Incentive rewards will be paid as a fixed amount and not a percentage at the end of each quarter for individual sellers and at the end of the financial year for Area level roles.

4.5 The key measures of the scheme are:

- While some of the following measures operate in Crown the new incentive scheme aligns them to ensure the delivery of the wider business.
- **Customer service** will assess customers satisfaction based on the Voice of the Customer (VOC), customer waiting time and retail standards.
- Rather than measuring sales targets, individuals are targeted with **customer benefit** measures (CBMs). The CBM targets will be set and the number will be achieved by adding multipliers to each product set. The higher multipliers are a reflection of a number of factors including income to the business, product journey time for the colleague, the customer experience and the strategy of the business. It is envisaged that this will evolve and drive appropriate selling behaviours, improving the customer experience whilst returning the business to a profitable, self-financing structure.
- **Profit** is measured using controllable costs and income generated from sales performance.

4.6 For example: if the quarterly CBM for a financial specialist is 150 percent of sales target achieved and the 150 per cent customer stretch target met, the colleague could earn up to £1,875 for that quarter (potentially £7,500 for the year against a salary of circa £21,000 - £23,000).



		Customer Service			
		Below Target	Target	Stretch target	Exceptional stretch target
Branch Sales	150% of Target	0%	150%	175%	200%
	125% of Target	0%	125%	150%	175%
	Target	0%	100%	125%	150%
	Below target	0%	0%	0%	0%

4.7 Whilst the final payment levels have not been finalised, the basic principle is that we are looking to stretch the performance curve so that top performers get greater rewards and under performers are not rewarded. Whilst we have not yet agreed payment amounts, we are currently modelling to reward individuals on the following basis:

- Area roles - between £0 - £25,000 per year.
- Branch manager – between £0 - £10,000 per year.
- Individual seller roles - between £0 - £10,000 per year.
- Product specialist roles - between £0 - £2,750 per year.
- Customer Service Consultants - between £0 - £2,500 per year.

4.8 In October one third of financial specialists were achieving the CBM target. Of these, eight exceeded 150 per cent of the target and nine 125 per cent. Assuming that sales performance continues and based on rates in 4.7, these eight would receive and incentive payment of £4,500 and the nine £3,000 over the year. The remainder would receive £1,500, while all other colleagues would receive no payment;

4.9 The schemes have been shared with the Bank of Ireland (UK) plc, who as Post Office's principal has shared the key components with the FCA.

5. Implementation

5.1 On 1 October 2013, the FS Regional Managers, FS and Crown Area Managers and Mortgage Specialist schemes were launched, supported by the CMA.

5.2 An ExCo sub-group is managing the roll-out of the remaining FS and Crown incentive schemes. This group will confirm in early December the implementation program including transition arrangements for CBMs.

5.3 While it is hoped to launch the remaining scheme from 1st January 2014, to ensure a successful launch and conscious of the current industrial relations environment, the sub-group will consider whether it would be appropriate to run a shadow program for Q4, with the goal of launching the schemes in Q1.

6. Commercial Impact/Costs

6.1 In the first year of operation, aggregate payments on the new incentive scheme will be similar to the current business plan. Thereafter the scheme will be self-financing as it drives increased sales, while poor performance is un-rewarded. As a business, to ensure we are in a position to achieve our financial goals and to hit the next financial year running, we aim to have all schemes in place from 1 January 2014.

6.2 If the scheme were to pay out considerably more, it would be due to a significant over performance and the uplift in performance would significantly outweigh the cost.

7. Key Risks - Industrial Relations

7.1 Under the existing collective arrangements, a new incentive scheme requires concurrence from the trade unions. We have sought to actively engage the CWU and CMA on the new programs.

7.2 The CMA has been fully engaged and provided a joint statement for the schemes launched in October, where it has collective bargaining rights.

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7.3 To date the CWU has not responded to requests to meet. We continue to try to arrange to meet them and are providing the documentation that would have been provided.

7.4 While the CWU continues to refuse to meet, the ExCo sub-group is considering whether it can, and should, deploy the new schemes ahead of engagement and agreement with them.

9. Conclusion

9.1 The existing incentive schemes are not fit-for-purpose and need to be replaced.

9.2 The new schemes will create a best-practice structure, putting the needs of the customer at the heart of sales measurement; it will recognise and reward strong sales performance, discriminating against poor performance; and it will align Crown branches to the delivery of the financial services and wider business strategies.

10. Recommendations

10.1 The Board is asked to note the paper.

Nicholas Kennett
Director, Financial Services
November 2013

Kevin Gilliland
Director, Network & Sales
November 2013

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POST OFFICE LTD BOARD

Chief Executive's Report

1. Financial Services (FS)

- The new FS sales and supervisory structure is now fully operational. Alongside the 242 Financial Specialists in place, we have now recruited 87 Mortgage Specialists and are on track to reach our target of 100 by the end of December. All of them will complete Mortgage Market Review training in anticipation of the new regime in April 2014, with additional support for those promoted internally to attain a professional financial services qualification. A separate paper on the new incentives scheme to support FS sales is included in the Board pack.
- While over the year to date our mortgage applications performance is below target (£0.8bn against a target of £1.2bn), the underlying trend is steadily improving. In October we achieved £166m of mortgage applications - the best performance in 18 months. Mortgage Specialists contributed £10.7m of applications, which also represented their strongest monthly performance. We anticipate further strong growth in the final quarter of the financial year when the majority of the new sales team will have completed their training and we are through the seasonal decline in December. Our forecast is that for the full year we will deliver a 36% year on year increase in mortgage sales and beat our income target of £3.05m (partly supported by additional back book income), with a strong pipeline of applications going into 2014/15.
- By 19 November the current account proof of concept had generated 1,800 applications which had converted to 936 sales. Last week was our most successful since launch, with 57 sales representing a 90% increase on the average of the preceding 5 weeks. The improved performance was driven by increased focus from the sales team and a local marketing campaign. With this momentum we expect sales to reach 1,000 in December and are discussing with BoI extending the proof of concept into neighbouring areas, increasing the coverage from 29 to 100 branches.
- A key building block of a successful financial services business is the use of data to understand customers' needs and focus product offerings more effectively. To this end the Post Office's entire customer database has recently been assessed and micro-segmented. We are using a specialist targeting tool to create direct marketing activity for mortgages and credit cards, with an initial 240,000 direct mails to be sent by the end of December. Initial anecdotal feedback is very encouraging. We are now building propensity models for each product and to score every customer. This will enable us to understand which products to offer, in which order and at what time of the year, leading to a better customer experience and increased sales.

2. Mails

- The new 'shoebox' small parcel format launched at the end of October is already starting to have a positive impact on sales: 1st and 2nd class labels have increased by around 130,000 items per week on average (relative to target). This is in line with our

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expectations at this stage, and with the full impact of our current advertising campaign still to be factored in this leaves us on track to meet the target of an additional 225,000 parcels per week (a c.6% increase) which we set in our sales recovery plan. The number of Drop & Go customers is also continuing to grow steadily by around 500 per week, despite the 20% discount promotion ending in mid-October. We now have over 16,000 live accounts. The service has generated £1m of income over the year to date (115% of target), and our expectation is that this will grow to over £4m pa in future years.

3. Government services

- We understand that DWP is likely to announce a two year extension of the POca contract in the coming weeks. In parallel they are still considering the longer-term approach we discussed at the last Board meeting which uses the Front Office Counter Services framework, but a decision on this is not expected until January. We are continuing to engage with them both directly and through political channels to support a solution which provides us with as much long-term certainty as possible.

4. HomePhone and Broadband (HPBB) and mobile

- We are now seeing some signs of improvement in the service that our HPBB customers are receiving from the call centre. Last week 5% more calls were answered than the previous week, which together with a 4% drop in the overall number of calls has had a beneficial impact on abandonment rates and average speed to answer. However, there are still some very long waiting times (over an hour in some cases) for the technical support line in particular. 120 additional agents have been deployed since 2 September with another 100 expected over the next 4 weeks. Duncan Tait, CEO Fujitsu, has also committed to deploying a further 200 front and back office agents to ensure that our customers are getting the standard of service we require by the end of November. Customer billing will be back to business as usual levels by 21 November and the network migrations will also be complete by the end of November. The completion of these activities will further alleviate the pressure on the call centre. Weekly CEO meetings are scheduled until satisfactory service levels are achieved.
- As noted in last month's report, we took the decision to disengage with Fujitsu in the provision of a managed service for our mobile phone proposition, due to increasing concerns about their capabilities in this area. Work is now underway to develop an alternative approach, with the lead option being for us to contract directly with EE and the other providers that would have been managed by Fujitsu on our behalf. Our initial view is that this approach would still enable us to launch the service in summer 2014 and would generate profits that are at least in line with and potentially higher than the Fujitsu option. However, detailed work is underway to assess the delivery issues and risks and we will provide a further update in January.

5. Energy proposition

- We are now entering into more detailed negotiations with the three remaining bidders (British Gas, EDF and Scottish Power) for our potential white label energy proposition. In parallel, as discussed at the last Board we are also reconsidering alternative options for entering the energy market which entail a lower degree of brand and regulatory risk, such as offering a smart switching service. We will set out our evaluation of these options in a noting paper for the Board in January. In the meantime we have agreed to work with the Department for Energy and Climate Change to support access to their 'Big Energy Savings Network', which consists of 500 volunteer energy advisors deployed across the country to help households to lower their bills. Our role would primarily be to signpost customers to where they can go for further advice. While this initiative will not in itself deliver a significant profit stream, our costs would be covered and it helps establish us as a trusted name in an otherwise discredited market, thereby laying the foundations for our longer-term commercial plans.

6. Christmas work experience for young people

- Last month's report set out the steps we are taking to ensure a successful Christmas campaign. As part of this, for the second year running we have taken positive action to attract individuals between 16-24 for our paid work experience programme in London Crown offices. With support from A4E (a welfare to work provider) and the Prince's Trust, we have now recruited 41 individuals, including one who is wheelchair bound. All candidates will be working with us to support our customers during the busy Christmas period.

7. Information security

- On 5 November we were informed by HP that an encrypted tape containing POca personal data had gone missing from HP's data centre two weeks earlier. By 8 November it was confirmed that the tape had been found, in a broken tape drive that had been securely removed from the data centre for destruction. We are working closely with HP to understand what caused this breach of process and to identify what additional measures are required to prevent it happening again. While it is concerning that this incident happened at all, the reassuring point is how the business responded quickly and professionally, learning the lessons from our past experience. A sub-committee of the Business Protection Team was convened immediately to co-ordinate our management of the incident, and the team were quickly able to identify the right questions to ask of HP and the appropriate actions to pursue.

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POST OFFICE LIMITED

Performance Report

October 2013

Produced By : Financial Control and Compliance Team

For Queries & Comments Contact : Sarah Hall or Kam Bassra

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Contents

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Headlines

October 2013

This report has been restructured to provide you with the key information in a shorter document with more focus on forward looking projections. The more detailed pages are still available if required for further background and some will be included as appendices on a quarterly basis.

Profit & Loss - YTD

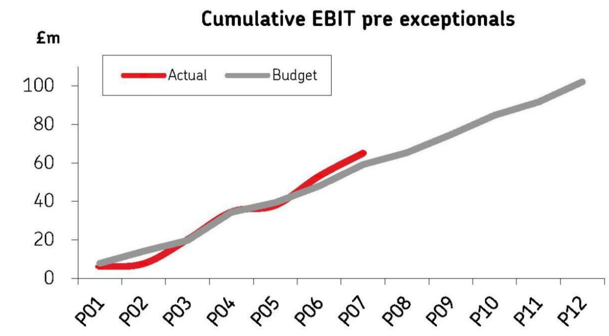
- **Profit at P7 was £65.0m, which was £5.8m favourable to budget of £59.2m, and £7.3m adverse to prior year of £72.3m.** The month is £0.7m favourable, but within this, income was £6.9m adverse, offset by favourable costs which are largely driven by a one off £3.7m VAT impact as a result of the recovery rate change and £1.8m agents pay benefit relating to lower sales. The CFO forecast view is still to achieve the full year profit target despite the increasing income gap.
- **Net income performance of £503.9m remains the key concern with an adverse variance of £24.9m compared to budget** (mainly Mails £16.0m and Lottery £4.3m). The risk on the Sales Recovery plan has increased - a risk of £5-10m was highlighted through the Q2 FYF review and the P7 results have led to a refinement of the CFO forecast to reflect the continued adverse performance in Mails and Lottery.
- Staff costs have returned to budget in P7 mainly because the Q2 sales bonus was below budget reflecting lower sales. The budget for the managers' lump sum pay award is covering a shortfall in Supply Chain efficiency savings but this will unwind if a pay offer is made. The Cost Management Programme is implementing a series of savings activities to drive the cost down - most will impact on 2014-15 with minor savings coming through in 2013-14.
- Agents' costs were £20.7m favourable to budget, mainly due to lower sales income £11.9m, sales mix (parcels) £2.3m and £1.6m due to WHS provision release (relating to the original contract). The favourable agents' costs are projected to be largely maintained but with anticipated mails segregation payments (£1.1m) and delays to locals conversions reducing the full year upside.
- Non people costs were £1.4m favourable to budget. The favourable position is driven by £3.7m VAT recovery relating to H1 for changes in the VAT recovery rate, but masks the underlying adverse variance due to Horizon costs originally budgeted for in the prior year. RM costs are now treated as non staff following the IPO and we believe there are still some costs to come through. The VAT recovery has been taken to the CFO forecast (previously in opportunities).
- Interbusiness expenditure, including Group overheads, was £5.4m lower than budget, driven by lower Official Mail costs and property costs. IB charging ceased from 16th October 2013 following the RM IPO although some catch up costs may still be incurred.
- Project costs were £1.5m favourable YTD with the underspend driven by the movement of separation costs to exceptional items. The current year customer engagement budget, which is yet to be incurred, masks the spend delayed from 2012-13 into this year.

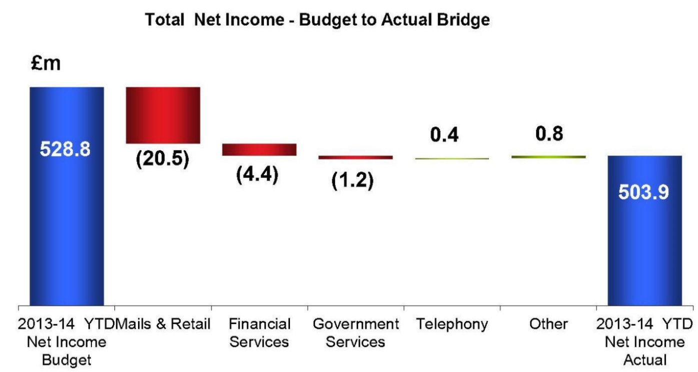
Cashflow

The YTD cashflow was an inflow of £197m which was £94m favourable to the £103m inflow budget (Period 6 was £21m favourable), mostly driven by delays to NTP expenditure.

Crown P&L - YTD

The Crown loss is £0.9m adverse to budget. Income was £2.7m adverse driven primarily by Mails, partially offset by Government Services. Costs are £1.5m favourable and share of JV is £0.4m favourable.





	Year to Date		
Financials	**Act**	**Target**	**Var**
Total Net Income (excl NSP) £m (Bonus)	503.5	528.8	(25.3)
Operating profit £m (Bonus)	65.0	59.2	5.8
Free cashflow £m	196.8	103.0	93.8
Crown Profit (Loss) £m (Bonus)	(18.8)	(17.7)	(1.1)
Non Financials			
Queue time % < 5 minutes - Top 1k branches	84.1%	79.5%	4.6%
NT Conversions - (Mains & Locals) (Bonus) ***	2113	2025	88

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Profit & Loss Statement

October 2013

£m	Current Month Actual	Current Month Budget	Current Month Variance	Prior Year Period Actual	Prior Year Period Variance	Year to Date Actual	Year to Date Budget	Year to Date Variance	Prior Year YTD Actual	Prior Year YTD Variance	Full Year Q2 Forecast	Full Year Budget	Full Year Variance	Prior Year Outturn	Prior Year Variance
TOTAL GROSS INCOME	**88.5**	**95.1**	**(6.6)**	**93.3**	**(4.8)**	**571.2**	**596.4**	**(25.2)**	**594.5**	**(23.3)**	**998.8**	**1,012.2**	**(643.3)**	**1,023.6**	**(24.8)**
Cost of Sales	(10.8)	(10.5)	(0.3)	(11.1)	0.2	(67.3)	(67.6)	0.3	(69.3)	2.0	(111.2)	(112.2)	(0.0)	(121.2)	10.0
TOTAL NET INCOME	**77.7**	**84.6**	**(6.9)**	**82.3**	**(4.6)**	**503.9**	**528.8**	**(24.9)**	**525.2**	**(21.3)**	**887.6**	**900.0**	**(12.5)**	**902.4**	(14.8)
Staff Costs	(22.2)	(23.0)	0.9	(23.0)	0.8	(152.6)	(152.6)	0.0	(149.7)	(2.9)	(259.2)	(256.1)	(3.1)	(257.4)	(1.8)
Agents Costs	(44.3)	(46.1)	1.8	(43.9)	(0.4)	(264.1)	(284.8)	20.7	(279.0)	15.0	(468.9)	(480.0)	11.1	(478.1)	9.2
Non-Staff Costs	(12.5)	(15.1)	2.6	(15.1)	2.6	(95.5)	(96.9)	1.4	(89.9)	(5.6)	(164.7)	(160.0)	(4.7)	(162.3)	(2.4)
Interbusiness Expenditure	(5.3)	(7.8)	2.5	(7.4)	2.1	(44.9)	(49.7)	4.7	(48.1)	3.2	(82.7)	(83.9)	1.2	(83.6)	0.9
Depreciation	(0.0)	(0.1)	0.1	0.3	(0.3)	(0.2)	(0.6)	0.4	(0.2)	(0.0)	(0.8)	(0.9)	0.0	(0.4)	(0.4)
Total Expenditure (pre POOC)	**(84.2)**	**(92.1)**	**7.8**	**(89.1)**	**4.9**	**(557.3)**	**(584.5)**	**27.3**	**(566.9)**	**9.7**	**(976.3)**	**(980.8)**	**4.5**	**(981.8)**	**5.5**
FRES - Share Of Operating Profits	2.6	2.5	0.1	2.6	0.0	25.3	23.9	1.3	24.5	0.8	33.0	31.5	0.0	31.9	1.1
EBIT Pre Overhead Allocations	(3.9)	(4.9)	1.0	(4.2)	0.3	(28.2)	(31.8)	3.7	(17.3)	(10.9)	(55.7)	(49.2)	(6.5)	(47.5)	(8.2)
Group Overhead allocations (IB)	(0.5)	(1.1)	0.6	(1.3)	0.8	(7.4)	(8.0)	0.7	(8.5)	1.2	(13.8)	(13.8)	0.0	(14.9)	1.1
EBIT - BAU	**(4.4)**	**(6.1)**	**1.6**	**(5.5)**	**1.0**	**(35.5)**	**(39.9)**	**4.3**	**(25.8)**	**(9.7)**	**(69.5)**	**(63.0)**	**(6.5)**	**(62.4)**	**(7.1)**
One off Project costs (POOC)	(2.9)	(1.9)	(0.9)	(3.0)	0.1	(18.7)	(20.2)	1.5	(24.7)	6.0	(28.5)	(35.0)	6.5	(53.4)	24.9
EBIT - Post Project Costs	**(7.3)**	**(8.0)**	**0.7**	**(8.5)**	**1.2**	**(54.2)**	**(60.0)**	**5.8**	**(50.5)**	**(3.7)**	**(98.0)**	**(98.0)**	**(0.0)**	**(115.8)**	**17.8**
Network Payment	19.2	19.2	0.0	19.8	(0.6)	119.2	119.2	0.0	122.8	(3.6)	200.0	200.0	0.0	210.0	(10.0)
EBIT pre exceptionals items	**11.9**	**11.2**	**0.7**	**11.3**	**0.6**	**65.0**	**59.2**	**5.8**	**72.3**	**(7.3)**	**102.0**	**102.0**	**(0.0)**	**94.2**	**7.8**
Interest	0.4	(0.5)	0.9	(0.1)	0.6	1.9	(2.5)	4.4	(0.6)	2.6	(2.0)	(5.0)	3.0	(0.8)	(1.2)
Impairment	(7.1)	(16.1)	9.0	(3.2)	(3.9)	(42.2)	(80.0)	37.8	(35.5)	(6.7)	(140.0)	(167.5)	27.5	(65.6)	(74.4)
Exceptionals & Redundancy & Severance Costs	(12.1)	(31.3)	19.2	(3.6)	(8.5)	25.4	(103.9)	129.3	(27.5)	52.8	(37.9)	(184.4)	146.5	(77.0)	39.1
Government Grant Utilisation	18.9	36.5	(17.6)	5.2	13.7	148.1	202.4	(54.3)	40.4	107.7	253.1	316.9	(63.8)	98.2	154.9
Profit/(Loss) On Asset Sale	0.0	0.0	0.0	(0.0)	0.0	2.5	0.0	2.5	(27.9)	30.5	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
Total Profit/(Loss) Before Tax	**12.0**	**(0.2)**	**12.2**	**9.6**	**2.5**	**200.8**	**75.2**	**125.6**	**21.2**	**179.6**	**177.7**	**62.0**	**115.7**	**18.0**	**159.7**

Period vs. Budget

Operating profit (EBIT) of £11.9m was £0.7m favourable to budget.

BAU was £1.6m favourable:

- Lower staff costs of £0.9m favourable in the month. This is mainly due to lower Q2 sales bonuses reflecting lower sales.
- Lower Agents costs of £1.8m mainly due to reduced income,
- Lower non staff costs of £2.6m due to VAT recovery rate changes resulting in a £3.7m benefit, and
- Lower interbusiness costs due to lower Property charges from RM and IB ceasing following the RM IPO.

Offset by:

- Lower income of £6.9m due primarily to the continuation of the trend in Mails and Retail and in P7 an adverse variance for FS.

One-off variance of £0.9m adverse relates to the brand expenditure being incurred later than planned.

Below EBIT

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

YTD vs. Budget

Operating profit (EBIT) of £65.0m was £5.8m favourable to budget.

BAU variance of £4.3m favourable was mainly due to:

- Lower agents costs of £20.7m mainly due to; £11.9m relates to lower sales income, £2.3m sales mix (parcels), £1.6m WHS provision,
- Lower non staff costs of £1.4m due to VAT recovery rate changes resulting in a £3.7m favourable variance offset by Horizon costs originally budgeted for in prior year, but incurred this year,
- Lower IB (including Group overheads) of £5.4m driven by lower Official Mail and Property costs and separation impacts for actuals moving to non staff, and
- Higher FRES JV income of £1.3m.

Offset by

- Lower income of £24.9m, mainly Mails £16.0m and Lottery £4.3m. Mails performance continues to be impacted by lower parcel volumes following the RM price changes in April. New parcel formats have been introduced at the end of October which should reverse this trend. Lottery continues to underperform, though the Camelot price increase was effective from October and the Health Lottery was introduced in September.

Project One-off variance of £1.5m favourable. The underspend is driven by the movement of Separation costs to exceptionals.

Below EBIT

Exceptional costs are favourable mainly due to a £102m 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 £65.0m was £7.3m adverse to prior year.

Like for like BAU adverse variance of £9.7m was mainly due to:

- Lower net income of £21.3m. The variance versus prior year is driven primarily by the stamps buy forward last year 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 more customers have moved away from POL.
- Higher staff cost of £2.9m adverse to prior year due to higher pension costs, pay awards and increased headcount, and
- Higher non staff costs of £5.6m 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 rate this year.

Offset by:

- Agents costs £15.0m favourable variance to POL; £9.3m due to lower sales, predominantly Mails buy forward pre price increase, £2.5m lower fixed pay from unfreezing the Core Tier Payment and roll out of Locals and £3.2m accrual release relating to the DVLA rate changes.
- Lower IB of £4.4m favourable to prior year, due to services switching into POL from RM. and
- Higher JV income of £0.8m.

Non like for like favourable variance of £2.4m was due to:

- Lower project costs of £6.0m, and
- Lower Network payment of £3.6m.

Below EBIT

NT exceptionals including compensation were 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.

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CFO High Level Profit Forecast At Period 7

October 2013

£'m	Income	JV Income	Costs	NSP	EBIT
Budget	**900**	**32**	**(1,030)**	**200**	**102**
Downsides					
Mails income	(31)				(31)
Gov't Services income	(3)				(3)
Telephony income	0				0
FS income	(5)				(5)
Other income/ POOC contingency	(5)		5		0
Staff efficiency			(2)		(2)
Fujitsu costs			(2)		(2)
IT&C efficiency task			(3)		(3)
Interbusiness					
Mails segregation penalty			(1)		(1)
Bonuses			(1)		(1)
Agents pay - sales impact			20		20
NT Locals delays			(2)		(2)
Agents segregation payments			(1)		(1)
POOC overspend			(2)		(2)
Non staff savings task			(1)		(1)
	(44)	0	10	0	(34)
Mitigating actions					
Mails income - dangerous goods	7				7
Mails income - format changes/campaigns	6				6
Lottery price rise	2				2
Gov't - UKBA Cost of Sales correction	1				1
Gov't - volume trends	2				2
FS income - Santander volumes	2				2
FS income - Junction deal	3				3
FRES upside (higher ATV's)		1			1
PhotoMe income	1				1
IT&C savings			3		3
Telephony implementation			2		2
Agents mix			4		4
Agents DVLA timing			3		3
POOC			5		5
Contingency			(3)		(3)
Agents pay - sales recovery			(8)		(8)
Pay award 12/13 not consolidated					0
No pay award for 13/14					0
VAT upside			3		3
Bonus upside (for target failure)					0
	24	1	9	0	34
Latest View at P7	**880**	**33**	**(1,011)**	**200**	**102**
Variance to budget	*(20)*	*1*	*19*	*0*	*0*

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Crown Profit & Loss Statement

October 2013

£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	Q2 Forecast	Budget	Variance	Outturn
Income and Distributions														
Variable income														
- Mails	3.7	4.2	(0.5)	4.0	(0.3)	22.4	24.8	(2.4)	26.1	(3.7)	41.2	43.2	(2.1)	44.8
- Financial Services	2.7	2.7	(0.0)	2.9	(0.3)	17.6	17.5	0.1	18.8	(1.2)	28.9	29.6	(0.7)	30.4
- Government Services	2.0	1.7	0.3	2.3	(0.2)	13.0	12.0	1.0	15.2	(2.2)	20.8	19.9	0.9	26.4
- Telephony	0.1	0.1	(0.1)	0.1	(0.0)	0.5	0.6	(0.2)	0.8	(0.4)	1.0	1.3	(0.3)	1.3
Fixed income	2.3	2.2	0.0	2.6	(0.3)	14.3	14.6	(0.3)	17.0	(2.7)	25.5	24.8	0.7	28.2
Gamma/ Other	1.0	1.2	(0.2)	1.1	(0.1)	5.9	7.2	(1.3)	6.2	(0.4)	11.3	14.8	(3.5)	10.9
Renewals and Retentions	1.4	1.4	0.0	0.8	0.6	11.3	9.8	1.6	4.6	6.8	18.7	16.5	2.2	11.1
Total Income including Gamma/other	**13.2**	**13.6**	**(0.4)**	**13.9**	**(0.7)**	**85.0**	**86.5**	**(1.5)**	**88.7**	**(3.8)**	**147.4**	**150.1**	**(2.7)**	**153.2**
Direct Product Costs	(0.7)	(0.6)	(0.1)	(0.4)	(0.2)	(3.8)	(3.8)	0.0	(4.1)	0.3	(4.8)	(5.0)	0.1	(8.3)
Branch costs														
- Staff	(10.3)	(10.0)	(0.3)	(10.9)	0.6	(64.4)	(64.1)	(0.3)	(69.2)	4.8	(105.8)	(106.0)	0.2	(117.9)
- Property	(3.4)	(3.8)	0.3	(2.4)	(1.0)	(25.5)	(25.8)	0.3	(15.3)	(10.2)	(35.2)	(35.4)	0.1	(36.9)
- Other branch costs	(0.4)	(0.4)	(0.0)	(0.4)	0.1	(2.4)	(2.2)	(0.2)	(3.5)	1.0	(4.3)	(4.7)	0.4	(6.3)
Infrastructure costs	(1.7)	(1.9)	0.1	(2.3)	0.6	(12.1)	(12.4)	0.3	(13.0)	0.9	(22.7)	(22.9)	0.1	(22.5)
Allocated central costs	0.1	(0.3)	0.4	(1.0)	1.0	(2.8)	(2.8)	(0.0)	(5.1)	2.3	(9.0)	(8.4)	(0.6)	(7.7)
Total Expenditure	**(16.4)**	**(16.9)**	**0.5**	**(17.6)**	**1.1**	**(111.1)**	**(111.1)**	**0.1**	**(110.2)**	**(0.9)**	**(181.9)**	**(182.2)**	**0.3**	**(199.7)**
JV Share of Profits	0.8	0.7	0.0	0.7	0.1	7.3	6.9	0.4	6.4	1.0	9.6	9.1	0.5	9.6
Statutory PBIT	**(2.4)**	**(2.6)**	**0.1**	**(3.0)**	**0.5**	**(18.8)**	**(17.7)**	**(1.1)**	**(15.1)**	**(3.7)**	**(24.9)**	**(23.0)**	**(2.0)**	**(37.0)**

Summary

- Income £1.5m less than plan.
    - The impact of size based pricing has adversely impacted Mails with the following products being most affected: Priority Mails £0.3m, 1st class and 2nd class £1.0m, International Standard £0.6m. Retail sales are also underperforming against target by £0.1m. The expectation is that the gap will reduce with the roll out of remedial actions, including the delivery of the 'shoebox'.
    - Main drivers of favourable Government income are UK Visa & Immigration (UKVI) (due to backlog in applications) £0.8m, ID Services £0.3m and Passports £0.2m, offset by Motorist services (DVLA Licences and AEI) which are £0.4m behind target.
    - Financial Services now performing just above target following reduction in savings budget.
- Costs are £0.1m less than plan:
    - Staff overspend due to delays in CTP partially offset by savings from industrial action.
    - Other Mainly driven by favourable variance in POOC as a result of separation costs moving to exceptional spend.
- FYF is £2.0m adverse to budget reflecting the lower Mails income.

Cost Management update

October 2013

Progress since P6 update

Value and confidence

- Work in the month has identified new opportunities, firmed-up values, developed implementation plans and resulted in confidence.
- The net impact on Value and Confidence is an upward movement in FY13/14 (£0.3m) and in FY14/15 (£3.6m). Confidence has increased for both years.

Delivery and governance

- Additional opportunities identified include::
  i. Weighing scales - there is an opportunity to reduce costs (up to £1m pa) by adopting a "replace" rather than "repair" approach. Further savings are anticipated (c£1.5m pa) by moving to industry standard dimensions for scales, rather than our current custom-made requirement.
  ii. Negotiations with Royal Mail to deliver lower Official Mail rates suggest a further £0.5m of savings are available.
- Announcements have been made in the HR service centre regarding staff reductions and delivery is on track.
- FY13/14 benefits are built into the latest Q2 Forecast and are in delivery. FY14/15 initiatives have been included in the Directorate level budget planning targets.

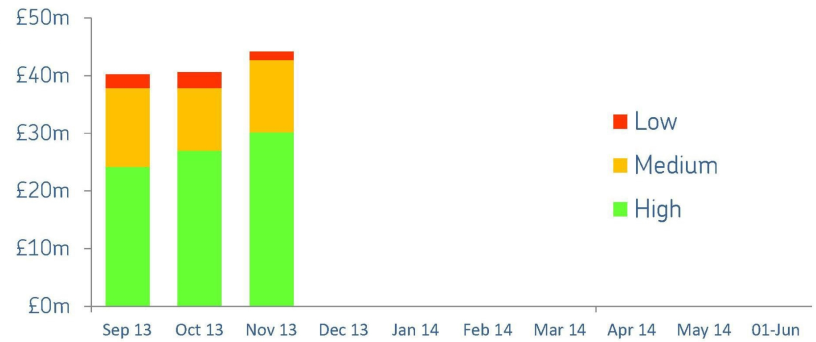
Enablers

A recommended approach to staff cost reductions has been agreed by ExCo, enabling work to proceed on delivering staff cost reductions of £9m in FY14/15.

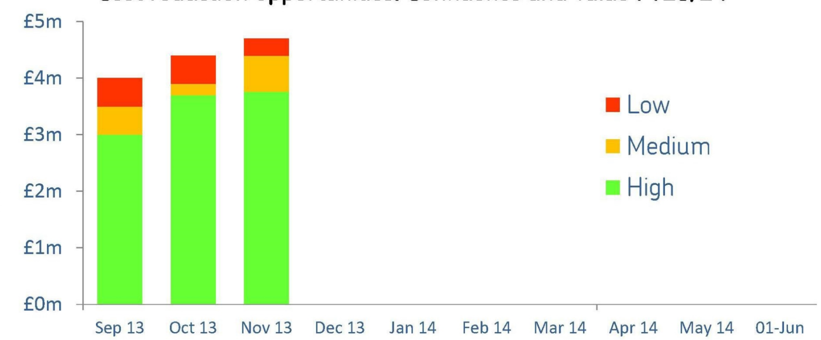
Strategic initiatives for FY15/16 and beyond

Work has continued within the Directorate teams and Finance to develop the strategic cost management initiatives that will deliver the goals for FY15/16 and beyond. Development of the new Operating Model continues and ExCo has agreed a plan of action to progress this. It is anticipated that the two work streams will come together as the requirements of the Operating Model become more defined.

Cost reduction opportunities: Confidence and value FY14/15



Cost reduction opportunities: Confidence and value FY13/14



Overview of high impact initiatives (excluding CTP)	Directorate	FTE impact	FY14/15 (£m) L	M	H	Total	Significant changes since P6 update
- Procurement savings in Network and Supply Chain (£2.6m Facilities Management; £2.0m Fleet Maintenance; £1.0m Official Mails)	Network & Supply Chain			3.5	2.5	**6.0**	Increase in £0.5m from Official Mail rate reductions. Increased confidence (from M to H) on Fleet Maintenance procurement
- Reduce cash delivery frequency and move to single person operation	Supply Chain	50		1.8		**1.8**	
- Marketing spend efficiencies	Commercial			1.6		**1.6**	
- Reduce cost and volume of Official Mail	Finance			1.5		**1.5**	Increased confidenced (L to M) from volume reduction
- Restructure product and marketing to reduce duplication and increase customer focus	Commercial	8		0.7		**0.7**	
- Manchester Cash Centre Closure	Supply Chain	20			0.7	**0.7**	
- Restructure Audit and Training team in the Agency network	Network	20		0.7		**0.7**	
- Deliver remainder of Finance Roadmap Programme savings	Finance	15			0.7	**0.7**	Re-phased programme agreed. Savings still targeted
- Restructure call centres transferring from Royal Mail and improve efficiency	Network	20			0.6	**0.6**	

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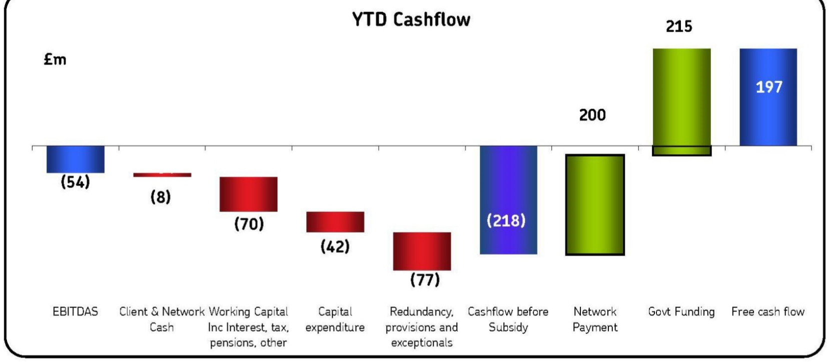
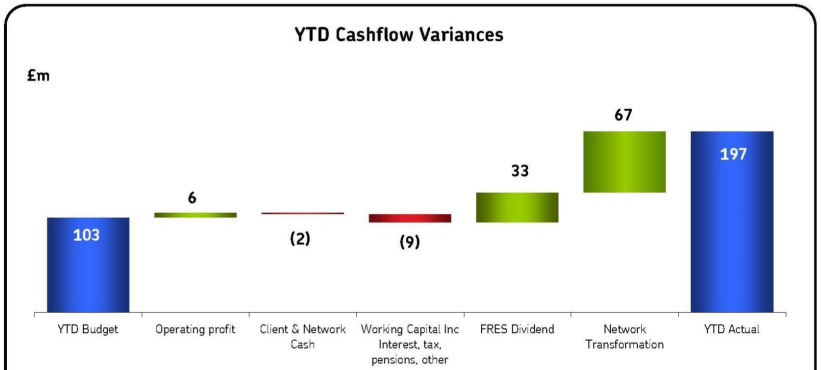
Cashflow Analysis

October 2013





Cashflow

The YTD cashflow was an inflow of £197m which was £94m favourable to the £103m budgeted. The main variances are:

- Capital expenditure and exceptionals were a combined £67m favourable due to lower than planned NTP and CTP expenditure.
- Working capital is £9m adverse to budget.
- Client and Network Cash balances are £2m favourable to budget, and profit is £6m favourable.
- There is a favourable variance of £33m attributable to timing of the receipt of the FRES dividend, budgeted for in P8.

	Full Year		
£m	Q2 Forecast	Budget	Variance
Working Capital	**102.0**	**102.0**	**0.0**
Depreciation	0.9	0.9	0.0
Working Capital	(41.2)	(41.2)	0.0
Client Balances	(11.4)	(44.4)	33.0
Network Cash	114.6	114.6	0.0
Dividends	(4.5)	(4.5)	0.0
Capital Expenditure	(140.0)	(167.5)	27.5
Government funding	215.0	215.0	0.0
NSP in advance	0.0	0.0	0.0
Exceptional Items	(144.8)	(198.8)	54.0
Pensions	2.3	2.3	0.0
Proceeds from asset sales	2.5	0.0	2.5
	0.0	0.0	0.0
Free cashflow before interest, tax	**95.4**	**(21.6)**	**117.0**
Interest	(2.0)	(5.0)	3.0
Tax	10.3	10.3	0.0
Free Cashflow	**103.7**	**(16.3)**	**120.0**

Network Cash

£m	Prior Year	Mar-13	P7		
	P7	Opening	Actual	Budget	var
Retail, Cash Centres	514	650	696	602	(94)
Bureau	67	59	70	66	(4)
Cheques, debit cards	119	161	117	125	8
Network Cash	**700**	**870**	**883**	**793**	**(90)**

	Opening	P7
Headroom (£m)	**838**	**911**

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Business Scorecard

October 2013

Key Performance Indicators	Current Month Act	Current Month Target	Current Month Var	Year to Date Act	Year to Date Target	Year to Date Var	Prior Year	Full Year Q2 F'cast	Full Year Target	Full Year Var	2012-13 Outturn
Growth											
Total Net Income (excl NSP) £m (Bonus)	77.7	84.6	(6.9)	503.5	528.8	(25.3)	525.2	887.6	900.0	(12.5)	902.4
Operating profit £m (Bonus)	11.9	11.2	0.7	65.0	59.2	5.8	72.3	102.0	102.0	0.0	94.2
Earnings before ITDA and Subsidy £m*	(7.3)	(7.9)	0.6	(54.0)	(59.4)	5.5	(50.3)	(97.2)	(97.2)	0.0	(115.4)
Free cashflow £m	4.0	(69.0)	73.0	196.8	103.0	93.8	352.3	103.7	(16.3)	120.0	132.2
Customer											
Customer Satisfaction**	86%	88%	(2)%	88%	88%	0%	86%	88%	88%	0%	87%
Easy to do business with (Bonus)**	37%	44%	(7)%	44%	44%	0%	N/A	44%	44%	0%	N/A
Net Promoter score**	(5)	5	(10)	(2)	5	(7)	N/A	0	5	(5)	N/A
Queue time % < 5 minutes - Top 1k branches	87.9%	84.7%	3.2%	84.1%	79.5%	4.6%	79.8%	81.0%	81.0%	0.0%	80.7%
Horizon availability	99.9%	99.7%	0.2%	99.9%	99.7%	0.2%	99.8%	99.7%	99.7%	0.0%	99.8%
Branch - Compliance (new basket)	99.6%	98.0%	1.6%	98.2%	98.0%	0.2%	98.2%	97.9%	98.0%	(0.1)%	97.8%
People											
Engagement Index % (Once a year) (Bonus)	55%	56%	(1)%	55%	56%	(1)%	55%	56%	56%	0%	55%
(No.) % of BME appointments over total recruits at senior leadership and senior manager	20%	4%	16%	12%	4%	8%	N/A	4%	4%	0%	N/A
(No.) % of Female appointments over total recruits at senior leadership and senior manager	60%	40%	20%	54%	40%	14%	N/A	40%	40%	0%	N/A
Modernisation											
Crown Profit (Loss) £m (Bonus)	(2.4)	(2.6)	0.1	(18.8)	(17.7)	(1.1)	(15.1)	(24.9)	(23.0)	(2.0)	(37.0)
NT Conversions - contract signatures (Mains & Locals) (Bonus) ***	243	172	71	2,113	2,025	88	290	3,000	3,000	0	1,450
NT Branches Open (Mains & Locals)***	179	158	21	1,274	1,452	(178)	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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October 2013 Reporting prior months data (i.e. one month in arrears)

Sample size is still small but provides a starting point to build on. All branches in the financial section have been operating for greater than 12 months to allow for steady state, and branches that had previously received overscale / one off payments have been removed to provide a clean baseline.

	Key Performance Indicators	Actual	Target	Var	Actual Sample Size
MAINS					
	Converted > 12 months	8			
POL	Finance Approved Investment per Mains £000	(39)	(39)	0	8
POL	**Total Income: Post vs Pre Conversion**				
POL	Branches live 12-24 months	(5)%	(3)%	(2)%	2
POL	Branches live 24-36 months	0%	(0)%	1%	6
POL	**Focus Income: Post vs Pre Conversion**				
POL	Branches live 12-24 months	(16)%	8%	(23)%	2
POL	Branches live 24-36 months	2%	9%	(7)%	6
Agent	Agents Remuneration: Post vs Pre Conversion	(20)%	0%	(20)%	2
Agent	Operator Feedback on Retail Sales Performance	12%	9%	3%	109
Customer	Average Increase in Opening Hours	35%	20%	15%	580
Customer	Customer Satisfaction	99%	90%	9%	1,678
LOCALS					
	Converted > 12 Months	69			
POL	Finance Approved Investment per Local £000	(11)	(11)	0	0
POL	**Total Income: Post vs Pre Conversion**			0	
POL	Branches live 12-24 months	(12)%	(3)%	(9)%	
POL	Branches live 24-36 months	(2)%	(1)%	(1)%	7
POL	Annualised Agents Fixed Pay savings per conversion £000	10	10	0	0
Agent	Customer Sessions 12- 24 months	2%	(4)%	6%	61
Agent	Customer Sessions 24- 36 months	17%	(5)%	22%	6
Agent	Operator Feedback on Retail Sales Performance	12%	9%	3%	91
Customer	Average Increase in Opening Hours	115%	80%	35%	465
Customer	Customer Satisfaction	93%	90%	3%	1,463

Commentary

Mains

Financial performance

Total Income -Income has remained flat in branches over 24 months. This month has seen a decline for the branches live 12-24 mths, however as this is a much smaller sample size it is as a result of only 1 branch.

Focus income - The control group is performing better against products such as insurance and international priority when compared to branches opened for longer than 12 months. The demographics of the branch will have an impact on the result.

Agents pay - Due to the small sample size of 2 branches in this group remuneration appears to be in decline this month in line with total income but will be impacted by mix of products.

Non financial performance

Customer satisfaction is consistently above 90% for both Mains and Locals.

Locals

Financial performance

Income - The Local model assumption was that income would reduce by c5% due to the removal of certain products. Early Locals have shown a shift towards simpler, more convenience-orientated products like cash withdrawals and bill payments. Growth in these products - with associated footfall - has been offset in income terms by poorer performance on more complicated products.

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 should allow the retailer to utilise their staff in a different way or reduce their staff costs.

Operator feedback, Customer Satisfaction and extended opening hours all remain positive.

Financial targets reflect the equivalent performance of the control group (2519 Mains and 4918 Locals)

1028 live branches within the 1870 contracts signed - September 2013
0-12 Months (Oct 12 - Sept 13) - 840
12-24 Months (Oct 11- Sept 12) - 151
> 24 Months (prior to Oct 2011) - 37
Note: The scorecard includes 64 branches of the 151 (12-24 months) and 13 branches of the 37 (24-36 months).
Branches with a break in customer session or branches that had previously received overscale payments have been excluded.

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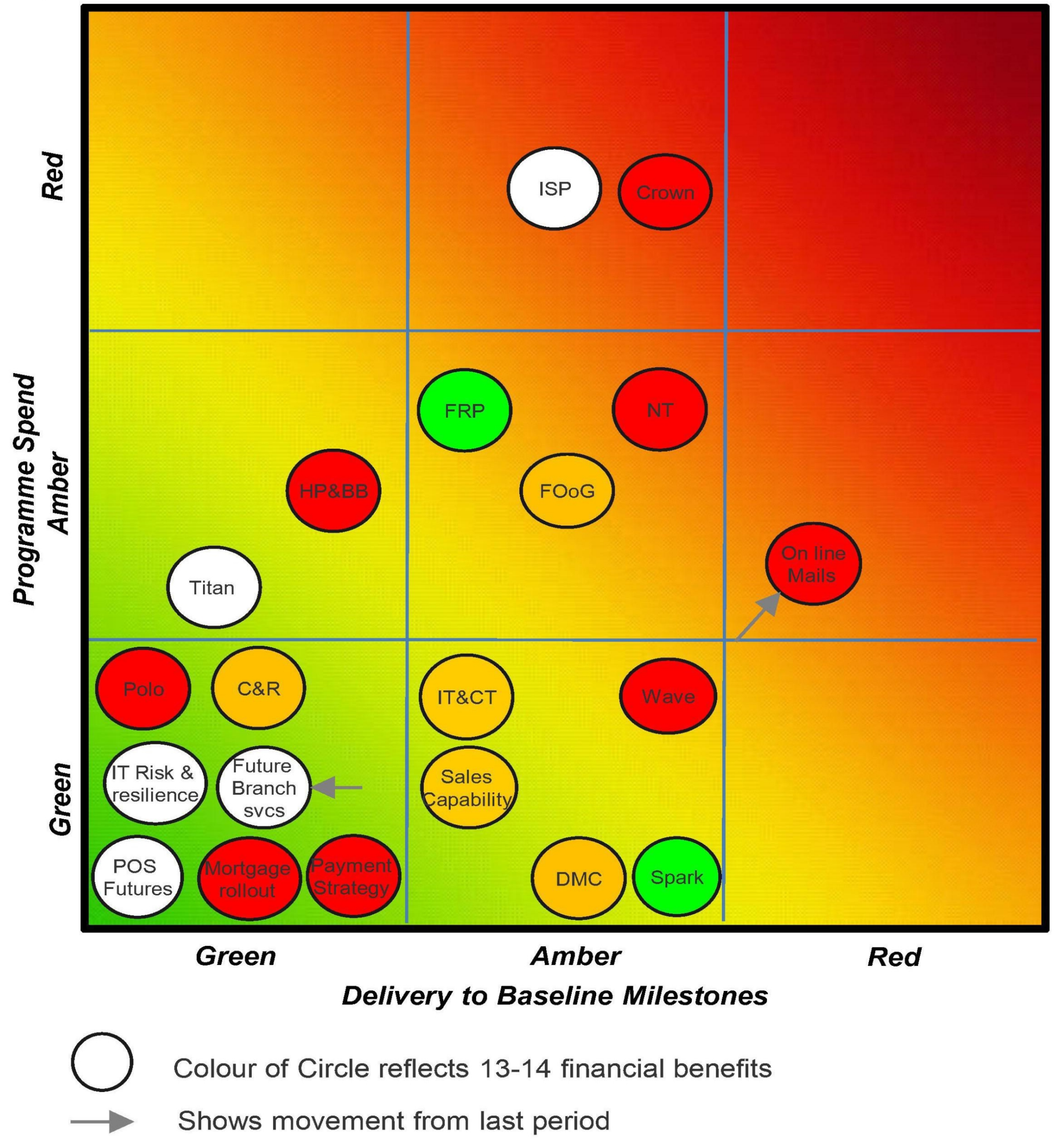
Transformation Delivery Heat-map

October 2013

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.



Transformation Board (TB)- Key Points of Focus
Wave - Fujitsu have been informed that POL will not be progressing the mobile opportunity with them. Positive meetings have been undertaken with EE, 20:20, Lifecycle, AVNet about delivering mobile via an alternative model with direct relationships with the suppliers. The team have received indicative proposals from potential suppliers and these, along with the implications of the change in operating model, have been assessed.
Separation – The Separation team continue to develop conclusions and recommendations following a joint Post Office and Royal Mail review of the existing delivery approaches for the Separation projects. Meeting also held with Catherine Doran to agree output. A review of the existing delivery structure and governance with recommendations on revisions will be made late November.
Small Business & Online Mails - Online Mails procurement now integrated into Common Digital Platform activity and is planned to form part of the first iteration of CDP capability. Three bidders have responded and reviews are currently taking place. There are concerns from the Mails team that the bidders may not be able to deliver Online Mails via CDP by March, with two out of the three bidders stating that to meet the March delivery a 'tactical solution' needs to be in place. Further review of options with suppliers underway to consider timelines versus costs and benefits for Online Mails.
Post Office Operating Model – ExCo meeting held to discuss market testing of approach to operating model development and proposed next steps, with agreement to develop a short form business case to establish a working team to progress and engage the market for a suitable partner to support.
Payments Strategy – PSP services in partnership with Worldpay launched, with external PR and internal communications. Special promotion for Sub-postmasters planned to switch their own card services for the retail section of their business.
FOoG: Maypole (POCA) – further to DWP discussions POL Board paper presented and approved to move forward to fully costed proposal by the end of the Financial Year. Resource costs are being revisited as the scale of the work has indicated a Programmatic approach is required to manage the complexity. However set up cost will be recovered from DWP. **FOoG: IDA –** GDS have informed all IDPs that the Government Departments lined up for the Beta pilot (HMRC & DVLA) have slipped their go-live dates to January.
Crown Transformation – 14 branches have been transformed under the programme with works underway in all branches pre-Christmas . However the Self Service kiosks will not be piloted before Christmas - Royal Mail concurrence is outstanding and is required in advance of rollout. The forecast for the 2013-14 financial year is also over budget, driven by increases to the automation spend relating to the connection to Channel Integration - however this is going to be partially offset by other costs moving into 2014-15 (e.g. some forecast property, VR and Compromise Agreement costs).

POLB 13(13th)
POLB 13/97 - 13/115

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a Board meeting held on 31 October 2013
at Camden High Street Branch, 112-114 Camden High Street, London NW1 0RR

Present:

Alice Perkins	Chairman
Neil McCausland	Non-Executive Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Susannah Storey	Non-Executive Director (for items 13/97-13/99)
Paula Vennells	Chief Executive Officer
Chris Day	Chief Financial Officer

In Attendance:

Alwen Lyons	Company Secretary
Sue Barton	Strategy Director (items 13/98 & 13/110-13/111)
Nick Beal	Head of Network Development (item 13/98 only)
Timothy Warley	Camden High Street Branch Manager (items 13/100-13/101)
Andrew Thompson	Crown Regional General Manager (items 13/100-13/101)
Sharon Bull	Head of Network Finance (item 13/100-13/101)
Tom Moran	Crown Transformation Programme Manager (item 13/102 only)
Kevin Seller	Head of Government Innovations Programme (item 13/103 only)

Apologies for Absence:

Alasdair Marnoch	Non-Executive Director

POLB 13/97 **INTRODUCTION**

(a) A quorum being present, the Chairman opened the meeting, welcomed everyone to the Camden High Street Crown Office and gave Alasdair Marnoch's apologies for absence.

POLB 13/98 **GOVERNMENT FUNDING AND STRATEGIC PLAN**

(a) The Board welcomed Sue Barton, Strategy Director, and Nick Beal, Head of Network Development, to the meeting.

(b) The Board noted the progress report on the Government Funding and Strategic Plan and discussed the Memorandum of Understanding (MoU) with the NFSP.

ACTION: Sue Barton

(c) Sue Barton updated the Board on the negotiations with the NFSP to date. The Board sought assurance that the review mechanism in the MoU had the strength required to break the agreement if the NFSP reneged on the changes required of them. The Board asked the Business to ensure that the final legal framework agreement included specific termination rights.

ACTION: General Counsel

(d) The Board asked for written legal advice on two issues:

(i) to give them comfort that the MoU or proposed framework agreement did not breach any general law or regulation applicable to the Post Office; and

(ii) to explain how the Post Office could exercise termination rights under the MoU and final legal framework agreement to protect itself from NFSP default.

ACTION: Alice Perkins

(e) The Board discussed the merits of the Chairman writing to the Secretary of State to explain that Board's position and it was agreed that a possible draft would be shared with the Board.

(f) The Board endorsed the position the team had negotiated, and approved the next steps outlined in the paper subject to the written legal advice received from the General Counsel.

(g) Sue Barton and Nick Beal left the meeting.

POLB 13/99 **ROLE OF THE BOARD AND RELATIONSHIP WITH SHEX POST FUNDING**

(a) The Board discussed the role of the Board and its relationship with the Shareholder and potential improved ways of working. The CEO explained the Business's interaction with ShEx officials and assured the Board that this did not undermine their role.

ACTION: Alice Perkins

(b) The Board noted that Will Gibson would soon be leaving ShEx and the Chairman agreed to discuss his replacement and the ShEx representative on the Board with Mark Russell, Chief Executive, ShEx.

(c) Susannah Storey left the meeting.

POLB 13/100 **ANALYSIS OF THE ECONOMICS OF THE CROWN NETWORK MODEL**

(a) The Board welcomed Sharon Bull, Head of Network Finance, Timothy Warley, Branch Manager of Camden High Street, and Andrew Thompson, Crown Regional General Manager, to the meeting.

ACTION: Sharon Bull

(b) Sharon Bull explained the economics of the Crown network model and the effects of the Crown Transformation Programme. She reported that even when the Crown Network achieved breakeven, 50% of the Crown branches would still be loss making. The Board asked for an analysis of this 50% to show the current state key cost drivers and the projected costs post network transformation.

(c) The Board agreed that automation was critical to the transformation and asked the Business to consider introducing more automation on a faster timescale if possible, including at non-Post Office sites. The Board asked for a note on the testing and deployment of the new machines including where they will be available to visit.

ACTION: Harry Clarke

(d) Sharon Bull explained that the transformation plan did not include automation and an open plan environment at every branch. The CEO stressed that she would like all Crown branches to be transformed to the new modern image but recognised that the short term objective was to achieve breakeven. The Board asked the Business to consider more radical solutions post 2015 to drive automation and further reduce the property requirement.

ACTION: Harry Clarke

(e) The Board asked for an update on the development of the Retail Offer available in Crown Branches, including the possibility of introducing a third party offer or renting out the space.

ACTION: Martin George

POLB 13/101 **PRESENTATION BY THE BRANCH MANAGER CAMDEN HIGH STREET**

(a) Timothy Warley gave a presentation on the opportunities and challenges of running Camden High Street Branch. He explained his involvement in the changes in the Branch and the challenge of leading the team. He recognised the changes in the Business since many of his team had joined and the need to support their development, but found the performance management tools available cumbersome. His vision was for the branch to be more customer-focussed with additional automation, lower staffing levels and a drive to get rid of paper.

(b) The Board asked what could be done to ensure the right people leave through redundancy and performance management. The CEO explained that the current redundancy exercise was voluntary but that she had started a piece of visioning work with the CWU to look at a 2020 Crown Branch and challenge all the staffing agreements and procedures.

(c) The Board thanked Sharon Bull, Timothy Warley and Andrew Thompson for their presentation and they left the meeting.

POLB 13/102 **INDUSTRIAL RELATIONS UPDATE**

(a) Tom Moran joined the meeting and gave an oral update on the current position regarding Industrial Relations.

(b) He explained that the CWU had cancelled their Royal Mail strike scheduled for Monday 4th November after an improved offer from RMG. The Post Office strike was still scheduled to go ahead although talks still continued. The Business could not afford to move towards a similar offer to that made by Royal Mail.

(c) Tom Moran explained the two areas of visioning underway with the

CWU: to find a redundancy solution which exits the right people from the Business and introduces more effective performance management; and to trial a new branch model outside the existing staffing arrangements. The Business and CWU would work together to run a number of offices which had been earmarked as franchise branches to see if they can be made to breakeven without a change of ownership.

(d) Tom Moran reported that 18 of the targeted 35 franchise branches had now been announced and were in consultation with more announcements expected over the coming weeks.

(e) Tom Moran left the meeting.

POLB 13/103 **PROJECT MAYPOLE**

(a) Kevin Seller, Head of Government Innovations Programme, joined the meeting.

(b) The Board:

(i) Noted the progress made to date in developing options for the future of POca;

(ii) Agreed the proposed approach and noted the key risks and business interdependencies associated with the Business' preferred option;

(iii) Noted the income variation against Strategy Plan projections; and

(iv) Agreed that the proposed approach be delegated to the Executive Committee with updates being provided to the Board at regular intervals.

ACTION: Martin George

(c) The Board asked for a future agenda item on the effect of Universal Credit on the Business.

POLB 13/104 **CHIEF EXECUTIVE'S REPORT**

(a) The Board noted the Chief Executive's report and discussed the following specific items:

(b) Mails
The new pricing for the 'shoebox' size packet was now in place and was already having a positive effect on mails volumes. Plans for Christmas were underway, focussing on queue-hosting to help the customer with the new formats and the Dangerous Goods requirements.

(c) ATM
The increased rates for a property with an ATM are likely to come into force in November with a possible risk of £14m and an ongoing cost of £6m per annum. The Business is supporting a likely legal

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challenge from retailers.

(d) DWP
The CEO was invited to a Digital Identity conference at 10 Downing Street, chaired by Francis Maude, Minister for the Cabinet Office and Paymaster General, and was pleased with the more positive attitude express towards the Business.

(e) Energy

ACTION: Martin George

The CEO had been contacted by Edward Davey, Minister for the Department of Energy & Climate Change, to discuss the use of branches to give energy information to vulnerable customers.
An Energy paper would be presented at the November Board.

(f) Project Sparrow
Sir Anthony Hooper has now been appointed as Chairman of the Horizon Working Group. The Business was working to prepare the team of people to work on the mediation and case information necessary as there were likely to be up to 150 cases put to the Working Party for a decision on whether they progress into the mediation process.

(g) Financial Services

ACTION: Nick Kennett

The new FS incentive scheme will be presented at the November Board. The Board asked for confirmation that the BoI will share the incentive scheme with the FCA.
The Board were anxious about the drop off rate for current account applications and asked what could be done to improve the situation. The CEO explained that a new ID process was now in place which should see an improvement in accounts opened, although despite the introduction of 7 day switching, there is still considerable inertia in the current account market.

(h) Sue Barton
The CEO told the Board that Sue Barton had resigned and would be leaving the Business. The Board asked the CEO to try to ensure that Sue Barton remained until the NFSP legal deal was completed.

POLB 13/105 **INTERIM REPORT AND CONDENSED FINANCIAL STATEMENTS FOR 2013 – 2014**

(a) The Board received the draft Interim Report and Condensed Financial Statements for 2013-2014.

(b) The Board discussed the inclusion of the segmental income report and pillar commentary in the front half of the interim report. It was agreed that the CFO and CEO would decide whether or not to include this analysis after taking input from RMG and ShEx.

(c) The Board:

(i) Approved the approach to Going Concern, and agreed the Going Concern status for the Company at the half year;

ACTION: CFO/CEO

(ii) Approved the Interim report, confirmed that the interim financial statements have been prepared in accordance with IAS34 'Interim Financial Reporting' and delegated responsibility to CEO and CFO to sign the Statement of Directors' Responsibilities on behalf of the Board;

ACTION: Chairman/CEO/CFO/ Chairman of the ARC

(iii) Agreed to delegate authority for reviewing final amendments and completing the Interim Report on behalf of the Company to a Sub-Committee, the quorum for which to be comprised of any three of the Chairman, CEO, CFO and the Chairman of the ARC; and

ACTION: CEO/CFO

(iv) Approved the Letter of Representation to the Auditor, and authorised CEO or CFO to issue it on behalf of the Board.

POLB 13/106 **FINANCIAL PERFORMANCE UPDATE**

(a) The Board received the financial performance update for September 2013, the 2013-2014 Q2 full year forecast and the 2014-2015 Budget look-ahead.

(b) The CFO explained that the expected recovery in the second half of the year meant that the EBIT target looked secure, but his concern was that the revenue and exit rate trajectory for revenue growth would not be at the level required to hit next year's targets. The Board asked for a detailed report as part of the financial report tracking the second half of the year with more detail on costs. **ACTION: CFO**

(c) The Board recognised the need to grow the revenue and agreed that any EBIT upsides should be reinvested on activity which would drive current year revenue back to the £900m target. The CFO reported that he had tasked the commercial/sales teams with closing the gap.

(d) The CFO was asked to include two measures for Network Conversions on the scorecard showing 'network conversions' and 'contracts signed'. **ACTION: CFO**

(e) The Board noted the Network Transformation scorecard and the income decline for locals and asked for a note to the Board in November to explain trend. **ACTION: Kevin Gilliland**

(f) The CFO explained the £40m budget gap for 2014/15 and the need to implement the cost reduction activities necessary. A more detailed budget debate would come to the January Board. **ACTION: CFO**

POLB 13/107 **MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING**

(a) The minutes of the Board meeting held on 25 September 2013 were approved for signature by the Chairman.

POLB 13/108 **STATUS REPORT**

(a) The Status Report, showing matters outstanding from previous

Board meetings, was noted.

POLB 13/109 **FINANCIAL SERVICES BOARD SUB-COMMITTEE TERMS OF REFERENCE**

(a) The Board approved the draft Terms of Reference for the Financial Services Board Sub-Committee, but re-emphasised that key FS decisions and actions would still come to the Board.

(b) The Chairman explained that, after consideration by the Nominations Committee, it had been agreed that Virginia Holmes would Chair the sub-committee and that Tim Franklin would be a member.

(c) It was proposed that the Bank of Ireland Finance Director be invited to the sub-committee to present the Capital and Liquidity report.

POLB 13/110 **MUTUALISATION UPDATE**

(a) Sue Barton joined the meeting.

(b) The Board received an update on the progress of the mutualisation timeline.

ACTION: Sue Barton

(c) The Post Office Public Purpose statement would revert to the Board in November.

(d) The Board noted the mutualisation update and actions, and agreed that an update detailing the progress and activity as set out in the paper be sent to BIS for information on a monthly basis.

POLB 13/111 **POST OFFICE ADVISORY COUNCIL**

(a) The Board received a paper on the establishment of a Post Office Advisory Council.

(b) The Board reviewed the Terms of Reference for the Post Office Advisory Council (POAC). It was agreed that:

(i) the Council would be more effective if restricted to around 20 members;

(ii) the Business should consider whether payment of a small fee for attending a meeting as well as expenses would be beneficial;

(iii) the Business would review the membership rule of asking a member to stand down if they missed two meetings; and

(iv) an inaugural dinner and then an annual dinner was preferable to dinner before each meeting.

(c) The Chairman explained that after consideration by the Nominations Committee, it had been agreed that Tim Franklin

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would Chair the Post Office Advisory Council and that Neil McCausland would be a member.

ACTION: Sue Barton/ Tim Franklin

(d) The Board asked Sue Barton and Tim Franklin to agree any changes and finalise the Terms of Reference.

(e) The Board:

(i) Approved the Terms of Reference and arrangements for the establishment of a Post Office Advisory Council, subject to any changes agreed by Sue Barton and Tim Franklin;

(ii) Agreed a budget allocation of £40K per annum to establish and run the Council; and

(iii) Agreed that the POAC Chairman work with the Secretariat to establish to Council, in line with the proposals outlined in the paper, with the aim of holding a first Council meeting in early 2014.

(f) Sue Barton left the meeting.

POLB 13/112 **ANY OTHER BUSINESS**

(a) Authentication of the Post Office Limited Company Seal
The Board approved that the affixing of the company seal may be authenticated by any one of the following: a current Director of the Company; the Company Secretary; the Assistant Company Secretary; the General Counsel; and Piero D'Agostino, Principal Lawyer.

POLB 13/113 **ITEMS FOR NOTING**

(a) The Board noted the Significant Litigation report.

(b) The Board noted the Report on Sealings and resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 1075 to 1085 inclusive in the seal register was hereby confirmed.

POLB 13/114 **NEXT MEETINGS**

(a) It was noted that the next Board meeting would be held on 27 November 2013, and that the next Board awayday would be held on 10-11 June 2014.

POLB 13/115 **CLOSE**

There being no further business, the meeting was then closed.

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REMCOM
13/32-13/39

POST OFFICE LTD

REMUNERATION COMMITTEE

Minutes of a meeting of the Remuneration Committee of the Board held at 148 Old Street, London EC1V 9HQ on 4 July 2013

Present:	Neil McCausland (Committee Chairman) Virginia Holmes Alice Perkins	
In Attendance:	Susan Crichton (SC) Fay Healey (FH) Alwen Lyons	HR and Corporate Services Director Chief HR Officer Company Secretary

REMCOM 13/32 **OPENING OF MEETING AND CONSTITUTION OF COMMITTEE**

(a) A quorum of two directors being present, the Chairman of the Committee opened the meeting and welcomed those attending.

REMCOM 13/33 **APPOINTMENT OF CHIEF COMMERCIAL OFFICER**

(a) The Committee received a paper from FH on the proposed appointment of Martin George (MG) as the Chief Commercial Officer.

ACTION: Paula Vennells

(b) Alice Perkins had met the candidate and was impressed by his relevant experience, energy and good ideas. She had spoken to Bob Ailing who had been very complimentary describing him as an 'excellent Marketing Directory and inspirational leader'. The Committee asked for confirmation as to why MG had resigned from BUPA, and asked the CEO to speak to the CEO of BUPA for a reference.

(c) The Committee discussed the appointment as a likely successor for the CEO. Alice Perkins was unsure if there was enough evidence that he could become the CEO of such a complex organisation and the Committee did recognise that this could leave a succession issue for the Business

(d) MG holds several NED appointments and the Committee agreed that his contract needed to be clear about the time he would have available for non-Post Office commitments.

ACTION: Fay Healey

(e) It was agreed FH would come back to the Committee with clarity around which NED position MG would retain, as well as his reason for resigning from BUPA. Support for the appointment of the Chief Commercial Officer would then by sought by correspondence.

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REMCOM 13/34		**MINUTES OF PREVIOUS MEETING AND MATTERS ARISING**
	(a)	The minutes of the meeting held on 1 May 2013 were approved for signature by the Chairman of the Committee.
REMCOM 13/35		**UPDATE ON SHORT TERM INCENTIVE PLAN (STIP) TARGETS**
ACTION: Fay Healy	(a)	The Committee noted the scorecard targets and the fact that they would be incorporated into the final submission to the Special Shareholder in respect of the remuneration framework for 2013/2014. It would be made clear that the NT targets for 2013/14 were still not resolved.
REMCOM 13/36		**UPDATE ON CEO AND CFO OBJECTIVES**
ACTION: Fay Healey	(a)	The Committee noted the personal objectives for the CEO and CFO for the financial year 2013/2014, and the fact that they would be incorporated into the final submission to the Special Shareholder in respect of the remuneration framework for 2013/2014.
REMCOM 13/37		**LONG TERM INCENTIVE PLAN (LTIP) AWARD DATE APRIL 2013 PAYMENT FINANCIAL YEAR ENDING 2015/2016**
	(a)	The Committee considered the performance condition target for the LTiP award date April 2013, payment date March 2016. These performance conditions would be tested during the financial year 2015/2016.
	(b)	The Chairman explained that the pay strategy for the incentive plan was to continue to move the target cylinder 'to the left' reducing the payment below plan and increasing the payment for stretch performance. The Committee supported this approach.
	(c)	It was further noted that both the Board and ShEx required a target for NT conversions as well that already agreed for NT contracts signed, although this would not be an additional bonus measure or condition, but sit as a target outside the incentive plans.
ACTION: Fay Healey	(d)	The proposed targets for EBITDAS for the 2013 LTIP award were approved. The Committee noted that the performance conditions and targets for the 2013/2016 LTiP would be incorporated into the final submission to the Special Shareholder in respect of the Remuneration Framework for the CEO and CFO.
REMCOM 13/38		**ANY OTHER BUSINESS AND DATE OF NEXT MEETING**
	(a)	The next meeting of the Committee was scheduled for 10 September 2013.
REMCOM 13/39		**CLOSE**
		There being no further business, the meeting was closed.

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POLARC13 (5th)
13/27-13/35

POST OFFICE LIMITED
(Company no. 2154540)
(the **Company**)

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE held on Thursday 12 September 2013 at 148 Old Street, London, EC1V 9HQ

Present:

Alasdair Marnoch	Chairman of Committee
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director

In attendance:

Alice Perkins	Company Chairman
Paula Vennells	CEO
Chris Day	CFO
Alwen Lyons	Company Secretary
Hugh Flemington	Head of Legal
Malcolm Zack	Head of Internal Audit
David Mason	Head of Risk Governance
Julie George	Head of Information Security (item 13/31 only)
Sarah Long	Financial Accounting Governance Manager (item 13/32 only)

POLARC 13/27 **INTRODUCTION**

A quorum being present, the Chairman of the Committee opened the meeting and welcomed all those present.

POLARC 13/28 **MINUTES OF THE LAST MEETINGS AND MATTERS ARISING**

(a) The Committee approved the minutes of the meetings held on 20 March, 21 May and 5 June 2013 for signature by the Chairman of the Committee. He thanked the CFO and those involved in producing the Annual Report and Accounts, and congratulated them on the document.

ACTION: CFO (b) The Committee noted the actions list dated 5 September 2013, and asked that action A2 concerning Business regulatory risk be clarified to include the regulatory regime for financial services.

(c) The Committee received and noted an update from Susan Crichton, General Counsel, on the key issues covered by the Risk & Compliance and Regulatory Risk Committees.

POLARC 13/29 **RISK MANAGEMENT**

(a) The Committee received a paper and presentation on the Risk Management Strategy 2013-2014 from the CFO and David Mason, Head of Risk Governance, highlighting the current status of the Enterprise Risk Management (ERM) framework in the Company. The Committee sought assurance that the work would capture cross functional risks and the CFO explained that cross business risks were captured by a PMO as well as at the Executive Committee level.

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ACTION: CFO/DM	(b)	The Committee recognised the work that had been done to date and asked the Business to have the risk identification work completed by the next ARC meeting in November. The Committee recommended that the focus be on identifying the few (possibly 10-12) higher level risks which were critical for the Business.
ACTION: ARC	(c)	The Committee noted the paper and that more detailed work would be reviewed by the ARC in November before a discussion at a subsequent Board.
POLARC 13/30		**INTERNAL AUDIT**
	(a)	The Committee received updates on the Company's Internal Audit from Malcolm Zack, Head of Internal Audit. This included the outcome of the final audit activity conducted by Royal Mail Group Internal Audit on behalf of the Company, the Company's internal audit activity and the planned, requested and proposed audit and advisory work for the third quarter of the year.
ACTION: AVDB	(b)	The Committee discussed the current Branch Audit function which currently carries out branch audit and training work. Malcolm Zack explained that the audit work focussed on cash and stock reconciliation and he believed that there was an opportunity to make the team more professional and efficient. The CEO explained the history of the existing structure and agreed that changes needed to align with the business support process review being carried out by Angela Van-Den-Bogerd, Network Change Operations Manager. The Committee questioned the reporting line and asked for this to be considered as part of the review.
	(c)	The CEO suggested that Angela Van-Den-Bogerd should attend the November ARC to give an update on her work and its impact on business risk.
ACTION: CFO/MZ	(d)	The CFO thanked the Committee for their input and agreed to conclude the branch audit work and report back changes at the November ARC.
ACTION: MZ	(e)	The Committee received and noted the status of agreed internal audit actions and asked that this information be incorporated into the Board performance pack.
ACTION: MZ	(f)	The Committee questioned the SPMO audit and wondered if the report should have had a red status as the risk highlighted was fundamental to the SPMO delivering their role. Malcolm Zack defended the findings but agreed to ensure reports were rigorous and challenging.
ACTION: MZ	(g)	Malcolm Zack was asked to confirm via a note to the Committee when the two overdue actions highlighted in the audit tracker would be complete.
ACTION: MZ	(h)	Malcolm Zack also presented a technical update for the Committee. The update covered Financial Reporting Council updates to the direct use of internal audit resources and increasing transparency of external audit work and the new codes of guidance from the Chartered Institute of Internal Auditors for internal auditing standards in the financial and public sectors. Malcolm Zack was asked to circulate the document to the

Committee.

(i) The Committee noted these updates and endorsed Internal Audit's suggested approach to these changes. The CFO was asked to organise a short "teach in" for the ARC on all current recent accounting changes and the implications for the Business, in time for the Company's year-end (financial quarter 4). He was also asked to produce a summary note for the Board.

ACTION: CFO

POLARC 13/31 **INFORMATION SECURITY UPDATE**

(a) The Committee welcomed Julie George, Head of Information Security, to the meeting.

(b) Julie George presented an update on developments, progress and future plans for Information Security. She informed the Committee that she had received confirmation that the Business had achieved ISO27001 Certification for Front Office of Government Services, and was on schedule for renewal of its PCI certification at the end of September.

(c) Julie George explained that the Business had developed a standard on Information Security and Data Protection, which would need to be met in any new supplier contract. The Committee asked how these standards were being enforced and audited in existing contracts and asked the Business to progress the issue with existing suppliers.

(d) The CEO asked whether the Brands Database would comply with the new standards, as this was by far the largest database used by the Business and in her mind the greatest risk. Julie George reported that the supplier knew that they were failing to meet the required standards and the Business would need to move to a different supplier if they did not improve. The Chairman asked for a follow up note to the Committee assessing the Brands Database risk and explaining how the Business was planning to mitigate it, including what could be achieved by the end of the calendar year.

ACTION: JG

(e) The Committee noted the good progress made in Information Security to date and the key areas of focus for the next three months. They agreed that an update should be provided to the ARC by mid-December, including the plan and timescales for the contract changes.

ACTION: JG

Julie George left the meeting.

POLARC 13/32 **THE INTERIM REPORT**

(a) The Committee welcomed Sarah Long, Financial Accounting and Governance Manager, to the meeting.

(b) Sarah Long invited the Committee to review the template for the Company's Interim Report for the half year ended 29 September 2013 (the Report) and to consider the key messages, highlighted in Section 3.3 of the Interim Report Committee Paper, which the Report should contain.

(c) The Committee discussed the options for the interim report and agreed that the CFO would include a recommendation in his Financial

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presentation at the September Board which would enable input from the Board and final view by the end of September. The Committee asked the CFO to taking into account the views expressed and work with Mark Davies, Communications Director, to feed in the expected communications environment at time of publication.

ACTION: CFO/MD

(d) Sarah Long left the meeting.

POLARC 13/34 **DATES OF NEXT MEETINGS**

(a) Date of next meeting: Wednesday 6 November 2013 14.00 -16.30.

(b) The Committee discussed the proposed meeting dates for 2014 and the Company Secretary proposed moving the ARC to the eve of the main Board meeting. The Committee agreed in principle and asked the Company Secretary to check availability.

ACTION: COSEC

POLARC 13/35 **CLOSE**

There being no further business, the meeting was declared closed.

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PC 13/30-13/39

POST OFFICE LTD

PENSIONS SUB-COMMITTEE

Minutes of a meeting of the Pensions Sub-Committee of the Board held at 148 Old Street, London EC1V 9HQ on Tuesday 10 September 2013

Present:	Virginia Holmes (VH)	Chair
	Chris Day (CD)	CFO
In Attendance:	Susan Crichton (SC)	General Counsel
	Ken Potter (KP)	Pensions Adviser
	Natasha Wilson (NW)	Head of Reward and Pensions
	Ian McKnight (IM)	RMPTL (for item 13/37)
	Tim Giles (TG)	AON Hewitt (from item 13/37)
	Zoe Taylor (ZT)	AON Hewitt (from item 13/37)
	Gill Catcheside (GC)	Secretariat

Apologies for Absence: Susannah Storey

PC 13/30 OPENING OF MEETING

A quorum being present, VH opened the meeting.

PC 13/31 MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

The minutes of the meetings held on 1 May, 5 June and 1 August 2013 were approved for signature by VH.

The actions list as at September 2013 was noted.

The following matters arising from the minutes were discussed:

a) PC 13/12 – It was noted that a longer time frame for Investment Managers' Performance had been included in the Investment reports.
b) PC13/23(a) – VH noted that a transition plan had not been received from the Trustee, and it was agreed that the matter be discussed with IM later in the meeting.

PC 13/32 PROJECT ROBIN

KP reported that the consultation for Project Robin had opened on 21 June 2013, and closed after 60 days on 25 August 2013. It was noted that in general, the response from the workforce had been low key with less than a dozen relevant phone calls, and feedback in writing being mainly technical queries which had been responded to individually. Several meetings had been held with the trade unions, chiefly with the CMA (Communications Manager's Association). The CWU (Communication Workers Association) had published and printed postcards for members to send in to its employing company with a "Hands off our Pensions" message. Post Office had received a 20% response from its members, with Royal Mail having a slightly lower response rate proportionately.

KP advised that comments from the consultation were being considered, together with a late amendment which had been proposed by Royal Mail Group following consultation with the RMPP membership and the Unions.

Royal Mail was hoping to send out a decision note to members in the week commencing 16 September. It was noted that it was important that the Schedule of Contributions (SOC) and Statement of Funding Principles (SFP) should be signed by 30 September 2013 for submission to The Pensions Regulator.

ACTION: KP/SC

It was noted that if Project Robin went ahead the Scheme rules would require amendment to take account of the change in definition of pensionable pay together with consequential amendments. It was agreed that the proposed SFP, and the amended rules together with an executive summary, be circulated to the Committee for its agreement.

CD reported that the RMPP Trustee Board would be meeting on 26 September where it was hoped that the Rule change effecting Robin, and the SOC and SFP, would be approved. It was noted that over the summer, a series of engagement meetings had been held with the Trustee Executive, who now appeared to have accepted that there was no other option available apart from Robin or closure of the Scheme. The Trustee Executive would therefore be recommending approval of the Rule change for Robin and would seek a final proposal from Royal Mail and Post Office by mid-September ideally to include tacit or implicit agreement from the Unions. CD advised that this was unlikely to be achieved.

The Committee considered the potential Robin amendment which related to the treatment of pensionable salary increases and “promotions” or movements within the pay bands. It was noted that the Unions had not asked for concessions from the Post Office although the CMA had commented that Robin disadvantaged their members disproportionately. It was noted that the proposal would have the effect of reducing the time for which the surplus would last by approximately two years, at a cost of around £15m on a worst case basis.

CD advised that the potential Robin amendment had been debated by the Executive Committee (ExCo) earlier that day, and it had been agreed that the concessions could be made but that there was concern that it would be viewed as a “give” when it had not been requested by the Unions and might not help with the wider IR issues being debated. SC advised that there was no “Guarantee” on the table from Post Office although the intention remained to try and keep the Scheme open whilst commercially viable.

VH commented that she did not think that the Pensions Committee had the delegated authority to make a decision on the proposed late amendment, and that she would be uncomfortable linking strategies with RMG when the impact of the decision was unknown. It was agreed that it should be an ExCo decision, and that the Pensions Committee would support ExCo if it deemed it appropriate that the late amendment be included in the negotiations with the Unions. The financial implications of the possible amendments (only) were considered acceptable to the Committee however.

PC 13/33 **PENSION IMPLICATION OF SALE OF RMG**

The paper on the pension implications arising from the sale of RMG was considered by the Committee.

KP advised that the scenario had changed since the last meeting, in that the sale would be in the form of an IPO and therefore the impact on the

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Post Office participation in RMPP was likely to be much more certain, at least for the foreseeable future, compared to a sale to an individual investor.

It was noted that RMPP (Royal Mail Pension Plan) was sectionalised and that there were protections for Post Office as an Employer in RMPP. However, there were some issues with the Post Office's Participating Employer status in the Defined Contribution scheme which meant that it was relatively tied to RMG strategy, and could incur expensive alteration fees with Zurich Life on, for example, contribution rates.

KP reported that Procurement had agreed that approaches to potential providers regarding an initial assessment of DC options should be undertaken on an informal basis with a signed Non-Disclosure Agreement in place to maintain confidentiality within the market.

VH advised that the main players in the auto-enrolment DC market on the basis of price were L&G and Standard Life. It was noted that careful attention should be paid to new business within their businesses as this could constrain initial service levels.

VH declared an interest in Standard Life, being a director of Standard Life Investments.

The Committee:
(i) noted the update following on from more clarity concerning the RMG sale transaction since the last meeting;
(ii) agreed that no action should be taken now to initiate full separation of the plans and for so long as the working relationship with RMG remained the same;
ACTION: NW/KP
(iii) agreed that KP would discuss with RMG the possibility of an extension to the notice period to leave RMPP from 3 months to (at least) 1 year;
ACTION: NW/KP
(iv) agreed that a cost benefit analysis for RMPP should be prepared during the course of the year showing the costs of separation compared to the benefits of doing so (which could be prepared internally); and
ACTION: NW/KP
(v) agreed that an initial assessment should be carried out in connection with Defined Contribution options for pension provision within Post Office.

PC13/34 **PROFESSIONAL FEES FOR HALF YEAR REPORTING**

The Committee noted the professional fees incurred to date for the Scheme, and discussed the proposed fees for Towers Watson in connection with the half year accounting and reporting.

It was agreed that:
(i) a fixed fee of £13,000 for be approved for work in respect of the half year accounting and reporting; and
(ii) SH to investigate flexible costing with Towers Watson for future work. **ACTION: SH**

PC13/35 **MEETING DATES**

The Committee discussed meeting dates for 2014. It was agreed that the meetings should tie in with the availability of the quarterly investment reporting, with maybe a fifth meeting scheduled for discussion of more general matters. GC/KP undertook to ascertain when quarterly reporting was available from IM, and propose meeting dates for 2014. **ACTION: GC/KP**

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It was noted that the meeting scheduled for 4 December might be moved to a date when the half year investment report was available.

PC13/36 **HALF YEAR REPORTING**

The Committee noted that the half year end was on 29 September and a high level revaluation under IAS19 would be carried out for inclusion in the Interim Report. CD reported that the key assumptions of discount rate, RPI and CPI would be revisited, but that other assumptions would be left at the year-end assumption. It was noted that early discussions with Royal Mail indicated that no changes to approach were planned. A view would need to be taken on whether Project Robin was included.

ACTION: GC

A telephone meeting on 4 or 7 October for 30 minutes was requested to confirm the assumptions, and GC undertook make the necessary arrangements.

PC13/37 **INVESTMENTS**

Ian McKnight of RMPP and Tim Giles and Zoe Taylor of AON Hewitt joined the meeting.

IM presented the RMPP Investment Strategy Update. The report showed the agreed current investment strategy as set out in the Statement of Investment Principles (SIP). It was noted that the report showed a contingent allocation as there was a caveat in the SIP that the strategy was subject to further review if Robin did not happen. IM advised that the figure for Liability-hedging assets, derivatives and collateral should read 52%.

As at 30 June 2013, assets totalled £225.8 million and the investment allocation at that date remained overweight in credit and cash. IM advised that the credit had not been physically rebalanced at 31 August 2013, but would be a trade with Royal Mail at the end of September resulting in a zero overweight in credit.

ACTION: IM

VH asked if there was a transition plan as referred to in the previous minutes to ensure that the Post Office strategy was fully recognised. IM undertook to circulate the investment allocation as at today's date, together with a copy of the transition plan.

The Investment Performance, which was gross of fees, was noted. The Post Office section of the Scheme had performed well against benchmark since the implementation of the Pensions Solution. IM stated that all the underlying managers had out-performed their benchmarks.

ACTION: IM

It was noted that there had been one pricing error at the end of June which had only been advised on 9 September. The Committee felt the delay was unacceptable, and IM undertook to forward details of the error. The Committee was concerned to see that the report included reference to a six year liability hedging strategy, when Post Office had agreed a three year strategy to 31 March 2015 which had been fully implemented. IM advised that the Trustee wanted the Plan to survive for as long as practical, and had set an objective of six years to hedge strategically, and the POL Implementation Working Group would be meeting on 16 September to discuss the possibility of extending the period. TG advised the Committee that there was an obligation to consult with the Post Office

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regarding any changes to investment strategy, and IM confirmed that nothing would happen without full consultation with the Employer.

A report on the Growth Asset Risk Attribution for the Post Office section was tabled and noted by Committee members. It was noted that the report was based on the premise that Robin would go ahead.

It was noted that the Trustee had agreed to use an L&G property fund for some of the assets.

The Investment Projects overview for the Trustee Executive relating to investment strategy for 2013/14 was noted.

VH requested much more visibility on how well individual managers are doing against benchmark.

Action:

(i) IM to send the ISC dates to KP and GC; **ACTION: IM**

(ii) IM to send through the Investment Performance report for the period to 30 June 2013 following the ISC meeting on 13 September; **ACTION: IM**

(iii) IM to send through details of the pricing error which occurred at the end of June; **ACTION: IM**

(iv) IM to provide much more visibility on how well individual managers are doing against benchmark net of all fees. **ACTION: IM**

PC 13/38 REVIEW OF INVESTMENT POSITION

TG and ZT gave a verbal update to the Committee on the Investment Position. It was noted that the focus around asset allocation was consistent with the original Post Office request in terms of strategic asset allocation and also that the liability hedging was where the Committee had asked to be but that reporting was well below standard.

It was agreed that Aon Hewitt should closely monitor the final split of assets which was to be agreed by end September. ZT would liaise with IM to obtain the JP Morgan report on the final split **ACTION: ZT/IM**

AON Hewitt undertook to draft a letter to the Trustee setting out Post Office's expectations of reporting for the half year position and in the future. AON Hewitt would then be able to give an idea of set-up and on-going costs for their qualitative reviews. The letter would be sent to Chris Hogg by CD and an assurance would be requested on how the Trustee intended to manage the working relationship with Post Office relative to Royal Mail Group.

TG suggested that as the current liability hedging position was as requested and market conditions were now right, it might be a good time to extend the hedging period. CD advised that until Robin had been concluded nothing could be finalised.

PC 13/39 CLOSE

There being no further business, the meeting was declared closed.

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PC 13/40-13/43

POST OFFICE LTD

PENSIONS SUB-COMMITTEE

Minutes of a meeting of the Pensions Sub-Committee of the Board held by telephone conference on Monday 7 October 2013

Present:	Virginia Holmes (VH)	Chair
	Chris Day (CD)	CFO
In Attendance:	Sarah Hall (SH)	Head of Financial Control and Compliance
	Ken Potter (KP)	Pensions Adviser
	Natasha Wilson (NW)	Head of Reward and Pensions
	Billy Weir (BW)	Towers Watson
	Martin Reilly (MR)	Towers Watson
	Gill Catcheside (GC)	Secretariat

Apologies for Absence: Susannah Storey

PC 13/40 OPENING OF MEETING

A quorum being present, VH opened the meeting.

PC 13/41 PROJECT ROBIN

CD gave a verbal update on Project Robin. It was noted that ten days ago, the RMPP Trustee Board had agreed the changes proposed by Royal Mail Group but had asked Post Office to evidence its meaningful consultation with employees and unions on the potential Robin amendment before agreeing to the changes. CD advised that such evidence had been submitted the previous week, and confirmation had been received today that the RMPP Trustee board had now accepted Post Office's proposed rule changes. It was agreed that this was good news as it meant the Scheme could be kept open whilst commercially viable.

CD confirmed that there had been no change to the potential Robin amendment since the last Committee meeting, and that the financial implications were the same.

PC 13/42 APPROVAL OF ASSUMPTIONS FOR HALF YEAR REPORT AND ACCOUNTS DISCLOSURES UNDER IAS19

The Committee considered the proposed IAS19 and FRS17 assumptions for the financial half year ending 29 September 2013.

The assumption for Salary Increases was discussed by the Committee. Towers Watson advised that there were two distinctive parts to the Salary Increases assumption (a) 2012/13 and 2013/14 Pre Robin; and (b) April 2014 onwards which would include the impact of Robin.

For (a) 2012/13 and 2013/14 Pre Robin, Towers Watson explained that the year end assumptions had been:

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2012-13 Supply Chain and Admin 3.5% as per agreed pay deal, and the remainder (Crown and Management) nil.

For 2013-14 Supply Chain and Admin 3.25% as per agreed pay deal, and the remainder (Crown and Management) RPI +1%.

The Committee discussed whether an alternative assumption should be used of the Valuation basis, which used RPI -1% for Crown and Management for 2013-14. Towers Watson advised that the difference in surplus between these two bases would be in the region of £10 million.

For (b) April 2014 onwards, it was noted that the assumption for pay increases awarded in respect of Final Salary benefit would be the lesser of RPI or 5% in line with Robin. SH advised that the impact would be a one-off gain of approx. £100 million which would be put through the Profit and Loss Account as an exceptional item, once all the Robin documentation had been signed. However, SH undertook to check with Ernst & Young if the gain should be recognised at the half year as a post Balance Sheet event. NW asked how promotion rises were covered and Towers Watson advised that there was an allowance included in addition to the pay assumptions discussed.

ACTION: SH

The Committee agreed the following assumptions

- Discount rate of 4.6% per annum.
- Inflation RPI 3.3% per annum.
- Inflation CPI 2.3% per annum.
- Pension increases for benefits subject to RPI increases subject to an annual cap of 5% RPI -1%. It was noted that this was consistent with Project Robin.
- Other pension increases in line with RPI or CPI as appropriate.
- Salary Increases:
  - 2012/13 to remain the same as for year end;
  - 2013/14 Supply Chain and Admin to remain the same as for year end, and RPI -1% for Crown and Management.
  - April 2014 onwards the lesser of RPI or 5% in line with Robin for Final Salary benefit.
- Commutation and Other Demographic assumptions – the same as for year end.

PC 13/43 **CLOSE**

There being no further business, the meeting was declared closed.

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POST OFFICE LIMITED BOARD
Status Report

No.	REFERENCE	ACTION	BY WHOM	STATUS
		1. Network Transformation and Crown Offices		
1a	September 2013 POLB 13/81(h)	Critique the delivery plans for the NT programme on behalf of the Board, to ensure they were robust and had taken into account any unintended consequences for the wider strategy. The detailed plan should be brought back to the Board in November.	**Sue Barton/ Kevin Gilliland**	Initial challenge session complete. On the agenda for the November Board.
1b	October 2013 POLB 13/100(b)	Provide an analysis of the 50% of Crown branches that would still be loss making to show the current state key cost drivers and the projected costs post network transformation	**Sharon Bull**	Note attached at Appendix A.
1c	October 2013 POLB 13/100(c)	Provide a note on the testing and deployment of the new automated machines, including where they will be able to visit.	**Harry Clarke**	User acceptance testing of the new NCR kiosk and associated functionality has completed. This enabled the kiosk to be deployed in the Branch Model Office at 148 Old Street on 1st November and it is able to be visited at most times during the working day. The kiosk has progressed since then with live proving, and as at 19/11/13, no significant issues have yet been encountered. The programme is now working with Royal Mail to gain their concurrences to the technical quality of stamps printed by the kiosk, and the processes for mails segregation. These concurrences are all expected to be in place by

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				the end of January 2014. The rollout plan shows c240 kiosks will have been installed and switched on in branches by the end of Q4 2014.
1d	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 Crowns network team, will review the post-2015 Crowns strategy once detailed planning for FY14/15 is finalised, and report back in Q4. An update will be provided to the February Board.
1e	October 2013 POLB 13/100(e)	Provide an update on the development of the Retail Offer available in Crown branches, including the possibility of introducing a third party offer or renting out the space.	**Martin George**	Update to the January Board
		2. Finance		
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 – a workshop will be scheduled for Q4 (date tbc).
2b	October 2013 POLB 13/105(c)(ii)	Sign the Statement of Directors' Responsibilities on behalf of the Board for the Interim Report and Condensed Financial Statements 2013 – 2014.	**CFO/CEO**	When final interim report is available. To be discharged by the specified Sub-Committee.
2c	October 2013 POLB 13/105(c)(iii)	Review final amendments and complete the Interim Report and Condensed Financial Statements 2013 – 2014 on behalf of the Company in a Sub-Committee with a quorum of any three of the Chairman, the Chairman of the ARC, the CEO and the CFO.	**Alice Perkins / CEO /CFO /Alasdair Marnoch**	
2d	October 2013 POLB 13/105(c)(iv)	Issue the Letter of Representation to the Auditor for the Interim Report and Condensed Financial Statements 2013 – 2014 on behalf of the Board.	**CEO/CFO**	

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2e	October 2013 POLB 13/106(b)	Provide a detailed report as part of the financial report tracking the second half of the year with more detail on costs.	**CFO**	The report is being developed and will be included in the January Board pack.
2f	October 2013 POLB 13/106(d)	Include 2 measures for Network Conversions on the scorecard showing 'network conversions' and 'contracts signed'.	**CFO**	From November
2g	October 2013 POLB 13/106(e)	Provide a note to the Board on the income decline, highlighted in the locals report, explaining the trend.	**Kevin Gilliland**	Note circulated by email 20 November 2013
2h	October 2013 POLB 13/106(f)	A detailed budget debate to come to the January Board.	**CFO**	An interim view will be provided at the January Board meeting; this will give as full a picture as possible at this stage in the budget process. A Board Budget briefing session will be booked ahead of the March Board meeting.
		3. Strategy		
3a	November 2012 Strategy Evening	"Point person" to be identified for SME's, across pillars	**Martin George**	An update will be made at the November Board meeting.
3b	July 2013 POLB 13/52(b)	Noting paper to the Board setting out the Mercer Recommendation for the new Financial Services Strategy update paper.	**Nick Kennett**	Noting paper to November Board.
3c	September 2013 POLB 13/87(e) & October 2013 POLB 13/104(e)	Provide a paper for November Board covering the opportunities in the Energy market.	**Martin George**	January Board
3d	October 2013 POLB 13/103(c)	Provide an update on the effect of Universal Credit on the Business.	**Martin George**	An update will be provided at the November Board meeting.
3e	October 2013	Confirm that BoI will share the new FS incentive scheme with the FCA.	**Nick Kennett**	Included in FS noting paper

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	POLB 13/104(g)			
3f	October 2013 POLB 13/110(c)	Post Office Public Purpose statement to revert to the Board in November.	**Sue Barton**	November Board
3g	October 2013 POLB 13/111(d)	Agree any changes to the Post Office Advisory Council and finalise the Terms of Reference.	**Sue Barton/Tim Franklin**	Meeting to discuss POAC 27 November, after the Board
		4. Personal Injury Referral Fees		
4a		Post Office Insurance will work with BGL to evaluate the impact on the business model (including income and incentives) and management proposes to update the board later in 2013 of any changes.	**Nick Kennett**	The position has been evaluated and aligned with the regulatory changes. Paper to return to the November Board.
		5. NFSP & Trade Association		
5a	May 2013 POLB 13/33	Present the detail of the subpostmaster engagement satisfaction measure when available.	**Kevin Gilliland**	January
5b	September 2013 POLB 13/81(f)	Continue negotiating the MoU between Post Office and the NFSP, taking into account the Board discussions and their desire to reduce the longevity of the deal or tie it to the timescales for funding with exit clauses if the services provided by the NFSP did not reach desired standards.	**Sue Barton**	MoU on both NT Programme and specifically and also on future FED agreed in principle with NFSP in line with Board Mandate. Will not be signed before the NFSP conference on 26 November.
5c	October 2013 POLB 13/98(c)	Ensure that the final legal framework agreement with the NFSP includes specific termination rights.	**Sue Barton**	End January 2014
5d	October 2013 POLB 13/98(d)	Provide the Board with written legal advice on two issues: (i) to give them comfort that the MoU or proposed framework agreement did not breach any general law or regulation applicable to the Post Office; and (ii) to explain how the Post Office could exercise termination rights under the MoU and final legal framework agreement to protect itself from NFSP default.	**Chris Aujard**	Closed off.
5e	September 2013 POLB 13/81(c) & October 2013 POLB 13/98(e)	Draft and share with the Board a letter writing to the Secretary of State to explain the Board's position in relation to the NFSP MoU, Government funding, the strategic plan and the cliff in response to the Board's concern that in 2015 any new Government will reconsider the cliff's introduction.	**Sue Barton/ Alice Perkins**	Letter drafted to be sent after the NFSP conference on 26 November.

		6. Information Security		
6a	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**	Lessons learned review to take place October/November. Interim report to ARC by correspondence.
6b	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 on-going, with an update due end December after claims for mediation received.
		7. Board Effectiveness		
7a	July 2013 POLB 13/48(i)	Advise Board members of dates of SLT Quarterly Business Updates	**Alwen Lyons**	Dates will be circulated once finalised.
7b	July 2013 POLB 13/48(j)	Addition of an index for the Reading Room	**Alwen Lyons**	Available in the Reading Room.
7c	July 2013 POLB 13/48(h)	Provide a paper highlighting the processes in place for monitoring the use of advisors, procuring advisors and negotiating their terms.	**Chris Day**	Paper to be brought to November Board.
		8. Other		
8a	September 2013 POLB 13/82(c)	Produce a paper for Nomco on the approach to performance management below SLT level and the statistics on exiting poor performers as part of the half year performance review. Noting paper for the Board after the Nomco meeting.	**Fay Healey**	Paper submitted and reviewed at Nomco on 6th November, noting paper to go through to November Board.
8b	September 2013 POLB 13/87(d)	The Board FS Sub-Committee should review the two deep dives organised with the Bank of Ireland, the first of which would focus on savings.	**Company Secretary**	Dates of the FS Sub-Committee being organised with the members. The first meeting will be held in January.
8c	September 2013 POLB 13/95(a)	Consider the wider effect of the RMG transaction on the Post Office and our lines of defence for any dispute, and specifically any direct obligations contained in the MSA/MDA.	**CFO/Hugh Flemington**	On-going, no material new obligations identified to date.

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APPENDIX A

Following the completion of CTP at March 2015, it is envisaged that c50% of the remaining 292 Crown branches will still be loss making. The main reasons for this are:-

- High staffing levels in relation to income – a result of smaller branches that require minimum staffing levels
- High property costs in relation to income – a result of high lease costs, either driven by size or location of branch
- Combination of the high staffing levels and high property costs

The average cost to income ratios for the branches that are anticipated to be profitable are:-

- 0.78 for staff cost to income (£0.78 of staff costs for every £1.00 of transactional income)
- 0.23 for property cost to income (£0.23 of property costs for every £1.00 of transactional income)

Note: The net position of non-transactional income and other business wide costs is positive, hence profitable branches.

Using these ratios as a benchmark, the branches that are expected to be loss making fall into the following categories:-

- 20% due to high staffing levels
- 6% due to high property costs
- 74% due to a combination of both

A branch by branch review of each loss making branch is planned for Q4, to establish the best route to profitability post March 2015 (or earlier). The review will follow the current VR exercise that will provide a more accurate view of the staffing levels in each branch.

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POST OFFICE LTD BOARD

Managing External Resources – November 2013

1. **The purpose of this paper is to:**

   Describe the governance processes adopted by the Post Office to realise value from external resource.

2. **Determining the need for external resources**

   Our strategic plan will rely on a mixture of external resources to deliver our goals. It is important that these resources are not only effectively engaged and managed but also that we can demonstrate the value they bring and transfer into the Post Office.

   Alongside our current options for external resource, the service integrator model to be introduced in 2014 will provide additional flexibility in IT & Change resourcing.

   Going forward, Directorates and Programmes need to effectively assess their need for external resources and then plan, procure, manage, report on, evaluate and continuously improve their use.

3. **Engaging with consultants**

   3.1 Determining the need

   Consultants should provide great benefit to the Post Office. They provide access to skills that it is not necessary, sensible or economic for the Post Office to build or maintain itself, but it comes at a premium cost.

   Our primary reasons to bring in consultancy services are:

   - Process – knowledge on how to approach a new activity to the Post Office or where we require a new approach of an existing process to drive business performance.

   - Perspective – an independent view; new innovative thinking.

   3.2 Cost of consultants

   In 2012/13 we spent £8.7m on consultancy services, by P7 13/14 we have spent £13.0m with a FY forecast of £15.4m.

   3.3 Best practices for governance of consultants

   To ensure that we effectively engage and realise the value of consultants, the following practices are to be adopted by ExCo Directors and Programme Boards.

   - A business case will be submitted to ExCo Directors and Programme Boards to understand the need for consultants, identifying:

     (i) The purpose and need of the assignment
     (ii) A review of alternative options, including internal skills assessment
     (iii) Justification of the value which the specific consultancy will bring

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(iv) Assessment of costs
(v) Assessment of deliverables
(vi) Division of work, and dependencies on internal resources or other external resources

This business case is a separate document to the investment decision; its purpose is to demonstrate the need for the consultancy.

- ExCo Director and Programme Board to sign off terms of reference.

- Procurement of consultants using the GPS framework rates.

- All consultants above £10k to be signed off by the CFO, prior to engagement or extension.

- Realising the value of consultants via:

    (i) Mid & Post assignment reviews, completed by the Directorate/Programme and reported back to Finance and Directors/Boards/Programme
    (ii) Exit plans to transfer skills/knowledge into the business

4. Engaging Interims & Contractors

4.1 Determining the need

The use of interims and contractors is another non-permanent staffing option that, in the same way as consultants, we should utilise to build capability and address skill gaps.

Our main reason to engage interims and contractors is on a short-term basis where we have an immediate skills gap which cannot be addressed by training and development. It is therefore required in areas such as:

- Projects and Programmes (covered by business cases)

- Cover for BAU template vacancies e.g. maternity cover

- Business critical short-term non-template roles

4.2 Cost of interims & contractors

The cost of interim and contractors is £11.4m YTD, with a full year outlook at £17.2m.

4.3 Existing Policy and best practices of control for interims & contractors

The Post Office interim and contractor policy was written by HR and updated in May 2013. The policy outlines the governance for:

- Hiring Interims and Contractors through the ICAF approval process, ensuring that there is:

    (i) Finance Sign off

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(ii) HR sign off
(iii) Director Sign off

- Engaging interims and contractors using our preferred agencies Alexander Mann and Brook Street.
- A maximum tenure period of 12 months with exceptions managed by HR (e.g. for longer term transformational programmes).
- Rates controlled through approved rate cards and exceptions routes via HR.
- Performance management processes with clear deliverables.
- Exit plans.

5. Engaging agencies

Agencies are strategically important in the Post Office achieving its goals. It is important that as our business grows we have the right amount of governance in place to afford the agencies the degree of control and creative flexibility that enables us to react to market trends quickly, but at the same time we need to be able to justify the value they add and the return on investment.

We are therefore embarking upon a review of the governance process over the lifecycle of agency engagement.

6. Recommendation

The Board is asked to note the processes for managing external resources.

Chris Day
November 2013

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NOVEMBER 2013

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 claim (aka Project Sparrow)	POL/HF/RW	Angela van den Bogerd	This is the subject of a separate paper and update for the Board meeting. POL has received various claims from subpostmasters (SPMs) alleging defects in the Horizon system and POL's internal processes. These allegations were initially made in 5 claims brought through solicitors Shoosmiths. Similar allegations have been made through: - SPMs' MPs; - the "Justice for Subpostmasters Alliance" (JFSA); - defences to court proceedings brought by POL to recover debts from SPMs; and - direct contact with POL. An independent investigator Second Sight Support Services Ltd (Second Sight) has been reviewing these allegations in consultation with James Arbuthnot MP and JFSA. On 08.07.13, Second Sight published a	Following the Second Sight Interim Report, on 27.08.13 POL launched a Mediation Scheme aimed at finally resolving individual complaints made about Horizon. Some 140 applications were received before the Scheme closed to applications on 18.11.13, which are now being progressed through the Scheme. Second Sight is continuing to investigate the SPMs' concerns. POL has also reviewed past and present criminal prosecutions brought against SPMs to ensure they continue to satisfy the evidential, public interest, and disclosure standards required for prosecutions. This review will be completed by the end of November 2013. POL is not issuing any new criminal summons pending the instruction of a new, independent expert who can give evidence to support the Horizon	Bond Dickinson

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			Report finding shortcomings in POL's internal training and support to SPMs on the Horizon system, but no systemic problems with Horizon itself.	system. The process of identifying this expert is underway. To date, no claim has been made against POL in the civil courts, and no appeal has been made to the Court of Appeal against any conviction obtained in the criminal courts, following the Interim Report.	
Claim for Judicial Review	POL/HF/RW	Angela Van-Den-Bogerd	A former subpostmaster (SPM) sought "judicial review" of POL's decision to terminate his SPM contract. The SPM claimed that POL's termination process was flawed and infringed his Human Rights. He asked the court to review POL's decision and find that it was unlawful and/or an abuse of power. If successful, the claim could have forced POL to reconfigure its relationship with subpostmasters to be consistent with public law obligations, at a significant cost in terms of management time and money.	An agreement to settle was reached on 29 October 2013 and is now being finalised.	DAC Beachcrofts
[redacted]					

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[redacted]

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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.	Defendant pleaded guilty on 05/02/13 and was sentenced to 2 years' imprisonment. On 12/07/13 a Confiscation Order was made in the sum of £59,500. The Defendant has 6 months to pay that sum or receive a further 19 months' imprisonment.
Subpostmaster accused of two offences of theft of £175,260 and £9,999.43, and two offences of false accounting regarding the same sums.	On 11/10/13 the Defendant was convicted of theft of £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 £10k. Confiscations proceeding 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.
Subpostmaster accused of fraud of £115,172.11.	Defendant pleaded guilty and on 03/05/13 was sentenced to 16 months' imprisonment. POL has recovered £61,000 to date, with the outstanding sum being dealt with under a Consent Order. Confiscation proceedings will be withdrawn by POL once the Consent Order has been signed.
Subpostmaster accused of theft of £197,107.36.	Defendant pleaded guilty on 01/08/13 and was sentenced to 16 months' imprisonment. POL has made full recovery of the £197,107.36.

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POST OFFICE LTD BOARD

Health & Safety Report

1. Purpose

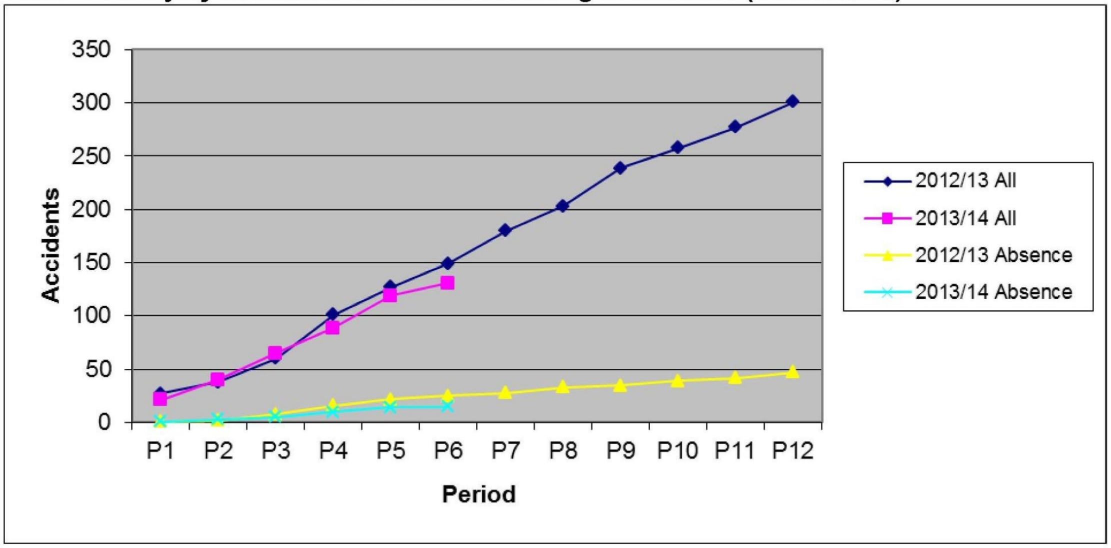
The purpose of this paper is to:

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

2. Current Situation

2.1 Injury accidents, up to period 6, are showing a favourable trend against last year, and against the target reduction of 5%. Accidents involving absence have decreased from 25 to 15 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)

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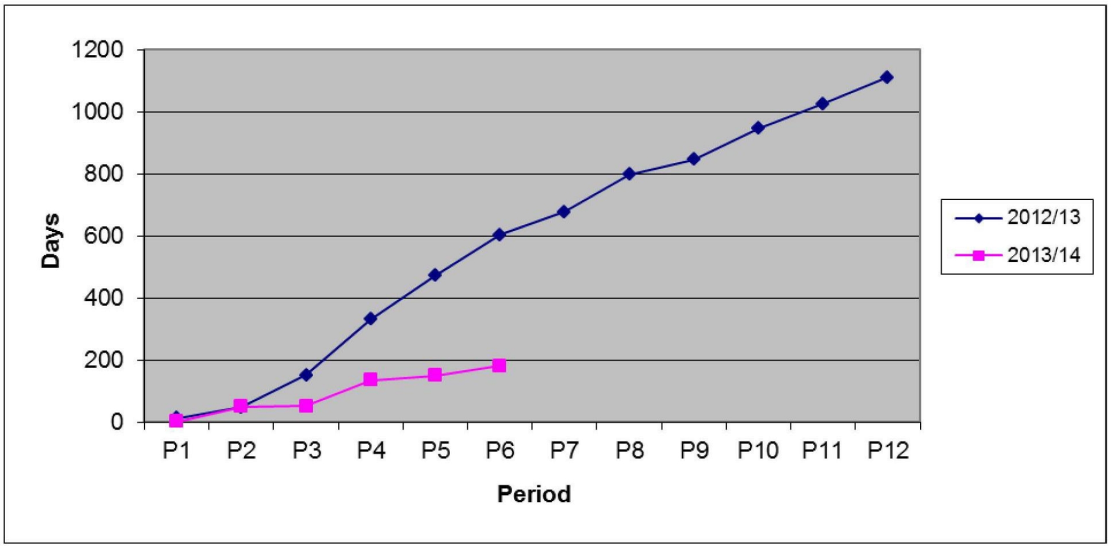
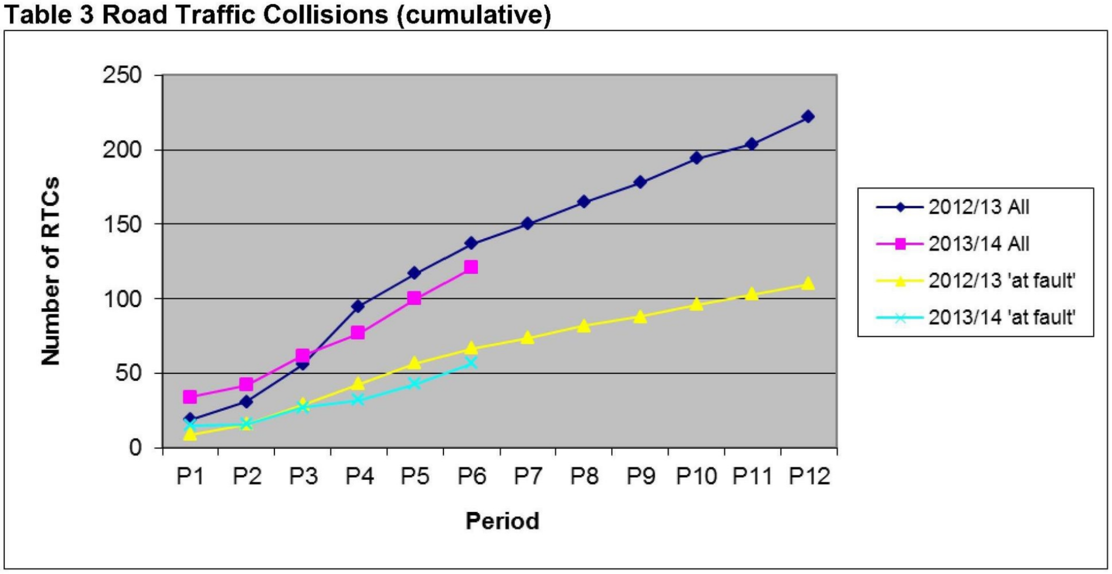
Table 2 Days lost resulting from injury accidents (Cumulative)



2.3 The total number of road traffic collisions (RTCs) up to and including period 6 is down 11.7% on last year. The number of incidents where the Post Office driver is ‘at fault’ is down 14.9% 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) 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)



2.4 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. .

2.5 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are down 2 from 22 to 20 cumulative for the past six months. Physical injuries during robberies, of which there have been 3, a reduction of 3 on last year, remain relatively minor in severity. Five of the twenty 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)

2.6 Robberies and attempted robberies on the Post Office network, cumulative to period 6, are lower than last year – 44 compared to 51 – 17 of the 44 were successful. Injuries sustained during robberies are down from 14 to 9. 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).

Burglaries and attempted burglaries (which do not involve personal attack) have increased from 33 to 38 compared to the same six month period last year – 7 of the 38 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
- 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 robbery, spraying those involved and enabling identification of the individuals involved in the robberies

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- 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
- Enhanced Occupational health service provision from January 2013

3.4 Safety

The Post Office occupational health and safety management system (OHSMS) was recently certified by external auditors as meeting 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.

Fay Healey
November 2013

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Appendix 1

Significant Incidents (Period 6)				
Crowns and Network				
Location	**Loss**	**Circumstances**	**Physical Injuries**	**Any further details**
Kislingbury SPSO Northampton NN7 4AD	£1,325	Saturday 14/09/2014, 11:00. Three males attacked SPMR's wife and forced her to open the secure area, using a knuckle duster and weighted sock.	Bruising	
Kings Langley SPSO Kings Langley WD4 8BJ	£1,887	Thursday 26/09/2013, 11:15. Distraction robbery whereby 3 males entered and during the confusion a tussle broke out where Sterling and Euro cash was stolen.	None	
Parkhead PO Sheffield S11 9PU	£305	Monday 23/09/2013 9:25, Two males armed with a knives demanded cash, they were refused and they took contents of the combi till.	None	
Rough Hay SPSO Wednesdbury WS10 8NW	Nil	Wednesday 25/09/2013, 11:30. SPMR was threatened with a shotgun in the retail area and ordered into the secure area to open safe. SPMR went into secure area pressed the panic alarm and ducked down. The offender fled empty handed.	None	
Devonshire Drive SPSO Derby DE3 9HN	Nil	Monday 03/09/2013, 16:50, A male wearing a hooded top entered the Post Office with what was suspected to be a gun under his coat and demanded cash. The male pushed an envelope under the counter saying "fill this or I will shoot". Staff pressed the panic button and ducked down. The male fled empty handed.	None	
Supply Chain (Cash, delivery and collection)				
Larkhams Garage, Illminster, Yeovil, TA19 9BG.	£12k	Monday 23/09/2013, 11:26. Crew member was attacked whilst delivering to a customer and threatened with a firearm. Ibox was taken and assailant fled.	No injuries, but crew member was advised to go to hospital as a precaution due to high blood pressure.	

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Cleveleys MSPO, 93 Victoria Road West, Flyde, FY5 3LD.	£1,300	Tuesday 10/09/13, 10:55, The incident took place outside the office when the crew member had delivered the fob & coin, he had returned to the van to take a bureau pouch & stock. A man at the bus stop approached the crew member and snatched the pouch and ran off,	None	A number of arrests have been made in relation to this incident.

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POST OFFICE LIMITED BOARD

Sealings 23 October – 20 November 2013 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 1086 to 1096 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 1086 to 1096 inclusive in the seal register is hereby confirmed."

Alwen Lyons
Company Secretary
20 November 2013

POST OFFICE LIMITED

Date
20/11/2013

Register of Sealings

Company Number
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1086	23/10/2013	22/10/2013	Rent deposit deed for 399 High Road, Wembley, HA9 6AA between Primeleaf Properties Limited, POL, Nilkanth Enterprises Limited, Wembley Enterprises Limited and Ajay Kukadia	Gill Catcheside	Jean Reynolds
1087	28/10/2013	28/10/2013	Agreement for Lease relating to Ground Floor, 190 Kensington Church Street, London between POL and Halco Lifestyle Limited	Alwen Lyons	Jean Reynolds
1088	31/10/2013	31/10/2013	Underlease of premises at Part Ground Floor 190 Kensington Church Street, London W8 4DP between Post Office Limited and Halco Lifestyle Limited.	Gill Catcheside	Jean Reynolds
1089	31/10/2013	31/10/2013	Rent Deposit Deed relating to premises at Part Ground Floor 190 Kensington Church Street, London W8 4DP between Post Office Limited and Halco Lifestyle Limited.	Gill Catcheside	Jean Reynolds
1090	31/10/2013	31/10/2013	Licence to Underlet relating to Ground Floor 190 Kensington Church Street, London W8 4DN between Chestnut Estates Limited, Post Office Limited and Halco Lifestyle Limited.	Gill Catcheside	Jean Reynolds
1091	06/11/2013	01/11/2013	Counterpart Renewal Lease relating to 82A Chorley Road, Swinton, Greater Manchester between The Trustees of the Sheffield Mutual Friendly Society and POL	Gill Catcheside	Jean Reynolds
1092	06/11/2013	05/11/2013	Rent Deposit Deed relating to premises at The Post Office forming part of the premises known as Okehampton DO/MSPO, Castle Street, Okehampton, Devon, EX20 1HW between POL and Hafiz Ameer	Gill Catcheside	Jean Reynolds

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POST OFFICE LIMITED

Register of Sealings

Date
20/11/2013

Company Number
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
			Azam Gul		
1093	06/11/2013	06/11/2013	Licence to assign premises at The Post Office forming part of the premises known as Okehampton DO/MSPO, Castle Street, Okehampton, Devon, EX20 1HW between POL, Allenton Leslie Benjamin Fisher and Hafiz Ameer Azam Gul	Gill Catcheside	Jean Reynolds
1094	06/11/2013	06/11/2013	Licence to carry out works relating to 3rd adn Part 4th Floors, 120 Bark Street, Bolton	Alwen Lyons	Jean Reynolds
1095	07/11/2013	06/11/2013	Lease of Ground Floor and Basement of 43/44 Albemarle Street, London W1 between POL and Primerock Property Group Limited	Alwen Lyons	Jean Reynolds
1096	15/11/2013	15/11/2013	Lease of Ground and First Floors 117 West Street Fareham Hampshire PO16 0AA between POL and Kaye of York Limited	Alwen Lyons	Jean Reynolds

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POST OFFICE LTD BOARD

Personal Injury Referral Fees Update

1. Purpose

1.1. The Board asked management to provide an update on the impact of the ban on referral fees for Personal Injury (PI) claims, how this has affected Post Office customers and the market and how the changes are managed within BGL/Junction, Post Office's motor insurance broker.

1.2. The Paper is tabled for noting.

2. Background

2.1. In September 2011 the Government announced a ban on referral fees in relation to personal injury claims in an attempt to curb the "compensation culture" and reduce motor insurance premium inflation.

2.2. In anticipation of these changes Post Office Insurance undertook a review of the practices employed by BGL and its legal firm, Minster Law, to ensure that Post Office customers were receiving the appropriate service and that agents were not incentivised to make inappropriate referrals. The review concluded that:

- Incentives were effectively monitored and dis-incentives were in place for inappropriate referrals;
- Call quality monitoring was in place that provided effective and consistent on-going evaluation of call centre agent performance.

2.3. A separate audit completed by Post Office Insurance concluded that:

- Appropriate controls were in place, and these controls are being managed effectively so the risk of inappropriate referrals as a direct result of the incentive program was felt to be low and managed;
- Further audit and monitoring activity would be conducted on a regular basis to provide on-going assurance. These have occurred and no issues have arisen.

3. Legal Aid, Sentencing and Punishment of Offenders Act 2012 (LASPO)

3.1. In April 2013 the ban of referral fees was implemented under LASPO. Provisions in part two of LASPO make it a regulatory offence to pay or receive referral fees in personal injury cases. This directly affects insurers, solicitors and claims management businesses and is under the monitoring of the Solicitors Regulation Authority, Financial Conduct Authority and Claims Management Authority.

3.2. Since the implementation of LASPO, The AA British Insurance Premium Index has reported a decline in car premiums of c10 percent. This is the largest and most prolonged (6 consecutive months) fall in car insurance premiums since the index began in 1994 and is heavily influenced by the changes to PI management. This suggests that the market has responded as anticipated to the regulatory changes.

3.3. Over the same period, the percentage of reported Post Office motor insurance claims resulting in a PI claim has remained relatively static – supporting the good working practises noted at BGL. The income per motor insurance policy to Post Office in respect of the claims service has, however, declined from £10 to £3, equating to c£1.5 million of lost revenue to Post Office in 2013/14.

3.4. The reduction in market premiums has led to improving retention rates to Post Office (up 3 percent) and margins ameliorating to some extent the decline in income.

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4. Audit of Junction/BGL

4.1. Recent audits have confirmed that the incentive programs used by BGL/Minster Law remain unchanged following LASPO and based upon previous work Post Office remains satisfied that they do not unduly influence referral rates.

4.2. In October, Post Office Insurance concluded a re-negotiation of the contract with BGL. The new arrangements enshrined specific provisions to enable audits of the BGL operations and work practises. This will enable Post Office to ensure that customers continue to receive an appropriate and relevant service.

5. Conclusion

5.1. The consequence of changes in regulation pertaining to referral fees has had the desired effect on the market. The impact on income from claims management has diminished leading to a decline in the number of claims management firms.

5.2. Insurers have lowered rates, allowing consumers to enjoy lower car insurance premiums.

5.3. A reduction in Post Office income has largely been recovered by increasing volumes and margins.

5.4. Audits of BGL/Junction incentive schemes and operating model confirm that Post Office customers are not being incentivised to unnecessarily seek PI referrals.

6. Recommendation

6.1. The Board is asked to note the paper.

Nicholas Kennett
Director, Financial Services
November 2013