



Post Office Board Agenda

Date		Present	In Attendance	Apologies
22 nd January 2016				
Start Time	Finish Time			
12.00hrs	16.30hrs			
Location				
Room 1.19 Wakefield				

Agenda Item	Action Needed	Purpose	Lead	Timing
1. CEO Report - Transformation Report	CEO report noted	CEO to update the Board on the report.	CEO	12.00 - 12.15
2. IRIS	Noting	To update Board on the status and seek input.	CFO / Mark Ellis & Martin Edwards	12.15 – 13.15
WORKING LUNCH		KPMG – A global perspective on postal operators	Justin Zatouroff	13.15 – 14.00
BREAK				14.00 – 14.10
3. Mails Strategy Update	Noting	To update the Board on the status and seek input	Martin George / Martin Edwards	14.10 – 14.50
4. Minutes of previous Board and Committees / Status Report	Decision	Minutes formally agreed.	Alwen Lyons	14.50 - 14.55
5. Financial Report – Period 9	CFO report noted	CFO to update the Board on the period 9 performance.	CFO	14.55 – 15.25
6. Initial discussions on the 2016/17 budget and outlook for the 3YP	Board input taken	Board input taken on the shape of the 2016/17 budget and 3YP and strategic themes	CFO/ Martin Edwards & Dave Carter	15.25 - 15.40
7. Trinity	Discussion and input	Update and input from the Board	AI	15.40 – 16.00
8. Any Other Business				16.00 – 16.25
8.1 Delegated Authorities	Decision	Decision taken on proposed delegated authorities	Alwen	
8.2 Noting Paper : Back Office	Noting	To update the Board on the Back Office project	AI	



Post Office Board Agenda

Agenda Item	Action Needed	Purpose	Lead	Timing
9. Items for noting :				16.25 – 16.30
9.1 Sealings	Noting	Board aware of the affixing of the seal		
9.2 Prosecutions Policy	Noting	Board aware of the new prosecutions policy		
CLOSE				16.30

CEO's Report

Author: Paula Vennells Date: January 2016

Executive Summary

Context

Our scorecard metrics for 2015/16 are:

1. Net Income - £875m
2. EBITDAS – (£35m)
3. Digital Net Income – £21.5m
4. Customer Effort – 64%
5. NPS FS only – 25
6. Engagement – 63%
7. NT branches transformed – 1850
8. Crown P&L – (£4.9m)

Our 3 year goals are:

1. To establish the foundations of a successful independent business.
2. To accelerate the transformation of Post Office and reach breakeven.
3. To secure commercial sustainability for the long term.

In summary, our strategy to achieve our goals is to stabilise our income in mails and grow in financial services by focusing on the customer, moving up the value chain where suitable; modernise our physical and digital channels; streamline our support services; build a simpler, more cost effective operating model; alongside improving our colleague and network engagement.

Questions this paper addresses

1. What is on my mind? (*successes, challenges, opportunities and risks*)
2. What are the implications for our outlook and plans?

Conclusion

3. Financial performance through the P9 peak period is encouraging with EBITDAS and income favourable to forecast. Provided momentum is maintained through Q4 we are well placed to deliver our targets.
4. Our transformation continues. As set out in the transformation report, some slippage (notably in End User Computing) is putting their benefits delivery profile at risk, with the potential to create additional pressure on next year's budget.
5. In addition, some of our change activities are generating industrial relations challenges that require careful management.

Input Sought

The Board is invited to note the report and highlight any issues where a future discussion would be welcome.

The Report

Looking Back

WHAT HAS GONE WELL?

- Financial Performance – P9
 - EBITDAS for month 9 was £(0.5)m - £0.5m favourable to Q2 forecast.
 - Net income in the month of £81.6m was £0.7m favourable to Q2 forecast.
 - This was driven by a strong mails performance through the peak trading period; and continued improvements in financial services, notably in life and home insurance, credit card and banking and payments.
- Customer Service
 - Our focus on maintaining customer through the peak helped ensure that targets were achieved on Effort (65% vs 62% target) and NPS (+61 vs +55 target)
 - Wait time and Customer Satisfaction fell just below target (69% vs 71% target; and 85% vs 86% target respectively)
 - Strongest performance came from Crown, with all four targets achieved.
 - YTD performance remains ahead of target on all measures

WHAT HAS NOT GONE WELL?

- Financial Performance – P9
 - Despite improvements in financial services as a whole, performance in mortgages and savings continues to be significantly below target. We will be monitoring the impact of re-pricing through P10.
- Industrial Relations
 - As expected, there was industrial action by the CWU on Christmas Eve:
 - 48% of staff who could have gone on strike chose to do so (lower than in previous action)
 - 83% of Crown Offices stayed open
 - All staff in Leeds supply chain went on strike.
 - 9 out of 11 staff in our St Helens call centre went on strike.
 - Contingency plans meant there was no impact on customers from the action in Leeds and St Helens. This is a credit to the leadership of those teams.
 - There was a further strike in Leeds Supply Chain on 4th January and separately, a vote in favour of action in our Dearne call centre.
- Flooding
 - Unfortunately, 144 Post Offices were affected by the recent flooding. However, the majority of which have been dealt with locally and are now re-opened.
 - 5 remain closed but are expected to reopen within the next week.
 - We will be conducting a review of our response to ensure we respond as

effectively as we can to future flooding threats or incidents.

Looking Ahead

OPPORTUNITIES ?

IRRELEVANT

service continuity will happen thereafter.

- SGEI Consultation
 - Subject to internal Government clearance, BIS are proposing to publish their consultation paper on our SGEI later this month or early next month.
 - We have been working closely with the Shareholder Executive in formulating the paper and the draft is completely aligned with the policy position we discussed in October.
 - In particular, it reaffirms Government's commitment to maintaining the current network size and access criteria (with the possible exception of some flexibility around the postcode criterion). It also discusses the need to move to more cost effective operating models and locations in the rural / unconverted network.
 - BIS propose to publish the final report from London Economics / You Gov on the social value of the network alongside the consultation document. It confirms a headline valuation range of £4.3bn - £9.7bn pa, which is broadly in line with the range identified in the 2009 Nera study (although that had a lower bound of £2bn).
- Communications and Engagement
 - We are getting our top 300 managers together in a new leadership and communications forum.
 - The aim is to drive leadership behaviour, empower and inspire colleagues and generate passion about the detail of delivering our transformation.
 - Our success will depend on these leaders engaging their teams regularly in both the opportunities and hard realities of change.
 - The first event takes place on January 26th

RISKS OR CONCERNS ?

- Budget
 - We are in the process of working up budgets for the next financial year, with a clear focus on driving down costs to close the gap between current plans and where we need to be to achieve our targets, and potentially break even in 2016/17. Al will provide a further update in the meeting.

- Interim Report
 - The Board approved the interim report for the six months ended 30 September 2015, subject to finalising the provisions for the compensation of Subpostmasters (SPMs) under Network Transformation.
 - The arrangements with SPMs are complex and change over time. As a result, recalculating the provisions at specific dates has been extremely complex, hampered by multiple, manual data sources. The work has been completed and the provision has been increased by £67m in the comparative balance sheet at September 2014 and £87m at March 2015. EY has audited the changes.
 - A detailed paper, setting out the causes, rectification and lessons learnt has been circulated to the ARC. The work has enabled us to confirm that there has been no impact on payments to SPMs, cash or bonuses: it is a timing difference in recognition of a future liability. The team is confident that there is no impact on the total forecast cost of the programme and is completing final checks in the next few days.
 - As discussed, the error is disclosed in the Business Review section of the Interim report as follows:

An error was identified in the calculation of the provision for future payments of postmasters' compensation within the Network Transformation programme on the balance sheet and exceptional items charged in the 2014-15 half year and full year. The March 2015 exceptional charge has been restated by £87 million of which £67 million was restated into the September 2014 exceptional charge. This was a timing error related to recognition of the liability. It has not impacted payments to postmasters or the overall cost of the programme.

- In addition, the change will be noted in the 2014-15 accounts of our holding company.
- A detailed set of reactive questions-and-answers are being prepared. The final Interim report will be circulated early next week with a view to signing on 22nd and publishing in the following week.
- Industrial Relations
 - Our most significant change activities (as outlined at September's Board meeting) are all now underway and on schedule. For example:
 - consultation on closing the defined benefit pension scheme to future accrual starts on 2nd February;
 - colleagues in Crown branches that may be affected by our franchising plans are being briefed about the potential changes on 19th January; and
 - we are developing our mandates and negotiating position for the impending pay negotiations for all managers and Crown CWU grades respectively.
 - We will also be discussing the latest position on Supply Chain later in this Board meeting.
 - As indicated above, each of these presents challenges for our industrial relations. The challenge is made greater by the CWU ignoring important aspects of our agreed Collective Engagement & Industrial Relations

Framework, notably the Dispute Resolution Procedure designed to avoid a default to industrial action.

- I have written to the General Secretary making it clear that the CWU's actions are making the agreement unworkable. A meeting is being scheduled with the aim of securing a commitment to respect the agreement so it works as intended.
- NFSP Relations
 - Tensions arose at the beginning of December as a result of the presentation of the NFSP Annual Plan (required to enable the annual grant payments) and subsequent reluctance to agree to the suggested additional requirements.
 - This resulted in NFSP threatening to withdraw from the Grant Agreement unless POL meets their demands of concessions on the agreement (membership levels, VAT) and various business initiatives (ATM fee reduction, cost recovery for conformance training). They also requested a £20m (£10m this year, £10m next) "stabilisation" payment to postmasters.
 - We have sought to resolve this in a cooperative manner in order to maintain our preferred position of a collaborative relationship with NFSP.
 - We have been clear that we will not be making a payment of £20m but indicated our willingness to discuss the NFSP's other concerns. The offer of further discussions has been received positively with the next meeting scheduled for 14th January.

In Conclusion

CONFIDENCE?	IMPLICATIONS?
<p>Following good performance through P9, I remain confident that we will deliver our targets this year. I also am confident that we will deliver our transformation programme. However, slippage in some programmes is putting the delivery profile of benefits at risk, with the potential to create additional pressure on next year's budget.</p>	<p>The process for setting the budget for 2016/17 will be challenging and require some difficult choices. This is underway and there is an opportunity to discuss at this month's Board.</p> <p>Similarly, we need to manage a challenging industrial relations environment, being clear on the rationale for change.</p>

Transformation Update

Author: Michael Brown Sponsor: David Hussey Date: 13/01/2016

Executive Summary

Context

The Post Office is undertaking a complex transformation programme, designed to modernise our network and IT infrastructure, streamline our cost base and create the platform for customer-led growth. The core objective is to create a commercially sustainable business equipped to cope with lower levels of government funding after March 2018.

Questions this paper addresses

1. Overall, are we on track to deliver our key Transformation programmes?
2. What are the implications of any variance, for our outlook and plans?

Conclusion

1. Reasonable progress has been made delivering some major milestones across the Transformation programmes. These include: completing 5,000 modernised branches under Network Transformation; delivering, or on track to deliver, £53.9m of in-year cost savings against a target of £45.7m; the new Banking Framework with banking partners operationally live; and publishing the detailed integrated plan.
2. However, slippage in the IBM plan for the Branch Technology Transformation Programme has used some of the programme's contingency, though the overall end date is not currently impacted. End User Computing (Admin) and Post Office Card Account plans have also experienced milestone slippage, with risks across other programmes.
3. Delays to Branch Technology Transformation and Post Office Card Account programmes are putting their benefits delivery profile at risk. The impact of revised benefit profile is being reviewed as part of the three year planning process, with an updated position to be presented to the Board in March. Trinity investigations are progressing and a separate update on the latest position will be provided at the January Board.

Input Sought

The Board are asked to note the progress made, key challenges faced and actions taken to address them.

The Report

Looking Back

WHAT HAS GONE WELL (SINCE LAST PROGRESS REPORT IN OCTOBER)?

- Network Transformation
 - In November the milestone to modernise 5,000 branches (with 5,114 modernised by the end of 2015) was achieved.
 - This provides 152,000 additional opening hours per week across the 5000 modernised branches – the equivalent of 3,300 extra Post Office branches helping us become better for customers by being there when they need us.
 - It will also help us greatly reduce our reliance on public funds as we remove fixed remuneration to agents.
- Cost Reduction
 - Group has delivered, or are on track to deliver, £53.9m of in-year cost savings against a target of £45.7m.
 - Achieving the target enables us to make a significant contribution to the

IRRELEVANT

- Digital Programme
 - Re-branded, enhanced and improved customer journeys on the Post Office Website have improved conversion rate across the site by 24% and the amount of time customers spend on the site by 45%.
- Back Office
 - IT Back Office Tower Project approach has been agreed which will allow contract signature during January (see separate noting paper).

WHAT HAS NOT GONE WELL (SINCE LAST PROGRESS REPORT IN OCTOBER)?

- Branch Technology Transformation Programme
 - In parallel to the Trinity discussions, IBM have slipped their original dates for development and have supplied an updated plan. The decision to put Common Digital Platform migration to IBM on hold has also impacted the plan.
 - In order to mitigate further slippage we are holding detailed requirements and design workshops with suppliers, to ensure we adopt the best approach.
 - The programme team are finalising the integration of IT partners' (IBM and Fujitsu) activity into the baselined plan; this will be completed by the end of January 2016.
 - The overall go-live delivery date is not currently impacted.

IRRELEVANT

Looking Ahead

UPCOMING ACTIVITY

- Delivering Year End Targets
 - Crown Break even run rate – including advertising the first batch of closures and franchises (including Project Paddington). Announcing franchising is almost certain to result in industrial action in Crown branches.
 - Network Transformation branch modernisation target - the programme will implement the removal of fixed pay for postmasters who have not signed a modernisation contract or conditional resignation pack, replacing it with 18 months of Transitional payments. The current estimate is that this may impact between 150 to 250 postmasters.
 - Delivering remaining cost reduction initiatives
- Branch Technology Transformation Programme
 - We will complete work on Trinity to enable a decision to be taken in February.
- Post Office Card Account
 - The new supplier contract is due to be signed by 30 March. Board approval will be sought in March.

CONCERNS & RISKS

- Overall Risk, Issue and Assurance
 - Risks across the whole portfolio remain significant.
 - A new Head of Transformation Risk and Assurance has been appointed to strengthen our approach.
 - A Transformation Risk Assurance framework is being developed to gain deeper understanding of the risks (threats and opportunities) inherent at the Project and Programme levels.
 - In addition, the framework will provide assurance throughout the life of the programmes.
- Top Transformation Risks

Risk or Issue	Implication	Mitigation
Financial risk - Benefits/Revenue Realisation & Cost of Change. Benefits may have been overstated and outcomes may not be realised or sustainable. The cost of change may be greater than planned.	Intended Benefits not realised at all or within the timeline expected. Opportunity to gain increased market share is lost. Costs exceed budget allocated. There may be impact on the financial viability of some or all of the transformation programmes which could lead to de-scope/postponement or removal of initiatives.	Financial deep dives on each portfolio have commenced to effectively assess/prioritise initiatives and enhance opportunities in the cost budgets. Transformation Finance Control Group (TFCG) continues to rigorously challenge the robustness of the cost and benefits profiles of programmes to improve robustness of estimating the appropriate benefits realisation (e.g. achievement of hurdle rates). Further, all new budget drawdowns are reviewed and challenged through TFCG to ensure they are aligned and that benefits cases are clear and achievable.
Delivery risk (IT Suppliers Transition) – The risk that replacing legacy IT systems/suppliers and simultaneously deploying a new integrated IT operating model creates unmanageable complexity.	Transformation programmes are delayed, increasing costs and delaying benefits. Quality of service suffers and potential risk of control failures. Associated Data/Information security breach or compromised regulatory obligations (e.g. PCI) Extension of Incumbent contracts - additional cost and time.	The Technology Transformation Director is working on a robust cross tower system integration programme with detailed plans and performance management of delivery (by 31st January). An Integrated E2E Plan is in place and is under review to ensure dates align with Post Office and Third Party timescales. Interim recommendations of changes due by 31st January and agreement of these dates by mid-February.
Resource Capacity - Managing the availability of both Change and Subject Matter Expert resources. Issues include number of resources, bandwidth, scheduling and appropriate use of resources.	Performance suffers and strain on resources. Quality of output suffers. Impact on day to day running of business and impact on people due to the demands made on them. Delay to Implementation/Delivery of Transformation Programmes	Continued development of resource plans to identify scheduling and resource issues. Extend detailed resource planning from three to six months.
Industrial Relations (IR) - The threat of industrial action/dispute in	Disruption to customers; delays to Transformation	Industrial Relations being managed through IR steering group (IRSG) with

response to Transformation Programme Initiatives.	programmes and therefore impact on benefits delivery; impact on brand. Increased absence or exiting the business which compounds the capability & capacity risks	alignment between transformation plans and IR heat map. Appropriate Contingency plans are in place to address "live" ballots by IRSG and Operational teams. These contingencies have been developed by the Operational teams with input from the Industrial Relations team on a case by case basis taking into consideration of the likely scenario, location, duration, and available resources to cover.
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In Conclusion

CONFIDENCE IN DELIVERING TRANSFORMATION?	IMPLICATIONS?
The biggest risk to delivery is replacing the Horizon branch software with the IBM solution (Front Office). Supplier dates are slipping, putting the whole plan under increased pressure.	The risks within the current Front Office plan could result in increased costs and delayed benefits; and an erosion of timeline contingency. The potential options to reduce complexity, risk and cost are progressing under Project Trinity (separate update to the Board)
EUC admin plans are tight and the environment inherited from RMG is complex. Whilst there is milestone movement, the end date is currently protected.	If we miss 31 st March deadline, we incur further penalties from RMG. The programme is being closely controlled and reviewed regularly jointly by the CFO and Transformation Director.

Appendix - The Dashboard

Portfolio Summary	Milestone delivery	Costs	Benefits	Risk
	Red	Amber	Amber	Red
ALL PROGRAMMES AGGREGATED				

Delivery:- Whilst there has been milestone slippage within the baselined plan across some programmes, the red status is primarily driven by delays to:

Branch Technology Transformation Programme - IBM plan and the Common Digital Platform migration dates are slipping.

PO Card Account - Uncertainty around the Hewlett Packard timeline for selecting their new Banking Partner and the consequential impact on the procurement time lines.

End User Computing Admin – Extensions to pilots and testing, whilst protecting the end date.

Next steps:

Branch Technology Transformation - undertaking deep dives with external suppliers (IBM, ATOS and Fujitsu) to interrogate/challenge plans and minimise impact of slippage.

PO Card Account - working with bidders and their respective Banks, draft revisions to the supplier agreement before issuing the final tender documents on 8th February 2016.

End User Computing – CFO and Transformation Director monitoring closely to ensure delivery to plan. Daily reporting dashboard will be implemented from commencement of roll out.

Plan reviews in the Transformation Delivery Group are being undertaken with programmes to address root cause of milestone movement.

Cost:- 2015-16 full year investment costs is forecast to underspend by £34M, (excluding provisions for postmasters' compensation) c.£20m of which will flow into next financial year. Costs across the three year plan are under review as part of the three year planning process, current submissions are c. £70m above the assumptions in three year plan.

Next steps:- Close management of 2015-16 year end position and completion of three year planning. Complete prioritisation exercise to bring 2016-17 investment spend back in line and create contingency.

Benefits:- In year benefits are Green with the longer-term forecast Amber. Cost Reduction Group is reporting £53.9m of delivered or on track initiatives for 2015-16 against a target of £45.7M. Benefits from Network Transformation are on track. The majority of other Transformation benefits are due in subsequent years, and some are under threat of being delayed or reduced as a result of risks impacting delivery and updated assumptions across programmes.

Next steps:- Undertake benefit reviews with each programme during Q4. The impact of revised benefit profile will be reviewed as part of new three year plan process, with an updated position to be presented to the Board in March.

Risks: Risks across the whole portfolio remain significant. Over the last six months the total qualitative risk exposure has slightly reduced. However the profile of high impact and probability risks has slightly increased, due to both the financial (cost and benefits) and industrial relations risk trending upwards. A new Head of Transformation Risk and Assurance has joined the team to strengthen Business Transformation Risk and Assurance.

Next steps: A Transformation Risk Assurance framework is being developed with the key objective to gain deeper understanding of the risks (threats and opportunities) inherent at the Project and Programme levels. Risk management remains under close control in formal monthly risk management meetings.

Key Programmes

1. Branch Technology Transformation (BTTP)	Milestone delivery	Costs	Benefits	Risk
Goal: Deliver new counter hardware, IT networks and replace Horizon counter application. Improved modernised customer journeys. Enables agility and speed to market. 25% reduction in IT operating costs.	Red	Amber	Amber	Red

Branch Technology Transformation (Replace Horizon counter application)

Implications:

Four major delivery milestones have slipped as a result of the decision to put Common Digital Platform migration to IBM on hold. One major design and build delivery milestone has also slipped as IBM have changed their plan. As a result the end of design milestone is at risk. However, the overall go-live delivery date is not currently impacted.

The risk profile is increasing because milestone delivery performance and supplier plans are putting whole programme under pressure.

Next steps: The BTTP leadership team continues to manage these "hotspot" areas through daily management meetings.

In order to mitigate further slippage, we are holding detailed requirements and design workshops with suppliers, to ensure we adopt the best approach.

The programme team are finalising the integration of IT partners' (IBM and Fujitsu) activity into the baselined plan; this will be completed by the end of January 2016.

Branch End User Computing (New counter hardware)

Implications: The dates for the rollout are 1st August 2016 to 30 June 2017.

Next steps: Preparations for User Acceptance Testing.

IT Networks

Implications: The IT Networks and Branch End User Computing plans have now been integrated and support the agreed rollout schedule above.

Next steps: Commence delivery in line with plan.

2. Network Transformation

Goal: Modernise 8000 branches. Move agents to variable remuneration contracts, increase in opening hours, reduce queue waiting times and increase customer satisfaction

Milestone delivery	Costs	Benefits	Risk
Amber	Green	Green	Amber

Implications:

The programme has a target to modernise 1850 branches by April 2016. To date (11th January) we have opened 1061 branches, leaving 789 branches to open by the financial year end. The overall risk to achieving the openings target has reduced to around 50 branch openings. Branches that are not modernised in this financial year will flow through to next year with no material impact on the programme.

Next steps:

The programme team continue to mitigate risks through process efficiencies, more flexible approaches and continued engagement with branches to progress them through the pipeline as quickly as possible.

3. Crown Network Development

Goal: Crown P&L run rate (including Financial Services costs) breakeven point by end of 2015/16 and achieve a £10M profit by 2018

Milestone delivery	Costs	Benefits	Risk
Amber	Amber	Amber	Amber

Implications:

Due to the critical timing for the Crown Strategy plans to be in place to secure breakeven this financial year, the Network Change and Paddington activity continue to work to the critical path. The first batch of activity (closures, franchises), including Paddington, are being advertised in January 2016.

Next steps:

We are continuing to work on the Paddington deal with an update to GE in January followed by contract signing mid-March 2016. These activities are designed to secure break-even on run-rate this financial year in line with the Crown Strategy and plan.

4. Reduce our Costs

Goal: Deliver £45.7m Cost Saving Initiatives in 2015-16 and deliver further cost reductions in 2016-17 and 2017-18.

Milestone delivery	Costs	Benefits	Risk
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Green	Green	Amber	Amber
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Implications:

£53.9m worth of initiatives have been, or are on track to be delivered by the financial year end against a target of £45.7m.

Next steps: Continue to work with business functions to ensure delivery plans to realise benefits are in place and being progressed.

Set 2016-17 and 2017-18 costs saving targets as part of three year planning process.

5. Support Services Transformation

Goal: Consolidated support services for the Post Office across key sites, moving from seven sites to two. Lean, efficient business processes. Transition existing Back Office IT services to a new, more stable, resilient and flexible environment.

Milestone delivery	Costs	Benefits	Risk
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Amber	Amber	Amber	Amber
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Support Services**Implications:**

Elements of the programme have been delayed due to lead times for improving IT network capacity in the Chesterfield site and availability of suppliers to undertake required assessment. These have been caused by Post Office not knowing what the existing IT bandwidth was at the Chesterfield site. Following consultation the St Helens site (one of the customer service centres) invoked industrial action on 24th December and Dearne (branch support centre) have voted for industrial action but CWU has not yet served notice for industrial action. The programme formally announced closure of Leeds (branch support centre) on 8th December – affecting c.50 people.

Despite the deteriorating IR landscape the programme does not anticipate any significant deviation from the plan or material impact on benefits realisation.

Next steps:

End January deadline for validation of IT and property refit timescales and costs to ensure Chesterfield readiness for quarter 2. Focus on critical path activities particularly IT readiness.

IT Back Office Tower***Implications:***

Back Office Transition pre-contract due diligence recommended removing SAP-HR from the original scope. This recommendation was agreed by Transformation Executive Steering Group on 4th January 2016. Subsequently GE has agreed the business case for SuccessFactors (the new enterprise HR platform) which will replace SAP-HR.

Next Steps:

Sign new contract with Accenture based on new scope.

6. Technology Transformation – Separation & EUC Admin Roll-out

Milestone delivery	Costs	Benefits	Risk
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Goal: Separate Post Office IT from RMG IT.

Amber	Amber	N/A	Amber
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Replace desktops & laptops across the Admin user estate.

Separation***Implications:***

IRRELEVANT

Next steps:

IT Networks, Supply Chain and HR applications are due to be completed during February 2016. Close monitoring of status and progress.

EUC Admin***Implications:***

EUC Admin pilots commenced in December. There has been some milestone movement which is being managed within overall programme timescales, though the EUC admin roll out plan remains challenging.

Next steps:

A significant ramp-up of the deployment of the remaining Admin estate remains on track to be completed by 31st March 2016. Communications & stakeholder activities are continuing. Close monitoring of status and progress.

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Milestone delivery	Costs	Benefits	Risk
Amber	Green	Amber	Red

Implications:

IRRELEVANT

IRRELEVANT

Next steps:

The programme is working with

IRRELEVANT

IRRELEVANT

The programme will

IRRELEVANT

IRRELEVANT

IRRELEVANT

Milestone delivery	Costs	Benefits	Risk
Green	Green	Green	Amber

Implications:

IRRELEVANT

The Following programmes are also in development though there is no material update to provide to the Board at this point.

: **IRRELEVANT**

Project Iris

Author: Mark Ellis Sponsor: Al Cameron Date: January 2016

Executive Summary

Context

1. In September the Board requested internal and external options for a radical reduction in the cost of Supply Chain (SC). Other options, such as expanding the operation to capture market share, were considered but not taken forward.

Questions this paper addresses

2. What are our findings and recommendations if we retain ownership of SC?
3. Which options should POL progress with external partners?
4. What are the risks?

Summary Conclusions and Recommendations

5. The following conclusions and recommendations have been reached:
 - We can reduce costs by optimising routes and sites, improving EBITDAS by c. £9.5m. 235 FTE would be redundant and 10 facilities closed at a cost of £11-13m.
 - We increasingly believe that the operation would be optimised if we withdraw from the external market. This would increase redundancies to c.800 FTE, delivering a further EBITDA improvement of c. £4m, increasing the one off cost by £19m. The method and speed of withdrawal will now be modelled.
 - We are exploring a variety of demand reduction scenarios, which have the potential to make a further, limited reduction in the number of deliveries required.
 - We will revert in March with a consolidated, optimised view across these opportunities. We will build a detailed implementation plan that could be put into consultation with our people by the end of April. To plan and implement such a fundamental restructuring will require an investment of £2-3m.
 - We believe that any plan on this sort of scale will trigger industrial action. We are developing mitigation plans for the March Board.
 - Discussions for a full joint venture with Vaultex have been stopped: the outcome was too complex for the value that could be obtained.
 - There is, nonetheless, market interest in an outsource or sale of both cash processing and CVIT. We will work with the interested parties, in private, to bring the best options and conclusions to the Board in March, enabling a joined up set of plans to be available for consultation. The paper sets out a number of potential complexities with the outsource options including the impact on the Note Circulation Scheme, VAT, public procurement and CMA referrals.

Input Sought

6. The Board is asked to comment on the findings and support the recommendations.

CURRENT STATUS OF SUPPLY CHAIN (SC)

7. SC operates 24 CVIT depots, 3 coin centres and 4 cash processing centres, in 25 locations. 1,384 FTE are employed to deliver cash, foreign exchange and value stock to 10.3k branches.
8. Over the last 12 months we have reduced direct costs, from £74m to £67m in 2015-16. Savings are being delivered through route and duty revisions enabling redundancies. This is meeting a level of resistance from the CWU, with sporadic industrial action at one depot. A further £5m of gross savings, equivalent to 3% operational efficiencies, are in the budget for 2016-17 and this is broadly considered deliverable without triggering widespread action.
9. Costs are offset by external income of c. £29m down from £32m as poor service, due in part to Union restrictions, has led to a loss of activity and contracts. Other operational measures, including safety and engagement, continue to improve.

FINANCIAL BASELINE

10. We currently incur an EBITDA loss of c. £53m, as set out below. Over the next five years the SC baseline is therefore a net run cost of c. £265m and we would incur some c.£10m of expected capital investment in IT, machinery etc. We are currently working to understand cost drivers across central functions, including IT. This will increase the true cost of running SC. The NPV of different options, set out in paragraph 18 below, is calculated against this baseline cost.

Baseline	£m
Direct costs	(54)
Indirect costs	(13)
SC costs	(67)
External revenue	29
EBITDA – run-rate	(38)
Property	(5)
Central allocated costs	(3)
EBITDA including property and centralised costs	(46)
Vehicles (maintenance capex)	(6)
EBITDA including maintenance capex	(53)

WORK CARRIED OUT TO DATE

11. At the September Board it was agreed that we would:
 - Develop internal plans and recommendations based on an investment in new modelling capability.
 - Enter a 3-month, dialogue with Vaultex and its shareholders to assess a business combination; and
 - Explore an outright sale/outsource of SC, through a corporate finance company.
12. Following implementation of a new network optimisation planning tool (CAST), we understand the costs of serving individual branches and customers for the first time. We have developed a financial model to estimate the economic outcomes of potential future SC options, both internal and external.
13. We have progressed discussions with Vaultex and its shareholders. Assay, the corporate finance advisors who successfully handled the sale of the Co-op's CViT business in 2014, have conducted early market testing with parties potentially interested in an acquisition/outsource/JV option for CP/CViT.

What are our internal findings and recommendations?

SITE AND ROUTE OPTIMISATION

14. Assuming we retain ownership of SC, based on current demand, we have used the modelling capability to run an optimal view of sites and routes. This suggests that we can deliver demand with 10 fewer units, reducing the number of depots by 9 to 15 and shutting one coin centre. Some 235 staff would be made redundant.
15. Operating costs would fall by £8.1m per annum and capital costs (fewer vehicles) by £1.4m. The one-off costs of redundancy and property exit would be c. £11m and there would be implementation costs of c.£2-3m, enabling better route planning and network management. Even assuming no benefits in Year 1 and using a discount rate of 9%, the incremental 5 year NPV would be c. £19m.
16. *Recommendation 1:* We will develop a business case for approval in March, with an operational plan ready for consultation with our people by end April. This date may vary as we work through the timing in relation to other Union consultations. We will add short-term resource now to enable us to understand and implement the detailed changes which will require significant operational restructuring.

EXTERNAL REVENUE

17. We now understand the profitability of our larger customers. On our current way of working a number are loss-making. We have undertaken a first modelling of the impact of reducing or removing external customers, compared to the optimised scenario above.

18. At first sight the 5 year NPV is adverse without the external customers, more strongly so if we try to cherry pick. However, over 10 years, the NPV is favourable without external customers and it should be noted that we are currently struggling to hold onto external revenue and would need to invest in capability to maintain our current scale. Our business will be simpler and easier to transform without external contracts.

	Optimisation of sites and routes - Keep all externals	Optimisation - POL Only	Optimisation - Retain profitable externals
Annual EBITDA (incl capex)	(£43.1m)	(£38.9m)	(£43.6m)
Redundancy and site closure costs	£11.0m	£29.9m	£13.6m
5yr NPV (vs. Baseline)	£19.0m	£15.6m	£15.1m
10yr NPV (vs. Baseline)	£40.7m	£47.7m	£35.7m
Payback (years)	2	3	2
Redundancies	235	796	314

19. *Recommendation 2:* We will plan to withdraw from the market progressively, creating a simpler business with lower net running costs. We will develop a business case for approval in March, incorporating the outcomes in the operational plan for consultation by end April. This will be subject to the affordability of higher up-front costs. Our desire to phase withdrawal will be subject to customer behaviour as our strategy becomes clear.

COIN

20. We have analysed the cost of providing coin into the network. Removal of all coin collections and deliveries and the closure of coin processing facilities would result in a stand-alone estimated cost saving of £14m per annum against the current baseline.

21. This is a significant prize but is not consistent with our existing contracts, for banking, for **IRRELEVANT** or with general change giving, or with the SGEIs that support our funding. It may be possible to change the nature of certain products like **IRRELEVANT**, to enable small overdrafts and avoid coin payments but this is, in itself, a significant, long-term change.

22. *Recommendation 3:* We will work to minimise the cost of coin over the medium term by:

- lobbying Royal Mint and Treasury for the removal of copper – worth c. £1m per annum;
- working with Royal Mint, Treasury and the industry to introduce a 'coin utility' in the UK; and
- undertaking an alternative medium term case to operate future contracts without coin. This would also enable a more commercial return on coin activity if it is retained. This would be led by the Commercial and Financial Services teams and report back to the Board in March 2017.

INTERNAL DEMAND MANAGEMENT

23. The current operation supports branches as follows:

POL Branches ⁽¹⁾	No	Weekly Delivery	Fortnightly Delivery	Monthly Delivery
Crown Agency	317	98%	2%	0%
WH Smith	9,804	80%	18%	2%
Other	108	98%	2%	0%
Total	10,327	81%	17%	2%

(1) There are a further 276 branches using Royal Mail Special Delivery, 53 branches self-funding their own cash and c.900 outreach branches using a hub and spoke model.

24. The Network Team believes that there is an opportunity to reduce the number and frequency of deliveries across the network by expanding the current alternatives.

25. Special Delivery extension:

- SC is continuing to switch delivery for certain branches to Royal Mail Special Delivery (RMSD)
- This applies to low-value drops to smaller branches, within Royal Mail (RM) limits, e.g. 10kg for coin and is dependent on RM's appetite

26. *Recommendation 4:* Continue to expand RMSD as 'business as usual'. This is expected to be small, with no material impact on the future of SC.

27. Retailer self-funding:

- We currently have 53 branches which self-fund their cash requirements as part of their wider retail business. In theory we could extend this model where there is a good match between the cash dynamics of the retail and POL sides of the business. The majority of such branches would be Locals and in aggregate they might account for around a third of the network.
- Such an arrangement may be attractive to the retailers as it would reduce their own banking costs. A number of multiples have expressed their interest in such a model. From a POL perspective it would also lower our working capital funding requirements and volatility.
- However, there are a number of practical issues which would need to be addressed to expand the use of this model, including:
 - The necessary in-branch and back office IT changes (e.g. the model would be more easily deployed where we have provided an IT solution that fully integrates with the retailer's till);
 - How we would cost effectively deliver travel money and non-cash stock;
 - How we would maintain the service standards required to support our commercial propositions;
 - The risks around debt exposure; and
 - Whether we would need to pay agents, off-setting SC savings

28. *Recommendation 5:* The Network Team will undertake more detailed research to develop a proposed implementation plan. Our current expectation is this would take time to implement and we are unlikely to achieve a quick reduction in SC demand. It will therefore be excluded from the April planning.

29. Hub and spoke:

- We currently have over 900 'outreach' branches where the cash is effectively delivered through a hub and spoke model, consisting of: 670 'hosted outlets' where POL services are provided in a fixed location for a few hours a week by 230 'travelling' postmasters. The SC services are delivered to the postmasters' main branch and they then use their own vehicle to shuttle the cash and stock between the satellite branches. 267 sites are covered by a mobile Post Office van (with each van covering an average of 7 locations). The van carries the cash required for each of these locations.
- We expect the use of these branches to expand as they provide a more cost effective replacement to standalone Community branches when they churn: we are procuring a further 14 mobile vans.
- This infrastructure effectively provides an alternative cash distribution network to our main SC business in rural areas, and there may be the potential to increase utilisation by arranging for postmasters to service a greater number of branches in their locality.
- The GE is revisiting its appetite for the risks associated with carrying cash in unprotected vehicles.

30. *Recommendation 6:* Identify branches where this would provide more cost effective cash delivery and collection. The Network Team will assess the insurance and legal issues associated with an expansion of the service, with the aim of reaching conclusions in March. The opportunity will be included in the March business plan and the consultation plan with colleagues in April.

Which options should POL progress with external partners?

IRRELEVANT

IRRELEVANT

37. There is likely to be an impact on our membership of the N **IRRELEVANT**
[REDACTED], which has been a **IRRELEVANT** [REDACTED]. In return for
assisting the [REDACTED] **IRRELEVANT**

IRRELEVANT

Network Cash, £m	Financed by:		
	POL	NCS	Total
Cash Centre (out of bond)	20	144	164
Cash in transit	35	23	58
Branch cash	513	158	671
Sub total	568	325	893
Cash Centre (in bond)	0	282	282
Total	568	607	1175

38. We are required to provide overnight security [REDACTED] **IRRELEVANT**
[REDACTED] **IRRELEVANT**

39. Any material outsourcing would require permission [REDACTED] **IRRELEVANT** and might
jeopardise either arrangement [REDACTED] **IRRELEVANT**

IRRELEVANT

40

IRRELEVANT

CMA

41. 18 months ago, RBS abandoned a planned outsourcing of cash processing to G4S/Vaultex based on conversations with the CMA (then the OFT). The OFT made the following informal points: they had jurisdiction; coin and cash were separate markets; and such a deal would have a 50% chance of referral. Any options with incumbents should be considered under this lens, which could extend the process materially and in public.

PUBLIC PROCUREMENT

42. Any contract to provide services back to POL should be publicly procured. Even if we undertake substantial market testing in private, we would be undertaking the formal assessment in public, which is likely to precipitate industrial action. The CWU believes it managed to stop similar options being pursued, notably in 2005-6. We are working through mitigation plans for a variety of scenarios, including with third parties.

Recommendation 8: Review options to make direct awards

Recommendation 9: Develop contingency/mitigation plans against industrial action for the March Board.

VAT

43. All outsource scenarios trigger higher VAT costs of c. £2-3m per annum and risk a review of our arrangements with HMRC.

IRRELEVANT

IRRELEVANT

IRRELEVANT

What are the key risks?

IRRELEVANT

IRRELEVANT update

Authors: Martin Edwards / Mark Siviter Sponsor: Martin George Meeting date: 22nd January 2016

Executive Summary

^{1.} Context

1.1 While in-year trading has been relatively strong, the longer-term risks **IRRELEVANT**

1.2 **IRRELEVANT**

^{2.} Questions addressed in this report

2.1 What role does **IRRELEVANT** play in our broader corporate strategy?
2.2 What scenarios do we envisage beyond the end of the current **IRRELEVANT**
2.3 How does this shape our short-term priorities in mails?
2.4 What is our initial assessment of the case for acquiring a price comparison website?

^{3.} Conclusion

IRRELEVANT

^{4.} Input sought

4.1 The Board is asked to provide their initial thoughts on the strategic choices outlined in this paper, to shape our analysis for the further debate in March.

The Report

1. How does IRRELEVANT fit into the emerging view of our wider corporate strategy?

1.1 During the first half of 2016 we are reviewing our overall corporate strategy, identifying what further changes are required to our business model to reduce costs, improve profitability and maintain our customer relevance in changing markets. While there are a number of potential scenarios that may emerge from this work, it is clear that IRRELEVANT

IRRELEVANT

1.2 From the perspective of the wider business, there are three main requirements of our IRRELEVANT

IRRELEVANT

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IRRELEVANT

2. What are the time pressures f **IRRELEVANT**

IRRELEVANT

3. What is our long-term plan and how does this drive our short-term priorities?

3.1 It is clear that the 'base case' trajectory identified in June of steadily declining volumes and fees is unsustainable in the long run. Given the time pressures outlined above, we have a limited window of opportunity to redirect the business towards a more sustainable end-point. In essence this requires a change in our long-term partnership arrangements - either towards closer alignment with RM or greater independence. The table below sets out three theoretical scenarios which, in principle, would offer a more sustainable end-game arrangement. The key test is

IRRELEVANT

Scenario:	Pros:	Cons:
A. Long-term extension of [RELEVANT] (10 years+), but with an 'underpin' which provides an acceptable floor on our fees and volumes, thereby providing us with long-term planning certainty.		
B. Greater economic reintegration with [RELEVANT] either through a [RELEVANT] covering all or some of our mails business or through an outright sale to [RELEVANT] (reversing separation).		
C. Assert our position as an IRRELEVANT still be the major provider of our volumes, but we would also build relationships with other carriers and upstream retailers (which could be sold to [RELEVANT] facilitating a reduction in fees).		

IRRELEVANT

3.2 We are currently undertaking more detailed financial and market analysis to help us evaluate these scenarios, in particular to:

IRRELEVANT

3.3 This analysis will then enable us to compare the relative risks and benefits of the different scenarios. However, it should be noted that it will not provide an empirical answer to which provides the best option – ultimately we will have to make some strategic judgements about what provides the best approach for our customers and for the Post Office.

3.4 The renegotiation of the **IRRELEVANT** provides the main, pre-scheduled opportunity to move towards one of these alternative scenarios, although as indicated above there may be events which trigger a renegotiation before then, either by mutual consent or as a result of a significant regulatory or market development. The questions we need to address in the short-term are therefore: a) do we have a strong preference between these scenarios at this stage; and b) based on this, what steps should we take now to enable us to realise our preferred outcome?

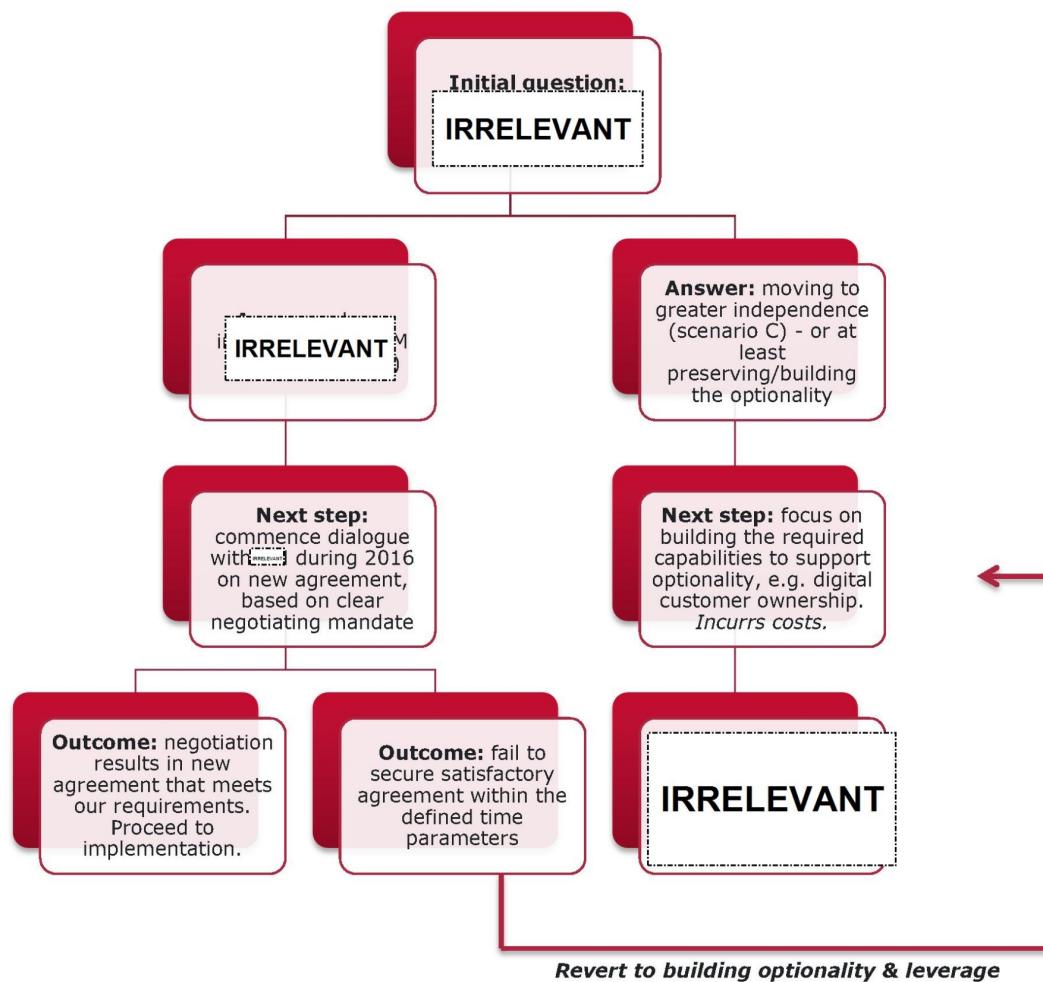
3.5 For example, if we reached the conclusion now that we wanted to build the optionality to move towards greater independence (scenario C) – either because we believed it was the most desirable end-point, or because we judged it necessary to strengthen our leverage over **IRRELEVANT** to secure a favourable extension to **IRRELEVANT** – our priority for the next three years would be to develop the capabilities that would provide us with that optionality. In particular this would mean building an online channel, strengthening our customer ownership and developing the technical and operational capabilities required to support a multi-carrier service from 2020 or earlier.

3.6 The most significant step we could take in the near term without breaking the **IRRELEVANT** would be to acquire a price comparison site such as **IRRELEVANT** which would provide a rapid route to a more meaningful digital presence in **IRRELEVANT** while also establishing a relationship with a broader range of partners. Annex A outlines our initial evaluation of this opportunity, and we will revert with a firmer view in March in the context of our broader strategy and 3 Year Plan.

3.7

IRRELEVANT

IRRELEVANT



3.9

IRRELEVANT

4. Next steps

- 4.1 We would welcome the Board's initial views on the choices and questions outlined in this paper, which will inform the more detailed analysis we will conduct ahead of a longer discussion on **IRRELEVANT** at the March Board. During this period we will also be conducting further work on **IRRELEVANT** as outlined at the end of Annex A.
- 4.2 We would also be very happy to meet with individual Board members on a bilateral basis during February, to go through any more detailed questions. For those Board members who have recently joined this could include a wider induction on the **IRRELEVANT**, and also a review of the outputs of last **IRRELEVANT**

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POLB 15(7th)
POLB 15/110 – 15/119

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

Minutes of a Board meeting held at 11.15 am on 25 November 2015
at 20 Finsbury Street, London EC2Y 9AQ

Present:

Tim Parker	Chairman
Richard Callard	Non-Executive Director
Alisdair Cameron	Chief Financial Officer
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Paula Vennells	Chief Executive

In Attendance:

Alwen Lyons	Company Secretary
Nick Kennett	Group Director, Financial Services (Minute 15/114 and 15/115)
Martin Kearlsley	Banking Framework Manager, (Minute 15/114)
David Hussey	Business Transformation Director, (Minute 15/116)

POLB 15/110

INTRODUCTION

(a) A quorum being present, the Chairman opened the meeting.

POLB 15/111

**MINUTES OF THE PREVIOUS BOARD AND COMMITTEE MEETINGS
AND STATUS REPORT**

(a) Minutes

The minutes of the meeting of the Board held on 22 September 2015 were approved as accurate records and the Chairman was authorised to sign them.

Status Report

(b) The Status Report, showing matters outstanding from previous Board meetings, was noted.

POLB 15/112

CEO'S REPORT

(a) The CEO introduced her report and focused on the following key areas:

(b) A total of £1.3m had been raised for Children in need and the CEO thanked the Chairman and Tim Franklin for attending the charity ball.

(c) The network had delivered its 5000th branch transformation and Baroness Neville-Rolfe would be opening the 5001st in the first week in December.

(d) The pulse engagement survey results had shown a decline of 2% since the full survey in March 2015, although 1% higher than the

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pulse in 2014. The CEO explained the focus on the key areas for improvement which included the speed of decision making.

(e) The Board discussed the CWU ballot for industrial action on Christmas Eve and the CEO explained the actions the Business would take in the event of a strike, including loss of pay for those staff who took action. The Board recognised the progress made in industrial relations over the last three years, but were disappointed with the prospect of a strike.

ACTION:
Richard Callard

Richard Callard was asked to circulate the changes proposed in the Trade Union Bill and the timescale for implementation.

(f) The Distributed Denial of Service DDoS attacks on the Post Office website had reduced with only one since the last Board meeting. The assurance work to review the systems of the Business' top suppliers was underway.

ACTION:
GC

The Board asked when the additional supplier review would be completed.

(g) The Business had received a questionnaire from the FCA as part of contingency planning for a prolonged countrywide power failure. The CEO reported there would be little the Business could do in such circumstances, and the Board supported the proposed response.

(h) The CFO reported that the preferred candidate for the CIO role had accepted the position and was negotiating a release date with his existing employer. It was hoped that he would join the Post Office in the New Year. The Current interim CIO had also been retained until October 2016.

(i) The CFO explained that project IRIS would be presented to the Board in January, including options for full subcontracting

(j) The Board asked if the Business had agreed an additional payment for Royal Mail (RM) barcoding. The CEO explained that barcoding had been introduced early as a favour to RM, and that the fee was part of a wider negotiation, although she had received a letter from RM CEO acknowledging the favour.

(k) Having taken all of the discussion issues into account, the Board noted the CEO's report.

POLB 15/113

FINANCIAL REPORT

(a) The CFO was encouraged by period 7 and year to date performance, he was now more confident that the Business would hit the full year EBITDAS target, however trading over the Christmas period would be key.

(b) The Board discussed the postmasters' compensation error and the effect on the balance sheet provision and exceptional items charged in the interim and final accounts for 2014/15. The error

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would affect both Post Office Limited and Postal Services Holding Company Limited.

(c) The CFO explained why the error had occurred and assured the Board that, based on the incomplete work considered to date, this was an accounting timing issue and did not affect the payments to postmasters or the cash position. The CFO stressed that this error was completely unacceptable and reinforced the view he had noted in May that the financial reporting controls had not been strong enough. He reassured the Board that since joining the business he was introducing new structures and individual accountabilities into the Finance team and that a detailed project was underway to systematically improve controls. This would take some time to complete and more surprises could not be ruled out.

(d) The Board discussed the Interim Report and Condensed Consolidated Financial Statements as recommended by the Post Office Audit and Risk Committee at their meeting of 10th November 2015. The Board asked the CFO to ensure the report was clear about the accounting timing error for the postmaster provision, and that this error did not affect any payments made to postmasters.

(e) The Board:

- Noted the issue relating to the postmaster' compensation provision, the action taken and agreed the proposed level of disclosure;
- Approved the approach to Going Concern and agreed the Going Concern status for Post Office Limited at the half year;
- Approved the Interim Report and Condensed Financial Statements subject to finalisation of the provision for Postmaster' compensation;
- Delegated authority for reviewing final amendments to a Sub-Committee, of any three of Tim Parker, Paula Vennells, Alisdair Cameron and Tim Franklin; and
- Approved the Letter of Representation to the auditor and authorised Paula Vennells or Alisdair Cameron to issue it on behalf of the Post Office Limited Board.

POLB 15/114

BANKING FRAMEWORK

(a) The Chairman welcomed Nick Kennett, Group Director, Financial Services, and Martin Kearsley, Banking Framework Director, to the meeting.

(b) Nick Kennett presented the Banking Framework proposition and gave the Board an update on the negotiations currently taking place with the banks.

IRRELEVANT

IRRELEVANT

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(c) Nick Kennett explained that the most significant changes from the

IRRELEVANT

ACTION:
Nick Kennett/ CFO

(d) The Board asked for an analysis of the [REDACTED] **IRRELEVANT**

IRRELEVANT

(e) Nick Kennett explained the [REDACTED] **IRRELEVANT**
[REDACTED] obligations to which the banks had to comply if
undertaking a material outsourcing.

ACTION:
Nick Kennett

The Board asked for a

IRRELEVANT

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(f) The Board agreed that Nick Kennett should continue to negotiate

IRRELEVANT

(g) Before making this decision the Board would need to understand

IRRELEVANT

(h) Martin Kearsley left the meeting.

POLB 15/115

FINANCIAL SERVICES (FS) STRATEGY

(a) Nick Kennett gave the Board an update on the performance of the
FS business and an overview of the options available in

IRRELEVANT

(b) The Board discussed the FS product set and the different channels
through which they were sold. **IRRELEVANT**

IRRELEVANT

IRRELEVANT services were predominantly sold by specialists

IRRELEVANT

(c) The Board debated the relationship with **IRRELEVANT**

IRRELEVANT

(d) **IRRELEVANT**

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IRRELEVANT

(d) Nick Kennett explained that the [REDACTED] **IRRELEVANT**

[REDACTED] **IRRELEVANT**

(e) Nick Kennett explained that initial discussions had taken place with the [REDACTED] to understand the options for the new relationship. The [REDACTED] dialogue would begin in the next months. The Board authorised Nick Kennett to commence negotiations to determine the opportunities available to [REDACTED] **IRRELEVANT**. The Board asked him to revert in due course.

ACTION:
Nick Kennett

(f) The Board asked for:

[REDACTED] **IRRELEVANT**

(g) Nick Kennett left the meeting.

POLB 15/116

BUSINESS TRANSFORMATION

(a) The Chairman welcomed David Hussey, Group Transformation Director, to the meeting.

(b) David Hussey updated the Board on the integrated Business Transformation plan and the changes since the last update in May.

(c) He explained that a detailed integrated revised plan had been developed which identified that the IT plans were undeliverable. While there is greater realism embedded in the revised plan, it is still subject to significant risk and increased costs; not least because the plan anticipates final delivery only one month before the expiry of the Fujitsu contract in March 2018. These costs, together with delayed benefit realisation, pose material risks to the delivery of the 3 year plan.

(d) The CFO explained that as a result of these risks, he had requested that work be done to explore options to reduce both risk to the plan and cost. This included revisiting with Fujitsu why they had elected not to participate in the procurement for the Front Office and other towers. Fujitsu, through these conversations, has

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indicated that there may be alternative options, and the Interim CIO had been requested to understand these options. The CFO stressed that he was a long way from making any recommendations to the Board but it was clearly important to ensure that all options to reduce costs and risk were fully explored.

(e) The Board were disappointed that the risks in the Front Office plan had not been fully understood at an earlier stage given the extensive challenge from Board members both inside and outside formal board meetings.

ACTION:
CFO

(f) **The CFO was asked to go back and review the external assurances that had been given on the existing plan.**

ACTION:
CFO

(g) **The Chairman asked the CFO to ensure that all potential options were properly assessed – including for any legal risk, and agreed to call an additional Board meeting by conference call in December to consider any options that management considered viable in all the circumstances.**

(h) David Hussey left the meeting.

POLB 15/117

ITEMS FOR NOTING

(a) 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 1346 to 1361 inclusive in the seal register was hereby confirmed.

POLB 15/118

ANY OTHER BUSINESS

(a) As recommended by the Nominations Committee, the Board approved the appointment of:

- Ken McCall as the new Senior Independent Director; and
- Carla Stent as a Non-Executive Director and Chair of the Audit, Risk & Compliance Committee two new Non-Executive Directors

ACTION:
Company Secretary

The Company Secretary was asked to seek consent from ShEx for their appointments, and after consent is given to issue the appropriate appointment letters were issued and filings made at Companies House.

(b) The Board challenged the appropriateness of being asked to note the POMS minutes without any relevant background information and asked the Company Secretary to discuss the inclusion of these minutes with the General Council and POMS Chairman.

(c) The Board agreed the membership of the Board Committees:

Nominations Committee
Tim Parker (Chair)
Ken McCall
Virginia Holmes
Remuneration Committee
Ken McCall (Chair)

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Tim Parker
Virginia Holmes
Audit Risk & Compliance Committee
Carla Stent (Chair)
Tim Franklin
Ken McCall
Richard Callard

Richard Callard stressed that his role on the ARC was as a Post Office Director and not as a representative of ShEx.

POLB 15/119

DATE OF THE NEXT MEETING

(a) It was noted that the next meeting of the Board would be on 21 January 2016.

.....
Chairman

.....
Date

Post Office Limited Board

Status Report as at: 15.01.2016

Board	REFERENCE	ACTION	Action Owner (GF Member)	Due Date	STATUS	Open/Closed
POL B	September 2014 14/105(f)	To present the results of the six month trial where Post Office FS colleagues used Mains branches as their base.	Kevin Gilliland	March 2016 Board Meeting	To be included as part of FS strategy in January.	Open
POL B	22nd September 2015 15/94 (g)(4)	To submit detailed recommendations relating to project Iris in January 2016	Mark Ellis/CFO	January 2016 Board Meeting		Closed
POL B	October 2015 POLB 15/102 (d)	The CFO to ensure that the business received assurance statements from all major suppliers, for which it acted as a portal, that they had DDoS plans in place.	CFO	January 2016 Board Meeting		Open
POL B	October 2015 POLB 15/103 (d)	A full assessment on the Mails Acquisition and a further update on RMG negotiation to be presented to the Board in January.	Martin George	January 2016 Board		Closed
POL B	October 2015 POLB 15/105 (b)	To provide a further update on New Starter Attrition for the March Board.	Neil Hayward	March 2016 Board Meeting		Open
POL B	October 2015 POLB 15/107 (b)	To circulate the current Accenture market report on the European Postal Administrations	Martin Edwards	End of October 2015		Closed
POL B	October 2015 POLB 15/107 (d)	To provide analysis of ATM economies including the cost of servicing and holding cash.	Martin Edwards	January 2016 Board	Report provided after the status report	Closed
POL B	October 2015 POLB 15/107 (e)	The Executive to work with Richard Callard's team at ShEx to optimise the questions in the public consultation as set out in the paper, but also to test public opinions on SGEI products, including the importance of posting and collecting of parcels; the alternative branch operating models to support the delivery of these services; the importance of the Post Office for small and medium sized enterprises.	Martin Edwards /Richard Callard	End of November 2015	The SGEI consultation has been debated and is being finalised by BIS	Closed
POL B	October 2015 POLB 15/108 (b)	The Chairman asked General Counsel to provide further information on the number of contracts being signed to the levels proposed and any benchmark data available from other organisations, especially ShEx Businesses.	General Counsel/Chairman	November 2015 Board	Paper to January Board	Closed

POL B	November 2015 POLB 15/112 (e)	Richard Callard was asked to circulate the changes proposed in the Trade Union Bill and the timescale for implementation.	Richard Callard	January Board.	Report provided behind status report	Closed
POL B	November 2015 POLB 15/115 (f)	IRRELEVANT • an explanation of the process and timing of ending the contract in 2023	Nick Kennett	March 2016 Board Meeting	IRRELEVANT	Open
POL B	November 2015 POLB 15/116(e)	The Board were disappointed that the risks in the Front Office plan had not been understood at an earlier stage and asked the CFO to go back and understand what external assurance has been given on the existing plan.	CFO	End of December	With apologies, the focus has been on Project Trinity and this will be picked up before the March meeting.	Open
POL B	November 2015 POLB 15/118 (a)	The Company Secretary was asked to seek consent from ShEx for their appointments, and after consent is given to issue the appropriate appointment letters were issued and filings made at Companies House.	Company Secretary		Consent received 25th November. Appointment letters issued.	Closed

Trade Union Reform

The Post Office Board requested a briefing on the Trade Union Bill. Note this summary is confidential and for the Board only and will be updated if changes made to the Bill during its passage make this necessary. The Bill team hopes to have the legislation reach royal assent in the spring.

The main elements of the Trade Union Bill are:

- Introducing a 50 per cent voting threshold for union ballots turnouts, whilst retaining the requirement for there to be a simple majority of votes in favour.
- Introducing an additional threshold for certain important public services (the health, education, fire, Border Force, nuclear decommissioning and transport services) so that 40 per cent of those entitled to vote must vote in favour of industrial action. This is on top of the 50 per cent minimum voting turnout threshold.
- Tightening the rules on ballot mandates to make sure industrial action is only taken on a recent mandate.
- Tackling intimidation of non-striking workers during a strike.
- Reforming the role of the Certification Officer (responsible for statutory functions relating to trade unions and employers' associations).
- Introducing a transparent opt-in process for unions' subscriptions that allows members to make an active decision to contribute to the political funds. This will reflect the existing practice in NI.
- Tightening the rules around taxpayer funded facility time for union representatives.
- Banning 'check-off' in the wider public sector (i.e. will require employees to set up their own subscription rather than simply ticking a box as they join an organisation.)
- HMG will also take forward secondary legislation to remove the current ban on employers using temporary workers to replace staff taking part in industrial action.

Post Office-specific considerations

- Post Office is not one of the 'certain important public services' such as transport to which additional requirements will be placed regarding strike ballots.
- All of the strike ballots held by the CWU in recent years would still have been valid under the new restrictions for all unions (as all had a turnout of over 50%) – incidentally, all would have been valid had the additional public sector requirements been applied as well.
- Post Office is not included in the changes under the bill that will stop check off for civil service departments and Non-Departmental Public Bodies (NDPBs).

- Should secondary legislation to end the ban on using agency workers to cover strikes be passed it would allow Post Office to explore this option across the business, including Supply Chain.

Further information can be found in the Annex.

ANNEX: Comparison between Bill measures and current status

Measure in the Bill	Current position
50% threshold for ballot turn-out; no change to simple majority needed	<ul style="list-style-type: none"> - No minimum turn out required. Simply majority of those voting must vote in favour
An additional threshold (40%) for support to take industrial action in important public services (fire, health, education, transport, border security and nuclear decommissioning);	<ul style="list-style-type: none"> - No minimum threshold
More detailed information required on ballot paper, including more details of the dispute, and the nature and timing of industrial action proposed	<ul style="list-style-type: none"> - Dispute can be as vague as "pay" or "terms and conditions". - Only need to specify "strike" or "action short of a strike". Nothing required on timing of industrial action
4 month time limit on ballot mandates to ensure industrial action is only taken on a contemporary mandate	<ul style="list-style-type: none"> - No time limit, though employers can seek injunctions if they feel dispute is over. - Recent strikes called on the basis of a mandate over 2 years old
Making section F of the Code on Picketing a statutory obligation by requiring unions to appoint a picket supervisor	<ul style="list-style-type: none"> - Code on Picketing is a statutory code and can be considered by a court.
Reforming the role of the Certification Officer, by: <ul style="list-style-type: none"> - Extending investigatory powers to enable proactive investigation without the need to receive a complaint from a trade union member; 	<ul style="list-style-type: none"> - Most investigatory powers can only be used in response to a complaint from a member; - Can only issue Declarations and/or Enforcement Orders across a range of infringements (though can prosecute in

<ul style="list-style-type: none"> - Giving the Certification Officer the power to impose fines for non-compliance; - Power to raise a levy on unions and employer associations to cover the costs of the Certification Officer 	<ul style="list-style-type: none"> relation to financial infringements which can result in a fine being imposed by the Court); - Running costs funded by the taxpayer
Transparency in political funds <ul style="list-style-type: none"> - requiring union members to make an active decision to “opt in” and 5-yearly refresh to contribute to political funds; - require unions to report on expenditure exceeding £2k a year from political funds 	<ul style="list-style-type: none"> - Default position is the member contributes unless notifies to the contrary
Reporting requirement for wider public sector and reserve power to set a cap to tighten the rules around taxpayer-funded paid facility time for union representatives.	<ul style="list-style-type: none"> - Currently, there is a Cabinet Office agreement that Whitehall departments monitor the spending on facility time.
Removing the use of check-off in the wider public sector (trailed for an amendment)	<ul style="list-style-type: none"> - Currently, some employers offer a facility that enables a worker to request that his or her trade union subscriptions are deducted directly from his or her salary and paid to the trade union by the employer.

MEASURES NOT IN THE BILL:

- **Repeal of the ban on hiring agency workers** to cover for striking workers (to be done by secondary legislation). Government yet to publish its response to the consultation on this.

Economics of the ATM Business

Author: Phil Bowdery Sponsor: [insert] Date: 09/12/15

Executive Summary

Context

There are over 70,000 ATMs in the UK that are operated under the LINK scheme. [RELEVANT]

IRRELEVANT

The ATM relationship with [RELEVANT] started in 2005 with the number of ATMs increasing steadily until September 2014. Our current ATM estate consists of 1,900 external and 700 internal ATMs spread across the Post Office network. Each ATM is installed on an [RELEVANT] is are currently being progressed as ATMs reach the end of their initial term. [RELEVANT]

IRRELEVANT

As well as providing an income stream the [RELEVANT] ATMs are the only ATMs where Poca customers can make cash withdrawals, with Poca transactions now representing c.10% of ATM withdrawals.

Under the ATM Agreement ATMs can continue to operate until the end of their individually term or until 31st March 2022 at the latest. From November 2017 ATMs will begin to fall out of the scope of the current agreement and options from this date are under consideration.

Questions this paper addresses

This paper summarises the economics of [RELEVANT] ATMs based on the cost allocations applied in the product P&Ls.

Economics of [RELEVANT]

The table below shows the forecast income and costs for 2015/16 based on the actual volume of ATM cash withdrawals to date and the product P&L cost allocations for the first half of this financial year.

The estimated income received by [RELEVANT]

IRRELEVANT

IRRELEVANT

It is forecast there will be c160m ATM cash withdrawals in 2015/16. ATM income received by POL is set out in the ATM Agreement and is based on a mix of [RELEVANT] fixed and variable payments, which equate to an average income per cash withdrawal of [RELEVANT]

Forecast Commercial Flow for 15/16	
Estimated Total commission revenue	IRRELEVANT
ATM Commission received by POL	£34,500,000
ATM remuneration paid to Agents – Note 1 below	-£18,534,608
Other Product Costs	-£407,286
Direct Product Contribution	£15,558,106
Fixed remuneration allocated to ATMs – Note 2 below	-£5,115,579
Technology Costs	-£273,854
Supply Chain Cost – See Note 3	-£5,924,620
	-£353,002
Marketing Costs - Brand & Generic	-£228,956
Other Indirect Product Costs allocated to ATMs	
Total Indirect Costs of Products	-£11,896,011
Indirect Product Contribution	£3,662,095
Other Central and Overhead Costs	-£9,410,865
EBIT - POL TARGETED PROFIT – See Note 4	-£5,748,770
Adjustments as detailed below:	
1. Correction of 6% overstated VAT on ATMs and reduction in remuneration on extended ATM contracts.	£2,312,076
2. Fixed remuneration not apportioned to ATMs.	£5,115,579
EBIT after Adjustments	£1,678,885

The ATM product currently shows a direct product contribution of £15.5m. While a negative EBIT is being reported this is being assessed as ATMs receive a disproportionate allocations of fixed remuneration (indirect cost) and overhead costs as covered in note 2 below.

Note1: The direct product contribution going forward will be significantly improved as the actual ATM remuneration cost is overstated in the P&L model by 6% due to VAT being applied to ATMs. However as ATMs are VAT exempt the actual cost is £1.1m lower. It should also be noted that remuneration changes being introduced as part of extending the contract term of expired ATM will deliver a reduction in Agent's commission of £1.2m per annum from 17/18. Direct product contribution would therefore increase to £17.8m.

Note 2: Fixed remuneration allocated to ATMs is apportioned on the basis of revenue generated. As fixed remuneration is removed through NTP contractual

changes this cost will no longer be allocated to ATMs (i.e. any increase in variable remuneration would be reported against appropriate product lines). Additionally ATMs sit largely outside of the normal branch environment and whilst they do take up time being managed they are not really part of the wider infrastructure. Therefore as the allocation of 50% of overhead costs is based on income this adversely impacts this product. At the extreme, an argument could be made that no further overheads should be allocated beyond those relating to time spent on managing the ATMs. This issue is still being considered as part of P&L reporting.

Note 3: Supply Chain costs reductions will flow through to the product over time reducing this significant element of product costs. No benefit being forecast at this time.

Note 4: Please refer to Appendix 1 for the reasons for the change in EBIT for ATMs between 2014/15 and 2015/16.

Assumed Profitability to **IRRELEVANT**

After deducting the commission paid to POL and the LINK switching fees the bank retains c.£24m (c39%) of the annual LINK interchange generated by the ATM estate. As owners and operates of the ATMs the bank has to cover lifetime costs of running the ATM estate including the purchase and installation of the ATMs, replacement of damaged machines, daily operating costs, **IRRELEVANT** software/equipment upgrades (e.g. polymer notes) and removal of each ATM at the end of its agreed term. Based on the ongoing depreciation of c1,400 external ATMs that have not yet reached the end of their planned 8 year term and operating costs of c£2k per ATM per annum, the product contribution achieved by the bank is estimated to be c£14m. This is similar to the DPC earned by Post Office of c£15m pa.

Basis of ATM Remuneration and Benefit to Agents

The ATM remuneration structures, which have been in use since 2005/06, are based on combinations of fixed and variable elements that are designed to incentivise the Agent to maximise ATM transactions. The remuneration structure is aligned with the commissions received by POL and accounts for about 50% of this. As 8 year contracts with Agents are reaching their end revised remuneration is now being offered that will reduce this cost by £1.2m.

The ATM estate generates an overall income to Agents of nearly £17m per annum, equating to an average annual income of £8.8k for an external ATM and £2.5k for an internal. While the Agent has responsibility to load and balance the ATM the only additional cost incurred would be for the power supply and, in Scotland only, any business rates applied to the ATM. The ATM also acts as a footfall generator and with over £8bn per annum being dispensed from ATMs in Agency branches there is a significant opportunity for increased retail sales. Where we are unable to install a **IRRELEVANT** ATM the Agent would be issued with an ATM waiver so that an ATM from alternative supplier could be installed. Over 5,000 waivers have been issued over the life of the ATM Agreement with **IRRELEVANT**

Conclusion

ATMs are a key product for customers, postmasters and Post Office Limited. They provide a significant product contribution and are a key component of Post Office projecting a Financial Services image.

With the expiry period of ATMs shortly falling within the timeframe of the IRRELEVANT the business is assessing options for the future.

Appendix 1

The main reasons for the improvement in EBIT for ATMs from the c£9m loss showing on the 2014/15 P&L compared to the c£5.8m loss forecast for 2015/16 are:

1. Agents Variable pay – the 2014/15 product P&L had some complex formulas for the calculation of Agents Variable costs, which contained some fundamental errors in allocation to all products – most notably Mailwork as this is not a volume driven cost but rather fixed. This resulted in the costs being overstated in 2014-15 across all products, with the impact on ATM's being in the region of c£1m.
2. Agents fixed Costs – in total agents fixed costs have reduced in 2015/16 by c£17m in total for POL. As this allocation is calculated using the agents variable pay ratio per product the net result is that Agents fixed costs in down c£2m from 2014/15.
3. Variable net Income for ATM's is also up £1.5m from 2014/15.



Period 9 Financial Results

Al Cameron

22nd January 2016

Period 9 Financial Performance

Context

P9 incorporates our peak trading weeks, particularly in Mails. P8 had seen lower Mails volumes; weaker renewals income in Motor and Home insurance; and Lottery below plan. Telecoms income was also below forecast as the November price increase had not been fully captured within the billings cycle.

Questions

- What was the financial performance of the business in P9 compared to budget and forecast?
- Did income recover from the impacts seen in period 8?
- What are the implications of variances to forecast on our full year outlook?
- How is our scorecard performance?

Conclusions

- P9 EBITDAS of £(0.5)m was £0.5m better than forecast in the period. YTD we are £0.9m ahead of forecast and £3m above budget.
 - Net income was £0.7m favourable to forecast, Expenditure £(1.1)m adverse and Project expenditure £0.9m favourable.
 - Underlying performance (excluding timing and one-offs) was £(0.6)m adverse on Income and £1.2m favourable on expenditure.
- Net Income improved on P8:
 - Mails performed well over the peak period with higher volumes across most products, trading above forecast and last year. Sustained customer activity after the last posting dates provides further evidence of a later Christmas peak.
 - Lottery performance remains significantly below forecast, in line with the wider market following Camelot game changes.
 - Telecoms income now reflects the full November price increase.
 - Within Financial Services, stronger than anticipated performance in Business Banking partially offset disappointing performance in MoneyGram and Gift Cards over Christmas.
- Underlying favourable performance across a number of Non-Staff cost lines was offset by a catch-up versus forecast within IT and Marketing. Project Opex continues to fall below forecasted levels.
- Q4 challenges are emerging to the income forecast. Within Expenditure, opportunities net out, delivering our full year target of £(34)m EBITDAS. The Group Executive will review progress weekly.

Input Sought

The Board receive and feedback on the current trading performance and our expectations for the Full Year.

EBITDAS is £3m favourable to Budget in the Period and YTD

£m	P9			YTD		
	Actual	Budget	Variance	Actual	Budget	Variance
TOTAL GROSS INCOME	90.6	87.9	2.7	733.2	737.8	(4.6)
Cost of Sales	(9.0)	(9.5)	0.5	(81.3)	(82.0)	0.7
TOTAL NET INCOME	81.6	78.4	3.2	651.9	655.7	(3.8)
Staff Costs	(17.7)	(17.9)	0.1	(172.5)	(170.9)	(1.7)
Postmaster Costs	(41.5)	(42.3)	0.9	(317.9)	(327.6)	9.7
Non-Staff Costs	(24.1)	(21.9)	(2.2)	(211.4)	(207.8)	(3.6)
Total Expenditure (pre Project OpEx)	(83.3)	(82.1)	(1.2)	(701.8)	(706.3)	4.4
FRES - Share Of Operating Profits	1.9	1.9	0.0	29.8	31.2	(1.4)
EBITDAS - BAU	0.2	(1.8)	2.0	(20.2)	(19.4)	(0.8)
Project OpEx	(0.7)	(2.0)	1.3	(9.9)	(13.7)	3.8
EBITDAS	(0.5)	(3.8)	3.2	(30.1)	(33.0)	3.0
Depreciation	(0.0)	(0.1)	0.0	(0.3)	(0.5)	0.1
Network Payment	10.0	10.0	0.0	97.5	97.5	0.0
EBIT pre exceptionals items	9.4	6.2	3.2	67.1	64.0	3.1
Interest	(0.1)	(1.0)	0.9	2.8	(3.0)	5.8
Impairment	(14.6)	(16.7)	2.1	(82.3)	(148.9)	66.6
Exceptionals (incl BT) & Redundancy & Severance Costs	(9.6)	(30.1)	20.5	(188.3)	(158.7)	(29.6)
Government Grant Utilisation	0.0	12.5	(12.5)	150.0	112.5	37.5
Profit/(Loss) On Asset Sale	0.0	(0.0)	0.0	0.0	(0.0)	0.0
Total Profit/(Loss) Before Tax	(14.8)	(29.1)	14.3	(50.7)	(134.1)	83.4

Period 9 v Budget:

- Income: driven by stronger Mails trading performance, lower Lottery income and Telecoms price increase. In FS, receipt of final Hawk settlement income and higher business banking offsets withdrawal of NS&I products.
- Expenditure: Non-Staff costs adverse driven by higher IT and Property maintenance costs.

Year to Date v Budget:

- Income: Continued strong trading in variable Mails, Government services and Banking. More than offset by lower Travel Insurance, the withdrawal of NS&I and lower supply chain income.
- Expenditure:
 - Staff Costs adverse due to higher pensions costs (adverse market conditions at the year end).
 - Postmasters' Costs favourable due to fixed costs benefit from higher NTP conversions in 14/15.
 - Non Staff Costs adverse due to higher property maintenance costs, additional IT licence costs, higher finance costs (robberies, FX and Card fees). One-off Mails Segregation fees offset by Fujitsu service credit.
 - Project Opex favourable reflecting capitalisation of costs, timing of spend, and project savings

Underlying cost performance in the period was positive against forecast. Net Income was adverse.

	Actuals	Q2 Forecast	Var to Forecast
Net Income	81.6	80.9	0.7
Staff Costs	(17.7)	(18.1)	0.3
Postmasters Costs	(41.5)	(40.8)	(0.6)
Non Staff Costs	(24.1)	(23.3)	(0.8)
Total Expenditure	(83.3)	(82.2)	(1.1)
FRES	1.9	1.8	0.1
Invest to Grow	(0.7)	(1.6)	0.9
EBITDAS	(0.5)	(1.0)	0.5

Of Which:	
Timing / One-off	Estimated Underlying
1.3	(0.6)
	0.3
	(0.6)
(2.0)	1.2
(2.0)	0.9
	0.1
0.7	0.2
0.0	0.5

Timing and One-Offs in Period 9:

Income £1.3m, mainly:

- £1.1m Hawk settlement income phasing
- £0.7m Telecoms price increase billing
- £(0.3)m Self Service Kiosk overbilling

Non Staff Costs £(2.0)m, mainly:

- £(1.7)m IT project costs to be transferred out in P10; IT service costs true-up for prior periods; and £(1.2) Marketing spend timing
- £0.6m Non Staff (FX gains/vehicle lease credit)

Invest to Grow £0.7m

- Client refund, forecasted for P12 - MoneyGram funded alterations to Horizon

Underlying Performance :

- Mails performed well: ahead of forecast by £0.4m underlying (before SSK overbilling of £(0.3)m) and up 2% yoy, recovering from the impact of Black Friday and customer spending patterns leading into Christmas.
- Lottery performance was behind expectations by £(0.5)m, broadly in line with the market following product changes. Performance in P10 is expected to improve due to the multiple roll-overs.
- Supply Chain Income £(0.2)m below forecast signalling a risk to the full year, due to client losses and a reduction in demand from Royal Mail.
- In Financial Services, MoneyGram and Gift Cards performed below expectations, partially offset by stronger performance in Business and Personal Banking: expected to mitigate full year risk within Banking & Payments.
- Staff Costs benefited from lower than forecasted Pension costs due to lower headcount than the Q2 forecast (uplifted from the budget assumptions); Agents variable pay was impacted by the mix of business through mains; Non Staff Cost performance was strong across a number of operating cost lines.
- YTD EBITDAS is £0.9m better than forecast.

Trading risks and opportunities in Q4 currently net out, but with income shortfall offset by lower expenditure

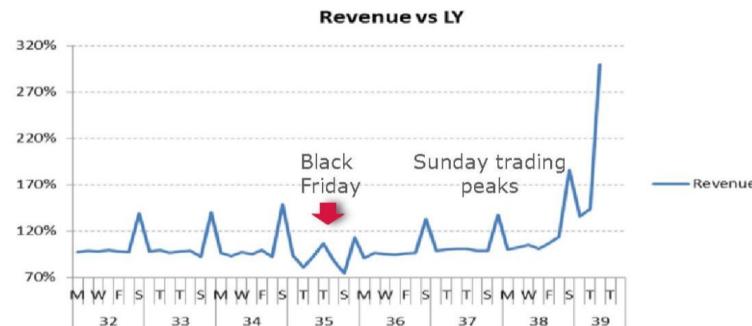
Risk / Opportunity	£m	Acc	Actions in Q4
Mails: SSK overbilling - accrued cost. Mails Trading upside	£(1.1)m £0.7m	MG	Resolve with Royal Mail Maintain trading momentum
Lottery: Lower demand for new game Retail: Higher Photo-Me commission	£(1.0)m £0.2m	MG	Some improvement expected in P10 from roll-overs. Product review. Driven by additional kiosks triggering higher commission rate
Mortgages: Weaker pipeline for Q4	£(0.7)m	NK	Launch Q4 marketing campaign; improve online customer journey
Gift Card: lower than expected Xmas sales	£(0.6)m	NK	Not expected to recover. Focus on driving other opportunities to offset risk. Product review.
MoneyGram: lower than expected P9	£(0.5)m	NK	Performance in P9 still under review. Monitor performance in P10
Banking & Payments: Greater banking take-up with HSBC. Additional energy provider payment schemes	£1.3m	NK	Focus on new business banking opportunities; increase awareness of Energy payments.
Supply Chain: Royal Mail demand reduction on warehousing; client losses	£(0.9)m	AC	Tighter control of cost base to offset risk; improve service levels.
Total Income	£(2.6)m		
Pensions: Run rate lower than forecast due to headcount reductions [£11.3m vs £13.8m]	£2.5m	AC	Monitor run rate periodically
Postmasters' pay: Mix of contract types / NTP delays	£(1.4)m	KG	Continue to drive NTP conversions at fastest pace.
Postmaster pay: Variable pay impact from lower lottery/higher mails income	£0.4m	KG	Monitor performance of Lottery / Mails over Q4
Project Opex: Expected opportunity from timing	£1m +	DH	Assess expected spend by project over Q4
Total Expenditure	£2.5m		

Mails performed better over the peak period

£m	Period 9			YTD			
	P9	Q2 Forecast	Var to Q2 Forecast	YTD	Q2 Forecast YTD	Var to Q2 Forecast	Q2 FYF
Stamps	6.6	6.1	0.5	21.8	21.3	0.5	27.0
Labels	8.9	9.3	(0.4)	66.9	67.7	(0.8)	88.5
Specials	14.4	14.2	0.2	95.7	95.6	0.0	125.4
Home Shopping returns	1.1	1.1	0.0	8.6	8.5	0.0	11.7
Other	2.9	3.0	(0.1)	23.7	24.5	(0.8)	32.5
Variable Mails	33.8	33.7	0.1	216.7	217.7	(1.0)	285.0
Fixed Mails	3.9	3.9	(0.0)	38.0	38.0	(0.0)	50.7
Total Mails	37.7	37.6	0.1	254.8	255.7	(1.0)	335.7
Retail & Lottery	3.4	4.0	(0.6)	31.7	32.8	(1.1)	43.5
Mails & Retail	41.1	41.7	(0.5)	286.4	288.5	(2.1)	379.2

Mails performance provides further evidence of an increasingly later Christmas peak:

- Lower volumes leading into Black Friday
- Sustained activity after last posting dates.



- Mails underlying trading performance was £0.4m favourable to forecast. An accrual of £(0.3)m has been made for SSK overbilling [YTD £(0.7)m; FYF £(1.1)m]
- Total mails grew +2.1% YOY. Home Shopping Returns +30%.
- Lottery £(0.5)m adverse to forecast, in line with general market conditions following product changes. Period 10 expected to benefit from multiple roll-overs/record Jackpot.
- Retail £(0.2)m adverse is due to phasing and expected to recover in Q4

Full Year Outlook:

- Mails and Retail forecast of £379m carries estimated risk of £(1.2)m: SSK overbilling £(1.1)m, Mails trading performance £0.7m; Lottery £(1.0)m P8&9 underperformance; Photo-Me £0.2m more kiosks driving improved commission.
- Q4 focus on re-launch of Drop & Go, extension of Barcoding, and maintaining mails trading momentum.

The Telecoms price increase is now reflected in billings

£m	Period 9			YTD			
	P9	Q2 Forecast	Var to Q2 Forecast	YTD	Q2 Forecast YTD	Var to Q2 Forecast	Q2 FYF
HP&BB	5.1	4.3	0.7	36.8	36.5	0.3	50.9
Other	0.3	0.4	(0.0)	3.0	3.1	(0.1)	4.1
Total Telecoms	5.4	4.7	0.7	39.9	39.7	0.2	55.0
DVLA	0.5	0.8	(0.3)	7.7	8.0	(0.3)	11.0
POCA	3.9	3.7	0.1	37.3	37.1	0.1	48.2
Home Office	1.4	1.4	(0.0)	23.5	23.9	(0.4)	32.9
ID Services	0.2	0.1	0.1	1.4	1.3	0.1	2.0
Other	0.3	0.1	0.2	3.7	3.5	0.2	3.7
Government Services	6.3	6.2	0.1	73.6	73.9	(0.3)	97.9

Telecoms is favourable to forecast by £0.7m as the billing cycle has now captured the price increase from P8.

Over periods 8&9, Telecoms is £(0.1) below forecast. HP&BB dual customers are in line, with lower call bundle uptake from new customers.

Customer base at the end of P9 was 468k - 7k higher than forecast.

- 5k due to continuing BB promotional offer and market leading position in Oct/Nov.
- 2k Churn improvement in P9 following call centre migration

Government Services is £0.1m favourable to forecast.

- There remains a continued shift to online services, impacting DVLA in particular
- UKVI ID services continue to perform well in Secure Collection and Biometric Residency Permits. Verify was ahead of forecast.
- POCA was slightly ahead of forecast, reflecting phasing.

MoneyGram and Gift Cards below expectations in P9

£m	Period 9			YTD			
	P9	Q2 Forecast	Var to Q2 Forecast	YTD	Q2 Forecast YTD	Var to Q2 Forecast	Q2 FYF
Mortgages & Transactions	0.7	0.9	(0.1)	7.3	7.2	0.1	11.2
Savings	4.6	4.6	0.0	41.2	41.1	0.1	55.0
Insurance	4.3	3.3	1.0	23.5	23.8	(0.4)	34.1
Travel	1.6	1.5	0.1	18.9	18.6	0.3	23.2
Banking & Payments	15.0	15.4	(0.4)	131.9	131.6	0.2	175.2
Financial Services	26.2	25.6	0.6	222.7	222.3	0.4	298.8

Insurance £m	Period 9		
	P9	Q2 Forecast	Var to Q2 Forecast
Travel	0.5	0.4	0.2
Motor	0.7	1.0	(0.3)
Home	0.4	0.4	(0.0)
Life	0.3	0.3	(0.0)
Other	2.3	1.3	1.1
Insurance	4.3	3.3	1.0

Full Year Outlook:

- Potential risks on Gift Card, MoneyGram and Mortgages are expected to be offset by over-performance of the Banking Framework, Energy payments and Insurance.

- Mortgages are benefiting from strong trading in Aug/Sep. The current pipeline is weaker presenting a risk to Q4 of £(0.7)m
- Insurance £1m ahead driven by final Hawk settlement from BOI booked in P9 but forecast over P8&9.
- Underlying Insurance performance was more stable: Motor behind forecast, but improved on period 8, offset by Travel.
- Banking and Payments were £(0.4)m adverse to forecast. Disappointing performance in MoneyGram and Gift Cards is currently being assessed. This was partially offset by stronger than anticipated performance within Business Banking (greater uptake through HSBC) and within Payments (new deals with Energy providers).

Supply Chain income expected to miss forecast by £(0.9)m

£m	Period 9			YTD			
	P9	Q2 Forecast	Var to Q2 Forecast	YTD	Q2 Forecast YTD	Var to Q2 Forecast	Q2 FYF
Bank note distribution	0.1	0.0	0.0	0.6	0.5	0.1	0.6
CVIT & cash processing	1.2	1.5	(0.3)	13.5	14.2	(0.7)	18.9
High value mails	0.4	0.3	0.0	3.3	3.3	0.0	4.4
Warehousing	0.7	0.6	0.1	4.1	4.6	(0.5)	6.0
Supply Chain Income	2.2	2.4	(0.2)	21.5	22.5	(1.0)	29.9

- CVIT and Cash Processing affected by lower quality of service, impacting take on of new clients and increasing attrition rate of existing clients.
- Three major factors are affecting service performance - sick absence, vehicle availability and lack of overtime volunteers. Service improvement plans are in place to rectify this.
- Warehousing adverse against forecast by £(0.5)m YTD due to demand reduction from RM.
- Overall Supply Chain risk against forecast is £(0.9)m. In Q4, further risk in CVIT is expected to be offset by higher cash processing volumes.

Costs are adverse mainly due to timing. Underlying, Non-Staff costs were better than forecast.

£m	Period 9			YTD			
	P9	Q2 Forecast	Var to Q2 Forecast	YTD	Q2 Forecast YTD	YTD Var to Q2 Forecast	Q2 FYF
Postmaster Costs	(41.5)	(40.8)	(0.6)	(317.9)	(317.5)	(0.5)	(415.2)
Staff Costs	(17.7)	(18.1)	0.3	(172.5)	(174.7)	2.1	(232.4)
Non Staff Costs	(24.1)	(23.3)	(0.8)	(211.4)	(209.0)	(2.4)	(275.9)
Total Costs	(83.3)	(82.2)	(1.1)	(701.8)	(701.2)	(0.7)	(923.5)

- Postmaster costs are £(0.6)m adverse. Driven by a greater mix of Mains relative to locals (driving up variable pay); fewer NT conversions (impacting fixed pay savings); better Mails performance (higher variable pay). Potential FY risk against forecast is c£(1.4)m.
- Staff Costs are £0.3m favourable. Expected Pension costs were increased to £13.8m in the Q2 forecast to reflect the adverse market conditions at last year end. Estimated cost is now £11.3m due to lower headcount.
- Non Staff Costs are £(0.8)m adverse to forecast. Within this:
 - £(2.0)m is timing related or one-off: Predominantly within IT (backdated RPI and additional services costs) and Marketing (timing of Christmas spend); offset by Vehicles cost (lease credit for overcharges); and gains on FX hedge.
 - £1.2m underlying favourable cost performance across a number of lines, including:
 - £0.3m POMS marketing savings due to a planned move to reduce spend on aggregators.
 - £0.2m Robberies lower than forecast. The YTD risk versus forecast has reduced.
 - £0.7m other small gains and efficiencies across legal and other operating costs.

Project Opex is running significantly lower than budget.

£m		Period 9			YTD			Full Year
Themes	Programmes	Actual	Budget	Var.	Actual	Budget	Var.	Outlook
Other	Flow Through	0.3	(0.0)	0.3	0.5	(0.0)	0.5	0.3
	Sparrow	0.0	(0.3)	0.3	(1.9)	(2.5)	0.6	(3.3)
Reduce Network Costs	Other Network	(0.0)	(0.0)	(0.0)	(0.2)	(0.0)	(0.2)	(0.0)
Commercial	Customer Management	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)
	Digital	(0.0)	(0.0)	0.0	(0.2)	(0.2)	(0.0)	(0.6)
	Mobile (Wave)	0.3	(0.2)	0.5	(0.7)	(1.5)	0.7	(3.7)
	Other Invest to Grow	(0.0)	(0.5)	0.5	(0.8)	(4.8)	4.0	(2.3)
	POCA (Maypole / Iliad)	(0.0)	(0.1)	0.0	(0.7)	(0.5)	(0.2)	(1.4)
Reduce Central Costs	Other Central Costs	(0.2)	(0.0)	(0.2)	(0.6)	(0.0)	(0.6)	(0.6)
	Project IRIS	(0.6)	(0.0)	(0.6)	(0.7)	(0.0)	(0.7)	(0.1)
Grow Financial Services	Eagle	(1.1)	(0.5)	(0.5)	(3.2)	(2.4)	(0.8)	(2.9)
	Hawk	(0.0)	(0.0)	(0.0)	0.1	(0.0)	0.1	0.1
	Invest to Grow FS	0.8	(0.4)	1.2	(0.8)	(1.8)	1.1	(1.3)
Transform the Organisation	People & Organisation	(0.1)	(0.0)	(0.1)	(0.5)	(0.0)	(0.5)	(0.5)
	Transformation Office	0.0	(0.0)	0.0	(0.1)	(0.0)	(0.1)	(0.1)
Opex Total		(0.7)	(2.0)	1.3	(9.9)	(13.7)	3.8	(16.8)

- Commercial is YTD £4.4m underspent mainly as a result of slippage. Forecast spend for Q4 includes £3.1m Invest to grow (Mails negotiations £0.7m, POCA implementation £0.5m, Barcoding all Parcels £0.4m, Drop and Go £0.3m as well as spend across a number of other smaller projects) . Further spend of £2m on Mobile is forecast but subject to business case approval.
- Spend against forecast will be closely monitored. Currently estimating £1m opportunity for the FY.

Capital Expenditure continues to track below budget due to delayed expenditure across the key IT towers

£m		P9			YTD			Full Year	
Themes	Programmes	Actual	Budget	Var.	Actual	Budget	Var.	Outlook	Budget
Reduce Network Costs	Crown Transformation 1	(0.1)	(0.0)	(0.1)	(2.0)	(0.0)	(2.0)	(3.5)	(0.0)
	Crown Transformation 2	(0.3)	(1.0)	0.6	(0.7)	(6.1)	5.5	(5.3)	(9.3)
	Front Office	(2.2)	(5.7)	3.5	(14.7)	(31.2)	16.5	(37.0)	(39.2)
	NTP	(2.5)	(0.6)	(1.9)	(16.4)	(24.5)	8.2	(20.1)	(37.8)
Commercial	Customer Management	0.0	(0.2)	0.2	(0.6)	(1.5)	0.9	(1.1)	(2.3)
	Digital	(0.1)	(1.1)	0.9	(2.8)	(7.6)	4.8	(3.5)	(11.6)
	Mobile (Wave)	(0.1)	(0.0)	(0.1)	(0.8)	(0.1)	(0.7)	(0.6)	(0.2)
	Other Invest to Grow	(0.2)	(0.5)	0.3	(1.3)	(3.6)	2.4	(1.9)	(5.5)
	Winning in Retail	(0.2)	(0.6)	0.4	(0.7)	(4.4)	3.7	0.0	(6.7)
Lean IT	Back Office	(0.7)	(0.9)	0.2	(0.8)	(5.6)	4.8	(4.3)	(7.0)
	EUC	(5.7)	(2.5)	(3.2)	(15.0)	(22.9)	7.9	(39.4)	(39.6)
	Networks	(0.3)	(0.1)	(0.2)	(3.8)	(9.0)	5.2	(8.4)	(11.7)
	TPOM	(0.0)	(0.0)	(0.0)	0.0	(0.0)	0.0	0.0	(0.0)
Reduce Central Costs	Reduce Central Costs	(0.0)	(0.2)	0.2	(0.0)	(1.6)	1.6	(2.1)	(2.1)
Grow Financial Services	Eagle	(0.0)	(0.0)	(0.0)	(0.4)	(0.0)	(0.4)	(1.1)	(0.0)
	Hawk	(0.0)	(0.0)	(0.0)	(43.9)	(45.2)		(43.9)	(45.2)
	Invest to Grow FS	(0.1)	(0.0)	(0.1)	(1.9)	(0.0)	(1.9)	(1.9)	(0.0)
Replacement CapEx	IT Risk & Resilience	(1.1)	(1.1)	(0.0)	(15.9)	(14.2)	(1.7)	(30.0)	(18.7)
	Other Replacement Capex	(0.1)	(0.8)	0.7	(0.4)	(7.8)	7.4	(1.3)	(10.4)
	Property	(0.2)	(0.6)	0.4	(0.5)	(5.6)	5.2	(0.7)	(7.5)
	Separation	(0.2)	(0.0)	(0.2)	(3.1)	(0.0)	(3.1)	(4.6)	(0.0)
	Supply Chain vehicles	(0.0)	(0.8)	0.8	(0.1)	(3.1)	3.0	(3.6)	(7.6)
Other	Other	(0.4)	(0.0)	(0.4)	(0.7)	(0.0)	(0.7)	(1.5)	(0.0)
Capex Total		(14.6)	(16.7)	2.1	(126.2)	(194.1)	67.9	(216.1)	(275.4)

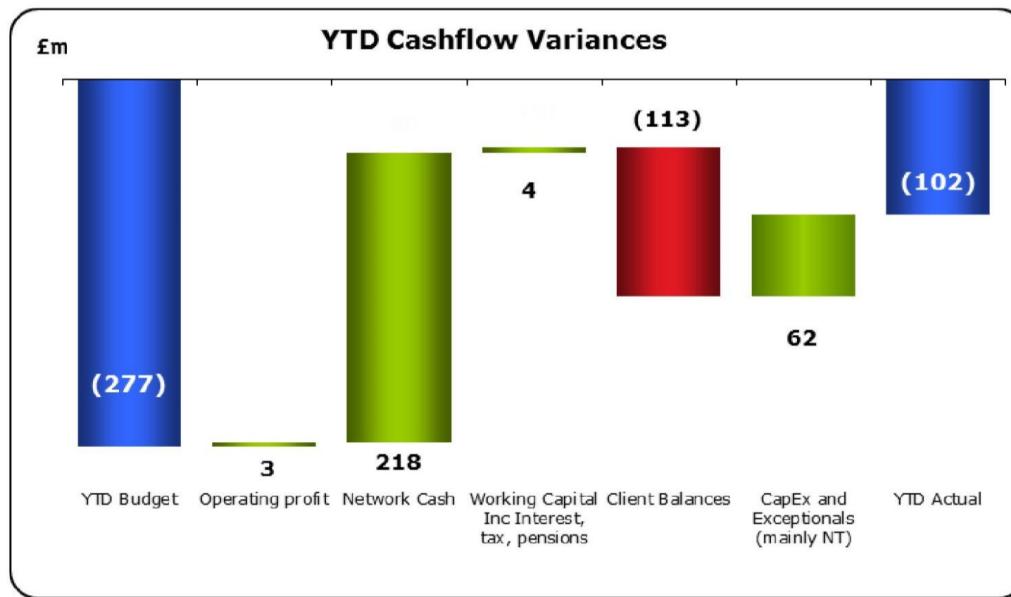
- A significant amount of Capital spend is forecasted for Q4:
 - £71m across Front Office, Back Office, EUC, Networks and Separation, some of which is committed in P10.
 - £17m across Crowns, NTP, Commercial and Vehicles.

Exceptional costs are £(30)m higher than budget driven by Postmasters' Compensation, Restructuring & Onerous Contracts

£m		Period 9			YTD		
Themes	Programmes	Actual	Budget	Var.	Actual	Budget	Var.
Reduce Network Costs	Crown Transformation 1	(0.4)	(0.0)	(0.4)	(4.8)	(0.0)	(4.8)
	Crown Transformation 2	(0.5)	(0.9)	0.4	(1.1)	(14.9)	13.8
	Front Office	0.0	(0.6)	0.6	(0.9)	(3.2)	2.3
	LBD	0.0	(0.0)	0.0	(6.7)	(0.0)	(6.7)
	NTP	(6.7)	(25.9)	19.2	(126.8)	(114.0)	(12.8)
	Other R&V	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Commercial	Digital	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
	Other Invest to Grow	(0.0)	(0.0)	(0.0)	(0.9)	(0.0)	(0.9)
	Winning in Retail	(0.9)	(0.0)	(0.9)	(2.4)	(0.0)	(2.4)
Lean IT	EUC	(0.4)	(0.0)	(0.4)	(0.5)	(0.0)	(0.5)
	Back Office	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
	TPOM	(0.1)	(0.1)	0.0	(2.7)	(0.9)	(1.8)
Reduce Central Costs	Other Central Costs	(0.5)	(2.2)	1.7	(20.0)	(14.6)	(5.4)
	Project IRIS	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Grow Financial Services	Hawk	(0.0)	(0.0)	(0.0)	(1.2)	(0.0)	(1.2)
Replacement CapEx	Other Replacement Capex	(0.1)	(0.0)	(0.1)	(0.3)	(0.0)	(0.3)
	Separation	0.0	(0.0)	0.0	(6.0)	(6.4)	0.4
Transform the Organisation	People & Organisation	(0.0)	(0.1)	0.1	(0.0)	(1.1)	1.1
	Transformation Office	(0.4)	(0.4)	0.0	(1.8)	(3.6)	1.7
Other	Other	(0.0)	(0.0)	(0.0)	0.8	(0.0)	0.8
Central Exceptional Adjustments	Central Exceptional Adjustments	0.3	(0.0)	0.3	(12.9)	(0.0)	(12.9)
Exceptional Items		(9.6)	(30.1)	20.5	(188.3)	(158.6)	(29.6)

- Postmasters' compensation (within NTP) YTD reflects the timing of the charge for this year - calculated at point of liability, but initially budgeted at point of exit. The restatement of the provision for earlier periods will be posted in P10.
- In Reduce Central Costs, higher costs reflect higher Wave 2 redundancy provisions
- Central adjustments include Property Onerous Lease provisions accounted for earlier than budgeted.
- For the full year, Investment spend is expected to be £34m below budget across Capex and Exceptionals.

Cash flow is £175m favourable due to lower capex spend and fewer debit card transactions prior to Christmas



Cash outflow of £(102)m, £175m favourable to budget at P9

- Network Cash was £218m below budget. The cessation of NS&I products account for £40m of this. Footfall in the days immediately prior to Christmas were lower for the Post Office and small businesses than expected, resulting in lower debit card balances and lower business banking deposits (offset in client balances).
- Client balances were £(113)m adverse to budget, due to the cessation of NS&I products and lower business banking deposits.
- Capex and exceptionals are below budget, with delayed capital spend across the IT towers.

For the full year, we currently project Cash outflow to be c£50m better than budget, driven by lower capex and exceptional spend.

Financial Performance has strengthened, but challenges remain in Income, Engagement and NT Conversions.

Key Performance Indicators	Current Month			YTD			YTD Prior Year	Full Year Target	2014-15 Outturn
	Act	Target	Var.	Act	Target	Var.			
Growth									
Total Net Income (excl NSP) £m (Bonus 10%)	81.6	78.4	3.2	651.9	655.7	(3.8)	642.9	875.0	870.0
Operating profit £m	9.4	6.2	3.2	67.1	64.0	3.1	51.5	95.0	100.0
Earnings before ITDA and Subsidy £m* (Bonus 30%)	(0.5)	(3.8)	3.2	(30.1)	(33.0)	3.0	(68.1)	(35.0)	(59.6)
Free cashflow £m	(82.6)	(196.1)	113.4	(102.6)	(277.2)	174.6	(253.6)	(344.6)	(172.7)
Digital Net Income (measured using Credence) (Bonus 10%)	1.2	1.3	(0.1)	16.4	17.1	(0.7)	N/A	21.5	15.2
Customer									
Customer Satisfaction	85.0%	88.0%	(3.0)%	88.0%	88.0%	0.0%	86.8%	88.0%	87.6%
Customer Effort (Bonus 10%)	65%	62%	3%	66%	64%	2%	N/A	64%	63%
Net Promoter score Financial Services (Bonus 5%)	26	25	1	27	25	2	N/A	25	N/A
Net Promoter score	61	55	6	62	56	6	N/A	57	N/A
Queue time % < 5 minutes - Top 1k branches	69.0%	71.0%	(2.0)%	78.0%	77.3%	0.7%	77.0%	78.0%	76.4%
Branch Compliance - Financial Services - basket of 11 measures	10	<=50	-	26	<=50	-	N/A	<=50	62
People									
Engagement Index % (Once a year April) (Bonus 15%)** (P)	Same as YTD			60%	63%	(3)%	58%	63%	62%
Subpostmaster Engagement Index % (Once a year)**				46%	48%	(2)%	47%	48%	46%
New Starter Turnover				25.0%	23.0%	(2.0)%	N/A	23%	26.7%
Representation (Senior Managers) - Gender				34.8%	36.0%	(1.2)%	N/A	36%	35.6%
Representation (Senior Managers) - Ethnicity				7.9%	6.0%	1.9%	N/A	6%	4.8%
Modernisation									
Number of branches (one month in arrears)	Same as YTD			11,595	11,500	95	-	>=11,500	11,634
Crown Profit (Loss) £m (Bonus 10%) (P8)				0.3	(0.2)	0.5	(2.6)	(3.7)	(11.6)
NT Branches Transformed In Year (Bonus 10%)				44	134	(90)	1,017	1,229	(212)
							1,521	1,850	2,039

- Customer Satisfaction is behind plan in P9. Regular customers scored the Post Office in line with target. Over Christmas we have a greater participation of non-regular customers who score lower.
- NT conversions behind target but current conversion pipeline has capacity to achieve the target. The current risk is c(100) branches, improving from a risk of c(350) branches as at Q3.

Initial review of 2016/17 budget and 3 Year Plan

Authors: Martin Edwards / Dave Carter Sponsor: Al Cameron Meeting date: 22nd January 2016

Executive Summary

1. Context

- 1.1 The Board is due to approve the 2016/17 budget in March, together with an updated 3 Year Plan (3YP) to 2018/19.
- 1.2 In our existing 3YP (approved by the Board in July 2015) we targeted an improvement in EBITDAS from £(34)m in 2015/16 to £(10)m in 2016/17, followed by a surplus of £28m in 2017/18. Delivery of these targets is important to demonstrate the credibility of our turnaround plans, protect our cash position and ensure we are able to cope with declining subsidy levels.

2. Questions addressed in this report

- 2.1 How do the initial submissions compare against the targets set in the 3YP?
- 2.2 How are we going to close the gap against plan to get to our final proposed budget and 3YP in March?

3. Conclusion

- 3.1 The initial submissions from teams (excluding any savings challenges) result in a £101m EBITDAS loss in 2016/17 - a gap of £91m against our target, which would persist into subsequent years if not addressed.
- 3.2 Net income is £27m adverse to plan in 2016/17, driven primarily by a shortfall in financial services growth and a deterioration in POCA. Overall our assessment is that the current income forecast is realistic, with some upside opportunity. This sets a clear challenge for the business to adjust our cost base.
- 3.3 Total opex is £64m adverse to plan in 2016/17, with new cost pressures emerging across a number of areas such as IT.
- 3.4 To close the gap to plan across the period, the GE agreed before Christmas to target savings of £110m pa from 2016/17. In a number of areas work is well advanced to deliver these savings, such as pensions and Iris. A detailed list of projects and accountabilities has been agreed and weekly governance arrangements established.

4. Input sought

- 4.1 The Board is asked to note the cost challenge and review a final proposed budget and 3YP in March.

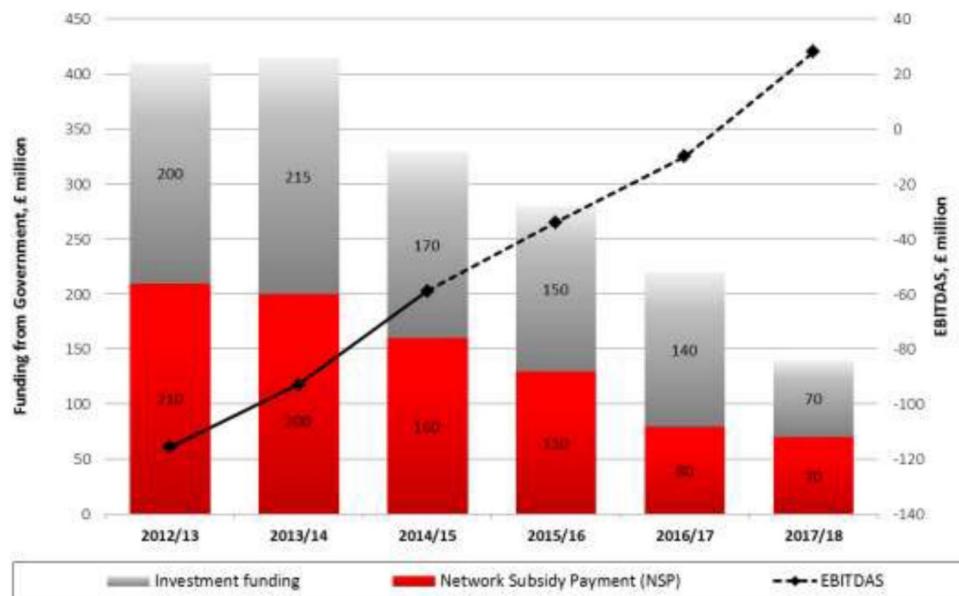
The Report

1. Overview of our standard cycle of financial planning documents

- 1.1 The key product which the Board needs to approve before the end of March is our budget for 2016/17. Aside from being necessary to run the business, we are required to submit this document to BIS before the start of the new financial year under the terms of our funding agreement.
- 1.2 Last year we also introduced a 3YP: this is not a specific HMG requirement, but we decided it would be an appropriate discipline to strengthen our medium-term financial and strategic planning. We committed to update this document each year to cover a rolling 3 year period. While last year the 3YP was approved in July subsequent to the sign-off of the annual budget, we decided to run both as a single process in future years, running to the same timetable.
- 1.3 It should be noted that our new 3YP extends to 2018/19, one year beyond the end of our current funding agreement. Between March and June we will be updating our projections to 2020/21, as the basis for the funding negotiations later this year.

2. Summary of the targets in our current 3YP (2015/16 to 2017/18)

- 2.1 As the chart below shows, the existing 3YP delivers an £88m cumulative EBITDAS improvement by 2017/18, relative to a 2014/15 baseline. This would result in a pre-subsidy profit in 2017/18 for the first time in 15 years. The forecast improvement was driven by a combination of: a) overall net income growth of around 1.5% CAGR, with FS and telecoms growth offsetting the declines in mails and government services; and b) net cost reductions of 1.6% CAGR, delivered through network and Crown transformation, staff savings and renegotiation of supplier costs. Delivering this rate of profit improvement is necessary to cope with declining subsidy levels.



3. Overview of the initial budget submissions

3.1 The table below summarises the updated outlook to 2018/19 based on the first round of submissions from teams. It highlights a significant gap to plan in 2016/17 of £91m, primarily driven on the cost side as explained in more detail below. In 2017/18 the gap against plan reduces, but only because we have maintained the assumptions included in the previous 3YP on staff and supplier savings (which total £28m). The underlying gap remains broadly the same as in 2016/17. FS growth falls further behind trajectory, but this is partly offset by the improvement in mails relative to plan. **The key takeaway is that we need to focus on right-sizing our cost base in 2016/17 to close the gap that year, which should also largely return us to plan in subsequent years.**

	15/16 Q2 Forecast	16/17 Budget (latest view)	Var to 3YP	2017/18 updated view	Var to 3YP	2018/19 estimate
Financial Services (inc Poms)	302	302	(31)	340	(39)	368
Mails & Retail	379	375	14	372	21	372
Gov Services	99	80	(4)	68	(10)	62
Telecoms	55	60	(2)	66	3	70
Supply Chain & Other	35	33	(6)	33	(6)	33
Total Net Income	870	851	(27)	879	(31)	906
Agents pay	(415)	(406)	(6)	(390)	8	(400)
Staff Costs	(232)	(236)	(13)	(202)	12	(194)
Non-Staff Costs	(276)	(328)	(45)	(328)	(45)	(315)
Total Expenditure	(924)	(970)	(64)	(920)	(24)	(909)
Depreciation	1	1	0	1	0	1
Project opex	(17)	(21)	0	(24)	0	(24)
FRES	36	37	0	37	0	37
EBITDAS	(34)	(101)	(91)	(27)	(55)	11

3.2 Overall net income is £27m lower than plan, with the top line deteriorating by £29m year-on-year (having remained broadly flat over this and the previous year). Overall FS income is flat year-on-year in 2016/17, compared against the 10% growth expected in the current 3YP. The main drivers of this shortfall are the delays in the launch of new insurance, investment and digital payments products, the removal of the savings underpin from Bank of Ireland (which we are currently renegotiating) and trading challenges in a range of other products. Within FS the shortfall is partly offset by the launch of the new Banking Framework.

3.3 Outside of FS the main positive variance against plan is in mails: we expected 3% pa declines in the 3YP, but based on trading performance in the current year are now forecasting a more gradual decline of less than 1% pa. As the separate mails strategy paper sets out, we still believe there are significant structural risks to our business based on the current arrangements with Royal Mail.

3.4 Our assessment at this stage is that the income forecast for 2016/17 represents a realistic and prudent basis on which to set our cost targets. There is some upside

opportunity to these numbers, particularly if we can secure new government services income and reach agreement with the [REDACTED] **IRRELEVANT** on the issues around savings, investments and [REDACTED] However, until we have a firmer view of these areas we would prefer to hold these as upside opportunities, therefore setting a more stretching challenge on costs to get back to plan. The pattern in previous years has been to start with income forecasts that have proved to be too optimistic, leaving the business less well prepared to implement mitigating actions on the cost side in-year.

3.5 Based on first submissions the underlying cost base is expected to increase by £46m year-on-year, creating a £64m gap against the 3YP target for 2016/17. This is driven by: a) cost pressures across the business, particularly in IT, property and commercial; and b) the fact that these initial numbers do not include the savings challenges we included in the 3YP. As outlined below we are re-applying these challenges as part of our plan to close the gap.

4. Our plan to close the gap

4.1 These initial projections expose the fact that fundamentally our cost base is still at the wrong level to support our top line position, despite the savings that have been delivered across the business over the past two years. We therefore need to accelerate the thinking around the more radical changes to our operating model which we had identified as necessary to support our long-term competitiveness. This will be informed by a detailed analysis of our cost base and drivers which is currently underway.

4.2 To close the gap between now and the March Board we have set the business an EBITDAS improvement target of £110m in 2016/17 (including contingency above our £91m gap). The majority of this has been allocated as a cost challenge, with only £6m set as a target for profit improvement from higher income.

4.3 The programme plan which accompanies this paper (which is best printed A3) outlines how the £104m cost challenge has been allocated across different areas of the business, alongside a short description of the specific projects and governance arrangements to deliver these targets. The whole process will be overseen by weekly meetings of the Cost Reduction Group attended by the CEO and CFO, to ensure the necessary degree of scrutiny and challenge.

5. Overview of the position on investment spend (capex and exceptionals)

5.1 At present based on first submissions we also face an overspend on our below the line investment budget. While this doesn't affect our profit targets, getting back to plan is critical to maintain adequate balance sheet headroom throughout the forecast period. The biggest single driver of the variance relates to IT costs, and the decision on Trinity will have a significant bearing on whether we can eliminate this overspend. Overall we have sufficient discretionary flexibility across our investment budget to get back to plan, but further work is required to assess the trade-offs against our

profit position both in the short and long term. It should be noted that at this we have not budgeted for substantial redundancy costs, which may be required to deliver the opex savings. We will provide a full update on the proposed investment budget in March, aligned to the P&L projections.

6. The links to our wider strategic planning

- 6.1 We clearly need to ensure that the plans we develop to deliver the 2016/17 budget and the new 3YP to 2018/19 are aligned with our longer-term strategic ambitions. Between March and the June Board strategy awayday we will be developing a full draft of our new Strategic Plan covering the period up to 2020/21, which will then form the basis of our funding negotiations with BIS for the last three years of this plan.
- 6.2 As noted above, to close the gap on our short-term plans we need to accelerate the more radical options to transform our cost base. While some of these options will entail strategic trade-offs with our capacity to deliver top line growth, our view at this stage is that it is right to focus on addressing costs to establish a simpler and cheaper operating model. Fundamentally our business model is based on being a retail distributor for products and services manufactured by other companies. To survive as an intermediary in competitive markets our cost base needs to be as lean as possible so we are in a position to negotiate on fees. Therefore acting now to reduce costs should in broad terms be seen as a 'no regrets' decision.
- 6.3 There will be time set aside at the March Board to discuss the alignment between our short and long-term trade-offs at a more granular level, to inform the debate on the budget and 3YP. We will also present a first draft of our longer-term financial projections to 2020/21, together with an explanation of what this means in terms of potential scenarios for our next round of funding discussions. This will be followed by further work between March and June on our longer-term commercial plans and partnerships, particularly in mails and FS, ahead of a full debate at the strategy awayday.

BUDGET AND 3 YEAR PLAN PROGRAMME

Purpose	Review Meeting	Scope	Owners	
Governance	Weekly CRG Meetings	a) Overall Governance of programme plans b) Collate and Summarise progress across all streams c) Deep dives into specific areas d) Discuss shared options (eg recruitment freeze) e) Agree budget movements - right costs, right place	Paula Vennells Al Cameron Kevin Gilliland David Hussey Chris Broe Neil Hayward Dave Carter	
	QBR Sessions: Budget & 3YP Reviews	Budget & 3YP Progress	Paula Vennells Al Cameron Functional Teams	
	GE Budget Review Meetings	Monitor Progress	GE	
	TESG	Review costs, benefits and delivery of Transformation Programmes	GE	
Cost Grouping	Board Meetings	Sign-Off Plans	Board	
	Cost Area	Target £m	Contributing Programmes	
1. Commercial Support Costs	Project Expenditure (doing less)	£15m	Commercial support	
	Cost of sales	£8m	IRRELEVANT	
	Commercial Support Costs	£10m		
2. Crowns Cost	Crowns	£5m	Crowns	
			a) More radical options beyond Paddington/CNDP? b) Retail strategy for the Crowns c) What is the right model for FS/MS	
3. IT Costs	IT (reduce run costs to 3yr plan levels)	£15m	Costs of IT	
			a) Run costs of IT b) Transformation & Trinity implications c) Can we reduce the technology costs of AEI products	
4. Supply Chain Costs	Supply Chain	£8m	Supply chain (Iris)	
			a) Sale / Outsource / JV b) Productivity, automation, review of external contracts c) Demand management – more radical options	
5. Central Costs	Central Costs	£5m	Central costs	
			a) how do we reduce? b) is there a different model – radical realignment? c) Link to target operating model	
6. Network Support Costs	Sales and Network Support	£5m	Network strategy	
			a) What is the strategy for the second half of NT? b) When do we stop the current programme and start the new one? c) Cheaper operating models for unconverted branches d) How do we minimise the costs of Network Support? e) How much do we need to spend on sales capacity? f) What are the options for reducing fixed pay for non-converted branches?	
7. Agents Pay	Agents' Remuneration	£12m	Transforming Agents Pay (formerly GCAN)	
			a) How can we reform agents pay to improve alignment of incentives and/or reduce costs?	
8. Group Wide Costs	Terms & conditions	£3m	Costs of Employment	
	Pensions	£10m	a) Crescent b) Pathfinder	
	Property	£8m	Back Office	
			a) Efficiency b) Transformation and outsourcing	
			Site strategy	
			a) Informed by Crowns, Supply Chain and Back Office b) Opportunities on Sale & Leaseback	
	Total Costs	£104m		
	Income	£6m	See next slide	
	TOTAL	£110m		

Planning & Target Setting				Budget & 3YP Reviews	Budget Re-submission	Product / Channel Reviews		Budget & 3YP Reviews	Final review at GE 10/3	Board Papers	Final review at Board 24/3
04-Jan	11-Jan	18-Jan	25-Jan	01-Feb	08-Feb	15-Feb	22-Feb	29-Feb	07-Mar	14-Mar	21-Mar
	14/01/2016 IT Central Costs; Back Office	18/01/2016 Network & Sales; Crowns	25/01/2016 Group Wide Costs; Property; P&E	08/02/2016 Supply Chain;	15/02/2016 Commercial Support	22/02/2016 Agents Pay			07/03/2016 [Agenda TBC]	14/03/2016 [Agenda TBC]	21/03/2016 [Agenda TBC]
				1st - 5th Feb				29th Feb - 4th Mar			
	12-Jan					16-Feb		04-Mar	10-Mar		
		18-Jan			08-Feb		22-Feb			14-Mar	
			21-Jan								24-Mar
04-Jan	11-Jan	18-Jan	25-Jan	01-Feb	08-Feb	15-Feb	22-Feb	29-Feb	07-Mar	14-Mar	21-Mar
		Comm Support Project Team 27/1 Comm. Ctree	Comm Support Project Team Budget Review (QBR)	Comm Support Project Team 10/2 Comm. Ctree	16/2 GE Meeting CRG 15/2	Comm Support Project Team Budget Review					
		CRG 25/1	2/2 Network review Budget Review (QBR)		16/2 GE Meeting			Budget Review			
	CRG 14/1		Budget Review (QBR)		IT Lead Team Meeting			Budget Review		IT Lead Team Meeting	
	11/1 GE Meeting		Budget Review (QBR)	CRG 8/2				Budget Review			
		Central Support Project Team CRG 18/1	Central Support Project Team Budget Review (QBR)	Central Support Project Team	Central Support Project Team	Central Support Project Team Budget Review	Central Support Project Team				
		CRG 25/1	2/2 Network Review Budget Review (QBR)		16/2 GE Meeting			Budget Review			
		CRG 25/1	Budget Review (QBR)			CRG 22/2		Budget Review			
		CRG 18/1	Budget Review (QBR)		16/2 GE Meeting			Budget Review			
			Budget Review (QBR)	CRG 8/2	16/2 GE Meeting			Budget Review			
		CRG 18/1	Budget Review (QBR)		16/2 GE Meeting			Budget Review			
			Budget Review (QBR)	CRG 8/2				Budget Review			

BUDGET AND 3 YEAR PLAN PROGRAMME

Income Area	Questions and Overview	Owners
Product Profitability	Are there products we should stop or be better remunerated for? (Credit Cards; Mortgages; Phonecards; Prepaid stationery; Custody of Pouches; Inland Express; Vehicle Licensing; Health Lottery; some PFW products). What other levers can we pull to improve product profitability, e.g. incentivising customers to shift to cheaper channels/payments methods?	Martin G/Nick K and FDs Kevin Seller
New Products?	Mobile, Current A/C, Digital Wallet, Investments, Insurances, Move Mate.	Martin/Nick (assessment framework to be developed by Martin E/David to ensure alignment with strategy & transformation)
Mails Strategy & MDA renegotiation	Can we secure a better arrangement on digital sales and accept only fees, linked to the leverage we have on barcoding? What investments are we making to support our longer-term strategy (and the 2019 renegotiation)?	Martin G/Mark S (supported by strategy)
BoI relationship	Establishing a better deal on savings, FREs etc. How does this link to long-term strategy? Are there any changes we want to make in 3YP period in light of the POM customer proposition review currently underway?	Nick (supported by marketing/strategy)
Telco	What is our long-term plan and how does this drive our pricing & product strategy? Do we want to increase prices to help close gap in 2016/17?	Martin G / Geoff S
Government & Identity	How do we seize the opportunities of digital and departments' need to reduce costs? What implications does this have for the TOM? Identity: Is there an opportunity in identity services beyond Verify? How do we catalyse this?	Martin G/Chris D

04-Jan	11-Jan	18-Jan	25-Jan	01-Feb	08-Feb	15-Feb	22-Feb	29-Feb	07-Mar	14-Mar	21-Mar
				AI Cameron Review [date tbc]		GE 18/2		Budget Review			
				AI Cameron Review [date tbc]		Initial discussion at FS & Commercial review meetings on 1 st & 4 th Feb.		Full GE discussion 18th Feb	Budget Review		
	GE Discussion 11/1			Mails review 1 st Feb.		GE Discussion 18/2		Budget Review			
				FS review 4 th Feb.		GE Discussion 18/2		Budget Review			
			AI Cameron Review [date tbc]	Telco review 1 st Feb.		GE Discussion 18/2		Budget Review			
			AI Cameron Review [date tbc]	Govt services review 1 st Feb.		GE Discussion 18/2		Budget Review			

Project Trinity Update

Author: Alison Japp Sponsor: Al Cameron Date: January 2016

Executive Summary

Context

1. At the last Board, we discussed options that would reduce the complexity, risk and cost associated with IT Transformation including the option to retain Horizon, the existing branch software provided by Fujitsu (Project Trinity).
2. We have explored three options:
 - Proceed with IBM as per the current implementation plan
 - Re-negotiate with IBM to see if by reducing their scope, we can reduce costs, time and execution risk
 - Terminate the IBM contract, retain the existing Fujitsu contract and build on the existing Horizon infrastructure as necessary.

Questions this paper addresses

3. The purpose of this paper is to update the Board on the progress; providing fuller responses to the questions raised at last Board:
 - Is there a compelling case for Project Trinity?
 - Is there a way to manage the legal and commercial risk?
 - What are the next steps?

Conclusions

4. There is a compelling case for Project Trinity. It provides a substantial reduction in complexity; operational risk and a £69m cost reduction over three years, reducing to £15m after seven years. The IBM options, as outlined above, have not yet demonstrated that they would provide a substantive reduction in complexity, risk or cost.
5. There are routes to manage the legal and commercial risks. Detailed advice has been obtained from Counsel and additional analysis undertaken by Gartner to better understand which route will be most effective. The Board will be updated at the meeting.
6. We plan to revert to the Board with a final recommendation during February.

Input Sought

7. The Board is asked to highlight any additional issues that they wish addressed prior to a final recommendation being brought to the Board in February.

The Report

Context

8. Since the last board we have focused on developing a fuller understanding of these options ensuring that the proposed solution meets our success criteria:
 - Clear financial benefits on a like for like basis
 - Acceptable legal and procurement risks
 - A significant reduction in delivery risk
 - Confidence that the solution works
 - Additional functionality can be added simply, at an acceptable cost, in an acceptable timescale
 - Improved management controls & processes, mitigating any Sparrow related risks
 - Impacts on the integrated plan and contracts beyond Front Office are manageable
 - Clear communications strategy for multiple stakeholders, with government acceptance
 - Confidence that the supplier will behave as partners, making change easy and cost effective as it evolves beyond what we know we need today
 - Credible governance structure to manage supplier contractually and day to day, engaging with business leadership as well as IT

9. We have made significant progress with only a small number of outstanding actions:
 - Conclusion of commercial negotiations with Fujitsu and IBM
 - Finalisation of the approach to procurement and contracting
 - Confirmation that the solution works (test of the Fujitsu solution started on 18th January)

A verbal update will be provided on these outstanding areas at the Board.

Is there a compelling case for Project Trinity?

Option A: Proceed with IBM as per the current implementation plan.

10. We are in the process of carrying out a full review with IBM of the costs, delivery risks and delivery plans that underpin our current plan with IBM. Within the current scope, approach and implementation plans there are no additional actions that can be taken at this point that will substantially reduce complexity, risk or cost.

11. We believe the current plan is under threat due to supplier dates slipping and the operational and delivery risk remain high.

Option B: Re-negotiate with IBM to see if by reducing their scope, we can reduce costs, time and execution risk

12. POL and IBM reviewed the current scope, technical design and delivery plan with the aim of identifying options that would reduce complexity, cost and risk. Fundamentally, no suggestions from IBM have materially changed the plan and increasingly promote leaving more services with Fujitsu.

Option C: Terminate the IBM contract, retain the existing Fujitsu contract and build on the existing Horizon infrastructure as necessary. (Project Trinity)

13. This option does provide a substantial reduction in complexity and operational risk and a £69M cost reduction over three years, reducing to £15M after seven years. Further options are under discussion to adopt an invest to save option that provide an additional 5% saving year on year run cost saving assuming a 3 year investment. These figures are now significantly more robust and provide a reasonable estimate of costs.
14. We continue to challenge Fujitsu on the run costs and to ensure that we are developing a better, partnership spirit in the relationship. This is patchy.

Is there a way to manage the legal and procurement risks

15. Counsel has confirmed that termination of the contract with IBM does not give rise to any breach of procurement law. However the way in which POL procures replacement services is open to challenge if POL makes a direct award to Fujitsu, fails to run a transparent procurement process and it cannot rely on any available exemptions under the Public Contract Regulations 2015.
16. As outlined in our last update to Board there are a variety of procurement routes available. We are currently exploring whether a direct award to Fujitsu could be possible under the terms of an exemption under Regulation 32 which allows direct awards where, *inter alia*, the services can be supplied only by one provider where: (i) competition is absent for technical reasons or (ii) because of the protection of exclusive rights including IP rights, provided that no reasonable alternative or substitute exists and the absence of competition is not the result of an artificial narrowing down of the parameters of the procurement.
17. If this exemption is available, it would substantially reduce the risk of challenge and of an award to Fujitsu being declared invalid. It would also mitigate previously highlighted risks of an action against either POL or the Board for f misfeasance in public office.
18. While at a practical and commercial level, Fujitsu appears to be uniquely placed to provide this service, this is not of itself sufficient to prove that there is no competition for technical reasons..

19. Accordingly we have commissioned Gartner to provide an assessment, via a desk-top analysis, if there are likely to be suppliers that would be capable and potentially interested in delivering our specification. This will inform our assessment of whether we fall within the scope of the exemption provided by regulation 32. An update will be provided verbally at the Board.
20. Depending on the nature of the findings, three further options exist to support an award:
 - Expanding the Gartner conversation to interactions with potential suppliers. This is likely to be appropriate to give the Board confidence.
 - Publishing details of the award or the intention to award.
 - Re-procuring the services.

Next Steps

21. The priorities are to confirm the approach to procurement of continuation of our existing Horizon solution and finalise commercial negotiations with Fujitsu. Once confirmed we will be able to complete an outline business case, finalise high level delivery plans, and undertake a final assurance review (the requested "Red Team Review"), with Deloittes, our Business Transformation Assurance partner.
22. We will look to recommend to the Board a final way forward in February. The Deloitte assurance will be provided to the Board at the same time as the request for Board approval.

Decision Paper – Delegated Authorities II

Author & Sponsor: Jane MacLeod Meeting date: 22nd January

Executive Summary

Context

A paper on Delegated Authorities was presented to the Board on 28th October 2015, this paper is attached for easy of reference.

At the meeting the Board discussed the proposed delegated authorities and debated whether the authorities had been set at the right level. The Chairman asked the General Counsel to provide further information on the number of contracts being signed at the levels proposed and any benchmark data available from other organisations, especially ShEx Businesses.

After discussion between the General Counsel and the Chairman new delegated authorities are proposed for Board approval.

1. Question addressed in this report

What delegated authority levels should the Board set for the Business?

2. Conclusion

- 2.1 The Board currently delegates authority to the Group Executive for contracts below £20m in value. It is recognised that best practice delegates authority to the CEO and not to an Executive team. The analysis on contracts signed shows that, in the last two years c. 20 contracts were signed with a value between £5m and £20m.
- 2.2 After consideration a new delegated authority level of £5m is proposed with all expenditure above that level requiring Board approval. (This would not include operation BAU expenditure such as the monthly pay/agents remuneration bill or operational costs such as rents, rates or utility costs).
- 2.3 A process will be put in place to ensure the Board are able to respond to urgent requests which require approval by correspondence.
- 2.4 **Recommendation.** The Board approve the new delegated authorities as set out in Appendix 1

APPENDIX 1

Planned Spend	Notes	
SHEX	>£50m	<ul style="list-style-type: none"> - Consent required from the Shareholder Executive (ShEx) where spend is not in the ordinary course of business (and/or not included in the Annual Operating Plan). - Contracts > £50m (other than in ordinary course of business – if you are unsure please take advice from Legal/Co Sec [e-mail] on these) - All strategic acquisitions and disposals - All proposals to enter into financial instruments, bank borrowings and any proposed loan facility (above £20m) - Approval of major asset disposal
Board	<£50m	<ul style="list-style-type: none"> • Carries significant risk. • Risk of significant impact on brand value. • Is likely to attract the interest of the Shareholder.
CEO	£5m	Includes significant indemnities to be given by Post Office Ltd.
CFO	£4m	
Member of GE	£2m	
Senior Leadership Team	£250k	<p>Delegation may be increased:</p> <ul style="list-style-type: none"> • Up to the authority level of the relevant GE member; • on an individual basis; or • for a specified purpose, or • to a consultant for a specified period. <p>Increased delegations must be in writing, signed by the relevant GE member and copies must be provided to the delegate and to Co Sec who keep a register.</p>

Decision Paper – Delegated Authorities

Author & Sponsor: Jane MacLeod Date: 28 October 2015

Executive Summary

Context

In accordance with the principles of good governance, the Board delegates authority to the Chief Executive to implement the Board approved strategy; this delegation includes specific limits on the financial authority of the CEO. Post Office delegated authorities were last reviewed in 2012. In light of the changes to Post Office's transformation plans and the change of a number of senior executive roles during that period, it is therefore recommended that the Board review these authorities.

In addition, a number of Post Office executives are authorised to sign contracts on behalf of Post Office Limited. This includes individuals other than directors or persons acting under a formal power of attorney. Accordingly the Post Office Board should confirm that these named individuals are authorised as signatories.

Questions addressed in this report

What changes should be made to the delegated authorities and authorised signatories?

Conclusion

1. The current delegated authorities which date back to 2012 are set out in Appendix 1. Due to changes in personnel and governance processes it is recommended that the delegated authorities be amended to those set out in Appendix 2. The key changes are:
 - Top level delegation is to the CEO rather than to a committee (GE/Exco)
 - CEO delegates authority up to £15m to the CFO and up to £5m to each GE member
 - There is no delegated authority for 'unplanned' spend
 - There is no distinction between costs and liabilities
 - Additional authority may be delegated to individual SLT members if so required, up to the limit of the responsible GE member.
2. In order to facilitate the execution of contracts by Post Office Limited, the contract approval process has been updated. As a result, the list of approved signatories is also being reviewed to ensure that it is up to date. The proposed list of Authorised Signatories is set out in Appendix 3.
3. If approved by the Board, it is proposed that the delegations and authorised signatories will become effective as from 1 November 2015.

Input Sought

The decision(s) &/or advice we would like from the board is:

The Board is requested to approve and authorise:

- The delegated authorities set out in Appendix 2; and
- The list of signatories set out Appendix 3 as the list of persons authorised to sign contracts on behalf of Post Office Limited.

Input Received

Explain if other forums have seen, inputted to or approved this paper prior to the board:

The delegated authorities have been reviewed and recommended by the Group Executive.

APPENDIX 1
EXISTING DELEGATED AUTHORITIES

	Planned Spend	Unplanned Spend	Value of Indemnities or Potential /Contractual Liabilities	Risk or brand impact
	Value	Value	Potential cost	Description
Shareholder Executive	>50m approval required only if the value of the spend is not in the ordinary course of business	>50m approval required only if the value of the spend is not in the ordinary course of business	-	-
Board	> £20m	> £10m	> £20m	Carries significant risk (ERM score 4) Attracts public and media interest Risk of impact on brand value New product Is likely to attract the interest of the Shareholder
POL IC or ExCo	£5m-£20m	£3m-£10m	£10m-£20m	Carries significant risk (ERM score 3) Attracts local public and media interest Impacts on customer experience Significant product changes
Chief Executive or CFO	£3m-£5m	£500,000-£3m	£1m-£10m	Includes significant indemnities to be given by Post Office Ltd
Member of Executive Committee	<£3m	<£500,000	£500,000-£1m	Consultancy and project work affecting more than one part of the business
Head of Security1	-	<250k	-	-
Authorised Signatory2	<50k	<50k	<50k	Minimal impact on brand. Low risk

APPENDIX 2

PROPOSED DELEGATED AUTHORITIES FROM 1 NOVEMBER 2015

This document sets out the delegated authority levels for the Board, Group Executive and Senior Leadership Team.

To whom can authority be delegated?

- Board delegates authority to CEO.
- The CEO then delegates authority down through direct reports.

Authority may only be delegated to an individual (by reference to the role) and not to a committee.

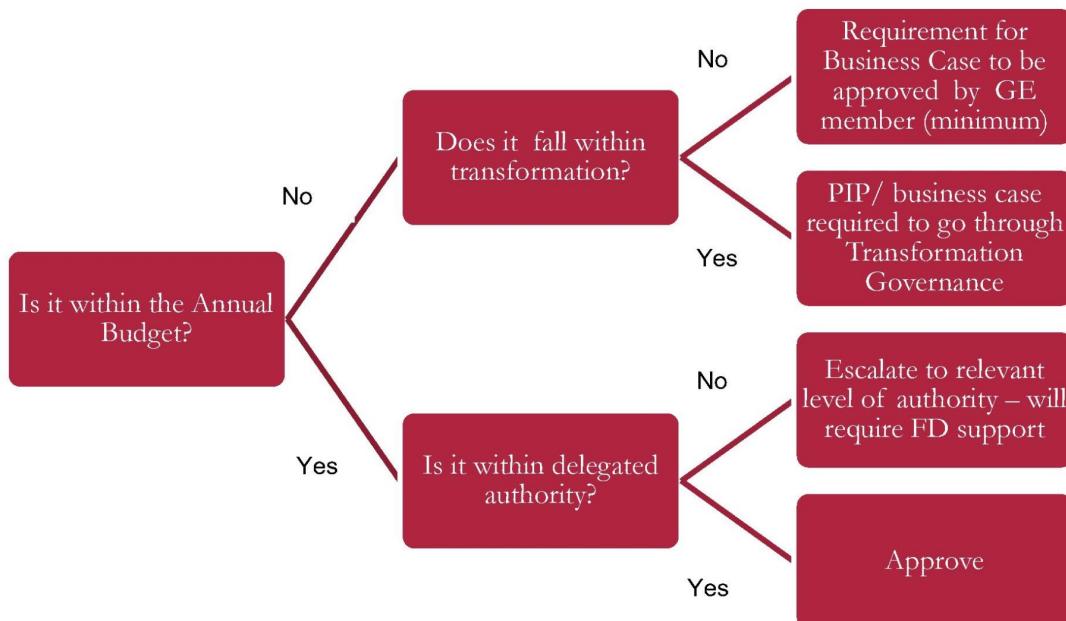
What does the authority cover?

- approval of expenditure within the agreed annual budget or under a Business Case approved through the Transformation Governance processes.
- approval of contracts on the Contract Approval Form (CAF).

Can authority be delegated further?

- Members of the GE may delegate authority for amounts in excess of £250k to their direct reports. Such authority must be in writing and specify the limit being delegated.
- GE members may delegate authority to contractors for specified periods and up to specified amounts.
- SLT members may further delegate authority to specified direct reports up to a specified amount.

All such further delegations must be in writing, and copies must be provided to the Company Secretary, who will hold the list of current delegated authorities for reference.



POST OFFICE LIMITED DELEGATED AUTHORITY LEVELS

	Planned Spend¹	Notes
SHEx	>£50m	Consent required from the Shareholder Executive (ShEx) where spend is not in the ordinary course of business (and/or not included in the Annual Operating Plan)
Board	>£20m	<ul style="list-style-type: none"> • Carries significant risk. • Risk of significant impact on brand value. • Is likely to attract the interest of the Shareholder.
Chief Executive	<£20m	
CFO	<£15m	Includes significant indemnities to be given by Post Office Ltd.
Member of GE	<£5m	
Senior Leadership Team	<£250k	<p>Delegation may be increased:</p> <ul style="list-style-type: none"> • Up to the authority level of the relevant GE member; • on an individual basis; or • for a specified purpose, or • to a consultant for a specified period. <p>Increased delegations must be in writing, signed by the relevant GE member and copies must be provided to the delegate and to Co Sec who keep a register.</p>

NOTES:

- Uncapped liabilities or indemnities must be specifically authorised by the CFO and General Counsel
- There are separate signatory procedures for bank accounts and Treasury functions; queries regarding these should be directed to the Group Financial Controller. Approvals to make payments must be made through usual AP processes
- FD for area must sign off spend as being within budget
- HR approval required for template changes
- Contractor and consultant spend must be approved through CFO
- Must comply with procurement processes
- Property spend (buying, selling, renting – including office space) must be approved by Head of Property
- Marketing spend must be approved through Head of Marketing

¹ Contract Value or level of possible liabilities

APPENDIX 3
PROPOSED AUTHORISED SIGNATORIES FROM 1 NOVEMBER 2015

Job Title	Current Incumbent
CEO	Paula Vennells
Chief of Staff	Tom Wechsler
CFO	Alisdair Cameron
Head of Strategy and Corporate Planning	Martin Edwards
Group Financial Controller	David Carter
Supply Chain Director	Mark Ellis
Network & Sales Director	Kevin Gilliland
General Manager Network Development and Transformation	Kevin Seller
Head of Sales, Financial	Jeremy Law
Commercial Director	Martin George
Chief Marketing Officer	Pete Markey
Head of Government Services	Chris Doutney
Director, Post Office Money	Mark Siviter
Financial Services Director	Nick Kennett
Head of Risk, Governance and Development	Jonathan Hill
Director, Post Office Money	Henk Van Hulle
Group People Director	Neil Hayward
Director, Employee Relations and Engagement	Thomas Moran
Head of Agents' Development and Remuneration	Nick Beal
Communications and Corporate Affairs Director	Mark Davies
Corporate Services Director	Jane MacLeod
Head of Legal, Infrastructure and DR	Jessica Madren
Head of Legal, Commercial	Piero D'Agostino
Head of Information Security and Assurance Group	Julie George
Transformation Director	David Hussey
Company Secretary	Alwen Lyons

Post Office Limited Sealings

Author: Alwen Lyons Meeting Date: 22 January 2016

Executive Summary

Context

The Directors are invited to consider the seal register and to approve the affixing of the Common Seal of the Company to the documents set out against items number 1366 to 1378 inclusive in the seal register.

Input Sought

For the Directors to resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1366 to 1378 inclusive in the seal register is hereby confirmed.

POST OFFICE LIMITED
Register of Sealings

Date
15 January 2016

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1366	19/11/2015	18/11/2015	Reversionary Lease between Nottingham Office Assets Limited and Nottingham Office Assets (No 2) Limited and Post Office Limited relating to Ground Floor and Part First Floor, Norfolk House, 47 Parliament Street, Nottingham.	Victoria Moss	Jean Reynolds
1367	19/11/2015	18/11/2015	Deed of Variation between Nottingham Office Assets limited and Nottingham Office Assets (No 2) Limited and Post Office Limited relating to Ground Floor and Part First Floor, Norfolk House, 47 Upper Parliament Street, Nottingham.	Victoria Moss	Jean Reynolds
1368	19/11/2015	18/11/2015	Counterpart Lease of premises at 90 Abbey Wood Road, Abbey Wood London SE2 0YH between Trustees of the Insight Displays Pension Fund.	Victoria Moss	Jean Reynolds
1369	25/11/2015	24/11/2015	TR1 relating to 60 Rochdale Road, Royton, Oldham, OL2 6QL. Post Office Limited acting as transferor, Mohammed Asif and Fareda Asif acting as transferees.	Alwen Lyons	Jean Reynolds
1370	27/11/2015	26/11/2015	Licence to Assign relating to Lease of Ground Floor, 12 Sun Street. Waltham Abbey between R Cowing & Son Limited and Post Office Limited and Yunus Patel and Huzalfa Karbhari.	Victoria Moss	Jean Reynolds
1371	04/12/2015	03/12/2015	TR1. Post Office Limited at transferor, Kaushik Shah and Divya Shah as transferee.	Victoria Moss	Jean Reynold
1372	10/12/2015	02/12/2015	Agreement for Surrender and New Lease relating to Toplin House, Ferndale Road, London SW9.	Alwen Lyons	Jean Reynolds
1373	14/12/2015	11/12/2015	Underlease relating to Ground Floor, Unit 3, Lord Street, Oldham.	Victoria Moss	Jean Reynolds

POST OFFICE LIMITED
Register of Sealings

Date
22nd September 2015

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1374	16/12/2015	15/12/2015	Licence to assign relating to Lease of The Post Office forming part of the premises known as 1 Trinity Street, Stalybridge, SK15 2PW between Post Office Limited, Brenda Brooks, Edward Kenneth Dry and Roger Nicholas Philips, Graeme Read, Abacus Properties (NW) Limited. 1st of three originals sealed.	Alwen Lyons	Jean Reynolds
1375	16/12/2015	15/12/2015	Licence to assign relating to Lease of The Post Office forming part of the premises known as 1 Trinity Street, Stalybridge, SK15 2PW between Post Office Limited, Brenda Brooks, Edward Kenneth Dry and Roger Nicholas Philips, Graeme Read, Abacus Properties (NW) Limited. 2nd of three originals sealed.	Alwen Lyons	Jean Reynolds
1376	16/12/2015	15/12/2015	Licence to assign relating to Lease of The Post Office forming part of the premises known as 1 Trinity Street, Stalybridge, SK15 2PW between Post Office Limited, Brenda Brooks, Edward Kenneth Dry and Roger Nicholas Philips, Graeme Read, Abacus Properties (NW) Limited. 3rd of three originals sealed.	Alwen Lyons	Jean Reynolds
1377	23/12/2015	23/12/2015	Licence to Underlet relating to land and buildings at 130C Lord Street, Southport between; Post Office Limited, Kingscrown Properties and Keith Hamilton and Denise rose Hamilton.	Alwen Lyons	Jean Reynolds
1378	07/01/2016	03/12/2015	Minute of Agreement recording a review of rent between Kilpatrick Assets Limited and Post Office Limited. Subjects: Units 1, 2 and 3 Maple Court, Alloa.	Victoria Moss	Jean Reynolds

New Prosecutions Policy Proposal

Author & Sponsor: Jane MacLeod

Date: 22 January 2016

Executive Summary

Context

Prior to separation, RMG prosecuted suspected criminal activity in the Post Office network in England and Wales. Since separation, Post Office has assumed this function, adopting essentially the same policy as previously applied by RMG. Prosecuting suspected criminal activity in the Post Office network assists the protection of Post Office assets by deterring criminal activity.

As good housekeeping following separation from Royal Mail, and in light of public criticisms of Post Office which arose in relation to 'Project Sparrow', we have reviewed the Post Office prosecutions policy to ensure that the policy is robust and continues to meet best practice.

Questions addressed in this paper

1. What are the key points to note about the new policy?
2. What are the implications for the board and the business?
3. What happens to cases that are not approved for prosecution?

Conclusion

1. The new policy replaces the previous policy which was inherited from Royal Mail. It sets out the requirements which must be met before Post Office can launch a prosecution including in particular, the Code for Crown Prosecutors (issued by the Director of Public Prosecutions) which require the prosecution to be in the public interest, and for there to be evidence sufficient to provide a realistic prospect of conviction
2. Where a case is not approved for prosecution in accordance with the Policy, it is likely that civil remedies would be pursued (eg contract enforcement or recovery of debts) as well as other steps as described in the Appendix.

Input Sought: The Board is requested to note the Policy.

Input Received: The draft policy was reviewed by Post Office Legal, Cartwright King (Post Office Limited's legal advisers on criminal matters to) and Brian Altman QC. It was approved by the Group Executive on 17 December 2015.

...

The Report

Why do we need to create this policy?

1. On 26 February 2014, the Post Office Board formally approved "pursuing a prosecutions policy focussed only on high value cases/cases involving vulnerable members of society, and engaging with the police in relation to other matters". Adopting the updated Prosecution Policy Post Office will enable continue to be able to bring private prosecutions focussing on high value cases and/or those involving vulnerable members of society.
2. The proposed policy sets out the approach that Post Office will take when considering whether to commence a prosecution. The final decision as to whether Post Office Limited should commence prosecution will be taken by the General Counsel.

What are the key points to note about our new policy?

3. The draft Policy:
 - explains Post Office's approach to suspected criminal activity against Post Office business in England and Wales;
 - expressly states that a prosecution can only be brought where the evidence in the case passes the same two-stage test used by the CPS;
 - lists a number of public interest factors which might support bringing a prosecution; and
 - empowers Post Office's General Counsel to authorise prosecutions.

What are the implications for the board and the business?

4. No particular steps are required to roll out and embed the policy as this will be the responsibility of Post Office Legal and its external advisers on criminal law. However we have been advised that the policy should be available on the Post Office Limited website, and that this is consistent with the practice of other organisations which conduct their own prosecutions.
5. Where an investigation is conducted and there is deemed to be sufficient *prima facie* evidence to support a charge and meet the public interest test, the investigation case papers are referred to Post Office's external lawyers who review the case against the same criteria and provide formal advice/opinion and a recommendation on whether to prosecute or not. The General Counsel is the business decision maker on the final decision of prosecution.
6. Where a prosecution is commenced, the case is kept under constant review to ensure that it continues to meet the evidential and public purpose tests; if not, the case is withdrawn.

How will we monitor compliance with this policy?

7. It will be the responsibility of the General Counsel to ensure compliance with the Policy. A report will be provided to the Board Audit & Risk Committee annually detailing the number of cases that have been referred to prosecution and confirming that in each case the requirements of the Policy have been complied with.

What will the impact be on our wider business?

8. We do not expect there to be any adverse impact on Post Office business, however the existence of the Policy may assist in discouraging criminal activities within Post Office.

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POST OFFICE LIMITED

PROSECUTION POLICY FOR ENGLAND AND WALES

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1. INTRODUCTION

- 1.1 Post Office Limited is a private limited company, wholly owned by Government.
- 1.2 It has been entrusted by Government to provide a number of services of general economic interest to the public through its branches across the UK.
- 1.3 Criminal offences against Post Office Limited's business, in particular theft, fraud and false accounting, adversely impact its customers and commercial partners, and challenge the viability of the services Post Office Limited provides.
- 1.4 Post Office Limited is committed to deterring and reducing criminal offending against its business by investigating offences, and by taking such action as it considers appropriate in the circumstances of the case.

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2. POLICY SCOPE

- 2.1 Post Office Limited has been an independent company since its separation from Royal Mail Group on 1st April 2012, retaining an investigative and prosecution function.
- 2.2 In England and Wales, Post Office Limited performs both investigative and prosecuting functions using external service providers for some of these functions.
- 2.3 In Scotland and Northern Ireland, Post Office Limited's Security Team carries out investigations and decides whether to refer a matter to the Crown Office and Procurator Fiscal Service in Scotland, or to the Public Prosecution Service in Northern Ireland. Post Office Limited does not make the decision to prosecute, nor does it carry on prosecutions, in Scotland or Northern Ireland.
- 2.4 The present policy is intended to explain the approach that Post Office Limited will adopt when it is suspected that crime has been committed against its business in England and Wales.
- 2.5 This policy applies equally to Post Office Limited employees, postmasters, operators, contractors and customers, as well as to any other person alleged to have committed a criminal offence against its business in England and Wales.

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3. POLICY OBJECTIVES

3.1 The general objectives of this policy are to:

- 3.1.1 ensure that Post Office Limited takes a fair, consistent and proportionate approach to criminal enforcement;
- 3.1.2 provide Post Office Limited decision makers with guidelines enabling them to reach appropriate criminal enforcement decisions;
- 3.1.3 inform the public and our commercial partners of the general principles Post Office Limited will use to guide its criminal enforcement decisions;
- 3.1.4 deter and reduce the commission of criminal offending against Post Office Limited's business;
- 3.1.5 preserve and maintain the viability and integrity of the services Post Office Limited provides to the public which criminal conduct comprises;
- 3.1.6 protect Post Office Limited's physical and financial assets; and
- 3.1.7 recover monetary losses and assets resulting from criminal conduct committed against its business.

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4. ENFORCEMENT OPTIONS

- 4.1 Post Office Limited's "**Contract Breach**" policy document ¹ sets out how Post Office Limited decision makers may act in relation to serious breaches of contract by postmasters operating postmaster contracts, and by operators of the New Model Contracts.
- 4.2 Where applicable, Post Office Limited will have regard to the terms of the "**Contract Breach**" policy before considering whether or not prosecution will be the most appropriate response to an allegation of crime.
- 4.3 If a criminal investigation is considered appropriate, it will be conducted by Post Office Limited's Security Team in accordance with the "**Conduct of Criminal Investigations Policy**" document.²
- 4.4 Post Office Limited often works in partnership with police forces and other enforcement agencies, particularly in cases where offences are alleged to have been committed by persons who are not Post Office Limited staff, agents or contractors, or where violence is alleged to have been threatened or used against Post Office Limited personnel or property, or where offences are alleged to have been committed against both Post Office Limited assets and/or personnel and assets of another agency.
- 4.5 In cases of the type referred to in paragraph 4.4, Post Office Limited may:
 - 4.5.1 invite the police and/or other enforcement agencies to investigate the allegation(s);
 - 4.5.2 pursue a joint investigation with police and/or other enforcement agencies;
 - 4.5.3 investigate the allegations without recourse to police or other outside agencies;

¹ Version 5.0 dated 7th April 2014, as revised or re-issued from time to time.

² Issued 29th August 2013, as revised or re-issued from time to time.

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- 4.5.4 invite another prosecuting agency to prosecute the matter;
- 4.5.5 pursue a joint prosecution with another prosecuting agency; or
- 4.5.6 pursue a prosecution without recourse to another prosecuting agency.

4.6 The choice of enforcement option may depend on factors such as, but not limited to, those matters set out in paragraphs 5.7 and 6.3 below, as well as the likelihood of non-compliance with, and the likely effectiveness or consequences of, any other enforcement options available.

4.7 Where the nature of the offence is so serious or the shortage or loss so substantial that enforcement action other than criminal action is inadequate and might lead to delaying criminal investigation and enforcement, Post Office Limited may move expeditiously to take criminal enforcement action.

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5. GENERAL PRINCIPLES OF CRIMINAL ENFORCEMENT

- 5.1 When making any decision whether to prosecute a person for a criminal offence, Post Office Limited will apply the Code for Crown Prosecutors issued by the Director of Public Prosecutions,³ as well as the further considerations set out in this policy document.
- 5.2 The decision whether to prosecute in any individual case will be taken with due diligence and expedition.
- 5.3 Post Office Limited will have regard to the Human Rights Act 1998 and the European Convention on Human Rights.
- 5.4 Post Office Limited will comply with the:⁴
 - disclosure obligations under the Criminal Procedure and Investigations Act 1996 (and the Code of Practice issued thereunder);
 - Protocol for the Control and Management of Unused Material in the Crown Court;
 - Attorney General's guidelines on Disclosure and on the Disclosure of Digitally-Stored Material;
 - Criminal Procedure Rules and the Criminal Practice Directions;
 - Attorney General's guidelines on the Acceptance of Pleas; and
- 5.5 Each case will be approached according to general principles of fairness, consistency and proportionality.
- 5.6 Fairness and consistency do not require Post Office Limited to take a uniform approach in every case; rather it means adopting a similar approach in similar circumstances to achieve similar ends, taking into account the particular circumstances of each case.

³ Currently the 7th Edition, issued January 2013, but revised and re-issued from time to time.

⁴ As may be revised and re-issued from time to time

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5.7 Proportionality means that Post Office Limited action will be proportionate to the seriousness of the offence, the strength of the evidence against the alleged offender, the harm done by the offence, the impact of the offence on the community and on the services Post Office Limited provides and its business, taking into account the costs to Post Office Limited of investigation and prosecution as weighed against the likely outcome.

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6. THE DECISION TO PROSECUTE

- 6.1 A prosecution can only be brought where the evidence passes the two-stage test for prosecution set out in the Code for Crown Prosecutors.⁵
- 6.2 In order to satisfy the two-stage test referred to above (the “Full Code test”):
 - 6.2.1 there must be evidence sufficient to provide a realistic prospect of conviction (the “evidential stage”); and
 - 6.2.2 the prosecution must be in the public interest (the “public interest stage”).
- 6.3 Where the evidential stage of the Full Code test is satisfied, in addition to the public interest factors set out in the Code for Crown Prosecutors, additional public interest factors that might justify a prosecution by Post Office Limited include where:
 - members of the public have suffered loss;
 - a victim of the offence was particularly vulnerable (for example by reason of age, infirmity or physical or mental disability);
 - the offence involves a serious or significant breach of trust;
 - the actual amount of the shortage or loss to Post Office Limited, in particular where the conduct has resulted in a significant or substantial financial shortage or loss;
 - the offence has or is likely to have an adverse impact on Post Office Limited’s business, brand, image or reputation;
 - the offence (or the concealment of the offence) is sophisticated, involves multiple transactions, or was committed over a lengthy period of time;
 - there is a history of similar past offences or misconduct;
 - an innocent party has been falsely blamed or accused;
 - the particular circumstances of the offender (such as his/her age, physical or mental condition, his/her general character or

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reputation, whether there is an absence of evidence of any previous offending or default);

- the particular circumstances of the offence (such as the pattern of offending, and whether it was, for instance, the result of deliberately calculated acts to benefit the offender);
- whether any or all of the shortage or loss has been (or realistically will be) repaid to Post Office Limited;
- any early voluntary disclosure or confession by the offender;
- the deterrent effect of a prosecution on the offender and others;
- any unreasonable or inordinate delay by Post Office Limited in reaching a decision;
- the cost of prosecution to Post Office Limited relative to the likely penalty on conviction and likely recovery of loss or shortage (although no decision will be made on this factor alone).

6.4 Following a decision to prosecute, Post Office Limited will keep the case under continuous review. Should it appear to Post Office Limited at any time that the case no longer satisfies the evidential stage of the Full Code test, or should Post Office Limited conclude that a prosecution no longer satisfies the public interest stage of the Full Code test, then Post Office Limited will discontinue the case without undue delay.

6.5 No prosecution will be commenced or continued in circumstances where it is, or it becomes likely, that the courts may regard the prosecution as oppressive, unfair or an abuse of the process of the court.

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7. DECISION MAKING

- 7.1 The decision to authorise prosecution, or any other decision under this policy, will be taken by the General Counsel for Post Office Limited, or any other member of the Post Office Legal Team to whom the General Counsel may delegate that authority, acting from time to time on the advice of external lawyers.
- 7.2 The decision to prosecute will be taken openly and transparently. The decision and the underlying reasons for it will be recorded in writing and retained by Post Office Limited until the expiry of a period of not less than six years following the conclusion of the case.
- 7.3 Prosecutions in the Magistrates' Court and the Crown Court are conducted by Post Office Limited's in-house lawyers, external lawyers or appointed agents.

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8. RECOVERY: CONFISCATION, COMPENSATION AND COSTS

8.1 Post Office will in each case consider whether or not to exercise its rights to recover any shortage or loss resulting from the offender's criminal conduct, as well as the costs of prosecution, subject to the general principles of fairness, consistency and proportionality.

8.2 Where Post Office Limited seeks to exercise its rights to recover a shortage or loss, it will do so by seeking orders for:

- Restraint against assets owned or controlled by suspects;
- Confiscation under the provisions of the Proceeds of Crime Act 2002;
- Compensation;
- Costs covering the investigation and prosecution; or
- Any combination of such or similar orders.

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9. THE ACCEPTANCE OF GUILTY PLEAS

- 9.1 In appropriate cases prosecutors will consider whether any offer of a plea to any particular charge meets with the scope and objectives of this Policy.
- 9.2 The decision whether to accept any offer of a plea or pleas rests with Post Office Limited only, acting on the advice of the prosecutor.
- 9.3 In cases where a defendant seeks to admit guilt on a basis other than that advanced by the prosecutor, Post Office Limited will only consider an offer of a plea or pleas where the offer is expressed in writing and in the form of a recognised 'Basis of Plea' document signed by the defendant or on his/her behalf by his/her representative. Post Office Limited is not bound to accept any such offer of plea or pleas.
- 9.4 In cases where the charges are expressed in the alternative and the defendant accepts the prosecution case without qualification, Post Office Limited will consider whether to accept a plea or pleas of guilty to particular charges by reference to the scope and objectives of this Policy.
- 9.5 In cases where the charges are expressed in the alternative and the defendant seeks to admit guilt to particular charges on a basis other than that advanced by the prosecutor, paragraph 9.3 of this Policy will apply.
- 9.6 In any case where a defendant seeks to enter a guilty plea or pleas on a basis not agreed by Post Office Limited, Post Office Limited will invite the court to hear evidence to determine the facts upon which the defendant is to be sentenced.

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10. REVIEW

- 10.1 This policy supersedes any previous Post Office Limited criminal enforcement action or prosecution policy document.
- 10.2 This policy will be reviewed annually.

Policy version:	v1: 22 January 2016
Policy owner:	General Counsel
Date of policy implementation:	25 January 2016
Date for review of this policy:	The first review to occur by 31 March 2017 and thereafter the policy must be reviewed by 31 March in each year.
Formal approval of policy by:	Post Office Group Executive