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POLB(12)28

POST OFFICE LTD BOARD

Information Technology and Change Transformation Programme – Request for Approval

1 Purpose

The purpose of this paper is to:

- 1.1 Request approval for the Information Technology and Change (IT&C) Transformation Programme which will increase IT&C's capability to support Post Office business transformation during 2012-15, whilst restructuring the Post Office IT supplier base.
- 1.2 Seek authorisation to spend £13.38m of OPEX to deliver the programme, which will be incurred from FY11/12 through to FY15/16 (summary financials provided at Appendix 1).

2 Background

- 2.1 IT&C has a pivotal role in supporting Post Office business transformation. A significant increase in capability and capacity is necessary to provide the volumes of skills and resources to deliver the business programmes and IT enablers to drive the business change. At the same time Post Office is faced with the imminent expiry and re-procurement of the majority of its IT supplier contracts, e.g. Fujitsu in 2015 for Horizon counters.

In addition, as part of the Post Office Strategic plan, IT&C has committed to a considerable cost challenge. Whilst business transformation activities will add to the IT&C cost base, the FY2015-16 target is to maintain the FY2012-13 cost base (approximately £120m). This is a significant challenge given the level of business transformation planned. More details can be found in Appendix 1.

The programme has defined a strategic approach for IT&C to address these challenges covering the IT supply chain¹ and IT&C operating model². The proposed models adopt industry standards and good practice whilst remaining pragmatic to best meeting Post Office needs. They are recognised across the IT industry and, along with the alternate options considered, have been validated by Gartner³.

3 Governance

- 3.1 The strategic approach and business case have been reviewed and agreed by the Programme Board, all individual members of the ET, and by Finance.
- 3.2 ET and POLIC have approved the programme and associated investment.

¹ IT vendor supply chain or IT supply chain – the make-up of suppliers who provide IT services and products to Post Office.

² Target operating model – the future structure of how IT & Change will organise itself in terms of processes, organisational structure, and management of its technology domains provided by suppliers, e.g. data centre provision, service desks etc.

³ Gartner – a leading information technology research and advisory organisation providing objective insight across all areas of IT.

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4 Approach

4.1 The programme has two major activities which will be undertaken over the next three financial years.

4.2 IT supply chain re-configuration

The programme will move Post Office from over 60 individual IT supplier contracts to an industry standard that has prime suppliers providing services through a simplified 'tower'⁴ model. IT services will be structured into four primary 'towers' of Service Desk, Workplace, Networks and Applications/Data Centre/Infrastructure (see Appendix 2 for details). All prime suppliers will be managed by a Service Integrator⁵ operating across the tower structure.

In addition, the programme is establishing several IT Frameworks⁶ (see Appendix 2 for details) to allow the efficient sourcing of ad-hoc specialist IT services for Post Office. This approach offers speed to market for new products and services, provides the opportunity to transform Post Office services, and ensures value for money.

Procurement and service transition will be phased to minimise impact on business transformation activities (as detailed in Appendix 3):

- The Service Desk tower will be bundled with the Service Integrator and targeted for Q1 2013 award. This will offer optimum appeal to potential suppliers in terms of scope of the requirement and value, and will align IT service delivery with the first line support functions
- Workplace, Network and Applications/Data Centre/Infrastructure towers will be targeted for Q3 2013 award
- Following award, phased transitions will occur to minimise exit costs and impact on Post Office separation activities

4.3 IT&C operating model implementation

The programme has identified a number of areas where there is a requirement to uplift the capability of IT&C. In particular managing current Post Office IT service delivery has been identified as a critical area to the success of maintaining current services, supporting the transition to the new IT supply chain and one where the required capability uplift is significant.

To address this challenge, an external⁷ Service Integrator will be procured to manage the performance and deliveries of Post Office IT suppliers. A number of IT&C colleagues will be transferred to the Service Integrator which will avoid knowledge loss. Contract award is targeted for Q1 2013.

⁴ IT Tower – a group of related IT services, delivered by a prime supplier either directly or through sub-contracting, e.g. Data centres

⁵ Service Integrator – an organisation to whom the current Post Office IT service delivery function will transfer to manage the IT Supply Chain, standardise services and implement cost-effective business operations.

⁶ IT Framework – a group of pre-contracted suppliers through which IT services and products can be competed and procured, without requiring a full OJEU exercise.

⁷ External Service Integrator – the approach to achieving the required Service Integrator capability through an outsourced model has been independently challenged by Berkeley Partnership (Post Office SPMO consultants) and determined to be strategically appropriate to the proposed IT Supply Chain model and timing within the context of the wider Post Office transformation agenda.

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The Service Integrator will support the creation of a post-transformation IT&C organisation that is business focused, responsive and flexible. It will enhance the quality of services provided by IT&C to its customers, provide a catalyst for the IT supply chain to transform how services are delivered (e.g. new technologies, standardisation, off-shoring), and deliver increased value for money.

Robust terms of engagement will be established to make certain Post Office achieves optimal utility while minimising costs with the Service Integrator. IT&C will realign its structure, grades and capability to ensure that we have adequate assurance and governance in place for the management of the Service Integrator.

Investment will be made to up-skill the retained IT&C organisation⁸, change ways of working and leverage the Service Integrator to augment IT&C project resources where appropriate. This approach will deliver a step change in the maturity and skills of IT&C.

5 Costs

- 5.1 The costs for implementation of the programme are £13.38m (as detailed in Appendix 1).
- 5.2 The programme has established a baseline IT&C cost base through detailed evaluation of the current year spend and projected transformation impact. This baseline has been reviewed and agreed with Finance and aligns with the exit level used as part of the strategic plan submission to Government in 2010.
- 5.3 The programme's business case expected scenario targets a return to an IT&C cost base of £120m by FY2016/17, following an intervening increase due to the Post Office transformation agenda.
- 5.4 Following Post Office Board approval, the expected scenario will be baselined as the operating plan IT&C cost target.

6 Benefits

- 6.1 The IT supply chain and operating model reconfiguration will:
 - Deliver an expected financial benefit of £57.1m (cumulative until 2016/17) and a sustainable IT operating run rate reduction of £15.5m (11.5%). These will be derived through: competitive re-procurement, service transformation, Service Integrator efficiencies, economies of scale, and a fit for purpose operating model
 - Strategically (versus tactically) re-procure key contracts
 - Implement fit for purpose commercial models
 - Provide financial transparency and variable costing
 - Introduce industry standard solutions
 - Provide a catalyst for IT supply chain service delivery transformation
 - Provide leverage over the current suppliers
 - Provide the opportunity to introduce innovative solutions
 - Enable IT&C to deliver and support the Post Office strategic plan
 - Enhance IT&C capability (e.g. improved demand management)

⁸ Retained Organisation – IT&C will retain the core teams for Programme and Project Delivery/Assurance, Architecture, Resource Management and Vendor management. These teams will undergo significant up-skilling through training, recruitment, and collaboration with the Services Integrator.

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7 Next Steps

7.1 Following Post Office Board approval immediate staff and supplier engagement will occur:

- IT&C staff engagement – 19/20 March 2012
- Invites sent and publication of Market Engagement Day – 19 March 2012
- Incumbent supplier engagement – 19 to 28 March 2012
- Market Engagement Day – 29 March 2012
- OJEU and PQQ publications April 2012

8 Risks/Mitigation

8.1 The key risks to the programme are provided in Appendix 4.

9 Recommendations

The Board is asked to:

- 9.1 Endorse the proposed strategy to deliver an effective Post Office IT supply chain and uplift in IT&C capability.
- 9.2 Authorise expenditure of £13.38m for the implementation of the programme.

Lesley Sewell
Chief Operating Officer
March 2012

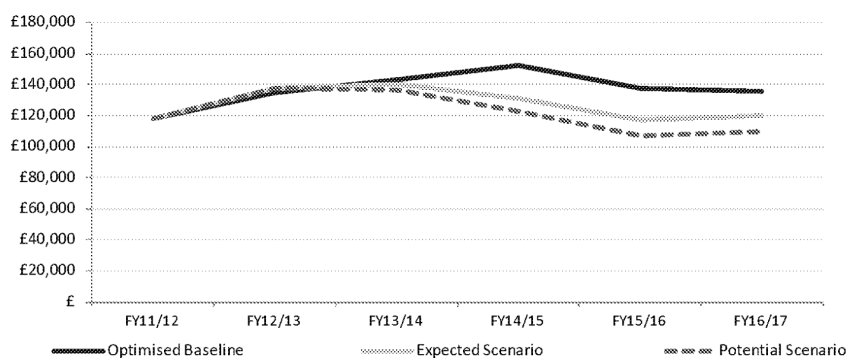
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Appendix 1 – Financial overview

This section provides an overview of the costs and benefits of the programme

Comparison of Run costs	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16	FY16/17	Cumulative Total
Optimised Baseline	£117,735	£134,394	£143,588	£152,451	£137,219	£135,508	£820,896
Expected Scenario	£117,735	£137,793	£140,288	£131,210	£116,788	£119,986	£763,800
Expected Saving (£)	£	-£3,399	£3,301	£21,241	£20,431	£15,522	£57,096
Expected Saving (%)	0.0%	-2.5%	2.3%	13.9%	14.9%	11.5%	7.0%
Potential Scenario	£117,735	£137,808	£136,450	£122,768	£107,211	£110,030	£732,001
Potential Saving (£)	£	-£3,413	£7,139	£29,683	£30,008	£25,479	£88,895
Potential Saving (%)	0.0%	-2.5%	5.0%	19.5%	21.9%	18.8%	10.8%
Investment (£)	£1,549	£6,348	£4,107	£919	£453	£	£13,376
Programme Costs	£1,549	£5,366	£2,932	£	£	£	£9,847
Op. Model implementation	£	£981	£1,175	£919	£453	£	£3,529

Operational cost scenarios



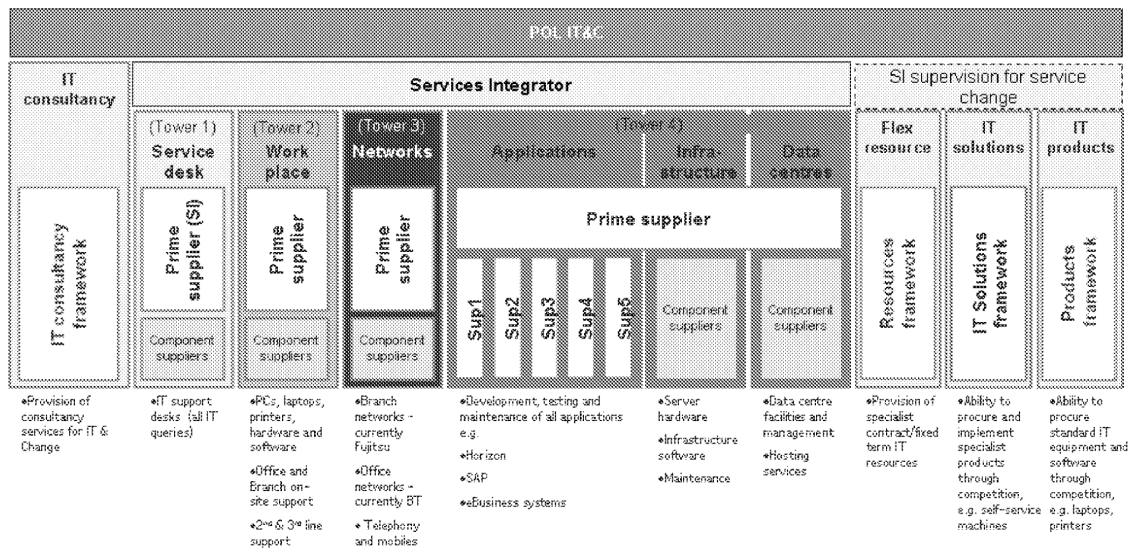
- *Optimised baseline* – the baseline IT&C cost base has been optimised to reflect an assumed level of tactical contract negotiation and minor transformation with incumbent IT suppliers (the true 'do nothing' scenario)
- *Expected scenario* – this is the target IT&C cost base and level of savings for the programme
- *Potential scenario* – this represents a stretch target for the programme given appropriate execution and risk management

Project and implementation costs

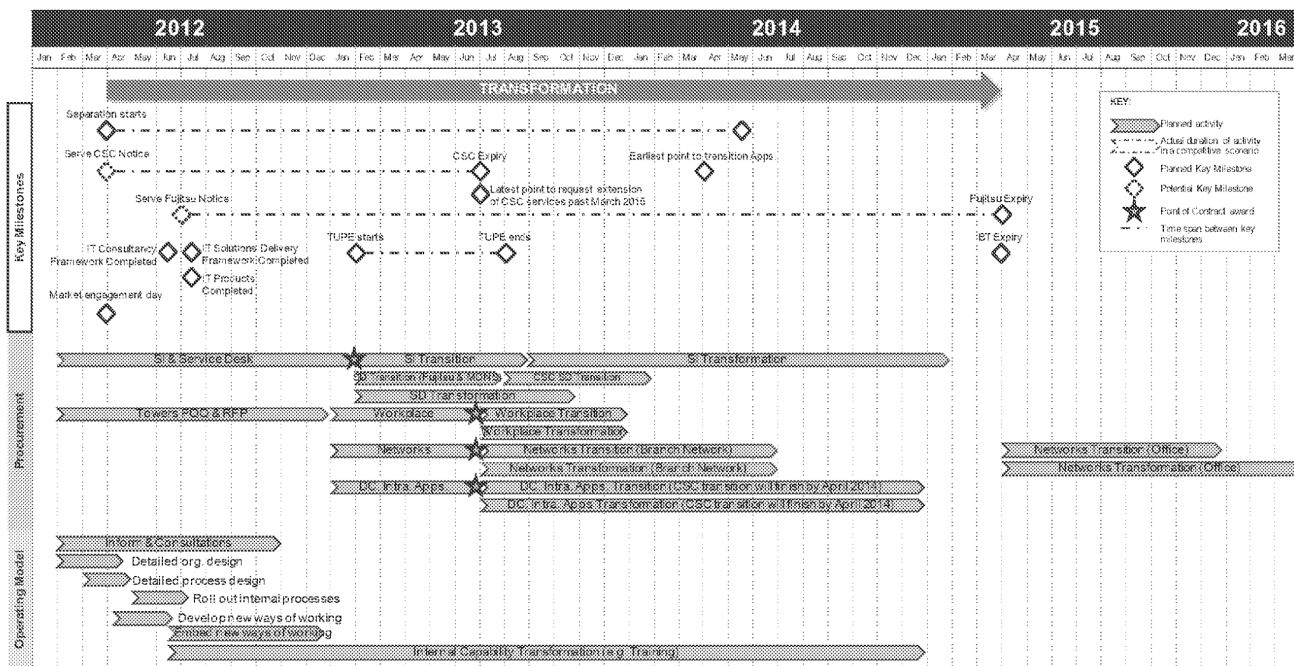
	Workstream	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16	FY16/17
Programme costs	Consultancy (sunk)	£870 (£300)	£2,200	£771	£	£	£
	Contractor	£47	£1,127	£652	£	£	£
	Legal	£98	£1,162	£974	£	£	£
	Skills Group (sunk)	£147 (£87)	£878	£535	£	£	£
Op. model implementation	Capability Uplift	£0	£233	£233	£233	£0	£0
	Redundancy	£0	£0	£0	£401	£401	£0
	Alignment	£0	£680	£834	£167	£0	£0
	Other (including expenses)	£0	£69	£108	£118	£52	£0
Total		£1,549	£6,348	£4,107	£919	£453	£0

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Appendix 2 – Future IT Supply Chain



Appendix 3 – High-level Procurement and Transition plan



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Appendix 4 – Key programme risks and mitigations

Risk	Impact	Mitigation
Impact on current suppliers	This programme is likely to result in our serving notice to one or more of the current suppliers. This may result in a reduced service (e.g. removing key staff, increasing charges wherever possible).	Mitigation has commenced with clear communication on our intent and plan to our current suppliers, and clarity on the potential opportunities will be highlighted through market supplier days.
Impact on business transformation	There is a risk that restructuring the IT suppliers could adversely impact the strategic business transformation programmes. IT&C is not configured for delivery of a large transformation.	This risk will be mitigated by a Service Integrator who can provide additional skilled resources and delivery capability whilst we up-skill the retained organisation.
Resource availability and on-boarding	There is a risk that sufficient resources cannot be ramped up in time to meet the committed timelines or that insufficient or inappropriate resources are utilised to deliver this programme. This is likely to result in the programme not delivering the predicted outcomes and benefits within the committed timeframes.	This is being mitigated by including clear definition of required roles, considering a number of delivery models and budgeting for backfill of key personnel required on this project.
Constraints introduced by separation	Assumptions have been made on the constraints introduced by POL Independence and the project plans have been designed to accommodate these factors. There is a risk that if the constraints change as a result of the detailed planning for separation, then the IT&C Transformation plan will need to be revised. Note, all joint Post Office and Royal Mail IT supplier contracts are subject to RMG concurrence before Post Office are able to exit.	This is being mitigated by integrated planning with the POL Independence and Separation programme
Lack of market appetite	There is a risk that market appetite will be limited due to new entrants believing they will not be successful. This could reduce competition and result in the procurement process being revisited.	This will be mitigated through early and continued communication which reinforces the opportunities for suppliers and demonstrates a fair competition.
Retained Organisation	There is a risk that the capability of the retained organisation will not be sufficient to effectively manage the Service Integrator and maintain service levels through the transition period.	This will be mitigated through engagement of a strong procurement team and the implementation of robust terms of engagement for the Service Integrator. The Service Integrator will be leveraged to protect service levels through the subsequent period of transition.
Future Contract Management	Contract management in the target supply chain will follow a different model to that which Post Office is currently used to and will involve strong management of risk through the Service Integrator.	Significant up-skilling and recruitment will be undertaken in this area to ensure the required capabilities are embedded into the organisation.
Timescales for Procurement	The plan for the procurement of the Services Integrator and the supplier towers is aggressive. There is a risk that delays to the initial on-boarding of staff will impact on the overall project timescales. Royal Mail is recruiting at the same time for a similar transformation programme and we may face competition for the same resource pool.	This will be mitigated through agreed delay to the procurement process if required, or increased external support from existing sources.
Exit and transition cost	Over the next three years the majority of key contracts will need to be re-procured. There is a risk that services will need to transition from current to new suppliers. The worst case early exit and transition costs have been estimated at a maximum of £31m.	A significant portion of this risk is expected to be mitigated through negotiation. Note: This risk exists whether or not we undertake this programme and does not directly impact the benefits of this case.

POST OFFICE LIMITED
Board of Directors**EXECUTIVE SUMMARY POLB(12)28**Date of Board: 15th March 2012

Subject:	IT&C Transformation Programme
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Author/Sponsor:
Author: Neil Lecky-Thompson Director Sponsor: Lesley Sewell
Contributors / Presenters:
Presenter: Lesley Sewell

	Decision	Guidance	Noting
For:	X		

Reference previous action point:

BACKGROUND AND CONTENT:
IT&C provides the skills and resources to deliver business programmes and IT enablers required to drive business change. Post Office is embarking on a significant transformation agenda over the next three years which will substantially increase the demands placed on IT&C. At the same time we are faced with the imminent expiry and re-procurement of many of our key IT supplier contracts. Furthermore, as part of the Post Office Strategic Plan, IT&C has committed to maintaining its FY12/13 cost base whilst supporting the business transformation.
In response to these challenges, IT&C has defined a strategic approach to re-positioning its IT supply chain and Operating Model. Post Office Board approval is requested to progress with the implementation of this approach and to the supporting business case.

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	6 March 2012
Investment Appraisal completed or financial implications assessed and supported by the CFO	

Additional presentation:

YES / NO

POST OFFICE LIMITED
Board of Directors**EXECUTIVE SUMMARY POLB(12)29**Date of Board: 15th March 2012

Subject:	Network Transformation
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Author/Sponsor:
Kevin Gilliland/Chris Day
Contributors / Presenters:
Sue Huggins

	Decision	Guidance	Noting
For:			X

Reference previous action point:

BACKGROUND AND CONTENT:
<p>The paper will update the POL Board on progress of the Network Transformation Programme, as we head to rollout from April 2012. It will:</p> <ul style="list-style-type: none">• Update on our approach to implementation• Update on our approach to prioritisation of activity• Update on budget required for 2012/2013 and key areas of spend• Update on pilot activity, lessons learnt and results from customer and operator research• Provide an overview of current programme risks

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	
Investment Appraisal completed or financial implications assessed and supported by the CFO	

Additional presentation:

NO

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POST OFFICE LTD BOARD

Update on Network Transformation Programme

1. Purpose

- 1.1 The purpose of this paper is to update the POL Board on the Network Transformation Programme. Specifically, it will provide:
- An update on our implementation approach.
 - An update on our approach to prioritisation.
 - An update on Programme budget through 2012/2013.
 - An update on pilot activity, including lessons learnt and a summary of results obtained from customer and operator research.

2. Approach to Implementation

- 2.1 Implementation plans for the Network Transformation Programme have been developed and can be categorised into six key stages. This process will enable the implementation of 6000 activities by the end of March 2015.
- 2.2 **High level engagement with all Agents** - A communications campaign, in place since October and designed to provide Agents with information on the Programme, operating models and the choices available to them. The campaign has included Network Live events and an Agent survey, responses to which have been encouraging.
- 2.3 **Preparation for rollout** – enabling the programme to achieve a state of readiness to engage with Agents in April. Preparation includes recruiting and training new staff and finalisation of necessary terms and conditions, documentation and contracts, working closely with the NFSP.
- 2.4 **Validation** – Over 3000 Agents have expressed an interest in change, via the estate survey. From early April, face to face conversations will take place with these Agents regarding the options available and possible impact of change. Following this initial meeting, POL will validate propositions and establish the Agents interest in the option and/or operating model that POL is recommending.
- 2.5 **Prioritisation of individual branch activity** - All branches will be prioritised using a number of criteria and then released to the field team, as projects, to progress through to implementation. The financial impact to POL will be taken into account (see section 3) as will the overall Agent proposition and customer impact.
- 2.6 **Detailed engagement with volunteer Agents** - Agents converting to a new operating model will complete and submit a business plan for approval and individual contract terms and conditions will be provided. For potential 'leavers', advertisement and recruitment for new operators will commence, in line with normal business processes.
- 2.7 **Implementation of branch changes** will commence once conditional contracts are signed. Consultation activity will be required for relocations – POL is in discussions with Consumer Focus regarding the new Code of Practice which will determine the approach to consultation and communication activity. An MOU between POL and Consumer Focus will govern working practices through the life of the programme.

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3 Approach to Prioritisation

- 3.1 Our approach to prioritisation needs to ensure alignment with the strategic plan; to deliver 6000 activities (4000 Mains and 2000 Locals over the funding period). One fifth of activities will be delivered in the first year of the programme (800 Mains and 400 Locals), with two fifths delivered in years two and three (1600 Mains and 800 Locals in each year).
- 3.2 Financial prioritisation has been undertaken to assess the net benefit/cost of conversion at branch level for the current, known volunteer on-site population. Net benefit has been calculated as the change in the agent's total pay.
- Circa 2,000 Agents have expressed an interest in on site conversion, via the estate survey. These branches have been used in this financial assessment.
 - An IRR based on net benefit, expressed as a percentage of the investment level is used to establish a financial prioritisation.
 - For Main branches the saving in fixed payments is offset by the estimated increase in variable pay of 27%.
 - For Local branches, the same method has been used but without increases in variable payments which are not applicable to this population.

Overall results are £21.3m investment, £11.1m annual net benefit at an IRR of 52.36%. This is based on the circa 2,000 potential on site conversions, as detailed above. For Main branch conversions, we have agreed with the NFSP that for a period of up to three years, the remuneration received under the new contract will not fall below the levels that would have been received under their existing contract. As a result, realisable benefits for Mains will be lower in the short term, excluding the positive impacts that conversion will have on customer numbers and potential new business.

- 3.3 Based on programme level financial analysis, the Network proposes to give priority to all on site Locals, followed by on site Mains, before consideration is given to off site Locals and off site Mains.
- 3.4 When financial analysis was extended to look at those branches that have expressed an interest in leaving the network, 47 branches were identified as providing a greater IRR than the minimum achieved (3.64%) within the on site population. Therefore, this subset will be prioritised ahead of the bottom on-site conversions for activity in 2012/2013. The results of this subset are £470k investment, £388k annual net benefit at an IRR of 82.58%.
- 3.5 In addition to the above, separate processes for the approval of compensation payments will be implemented in order to manage this spend to a necessary minimum.
- 3.6 As this is a voluntary programme and, in light of the other prioritisation criteria, highlighted below, network selections may vary. Financial assessments will be made on an ongoing basis to ensure that an overall understanding of the economic impacts of change remains understood.
- 3.7 As mentioned above, the financial impact to POL is only one criteria to be used in the selection and prioritisation of branches. Other factors will be taken into account in order to ensure implementation of 1200 activities next year. These include:
- Quality of the agent and future business proposition – including overall retail offer and willingness to extend opening hours

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- Exceptional circumstances – prioritisation of potential ‘leavers’ with ill health for example.
- Customer impact – branches that would deliver the greatest customer benefit.
- Geography - some regional prioritisation will need to take place in order to smooth workloads and ensure change is being delivered with equal consideration in each of the devolved administrations.

3.8 Branches that are currently perceived as being unsuitable for conversion or relocation at this stage will be de-prioritised. For example, branches with less than 400 customer sessions, those in high risk locations and those with low conformance ratings will be pushed back until corrective action/solutions have been found or actioned.

4. Update on Programme Budget for 2012/2013

4.1 The business case for 2012/2013 states full budget required of £144.5m – this will be presented at March POLIC. Spend will enable the programme to deliver the targeted 1200 activities next year (with funding to achieve stretch at 1345). Key areas of spend include:

- £21m staff and non staff costs.
- £59m compensation payments to branches.
- £33m investment payment to branches.

4.2 Robust controls will be in place to monitor programme spend throughout 2012/2013 at an individual branch level through to a strategic programme level.

4.3 A programme scorecard will be in place from the beginning of April. Key Performance Indicators include:

- Number of branch conversions, opening hours.
- Benefits tracking – contribution, fixed/variable pay ratios.
- Programme spend, compensation and investment levels.
- Customer and agent satisfaction, including waiting times.

5. Update on Pilot activity

5.1 176 pilot branches are now live throughout the UK. Conducting pilot activity has allowed us to gauge the attractiveness of the models to Agents. 38% of the Agents engaged with have withdrawn from the pilot process for a number of reasons:

- Contractual reasons such as the requirement for Mains operators to register as a company, the need to obtain three quotes for fit out works and the need to open extended hours.
- Financial reasons such as lack of cash flow to invest in retail or compensation levels perceived as being too low.
- Personal reasons – timing not right for the agent.

5.2 In some cases, we will implement mitigating actions to make conversion to the new models more attractive: Making voluntary, rather than mandatory, the requirement to adopt company to company status; reducing quotes for works from three to two; and providing £10k investment to Mains branches upfront to enable linked investment on their retail side. If these mitigating actions had been applied to the pilot group, the withdrawal rate would have been reduced to 23%.

5.3 Customer and operator research has also taken place across our pilot estate:

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- 1216 customer surveys in Local pilot branches.
- Operator surveys in Local branches.
- Pre and post conversion research in recent Local and Main pilot branches.

5.4 Headline results from the surveys include the following:

- Average weighting time in Post Office Local branches stands at 41 seconds.
- 96% customer satisfaction with the overall level of service in Local branches.
- 98% customer satisfaction with the overall level of service in Main branches.
- 63% of operators surveyed believed that the Post Office helped to increase their retail sales. The average retail sales uplift is 9%.
- 67% believed the Post Office helped the sustainability of their branch.
- Some concern amongst operators regarding the level of support from NBSC - this is being addressed through additional training.
- Some concern amongst operators regarding the level of training provided – a new training package has been developed which addresses these concerns.
- 91% of PO Local operators surveyed stated that they had received requests from customers for products to be added to the Local product set. A review of PO Local product set has been undertaken with some additional products now added. These include enveloped cheque deposits, BFPO transactions and gift cards. On demand Bureau de Change will also be included but only at on site conversions where the service would not otherwise be available in the community. MVL transactions will also be available at on site Local conversions but only by exception.
- 81% customer satisfaction in Locals with the range for products and services available.

6. Conclusion and recommendations

6.1 The POL Board is asked to note the progress to date on the Network Transformation Programme.

Kevin Gilliland & Chris Day
March 2012

Appendix to March Network Transformation POL Board Paper**Summary of Top Four Programme Risks**

Risk	Impact	Mitigating Action	Owner
As Network Transformation will initially be a voluntary programme and we are removing fixed remuneration there is a risk that we will not get enough volunteers to take on the new operating models	Which may result in us being unable to complete the transformation as planned.	<ul style="list-style-type: none"> • Working closely with the NFSP to review our approaches to the new contracts and compensation. • Learning from pilot activity • Semi voluntary approach through new commercial transfer policy • Option of introducing set piece, larger scale transformation with our multiple partners • Contingency planning is underway should we need to move to greater compulsion, in the event that we do not obtain sufficient volunteers 	Sue Huggins
As a result of delays in development of the NT database and workflow tool and the very tight timescales remaining for production, there is a risk that we may not have the database ready for roll out	Which may result in delays to roll out	<ul style="list-style-type: none"> • Working closely with CSC & IT to ensure the solution is delivered to time. • Contingency "infopath" solution 	Neil Ennis
NFSP may not agree remuneration and compensation arrangements which may delay engagement	Which may result in fewer volunteers and delay the Programme	<ul style="list-style-type: none"> • Working closely with the NFSP to resolve all outstanding issues 	Sue Huggins
Adverse publicity from Stakeholder Groups e.g. Consumer Focus	This may result in fewer volunteers. Adverse impact on the Programme Client Issues	<ul style="list-style-type: none"> • Getting on the front foot with the Press launch - now scheduled for the 9th March to launch the Programme. We are also working closely with Consumer Focus to develop a new Memorandum of Understanding 	Alana Renner

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POST OFFICE LTD BOARD

Update on the Crown Transformation Programme

1. Purpose

1.1 This paper updates the POL Board on the Crown Transformation Programme. Specifically, it will cover:

- A re-cap on the background to the Crown Transformation Programme;
- An update on the refreshed Crown strategy and the 3 year transformation plan;
- An update on the new Premier Branch model trial at Birmingham.

2. Background

2.1 The Crown network is currently losing £64m and a condition of the funding agreement with Government requires Post Office to ensure Crowns breakeven by 2015.

2.2 The strategy agreed with BiS [September 2010] to return the Crown network to a break-even position by Mar 2015 recommended that POL should maintain, in direct ownership, a small number of Premier (flagship) branches circa 90 and about 50 service hubs.

2.3 The key enablers to deliver the original strategic approach were:

- 'Buy Down' of Crown staff pay by 24%;
- Divesting c.180 large directly managed branches through franchising and re-siting a further 50 into 3rd party sites.

2.4 Due to the radical and unpalatable nature of the 'buy down', the current economic climate and TUPE regulations, which taken together, impede POL's ability to franchise its biggest branches. A new strategy has been devised.

3. Refreshed / New Strategy:

3.1 The revised strategy, when fully deployed, should improve the Crown P&L by approx £61m (see appendix 1) by the end of the planned period. This includes additional income of £19.2m, staff cost savings of £17.7m and realising benefit of £4.2m through property initiatives. An additional £6.0m is achieved through some Crown divestment, with £13.7m delivered from recurring benefits forecast in the 2011/12 P&L, and accounting policy changes.

3.2 The strategy is based on applying a segmentation to the existing estate which results in the recommendation:

- To retain 300 – 320 Directly Managed Crown branches, these will typically be in excess of 3000 customer visits per week. About 30 branches will be flagships and anchor the network in high profile locations such as capital cities and prominent retail locations;
- To divest 50-70 smaller / worst performing branches and where the impact on focus product income will be minimised. The Crown network will be reduced through a mixture of mergers (two branches into one where locations allow), maximising benefit through hosted models and through franchising to an agency main model.

3.3 The segmentation was determined by assessing each branch against a number of weighted criteria:

- Potential for staff savings through use of technology to improve the customer journey (mails products);
- Size of branch based on weekly customer numbers;
- Meeting customer and client requirements for future Financial Services (FS) and Front Office of Government (FOoG) income projections;
- Average P&L loss per customer session;
- Staff cost to income ratio.

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- 3.4 The plan shows an overall reduction of 1190 staff over the 3 years. This is comprised of:
 - 230 staff in 2012/13 as a result of the duties review, now agreed with the CWU;
 - A further 420 staff across years 2 and 3 as a result of the rollout of the new Crown model (based on mails automation only);
 - A review of the Crown Area Management (CAM) and Branch Manager (BM) structure will deliver a reduction of 40 managers;
 - The exit of c.50 branches will reduce staff numbers by a further 500 (based on an average of 10 staff per branch).
- 3.5 The key enablers of the new Crown Transformation strategy are:
 - New income streams delivered through a new branch design;
 - Increasing automation serving customers more effectively whilst improving service;
 - Increasing staff engagement and focus on a personal face to face service;
 - A voluntary redundancy package to reduce headcount;
 - A culture and model that gives branch managers and their teams the ability to take more control of their branch (e.g. flexible working etc);
 - The ability to re-configure POL's Crown property portfolio to improve space utilisation, disposals and hosted models;
 - Collaboration with the CWU and Unite/CMA.
- 3.6 Underpinning this strategy, there is a dependency on:
 - Implementation of the FS contract (Eagle);
 - Realising the benefits of new FOoG contracts;
 - The opening up of Horizon to other peripherals and a suitable supplier of improved automated equipment;
 - Realising the benefits through optimisation of property portfolio;
 - £124.4m of investment (see 5.5 below).
- 3.7 The critical path of the Crown plan centres on the IT roadmap for the development and procurement of automation that will handle a larger proportion of the product set including mails products, bill payment and POCA. The current plan shows the proof of concept launch by autumn 2012 enabling full roll out from April 2013.
- 3.8 We are working collaboratively with both CMA Unite and CWU to develop a plan that is built with maximum co-operation. Since December continued progress has been made:
 - Constructive consultation meetings have been held to agree the overall plan;
 - Unite/CMA has agreed to the re-structure of the Crown Area Management team;
 - CWU have agreed to a full staff duties review that will identify the opportunity to remove 230 staff from the network in 2012/13;
 - As part of current negotiations with the CWU on pay, POL is insisting upon key time workers and more flexible working practises as integral to any agreement.

4. Branch Design / Pilot Sites

- 4.1 The optimum Premier branch design will focus on improved customer experience through:
 - Bright, welcoming branches zoned to ease customer flow and maximise space utilisation;
 - Self service areas maximising the use of automation to enable customers to fulfil their transactional needs at their own pace;
 - Assisted service at open plan counters for lengthy and complicated transactions;
 - Private consultation areas for high value transactions, such as financial services.
- 4.2 A desktop analysis around the optimum Premier model and size has been completed. We will use this analysis to review the property estate to assess current fit and identify any excess capacity for alternate use. An agency will be selected to work with us to define the

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holistic approach to overall branch design and to deliver a customer centric, future proofed design for Premier branches.

- 4.3 Of the current product set, c.89% has potential for a self service solution. Deploying Post & Go enables 40% automation of the total volume. Further analysis is underway to identify the level of automation that will provide the optimum business benefit.
- 4.4 Birmingham was selected as the first pilot site due to its high mails volume and a history of below average queuing times.
- 4.5 The agreed objectives for this pilot were:
- Redesigned branch layout to improve customer flow and focus on customer needs;
 - The introduction of additional Post and Go (P&G) kiosks to improve customer experience and reduce waiting times;
 - Greater emphasis on Customer Hosts to manage sales and service;
 - Improved staff capability and behaviours;
 - Improved sales and service following implementation of a new model.

Birmingham results to date:

	Pre-Pilot	Pilot to date
Customer satisfaction	84%	93%
Average waiting times	4 mins 57 secs	3 mins 58 secs

Sales performance	Birmingham	Control branches	Improvement v Control
Total Sales Income (pre-pilot to pilot)	4%	2%	100%
Focus Sales Income (pre-pilot to pilot)	(4%)	(8%)	100%
Customers served < 5 minutes	67%		79%
P&G penetration	39%		74%

- 4.6 Next Steps for Birmingham:
- Complete the full duty review to identify and realise staff hour savings from additional Post & Go kiosks (March);
 - Agree transition timelines and identify key individuals who could become ambassadors for the Crown Transformation Programme (March);
 - Commence Phase two activities (Apr-Jun) to further develop the model including:
 - Full post implementation review and learning's from phase one;
 - Refresh signage, point of sale and product categorisation including preparation for pilot of FOoG initiatives
 - Introduction of flexible / key time working;
 - Opening hours extension to 6.30 p.m;
 - Addition of internal POCA ATM's;
 - Introduction of open plan travel desks creating an internal 'sales conversation' area.

4.7 Further Pilots

Two additional Premier pilots are being scoped at Chester and New Malden to further test the economic model and optimum branch design. Both branches have been shortlisted as typical / mid range branches to ensure findings are replicable across the wider network.

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4.8 Automation development.

To accelerate our understanding of customer behaviour we are investigating the trialling of card payment (only) Post and Go as they bring benefits of lower cost of acquisition and improved service levels (some cash P&G kiosks will be retained in trial branches).

5. The 3 Year Plan

5.1 In view of the critical path constraints of IT and automation development, year 1 of the plan (2012/13) contains initiatives that deliver P&L improvements and allow POL to further test new models before full rollout commences in 2013/14. Year 1 includes:

- A staff duties review across the network impacting 230 staff;
- The review of the CAM and sales support structure impacting 10 managers;
- A review of the BM structure resulting in a reduction of 30 managers;
- Develop the HR framework to prepare staff for the Premier model, developing the new training model, agreeing VR package with CWU / Unite CMA and staff exit programme;
- Delivery of new income from UKBA work and improved FS sales;
- Delivery of additional pilots: Currently shortlisted are Chester & New Malden;
- To finalise the end to end branch design, ensuring alignment of the self service rollout;
- Pilot and roll out of Financial Services strategy enabling achievement of additional FS income;
- Review of internal accounting principles that impact the network: FS joint venture renewals income and parliamentary branches.

5.2 The full rollout of the Premier model to the remaining crown estate is planned to start in year 2 (April 2013), with the objective of opening one new office per working day (excluding Christmas 2013) until completion in September 2014.

5.3 The plan to divest 50-70 branches is anticipated to take place throughout years 2 and 3 but will be driven by opportunities to franchise and locate to hosted sites.

5.4 A summary of the schedule of activities and initiatives that contribute to the P&L improvement is shown below:

2010/11 baseline (management accounts)	(£64.0m)
	<u>£21.2m</u>
2012/13 annual recurring benefits	(£42.8m)
Projected 2012/13 Crown P&L	<u>£20.3m</u>
	(£22.5m)
2013/14 benefits	<u>£19.3m</u>
Projected 2013/14 P&L	
2014/15 benefits	-£3.2m
Projected 2014/15 P&L exit rate	

5.5 The investment required to deliver the benefits is as follows:-

	2012/13 £m	2013/14 £m	2014/15 £m	Total £m
Redundancy, TUPE & Training Costs	10.9	22.8	16.2	49.9
Automation / technology costs	1.7	6.7	3.6	12.0
Property Costs including Premier rollout	0.1	34.4	21.9	56.4
Programme team / Change & IT	2.7	2.0	1.4	6.1

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Total	15.4	65.9	43.1	124.4
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6. Top 3 Risks and Mitigation

- 6.1 Union engagement. We are working collaboratively with CMA Unite and CWU to ensure understanding and buy in to the Crown transformation plan;
- 6.2 IT availability and speed of delivery. We are working with IT to understand and seek accelerated timescales;
- 6.3 Certainty of future income growth. As roll out of the transformation strategy does not commence until April 2013, POL will have greater confidence in the certainty of future income growth before investment in branches begins.

7. The Board is asked to:

- 7.1 Note and approve the refreshed Crown strategy.

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Appendix 1 – The Financial Plan

Summary of incremental P&L benefits by strand

Strand	Activity	2012/13 £m	2013/14 £m	2014/15 £m	Total £m
People and Productivity	• Staff savings from automation	0	4.0	4.9	8.9
	• Staff hour & management Structure review	5.3	2.5	0	7.8
	• Tactical post and go deployment and pilots	0.3	0	0	0.3
	• Raising of staff bonus threshold	0	0	0.7	0.7
	Total People & Productivity				17.7
Product	• Government Services income	3.0	6.0	0	9.0
	• Financial Services income - Eagle renegotiation ⁽¹⁾	3.5	2.5	5.0	11.0
	• All other	1.1	1.3	2.8	5.2
	• Std income decline	(2.0)	(2.0)	(2.0)	(6.0)
	Total Product Income				19.2
Property	• Hosted, 2:1 and resites	0.5	1.1	2.6	4.2
	Total Property				4.2
Other	• Management Accounting changes (retention / renewals credit)	5.3	1.9	2.3	9.5
	• Recurring cost benefit from 2011/12 P&L	4.2	0	0	4.2
	• Divest 50 – 70 branches (net benefit) ⁽²⁾	0	3.0	3.0	6.0
	Total Other				19.7
Total		21.2	20.3	19.3	60.8

(1) Does not include any assumptions in potential uplift of income through improved sales effectiveness training.

(2) £6.0m net benefit through divesting 50-70 branches, further analysis is underway to identify the component gross elements e.g. loss of income and the benefits of lower staff and property costs etc.

Kevin Gilliland
March 2012

POST OFFICE LIMITED
Board of Directors**EXECUTIVE SUMMARY POLB(12)30**Date of Board: 15th March 2012

Subject:	Crown Transformation
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Author/Sponsor:
Kevin Gilliland
Contributors / Presenters:
Sue Huggins

	Decision	Guidance	Noting
For:			X

Reference previous action point:

BACKGROUND AND CONTENT:
This paper updates the POL Board on the Crown Transformation Programme. Specifically, it will cover: <ul style="list-style-type: none">• A re-cap on the background to the Crown Transformation Programme;• An update on the refreshed Crown strategy and the 3 year transformation plan;• An update on the new Premier Branch model trial at Birmingham.

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	
Investment Appraisal completed or financial implications assessed and supported by the CFO	

Additional presentation:

NO

POLB(12)31

POST OFFICE LTD

FINANCIAL SERVICES
SALES & BUSINESS DEVELOPMENT STRATEGY

Purpose

1. The paper "First Impressions of the Financial Services Business" tabled at the September 2011 Board meeting (the Paper) highlighted various issues facing the Post Office as it seeks to develop its financial services business; critical in this assessment was the conclusion that the extensive branch network, sales processes and brand do not "deliver an effective FS sales and service capability".
 - 1.1. This paper sets out the high level sales and related strategies to deliver a step change to build and sustain a financial services capability. The value created will generate long term revenues to Post Office and assist deliver Crown transformation. While some of the initiatives mentioned are already under-trial, others require planning, business case finalisation and assessment of alternatives before proceeding. It is tabled for noting.

Background

2. The Paper highlighted a number of inter-linked issues in the current financial services sales model, in particular:
 - 2.1. The Post Office is not associated with financial services, with customers normally coming to a branch to conduct other product services. This is reflected in very low scores for spontaneous awareness of the Post Office for general financial products¹ at savings 25%, insurance 34%, credit card 6% and mortgages <1%. Customers are not considering the Post Office on their 'list' of potential providers;
 - 2.2. The current sales model using dedicated financial services representatives² (FSRs) in selected Crown branches and referrals elsewhere, is not delivering sustainable results, with low sales numbers and customers each holding less than 1.1 product^{3 4}:
 - Of c360 FSRs 190 deliver fewer than seven sales per week (versus a breakeven target of 11⁵); in 2011/12 the average sale per FSR is 7.39⁶;
 - Overall FSRs account for only 40 percent of sales, with 37 percent generated from agencies and 22 percent direct;
 - The FSRs generally do not have the appropriate sales and product skills, with most transferring from a branch counter and few (c50) holding a relevant qualification (eg CeFA and CeMAP)⁷. FSRs receive 35 days of induction training (25 is the classroom and ten in branch⁸); there is no classroom training thereafter;

¹ Source: Brand & Consumer Insight Program (BCIP), Q2 2011-12.

² Referred to as "Financial Specialists".

³ While Post Office is unlikely to match market ratios, UK banks target four+ products per customer.

⁴ This reflects low sales, minimal cross-selling or bundling and the lack of a transaction account.

⁵ Based on five savings, two life, two credit cards and two general insurance products (irrespective of size).

⁶ 3.77 if growth bonds and fixed rate ISAs (both rate driven products) are excluded.

⁷ Certificate for Financial Advisers; Certificate of Mortgage Advice & Practice.

⁸ By comparison financial services staff at Post Finance (Swiss Post) undertake 60 days classroom training and pass an exam before they can interact with customers, followed by compulsory refresher courses.

- FSRs are prohibited from offering advice. While this could allow a simplified process with reduced compliance risk, it actually provides unclear boundaries as to what constitutes “advice” and significantly reduces sales effectiveness;
 - The sales (and marketing) approach is largely ‘individual product push’ - pushing products at customers each time they enter the branch; this risks raising a certain product in every customer conversation irrespective of the likely need – this leads to wasted opportunities and a negative customer reaction;
 - FSR remuneration is well below that of comparable bank sales staff⁹, reducing the ability to attract and retain the best talent. Incentive payments do not encourage sales activity and the failure to meet targets has not traditionally resulted in performance management action¹⁰;
 - Branch (BM) and Crown Area managers to, and through, whom FSRs report are generally not qualified to provide the necessary support, oversight and compliance. Further BMs often use the FSR as part of the general branch compliment and delegate general tasks (for example general queue hosting¹¹ or supporting the Post & Go appliance);
 - FSRs are targeted on a number of sales across the key products irrespective of the size¹² and the local market dynamics;
 - The layout and lack of a ‘professional’ feel in branches does not provide an environment conducive to discussing personal financial matters.
- 2.3. At present FSRs are only located at Crown branches, significantly reducing the scale and scope of sales opportunities in agencies.
- 2.4. While the un-promoted “propensity to try” is low, the latent opportunity is confirmed though Post Office’s own surveys of prompted consideration; this is reflected in the 2011 YouGov Brandindex survey that ranked the Post Office as the number one “destination for savings” institution in the UK¹³ based on prompted responses. Furthermore those that do purchase are strong advocates, reflected in high product Net Promoter Scores (NPS)¹⁴.

Establishing the long term financial services vision in the Post Office

3. To underpin the delivery of financial services in the Post Office, the business has established a long term vision:

“To be a recognised financial services brand and a serious alternative to the major UK institutions (the “un-bank”);

That a majority of the UK population is aware that the Post Office has a wide range of financial service products and would genuinely consider Post Office on their ‘shopping list’;

To generate an increasing profit, supporting ongoing investment in long term capability and market positioning”.

⁹ HSBC agents earn c£25,000 plus £10,000 bonus potential: at Post Office c£17,000 plus £3,000 potential.

¹⁰ Although at present c50 FSRs are being managed for under-performance.

¹¹ Although some of the best FSRs proactively walk the queue to identify leads.

¹² For example a single deposit of £1,000 and £100,000 are measured equally.

¹³ Post Office scored 19.40, followed by NS&I (14.28); Nationwide (13.83); highest major bank was HSBC, sixth with 4.66; research covered quality, value, satisfaction, reputation, and likelihood to recommend.

¹⁴ Post Office has a NPS for mortgages (52%), life insurance (45%), home insurance (40%) and credit cards (35%) based on responses shortly after purchase (source: Satmetrix for Midasgrange).

- 3.1. The Financial Services Sales & Business Development strategy will deliver a step change in capabilities and focus by fundamentally changing many of the structures and processes undertaken to deliver financial services in Post Offices.
- 3.2. The specific initiatives set out in section four (below) draw extensively on the financial services sales models of successful postal operators¹⁵ as well as best practise banking sales management. These are based on:
 - Clear and strong financial services branding;
 - Separate sales management structures within the branch network;
 - Dedicated, knowledgeable and focused sales and service staff;
 - Active sales and performance management;
 - Strong referral relationships and hand-off processes from the counter;
 - Professional sales environment.
- 3.3. This change program will be largely funded from the £4.0 million annual investment committed by the Post Office to build financial services capability and agreed as part of Eagle.

Building the Capability – the Sales & Business Development Plan

4. The Plan comprises a number of initiatives to build a sustainable and growing capability, covering the challenges raised in paragraph 2, in particular regarding branches, people, processes, skills and brand. It should be read in conjunction with the Eagle program (which *inter alia* will generate significant additional income to Post Office and a concomitant commitment to invest £4.0 million per annum), Project Polo (aiming to launch a current account) and Network Transformation (NTP).

Staffing, Capability and Skills

- 4.1. To build the long term sales capability a program will be initiated to assess the capability and performance of all current FSRs; this will likely result in a exit/redeployment of a significant number and their replacement with experienced financial services sale and service representatives.
- 4.2. An opportunity has been identified to transfer c60 poor performers to support NTP, reinvesting the savings (c£1.5 million) into recruiting experienced sales staff and building the capability of the remaining staff.
- 4.3. It is anticipated that most future recruits will be sourced externally from banks etc with their profile should reflect the customers that they will target. A critical component of their induction training will be to spend an extended time with counter colleagues to understand the customer and process challenges as well as a significant induction training program (see 4.6).
- 4.4. FSRs should be located in both Agency as well as Crown branches, based on the market opportunity and the physical capacity of the branch.
- 4.5. At present under 15 percent of FSRs have a financial services qualification. In the future every FSR will either be qualified or will be in the process of gaining qualification – it will be a requirement of the role.
- 4.6. To support this, discussions have commenced with specialist financial colleges and training institutes to develop a “Post Office Finance Academy” to provide

¹⁵ In particular Kiwi Bank (New Zealand Post), Post Finance (Swiss Post) and la Banque Postale (la Poste).

entry, intermediate and advanced level training to all staff involved in financial services, enhancing their skills, knowledge and marketability. It is hoped that through this focus on skills development financial services in general, and being an FSR in particular, will be seen as an aspirational role in the Post Office.

- 4.7. Once an FSR gains an external qualification their reward and bonus potential would increase to rates comparable with the external market.
- 4.8. Under Eagle, the Bank of Ireland has committed to fund 40-50 sales effectiveness managers (SEMs). These will report to the Bank and provide ongoing training and support on financial services products¹⁶.

Branch structure

- 4.9. To support and focus the FSR and create a financial services team focused, dedicated and measured on building the financial services business it is proposed that FSR reporting structure will be realigned with FSRs reporting through to a dedicated area/regional structure¹⁷ to a Head of FS Sales¹⁸. This reflects best practise structures and enables the development of a base of skilled expertise and knowledge. Financial services training and sales management activities will also report into the Head of FS Sales;
- 4.10. The FSRs will continue to source sales through proactive approaches and referrals from counter staff requiring the FSR to maintain close relationships with counter colleagues¹⁹.
- 4.11. Removing the reporting line and training and development responsibilities from the BM will release significant BM time, increase the effectiveness of the support and enhance overall risk and compliance.
- 4.12. To ensure that the maximum number of branches (agency and Crown) have a financial services capability, relevant surrounding branches should operate in a "hub and spoke" structure²⁰, referring leads to the FSR²¹.
- 4.13. To enable inter-branch referrals and support the area manager assessment of the FSR pipeline, an effective sales management tool will be critical. Under the Customer Management Strategy the Post Office is trialling specialist software - Salesforce; this will enable inter- and home branch referrals and diary setting and the monitoring of pipeline and sales plans by area managers. The second phase of the trial should allow a single-view of the customer to be available to FSRs eventually including propensity modelling and next "likely product" prompting. Following the trial, this tool will be rolled out to all FSRs²².
- 4.14. The branch environment will be enhanced through the NTP, creating Premier branches (with a strong focus on financial services) and Mains branches where face-to-face financial services sales will be provided via a resident FSR, a hub and spoke relationship or referrals to specialist contact centres.

¹⁶ A similar model (although on a smaller scale) operates very successfully with First Rate (FRES).

¹⁷ Eg for sales management, pipeline overview and performance management; assumed ratio of 1:15.

¹⁸ To be filled by an experienced financial services sales executive likely through an external search.

¹⁹ A referral fee would be payable to the 'providing' branch with future sales linked to the branch.

²⁰ In some cases the FSR may be based in different branches through a week; this will be known in advance to allow the branch and FSR to pre-arrange client meetings.

²¹ The hub and spoke model is standard practice in retail banking.

²² Initial results from trial area confirm a 120 percent increase in sales.

Sales Process and Targets

- 4.15. FSRs are unable to provide advice; it is difficult, however, to ensure compliance and very easy for the FSR to inadvertently cross the line while talking with a prospective client. Post Office is launching a trial to assess the benefit and compliance processes of providing “assisted sale” support; this does not result in advice being given, but will enable the FSR to have a wider discussion on the client’s needs and the benefits of the products offered. This approach is consistent with that followed by UK retail banks.
- 4.16. Sales targets are set centrally and then cascaded down, with FSRs and branches being targeted with a mix of products. These targets are set with no assessment made against local market dynamics and opportunity potential. Targets should be nuanced to reflect local opportunities, ensuring that their aggregation delivers the overall target.
- 4.17. Historically the Post Office has had a weak direct marketing and email-marketing capability resulting in a very poor cross-sell rate. Direct cross-selling, based on segmentation, propensity modelling, cohort analysis and bundled offering is a cornerstone of successful retail banking customer growth strategies. The recently established Customer Manager Strategy is building a program to establish such a capability. The initial stages will be to:
- Build integrity and completeness in the database;
 - Understand customer segments, profiles and behaviours;
 - Develop contact strategy (direct and on-line) to ensure that appropriate customers receive timely and relevant messages (and not too often);
 - Implement propensity models to support face-to-face sales.
- 4.18. At present product processes are inconsistent²³, complex and time consuming. To enhance the customer experience a process re-engineering review will assess the end-to-end processes of all financial services products to establish a simple and consistent process. A review of mortgages has commenced.
- 4.19. At present the Post Office web-site does not effectively support the product proposition. In conjunction with the new on-line team, it is important that the on-line presence reinforces the branch capability, providing customers an understanding of product and service benefits as well as an alternative channel.

Brand and PR

- 4.20. To ensure that prospective customers are aware of the products and services available at a Post Office and to re-enforce Post Office as a credible provider, it is anticipated that Post Office will launch a financial sub-brand²⁴. This will be displayed on all relevant advertising/marketing as well as strongly in Premier/Main branches, providing a clear message and “call to action” that the Post Office is an active and relevant player in financial services.
- 4.21. The financial services brand will also be supported by an active PR program promoting financial services and confirming Post Office executives as “thought leaders”. This program will commence once Eagle has been concluded and bedded-down and will support the wider Post Office Communications strategy.

²³ For example there are at least four different Anti Money Laundering product limits.

²⁴ To establish the Post Office as a credible financial services provider there is a need to re-position the overall Post Office brand. Therefore it is anticipated that the launch of financial services branding will follow the re-launch of the Post Office brand in Q3 and will coincide with the roll out of a current account (subject to the conclusion of the trial).

- 4.22. To support establishing the Post Office as a financial services destination it is proposed to develop a branded banking index presenting the Post Office as the thought leader in a particular market²⁵ (for example on UK savings).

New Product Opportunities

- 4.23. As the FSRs are trained and become qualified and remunerated on delivery, there will be an opportunity to expand the available product set, including *inter alia* investment-linked ISAs, simple investment products, critical illness cover and stakeholder or other pensions.
- 4.24. This would also allow Post Office to capitalise on the changes being implemented from January 2013 under the Retail Distribution Review (RDR)²⁶. The changes²⁷ are expected to lead to a significant decline in the advice sought from 'mass market' customers and a concomitant reduction in the number of financial advisers in the market²⁸.
- 4.25. It is anticipated that there will be significant growth in the demand for non-advised solutions for the 'mass market', providing a major long term opportunity for a Post Office model based on trained, qualified and capable FSRs.

Program management

- 4.26. The delivery of this major long term program of change will require clear project management. This will be established by the team currently working on Eagle.

Recommendation

5. The initiatives and long term change program set out above represent a fundamental step change in the capability, focus, behaviours and delivery of financial services, establishing the Post Office as a credible and competitive provider.
- 5.1. Critical to achieving this vision will be the completion of Eagle, Network Transformation and the establishment of a program management approach. The benefits generated will support Crown transformation.
- 5.2. The paper is tabled for noting

Nicholas Kennett
Director, Financial Services

Kevin Gilliland
Director, Sales & Network

March 2012

²⁵ Similar to the regularly quoted Nationwide Building Society's UK House Price Index.

²⁶ FSA driven changes on the distribution of retail investment/pension products, including the role of advice, standards of professionalism, adviser charging and platforms.

²⁷ In particular, that financial advisers will no longer be able to earn commissions; henceforth advisers will charge a direct fee for the service, rather than receiving a 'hidden' commission from the manufacturer.

²⁸ Many advisers are not expected to obtain the new qualifications, with those that do likely to target high net worth customers who are more likely to be willing to pay for advice.

POST OFFICE LIMITED
Board of Directors**EXECUTIVE SUMMARY POLB(12)31**Date of Board: 15th March 2012

Subject:	FINANCIAL SERVICES - SALES & BUSINESS DEVELOPMENT STRATEGY
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Author/Sponsor: Nick Kennett, Kevin Gilliland
Contributors / Presenters: Nick Kennett, Kevin Gilliland

	Decision	Guidance	Noting
For:			x

Reference previous action point:

BACKGROUND AND CONTENT:
THE PAPER SETS OUT THE HIGH LEVEL SALES AND RELATED STRATEGIES TO DELIVER A STEP CHANGE TO BUILD AND SUSTAIN A FINANCIAL SERVICES CAPABILITY. THE VALUE CREATED WILL GENERATE LONG TERM REVENUES TO POST OFFICE AND ASSIST DELIVER CROWN TRANSFORMATION.

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	6/3/12
Investment Appraisal completed or financial implications assessed and supported by the CFO	n/a

Additional presentation:

NO

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POLB(12)32

POST OFFICE LIMITED BOARD
Status Report

No.	REFERENCE	ACTION	BY WHOM	STATUS
		1. Actions Appertaining to Governance		
1a	November 2011 POLB11/54(e)	To update the Board on the review of future Executive Team Structure and Accountabilities.	Paula Vennells	In hand, to be discussed by Paula Vennells, Chairman and NEDs to feed into the individual Senior Executive's end of year PDR and future organisation design.
1b	January 2012 POLB12/06 (a)	Susan to bring back a revised Governance proposal to the Board once she has met with the Chairman to discuss this further.	Susan Crichton	To be discussed at the March Board.
1c	January 2012 POLB12/11	Susan Crichton undertook to revisit the requirements under the Bribery Act at an Executive Team meeting.	Susan Crichton	Complete.
		2. Actions Appertaining to IT & Procurement		
2a	November 2011 POLB11/62(c)	The Chairman requested a deep dive to be organised to cover procurement and governance.	Mike Young	A session is scheduled for the March Board on Infrastructure (IT and Procurement)
	January 2012 POLB12/03 (c)	The Chairman requested that the IT Board paper is clear with practical language to highlight what the IT changes will mean to the Business on the ground. A deep dive was suggested.		Mike Young will ensure that practical language is used in the IT paper and arrange individual sessions with Board members before the March Board.
		3. Actions Appertaining to Financial Services		
3a	September 2011 POLB11/48(d)	Current Account: The target for introduction is 2013 but a full proposition needed to be presented to the Board.	Nick Kennett	In hand; target date should read 2012/13 and will come to a Board in 2012 (April).

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3b	November 2011 POLB11/56(c)	The Chairman asked Nick Kennett and Kevin Gilliland to present a joint paper to the Board in the New Year covering the Financial Services future sales plan.	Nick Kennett	In hand; on Board Agenda for March. (previously scheduled for February but further work needs to be completed on the most effective investment of £4m commitment agreed in Eagle)
3c	January 2012 POLB12/10(c)	Eagle Contract Termination: If the evergreen right was not negotiable then Nick Kennett was asked to ensure the resolution period was long enough for POL to find an alternative provider.	Nick Kennett	Ongoing as part of Eagle negotiations.
3d	February 2012 POLB12/24(a)	Eagle: Target date of early March for signing the contract and Nick Kennett will bring the final agreement to the March Board	Nick Kennett	
4. Actions Appertaining to Network Transformation				
4a	December 2011 POLB11/69(d)	It was agreed that an updated Crowns plan be brought back to the Board next year to cover the new economic model; optimum self service vending; and the impact on Crown branch numbers.	Kevin Gilliland	In hand, This will be part of the NTP presentation to the Board in March.
4b	December 2011 POLB11/69(k)	The Board to be provided with 2-3 bullet points to explain the facts in the event of adverse publicity or contact by MPs, local dignitaries or Subpostmasters.	Alana Renner	The Board will be alerted to and briefed ahead of (wherever possible) any major adverse publicity regarding the Post Office. The Board will also receive a brief ahead of any major news releases to ensure they have key messages to handle any high level enquiries.
4c	January 2012 POLB12/03(a)	Kevin Gilliland to include in his NTP update to the Board in March how the Business intended to prioritise the offices as the models had very different commercial implications.	Kevin Gilliland / Chris Day	In hand, will be included in the March Board presentation.
5. Actions Appertaining to Board Reports				

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5a	November 2011 POLB11/57(d)	The Chairman asked Chris Day to arrange briefings for the Board on Working Capital.	Chris Day	In hand, Charles Colquhoun (Head of Cash Management & Financial Planning) co-ordinating a balance sheet/working capital management briefing session. Session scheduled for 8 th March. Complete
5b	November 2011 POLB11/57(e)	Paula stressed that queuing times was an area on which the Business focussed heavily and suggested a strategy paper comes to the Board on this topic.	Kevin Gilliland (Paula Vennells)	In hand, Kevin will bring this to the June Board.
5d	January 2012 POLB12/06 (a)	Chris Day to speak to Matthew Lester (RMG CFO) regarding 'Going Concern' discussions as part of the Board's governance, and introduce the necessary reporting process at the Board.	Chris Day	Ongoing – Chris Day to report back to February Board. Update 9 th February – Chris Day confirmed that POL's Going Concern status would be covered within the RMG consolidation for this year. A paper would be provided to the Board (April) on the proposed Going Concern process/external audit for FY 12/13.
6. Actions Appertaining to POL Remuneration				
6a	January 2012 POLB12/01(b)	LTIP: The Chairman asked that a proposal be brought back to the Board based on the discussions to date (including higher ranges for CEO and CFO) with a gateway for Network Conversions; a small reward for achieving 90% of the financial target; but with the main bonus at 100% and significant rewards for hitting stretch targets. It was agreed that the work needed to be completed as quickly as possible to enable a proposal to the Shareholder before the end of the financial year.	Matthew Starks	Work is on-going with New Bridge Street to re-model the LTIP in line with the feedback provided by the Board and to establish the metrics with the Finance team. The revised proposal will be represented to the board in March though, following a suggestion by Alice Perkins, this may be able to be considered sooner, but outside a main board meeting. Extraordinary board meeting 29 th February. Ongoing

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6b	February 2012 POLB12/20(c)	PDR scoring – Les Owen requested two-dimensional matrix rating performance and potential. Paula Vennells suggested the inclusion of potential ratings for the Top Team in the succession planning paper.	Pauline Holroyd	Session scheduled for May Board.
6c	January 2012 POLB12/01(d)	Managers Pay 2011-12: Discussions are continuing with the CMA and Matthew Starks will update the Board if there are any significant changes or the pay deal is agreed.	Matthew Starks	Update contained within Managing Director Update: POLB(12)19. Ongoing
6d	February 2012 POLB12/21(a)	Pay Review: Kevin Gilliland to provide a cost benefit analysis paper to cover all the options available on Crown pay and their associated risks. An additional Board meeting may be required to consider the pay mandate in detail.	Kevin Gilliland Alwen Lyons/ Paula Vennells	No longer required. Complete
7. Actions Appertaining to Finance				
7a	September 2011 POLB11/43(e)	Ongoing development of commercial finance capability is required.	Chris Day	Ongoing
7c	February 2012 POLB12/21(b)	Budget Meeting 8 th March: Chris Day confirmed that the budget was reconciled to the original strategic plan. The Chairman asked that significant features in the plan be highlighted and methodology of approach explained.	Chris Day	Included in the Budget Review Pack for discussion on 8 th March. Complete
7d	February 2012 POLB12/23(a)	Performance Pack: Chris Day to review the format of the insurance policies data to make the trend information clearer.	Chris Day	Complete
8. Actions Appertaining to Front Office of Government				
8a	February 2012 POLB12/18(c)	DVLA Tender: Tender stakeholder communication plan to be circulated to the board highlighting the ministers and officials involved in the decision making process and detailing how the Board can support.	Kevin Seller/ Martin Moran	Complete*

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8b	February 2012 POLB12/18(d)	DVLA Tender: Kevin Seller to organise a meeting with Neil McCausland to take him through the FOOG communications plan.	Kevin Seller/ Martin Moran	KS agreed with NMc that he would send notes for comment/questions. Complete.
8c	February 2012 POLB12/18(e)	The DVLA Tender would return to the July Board but Paula Vennells would keep the Board updated on any significant changes should they arise in the interim.	Paula Vennells	Ongoing
		9. Actions Miscellaneous		
9a	January 2012 POLB12/03(d)	Olympics: A noting paper to be brought to the March Board detailing the work underway to mitigate any disruption caused by the Olympics.	Mike Young	On March Board agenda.
9b	January 2012 POLB12/07	Integrity of Horizon System: Susan Crichton to clear the audit report with the external lawyers and, if possible, to give the report privileged status and circulate it to the Board.	Susan Crichton	Final amendments to report awaited.
9c	February 2012 POLB12/21(d)	Stamp Prices: Martin Moran to circulate a note covering the effect of RM price increases.	Martin Moran	On March Agenda.
9d	February 2012 POLB12/26(a)	Health & Safety Report: future H&S Reports to include any incidents of aggravated robbery and burglary.	Alwen Lyons	Included in current report. Complete

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		10. Actions Appertaining to POL Separation		
10a	December 2011 POLB11/75	When the MDA negotiations are complete, the RM assumptions are to be challenged on the Postal Museum.	Chris Day	In hand, Chris Day to provide off line update note to POL Board members. Cleared.

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		11. Actions Appertaining to Personal Injury Referral Fees		
11a	February 2012 POLB12/25(b)	A formal referral policy to be agreed with Junction ensuring no active encouragement of personal injury referrals unless requested by the customer. This to be copied to the Board as a future noting paper.	Nick Kennett	Complete – see notes attached at Appendix A
11b	February 2012 POLB12/25(c)	Nick Kennett to investigate the flow of fees to ensure there is no inducement of wrong behaviours.	Nick Kennett	Complete – see notes attached at Appendix A.

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POLB(12)32
Appendix A

1. Paula Vennells asked for a formal referrals policy to be agreed with Junction ensuring no active encouragement of personal injury referrals unless requested by the customer. At present the following policy statement has been agreed between POFS and Junction:

"Post Office Insurance will always seek to provide our customers with the most relevant advice and support whilst making a claim and will not take any steps to encourage or incentivise fraudulent Personal Injury Claims.

Further the Post Office Insurance will:

1. Not pass any Customer Data to Third Party organisation to proactively create Personal Injury Referrals.
 2. Not 'Claims Farm' closed claims with the potential for personal injury claims.
 3. Never provide any additional incentives to customers to pursue a personal injury claim.
 4. Never call a customer after notification of a claim without their express consent with the objective of making a personal injury claim referral.
 5. Never contact third parties with the intention of encouraging a personal injury claim referral."
2. Nick Kennett would also investigate the flow of fees to ensure that there is no inducement for wrong behaviours.

The following are the details of the staff incentive program for the claims team - although a component of the incentive relies on an appropriate introduction for a PI referral this is part of a balanced score card approach. Inappropriate referrals would count against the agent's incentive.

"When conducting a First Notification of Loss call, the call centre operative is incentivised around the understanding of the customer's needs. A balanced scorecard approach is used and if the contact centre operative does not meet the required standard, then they will not achieve their monthly bonus.

The key metrics that sit within the balanced score card are as follows:

- Time taken to answer the call
- Number of calls abandoned
- Was the liability decision correct
- Did the customer require a replacement vehicle and was a hire referral made
- Was the customer injured and if they were, did they want representation and if so was an injury referral made

The call centre operative is also measured on their soft skills and this is done by call listening(both live and recorded). The reviewing manager will focus on the following:

- Listening skills
- Empathy
- Building a rapport with the customer

Our [Junction] FNOL providers will monitor under and over performance and, if required, further training will be given to any advisors not meeting the required grade. In addition to this, ACM also listens to a sample of calls each month and the quality scores are reported into board on a monthly basis.

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POLB(12)32

POST OFFICE LIMITED BOARD
Status Report

No.	REFERENCE	ACTION	BY WHOM	STATUS
		1. Actions Appertaining to Governance		
1a	November 2011 POLB11/54(e)	To update the Board on the review of future Executive Team Structure and Accountabilities.	Paula Vennells	In hand, to be discussed by Paula Vennells, Chairman and NEDs to feed into the individual Senior Executive's end of year PDR and future organisation design.
1b	January 2012 POLB12/06 (a)	Susan to bring back a revised Governance proposal to the Board once she has met with the Chairman to discuss this further.	Susan Crichton	To be discussed at the March Board.
1c	January 2012 POLB12/11	Susan Crichton undertook to revisit the requirements under the Bribery Act at an Executive Team meeting.	Susan Crichton	Complete.
		2. Actions Appertaining to IT & Procurement		
2a	November 2011 POLB11/62(c)	The Chairman requested a deep dive to be organised to cover procurement and governance.	Mike Young	A session is scheduled for the March Board on Infrastructure (IT and Procurement)
	January 2012 POLB12/03 (c)	The Chairman requested that the IT Board paper is clear with practical language to highlight what the IT changes will mean to the Business on the ground. A deep dive was suggested.		Mike Young will ensure that practical language is used in the IT paper and arrange individual sessions with Board members before the March Board.
		3. Actions Appertaining to Financial Services		
3a	September 2011 POLB11/48(d)	Current Account: The target for introduction is 2013 but a full proposition needed to be presented to the Board.	Nick Kennett	In hand; target date should read 2012/13 and will come to a Board in 2012 (April).

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3b	November 2011 POLB11/56(c)	The Chairman asked Nick Kennett and Kevin Gilliland to present a joint paper to the Board in the New Year covering the Financial Services future sales plan.	Nick Kennett	In hand; on Board Agenda for March. (previously scheduled for February but further work needs to be completed on the most effective investment of £4m commitment agreed in Eagle)
3c	January 2012 POLB12/10(c)	Eagle Contract Termination: If the evergreen right was not negotiable then Nick Kennett was asked to ensure the resolution period was long enough for POL to find an alternative provider.	Nick Kennett	Ongoing as part of Eagle negotiations.
3d	February 2012 POLB12/24(a)	Eagle: Target date of early March for signing the contract and Nick Kennett will bring the final agreement to the March Board	Nick Kennett	
4. Actions Appertaining to Network Transformation				
4a	December 2011 POLB11/69(d)	It was agreed that an updated Crowns plan be brought back to the Board next year to cover the new economic model; optimum self service vending; and the impact on Crown branch numbers.	Kevin Gilliland	In hand, This will be part of the NTP presentation to the Board in March.
4b	December 2011 POLB11/69(k)	The Board to be provided with 2-3 bullet points to explain the facts in the event of adverse publicity or contact by MPs, local dignitaries or Subpostmasters.	Alana Renner	The Board will be alerted to and briefed ahead of (wherever possible) any major adverse publicity regarding the Post Office. The Board will also receive a brief ahead of any major news releases to ensure they have key messages to handle any high level enquiries.
4c	January 2012 POLB12/03(a)	Kevin Gilliland to include in his NTP update to the Board in March how the Business intended to prioritise the offices as the models had very different commercial implications.	Kevin Gilliland / Chris Day	In hand, will be included in the March Board presentation.
5. Actions Appertaining to Board Reports				

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5a	November 2011 POLB11/57(d)	The Chairman asked Chris Day to arrange briefings for the Board on Working Capital.	Chris Day	In hand, Charles Colquhoun (Head of Cash Management & Financial Planning) co-ordinating a balance sheet/working capital management briefing session. Session scheduled for 8 th March. Complete
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POST OFFICE LIMITED
Board of Directors**EXECUTIVE SUMMARY POLB(12)33**

Date of Board: 15 March 2012

Subject:	Managing Director's Report
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Author/Sponsor:
Paula Vennells
Contributors / Presenters:
ET

	Decision	Guidance	Noting
For:			√

Reference previous action point:

BACKGROUND AND CONTENT:
To update the POL Board on: <ul style="list-style-type: none">• Strategic Programmes• Business as Usual.

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	
Investment Appraisal completed or financial implications assessed and supported by the CFO	

Additional presentation:

NO

POLB(12)33

**POST OFFICE LTD BOARD
Managing Director's Report****Strategic Programmes:**

1. **Network Transformation (NT)**
Agenda item
2. **Crowns**
Agenda item
3. **Front Office of Government**
 - The Pre Qualifying Questionnaire for the DVLA Front Office Services was submitted to the DVLA on the 9 March.
 - The DVLA has confirmed that all Post Offices offering the car tax transaction must accept cheque as a method of payment. This causes an issue where branches have been converted to the locals model, allowed to retain the car tax transaction but not accept cheque as a method of payment. If they are now required to take cheques, this compromises the associated cost savings. The issue has been escalated to the Network Transformation Programme Board and a compromise solution is being sought.
 - Our week of presentations and exhibition in reception at BIS is proceeding well.
4. **Efficiencies**

The Efficiencies Programme for 2012/13 is currently being planned. It is envisaged that a company-wide programme will be implemented which (1) takes account of efficiency targets already embedded in most supplier contracts, and (2) applies specific focus to evidencing value for money in our Network Transformation spend in line with National Audit Office "best practice". Indicative targets for 'business as usual' and major programme spend efficiencies will be reviewed by the ET in April before being submitted to the Board for ratification.
5. **Separation**

Work with the directorates on the definition of their desired target operating models for an independent Post Office is progressing. The phased cessation of services is on schedule with the first 66 services planned to cease by 31 March 2012. Final plans for the cessation of the remaining services across FY 2012/13 and 2013/14 will be available by 31 March 2012 as required by the MSA. Initial estimates of the costs associated with the programme continue to be revised downwards as detailed planning progresses. One-off costs have been re-estimated to be £22m to £27m (down from £30m to £40m). Recurring costs post-separation are likely to be in the range £102m to £109m (the FY 2011/12 inter-business charge from RMG is £110m). The core roles for the programme team will be in place by mid-April 2012 and there continues to be a good working relationship between the teams from POL and RMG.
6. **Post Office Financial Services (Eagle)**
Noting Paper
7. **IT Landscape**
Agenda item

8. Budget Planning

Agenda item

Business as Usual Report:

1. Pay Negotiations

Managers 2011 Pay Review: A further meeting took place on 28 February and Brian Scott stated he would accept our offer. The revised mandate has been approved by Group and a formal offer submitted to the CMA, which will now go out to ballot. The offer is as outlined previously and within budget - £2.2m (average 1.5% with some rates varying for certain grades/functions).

In summary the main benefits are:

- Engagement and delivery of Crown Transformation and Supply Chain strategy (hard wired to deliver tough changes within the programme)
- £400k annual cost saving by removing overtime
- Greater amount of pay deal is cash which aids reduction in fixed costs in Crown P&L.
- Greater flexibility re management structures in Crowns.

2. Pay Deals

CWU 2012 – 2015: We are exploring an agreed partnership approach which will deliver a three year pay agreement and a new agreement on flexibility as follows:

- Enabling seasonal to daily variation in staffing levels to more accurately meet customer demand. This also to enable extended opening hours at no extra cost.
- Review of roles to ensure efficiency and sufficient skilled capacity to deliver growth in range of services. This could involve changing how old payments such as 'substitution pay' (this is where colleagues step up to cover in the absence of a Manager) are paid in order to become more value-adding.
- Improving our "host and sell" offer in branches. "Host and sell" is how we operate in branch and is being trialled in the Premier in Birmingham. (A "host" is similar to a meeter greeter and "sell" is looking at how we improve the selling of our products.)
- Working to support more automation, some of which has been piloted in the Birmingham Premier trial.
- Introduction of profit related pay.

The mandate and options are currently being worked on to take into account the above.

3. Quarter 4 – 11/12 Product Campaigns

Telephony: The quarter 4 telephony campaign is proving extremely popular with customers and our branches: colleagues have been driving exceptional levels of sales. After 8 weeks of the campaign, we have processed in excess of 40,000 applications, with around 20,000 customers already live. With 5 weeks still to go, we will exceed the 59,000 applications required to deliver the 44,000 live customers targeted.

Insurance: The Post Office, in conjunction with POFS, has continued to roll out a number of pricing, incentive and marketing initiatives to ensure that the Policy in Force (PIF) numbers for general insurance remain above 300,000. As at 1 March, PIFs have risen from a low point of 335,000 in December 2011 to almost 358,000. Management is confident that growth can be maintained in the forthcoming period.

4. Mails

Collections and Returns: The team is currently working on storage and paystation solutions to deliver the out of hour's proposition and this work is on track. POL is

engaged with the RM team in developing the joint business plan for collections and returns and ensuring that all of the remaining MDA requirements are delivered.

Separation: From a commercial perspective the Mails team is ensuring that the relationship with RM commences in a positive way. Meetings have taken place to agree the successful 'on boarding' of the MDA. The first customer forum was held on 21 February and both parties are committed to working in partnership to develop a positive commercial relationship.

Mailwork negotiations have commenced with Royal Mail. Initial discussions have been focused on understanding each party's position and common ground. We expect negotiations to continue at pace through the next three weeks.

The Data working party has also met for the first time to understand how POL and RMG will use data and MI in the future relationship. The joint working party will continue this work over the next few weeks.

Paula Vennells
March 2012

POST OFFICE LIMITED
Board of Directors**EXECUTIVE SUMMARY POLB(12)34**Date of Board: 15th March 2012

Subject:	Health and Safety Report
----------	--------------------------

Author/Sponsor:
Simon Eldridge/Paula Vennells
Contributors / Presenters:

	Decision	Guidance	Noting
For:			✓

Reference previous action point:

BACKGROUND AND CONTENT:
<p>The purpose of this report is to enable the Board to fulfil the principles of effective governance of health and safety outlined in the Health and Safety Executive and Institute of Directors 'Leading Health and Safety at Work', in terms of monitoring health and safety performance, corporate health and safety risk and health and safety interventions.</p>

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	
Investment Appraisal completed or financial implications assessed and supported by the CFO	

Additional presentation:

YES / NO

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POLB(12)34

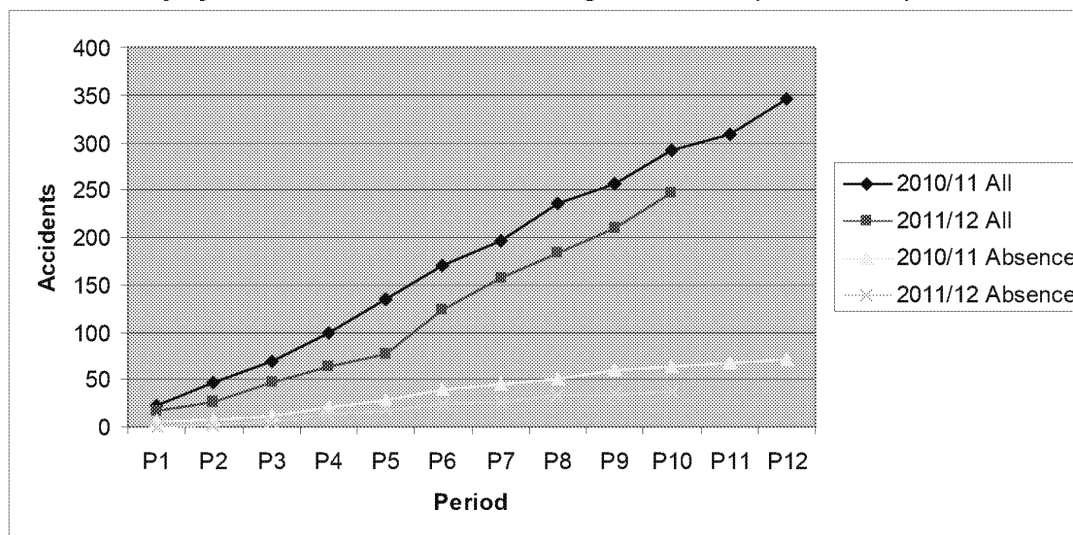
POST OFFICE LTD BOARD**Health & Safety Report****1. Purpose**

The purpose of this paper is to:

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

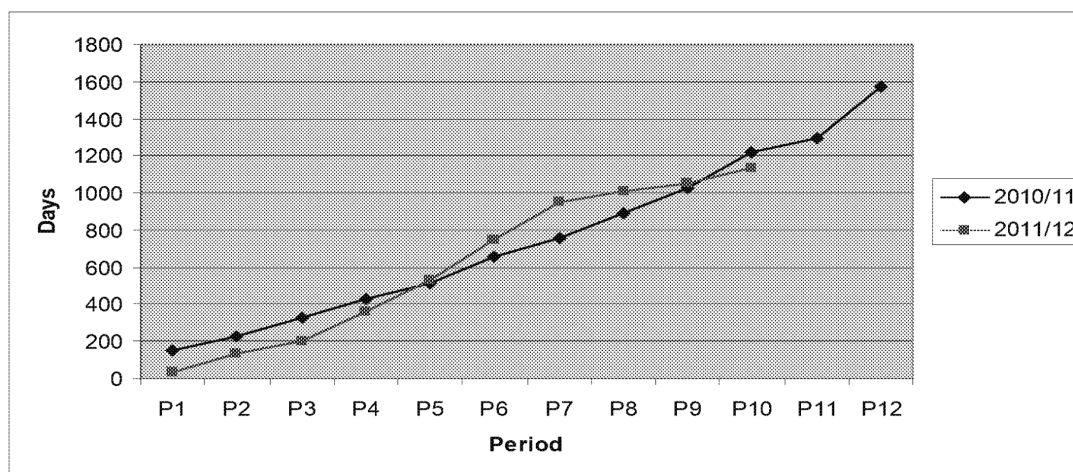
2. Current Situation

- 2.1 Total number of injury accidents, year to date, is better than target at 15.1% down on last year and accidents involving absence are also better than target at 40.6% down on last year. The per 1000 staff in post comparison indicator, which takes account of head count fluctuation year on year, is showing a similar decrease for absence accidents. Both Crowns and Supply Chain are showing significant progress in embedding the safety management system and thereby reducing accidents. The ratio of absence accidents to number of heads remains significantly higher in Supply Chain than in Crowns, this is an indicator of the different risk profiles associated with the activities and tasks undertaken. The ratio of absence accidents to all accidents has improved from 1 in 4.5 to 1 in 6.5. This indicates that, in general, injuries from accidents are becoming less severe, accepting that there were three exceptions that resulted in long absences.

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

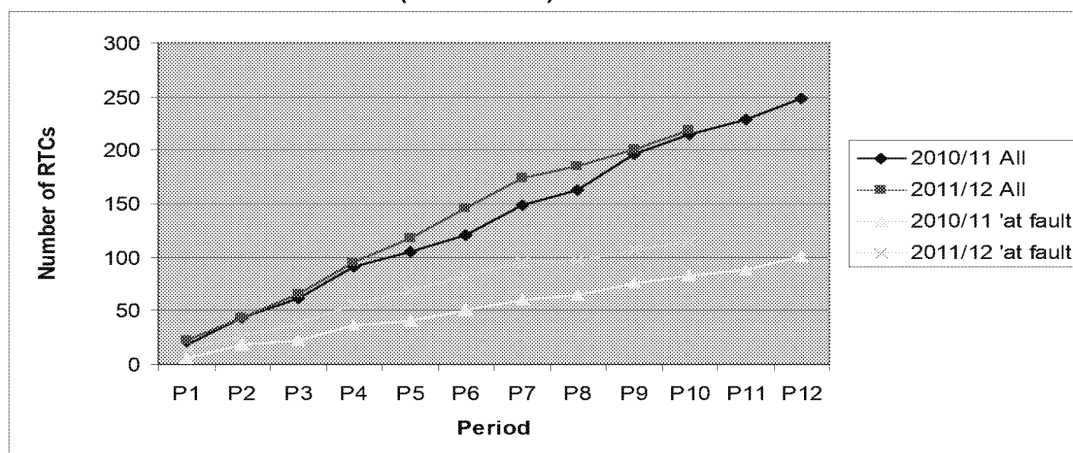
- 2.2 The number of days lost due to accidents is now showing a decrease of 6.7%, year to date, improving from a 2.7% increase last month. The previous adverse spike in performance was due to 3 long term absences related to accidents at work compared to one long term absence during the same year to date period last year. All three have now returned to work following active occupational health service provider interventions. (Table 2)

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Table 2 Days lost resulting from injury accidents (Cumulative)

2.3 Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) accidents are down 27.8% year to date from 36 to 26. Crowns and Supply Chain continue to perform favourably against the two bench mark metrics – the retail sector for crowns and a comparable CViT organisation for Supply Chain.

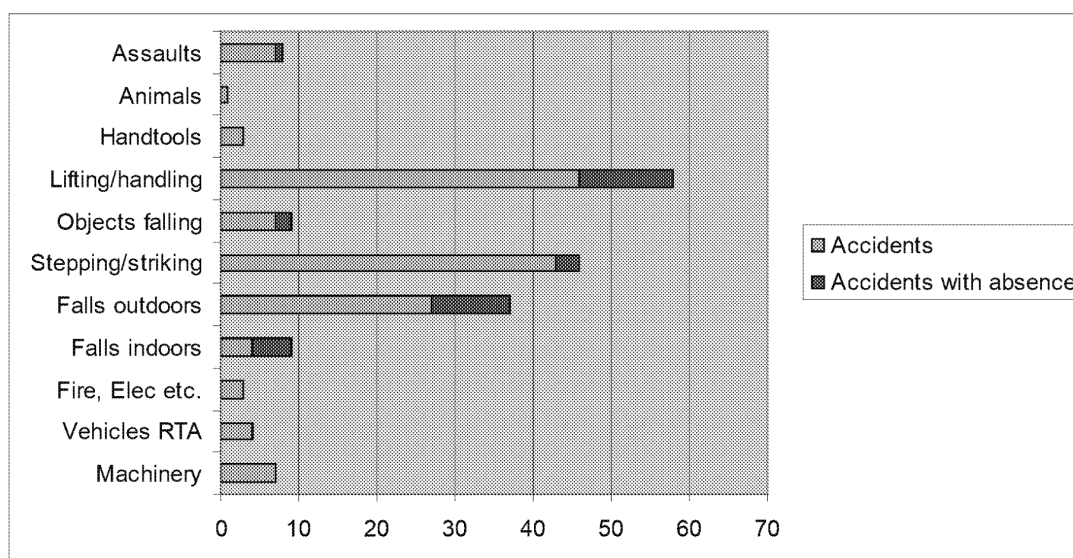
2.4 The number of road traffic collisions (RTCs) year to date is currently showing an improving trend although having increased by 1.8% on last year from 214 to 218 with the percentage of 'at fault' collisions showing a neutral trend over the past 3 periods although up from 38.8% to 52.7% on last year. (Table 3) While road traffic collisions account for less than 3% of the overall number of injury accidents they have the potential for high impact. The activities to improve performance are identified in 3.1 below.

Table 3 Road Traffic Collisions (cumulative)

2.5 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are down 52% on last year from 53 to 28, year to date. Physical injuries during robberies, of which there have been 14 year to date compared to 20 last year, remain relatively minor in severity. Fire arms have not played a significant part in the majority of robberies with 3 robberies, year to date, being enabled by the presence of fire arms compared to 18 last year. The activities that are considered to be having a positive impact on the robbery risk are listed at 3.2 below.

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- 2.6 Robberies on the Post Office network are 14.6% down on last year, year to date, from 116 to 99. Burglaries are up 9.6% on last year, for the same period year to date, from 115 to 126. Physical injuries sustained during these incidents have increased from 29 last year to 36 this year to date but remain predominantly relatively minor in severity.
- 2.7 The majority of accidents currently fall into three main categories: lifting and handling, stepping and striking and outdoor falls, these are high frequency events with, in the majority, relatively low impact. However the lower frequency types of incident can carry the potential for very high impact, for example, assaults and road traffic collisions.

Table 4. Types of accident**3. Activities**

- 3.1 Road Risk – Current activities to mitigate road risk are:
- Analysis of effectiveness of face to face training given to high risk drivers - top 50 -has indicated that accidents amongst this community have reduced significantly
 - Eye sight checks for operational drivers in place
 - Technical accident reduction interventions on new vehicles e.g. Reversing aids
 - Analysis and evaluation of data (e.g. risk profiles) to determine further accident reduction interventions
 - Safety team input to vehicle specification
 - Weekly case conferences to ensure consistent approach to accident investigation, follow up activity and sharing of best practice
- 3.2 CViT Robbery and Injury – The following factors and activities are considered to be having a significant impact on mitigating the robbery risk:
- Active liaison activities with the police and increased police support activity
 - Significant arrests - reducing the number of criminals involved in CViT crime
 - Introduction of new deterrent technologies e.g. Smartwater – a solution that contains a unique identifier that is released automatically in the event of a

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

- Reduction in opportunities for duress type robberies linked to the introduction of single person vehicles
- Rigorous training/refreshers training programme
- Migration to services that Post Office is less exposed to e.g. ATM robberies.

4. Residual Risks

Driving activities have the potential for high impact/loss and remain a risk however the actions identified above are aimed at mitigating that residual risk.

5. Recommendation

The POL Board is asked to:

- 5.1 Note the overall improvement in safety performance
- 5.2 Note the risk reduction activities.

Simon Eldridge
February 2012

POST OFFICE LIMITED
Board of Directors**EXECUTIVE SUMMARY POLB(12)35**Date of Board: 15th March 2012

Subject:	Performance Summary – Period 10
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Author/Sponsor:
Chris Day
Contributors / Presenters:

	Decision	Guidance	Noting
For:			√

Reference previous action point:

BACKGROUND AND CONTENT:
<p>Year to date operating profit of 78.4m was £41.5m favourable against the budget of £36.9m, mainly due to;</p> <ul style="list-style-type: none"> • Higher net income of £17.6m includes Mails £13.3m and FS £11.4m favourable, offset by Telephony £3.7m and Supply Chain £3.0m adverse, • Lower non staff costs of £18.6m includes write back of WHS Tupe claim provision £2.4m, computer costs £5.3m from negotiation and some timing with prior year. <p>Full year forecast is expected to outturn at £65m (£29m favourable to budget)</p> <p>The YTD cashflow at Period 10 was an inflow of £54m which was £186m favourable to budget, (Period 9: £89m favourable). This variance was mainly due to:</p> <ul style="list-style-type: none"> • Net client balances were £150m favourable and were predominantly driven by: the £39m benefit from the contract amendment with Santander for 'Day C' settlement, £24m benefit from Bank of Ireland settlement amendment and network cash £57m favourable. • Profit £41m favourable. <p>Full year forecast is expected to be an outflow of £10m (£49m favourable to budget).</p>

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	N/A
Investment Appraisal completed or financial implications assessed and supported by the CFO	N/A

Additional presentation:

NO



POST OFFICE LIMITED

Performance Report

January 2012

Produced By : Central Reporting Finance Team

For Queries & Comments Contact : Sarah Hall or Kam Bassra

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Headlines – as reported to Royal Mail Group against Q2 Forecast January 2012



Headlines

- External revenue of £70.6m was £1.9m favourable to forecast in the period.
- Operating loss of £2.6m in the period was £2.0m adverse to forecast, driven primarily by higher non people costs and lower JV income.

Key Messages:

- Cumulative Cashflow was £172m favourable to forecast and is expected to be closer, but still to outperform forecast at year end.
- Period 10 profit was adverse to forecast by £2.0m due primarily to £0.8m higher than forecast non people costs and £1.4m adverse JV income.

Profit Target

Year to date operating profit was £78.4m against the forecast of £57.1m, giving a favourable variance of £21.3m.

- Net Income was £879.5m which was £6.7m favourable to forecast.
- YTD people costs were £2.1m favourable primarily due to continued unfilled vacancies.
- YTD non people costs were £5.2m favourable of which the main variances are; £1.8m from reduced spend on IT contractors, Marketing and Legal fees, £1.6m from Staff & Agent related plus consumables and £0.9m is property and facilities related.
- YTD share of Joint Venture profits were £0.1m adverse so broadly in line with forecast.
- YTD IB expenditure was £3.3m Favourable.
- Project costs remain under spent YTD by £4.0m, but the period was £0.8m overspent, showing signs of a ramp up.

Year on year the profit is £46.6m favourable mainly due to higher net income of £37.3m (which includes the higher Network Subsidy Payment of £25.4m), £1.1m lower people costs, £4.6m lower non people costs (including IB), £6.8m higher share from Joint Ventures profits and £1.4m less spent on projects YTD.

Cashflow

The YTD cashflow at Period 10 was an inflow of £54m against a forecast outflow of £118m, favourable by £172m (Period 9: £106m favourable).

This variance was primarily due to:

- Network Cash was £72m favourable, with cash holdings being £67m below forecast levels due to continuing focus on cash management, particularly ATM cash management. For information, branch cash for January 2012 was £432m (forecast £499m), January 2011 was £490m.
- Client balances were £30m favourable due to timing as they have benefited from a higher than anticipated Santander creditor due to January's inflow of tax receipts.
- A contract amendment effective in P10 reducing the receipt of the ATM debtor by one day contributes £24m toward the overall variance, this was not forecast.
- Other variances include; profit £21m favourable, working capital is £16m favourable due to higher trade payables and pay balances than forecast, and finally capital spend is behind forecast, a further £9m favourable.

Focus Product sales (vs. Budget)

YTD focus product sales are adverse by £1.3m driven mainly by Travel Insurance and Bureau where the budget assumed a flat market but tough trading conditions and competition are depressing volumes. There is also below budget performance on Telephony and in Life Insurance which had an ambitious growth target and, although there is small growth year on year, it is not at budgeted levels.

Headcount

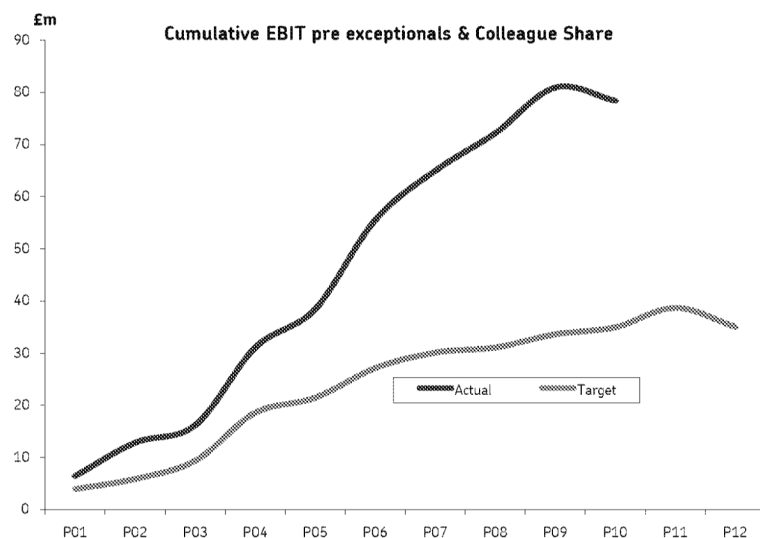
Headcount is 67 favourable mainly due to lower numbers in the Network & Sales Directorate due to vacancies predominantly for Financial Specialists.

Profit & Loss Statement

January 2012



£m	Current Month			Half Year Forecast		Prior Year Period		Year to Date			Half Year Forecast		Prior Year YTD	
	Actual	Budget	Variance	Forecast	Variance	Actual	Variance	Actual	Budget	Variance	Forecast	Variance	Actual	Variance
External Income	53.3	52.2	1.1	51.3	1.9	51.6	1.7	519.9	516.5	3.4	513.9	6.1	525.5	(5.5)
Interbusiness Income	29.1	29.6	(0.5)	31.2	(2.1)	28.3	0.8	302.3	294.8	7.5	301.4	0.9	292.7	9.6
TOTAL GROSS INCOME	82.3	81.8	0.6	82.5	(0.1)	79.9	2.4	822.2	811.3	10.9	815.2	7.0	818.2	4.0
Cost of Sales	(10.0)	(11.1)	1.1	(10.3)	0.3	(11.8)	1.8	(95.1)	(101.7)	6.7	(94.8)	(0.3)	(103.0)	7.9
TOTAL NET INCOME	72.3	70.6	1.7	72.2	0.1	68.1	4.2	727.1	709.6	17.6	720.5	6.7	715.2	12.0
Staff Costs	(23.4)	(22.6)	(0.8)	(21.9)	(1.5)	(22.6)	(0.8)	(208.0)	(208.6)	0.6	(206.8)	(1.3)	(212.9)	4.8
Agents Costs	(41.5)	(41.7)	0.2	(43.5)	2.0	(38.3)	(3.2)	(403.4)	(404.5)	1.0	(406.8)	3.4	(399.6)	(3.8)
Non-Staff Costs	(13.8)	(13.4)	(0.4)	(12.7)	(1.1)	(11.2)	(2.6)	(114.3)	(132.9)	18.6	(119.6)	5.2	(113.9)	(0.5)
Interbusiness Expenditure	(7.8)	(7.9)	0.1	(8.4)	0.6	(7.9)	0.2	(71.2)	(70.3)	(0.9)	(74.5)	3.3	(76.2)	4.9
Depreciation	(0.0)	(0.1)	0.1	(0.1)	0.1	(0.0)	0.0	(0.3)	(0.7)	0.4	(0.5)	0.2	(0.5)	0.1
Total Expenditure (pre POOC)	(86.5)	(85.6)	(1.0)	(86.6)	0.1	(80.1)	(6.4)	(797.3)	(817.1)	19.7	(808.1)	10.8	(803.0)	5.7
POFS - Share Of Operating Profits	(1.4)	0.0	(1.4)	0.0	(1.4)	(1.5)	0.1	(1.2)	0.0	(1.2)	0.0	(1.2)	(5.2)	3.9
FRES - Share Of Operating Profits	1.3	1.4	(0.2)	1.3	(0.0)	1.6	(0.3)	28.5	24.3	4.2	27.3	1.2	25.7	2.9
EBIT Pre Overhead Allocations	(14.4)	(13.5)	(0.8)	(13.1)	(1.2)	(11.9)	(2.5)	(42.9)	(83.2)	40.3	(60.3)	17.5	(67.3)	24.4
Group Overhead allocations	(1.7)	(1.7)	(0.0)	(1.7)	0.0	(0.3)	(1.4)	(17.1)	(17.1)	(0.0)	(17.0)	(0.0)	(15.2)	(1.9)
EBIT - BAU	(16.1)	(15.3)	(0.8)	(14.9)	(1.2)	(12.2)	(3.9)	(60.0)	(100.2)	40.3	(77.4)	17.4	(82.5)	22.5
Network Transformation POOC	(0.8)	(0.7)	(0.1)	(0.7)	(0.1)	0.0	(0.8)	(2.8)	(2.7)	(0.1)	(2.7)	(0.1)	0.0	(2.8)
One off Project costs (POOC)	(3.0)	(0.8)	(2.2)	(2.3)	(0.7)	(0.9)	(2.0)	(11.1)	(12.4)	1.4	(15.1)	4.0	(12.5)	1.5
EBIT - Post Project Costs	(19.9)	(16.8)	(3.1)	(17.9)	(2.0)	(13.1)	(6.8)	(73.9)	(115.4)	41.5	(95.2)	21.3	(95.0)	21.2
Network Payment	17.3	17.3	0.0	17.3	0.0	14.4	2.9	152.3	152.3	0.0	152.3	0.0	126.9	25.4
EBIT pre exceptionals & Pre Colleague Share	(2.6)	0.5	(3.1)	(0.6)	(2.0)	1.3	(3.9)	78.4	36.9	41.5	57.1	21.3	31.9	46.6
Interest	(0.3)	(1.0)	0.7	(0.5)	0.2	(1.4)	1.1	(3.8)	(9.6)	5.8	(4.3)	0.6	(14.1)	10.3
Impairment	(2.6)	(2.5)	(0.1)	(5.3)	2.7	(1.0)	(1.6)	(19.8)	(27.0)	7.2	(27.0)	7.2	(32.5)	12.7
Exceptionals & Redundancy & Severance Costs	(0.5)	0.0	(0.5)	(2.0)	1.5	0.2	(0.7)	(1.8)	(1.0)	(0.2)	(3.1)	1.3	(13.6)	11.8
Profit/(Loss) On Asset Sale	0.0	0.0	0.0	0.0	0.0	1.5	(1.5)	0.7	0.0	0.7	0.1	0.6	4.4	(3.7)
Colleague Share	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Profit/(Loss) Before Tax	(6.0)	(3.0)	(3.0)	(8.4)	2.4	0.6	(6.6)	53.8	(0.7)	54.5	22.8	31.0	(23.9)	77.7



Profit (vs Budget)

Period 10

January's profit was £3.1m adverse to budget, mainly due to;

- Staff cost £0.8m adverse due to increased bonus accrual.
- Non staff cost £0.4m adverse due to increased IT expenditure.
- Joint Venture share £1.6m adverse due to POFS catch up and reflection of adjustments to prior year now their accounts have finalised.
- Project costs overbudget by £2.3m as projects ramp up and make up lost ground in earlier months.

Offset by:

- Net income £1.7m favourable driven by Financial Services.

YTD

Year to date operating profit of 78.4m was £41.5m favourable against the budget of £36.9m, mainly due to;

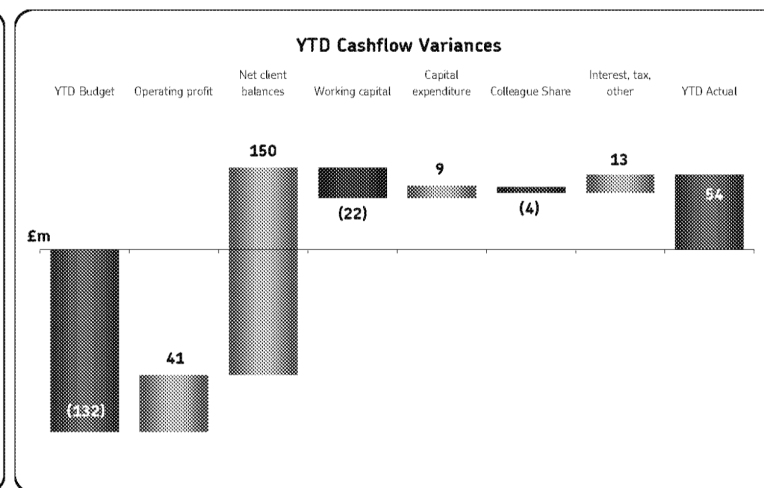
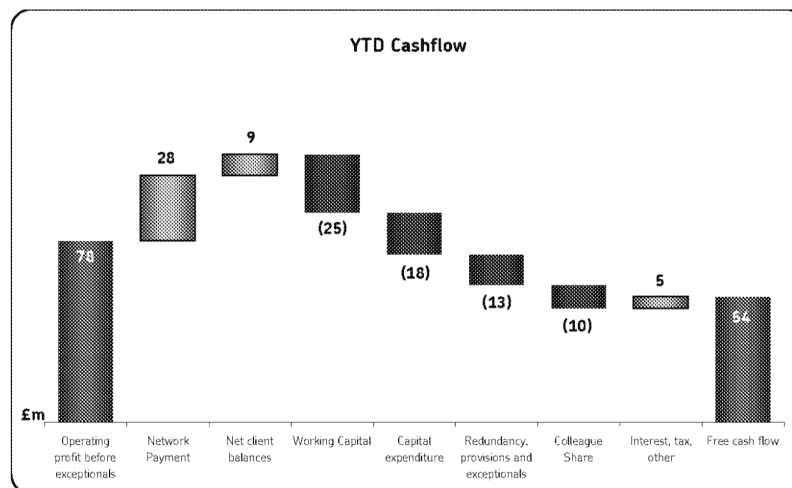
- Higher net income of £17.6m includes Mails £13.3m and FS £11.4m favourable, offset by Telephony £3.7m and Supply Chain £3.0m adverse.
- Lower staff costs £1.6m driven by vacancies and efficiencies in the Crown network which have more than offset pay increases and delays to efficiencies in Supply Chain,
- Lower non staff costs of £18.6m includes write back of WHS Tupe claim provision £2.4m, computer costs £5.3m from negotiation and some timing with PY,
- Lower Project opex £1.3m - signs of ramp up (£2.3m overspend in period), and
- Higher JV profits of £3.0m mainly FRES outperformance.

Cashflow Analysis & Balance Sheet Summary

January 2012



Cumulative Cashflow was £186m favourable to budget primarily due to Net client balances which incorporates the Santander 'day c' settlement, Bank of Ireland settlement amendment and favourable network cash.



Balance Sheet

£m	Mar-11	Actual	Budget	Variance
Fixed Assets	108	98	102	(4)
Debtors	82	72	75	(3)
Cash	705	793	850	(57)
Client Balances	(156)	(253)	(160)	(93)
Trade Creditors	(246)	(241)	(264)	23
Pension deficit	(316)	(326)	(314)	(12)
Provisions	(25)	(18)	(13)	(5)
Investments, Funding	45	74	60	14
Net Assets	197	199	336	(137)
Funded by	Mar-11	Actual	Budget	Variance
Capital and Reserves	178	136	178	(42)
Loan	(375)	(335)	(514)	179
	(197)	(199)	(336)	137

Cashflow

The YTD cashflow at Period 10 was an inflow of £54m which was £186m favourable to budget, (Period 9: £89m favourable). This variance was mainly due to:

- Net client balances were £150m favourable and were predominantly driven by: the £39m benefit from the contract amendment with Santander for 'Day C' settlement, £24m benefit from Bank of Ireland settlement amendment and network cash £57m favourable.
- Profit £41m favourable.
- Other items including working capital net to £4m adverse.

Cash Management Table

£m	Prior Year	Mar-11	P10		
	Jan-11	Opening	Actual	Budget	var
Retail, Cash Centres	581	562	501	575	74
Bureau	42	47	38	42	4
Cheques, debit cards	303	96	255	233	(22)
Network Cash	926	705	794	850	56
	Opening	P9	P10		
Headroom (£m)	427	548	544		

Cash Management

- Retail and Cash Centre cash (manageable cost) - £74m favourable against budget, and £80m favourable to prior year. POL has made great improvements in managing cash in the network.
- Bureau (manageable cost) - £4m favourable to both budget and prior year.
- Cheques and debit cards (customer driven) - £22m adverse to budget but £48m favourable to prior year.

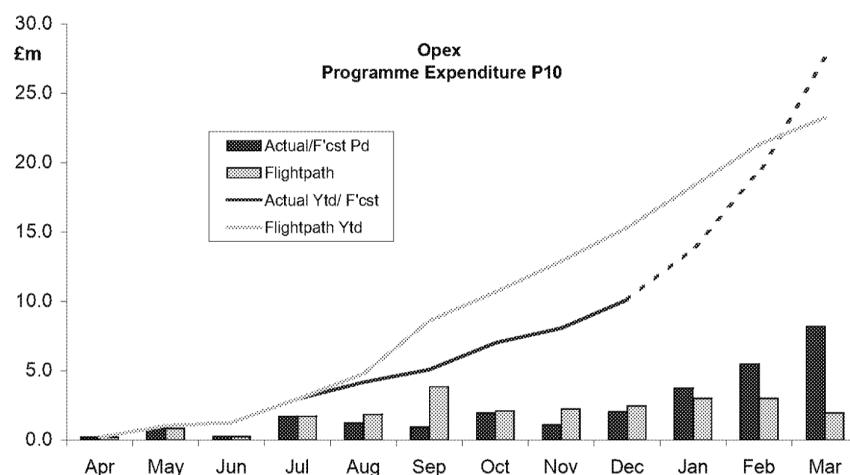
Project Costs (OpEx)

January 2012



OPEX – Programme Expenditure By Directorate

Period 10		Current Month			YTD			Full Year			IC	Originally
£k		Actuals	Prev Mth Fcst	Variance	Actuals	Prev Mth Fcst	Variance	FYF_Current	Flightpath	Variance	Approved	Requested
Network	Transformation	(815.2)	(707.3)	(107.9)	(2,828.9)	(2,721.2)	(107.7)	(6,743.4)	(5,801.0)	(942.4)	(8,158.2)	(3,004.3)
	Crown	(1.9)	0.0	(1.9)	(32.9)	(31.0)	(1.9)	(32.9)	(32.0)	(0.9)	(38.0)	0.0
	Network Other	(18.8)	(31.1)	12.3	(83.4)	(95.7)	12.3	(194.2)	(300.0)	105.8	(767.7)	(50.0)
	Crown Transformation	(41.2)	(56.6)	15.4	(139.2)	(154.6)	15.4	(294.2)	0.0	(294.2)	(252.0)	0.0
TOTAL NETWORK		(877.1)	(795.1)	(82.0)	(3,064.4)	(3,002.6)	(61.8)	(7,264.8)	(6,133.0)	(1,131.8)	(9,215.9)	(3,054.3)
Operations IT	Property	(26.0)	(90.5)	64.9	(462.6)	(527.5)	64.9	(767.1)	(828.7)	61.6	(738.0)	(700.0)
	Security	(32.9)	(89.3)	56.9	(144.9)	(201.3)	56.9	(423.1)	(377.0)	(46.1)	(430.0)	(308.8)
	Supply Chain	(29.8)	(13.0)	(16.8)	(122.5)	(105.7)	(16.8)	(162.8)	(369.0)	206.2	(603.0)	(100.0)
	Supplier Framework	(24.8)	(76.0)	51.2	(400.7)	(451.9)	51.2	(708.9)	(1,040.0)	331.1	(1,759.3)	(1,060.0)
	Technology Road Map	(199.9)	(138.1)	(61.8)	(374.4)	(312.6)	(61.8)	(1,622.8)	(1,312.1)	(310.7)	(1,627.4)	(730.0)
TOTAL OPS		(313.3)	(407.3)	94.4	(1,505.1)	(1,599.5)	94.4	(3,684.7)	(3,926.9)	242.2	(5,157.7)	(2,898.8)
Commercial	Government	(226.9)	(297.8)	70.9	(2,017.3)	(2,083.2)	70.9	(2,619.4)	(3,384.3)	764.9	(2,695.6)	(1,999.0)
	Mails	(101.8)	(38.2)	(63.6)	(895.6)	(832.1)	(63.6)	(2,317.8)	(1,689.2)	(628.6)	(3,484.6)	(1,749.9)
	Telephony	(1,077.3)	(1,362.0)	284.7	(2,230.3)	(2,515.0)	284.7	(4,720.2)	(2,197.0)	(2,523.2)	(4,892.0)	(2,210.0)
	Direct	(58.7)	(19.5)	(39.3)	(565.2)	(525.9)	(39.3)	(574.0)	(1,211.4)	637.3	(563.3)	(1,543.0)
TOTAL COMMERCIAL		(1,464.7)	(1,717.5)	252.8	(5,708.4)	(5,961.2)	252.8	(10,231.4)	(8,481.8)	(1,749.5)	(21,635.5)	(7,501.9)
Financial Services	Financial Services	(109.4)	(542.5)	433.1	(430.0)	(863.1)	433.1	(1,606.0)	(2,729.8)	1,123.8	(1,372.2)	(3,495.3)
TOTAL FINANCIAL SERVICES		(109.4)	(542.5)	433.1	(430.0)	(863.1)	433.1	(1,606.0)	(2,729.8)	1,123.8	(1,372.2)	(3,495.3)
Other	Finance	(15.2)	(32.0)	16.8	(163.6)	(190.4)	16.8	(367.6)	(177.0)	(190.6)	(303.7)	(319.0)
	Separation	(683.6)	(362.5)	(321.1)	(2,248.3)	(1,927.3)	(321.1)	(3,015.0)	(1,028.3)	(1,986.7)	(975.0)	(950.0)
	Legal	(24.7)	(24.8)	0.1	(105.1)	(105.2)	0.1	(106.2)	(106.2)	0.0	(106.2)	0.0
TOTAL OTHER		(723.5)	(419.3)	(304.2)	(2,516.9)	(2,212.8)	(304.2)	(3,488.8)	(1,311.5)	(2,177.3)	(1,384.9)	(1,269.0)
Central Held Budget		0.0	0.0	0.0	0.0	(431.0)	431.0	0.0	(670.2)	670.2	0.0	0.0
Old Programmes Flow thro 2010/11		(296.4)	0.0	(296.4)	(219.9)	0.0	(219.9)	0.0	0.0	0.0	0.0	0.0
Total POL		(3,784.4)	(3,881.7)	97.7	(13,464.8)	(14,070.2)	605.4	(26,275.7)	(23,253.2)	(3,022.5)	(28,766.2)	(18,200.0)
Client Funded		(2.1)	0.0	(2.1)	(429.0)	0.0	(429.0)	0.0	0.0	0.0	0.0	0.0
TOTAL POL POOC		(3,786.5)	(3,881.7)	95.6	(13,893.8)	(14,070.2)	176.4	(26,275.7)	(23,253.2)	(3,022.5)	(28,766.2)	(18,200.0)



Key Points for OpEx Programme expenditure

Period 10 YTD – £0.6m underspent vs previous month forecast.

Rest of year forecast spend – £12.4m from project teams;

Network Transformation – £4m – catch up of delayed start to pilots

IT Roadmap – £1.3m – Expected to be spent as technical delays with the Data Strategy Foundation (salesforce) project, expected to be recouped.

Mails – £1.4m – New authorised projects are spending as brought forward from next financial year.

Telephony – £2.5m – Q4 campaign underway and spend is increasing.

Financial Services – £1.2m – Project Eagle costs with external consultants being incurred.

Some of these actions will slip and it is anticipated that the likely outturn will be between £20m and £23m.

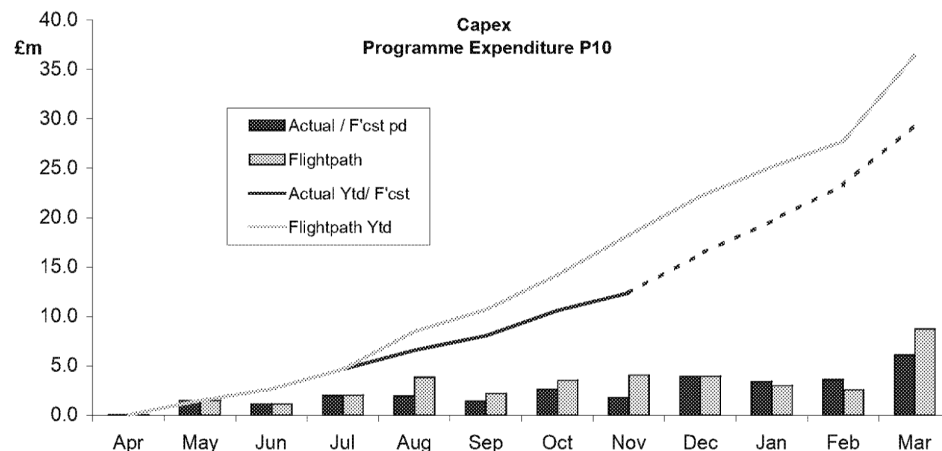
Project Costs (CapEx)

January 2012



CAPEX - Programme Expenditure By Directorate

Period 10		Current Month			YTD			Full Year			IC	Originally
£k		Actuals	Prev Mth F'cst	Variance	Actuals	Prev Mth F'cst	Variance	FYF_Current	Flightpath	Variance	Approved	Requested
Network	Transformation	(75.4)	(149.3)	73.9	(1,505.2)	(1,579.1)	73.9	(2,969.3)	(4,867.9)	1,898.6	(2,383.6)	(4,518.3)
	Crown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Network Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(250.0)	250.0	(133.0)	0.0
	Crown Transformation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL NETWORK		(75.4)	(149.3)	73.9	(1,505.2)	(1,579.1)	73.9	(2,969.3)	(5,117.9)	2,148.6	(2,516.6)	(4,518.3)
Operations IT	Property	(539.3)	(745.7)	206.4	(3,197.8)	(3,070.0)	(127.7)	(4,008.0)	(5,885.0)	1,877.0	(3,126.2)	(6,185.0)
	Security	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Supply Chain	(65.2)	(274.5)	209.3	(699.1)	(908.5)	209.3	(1,527.5)	(3,936.0)	2,408.5	(3,846.0)	(1,890.0)
	Supplier Framework	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Technology Road Map	(1,817.3)	(1,140.3)	(677.0)	(8,845.0)	(8,168.0)	(677.0)	(11,847.1)	(10,468.6)	(1,378.5)	(11,450.8)	(8,085.3)
TOTAL OPS		(2,421.8)	(2,160.5)	(261.2)	(12,741.9)	(12,146.5)	(595.4)	(17,382.7)	(20,289.6)	2,907.0	(18,423.6)	(16,163.3)
Commercial	Government	(128.4)	(479.2)	350.8	(2,646.2)	(2,997.0)	350.8	(5,207.0)	(5,272.3)	65.3	(1,507.5)	(4,600.0)
	Mails	12.2	(17.5)	29.7	(24.6)	(54.3)	29.7	(24.6)	(166.6)	142.0	(312.0)	(700.2)
	Telephony	(99.0)	(75.0)	(24.0)	(723.2)	(699.2)	(24.0)	(982.2)	(1,200.0)	217.8	(1,309.0)	(1,200.0)
	Direct	0.5	(22.0)	22.5	(173.6)	(196.1)	22.5	(346.5)	(852.9)	506.4	(335.7)	(871.0)
TOTAL COMMERCIAL		(214.7)	(593.7)	379.0	(3,567.7)	(3,946.7)	379.0	(6,560.4)	(7,491.8)	931.4	(3,484.2)	(7,371.2)
Financial Services	Financial Services	0.0	0.0	0.0	(26.5)	(26.5)	0.0	(26.5)	(405.9)	379.3	0.0	(1,324.0)
TOTAL FINANCIAL SERVICES		0.0	0.0	0.0	(26.5)	(26.5)	0.0	(26.5)	(405.9)	379.3	0.0	(1,324.0)
Other	Finance	(125.4)	(125.0)	(0.4)	(2,452.8)	(2,452.4)	(0.4)	(2,700.0)	(2,769.0)	69.0	(2,700.0)	(2,700.0)
	Separation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Legal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OTHER		(125.4)	(125.0)	(0.4)	(2,452.8)	(2,452.4)	(0.4)	(2,700.0)	(2,769.0)	69.0	(2,700.0)	(2,700.0)
Central Held Budget		0.0	0.0	0.0	0.0	0.0	0.0	0.0	(346.2)	346.2	0.0	0.0
Old Programmes Flow thro 2010/11		258.7	0.0	258.7	493.2	0.0	493.2	0.0	0.0	0.0	0.0	0.0
Total POL		(2,578.5)	(3,028.6)	450.0	(19,800.8)	(20,151.2)	350.4	(29,638.9)	(36,420.4)	6,781.6	(27,103.8)	(32,073.8)
Client Funded		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL POL POOC		(2,578.5)	(3,028.6)	450.0	(19,800.8)	(20,151.2)	350.4	(29,638.9)	(36,420.4)	6,781.6	(27,103.8)	(32,073.8)



Key Points for CapEx Programme expenditure

Period 10 YTD - £0.4m underspent vs previous month forecast.

Rest of year forecast spend - £10m

Network Transformation - £1.4m - catch up of delayed start to pilots

IT Roadmap - £3.0m - Expected to be spent as technical delays with the Data Strategy Foundation (salesforce) project, expected to be recouped.

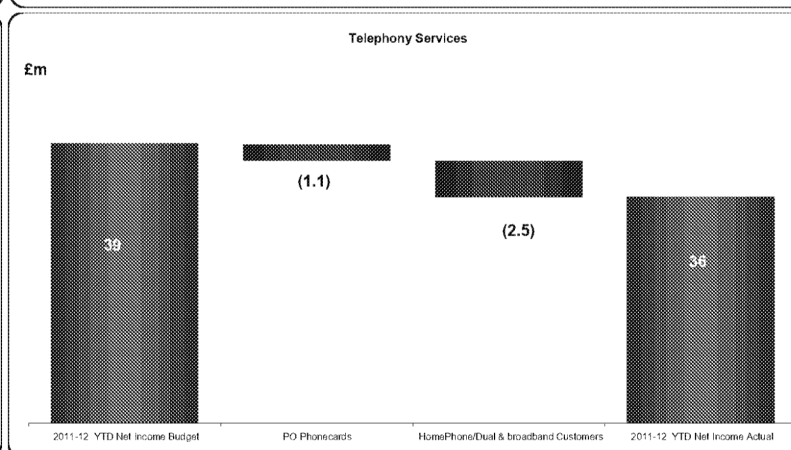
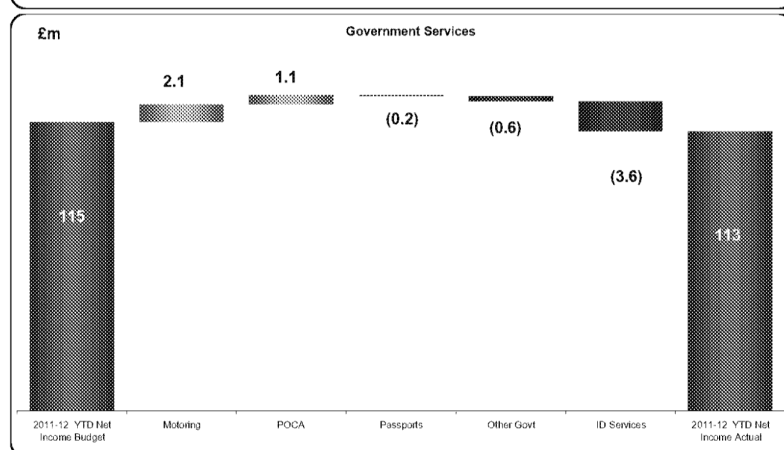
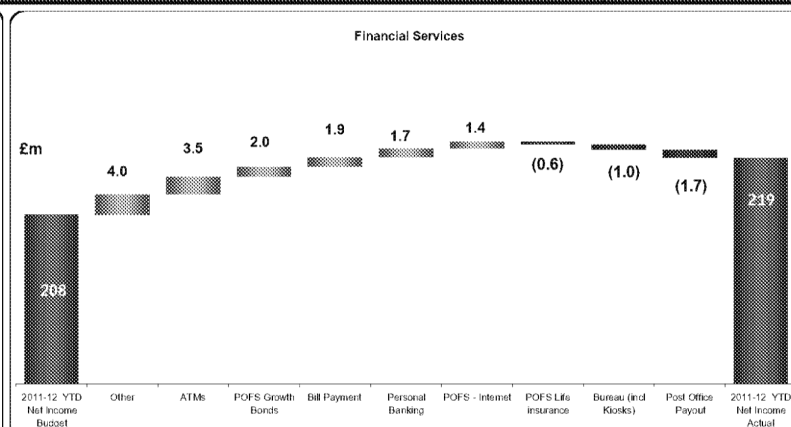
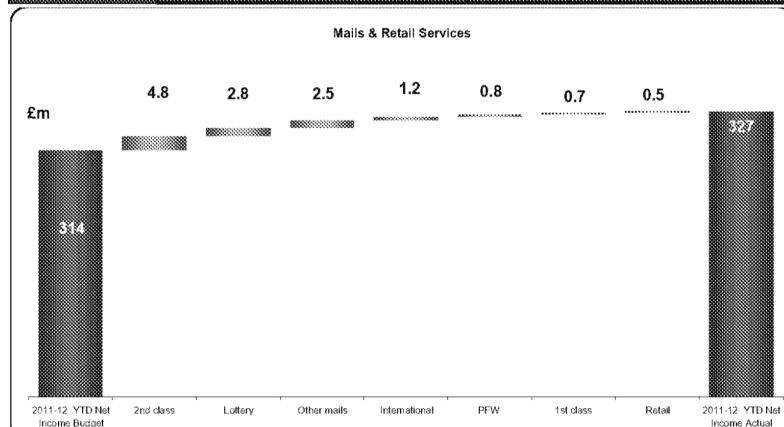
Government - £2.6m - Delays in DVLA and UKBA tenders. UKBA now won and spend progressing.



Net Income By Pillar

January 2012

Net Income (£m)	Period			Q2 Forecast Period		Prior Year Period		Year to Date			Q2 Forecast YTD		Prior Year YTD	
	Actual	Budget	Variance	Forecast	Variance	Actual	Variance	Actual	Budget	Variance	Forecast	Variance	Actual	Variance
Mails & Retail	31.7	32.9	(1.1)	34.1	(2.4)	30.6	1.1	327.4	314.1	13.3	324.8	2.6	313.0	14.4
Financial Services	21.6	19.0	2.6	19.4	2.2	21.0	0.6	219.7	208.3	11.4	215.5	4.3	221.7	(1.9)
Government Services	11.5	11.9	(0.4)	11.1	0.4	10.7	0.9	113.5	114.6	(1.1)	111.6	1.8	106.2	7.3
Telephony	4.0	4.4	(0.4)	4.5	(0.5)	3.2	0.9	35.6	39.3	(3.7)	37.4	(1.8)	38.7	(3.2)
Network Payment	17.3	17.3	0	13.8	3.5	14.4	2.9	152.3	152.3	0.0	152.31	0	126.9	25.4
Other	3.5	2.4	1.0	6.8	(3.4)	2.7	0.8	31.0	33.3	(2.3)	31.1	(0.2)	35.6	(4.6)
TOTAL NET INCOME	89.6	87.9	1.7	89.8	(0.2)	82.5	7.1	879.5	861.9	17.6	872.8	6.7	842.1	37.3



Pillar Performance

Mails & Retail Services

2nd Class labels - Budget predicted 8% volume decline, but actuals show increase of 26%.

Lottery - Tuesday draw has increased volumes as have rollovers.

Financial Services

ATMs - Due to increases in volume (19%) against plan and anticipated reduced commission rates not implemented as planned.

Growth Bonds - favourable driven by higher competitive rate.

Bill Payments - Decline not as high as planned.

Personal Banking - prior year benefit, some volume increase plus £500k expected compensation payment being accrued for against Santander (Abbey).

Post Office Payout - adverse due to delay in new clients. A product review is underway to mitigate this risk going forward.

Government Services

Motoring - Volumes are above target by 1.7%, price has increased and £1m is for prior year catch up.

ID Services - Volumes are below income guarantee levels due to DVLA not marketing the product whilst in dispute with a 3rd party. Dispute is resolved but there is now a low customer response rate for using the POL channel.

Telephony Services

Homephone - Resulting from lower number of customer acquisitions, (64% of expected levels) and lower average revenue per customer. 457k customers are 36k below budget. Early signs from the Q4 campaign are that it is proceeding to plan for new acquisitions.

Other

External CIT - Budget assumes winning of significant new contracts from start of year, with 2 won so far worth £375k pa.

Warehousing - Lower than expected storage and fulfilment for Royal Mail driven by demand choke in Royal Mail.

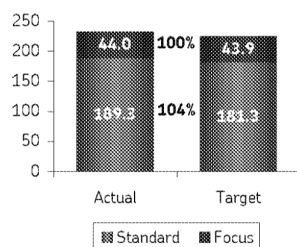


Net Income by Channel January 2012

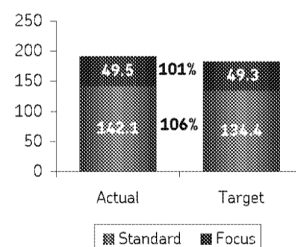
All channels are performing ahead of budget, with only the Direct channel being adverse (by £3.6m YTD).
Period 10 YTD Focus Product Income is £1.3m adverse and Standard Product Income is £16.0m favourable to budget, giving an overall favourable income variance of £14.7m. Adverse variance on Focus products (-0.9%) were mainly due to lower Travel Money, Telephony and Travel product sales. Standard products were 2.8% higher than budget mainly due to favourable income from Mails, Lottery, ATMs and Motoring.

£m	Month			Year to date			Full Year
Targeted Income	Actual	Budget	Variance	Actual	Budget	Variance	Budget
Focus Products							
Crown Offices	2.9	2.9	0.0	30.6	29.9	0.7	35.5
WHS	0.5	0.5	(0.0)	5.5	5.3	0.2	6.3
Agents - Managed	4.7	4.9	(0.2)	49.5	49.3	0.2	58.5
Centrally Supported	4.2	4.5	(0.2)	44.0	43.9	0.1	52.1
Direct Sales	0.6	0.8	(0.2)	7.2	10.1	(2.9)	11.8
Central	0.0	0.0	0.0	0.4	0.0	0.4	0
Focus Products Total	12.9	13.5	(0.6)	137.1	138.4	(1.3)	164.2
Standard Products							
Crown Offices	4.6	2.3	2.3	46.5	43.1	3.3	50.9
WHS	1.0	0.9	0.1	9.7	8.8	0.9	10.4
Agents - Managed	14.0	13.8	0.2	142.1	134.4	7.8	158.9
Centrally Supported	19.0	18.7	0.3	189.3	181.3	8.0	214.7
Direct Sales	0.5	0.5	(0.0)	5.1	6.2	(1.1)	7.5
Central	(0.2)	2.5	(2.6)	0.2	3.1	(2.9)	3.7
Standard Product Total	38.8	38.7	0.1	392.9	376.9	16.0	446.1
TOTAL TARGETED INCOME	51.7	52.2	(0.5)	530.1	515.3	14.7	610.3
Other Income							
Cash Services	2.2	2.3	(0.1)	18.3	20.6	(2.3)	24.3
Gamma	0.5	0.5	(0.0)	5.4	5.4	(0.0)	6.4
Fixed Income & Other	15.1	12.5	2.6	149.3	141.4	8.0	172.3
Retentions	2.8	3.1	(0.4)	24.0	26.9	(2.9)	31.9
Network Payment	17.3	17.3	0	152.3	152.3	0	180.0
TOTAL POL NET INCOME	89.6	87.9	1.7	879.5	861.9	17.6	1,025.3

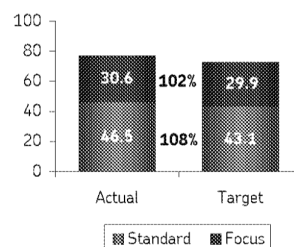
Centrally Supported Net
Income YTD (£m)



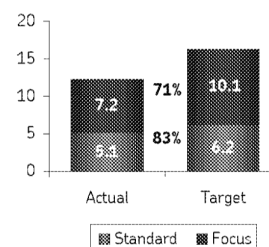
Account Mgd Net Income
YTD (£m)



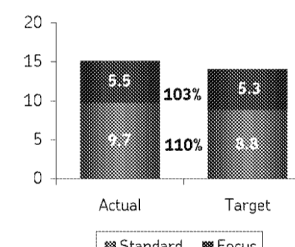
Crown Offices Net
Income YTD (£m)



Direct Sales Net
Income YTD (£m) *



WHS Net Income YTD
(£m)



* Both target and actual exclude lead generation income

Crown P&L
January 2012

The YTD Crown P&L is performing well against budget for all categories.
Income is £2.3m favourable in the period, doubling the YTD variance (5% favourable), YTD Staff costs are 1% below budget.

£m	Period			Prior Year Period		Year To Date			Prior Year YTD		Full Year		
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Forecast	Budget	Variance
Sales Income - Focus	2.9	2.9	0.0	2.4	0.4	30.6	29.9	0.7	26.2	4.4	36.1	35.5	0.7
Sales Income - Standard	4.6	2.3	2.3	5.0	(0.4)	46.5	43.1	3.3	46.4	0.1	58.7	50.9	7.8
Net Income	7.5	5.2	2.3	7.4	0.1	77.0	73.0	4.0	72.6	4.4	94.9	86.4	8.5
Staff Costs - FSS	(0.8)	(0.8)	0.0	(0.8)	(0.0)	(7.5)	(7.5)	0.0	(8.4)	0.9	(9.0)	(10.6)	1.7
Staff Costs - Crown	(11.0)	(10.6)	(0.4)	(10.4)	(0.6)	(92.8)	(94.2)	1.4	(91.4)	(1.4)	(109.9)	(109.7)	(0.2)
Total Staff Costs	(11.8)	(11.4)	(0.4)	(11.2)	(0.6)	(100.2)	(101.6)	1.4	(99.8)	(0.8)	(118.8)	(120.3)	1.5
Crown/Branch/CS Property Costs	(3.8)	(3.8)	0.1	(3.6)	(0.2)	(33.6)	(34.3)	0.7	(33.3)	(0.4)	(40.5)	(41.0)	0.5
Crown/Branch/CS Losses/Gains and Other	(0.1)	(0.4)	0.3	(0.3)	0.2	(2.6)	(3.6)	1.0	(3.4)	0.8	(3.6)	(4.2)	0.6
Cash Holding Costs (Lost Interest) & Foreign Currency Holding Cost	(0.3)	(0.3)	0.0	(0.3)	0.1	(2.6)	(2.8)	0.2	(3.3)	0.8	(3.1)	(3.9)	0.8
Total Non Staff Costs	(4.1)	(4.5)	0.4	(4.2)	0.1	(38.8)	(40.6)	1.8	(40.0)	1.2	(47.2)	(49.1)	2.0
Homephone Direct Costs	(0.2)	(0.2)	(0.0)	(0.1)	(0.1)	(1.6)	(1.7)	0.1	(1.1)	(0.6)	(1.7)	(2.1)	0.4
Other Direct Product Costs	(0.4)	(0.4)	(0.0)	(0.2)	(0.3)	(2.9)	(3.0)	0.1	(2.2)	(0.7)	(4.1)	(4.0)	(0.1)
Horizon	(0.7)	(0.5)	(0.1)	(0.7)	0.0	(5.2)	(5.5)	0.3	(5.4)	0.2	(6.8)	(6.6)	(0.2)
POL Cash & Stock Distribution Costs	(0.3)	(0.3)	0.0	(0.3)	(0.0)	(3.1)	(3.1)	0.1	(3.2)	0.1	(3.6)	(3.7)	0.2
Network Equipment/Official Mail/Prism and HelpDesk Costs	(0.3)	(0.3)	0.0	(0.4)	0.1	(3.5)	(3.9)	0.4	(3.8)	0.3	(4.5)	(4.6)	0.1
Network Admin - Channel Specific	(0.4)	(0.4)	0.0	(0.6)	0.2	(3.7)	(3.7)	(0.0)	(5.7)	2.0	(4.5)	(4.4)	(0.1)
Network Admin - non-Specific	(0.3)	(0.3)	(0.0)	0.0	(0.3)	(2.8)	(2.8)	0.0	0.0	(2.8)	(3.5)	(3.3)	(0.2)
Operations - Other Infrastructure Costs	(0.1)	(0.1)	(0.0)	(0.1)	(0.0)	(1.4)	(1.4)	0.0	(1.1)	(0.3)	(2.0)	(1.7)	(0.3)
Total Infrastructure Costs	(2.7)	(2.6)	(0.2)	(2.4)	(0.3)	(24.1)	(25.1)	0.9	(22.5)	(1.7)	(30.7)	(30.4)	(0.3)
Total Expenditure Costs	(18.7)	(18.5)	(0.1)	(17.8)	(0.9)	(163.2)	(167.3)	4.2	(162.2)	(0.9)	(196.6)	(199.8)	3.2
JV Income	0.0	0.4	(0.4)	0.2	(0.1)	8.2	7.2	1.0	6.6	1.5	9.3	8.3	0.9
EBIT - Targeted Profit	(11.2)	(13.0)	1.8	(10.2)	(0.9)	(77.9)	(87.1)	9.2	(83.0)	5.0	(92.5)	(105.1)	12.6
Total Allocated Costs	(0.5)	(0.2)	(0.3)	(0.5)	(0.0)	(2.5)	(3.9)	1.4	(3.6)	1.1	(4.0)	(5.1)	1.1
Other Allocation of Non-Transactional Income	3.9	3.0	1.0	2.5	1.4	33.8	34.1	(0.3)	29.4	4.4	40.6	42.2	(1.6)
P&L	(7.8)	(10.2)	2.5	(8.2)	0.5	(46.7)	(56.9)	10.2	(57.2)	10.5	(55.9)	(68.0)	12.1
Allocations	0.9	1.0	(0.1)	(0.0)	1.0	8.9	9.3	(0.4)	15.0	(6.1)	10.9	11.1	(0.2)
P & L After Renewal Allocations	(6.8)	(9.2)	2.4	(8.3)	1.5	(37.8)	(47.6)	9.8	(42.2)	4.4	(45.0)	(56.9)	11.9
Overlays	(1.2)	(1.1)	(0.1)	(1.1)	(0.1)	(7.8)	(8.6)	0.8	(12.1)	4.3	(9.7)	(10.2)	0.5
Adjusted P & L	(8.0)	(10.3)	2.3	(9.4)	1.4	(45.6)	(56.2)	10.6	(54.3)	8.7	(54.7)	(67.1)	12.4

Business Scorecard

January 2012



Key Performance Indicators	Current Month			Year to Date			Prior Year	Full Year			2010-11 Outturn
	Act	Target	Var	Act	Target	Var		F'cast	Target	Var	
Performance											
Total Net Income £m	89.6	87.9	1.7	879.5	861.9	17.6	842.1	1,044.1	1,025.3	18.8	997.8
Focus product sales - Net Income £m (Bonus)	12.9	13.5	(0.6)	137.1	138.4	(1.3)	N/A	164.0	164.0	0.0	81.2
Average sales per FS per week (No.)	5.1	7.5	(2.4)	7.2	8.4	(1.2)	7.1	7.2	9.4	(2.2)	6.8
Direct Sales - Net income £m (Note 1)	1.1	1.3	(0.2)	12.3	16.3	(3.9)	13.8	19.3	19.3	0.0	16.4
All product contribution £m (Bonus)	56.0	53.3	2.7	558.1	534.8	23.3	218.3	657.1	640.0	17.1	NA
Home and Car Insurance Policies In Force (PIF) (k)	350.1	350.0	0.1	350.1	350.0	0.1	490.0	350.0	350.0	0.0	410.0
Financial											
Operating profit £m (Bonus)	(2.6)	0.5	(3.1)	78.4	36.9	41.5	31.9	65.2	36.3	28.9	35.6
Total operational costs £m (Bonus) (Note 2)	(92.1)	(88.8)	(3.2)	(828.3)	(849.3)	21.0	(830.7)	(1,010.2)	(1,017.0)	6.8	(987.5)
Free cashflow £m (Bonus)	92.6	(5.1)	97.7	54.0	(132.1)	186.1	(137.8)	(10.1)	(58.9)	48.8	(16.0)
Levels of cash in the network £m	793.0	850.0	57.0	793.0	850.0	57.0	926.1	705.0	691.6	(13.4)	703.3
Staff costs £m	(23.4)	(22.6)	(0.8)	(208.0)	(208.6)	0.6	(212.9)	(251.0)	(247.9)	(3.1)	(252.8)
Agents pay to income ratio %	95.7%	96.3%	0.6%	91.7%	95.6%	4.0%	93.5%	91.9%	95.5%	3.5%	93.6%
Crown staff pay to income ratio %	146.9%	139.0%	(7.9)%	120.4%	129.0%	8.6%	137.4%	115.8%	126.9%	11.1%	135.5%
Outstanding Audit Recommendations*	0	0	0	0	0	0	-	<3	<3	-	1
Customer											
Customer Satisfaction	86.0%	85.0%	1.0%	86.7%	85.0%	1.7%	86.0%	85.0%	85.0%	0.0%	85.0%
Customer Complaints*	6,852	7,335	483	74,627	75,265	638	71,665	90,000	90,000	0	87,539
Quality of Service % (Note 3)	94.7%	91.4%	3.3%	93.6%	91.4%	2.2%	86.5%	91.4%	91.4%	0.0%	86.9%
Crown queue time Crown Branches < 5 minutes*	79.8%	80.7%	(0.9)%	72.0%	74.1%	(2.1)%	62.7%	73.4%	75.0%	(1.6)%	65.0%
Call centre 3D Measure (Bonus) (Note 4)*	105.7%	100.0%	5.7%	105.0%	100.0%	5.0%	87.9%	100.0%	100.0%	0.0%	107.5%
Effect (Bonus)*	85.7%	82.2%	3.5%	82.8%	82.2%	0.6%	79.7%	82.2%	82.2%	0.0%	80.1%
Impressions Count (Bonus)*	92.6%	93.0%	(0.4)%	93.1%	93.0%	0.1%	91.8%	93.0%	93.0%	0.0%	92.1%
People											
HYS engagement index % (Bonus)	58.0%	58.0%	-	58.0%	58.0%	-	41.0%	59.0%	59.0%	-	41.0%
Headcount	7,750	7,814	64	7,750	7,814	64	8,049	7,807	7,807	0	7,782
Attendance %	96.6%	96.0%	0.6%	96.4%	96.0%	0.4%	96.8%	96.0%	96.0%	0.0%	96.7%
RIDDOR Accidents (per 1k Heads) (Bonus)*	0.0	0.5	0.5	3.4	4.2	0.9	3.1	5.0	5.0	0.0	5.2
Compliance Measure (Bonus)	95.4%	95.0%	0.4%	94.4%	95.0%	(0.6)%	92.5%	95.0%	95.0%	0.0%	91.9%
Strategy & Operations											
Network Pilots/Trials Milestones Achieved	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	NA	100.0%	100.0%	0.0%	NA
Front Office of Government Milestones Achieved	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	NA	100.0%	100.0%	0.0%	NA
ATM availability %	96.2%	95.5%	0.7%	95.9%	95.5%	0.4%	95.7%	95.9%	95.5%	0.4%	95.5%
Website availability %	99.5%	99.7%	(0.2)%	99.6%	99.7%	(0.1)%	99.7%	99.7%	99.7%	0.0%	99.7%
Horizon Availability %	99.9%	99.8%	0.1%	99.5%	99.8%	(0.3)%	99.8%	99.8%	99.8%	0.0%	99.8%

Note 1: Direct Sales is shown excluding Lead Generation income

Note 2: Total Operational Costs is defined as: All Expenditure excluding Cost of Sales

Note 3: QofS target is the average of Retail Standards, Mystery Shopper and Call Centre results.

Note 4: Call Centre 3D target is based on achieving 100% of component targets. 2011-12 targets are more challenging than the previous year.

* These measures are not on the group scorecard



Appendices

Profit & Loss Statement

January 2012



Headline commentary is against
quarter 2 forecast as requested
by Group

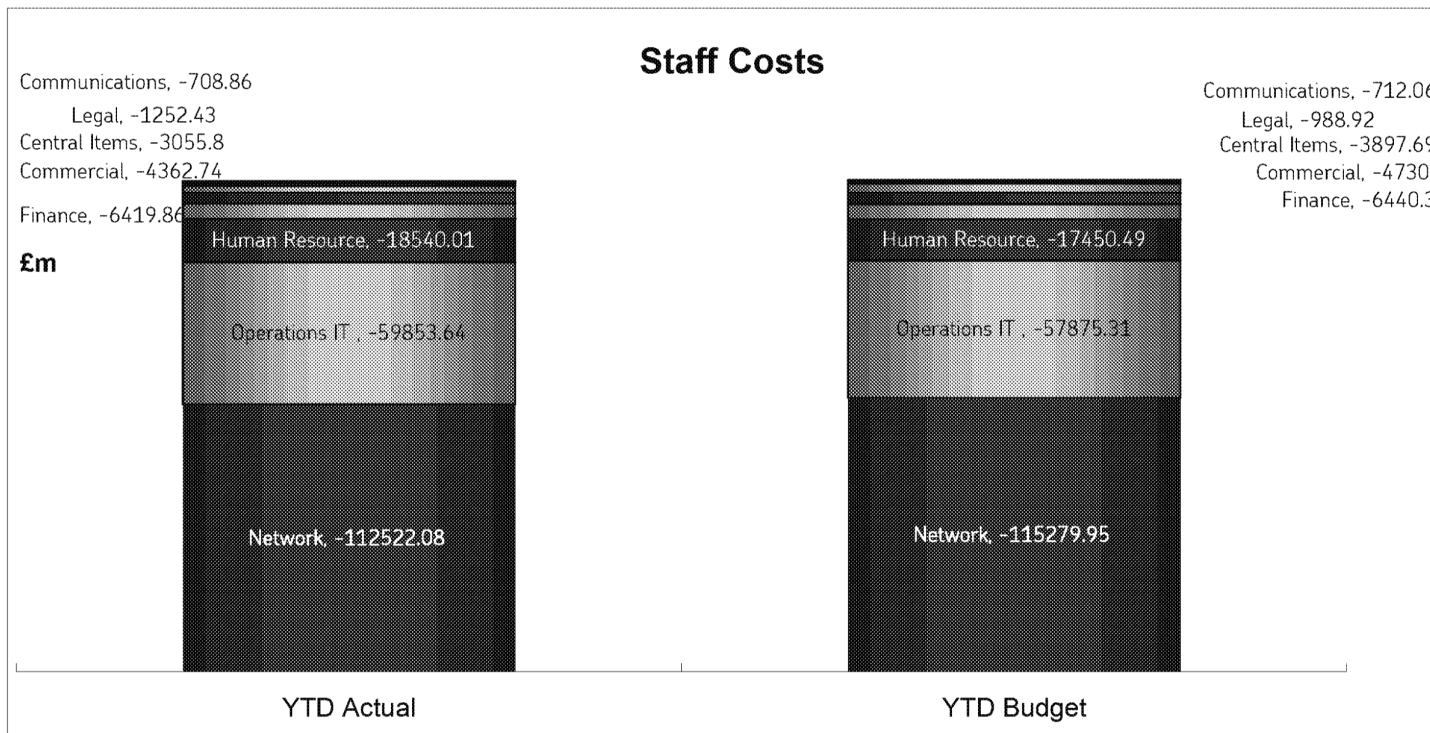
	Year to Date			Half Year Forecast		Prior Year YTD		Quarter 3 Forecast			Quarter 2 Forecast			Prior Year
£m	Actual	Budget	Variance	Forecast	Variance	Actual	Variance	Forecast	Budget	Variance	Forecast	Budget	Variance	Outturn
External Income	519.9	516.5	3.4	513.9	6.1	525.5	(5.5)	618.9	617.6	1.3	613.5	617.6	(4.1)	625.6
Interbusiness Income	302.3	294.8	7.5	301.4	0.9	292.7	9.6	358.3	348.3	9.9	355.9	348.3	7.5	345.6
TOTAL GROSS INCOME	822.2	811.3	10.9	815.2	7.0	818.2	4.0	977.1	965.9	11.2	969.4	965.9	3.5	971.3
Cost of Sales	(95.1)	(101.7)	6.7	(94.8)	(0.3)	(103.0)	7.9	(113.0)	(120.6)	7.6	(112.3)	(120.6)	8.3	(123.5)
TOTAL NET INCOME	727.1	709.6	17.6	720.5	6.7	715.2	12.0	864.1	845.3	18.8	857.1	845.3	11.8	847.8
Staff Costs	(208.0)	(208.6)	0.6	(206.8)	(1.3)	(212.9)	4.8	(251.0)	(247.9)	(3.1)	(250.9)	(247.9)	(2.9)	(252.8)
Agents Costs	(403.4)	(404.5)	1.0	(406.8)	3.4	(399.6)	(3.8)	(476.8)	(478.3)	1.5	(481.4)	(478.3)	(3.1)	(474.9)
Non-Staff Costs	(114.3)	(132.9)	18.6	(119.6)	5.2	(113.9)	(0.5)	(152.0)	(159.7)	7.7	(150.9)	(159.7)	8.8	(138.2)
Interbusiness Expenditure	(71.2)	(70.3)	(0.9)	(74.5)	3.3	(76.2)	4.9	(85.9)	(91.8)	5.9	(89.2)	(91.8)	2.6	(89.0)
Depreciation	(0.3)	(0.7)	0.4	(0.5)	0.2	(0.5)	0.1	(0.7)	(0.7)	(0.0)	(0.7)	(0.7)	0.0	(0.6)
Total Expenditure (pre POOC)	(797.3)	(817.1)	19.7	(808.1)	10.8	(803.0)	5.7	(966.5)	(978.4)	11.9	(973.1)	(978.4)	5.4	(955.5)
One off Project costs (POOC)	(13.9)	(15.2)	1.3	(17.8)	3.9	(12.5)	(1.4)	(23.4)	(18.2)	(5.2)	(23.1)	(18.2)	(4.9)	(15.3)
POFS - Share Of Operating Profits	(1.2)	0.0	(1.2)	0.0	(1.2)	(5.2)	3.9	0.2	0.0	0.2	0.2	0.0	0.2	(3.3)
FRES - Share Of Operating Profits	28.5	24.3	4.2	27.3	1.2	25.7	2.9	31.1	28.0	3.0	30.6	28.0	2.5	28.6
EBIT Pre Overhead Allocations	(42.9)	(83.2)	40.3	(60.3)	17.5	(67.3)	24.4	(71.1)	(105.1)	34.0	(85.2)	(105.1)	19.9	(82.4)
Group Overhead allocations	(17.1)	(17.1)	(0.0)	(17.0)	(0.0)	(15.2)	(1.9)	(20.4)	(20.4)	0.0	(20.4)	(20.4)	(0.0)	(16.7)
Ebit - BAU	(60.0)	(100.2)	40.3	(77.4)	17.4	(82.5)	22.5	(91.5)	(125.5)	34.0	(105.6)	(125.5)	19.9	(99.1)
Network Transformation POOC	(2.8)	(2.7)	(0.1)	(2.7)	(0.1)	0.0	(2.8)	(3.9)	(0.5)	0.5	0.0	(3.0)	3.0	0.0
One off Project costs (POOC)	(11.1)	(12.4)	1.4	(15.1)	4.0	(12.5)	1.5	(19.5)	(17.7)	(1.7)	(23.1)	(15.2)	(7.9)	(15.3)
Ebit - Post Project Costs	(73.9)	(115.4)	41.5	(95.2)	21.3	(95.0)	21.2	(114.8)	(143.7)	28.8	(128.7)	(143.7)	15.0	(114.4)
Network Payment	152.3	152.3	0.0	152.3	0.0	126.9	25.4	180.0	180.0	0.0	180.0	180.0	0.0	150.0
EBIT pre exceptionals & Pre Colleague Share	78.4	36.9	41.5	57.1	21.3	31.9	46.6	65.2	36.3	28.8	51.3	36.3	15.0	35.6
Interest	(3.8)	(9.6)	5.8	(4.3)	0.6	(14.1)	10.3	(4.7)	(9.2)	4.5	(5.6)	(9.2)	3.6	(19.0)
Impairment	(19.8)	(27.0)	7.2	(27.0)	7.2	(32.5)	12.7	(28.9)	(32.0)	3.1	(36.0)	(32.0)	(4.0)	(39.8)
Exceptionals & Redundancy & Severance Costs	(1.8)	(1.0)	(0.8)	(3.1)	1.3	(13.6)	11.8	(4.0)	(1.0)	(3.0)	(4.0)	(1.0)	(3.0)	(14.4)
Profit/(Loss) On Asset Sale	0.7	0.0	0.7	0.1	0.6	4.4	(3.7)	0.0	0.0	0.0	0.0	0.0	0.0	4.4
Colleague Share	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(6.0)	6.0	0.0	(6.0)	6.0	(0.4)
Total Profit/(Loss) Before Tax	53.8	(0.7)	54.5	22.8	31.0	(23.9)	77.7	27.6	(11.9)	39.4	5.7	(11.9)	17.6	(33.7)

Staff Costs By Directorate January 2012



YTD staff costs are £0.6m favourable to budget, with Network staff being the most favourable and Operations the most adverse.

POL Headcount	P10		
	Actual	Budget	Variance
Finance	205	203	(2)
HR	117	126	9
Legal	23	15	(8)
MD	4	6	2
Commercial	82	78	(4)
Communications	16	0	(16)
FS	22	0	(22)
Network	5,337	5,486	149
Operations	1,941	1,900	(41)
Chairman's Office	3	0	(3)
Total	7,750	7,814	64

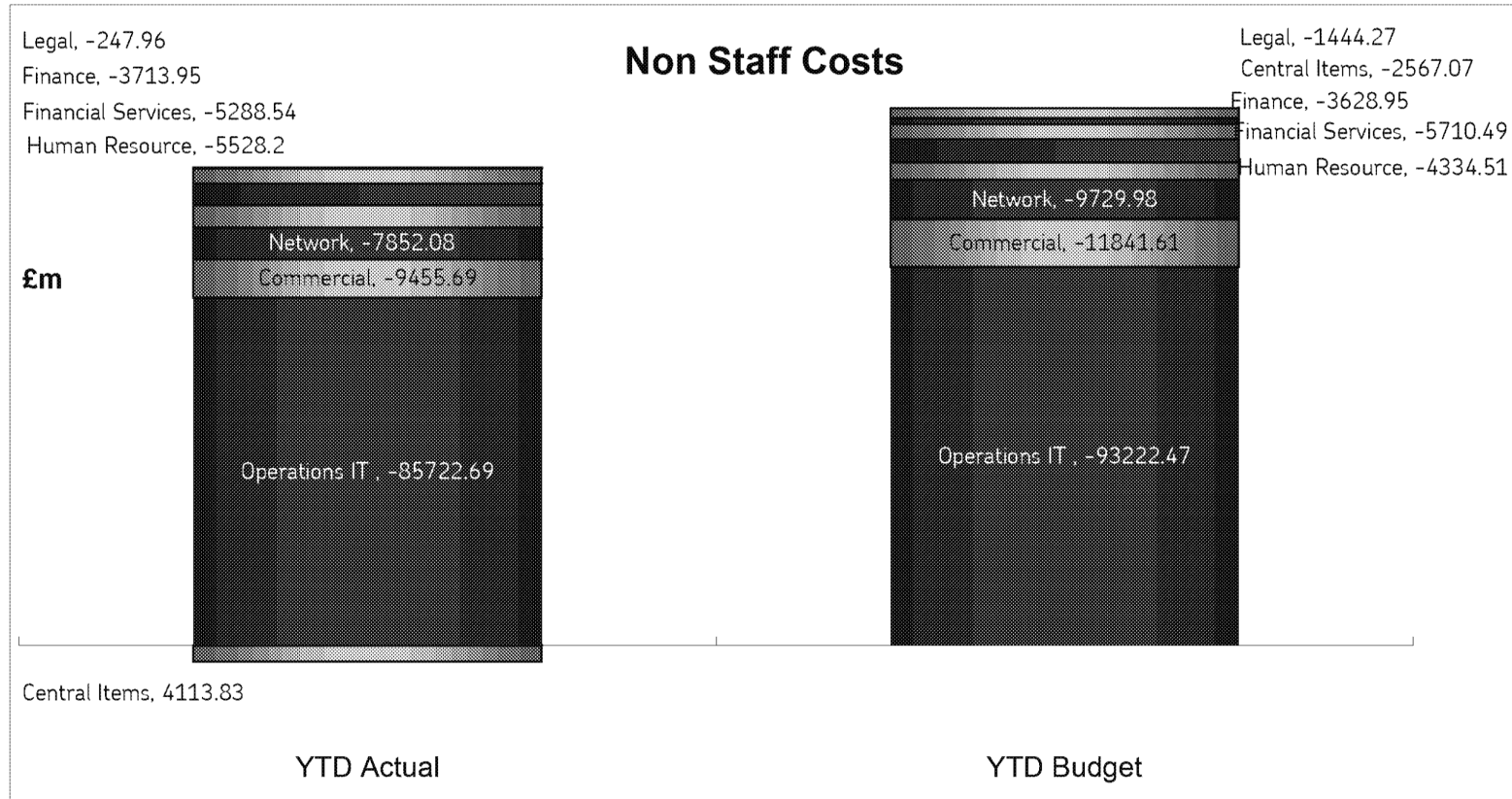


Non Staff Costs - By Directorate

January 2012



YTD non staff costs are £18.6m favourable to budget, with Operations IT expenditure being the most favourable, followed by Commercial and Network.

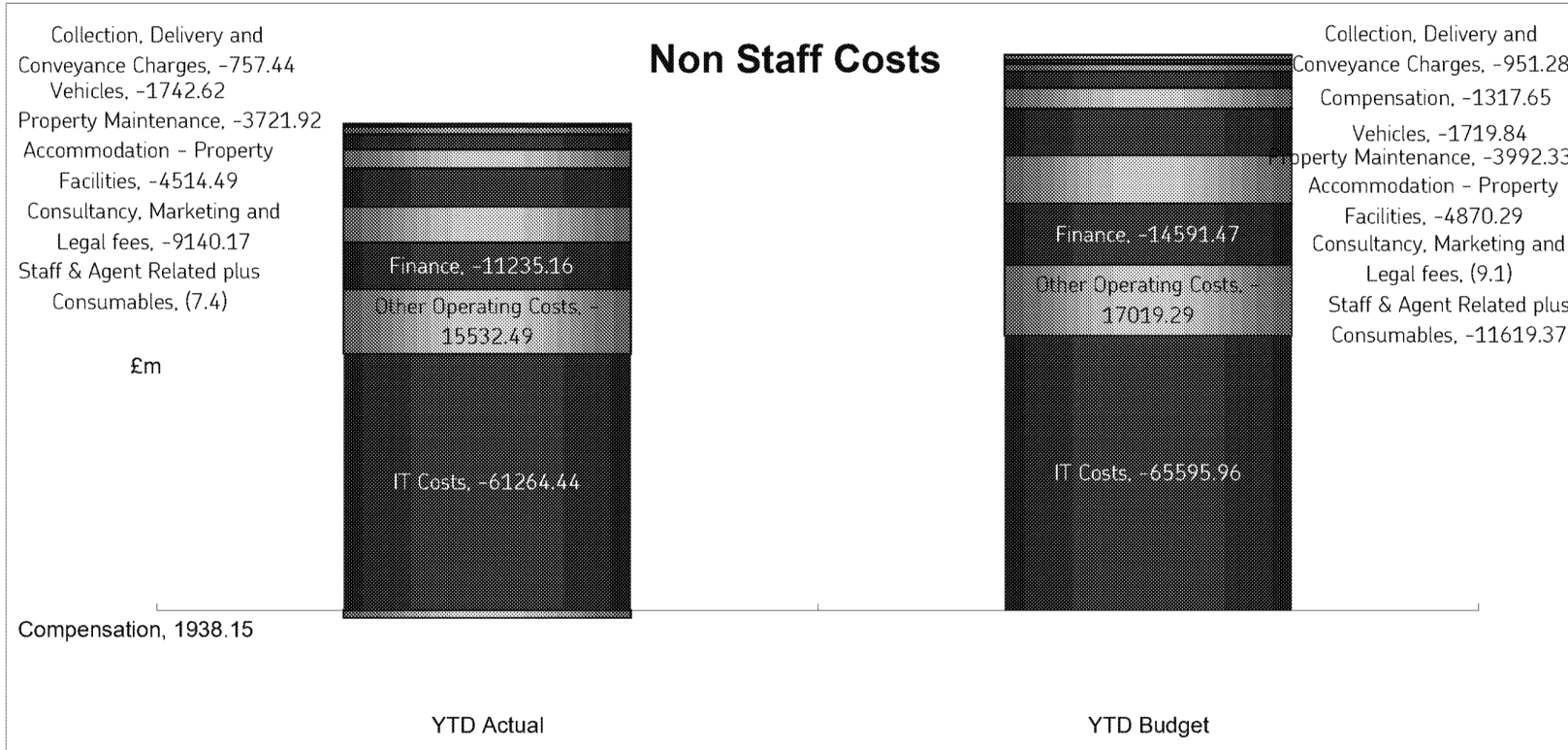




Non Staff Costs by Type

January 2012

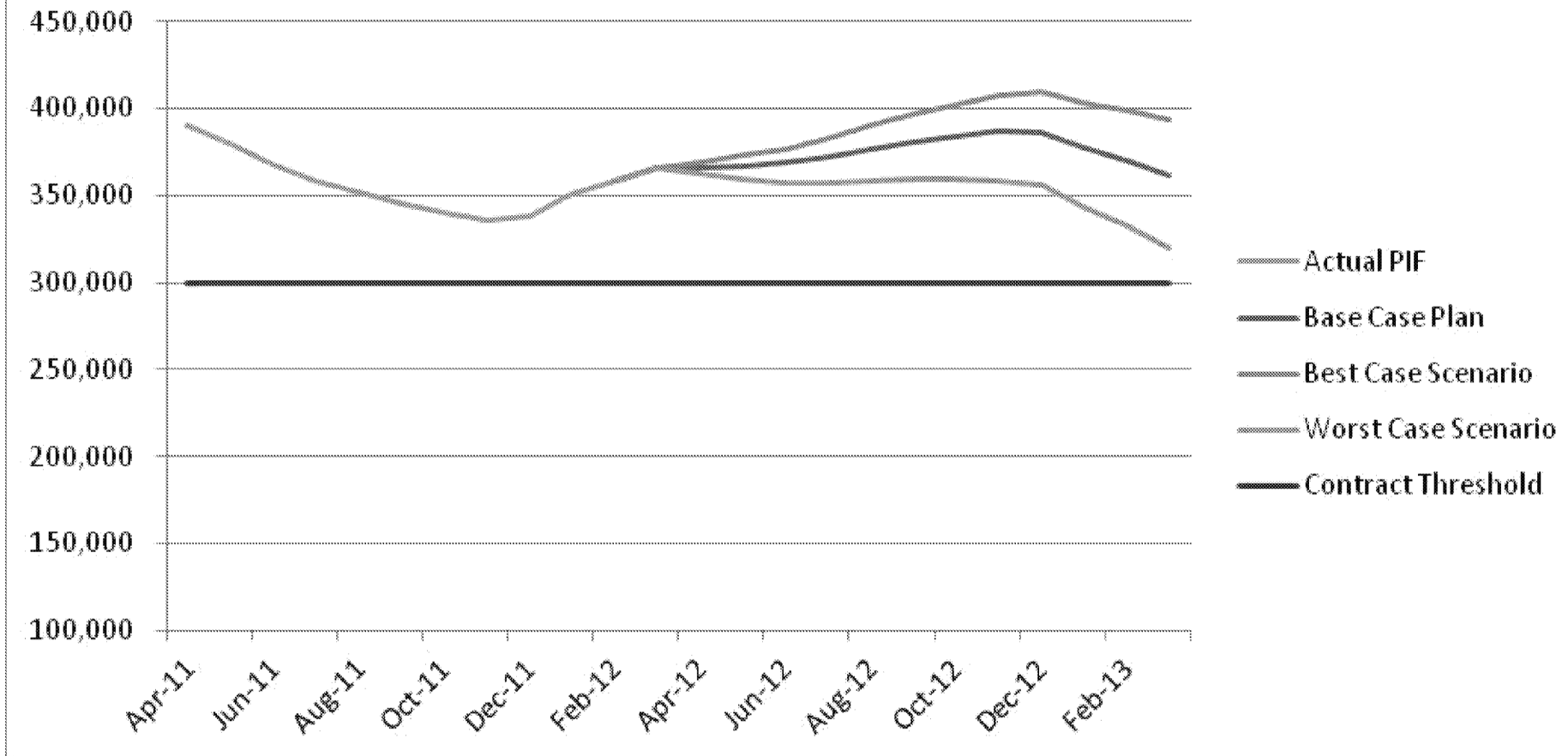
YTD non staff costs are £18.6m favourable to budget, with IT expenditure being the most favourable, followed by Compensation payments and staff & agent related consumables.



Car & Home Insurance Policies In Force
January 2012



Car & Home PIF Trajectory



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POLB(12)36

POST OFFICE LTD BOARD

Resignation of Director

The Board is asked to note the resignation of Les Owen as Non Executive Director effective 15 March 2012 and to authorise the Company Secretary to file the necessary TM01 form with Companies House.

Alwen Lyons
March 2012

Post Office Ltd – Strictly Confidential

POLB(12)37

POST OFFICE LTD BOARD

Approval of the 2012-13 Budget

1. Purpose

- 1.1 The purpose of this paper is to seek Board approval to the 2012-13 budget.

2. Background

- 2.1 The Board was taken through the budget in detail at a review session on 8 March 2012 and was given the opportunity to ask questions and challenge assumptions.
- 2.2 The budget meets the strategic plan operating profit of £84m (net deficit £126m).
- 2.3 The broad shape of the budget was supported following the review but there was a key area of challenge regarding the increase in the staff cost base between 2011-12 and 2012-13.

3. Action taken

- 3.1 The following action will be taken to address the concern regarding the increasing staff cost base:
- To revisit the Organisational Review principles to ensure that there has been no dilution of best practice;
 - To use the Quarterly Performance Review (QPR) sessions booked for 26 and 27 March to challenge the directors on the increasing staff cost base;
 - To issue a top down challenge to all areas allocating the £5m non staff efficiency (already in the base budget) and a £5m staff efficiency (not in the base budget and creating contingency to be held centrally against income risks).

4. Recommendations

- 4.1 The POL Board is asked to
- Note the actions being taken in response to the challenges given on 8 March 2012 and, on that basis;
 - Approve the 2012-13 budget.

Chris Day
March 2012

ANNEX A**1. Strategic Plan Context**

- 1.1 The three years of the Strategic Plan to 2014-15 have been reviewed and updated and the shape of the budget set out below delivers the foundation for hitting the 2014-15 exit rate as set out in the Strategic Plan. This is consistent with the strategic objective of reducing the Network Subsidy Payment to £50m pa in 2017-18.
- 1.2 There is currently a gap of £30m in the 2013-14 PBIT compared with the Strategic Plan but this gap is considered to be within an acceptable tolerance.
- 1.3 The cumulative cash flow is c£8m higher than the funding agreement which is considered a modest variance and well within the £200m headroom included as a contingency.

2. Background

- 2.1 This is the second year of Strategic Plan but the first year with additional funding. It includes:
 - An increase in Network Subsidy Payment of £30m to £210m;
 - Additional funding of £200m.
- 2.2 The budget delivers the Strategic Plan profit of £84m (net deficit £126m).
- 2.3 This budget delivers income ambition, while maintaining cost control and a significant level of strategic activity including:
 - Roll out of the new network models;
 - Pursuing Front Office of Government pilots/operations;
 - Delivering Eagle;
 - Mails – developing SME opportunities and product simplification;
 - Delivery of the new telephony supplier;
 - People – building the 'can do attitude' and increasing strength for independence; and
 - Financial Services prepaid card platform.

3. Profit and Loss Account

- 3.1 The proposed budget Profit and Loss Account is set out in Table 1 below.
- 3.2 The key objective to deliver operating profit of £84m as set out in the Strategic Plan has been met, however, there are some changes to the way it is delivered. The baseline plan includes:
 - Challenge to the income line together with the anticipated impact of a Mails tariff increase and Eagle results in higher income of £37m;
 - Changes to the approach to Crowns, Eagle, independence, strengthening and pay deals result in higher staff costs by £45m but these are partly offset by lower agents' costs by £8m;
 - Challenge to mitigate non staff cost increases with efficiencies results in lower non staff costs by £7m and charges from Royal Mail have not increased as predicted resulting in lower costs by £14m;
 - The improvements above release funds to invest more in project opex activity by £16m.

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- 3.3 The operating profit of £84m is £19m higher than the quarter 3 forecast for the 2011-12 outturn driven by a £30m increase in Network Subsidy Payment. The net deficit of £126m is £11m higher than the 2011-12 forecast. It should be noted that 2012-13 is a 53 week year which results in higher net income of £11m and higher costs of a similar level.
- 3.4 The key changes from the 2011-12 forecast (excluding project one off costs) are:
- **Net income** has increased of £34m with particular growth in Personal Financial Services (Eagle) of £20m and increases in Mails income of £14m from RPI, tariff (net of volume decline) and 53rd week. The growth areas are partially offset by decline in traditional business including DWP exceptions (green giros), NS&I, payment services and DVLA.
 - **Operating costs** (excluding project one off costs) have increased by £32m including staff costs £18m, agents' pay £6m, non staff costs £10m offset by savings in interbusiness costs with Royal Mail £2m.
 - **Staff costs** are planned to increase by £18m including £6m for separation/strengthening, £6m for pay awards (Supply Chain already agreed and Managers/Admin not yet agreed), £6m for Eagle staffing, staffing of vacancies and other new services, £2m for pension rate changes and £3m for the 53rd week. These increases are partially offset by savings of £6m from the Crown Programme. This plan already includes a centrally overlaid savings task of £4m reflecting an expected restriction to strengthening requests and underlying level of vacancies remaining. In addition, and in response to the Board Review discussions on 8 March, it is planned to task the business with a further £5m efficiency saving to create a £5m contingency to be held centrally. The £4m already embedded in the budget and the £5m additional task represent a 3% efficiency against the requested budgets.
 - **Agents' pay** is planned to increase by £6m reflecting alignment to the sales plan and the anticipated new mails tariffs.
 - **Non staff costs** are planned to increase by £10m mainly driven by £6m separation/strengthening costs, £10m IT related costs and £4m Eagle commitment. There is a £15m efficiency task embedded in the non staff budget. £10m of this is owned by the Operations Directorate and delivery will be through various activities including increased challenge of suppliers. £5m is to be tasked to the business and supported through an Efficiency Programme. The £15m efficiency task represents 8% of the budget requested.
- 3.5 The costs of implementing projects (project one-off costs, POOC) have increased significantly from £23m forecast for 2011-12 to £38m for 2012-13. These are explained further in section 3.7 below.
- 3.6 The exceptional items include impairment of capex, redundancy, agents' compensation and major transformational change costs. The anticipated grant income from Government funding is also included as exceptional. The increase reflects the significant extra strategic programme activity arising from the implementation of the strategic plan with the Network Transformation Programme forming the largest single activity with £141m of this planned amount.

Table 1 Profit and Loss Account

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£m	2010-11 Outturn	2011-12 FYF at Q3	2012-13 Strat Plan	2012-13 Budget for 15 Mar	12-13 Budget vs. Q3 FYF	12-13 Budget vs. Strat Plan
Gross Income	971.3	977.1	988.5	1,015.8	38.7	27.3
Cost of Sales	(123.5)	(113.0)	(126.1)	(117.9)	(4.9)	8.2
Total Net Income (including Eagle)	847.8	864.1	862.4	897.9	33.8	35.5
Staff Costs	(252.8)	(251.0)	(224.3)	(268.9)	(17.9)	(44.6)
Agents Costs	(474.9)	(476.8)	(492.7)	(482.8)	(6.0)	9.9
Non-Staff Costs	(138.8)	(152.7)	(169.2)	(162.5)	(9.8)	6.7
Interbusiness & indirect controllable costs	(105.7)	(106.3)	(118.1)	(104.6)	1.7	13.5
Total Expenditure	(972.2)	(986.8)	(1,004.3)	(1,018.8)	(32.0)	(14.5)
Share of Operating Profit from JV's	25.3	31.3	37.0	32.6	1.3	(4.4)
PBIT Before POOC, NSP & Exceptional Items	(99.1)	(91.5)	(104.9)	(88.3)	3.1	16.6
Project One Off Costs	(15.3)	(23.4)	(21.4)	(37.7)	(14.3)	(16.3)
PBIT Before NSP & Exceptional Items (Net Deficit)	(114.4)	(114.8)	(126.3)	(126.0)	(11.2)	0.3
Network Subsidy Payment	150.0	180.0	210.0	210.0	30.0	0.0
PBIT Before Exceptional Items	35.6	65.2	83.7	84.0	18.8	0.3
Less Exceptional costs	(69.3)	(33.0)	(315.0)	(241.0)	(208.0)	74.0
Add Exceptional Grant Income		0.0	200.0	200.0	200.0	0.0
PBIT	(33.7)	32.2	(31.3)	43.0	10.8	74.3

3.7 The strategic programmes and key initiatives proposed for 2012-13 are:

3.7.1 Strategic Programmes

- Network Transformation (£96m exceptional, £45m capex)
- Front Office of Government (£4m POOC, £5m capex)
- Crown Transformation Programme (£9m exceptional, £5m capex)
- Independence & Efficiency (£4m POOC)
- IT and Change Transformation (£6m POOC, £1m capex)
- IT Delivery (£21m CapEx)

3.7.2 Key initiatives

- Mails (£7m POOC)
- Financial Services (£5m POOC)
- Telephony (£7m POOC, £1m capex)
- Digital (£3m Capex)
- Customer Engagement (Brand positioning and product marketing activity) (£10m POOC)

3.7.3 Other initiatives

- Supply Chain (£30m capex)
- Post Office Story (£3m POOC)
- Mandatory and compliance activity (£3m POOC, £18m capex)
- Flowthrough (finishing activity started in 2011-12) (£3m POOC)

3.8 The benefits of all of the programmes have been overlaid into the budget.

4. Cash Flow

4.1 The proposed budget for cash flow is set out in Table 2 below.

4.2 The budget has been prepared in greater detail than the Strategic Plan which has resulted in some changes across headings and a net improvement from this position to a cash outflow of £85.3m. The redundancies, provisions and exceptionals variance is driven by Network Transformation Programme cost being less than anticipated in 2012-13 but this is expected to catch up in later years.

4.3 The redundancy, provisions and exceptionals cost is entirely driven by NTP and the Crown Programme.

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- 4.4 The capex plan includes NTP £45m, Technology (programmes £22m and required upgrade activity £13m) and Supply Chain vehicles £8m. There is also £18m included at this stage for a North West Cash Centre. Alternative options for the North West Cash Centre are being investigated.

£m	2010-11	2012-13	2011-12	2012-13	Budget - Q3 FYF
	<u>Outturn</u>	<u>Strat Plan</u>	<u>FYF at Q3</u>	<u>Budget</u>	<u>Variance</u>
PBIT before exceptionals and Colleagueshare	35.6	83.7	65.0	84.0	19.0
Add back Depreciation	0.6	0.6	0.5	0.7	0.2
Working Capital	21.2	(55.0)	(36.5)	(55.0)	(18.5)
Net Client Balance	(4.5)	(52.0)	25.5	(78.0)	(103.5)
Dividends from JVs & Associates	4.7	8.0	6.2	6.0	(0.2)
Capital Expenditure	(37.2)	(114.0)	(27.4)	(133.0)	(105.6)
Redundancy, Provisions & Exceptionals	(16.7)	(201.0)	(15.6)	(108.0)	(92.4)
Pensions (Ex Redundancy)	(15.2)	0.0	(22.3)	0.0	22.3
Operating Cashflow	(11.5)	(329.7)	(4.6)	(283.3)	(278.7)
Colleague Shares	(7.3)	(13.0)	(10.0)	0.0	10.0
Free Cashflow before Interest & Tax	(18.8)	(342.7)	(14.6)	(283.3)	(268.7)
Interest	(6.8)	(12.0)	(6.5)	(12.0)	(5.5)
Tax	9.6	0.0	11.0	10.0	(1.0)
Funding	0.0	200.0	0.0	200.0	200.0
Free Cashflow	(16.0)	(154.7)	(10.1)	(85.3)	(75.2)

POST OFFICE LIMITED
Board of Directors**EXECUTIVE SUMMARY POLB(12)38**Date of Board: 15th March 2012

Subject:	Royal Mail Pension Plan – History and Next Steps for Post Office Limited
----------	--

Author/Sponsor:
Chris Day
Contributors / Presenters:
N/A

	Decision	Guidance	Noting
For:	Y	Y	Y

Reference previous action point: Pensions “deep-dive” Board Session

BACKGROUND AND CONTENT:
The purpose of this paper is to: <ul style="list-style-type: none"> • Provide the background to the key features of the Royal Mail Pension Plan (RMPP); • Set out the actions required by the POL Board over the next 12 months in relation to the POL section of RMPP; • Set out the terms under which POL is able to participate in the Royal Mail Defined Contribution Plan, Royal Mail Senior Executives Pension Plan and the insured arrangements.

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	
Investment Appraisal completed or financial implications assessed and supported by the CFO	

Additional presentation:

NO

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POLB(12)38

POST OFFICE LTD BOARD

Royal Mail Pension Plan – History and Next Steps for Post Office Limited

1. Purpose

The purpose of this paper is to:

- 1.1 Provide the background to the key features of the Royal Mail Pension Plan (RMPP);
- 1.2 Set out the actions required by the POL Board over the next 12 months in relation to the POL section of RMPP.
- 1.3 Set out the terms under which POL is able to participate in the Royal Mail Defined Contribution Plan, Royal Mail Senior Executives Pension Plan and the insured arrangements.

2. RMPP history

- 2.1 The Post Office Staff Superannuation Scheme (POSSS) was established on 1 October 1969 when The Post Office separated from the Civil Service and was established as a statutory corporation. The scheme was replaced by the Post Office Pension Scheme (POPS) for new joiners from 1 April 1987. The two schemes merged to become the Royal Mail Pension Plan (RMPP) on 1 April 2000. The POSSS is now Sections A and B of RMPP and POPS is Section C. The membership of Sections A, B and C are as follows:
 - Section A – applies to joiners up to 30 November 1971. Members retain rights similar to the Civil Service Pension Scheme and were unaffected by the Pension Reform changes in 2008.
 - Section B – applies to joiners between 1 December 1971 and 31 March 1987.
 - Section C – applies to joiners between 1 April 1987 and 31 March 2008.
- 2.2 The key terms of the sections are set out in Appendix 1.

3. Postal Services Act 2011

- 3.1 The Postal Services Act, Parliamentary discussions and Civil Service discussions make the following statements in relation to the future of the existing RMPP scheme:
 - That the RMPP will be fully funded as at the “cut-off date” (currently planned as 31 March 2012).
 - That the RMPP will be left with residual assets to cover the cost of the pre-1 April 2008 final salary link at a rate of RPI+1%.
 - That a new section of RMPP (the “POL Section”) is established to hold POL members of RMPP.
 - That it is possible to transfer the POL Section into a mirror image independent pension scheme, with the consent of the RMPP Trustee at some point in the future.

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4. POL Membership

- 4.1 A breakdown of membership of POL section by job area and age for each of Section A/B and Section C is shown at Appendix 2.

5. RMPP employee contribution rate

- 5.1 The RMPP employee contribution rate is 6% and has been at this level since 1 December 1971.
- 5.2 There have been anecdotal promises by historic Royal Mail Group senior executives to maintain (what is now) RMPP employee contributions at 6%. The first time this was explicitly communicated to the RMPP membership was in the member communications immediately prior to the merger of the Post Office Staff Superannuation Scheme (POSSS) and the Post Office Pension Scheme (POPS) to create the RMPP in 2000.
- 5.3 The contractual status of this promise was questioned by Royal Mail Group when considering the Pension Reform of 2008. Legal advice obtained by Royal Mail Group states that, because of the member communication in 2000, the RMPP 6% employee contribution would likely be viewed as a contractual promise by the Courts.
- 5.4 This rate is therefore not irrevocably fixed into the future but has been deemed as a difficult change to make in the past.
- 5.5 POL employees will have their employment rights protected via the Transfer of Undertakings (Protection of Employment) Regulations, commonly known as TUPE. TUPE prohibits making any changes to the terms and conditions of employment if the sole or principal reason for the variation is the transfer. This adds a further layer of complexity to increasing the employee contribution rate.
- 5.6 It should be noted that the RMG pension plans do not currently operate on a salary sacrifice basis. Operating on a salary sacrifice basis would allow POL and RMPP members to save on National Insurance Contributions. This saving could be used to help offset the cost of an increase in employee contributions.
- 5.7 Based on information in the Towers Watson Pension Scheme Database and two general surveys (the NAPF Annual Survey carried out in 2011 and the 2010 Occupational Pension Schemes Survey carried out by the Office for National Statistics - ONS - in 2010), the average contribution rate paid by members is around 5.0% to defined benefit schemes (i.e. final salary and career average).
- 5.8 Restricting this to different sectors does suggest different average member contribution rates. For example, restricting the Towers Watson database to retail clients suggests an average of more like 5.3% whereas those that could be viewed as former public sector organisations appear to have an average more like 5.8%.
- 5.9 Towers Watson's database (which covers around 300 defined benefit schemes, almost exclusively private sector, of which 28 are career average) suggests an average career average rate of around 6.1% (this group includes the RMPP) and the ONS survey suggests 5.4%. This difference is likely to reflect the different coverage of the Towers Watson database and those who responded to the ONS survey.

6. RMG Pension Reform in 2008

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- 6.1 Pension Reform was implemented in order to reduce the ongoing costs to the Group due to concerns over affordability. The employer ongoing rate was 20% prior to the reform and was expected to fall to c11% but adverse investment market conditions and changes to actuarial assumptions meant that this level of reduction was never seen and the rate implemented after the 2009 actuarial valuation was 17.1%.
- 6.2 Pension Reform made the following changes:
- the RMPP closed to new members from 31 March 2008;
 - all pensions and benefits earned before 1 April 2008 are still linked to final salary at the time of leaving the RMPP;
 - from 1 April 2008, benefits accruing for RMPP members do so on a career salary basis;
 - the normal retirement age increased from 60 to 65 for benefits accrued from 1 April 2010, however benefits accrued prior to 1 April 2010 retain a normal retirement age of 60; and
 - from 1 April 2010 it is possible to draw benefits with a normal retirement age of 60, and continue working while still contributing to RMPP so as to accrue benefits with a normal retirement age of 65 until the maximum level of benefits has been achieved.
 - A new defined contribution plan (Royal Mail Defined Contribution Plan) was launched in April 2009. New recruits joining from 31 March 2008 are able to begin paying contributions to the new plan after they have worked for the company for a year. This is administered by Zurich Assurance Ltd. Employees may pay 3%, 4% or 5% of pensionable pay and attract employer contributions of 5%, 6% or 7%, respectively.
- 6.3 The change introduced was not as severe as the original proposed change as this included severing the final salary link for pre-1 April 2008 service (this element of pension benefit would be revalued as if the employee had left service on 1 April 2008) and the closure of RMPP to new entrants as at 31 January 2008.
- 6.4 The changes were successfully implemented following union and employee consultation.
- 6.5 There was a rolling programme of industrial action by CWU members in 2007 caused by changes to working patterns, pay rises and Pension Reform.
- 6.6 It should be noted that the change made by the Government to the method of increasing pensions via the move to CPI indexation from RPI indexation resulted in an actuarial gain £3.4bn in Royal Mail Group's 2010-11 accounts and no industrial action from the Trade Unions.
- 6.7 It may be of interest to know that the averages suggested by the surveys are:
- Accrual rates: around half of schemes accrue benefits on 60ths, as per RMPP Section C. The other half of schemes have a variety of accrual rates, with the public sector predominantly on 80ths accrual (as per RMPP Section A/B).
 - Normal retirement age: The majority of private sector schemes now have a normal retirement age of 65 (around 75% of private sector schemes) with the others mainly having a normal retirement age of 60. In the public

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sector, there is a roughly even split between 65 and 60, with a small minority (less than 10%) using a different age.

- Please note that the above features should not be taken as indicating that a typical scheme has the average contribution rates, normal retirement age and member contributions. Identifying such links can only really be done by a fuller benchmarking exercise.

7. Options available to the Post Office section

- 7.1 The measures that the Postal Services Act puts in place are concerned with past service only, and do not bind participating employers in RMPP to any future course of action.
- 7.2 There are a number of stakeholders with whom POL should discuss further pension reform prior to the launch of a formal member consultation, such as the Shareholder Executive, Royal Mail Group, Royal Mail Pensions Trustees Limited, the Trade Unions and the Pensions Service Centre.
- 7.3 The POL Board could consider a number of options, all of which will affect the POL Section funding risk in a different way. Actuarial advice will be required to quantify the impact of these options. These options could include:
 - Changing the employee contribution rate;
 - Severing the final salary link to pre-1 April 2008 service;
 - Changing the accrual structure;
 - Changing the normal retirement age;
 - Capping pensionable pay rises;
 - Changing the revaluation rates to the statutory minima;
 - Closure of the POL Section to future accrual
- 7.4 In order to make these sorts of changes to the POL Section the following will be required:
 - a consultation with scheme members must take place over a period of at least 60 days, as per The Occupational and Personal Pension Schemes (Consultation by Employers and Miscellaneous Amendment) Regulations 2006.
 - RMPP Trustee consent will also be required if the change to the POL Section requires the POL Section Rules to be altered.
- 7.5 It is important to note that The Occupational and Personal Pension Schemes (Consultation by Employers and Miscellaneous Amendment) Regulations 2006 require only that a consultation takes place. An agreement over pension changes does not need to be reached.
- 7.6 Introducing salary sacrifice to the POL Section (assuming no change to the employee contribution and no other material changes to benefit accrual were made) would not trigger a 60 day consultation, but would need to be discussed with the stakeholders mentioned in 7.2. Also RMPP Trustee consent would be required to change the POL Section Rules to permit salary sacrifice.
- 7.7 Furthermore, it has been considered appropriate when considering RMPP scheme design issues in the past to ensure that any material changes

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applied to the RMPP are also applied in a consistent manner to the Royal Mail Senior Executives Pension Plan.

8. Immediate next steps

- 8.1 The Trustee is obliged to carry out a triennial actuarial valuation of RMPP as at 31 March 2012. Although the POL Section will not have been created on this date, it is likely that the Trustee will seek to carry out an actuarial valuation of the POL Section over the course of the 2012-13 Financial Year as one must take place within one year of the creation of the POL Section.
- 8.2 As the Trustee has not been informed of any changes to the RMPP scheme design, it will assume that there would be no material changes to the benefit structure and will base its actuarial assumptions on this basis.
- 8.3 It should be noted that the actuarial valuation process will provide POL with a significant amount of data as to what the future cost of funding the POL Section will be. Providing accurate funding data at present is very difficult due to the fundamental change in membership since the previous actuarial valuation in 2009 (caused by the Pension Solution) as well as the fact that POL has never undergone a covenant assessment as a separate entity to RMG.
- 8.4 The Trustee's initial requirements of Post Office Limited will therefore be:
 - Sign an interim Schedule of Contributions which detail the employer and employee contribution rates, as well as the timing of payments to the Trustee, which will be in effect until the actuarial valuation
 - Access to senior management and strategic plans in order to review the strength of covenant;
 - A view from the company on its appetite for risk which will steer the proposed investment strategy and likely ongoing contribution rate.

9. POL participation in the Royal Mail Senior Executives Pension Plan (RMSEPP)

- 9.1 There are 5 POL employees who are members of RMSEPP.
- 9.2 POL is able to be admitted as a participating employer in RMSEPP on the following terms:
 - RMG agrees to POL participating in RMSEPP from 1 April 2012, or such later date that POL becomes the employer of RMSEPP members.
 - POL will delegate RMG to carry out negotiations with the Trustees on funding, investment strategy, etc, on its behalf. RMG will liaise with POL to obtain its views on such issues (as is currently the case).
 - POL will pay future service contributions in respect of its members at the rate applicable to the Plan membership as a whole (as is currently the case).
 - POL agrees to pay 7% of any deficit payments to the Plan (as is currently the case) in respect of benefits accrued both before and after 1 April 2012.
 - POL agrees to pay 7% of any other expenses incurred by RMG in relation to the operation of the Plan as a whole, such as actuarial advice to the Company during valuation negotiations with the Trustees. In 2012/13 this figure is estimated to be £650,000, meaning that POL would pay £45,500. A breakdown of these estimated expenses can be provided, if requested.

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- POL agrees to pay the whole cost of any work carried out purely at its request or relating purely to it. For example, any analysis it asks to be carried out of its members, or work generated by it ceasing to be a participating employer.
- RMG will consider any request from POL for a POL employee to be appointed as one of the employer nominated trustees when a vacancy arises, if POL puts forward a candidate with the appropriate background and qualities, but any appointment would always be based on ensuring that the Board's overall balance of skills and experience was maintained.
- RMG will prepare the documents required to bring about POL participation, and POL will assist in completion of such documents where necessary.

10. POL participation in the Royal Mail Defined Contribution Plan (RMDCP)

10.1 There are currently 809 POL employees who are active members of RMDCP. This represents 6% of the RMDCP population.

10.2 POL is able to be admitted as a participating employer in RMDCP on the following terms:

- RMG agrees to POL participating in RMDCP from 1 April 2012, or such later date that POL becomes the employer of RMDCP members.
- POL will delegate RMG to carry out negotiations with the Trustees on investment strategy, etc, on its behalf. RMG will liaise with POL to obtain its views on such issues.
- POL will reimburse RMG for its share of the Plan's running costs that are not met by deductions from the members' accounts. These costs shall be split between POL and RMG in proportion to each company's active Plan membership as at each 1 April, and will be payable quarterly in arrears. These costs include, for example, Trustees' advisers' fees, independent trustee fees, Plan Secretary costs, and levies. In 2012/13 this figure is estimated to be £470,000, meaning that POL would pay approximately £28,200. A breakdown of these estimated expenses can be provided, if requested.
- POL will reimburse RMG for its share of the Plan's life assurance premiums. This cost shall be based on POL's actual membership, as calculated by the insurer. A figure for life assurance premiums is already charged back to POL from RMG, and it is expected that there will be no material difference in cost.
- A new POL "employer reserve" will be set up from its participation date, to receive the employer contributions released when non-vested POL leavers take a refund of their own contributions. The existing employer reserve will remain under the control of RMG.
- POL agrees to pay the whole cost of any work carried out purely at its request or relating purely to it. For example, any analysis it asks to be carried out of its members, or charges generated by the setting up of bespoke POL communications channels, or work generated by it ceasing to be a participating employer.
- RMG will consider any request from POL for a POL employee to be appointed as one of the employer nominated trustees when a vacancy arises, if POL puts forward a candidate with the appropriate background and qualities, but any appointment would always be based on ensuring

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that the Trustee Board's overall balance of skills and experience was maintained.

- RMG will prepare the documents required to bring about POL participation, and POL will assist in completion of such documents where necessary.

11. POL participation in the insured arrangements

- 11.1 POL employees who do not contribute to a pension scheme are currently eligible for a life assurance benefit and an income protection benefit through an Insured Ill-health arrangement provided via RMG. The life assurance benefit is provided through an insurance policy held by a trust called the Royal Mail Group Life Assurance Scheme (RMGLAS).
- 11.2 POL employees who contribute to RMDCP are currently eligible for an income protection benefit through an Insured Ill-health arrangement provided via RMG.
- 11.3 POL employees who have their pensionable salary capped are currently eligible for a death in service benefit from outside their pension scheme to ensure that a 4x basic pay death in service lump sum is paid to their dependents. This is provided via RMG through an insurance policy held by a trust called the Royal Mail Supplementary Life Assurance Scheme (RMSLAS).
- 11.4 POL is able to be admitted as a participating employer to the above insured arrangements on the following terms:
- RMG agrees to POL participating in RMGLAS, RMSLAS, and the Insured Ill-health arrangement from 1 April 2012, or such later date that POL becomes the employer of members in those arrangements.
 - POL will delegate RMG to carry out any negotiations with the Trustees or the Insurer on its behalf. RMG will liaise with POL to obtain its views on any issues under negotiation.
 - Currently, the running costs of these arrangements are minimal, and POL membership relative to that of RMG is small. While this continues to be the case RMG does not intend to ask POL to reimburse it for any of these costs. RMG does, however, reserve the right to amend this policy in the future.
 - While the above "no reimbursement of costs" policy applies POL agrees that the RMGLAS "employer reserve" built up from insurance claim amounts not paid out to beneficiaries remains wholly under the control of RMG.
 - POL will reimburse RMG for its share of the premiums of these arrangements, based on POL's actual membership, as calculated by the insurer. A figure for premiums is already charged back to POL from RMG, and it is expected that there will be no material difference in cost.
 - POL agrees to pay the whole cost of any project type work carried out purely at its request or relating purely to it. For example, charges generated by the setting up of bespoke POL benefit categories, communications channels, or work generated by it ceasing to be a participating employer.
 - RMG will consider any request from POL for a POL employee to be appointed as one of the employer nominated trustees of RMGLAS or RMSLAS when a vacancy arises, if POL puts forward a candidate with the

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appropriate background and qualities, but any appointment would always be based on ensuring that the Trustee Board's overall balance of skills and experience was maintained.

- RMG will prepare the documents required to bring about POL participation, and POL will assist in completion of such documents where necessary.

12. Recommendations

The POL Board is asked:

- 12.1 To note the above.
- 12.2 To delegate authority to Chris Day to sign the RMPP POL Section Schedule of Contributions.
- 12.3 To delegate authority to Chris Day to extend Alwen Lyons' appointment as an Employer Director of Royal Mail Pensions Trustees Limited to 31 July 2012.
- 12.4 To confirm whether it has received enough information to articulate a view regarding POL's attitude to investment risk. If so, the POL Board is asked to delegate authority to Chris Day to negotiate investment strategy for the POL Section with Royal Mail Pensions Trustees Limited.
- 12.5 To agree to POL participation in RMSEPP, RMDCP and the insured arrangements, and to delegate authority to Chris Day to sign the documentation that will affect this.

Chris Day
March 2012

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Appendix 1 – Benefits under Section A/B and Section C of RMPP

	Section A/B	Section C
Benefit accrual (per annum)	1/80 pension plus 3/80 lump sum	1/60 pension. Lump sum by commutation of pension
Pensionable pay	Basic pay plus certain allowances	Basic pay plus certain allowances, less State benefit offset of £3,328
Normal Retirement Age	65 for benefits accrued from April 2010, 60 for benefits accrued before that date	65 for benefits accrued from April 2010, 60 for benefits accrued before that date
In-service revaluation – post April 2008 CSDB blocks	RPI capped at 5%	RPI capped at 5%
Deferred pension revaluation	CPI uncapped	CPI uncapped
Pension in payment increase	CPI uncapped	RPI capped at 5%
Death in service benefits	4 x pensionable pay lump sum & spouse/childrens pensions	4 x pensionable pay lump sum (no £3,328 reduction) & spouse/childrens pensions
Redundancy benefits	Yes – unreduced, enhanced pension	No – Employer discretion
Ill health retirement benefits	Unreduced, enhanced pension	Unreduced, enhanced pension
Maximum service cap	45 years	45 years

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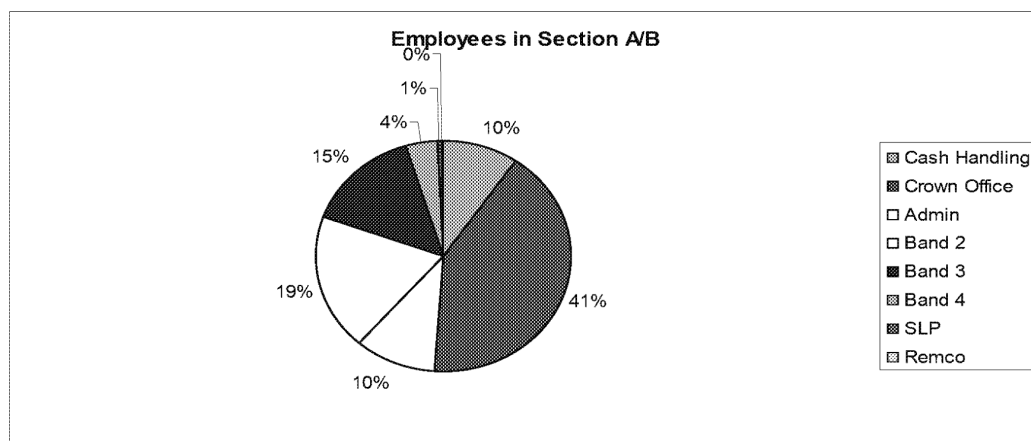
Appendix 2

Section A/B by job area

	Section A/B
Cash Handling	140
Crown Office	609
Admin	151
Band 2	282
Band 3	215
Band 4	59
SLP	9
Remco	3
Total	1468

Section A/B by age

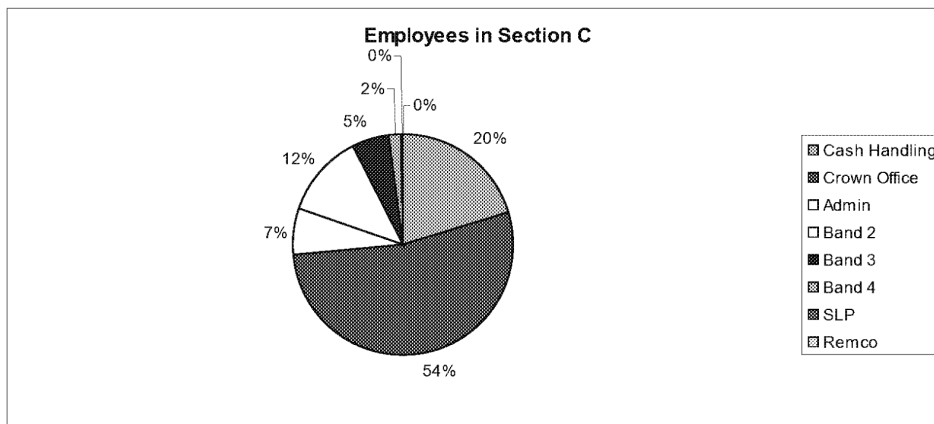
	Section A/B
Age	Number of employees
41-50	864
51-60	590
61-70	14
Total	1468



Section C by age

	Section C
Age	Number of employees
21-30	128
31-40	875
41-50	1755
51-60	1291
61-70	109
Total	4158

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Appendix B

DRAFT

- (a) The Chair reported that:
 - i. Royal Mail Holdings plc (RMH), the Company's parent company, and certain of its group companies including the Company are undertaking a proposed reorganisation (the Transaction);
 - ii. it is proposed that, among other things, the Transaction include the transfer of the entire issued ordinary share capital of the Company from Royal Mail Group Limited (RMG) to RMH and the issue of one special rights redeemable preference share of £1 in the capital of the company (the Special Share) to one of Her Majesty's Secretaries of State; and
 - iii. the purpose of this meeting was to consider and, if thought fit, to approve certain actions in respect of the Transaction.
- (b) The Board acknowledged the Transaction and resolved that it is in the best interests of, and for the proper purpose of, the Company to undertake certain actions in respect of the Transaction, as far as they relate to the Company, and that the Transaction would promote the success of the Company.
- (c) A draft of a secondment termination agreement to be entered into by the Company and RMG (the Secondment Termination Agreement) was presented to the Board. It was explained that this document recorded the fact that the existing secondment arrangements were coming to an end and that the termination of this arrangement would be a TUPE event, so that all staff currently provided under this arrangement would transfer from RMG to the Company. The Board noted that the agreement also included express wording to allocate liabilities for the transferring staff between RMG and the Company. The Board approved the terms of the Secondment Termination Agreement and authorised any Director of the Company to execute the Secondment Termination Agreement on behalf of the Company in the form tabled or with such amendments as the person signing the agreement may, in such person's sole discretion, approve (such signature to constitute approval of any such amendment).
- (d) The Board noted that the Articles of Association of the Company would need to be amended to reflect the changes to the structure of the group pursuant to the Transaction, as well as to reflect the implementation of the Companies Act 2006 and the Postal Services Act 2011, among other things. The Board also noted that it was proposed that the Company remove its objects clause together with all other provisions of its Memorandum of Association in accordance with the Companies Act 2006. A draft of the proposed new Articles of Association of the Company (the New Articles) was presented to the meeting, together with a note explaining the principal changes. The Board acknowledged that the adoption of the New Articles by the Company and the deletion of the provisions of its Memorandum of Association would require a special resolution to be passed by its sole member.

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- (e) The Board noted that it was proposed that, in accordance with the New Articles, one special rights redeemable preference share of £1 in the capital of the Company (the Special Share) be issued to the Secretary of State. A draft subscription letter to be signed by the Secretary of State in respect of the Special Share was presented to the Board. The Board acknowledged that the issue and allotment of the Special Share by the Company to the Secretary of State would require that the Company's sole member pass an ordinary resolution to give authority to allot the Special Share and a special resolution to disapply pre-emption rights.
- (f) The Board discussed the shareholder approvals required to effect the steps referred to above and it was resolved that written resolutions of the sole member of the Company to approve these steps be recommended. A draft of the proposed written resolutions of the Company (the Written Resolutions) was presented to the Board. The Board approved the Written Resolutions and instructed the Secretary to send the same to RMG (as the sole member of the Company) for execution and to send a copy to the Auditors.
- (g) The Board resolved that, subject to the Written Resolutions being passed, the terms of the Subscription Letter be approved and that, upon the receipt of a duly executed Subscription Letter from the Secretary of State:
 - i. the Special Share be issued and allotted to the Secretary of State;
 - ii. the Secretary be instructed to register the Secretary of State as the holder of the Special Share in the Company's Register of Members and to prepare a share certificate in respect of the Special Share; and
 - iii. any two Directors or any one Director and the Secretary be authorised to execute a share certificate in respect of the Special Share in the name of the Secretary of State.
- (h) A draft stock transfer form to effect the transfer of the 50,003 ordinary shares of £1 each in the capital of the Company (the Ordinary Shares) from RMG to RMH was presented to the Board. The Board resolved that, subject to the receipt of the duly executed and stamped stock transfer form and the presentation of such document for registration in accordance with the provisions of the Articles of Association of the Company:
 - i. the transfer of the Ordinary Shares from RMG to RMH be approved;
 - ii. the Secretary be instructed to register the transfer of the Ordinary Shares in the Company's Register of Members and to prepare the necessary new share certificate, following cancellation of the existing share certificate; and
 - iii. any two Directors or any one Director and the Secretary be authorised to execute the new share certificate in respect of the Ordinary Shares in the name of RMH.
- (i) The Board resolved that Paula Vennells and Chris Day be and are hereby severally authorised on behalf of the Company to sign and/or despatch all documents and notices to be signed and/or despatched by it under or in

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- connection with, and to take any additional actions as are necessary or incidental to carry into effect the Transaction, the purposes of the resolutions referred to above or the transactions contemplated thereby.
- (j) The Board resolved that all actions taken by any Director, officer (including the Secretary) or agent of the Company in connection with the Transaction prior to the date of this meeting be authorised, approved, ratified and confirmed in all respects as acts of the Company.
 - (k) The Chair instructed the Secretary to take the following steps, subject to receipt of the duly executed Written Resolutions:
 - i. file the amended Articles of Association of the Company and a print of the Written Resolutions with the Registrar of Companies;
 - ii. prepare, sign and deliver to the Registrar of Companies a statement of company's objects (Form CC04) and a return of allotment (Form SH01);
 - iii. update the Register of Members of the Company to reflect the issue of the Special Share to the Secretary of State and the transfer of the Ordinary Shares to RMH; and
 - iv. make all such other filings as are required in relation to the resolutions passed at this meeting.

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POLB(12)39

POST OFFICE LTD BOARD

Governance Update

1. Purpose

The purpose of this paper is to explain the steps required and resolutions to be passed relating to the forthcoming group restructure which will result in POL becoming a directly owned subsidiary of Royal Mail Holdings Limited (RMH) and a sister company to Royal Mail Group (RMG).

2. Background

There are a number of actions to be taken and documents to be signed in order to effect the separation, which will require Board approval. In brief summary, these are:

- 2.1 The transfer of the entire issued share capital of POL from RMG to RMH and the issue of one "Special Share" to a Secretary of State (currently, in practice, BIS).
- 2.2 Signing of a secondment termination agreement to end the current secondment of RMG staff to POL and enable them to be permanently transferred (under TUPE).
- 2.3 A new set of Articles of Association, taking account not only of the change of ownership but also various changes arising from the Companies Act 2006 and the Postal Services Act 2011. The new Articles will also include the delegated authority levels, which have recently been agreed with BIS (attached as Appendix A).
- 2.4 Secretary of State to sign a subscription letter in respect of the Special Share.
- 2.5 A number of agreements, yet to be finalised, (e.g. Trade Marks & Domain Name, Swindon Agreement etc), for which the board will be asked to delegate authority to sign to Paula Vennells and Chris Day as and when they are in agreed form.
- 2.6 Various formalities to be carried out by the Company Secretary after all the relevant steps have been completed.

Items 2.3 and 2.4 will also require Shareholder resolutions, the wording of which the board will be asked to approve.

Attached as Appendix B, is a set of draft Board minutes which serve to give a more detailed explanation of the above requirements.

3. Recommendations

The POL Board is asked to delegate to a sub committee of the board the right to pass the resolutions substantially in the attached form together with any other documents required to give effect to the transaction.

**Susan Crichton/
Alwen Lyons
March 2012**

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POLB(12)39
Appendix A

Discussion Document
Proposal: authorities to commit spend or implement change

ShEx Consent Required Under Articles of Association

SHEX	> £50m
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Authorise

	Planned Spend		Unplanned & Complex Spend		Decisions with brands and risk impact	
	<u>Value</u>	<u>No. per year</u>	<u>Value</u>	<u>No. per year</u>	<u>Description</u>	<u>No. per year</u>
Board	> £20m	3-4	>20m	3-4	Carries significant risk (ERM score4). Attract public and media interest Risk of impact on brand value New product	3-4
POLIC/ ET	£5-20m	5-6	£0.5-5m	10	Carries significant risk (ERM score 3). Attracts local public and media interest Impact on customer experience Changes to products	10
CFO	£1-5m	20	£0.25-0.5m	10	Price changes	5
Director	<£1m	50	<£0.25m	50	N/A	

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Planned Spend

Covers both bau costs of running the business and projects approved in the budget unless deemed in the budget to be complex.

Includes: extending a product range, system upgrades, and property projects.

Examples:

- Horizon releases
- Rhino Doors cash centre security upgrade
- Payment Card (PCI) security compliance
- Marketing campaigns

Unplanned & Complex Spend

Spend not in budget and projects in the budget that were identified as complex.

Includes: product development, acquisition of new system, major capital spend

Examples:

- IT Transformation
- Channel Integration
- Returns and Collections
- Olympics
- FOoG tenders

Change with Risk

Any activity that places business at risk (refer to ERM score).

Includes: change of supplier, compliance cases, and single person vehicles.

Examples:

- HomePhone and Broadband supplier selection
- PINpads
- Eagle
- Sale of credit cards in branch

Brand Impact

Significant issue that will be noticed by all customers and significantly impact a group of customers.

Includes: completely new product, change to product, new branch model

Examples:

- POCA statement frequency,
- Premier trial
- Online retail shop
- Cheque acceptance
- Project POLO

N>B> some cases will fit under more than one heading.

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POLB(12)40

POST OFFICE LTD BOARD

Authentication of POL Company Seal

1. Purpose

The purpose of this paper is to seek the Board's approval to revise the delegated authority to authenticate the fixing of the Company's seal.

2. Background

- 2.1 The company seal is affixed to documents executed as a Deed (most commonly property documents). According to the existing and proposed new Articles of Association, unless otherwise authorised by the Board, the seal must be authenticated by two Company directors or one director and the company secretary.
- 2.2 Previously, by authority of a board resolution, the POL seal has only required the authority of a single Director or the Company Secretary or another named individual. It is proposed that POL continue with this model going forward.

3 Recommendations

The Board is therefore asked to approve that the affixing of the company seal may be authenticated by any current Director of the Company or the Company Secretary or Assistant Company Secretary or the following signatory:

- Susan Crichton

Alwen Lyons
Company Secretary
March 2012

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POLB(12)41

POST OFFICE LTD BOARD

Appointment of Alice Perkins as a director of Royal Mail Holdings (RMH)

1. Purpose

The purpose of this paper is to:

- 1.1 advise the Board of Alice Perkins' proposed appointment as a director of RMH
- 1.2 seek the Board's agreement that this proposal is in the best interests of the business, notwithstanding any potential conflict of interest which may arise from such appointment.

2. Background

- 2.1 Under the forthcoming re-structure, the proposed RMH Board will comprise only the relative "Chairs" of the two sister companies – Royal Mail Group and Post Office Limited.
- 2.2 For the purposes of section 175 of the Companies Act 2006 an appointment as a director of both the holding company and one of its subsidiaries, could be regarded as a situation which is reasonably likely to give rise to a conflict of interest and therefore must be notified to and requires the approval of each relevant Board.

3. Recommendations

The POL Board is asked to consider the proposed appointment and, if agreed, to pass a resolution substantially in the form attached as Appendix A.

Alwen Lyons
March 2012

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POLB(12)41
Appendix A**Draft resolution regarding Alice Perkins' appointment as a director of RMH**

It was noted that Alice Perkins had notified the Board in accordance with article 89(B) of the Company's Articles of Association that she was proposing to take up a position as a director of Royal Mail Holdings plc ("**RMH**") and that this could be regarded as reasonably likely to give rise to a conflict of interest for the purposes of section 175 of the Companies Act 2006 (the "**Act**"). The Board considered this interest and position and noted the potential for certain situations to give rise to a conflict of interest or conflict of duty. The Board also noted the terms of the [Letter Agreement from the Department of Business, Innovation and Skills to Alice Perkins dated [●] regarding the structure of the RMH group, corporate governance arrangements and the Crown indemnity in favour of Alice Perkins].

It was resolved that it would promote the success of the Company for Alice Perkins to remain a director of the Company notwithstanding her position and interest as a director of RMH and accordingly that such position and interest shall be authorised for the purposes of section 175 of the Act and in accordance with article 89 of the Articles of Association, and that such authorisation shall extend to any actual or potential conflict which may arise out of the matter so authorised.

The Board may notify Alice Perkins from time to time of any additional obligations or restrictions that it considers appropriate for her to observe in order to manage the conflict situation.

In respect of a matter to which this authority relates, Alice Perkins shall not be obliged to disclose to the Company any information in respect of which she owes a duty of confidentiality to a person other than the Company.

This authority may be terminated by the Board at any time.

Subject to any duty of confidentiality, Alice Perkins shall be required to notify the Board as soon as reasonably practicable if there occurs any other material change of circumstances of which in her reasonable opinion the Board should be aware if it were considering granting or renewing any such authorisation.

It was noted that, pursuant to Article 89 and section 175(6) of the Act, the meeting was quorate without counting Alice Perkins and Alice Perkins did not vote on the foregoing resolution.

Date [●] 2012

POLB(12)42

February 2012

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

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
Horizon claims	POL/HF/CD	Rod Ismay of POL	<p>POL has received notification of a total of five (5) claims from former subpostmasters (SPMs).</p> <p>Each alleges wrongful termination of contract (based on (a) alleged defects in POL's internal processes and (b) alleged defects with Horizon). Each is seeking damages in the sum of circa £150,000.</p> <p>Four of the five claims remain at the pre-action stage (i.e. there are no live court proceedings). Court proceedings have been issued in respect of the fifth claim.</p> <p>Shoosmiths assert that they have consulted on a further 85 cases,</p>	<p>(1) <u>Scott Darlington</u>. Claim rejected on the basis that the SPMR admitted to and was convicted of false accounting. Responded to Shoosmiths on the basis that the SPM can have no claim for wrongful termination in circumstances where he had repudiated his contract.</p> <p>Last correspondence sent to Shoosmiths on 14/12/2011. Shoosmiths have taken no further action to date,</p> <p>(2) <u>Julian Wilson</u>. Position as above,</p> <p>Last correspondence sent to Shoosmiths on 14/12/2011. Shoosmiths have taken no further action to date,</p> <p>(3) <u>Terence Walters</u>. SPMR admitted to false accounting, but not convicted.</p>	Bond Pearce (Gavin Matthews, Helen Watson)

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
			<p>which are all likely to raise similar legal issues.</p>	<p>Last correspondence sent to Shoosmiths on 14/12/2011. Shoosmiths have taken no further action to date,</p> <p>(4) <u>Thakshila Somaskandarajah</u>. BP have responded to Shoosmiths stating that the claim is time barred and cannot now be pursued. No response to this letter from Shoosmiths to date.</p> <p>(5) <u>Lynne Prosser</u>. Proceedings were commenced by Prosser in June 2011, but POL only made aware in October 2011. POL applied to have the claim struck out for procedural error in January 2012. This application was successful, but Prosser has applied for permission to appeal.</p> <p>The Appeal Court rejected her request for permission to appeal on 22 February 2012. Prosser now has the option to apply for that decision to be reconsidered at any oral hearing. POL awaits confirmation as to whether or not a request for</p>	

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
				<p>an oral hearing has been made. If no request is made or permission is again denied, this will be the end of the matter.</p> <p>If permission is granted, the matter will proceed to a full appeal hearing. If the appeal is successful, POL will need to decide whether or not to appeal itself.</p> <p>POL is likely to have evidential difficulties in responding to the claim as it appears the papers relating to this branch may have been destroyed in accordance with POL's document destruction policy.</p>	
GRO	POL/HF/CD	Angela Van-Den-Bogerd	GRO	IRRELEVANT	IRRELEVANT
			<div>GRO</div> <div>IRRELEVANT</div>	IRRELEVANT	

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
			IRRELEVANT	IRRELEVANT	

POST OFFICE LIMITEDDate
28/02/2012**Register of Sealings**Company Number
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
765 / AL6/AL6/364065 .555	26/01/2012	24/01/2012	Franchise Post Office Gorbals branch 1. Franchise Agreement commencing on 1 February 2011 x2 2. Insurance Waiver Agreement x2 3. No plans letter x2	Neil Owen	Denise Reid (Alva Leugh-Doyle - Bond Pearce)
766 / AL6/AL6/364065 .555	30/01/2012	25/01/2012	Franchise Post Office Christchurch Branch Franchise Agreement commencing on 29 September 2011 x2 Insurance Waiver Agreement x2 No Plans Letter x2 Personal Guarantees x4 Letter confirming Dave Houghton and William David Houghton are one and the same person x2	Neil Owen	Denise Reid - (Alva Leigh-Doyle - Bond Pearce)
767 / Prop/259999659	03/02/2012	03/02/2012	Harold Hill Post Office, 17 Farnham Road - Licence for Alterations	Neil Owen	Toni Lyng
768 / POL/JMR	07/02/2012	07/02/2012	Basingstoke CO/OFF 1st and 2nd Floors Floors - Licence to Alter POL and National Westminster Bank PLC	Neil Owen	Jean Reynolds
769 / AL6/AL6/364065 .555	14/02/2012	13/02/2012	Franchise Post Office Chiswick Branch 1. Renewal Independent Franchise Agreement commencing on 8 March 2012 2. Supplement Agreement x2 3. No Plans Letter x2	Neil Owen	Denise Reid (Alva Leigh-Doyle - Bond Pearce LLP)
770 / AL6/AL6/364065 .555	15/02/2012	15/02/2012	Franchise Post Office Greenwich Branch 2 x copies of the Supplemental Agreement to extend the term of the original franchise agreement	Neil Owen	Denise Reid (Alva Leigh-Doyle)
771 / AL6/AL6/364065 .555	15/02/2012	13/02/2012	Franchise Post Office Piccadilly Plaza branch 1. Franchise Agreement commencing on 6 June 2011 x2 2. Supplement Agreement x2 3. Personal Guarantee x4 4. No Plans Letters x2	Neil Owen	Denise Reid - (Alva Leigh-Doyle - Bond Pearce)
772 / POL/JMR	17/02/2012	14/02/2012	The Post Office - 101 East Street, Sudbury, Suffolk Engrossment of a Deed of Variation	Neil Owen	Jean Reynolds
773 / AL6/AL6/364065 .555	17/02/2012	15/02/2012	Franchise Post Office Slough Estate Branch 1. Franchise Agreement commencing on 23 July 2012 2. Supplement Agreement 3. No Plans Letter	Neil Owen	Denise Reid (Alva Leigh-Doyle - Bond Pearce)
774 / POL/JMR	23/02/2012	30/01/2012	Palmers Green, 364 Green Lanes, London - Underletting to Shree (UK) Ltd Engrossment of an Underlease	Neil Owen	Jean Reynolds
775 / AL6/AL6/364065 .555	23/02/2012	22/02/2012	Franchise Post Office Swadlincote Branch 1. Release of Obligations Agreement relating to the previous Franchisee (x2) 2. Franchise Agreement commencing on 19 January 2012 x2 3. Supplement Agreement x2 4. Personal Guarantees x4	Neil Owen	Denise Reid (Alva Leigh-Doyle - Bond Pearce)

Date 28/02/2012

Registered Office: 148 OLD STREET, LONDON, EC1V 9HQ, ENGLAND

Page 1

POST OFFICE LIMITED

Date
28/02/2012

Register of Sealings

Company Number
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
776 / POL/JMR	27/02/2012	14/02/2012	5. No Plans Letter x2 Ground Floor and Basement Premises, 111 Baker Street, London, W1U 6SG Engrossment of a renewal Lease for sealing/authentication on behalf of Post Office Limited. Starboard Ventures Limited.	Andrew Poole	Jean Reynolds

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POLB(12)43

POST OFFICE LTD BOARD

Sealings – February 2012

Seal Register

The Directors are invited to consider the seal register and approve the affixing of the common seal of the company to the documents set out against items number 765 to 776 inclusive in the seal register.

“The Directors resolved that the affixing of the Common Seal of the Company to the documents set out against items number 765 to 776 inclusive in the seal registers are hereby confirmed.”

**Alwen Lyons
Company Secretary
March 2012**

POST OFFICE LIMITED
Board of Directors**EXECUTIVE SUMMARY POLB(12)45**Date of Board: 15th March 2012

Subject:	Olympics
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Author/Sponsor:
Lesley Sewell, Chief Operating Officer
Contributors /Presenters:
Spencer Morse (Project Manager), Angela Van-Den Bogerd (Project Sponsor)

	Decision	Guidance	Noting
For:			✓

Reference previous action point:

BACKGROUND AND CONTENT:
<p>The paper outlines the activities and progress in respect of Post Office Ltd's preparations for the Olympics. It breaks the updates down into:</p> <ul style="list-style-type: none">• Activities to leverage the commercial opportunities of the Olympics• Activities to maintain normal operational activities during the games

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	
Investment Appraisal completed or financial implications assessed and supported by the CFO	

Additional presentation:

~~YES~~ / NO

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POL(12)45

POST OFFICE LTD BOARD
Post Office London Games 2012 Programme Noting Paper

1. Purpose

The purpose of this paper is to:

- 1.1 Provide an update on the current status of the Post Office London Games 2012 Programme.

2. Background

- 2.1 The overarching aim of the Post Office London Games 2012 Programme is to ensure that Post Office Ltd is prepared for the operational challenges it will face and take advantage of the Royal Mail Group commercial opportunities that the London 2012 Olympic & Paralympic Games (the Games) will offer.
- 2.2 The Post Office London Games 2012 Programme is a discrete strand of the Royal Mail Group (RMG) Olympic Programme. The Post Office London Games 2012 Programme operates within the governance of RMG and Post Office Ltd's Operating Board.
- 2.3 All Post Office Ltd activities must be undertaken within the stipulations provided by the London Organising Committee of the Olympic and Paralympic Games (LOCOG).

3. Activities

The following activities feature within the current plan.

Activities to leverage the commercial opportunities of the Olympics

- 3.1 Support Royal Mail's aim to sell Gold Medal Special Issue Stamps in Post Office branches on the day following the Gold Medal being awarded.
- 3.2 Invite c.500 branches to open on Sunday's during the Games to enable Gold Medal Stamps sales from the following day.
- 3.3 Enable branches to sell additional licensed Olympic themed items during the Games.
- 3.4 Extend opening hours in key strategic branches.
- 3.5 Refurbish branches in select locations.
- 3.6 Offer a Post Office presence in both the athlete's village and the media plaza.

Activities to maintain normal operational activities during the games

- 3.7 Implementing countermeasures to off-set the impacts arising from the Olympic Road Network closures i.e. by changing opening/delivery/collection times.
- 3.8 Implementing increased branch security arrangements, such as upgrading alarms, modifying the safe and alarm settings and increasing the number of ATM fogging kits. This is being done where there's increased risk of attack – currently this is at circa 100 branches.
- 3.9 Incorporating Business Continuity within the project to ensure that we have plans prepared for the main scenarios and/or threats. The scenarios, which include risks such as the failure of the mobile phone network, are being determined at cross sector groups of businesses and the Metropolitan Police. Post Office Ltd is represented by the Head of Security.
- 3.10 Publish communications in line with the Communications Plan at the appropriate points to both internal and external audiences.

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4. Current Position

- 4.1. The core project team, incorporating key stakeholders for each strand is in place to enable collaborative delivery of each activity. Roles and responsibilities/accountabilities are understood within this team.
- 4.2. The strands are: Business Continuity, Gold Medal Stamps (commercial), HR, Network, Security, Supply Chain and Communications. Plans are in place to cover the delivery of each strand.
- 4.3. All activities across the strands are expected to be delivered in time for the start of the Games.
- 4.4. The Post Office London Games 2012 Programme has a regular feed into the RMG Programme Board and into the Post Office Operating Board for progress reporting and validation.
- 4.5. The LOCOG stipulation in terms of branding and restricted products are extremely challenging and work is in progress to address these areas.
- 4.6. The communication of HR related information concerning attendance at work during the Games (reduction in BAU travel demands by 30%) has been absorbed within this programme.

5. Risks/Mitigation

- 5.1. Existing Business Continuity Plans may not be adequate for the challenges presented by the Games. This is being investigated within the Business Continuity strand.
- 5.2. Additional work is required to assess our partner's levels of preparation. These assessments will determine their readiness to support our operations, as well as identifying good practices that Post Office Ltd could readily adopt.
- 5.3. The mechanism by which the reduction in attendance at 148 Old Street will be delivered has yet to be fully defined. A separate piece of work is being commissioned to address this and progress will be reported into the Operating Board.
- 5.4. There is a risk that Royal Mail will be unable to produce and distribute the Gold Medal Special Issue Stamps in time to go on sale the day following the award of the Gold Medal. Royal Mail will be running tests to ensure that they have the ability to deliver against this activity.

6. Recommendation

The Board is asked to:

- 6.1. Note the current status of the Post Office Ltd London Games Programme.

Lesley Sewell
Chief Operating Officer
March 2012

POST OFFICE LIMITED
Board of Directors**EXECUTIVE SUMMARY POLB(12)46**Date of Board: 15th March 2012

Subject:	Privacy Compliance Strategy
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Sponsor:
Susan Crichton
Presenter:
Susan Crichton

	Decision	Guidance	Noting
For:			x

Reference previous action point: NA

BACKGROUND AND CONTENT:

To provide the Board with an overview of the Risk & Compliance team's strategy for supporting privacy compliance and managing associated risks within POL:

1. Introduction
2. Future state
3. POL data protection background
4. Existing privacy compliance activities
5. Conclusion
6. Next steps

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	
Investment Appraisal completed or financial implications assessed and supported by the CFO	

Additional presentation:

YES / NO

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POLB(12)46

POST OFFICE LTD BOARD**Noting Paper****Privacy Compliance Strategy****1. Purpose**

The purpose of this paper is to outline the key elements of an effective privacy compliance strategy, to be implemented over the coming financial year.

2. Background

- 2.1 Post Office Limited has not previously had a defined strategy to deliver compliance with privacy legislation, although significant progress has been made in the last six months in establishing basic elements of governance, delivering training and ensuring that projects fully take account of privacy requirements and concerns.
- 2.2 The identified activities are designed to both deliver compliance and to assist in developing a broader 'culture of compliance'. To support the latter, the strategy is based on three 'pillars':
 - *Ownership and responsibility (people)*: ensuring senior ownership of compliance obligations, real commitment to achieving compliance, and allocated roles and clarity of responsibilities, reporting and accountability.
 - *Standards and policies (process)*: developing an appropriate set of accessible, coherent and consistent standards and policies which document compliance.
 - *Effective implementation (delivery)*: implementing procedures for putting the standards into practice, including staff training and guidance for those with the relevant responsibilities, and putting in place ongoing monitoring to ensure standards are met.
- 2.3 The privacy laws affecting the handling of personal information or privacy of individuals by POL principally comprise the Data Protection Act 1998 (DPA) and associated regulations; and the Privacy & Electronic Communications (EC Directive) Regulations 2003. The UK regulator in this area is the Information Commissioner's Office (ICO) which has wide-ranging powers to investigate, seize data and levy fines, if it believes that a business is not complying with the DPA or PECR.
- 2.4 European privacy legislation is changing: it is proposed that the EU Directive, which is the basis of current UK legislation, will be repealed and a new general legal framework for data protection will be contained in a new, directly applicable regulation. It is unlikely that the new regulation will be adopted before early 2014 and EU Member States will then have a two year transition period before it becomes effective. A draft new regulation has already been published which sets out changes to almost every area of law relating to data processing. Whilst it is likely that there will be changes to this draft, the ICO has already indicated which areas of the draft it actively supports; this provides some indication of the areas which organisations should focus on. Ignoring the potential changes at this stage could lead to costly amendments

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to any new policies and procedures once the changes in law come into effect. It is therefore recommended that as part of the proposed gap analysis, current practices are measured against both existing and proposed legislation.

3. Current Situation

- 3.1 In 2006, the ICO received a complaint about the inappropriate disposal of confidential waste at a franchised Post Office branch in Southampton. As a result, the ICO made an adverse assessment against POL. By way of resolution, POL gave an undertaking in February 2007 in relation to a number of actions to ensure future DPA compliance. The ICO and POL also agreed on an inspection to establish whether branches were acting in line with the undertaking. This inspection was completed and the September 2008 report on it included ten recommendations to mitigate against future breaches. Since a further review in 2009, there has been little or no follow-up activity to ensure these actions are still effective.
- 3.2 Given this background, if the undertaking were breached, the ICO might be expected to instigate a further investigation and give serious consideration to issuing an enforcement notice. This might require POL to cease processing personal data immediately; and/or to take specific steps within a set period of time. The ICO also has power to fine organisations up to £500,000 for significant DPA breaches.
- 3.3 In October 2011 a similar data protection incident occurred at a franchised (agency) branch in Hove. POL conducted an investigation and identified that six client business partners' product lines were involved and that more than 130 customers' details were potentially compromised. Corrective actions have been implemented, including the deployment of data protection training across the entire Network in March 2012. Additionally, branch audits now include specific questions about the disposal and retention of confidential waste. POL reported this incident to the ICO and although the ICO confirmed that it intended to investigate the incident, no action has yet been taken.

4. Activities

- 4.1 Several data protection driven compliance initiatives are already under-way, however these are not currently part of a cohesive strategic approach to privacy compliance. From a compliance perspective, this creates a risk that work may be duplicated, some key compliance activities may not be addressed, and that POL may still have significant gaps in its compliance infrastructure. These activities are as follows:
- 4.2 Data audit/Data Strategy Programme: POL has recognised that its privacy compliance is immature and that the lack of a consistent approach to customer data ownership and use exposes POL to risk of DPA non-compliance. This also affects POL's ability to fully utilise customer data and to effectively protect POL's position when entering into commercial relationships with business partners. At the end of 2010, a data audit initiative was set up to review existing client-facing contracts and customer terms and conditions, identifying their current status and the steps necessary to address any deficiencies. The first stage (reviewing the current position on fair processing notices and contract clauses) was completed at the end of 2011. Phase 2 will deliver a 'house position' including data protection standard clauses for client-facing contracts, and new fair processing notices which will allow us to use our customer data fairly and lawfully, and in a way that supports our customer data strategy.

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- 4.3 Defining POL's Data Strategy: There is also a need to identify POL's approach to client and business acquisition, and the type of client/customer relationships we want to develop in the future. This needs to take account of the strategic direction of the business and identify what compliance support is required. This work has begun but is still in its early stages.
- 4.4 Separation driven compliance activities: RMG currently provides some DPA and Freedom of Information Act (FOI) support to POL (primarily relating to DPA subject access requests and responding to FOI requests) but from October 2012 this support will cease and POL will take on these activities in full. POL is now working towards setting up its own FOI and DPA infrastructure to manage these activities.

5. Proposed strategy

- 5.1 The POL Risk & Compliance team proposes to implement a cohesive programme of activity to support compliance with privacy laws and to prepare for the new privacy regime. This will bring together the existing activities outlined above, and those compliance deliverables which are not currently being addressed.
- 5.2 The first step will be to undertake a high level gap analysis to identify the current level of privacy compliance across POL against an agreed set of legal and regulatory requirements. Even though we already know, to an extent, where we need to focus our attention (eg establishing a governance and compliance infrastructure, training, policies, processes and procedures etc) - based on previous work, including the 2009 internal audit report on data protection - this analysis will more effectively engage the business, provide hard evidence to support the need for the action, and define the budget and resource required.
- 5.3 Following this, the team will develop an action plan, broken down into work-streams, based on a risk assessment and taking account of the cost of risk mitigation, to close the gap between the current situation and an agreed standard of data protection/privacy compliance. The plan will include stakeholder communication, resource required and appropriate timeframes. The work-streams likely to be included in the plan to achieve an acceptable standard of privacy compliance are as follows: fair processing notices; ensuring legitimacy of data processing; regulatory notification; security training; data quality; individual rights; disclosures and legal contracts; data transfers and export; and governance arrangements. It should be noted that an 'acceptable standard' of privacy compliance will differ between different organisations and depend upon factors such as business sector, types of processing activities undertaken and the risk appetite of the organisation.

6. Risks

The 2007 Undertaking means that POL has a higher risk profile in relation to privacy. If POL is investigated again by the ICO the current lack of a robust compliance programme and infrastructure would leave POL exposed. Additionally, the changing regulatory landscape means that POL will inevitably need to demonstrate a much higher level of compliance than historically required. Failure to comply with privacy laws can, of course, lead to substantial fines, damage to reputation, affect our ability to effectively use customer data and ultimately win new business. The strategy set out in the paper seeks to address this situation, and to allow POL to develop its *commercial* strategy around data on the basis of greater confidence in its privacy compliance.

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7. Recommendation

The POL Board is asked to note the proposed privacy compliance strategy for implementation during 2012/13.

Susan Crichton
March 2012

POST OFFICE LIMITED
Board of Directors**EXECUTIVE SUMMARY POLB(12)47**Date of Board: 15th March 2012

Subject:	Telecoms Tender Update
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Author/Sponsor: Martin Moran
Contributors / Presenters: Jeremy Woodrow

	Decision	Guidance	Noting
For:			✓

Reference previous action point:

BACKGROUND AND CONTENT:
<p>At the January Post Office Board, the Board endorsed the decision to move suppliers from BT Wholesale to Fujitsu Services for the provision of our telecoms services (HomePhone and Broadband).</p> <p>This noting paper is intended to provide an update on the contractual negotiations that have been ongoing with Fujitsu Services since the January Board meeting.</p> <ul style="list-style-type: none">• The negotiations are progressing well• There are 4 areas that are still to be agreed:<ul style="list-style-type: none">○ Parent Company Guarantee○ Limitations of Liability○ Benchmarking and Continuous Improvement○ Number porting arrangements• The financial position has improved by c. £10m over the course of the contract due to a regulated price reduction implemented by Ofcom• It is our intention to be in a position to sign a contract at the end of March post Separation.

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	
Investment Appraisal completed or financial implications assessed and supported by the CFO	

Additional presentation:

NO

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POLB(12)47

POST OFFICE LTD BOARD
Noting Paper
Telecoms Tender Update

1. **Purpose** The purpose of this paper is to:
 - 1.1 update the Board on progress with the Fujitsu Services contract negotiations for the provision of our fixed line and broadband telecoms offerings, and
 - 1.2 seek authority to sign the contract with Fujitsu Services at the end of March subject to all contractual issues being resolved.
2. **Background**
 - 2.1 The decision to switch suppliers from BT Wholesale to Fujitsu Services for the provision of our telecoms services was endorsed at the Post Office Board meeting in January (POLB12/10).
 - 2.2 Contractual negotiations have been ongoing with Fujitsu Services since they were selected as our preferred bidder and progress is such that we will plan to be in a position to sign a contract at the end of March.
3. **Current Situation**
 - 3.1 There are a number of key areas where solutions still need to be agreed:
 - **Parent Company Guarantee** – Negotiations are continuing at pace to secure a PCG. The issue has been escalated within Fujitsu Services.
 - **Limitations of Liability** – Fujitsu Services' proposal limits their liability to 125% of our charges¹ which equates to ~£20m in year 1 and ~£28m by year 5. We are seeking to increase the limit to 150%.
 - **Benchmarking and continuous improvement** – TalkTalk, Fujitsu Services' network subcontractor, are resisting any form of contractual mechanism relating to benchmarking. Fujitsu do accept that there are benefits for them and their partners in maintaining price alignment with the market and they have already accepted benchmarking mechanisms in relation to the provision of their contact centre services. We are working through a number of options with the prospective suppliers that would give us a similar level of comfort in relation to network services.
 - **Number porting arrangements** – TalkTalk do not currently have a number porting agreement with Virgin Media (meaning we would struggle to target Virgin customers as they would have to change their phone number in order to switch). This has been escalated with Fujitsu Services and they believe such an agreement will be in place by April 2013.
 - The financial position presented in January has improved by ~£10m over the 5 year agreement. This change is due to benefits driven by Ofcom price controls (regulated products) being passed through to POL.
4. **Conclusion & Recommendations**
 - 4.1 Negotiations with Fujitsu Services are progressing well and despite a handful of issues still to be resolved, we plan to sign the contract on schedule.
 - 4.2 The POL Board is asked to note that negotiations are progressing as planned and to agree that, subject to reaching agreement on the areas identified in paragraph 3, we should sign the agreement with Fujitsu Services.

Martin Moran
March 2012

¹ Network charges are excluded from the liability calculation.

POST OFFICE LIMITED
Board of Directors**EXECUTIVE SUMMARY POLB(12)48**Date of Board: 15th March 2012

Subject:	Treasury: Authority Levels
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Author/Sponsor:
Chris Day
Contributors / Presenters:
Charles Colquhoun

	Decision	Guidance	Noting
For:			X

Reference previous action point:

BACKGROUND AND CONTENT:
As part of the separation for RM, the POL Board need to authorise POL personnel to manage those parts of Treasury currently being managed by RM. In addition, clarity is required around responsibility of POL's treasury function.
This approval is required to allow POL to manage it's own funds post separation.

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	
Investment Appraisal completed or financial implications assessed and supported by the CFO	

Additional presentation:

NO

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POLB(12)48

POST OFFICE LTD BOARD**Noting Paper****Treasury: Authority Levels****1. Purpose**

The purpose of setting out these levels is:

- To ensure clear understanding of the levels throughout Post Office Limited (POL) to provide the basis for the efficient and effective control of Treasury operations.
- To ensure that Treasury operations are accountable to the POL Board.

2. Principles

In general, all policy will be set by the Post Office Limited Board (“the Board”) and formally signed off by the Audit & Risk Committee who will sign off the POL Treasury Policy Statement annually. There are certain levels of authority that will be delegated, as described below. Delegated authority is given to facilitate the day-to-day Treasury operation; longer-term strategic authority remains reserved to the Board.

3. Authorities

Within POL the Treasury department is part of the Cash Management team, reporting to the Head of Cash Management, Charles Colquhoun.

4. Authority to Set Policy

Authority to set Policy is reserved to the Board except the following delegations:

Chief Financial Officer, Chris Day	Approve Investment Instrument Limits; Approve Counterparty Selection Criteria; Approve Counterparty Limits.
Head of Cash Management, Charles Colquhoun	Approve Counterparties.

Changes to this policy can only be made with written authority from the appropriate person(s).

5. Authority to Invest

Authority to invest POL funds is delegated by the Board as follows:

Reserved to Post Office Limited Board	Over £50m beyond one year to maturity.
CFO plus one other Board Member	Up to £50m beyond one year to maturity.
Head of Cash Management	Unlimited within liquidity forecast up to one year to maturity; Up to five years maturity for the purpose of providing collateral for the Notes Circulation Scheme.

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In addition, the Head of Cash Management will delegate authority to facilitate daily operation of the Treasury department:

Delegated authority to invest will be given to the Investment Authorisation Panel comprising c3x named Band 4 managers,	£50M up to 6 months £100M up to 3 months unlimited up to 1 month
Dealers From authorised dealing panel	Up to specific daily investment authority signed by Head of Cash Management or the managers on the Investment Authorisation Panel to the limits as above.

6. Authority to Borrow

Authority to borrow is given to the CFO, within the limits set out in the Funding Agreement with BIS, namely limited to £50m of external borrowing plus £50m of lease financing and up to £1.15bn of the working capital loan facility with BIS, subject to security being available.

Cash Management has reserved powers for the arrangement of all Post Office Limited borrowing and acquisition financing.

7. Working Capital Loan Facility with BIS

Authority to draw down against the agreed (£1.15bn) short-term floating rate loan facilities with BIS for periods over 6 months is a reserved power to the CFO and Chief Executive.

Authority to draw down against this facility for periods up to 6 months up to liquidity needs is delegated by the Board to the Head of Cash Management. Deal authorities up to 1 month maturities have been delegated to the Investment Authorisation Panel above.

8. Uncommitted Facility

Liquidity will be managed so that the uncommitted lines should not be required. However, should this be the case the following authority levels will be applied:

Head of Cash Management: unlimited

Investment Authorisation Panel: £50m overnight

The uncommitted lines may also be used from time to time to test the processes and/or to maintain the relationship with the provider.

9. Authority to Deal

Authority to deal (enter into borrowings on behalf of POL) is given to the dealing panel as for authority to invest above.

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10. Leasing and Contact Hire

Authority to contract for the provision of leasing services is delegated to the CFO.

Any proposal to entering into a leasing arrangement must first be authorised by the CFO.

Authority to sign the leasing documentation on behalf of POL is delegated to the Head of Cash Management to a limit of £50m for a maximum term of 8 years per lease.

Authority to Implement Foreign Currency and Commodity Hedge Programmes.

The Head of Cash Management is delegated power to enter into foreign currency transactions and Commodity transactions in order to hedge pricing risk. Authority to enter into such transactions for any other purpose is reserved by the Board.

11. Banking Authority

Authority to open and close bank accounts is delegated to the CFO. In addition, the CFO will delegate day to day authority to the Banking Control Panel. The Banking Control Panel comprises named individuals recognised by the banks for administration of bank accounts. They are responsible for the opening and closing of the accounts and maintaining day to day controls over them, namely setting up of the accounts, authorising access to them and adding and removing individuals to/from the computer banking authorisation panel.

12. Recommendations

The POL Board is asked to:

12.1 To approve the delegated authorities above.

Chris Day
March 2012

Post Office Ltd – In Strictest Confidence

POLB(12)49

POST OFFICE LTD**Noting Paper****RMG Price Changes****1. Purpose**

The purpose of this paper is:

- 1.1 To inform the Board of the implications of a pending RMG tariff increase.

2. Background

- 2.1 Each year RMG undertake a price (tariff) change in quarter 1, subject to Postcomm approval. This covers the following services offered via POL; 1st and 2nd Class stamps, the Special Delivery family (by 9am and by 1pm delivery), Recorded Signed For, Parcelforce products and International Services.
- 2.2 The price increases this year will be higher than in previous years with an average increase of 33% compared to 12% in 2011. The main key increases are set out in the table below.

Service	Weight	Price Increase
1c Letter	Up to 100g	30%
2c Letter	Up to 100g	39%
Special Delivery	Up to 100g	8%
1c Packet	Up to 100g	71%
	Up to 250g	38%
	Up to 500g	9%
	Up to 750g	-11%
2c Packet	Up to 100g	65%
	Up to 250g	28%
	Up to 500g	2%
	Up to 750g	-16%

- 2.3 These annual price changes create ever growing gaps between what is charged in competing SME mails payment channels (Franking and RMG accounts) and what POL charges its customers for similar services.
- 2.4 Tariff increases tend to attract a degree of consumer discontent which is usually focused around the increases in 1st and 2nd Class stamps. This could be particularly pronounced as the increases are significantly higher than in previous years.

3. Points to Note

- 3.1 POL has conducted a review of the above and has concluded the following key points:
- RMG has informed POL that it expects to see a decline in postage labels volumes as follows; 19% 1st class and 17% 2nd class. If these declines are accurate then POL would lose up to £18m in labels income next year. This would be partly offset by an upside in stamp income of £7m. (POL receives postage label income at a flat rate which increases annually by a factor of RPI-1 and a percentage of total revenue for stamp sales, this

Post Office Ltd – In Strictest Confidence

explains why stamps income would increase and labels reduce in this scenario)

- However, at the outset of financial year 11/12 RMG expected to see a labels decline of 10% for 1st class labels and 10% for 2nd class labels over the year. The actual results were a 3% decline in 1st class labels and a 23% increase in 2nd class labels. This suggests that RMG have not been accurate at forecasting market activity to date, and that the reality is that there is an element of down trading to 2nd class which is likely to continue. Overall this would suggest that POL volumes are relatively resilient to tariff increases.
- 3.5 The full impact of a large tariff increase on the rate of volume decline remains uncertain for a number of reasons:
- there is no UK precedent for a mails price increase on the scale of this year
 - the level of press interest, consumer groups and small business interest groups in the tariff change is uncertain and will drive customer behaviour
 - there is a risk of aggressive advertising by the franking industry aimed at small business and eBay customers
- 3.6 A large tariff increase in 1st and 2nd Class, especially in the event of broad media interest, would increase pressure on POL to deliver on plans for improving our small business proposition.

4. Conclusion

- 4.1 Overall, the extent to which POL volumes are impacted by price increases will depend to some degree on the availability of credible retail alternatives for customers and at present these are very marginal. The proposed tariff increases for 12/13 are unlikely to change this situation.
- 4.2 The risk that POL will lose business customers to the franking industry is minimised by the proposed packet price increases. The planned increase for the franking industry this year is higher than that proposed for POL customers in most weight steps over 250g (Appendix 1 shows a comparison between POL and franking industry proposed tariff changes for 12/13). POL will remain competitive as 70% of its 1st class, and 71% of its 2nd class packet volumes weigh 250g and above.
- 4.3 The POL mails team will continue to monitor the impact of tariff increases. While RMG expect volumes to decline and mix to change we do not believe that this will play out as past history has shown POL volumes to be resilient. The table below shows how POL volumes have reacted to price change over the last four years. POL therefore expects its 12/13 Mails operating plan to remain whole.

	2008/09		2009/10		2010/11		2011/12 FYF	
	tariff change	volume change	tariff change	volume change	tariff change	volume change	tariff change	volume change
1C labels	6%	-4%	8%	-8%	5%	4%	12%	-3%
2C labels	13%	5%	11%	15%	7%	13%	13%	23%

Martin Moran

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Appendix 1

Comparison between POL and franking industry proposed tariff changes for 12/13

Franking industry proposed tariff changes

Service	Weight	Price Increase
1c Letter	Up to 100g	11%
2c Letter	Up to 100g	13%
Special Delivery	Up to 100g	9%
1c Packet	Up to 100g	68%
	Up to 250g	30%
	Up to 500g	21%
	Up to 750g	0%
2c Packet	Up to 100g	74%
	Up to 250g	40%
	Up to 500g	24%
	Up to 750g	0%

POL proposed tariff changes

Service	Weight	Price Increase
1c Letter	Up to 100g	30%
2c Letter	Up to 100g	39%
Special Delivery	Up to 100g	8%
1c Packet	Up to 100g	71%
	Up to 250g	38%
	Up to 500g	9%
	Up to 750g	-11%
2c Packet	Up to 100g	65%
	Up to 250g	28%
	Up to 500g	2%
	Up to 750g	-16%

POST OFFICE LIMITED
Board of Directors**EXECUTIVE SUMMARY POLB(12)50**Date of Board: 15th March 2012

Subject:	Horizon
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Author/Sponsor:
Lesley Sewell
Contributors / Presenters:
Lesley Sewell and Dave Hulbert (IT & Change)

	Decision	Guidance	Noting
For:			✓

Reference previous action point:

BACKGROUND AND CONTENT:
<p>The purpose of this paper is to:</p> <ul style="list-style-type: none">• Brief the board on the Horizon service.• Update the board on the recent major incidents on Horizon.• Outline the actions being taken to prevent further failures.

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	
Investment Appraisal completed or financial implications assessed and supported by the CFO	

Additional presentation:

~~YES~~/ NO

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POLB12(50)

POST OFFICE LTD – POL BOARD NOTING PAPER

Horizon

1. Purpose

The purpose of this paper is to:

- 1.1. Brief the board on the Horizon service.
- 1.2. Update the board on the recent major incidents on Horizon.
- 1.3. Outline the actions being taken to prevent further failures.

2. Background

- 2.1. The recent incident on Horizon was the fourth significant service failure of this system in nine months. Briefly summarised, they are:
 - 27th July 2011 – Pin pad failure caused by a change activity
 - 12th December 2011 – Horizon service failure caused by a hardware failure
 - 1st February 2012 – Card account failure caused by a change activity
 - 1st March 2012 – Horizon service failure caused by a hardware failure
- 2.2. When the Horizon service was initially constructed it was based across two data centres, both of which were fully operational; providing an active/active resilient service arrangement.
- 2.3. As part of the move to Horizon on Line, the contract was renegotiated and the architectural design changed in order to reduce Post Office's operating costs by £50m p.a. (excluding VAT). One of the design changes which contributed significantly (circa £5.5m p.a.) to the savings was moving to an active/passive data centre arrangement. Consequently the resilience is now housed in one data centre with the second data centre primarily being used as a test environment, but available for disaster recovery if required.
- 2.4. As a consequence of moving to the active /passive design, when hardware issues arise they will result in network wide service disruption.
- 2.5. The previous active/active data centre arrangement would have prevented an impact to customers for the incidents of the 12th December and the 1st March, as the hardware would still have been working in the other data centre.
- 2.6. The level of risk associated with this design is being challenged in light of our future business strategy.

3. Current Situation – Incidents

- 3.1. The incident on the 1st March was caused by a network router within the data centre restricting the flow of transactions to the data centre. As it was in effect still working, the device advertised itself as available and no alert was raised.
- 3.2. The router started failing just after 11am and from that point on branches would have seen transactions going through the system much slower than normal. Many transactions were going through so slowly that they timed out. From around 11:10 we were seeing less than a fifth of the expected volume going through the system; and the situation continued to deteriorate.
- 3.3. By 14:15 Fujitsu had identified the component causing the issue and was subsequently removed from the live service. The service was restored at 14:25.

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- 3.4. In terms of the two hardware failures, these related to different components within the Horizon data centre. Whilst backup devices were available in both cases they didn't activate due to the way in which the failing hardware acted.
- 3.5. With regards to the two incidents that were caused by change activities. Both of these relate to updating our product reference data on Horizon. July's incident was due to the correct processes not being followed. Whereas February's incident was due to the test processes for reference data changes and changes delivered through a programmed release not being fully cognisant of each other.
- 3.6. All of the above incidents are subject to ongoing operational investigations. A number of changes have already been made to both the reference data processes and to the hardware. See section 6 for further details about the proposal for a strategic review to complement the actions that are already underway to prevent recurrence.

4. Service Levels

- 4.1. The availability service level is measured across the network of counter positions where they are able to perform all transactions. The Counter Availability metric is defined as the number of counter position hours available as a proportion of the maximum number of counter position hours available based upon the Post Office Core Day (08:00hrs – 18:00hrs Mon – Fri, 08:00-13:00 Sat).
- 4.2. Liquidated damages (£3.50 per unavailable counter hour) are payable if the unavailable counter hours per month exceed the equivalent of 2.37 hours per counter in the month.
- 4.3. If the cause of unavailability is a network wide failure event then the contract allows Fujitsu to cap the damages at £400k for that event.
- 4.4. This has resulted in the following in respect of the four incidents:
 - July's incident – a settlement of £250k was agreed
 - December's incident – no Liquidated Damages are due as the total unavailability in the month did not exceed 2.37 hours per counter
 - February's incident – yet to be confirmed but looks unlikely that Liquidated Damages will be due as the availability in the rest of the month was good and overall unavailability in the month did not exceed 2.37 hours
 - March's incident – the amount of Liquidated Damages due is dependent on the performance in rest of the month.

5. Risks & Mitigations

- 5.1. Since the move to Horizon on Line the disaster recovery service has undergone several tests, incrementally these provide a level of assurance. A full data centre failover is the only test which hasn't yet been proven and is an outstanding risk which we aim to address at the end of the month.
- 5.2. The data centre failover which provides the end to end test assurance means failing over from the active data centre to the passive data centre and is scheduled for the weekend of 31st March/1st April. This will be the first of its kind since the move to the active/passive data centre set up.
- 5.3. Credence is also hosted in the Fujitsu data centre. Last year Credence had no disaster recovery service and was involved in the process of delivering transaction files to clients. Therefore had we conducted the end to end disaster recovery test at that time it would have meant holding back client transaction files for 3 days. This risk was deemed unacceptable.
- 5.4. Business cases have been approved and action taken to move the delivery of client files from the Credence environment. This service moved from February and enables the data centre failover test to take place without the risking the delivery of files to clients.

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6. Proposal

- 6.1. We will continue to conduct the operational investigations into each incident and make the improvements required to ensure the short term stability of the service.
- 6.2. In recognition of the recent performance history, the media attention this has drawn and our business transformation plans, we have proposed a fundamental review of the service and strategy. Within this review we will draw out whether the current technical design is correct for our future business needs and plans. The review will run in conjunction with the operational investigations.
- 6.3. We are proposing that the review will be conducted by Fujitsu and Post Office Ltd with involvement from independent partners. The review will run under the governance of a steering board consisting of the Executives from both organisations.
- 6.4. The review will as a minimum cover:
 - The technical design of Horizon
 - All forms of testing
 - Monitoring and alerting
 - Best practice in retail and financial service markets
 - Future requirements of our business strategy that may influence the technical environment of which Horizon is a critical part.
- 6.5. The POL Board and the POL Executive Team will be invited to visit the data centres and receive regular updates on the progress and findings of this review.

7. Recommendations

The POL Board is asked to:

- 7.1. Note the actions being taken to protect customers from further disruptions to these services.

Lesley Sewell
Acting Chief Operating Officer
March 2012

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POLB(12)51

POST OFFICE LTD BOARD

Appointment of Yorkshire Bank as Bankers

1. Purpose

The purpose of this paper is to:

- 1.1 Appoint Yorkshire Bank as Bankers to Post Office Limited.

2. Background

- 2.1 Post Office Limited has signed a contract with Yorkshire Bank Merchant Services to process credit and debit card payments. In order to continue to receive cleared funds into our account the day after the transaction, Post Office is required to open a bank account with Yorkshire Bank.
- 2.2 This account is to be operated under the same principles as currently in operation for the all other bank accounts. There are two appointed signatory groups:
 - The **Control Panel** is responsible for the maintenance of the account, can open and close accounts with Yorkshire Bank, change signatory groups, and can approve changes to both signatory groups.
 - The **Signature Panel** operates the account on a day to day basis, and approves payments.No person can be a member of both panels. The current list of panel members is shown in Appendix 2.

3. Recommendations

The POL Board is asked to:

- 3.1 Approve the appointment of Yorkshire Bank as Bankers to Post Office Ltd.
- 3.2 Approve the resolution as detailed in Appendix 1, which is an extract from the Bank Mandate accompanying this paper.
- 3.3 Complete the "Mandate for Companies" and "Business Customer Application" forms where indicated.

Chris Day
September 2011

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APPENDIX 1: RESOLUTION

1. That a bank account or accounts be opened with Yorkshire Bank (the 'Bank') and the Bank is authorised to:
 - a) pay all cheques and any other instructions for payment or accept instructions to stop such payments signed on behalf of the Company by any one of the signatory panel (the 'Signatory') whether any account of the Company is in debit or credit;
 - b) deliver any item held on behalf of the Company by the Bank in safe keeping against the written receipt of any one of the control panel; and
 - c) accept any one of the control panel as fully empowered to act on behalf of the Company in any other transaction with the Bank (including closing the account(s)); and
 - d) accept any one of the control panel as fully empowered on behalf of the Company to enter into at any time any agreement(s) for or relating to electronic and/or telephone banking services of any kind whatsoever ('Services'), and to delegate (including the power to sub delegate) the operation of the Services as set out in the terms and conditions governing the Services and the Company acknowledges that the Bank shall be entitled to act upon all instructions received in respect of the Services until notified otherwise in writing by the Company.
2. That any debt incurred to the Bank under this mandate shall, in the absence of written agreement by the Bank to the contrary, be repayable on demand.
3. That any two of the control panel from time to time is authorised to supply the Bank as and when necessary with lists of persons who are authorised to sign, give receipts and act on behalf of the Company, and that the Bank may rely upon such lists.
4. That these resolutions be communicated to the Bank and remain in force until changed by a resolution passed by the Board of Director(s) or other committee of management of the Company and a copy, certified by the Chairperson and other director or Secretary, if applicable, is received by the Bank.
5. That the Company accepts the account(s) and banking relationship with the Bank will be governed by and subject to the Business Banking Terms and Conditions (a copy of which has been provided) as amended from time to time together with any terms and conditions in respect of specific products and services requested by the Company from time to time.

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APPENDIX 2: PANEL MEMBERS

The members of each panel are as shown below:

1. Authorised to Open and Close Accounts

Name	Job Title
Matthew Hibbard	Product Accounting – Bill, Debt & Payment
Sue Oxley	Banking & Debit Card Manager

2. Authorised to Add and Remove Signatories on the Account

Name	Job Title
Chris Day	Product Accounting – Bill, Debt & Payment
Charles Colquhoun	Banking & Debit Card Manager

3. Signature Panel

Name	Job Title
Andrew Ashall	Cashflow advisor
Charles Colquhoun	Head of Corporate Finance
Louise Fairhurst	Senior accountant
Martin Knights	Reporting and analysis manager
Carl Nielson	Senior tax advisor
Ruth Pearson	Senior accountant
Ryan Skidmore	Sales analyst

POST OFFICE LIMITED
Board of Directors**EXECUTIVE SUMMARY POLB(12)29**Date of Board: 15th March 2012

Subject:	NETWORK TRANSFORMATION – AGENCY AGENTS' REMUNERATION MANDATE PROPOSAL FOR NFSP
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Author/Sponsor:
Kevin Gilliland
Contributors / Presenters:

	Decision	Guidance	Noting
For:	Yes		

Reference previous action point:

BACKGROUND AND CONTENT:
<p>THE PURPOSE OF THIS PAPER IS TO:</p> <p>1.1 PROPOSE AN UNPLANNED ACTIVITY IN THIS FINANCIAL YEAR, PREVIOUSLY IDENTIFIED AS A RISK TO 2012/13 BUDGETS, TO MAKE AN UNCONSOLIDATED PAYMENT OF £7M, FUNDED VIA SURPLUS PROFITS IN 2011/12, TO THE AGENCY NETWORK IN RETURN FOR NFSP SUPPORTING YEAR 1 ROLL OUT OF THE NETWORK TRANSFORMATION PROGRAMME IN 2012/13 AND IN RECOGNITION OF ANY REMUNERATION SETTLEMENT FOR SUB-POSTMASTERS RUNNING BRANCHES IN THE LEGACY NETWORK DURING 2012/13, EFFECTIVELY SOFTENING THE IMPACT OF REDUCED REMUNERATION IN THE FIRST YEAR OF THE STRATEGIC PLAN.</p> <p>1.2 TO REQUEST FUNDS FROM THE 2011/12 BUDGET TO FACILITATE 1.1 ABOVE</p>

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	
Investment Appraisal completed or financial implications assessed and supported by the CFO	

Additional presentation: YES / NO

**Extract from the minutes of a Board meeting of Post Office Limited held at
148 Old Street, London EC1V 9HQ on 15th March 2012**

POL Sealing Authorities

The Board approved that the affixing of the company seal may be authenticated by any current Director of the Company or the Company Secretary or Assistant Company Secretary or the following signatory:

- Susan Crichton

I hereby certify that this a true extract of the minutes of the meeting.

.....
Alwen Lyons
Company Secretary, Post Office Limited
April 2013

.....
Chris Day
CFO and Director, Post Office Limited
April 2013

**Extract from the minutes of a Board meeting of Post Office Limited held at
148 Old Street, London EC1V 9HQ on 15th March 2012**

"It was resolved that a Sub-Committee be formed to give effect to the legal requirements necessary for the Transaction to move Post Office Limited to become a sister company of Royal Mail Group Limited (the "Transaction"). This Sub-Committee comprising of Paula Vennells and Chris Day would execute the documents required to give effect to the Transaction including, but not limited to, the secondment termination agreement; the new Articles of the Company; the Shareholder approvals and the subscription letter in connection with the special share."

I hereby certify that this a true extract of the minutes of the meeting.

.....
Alwen Lyons
Company Secretary, Post Office Limited
March 2013

.....
Chris Day
CFO and Director, Post Office Limited
March 2013



To:

Alice Perkins
Chris Day
Virginia Holmes
Neil McCausland
Les Owen
Paula Vennells

From:

Lorraine Beavis

Date:

8 March 2012

cc:

Alwen Lyons

POST OFFICE LIMITED BOARD MEETING, 15TH MARCH 2012

Please find attached the agenda and papers for the forthcoming Board Meeting on Thursday 15th march 2012. The meeting is scheduled to start at 09::00 and finish by 14:00, and will take place in the Boardroom at 148 Old Street, London, EC1V 9HQ.

If you have any enquiries, please do not hesitate to contact me.

Regards

Lorraine Beavis
Assistant Company Secretary

Tel: GRO

Linklaters comments 14/3/12

POST OFFICE LIMITED
(the "Company")

Written Resolutions of the sole Member of the Company

Circulation date: [●] [March] 2012

Pursuant to Chapter 2 of Part 13 of the Companies Act 2006, the Directors of the Company propose that the following resolutions are passed (the "**Resolutions**"). Resolutions 1 and 2 are proposed as ordinary resolutions. Resolutions 3 and 4 are proposed as special resolutions.

ORDINARY RESOLUTIONS

- 1** THAT the Directors be and are hereby generally and unconditionally authorised pursuant to and in accordance with Section 551 of the Companies Act 2006 (the "**2006 Act**") to exercise all the powers of the Company to allot shares or grant rights to subscribe for or to convert any security into shares up to a nominal amount of £[●], such authority to apply in substitution for all previous authorities pursuant to [Section 80 of the Companies Act 1985] and to expire on the fifth anniversary of the date hereof but so that the Company may make offers and enter into agreements during the relevant period which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority ends.
- 2** THAT the proposed reorganisation by Royal Mail Holdings plc, being the Company's sole member, and certain of its group companies including the Company (the "**Reorganisation**") be and is hereby approved and that any breach of duty committed by any Director of the Company in approving the transactions comprised in the Reorganisation be and are hereby approved and ratified, including for the purposes of Section 239 of the 2006 Act.

SPECIAL RESOLUTIONS

- 3** THAT [with effect from [●]]:
 - (i) the Articles of Association of the Company be and are hereby amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of Section 28 of the Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and
 - (ii) the attached Articles of Association be and are hereby approved and adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.
- 4** THAT, subject to the passing of Resolution 1 above, the Directors be and are hereby empowered to allot equity securities (as defined in Section 560(1) of the 2006 Act) wholly for cash pursuant to the authority given by Resolution 1 above as if Section 561(1) of the 2006 Act did not apply to any such allotment; such power to expire on the fifth anniversary of the date hereof, but so that the Company may make offers and enter into agreements during this period which would, or might, require equity securities to be allotted after the power ends.

Linklaters comments 14/3/12

AGREEMENT

Please read the notes at the end of this document before signifying your agreement to the Resolutions.

The undersigned, being a person entitled to vote on the Resolutions on *[CIRCULATION DATE]*, hereby irrevocably agrees to all of the Resolutions:

Signed by ROYAL MAIL HOLDINGS PLC

Date

NOTES:

- 1** If you agree with the Resolutions please indicate your agreement by signing and dating this document where indicated above and returning it to the Company by hand or by post.
- 2** If you do not agree to the Resolutions, you do not need to do anything: you will not be deemed to agree if you fail to reply.
- 3** Once you have indicated your agreement to the Resolutions, you may not revoke your agreement.
- 4** Unless, by midnight on *[INSERT LAST DATE OF VALIDITY OF THE RESOLUTIONS]*, sufficient agreement has been received for the Resolutions to pass, they will lapse. If you agree to the Resolutions, please ensure that your agreement reaches us before this time.

Resolution 1 was passed as an ordinary resolution on *[DATE]*.

Resolution 2 was passed as an ordinary resolution on *[DATE]*.

Resolution 3 was passed as a special resolution on *[DATE]*.

Resolution 4 was passed as a special resolution on *[DATE]*.

In each case, the signatory being the sole member of the Company.

.....
Secretary

**Extract of Minutes of the Post Office Limited Board Meeting
held on 15th March 2012**

POLB12/36

EAGLE UPDATE

**ACTION:
Les Owen**

**ACTION:
Nick Kennett**

- (a) Nick Kennett gave the Board an oral update on the Eagle negotiations. He explained the problems with the valuation of the future portfolio which would be sold when the contract expired. Les Owen suggested an alternative proposal and the Chairman asked that Les Owen and Nick Kennett convene after the meeting to discuss. Nick Kennett to send a note round to the Board to summarise the discussion;

**ACTION:
Nick Kennett**

- (b) Nick Kennett reported that the Bank had re-opened discussions on FSR numbers, an area which they had previously dropped in the Heads of Terms. The Chairman told Nick Kennett to relay the Board's disappointment that this issue, which they thought had been settled, was now being re-opened.

QUADRANT PROFORMA FUNCTION BOOKING ORDER

To:- Catering Team

FUNCTION DETAILS:	POL Board	
Building	148 OLD ST	
Date of Function	Wednesday 15th March 2012	
Time Meeting Starts	09.00	
Time Meeting Finishes	14.00	
No of People Attending	10	
Location of Meeting	Board Room, 1st floor, Old St Wing,	
Ordered By	Lorraine Beavis	
Menu Requirements/Beverages	9am - coffee/tea/still and sparkling water / biscuits 12.25 pm mixed sandwiches (including some cheese & salad) and fruit plus fresh coffee/tea/water NOTE: please leave lunch on trolley outside Board Room	
BUDGET DETAILS:		
SAP Budget Code	2540189	
Card Holder's Name	Alwen Lyons	
Contact Telephone Number	GRO	– Lorraine Beavis
Do you require confirmation of receipt of order? Yes		

POLB(12)4th
POLB12/28-43

Post Office Limited
(company no. 2154540)
Minutes of the meeting of the Board of Directors
held at 148 Old Street, London EC1V 9HQ on 15th March 2012

Present:

Alice Perkins	Chairman, Post Office Ltd
Neil McCausland	Senior Independent Director, Post Office Ltd
Les Owen	Non Executive Director, Post Office Ltd
Paula Vennells	Managing Director, Post Office Ltd
Chris Day	Chief Financial Officer, Post Office Ltd

In attendance:

Alwen Lyons	Company Secretary, Post Office Ltd
Lesley Sewell	Interim Chief Operating Officer (item POLB 12/28)
Kevin Gilliland	Sales and Network Director (item POLB 12/29 & 30)
Nick Kennett	Financial Services Director (item POLB12/30 & 36)
Susan Crichton	Legal and Compliance Director (item POLB 12/39 & 40)
Sarah Hall	Financial Controller (item POLB 12/39)
Martin Lacey	Pensions Specialist (item POLB 12/39)

POLB12/28

INFRASTRUCTURE (IT AND PROCUREMENT)

- (a) Lesley Sewell explained the IT Strategy for the next 3 years which will support the wider business activity, procure circa 60 IT contracts and deliver the cost reduction challenge. The Board discussed the Strategy which involves the proposed introduction of a Service Integrator (SI) to manage IT providers. Les Owen asked if the SI would be allowed to provide any of the work towers in the framework of suppliers. **(POL(12)28 Appendix 2)**. Lesley Sewell explained that the SI would only supply the service desk but no other tower;
- (b) Lesley Sewell emphasised that the business lacked the capability and maturity to manage the changes required to deliver the future IT infrastructure. This work was not a core competency and it made more sense to outsource. She stressed the importance of getting the SI contract terms correct and getting good governance in place to manage that contract;
- (c) Chris Day assured the Board that the SI and contracts would include efficiency targets which were already assumed in the budget;
- (d) Neil McCausland had suggested at a pre-meet that the SI approach be tested to give the Board some assurance that it was the best solution. Lesley Sewell reported that Berkeley Partnership had reviewed the SI strategy and were supportive of the approach agreeing that the SI would bring the required capabilities to the business;

- (e) Paula Vennells questioned whether the SI would in fact raise capability, as the same POL staff who were currently working in this area of the business would be TUPE'd over to the SI. Lesley Sewell assured the Board that the contract would insist on raised capability and people would not be retained if they did not achieve the required level. Paula Vennells flagged to the Board that the redundancy cost could return to POL under TUPE rules;
- (f) Les Owen asked the business to ensure that POL retained the procurement decisions for the tower contracts. Lesley Sewell assured him this was the way the SI contract would be structured. She emphasised that the SI contract negotiation was vital and the business would need to buy-in consultancy support for this work;
- (g) Lesley Sewell assured the Board that the business would retain and strengthen its in-house resource which would focus on the IT changes needed for new products and services;
- (h) the Chairman understood that Berkeley Partnership had challenged the concept of the towers within the framework, Lesley Sewell explained that the Berkeley Partnership have suggested other solutions and proposed that the framework could be structured around the business applications. She would take a further look at a different approach but thought it would be too radical a change for the business in one go. However, Lesley Sewell assured the Board that changes could be made to the proposal as it developed and the team would keep an open mind;
- (i) Les Owen asked if the model had been successfully deployed in other organisations. Lesley Sewell reported that she had visited Rolls Royce who were currently moving to the model. She agreed to find a business who are already successfully using the SI and similar structure to benchmark. She would look at retail / services sector as well;
- (j) Neil McCausland asked for an explanation of the Financial overview **(POL(12)28 APPENDIX 1)** and why the costs were so high for 13/14 and 14/15. Lesley Sewell explained that the optimised baseline was based on existing contracts including RPI increases and also included the projects involved in business transformation. Neil McCausland challenged the additional costs. He agreed the expenditure of £13.38m to implement the programme, but stated that this did not mean he agreed the targets for subsequent years. The Chairman clarified that the Board were not being asked to approve the IT Budget for subsequent years and asked Lesley Sewell and Chris Day to provide a breakdown and explanation of the optimised expected cost scenarios for the Board;
- (k) the board endorsed the proposed strategy subject to the points made and authorised expenditure of £13.8m for the implementation of the programme.

ACTION:
Lesley Sewell

ACTION:
Lesley Sewell

ACTION:
Lesley Sewell
Chris Day

the Board authorised a sub committee to be formed to give effect to the legal requirements necessary for the transaction to go ahead to move Post Office Ltd to become a sister company of RM Group. This sub committee comprising of Paula Vennells and Chris Day would sign off the details of the changes to the Royal Mail structure; the Secondment Termination Agreement; the new Articles; the Shareholder approvals and the subscription letter. Minutes of this sub committee would be circulated to the Board;

POST OFFICE LIMITED (THE “COMPANY”)**EXPLANATORY NOTE OF PRINCIPAL CHANGES TO THE
COMPANY’S ARTICLES OF ASSOCIATION**

It is proposed that the Company adopt new articles of association (the “**New Articles**”) in order to update the Company's current articles of association (the “**Current Articles**”). The changes proposed are primarily to reflect the change in the shareholding structure of the Company after separation from Royal Mail Group Limited (“**RMG**”) but also to take account of the Companies Act 2006 and the Postal Services Act 2011. Please note that the New Articles will need to be further amended prior to mutualisation.

The principal changes introduced in the New Articles are summarised below:

1 Special Share (Articles 10, 11 and 12):

It is proposed that one special rights redeemable preference share of £0.001 in the capital of the Company (the “**Special Share**”) be issued to the Secretary of State (the “**Special Shareholder**”). The New Articles sets out the rights attaching to the Special Share which include the following:

- (a) consent rights in relation to certain actions of the Company, for example, in relation to the appointment or removal of directors, the Chief Executive Officer or Chairman, the adoption of a strategic plan and any material variation to it, the incurrence of a commitment or liability in excess of £50 million and the incurrence of borrowings over £75 million;
- (b) the right to attend and speak at shareholder meetings of the Company but no right to vote at such meetings;
- (c) the right to repayment of the capital paid up on the Special Share on a distribution of capital in a winding-up of the Company in priority to any repayment of capital to any other member but no right to a dividend or any other right to participate in the capital or profits of the Company; and
- (d) the right to request information on the affairs of the group and meet with directors and senior managers of the Company.

The rights attaching to the Special Share are exercisable only for such time as the Special Shareholder beneficially owns the special share in Royal Mail Holdings plc (“**RMH**”) and the special share in **RMG**.

2 Strategic Plan

The New Articles provide that the Company must prepare a Strategic Plan for the Company's group for the following five financial years each year and agree this with the Special Shareholder in accordance with the consultation and approval provisions set out in Article 71 of the New Articles.

3 Updates to take account of the Companies Act 2006

The New Articles reflect changes implemented by the Companies Act 2006, including:

- (a) the removal of the requirement for the Company to have an authorised share capital;
- (b) removal of the ability for the directors to suspend the registration of share transfers;
- (c) updates regarding proxy voting on a show of hands;
- (d) removal of the Chairman's power to a casting vote in general meeting;
- (e) insertion of provisions allowing companies to communicate with their shareholders by electronic means;
- (f) changes so as to ensure consistency of the directors' indemnity and insurance provisions with the new wording of the Companies Act 2006; and
- (g) updates for adjournment for a lack of quorum at a general meeting.

Please note that provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 have (for the most part) been removed from the New Articles (e.g. notice of general meetings). This is in line with the approach advocated by the Government and is also consistent with the approach being taken in the new RMG and RMH articles.

4 Memorandum, objects and limited liability

The Companies Act 2006 significantly reduces the constitutional significance of a company's memorandum of association and abolishes the need for companies to have an objects clause because, without one, a company's objects are unrestricted. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, are treated as forming part of the Company's articles of association as of 1 October 2009.

The written resolution to be signed by the Company's sole shareholder will confirm the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of shareholders.

5 Directors' fees

Article 77 has been amended in the New Articles so as to provide for an increase in the aggregate amount of directors' fees from £300,000 to £400,000 p.a. (excluding salaries).

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**POFS (12)1st
POFS/01- 14**

MIDASGRANGE LIMITED (T/A POFS)

(Company no. 4890174)

**Minutes of the 57th meeting of the Board
held at East Cheap Court, 11 Philpot Lane, London EC3M 8BA
on 26th January 2012**

Present:

Des Crowley -
Chairman
Paula Vennells
Patrick Waldron
Kevin Gilliland
Gordon Gourlay
Liam McLoughlin
Mike Scott
Nick Kennett

In attendance:

Andrew Poole – Company Secretary
Rob Clarkson for item POFS12/09 and POFS12/11

Apologies:

David McGowan

POFS12/01

WELCOME

Des Crowley welcomed everyone to the meeting.

POFS12/02

AUDIT & RISK COMMITTEE

- (a) The Board confirmed the appointment of Nick Kennett as Chairman of the Audit & Risk Committee.

POFS12/03

MINUTES

- (a) The Board approved the minutes of the meeting held on the 30th November 2011 and 7th December 2011.

POFS12/04

STATUS REPORT

- (a) The Board noted the updated status report of actions from the previous meetings.

POFS12/05

POST OFFICE / BANK OF IRELAND BUSINESS UPDATE

- (a) Paula Vennells provided a business update to the Board on a number of matters including progress with business separation, State Aid, Network Transformation and the recently announced new 10-year commercial agreement between POL and RMG. Des Crowley updated the board on some recent changes to the BOI Board.

POFS12/06

BUSINESS REVIEW

- (a) CEO Business update for January 2012: POFS continued ahead of budget at the end of December. Profit before Shareholder Distributions for POFS in December was £1.3m - £0.1m ahead of budget due to higher fixed rate savings breakage fees, lower savings clawbacks partially offset by lower

In Strictest Confidence

insurance sales and lower Online Saver balances. Profits before Shareholder Distributions YTD at the end of December were £15.3m - £3.4m ahead of budget and £17.2m ahead of last year;

- (b) Management were proposing an increase of £0.2m in the year end forecast to £19.7m - £2.5m ahead of target; details of risks and opportunities to this forecast were included in the Finance update. If achieved, this annual profit would be the highest underlying profits achieved by the business since start-up;
- (c) Sales YTD to mid-January were at 102% of target – up from 85% of target at the end of August. The major concerns on sales were increasing life insurance sales, maintaining the strong momentum on car and home insurance sales and mortgage applications. The latter would be helped by new pricing proposals in February;
- (d) Average weekly sales in the Crown office network YTD were 9.2 per branch (week 42) – down from 9.6 sales at end week 33, primarily due to the reduction in Savings sales and the impact of the Christmas period. Close management of the FS population had increased sales in Credit Cards, and the Home Insurance and Car Insurance re-launch had had a positive effect to date. Life Insurance sales performance was strong to end December but sales in January to date were well behind target;
- (e) Policies in force were at 344,000 by mid-January with an increase of 1,300 policies for the first time in two years in December and a further 6,600 growth in the first two weeks of January. This continues to be closely monitored and a detailed paper was presented to the Board later on in the meeting;
- (f) The savings book reached £16.2bn at the end of December - with net growth of £2.4bn since the end of March 2011. This was £2bn ahead of target. However, the business had seen a net reduction of £167m in January MTD due to lower rates on our product range and increased withdrawals from the Online Saver product. The forecast for the end of March is £15.9bn and the position was being monitored on a daily basis to ensure that the business achieved the target;
- (g) Mortgage completions were only £40m in December - £45m behind target. The impact of applications being well below target in the first three quarters of the year was likely to continue to affect completions negatively for the rest of the financial year. Lower sales were being partially offset by average completion values at £173k, 8% higher than target. A re-price of sub-75% LTV mortgages would be launched in February to improve the overall position. Des Crowley asked the business to make every effort to increase the level of mortgage lending;
- (h) there had been 2,383 POFS complaints in December 2011, a decrease of 31% compared with November 2011 volumes. The overall decrease in complaints in December was driven by a

In Strictest Confidence**ACTION
Patrick Waldron**

67% (105) decrease in Online Bond Savings complaints, 62% (220) decrease in Cash ISA complaints and 58% (402) decrease in Growth Bond. Paula Vennells asked that the team consider sending this MI out to the Branch network. Patrick Waldron would discuss this with Nick Kennett.

- (i) Des Crowley thanked Patrick Waldron for the report noting that it had been a good trading period for the business.

POFS12/07**SAVINGS RETENTION UPDATE****ACTION
Patrick Waldron**

- (a) POFS' Operating Plan highlighted the importance of retention in FY 2011/12 with circa £10.8bn maturing or coming to the end of a bonus period in the year. Prior to FY 2011/12, retention activity had focused on Growth Bond; however with the introduction of new products during FY 2010/11 (Online Saver and Online Bond) focus on retention had expanded to include the new products and this had been reflected in FY 2011/12 balance targets;
- (b) the Board would consider Savings retention at its meeting on the 22nd March. Patrick Waldron was asked to add an assessment of the competitive threat of Virgin Money to the agenda as well.

POFS12/08**BRB SALES REPORT & AOP SUMMARY TRACKER**

- (a) The Board noted the BRB sales report and AOP summary tracker.

POFS12/09**POLICIES IN FORCE**

- (a) Rob Clarkson joined the meeting and provided an update in relation to Post Office Car and Home Insurance combined policies in force (PIF);
- (b) In December the portfolio experienced a net growth in PIF, increasing by 1,318 to 337,703 policies. This continued to improve with net growth of a further 6,607 policies recorded between the 1st and 15th January. With an historic focus on fourth quarter marketing, the next three months represented a risk of further PIF decline, with over 30% of the current portfolio falling due for renewal. In order to build portfolio momentum through 2012/13, the business had implemented further tactical and strategic initiatives;
- (c) POFS had implemented a series of trading actions to maximise the Network's opportunities to succeed, including enhanced propositions, improved pricing, additional incentives and up-weighted marketing. Aggressive aggregator pricing had been deployed and had successfully reversed the declining trend resulting in growth at a rate significantly beyond the original projections. Year-on-year retention performance across both Car and Home was both showing signs of significant improvement also helping accelerate the book growth (January

In Strictest Confidence

2011 versus January 2012, 52% versus 62% Car, and 66% versus 74% Home). Management were currently considering further actions to ensure that the PIF stabilisation was sustained whilst seeking to protect the short term financial impact;

- (d) the Board approved the approach outlined for PIF until the end of March 2012 noting the £500,000 adverse impact on the POFS results, noting that the agreed strategy helped mitigate the financial risk to the business and further enhanced the relationship with Junction.

POFS12/10**FINANCE REVIEW UPDATE**

- (a) Mike Scott introduced the Finance update for January 2012, the board noted the December highlights and key issues for 2011/12 and the proposed forecast for 2011/12;
- (b) December YTD of £15.3m PBD was some £3.4m ahead of budget. Strong sales of GILB, savings interest variances and lower marketing spend partially offset by lower car, Home and Life sales and bonus provision;
- (c) the key issues for 2011/12 remained PIF, sales shortfalls, Online Saver retention and SEM costs. The Board noted a number of risks and opportunities;

**ACTION
Mike Scott**

- (d) Des Crowley asked that the Project Polo costs of £0.7m be taken in to account for forecast purposes. The Board agreed the forecast proposed for 2011/12 of £19.7m before Polo costs;
- (e) The Board thanked Mike for his report.

POFS12/11**INSURANCES****ACTION
Rob Clarkson**

- (a) Home Insurance Optimisation: The Board noted the update on Home insurance and asked for a further update on tactics, taking into account the market view, at the March Board;
- (b) Commercial Vehicle Contract: The Board noted an update on progress made on establishing the Heads of Terms between BOI and Aviva in respect of extending the exclusive Van Insurance distribution agreement. POFS would conclude the Heads of Terms and work on re-stating the full agreement.

POFS12/12**PROJECT POLO UPDATE****ACTION
Patrick Waldron**

- (a) The Board noted an update on Project Polo and agreed to continue with the pilot and to work to develop the business case – based on a range of customer assumptions, consider the commercial risks and take into account the wider business strategy. The Board would consider the business case at the March Board.

In Strictest Confidence

POFS 12/13

ANY OTHER BUSINESS

- (a) Patrick Waldron explained that the BRB had recently undertaken an effectiveness exercise with most of the recommendations being agreed and implemented.

ACTION
Patrick Waldron

- (b) Patrick Waldron advised that a recent Yougov BrandIndex survey had placed the Post Office as the leading brand in banking and financial services. Paula Vennells asked that POFS consider how best to promote this achievement.

POFS12/14

DATE OF NEXT MEETING

The next meeting of the Board would be held on Thursday 22nd March 2012.

However, the AOP and Sales targets would be discussed at a special meeting to be held after the FRES Board meeting on 23rd February.

Post Office Limited – Strictly Confidential
POST OFFICE LTD BOARD MEETING (Company Number 2154540)

Meeting to be held at 09.00 on 15 March 2012
at 148 Old Street, London, EC1V 9HQ in the Board Room

1	Infrastructure (IT and Procurement)	POLB(12)28	Lesley Sewell
2	Network Transformation		Kevin Gilliland
	• Agency	POLB(12)29	
	• Crowns	POLB(12)30	
3	FS Sales	POLB(12)31	Nick Kennett / Kevin Gilliland
4	Minutes of previous meetings	POLB(12)2 nd POLB(12)3 rd	Alice Perkins
5	Minutes for noting		
	• POFS Minutes	POFS(12)1 st	Alice Perkins
6	Matters Arising		
	• Status Report	POLB(12)32	Alice Perkins
Break			
7	Managing Director's Report including Health & Safety Update	POLB(12)33 POLB(12)34	Paula Vennells
8	Finance/Performance Update	POLB(12)35	Chris Day
9	Eagle Update		Nick Kennett
10	Resignation of Director	POLB(12)36	Alwen Lyons
	• Les Owen		
Lunch			
11	Budget and Operational Plan 2012-13	POLB(12)37	Chris Day
12	Pensions - Next Steps	POLB(12)38	Chris Day
13	Board Governance Update	POLB(12)39	Susan Crichton
	• POL Sealing Authorities	POLB(12)40	
	• Appointment of Alice Perkins to the Royal Mail Holdings Board	POLB(12)41	Alice Perkins
14	Any Other Business		
Close			
15	<u>Items for Noting</u>		
	Significant Litigation Report	POLB(12)42	Susan Crichton
	Post Office Ltd - Sealings	POLB(12)43	Alwen Lyons
	Communication Action Group Minutes	POLB(12)44	Alwen Lyons
	Olympics	POLB(12)45	Lesley Sewell
	Privacy Compliance Strategy	POLB(12)46	Susan Crichton
	Verification of Telecoms Supplier	POLB(12)47	Martin Moran
	Treasury – Authority Levels	POLB(12)48	Chris Day
	RMG Price Changes	POLB(12)49	Martin Moran
	Horizon Update	POLB(12)50	Lesley Sewell

Post Office Limited – Strictly Confidential

Attendees:

Alice Perkins (Chairman)
Neil McCausland (SID)
Les Owen (NED)
Paula Vennells (MD)
Chris Day (CFO)
Alwen Lyons (Company Secretary)

In Attendance:

Lesley Sewell
Kevin Gilliland
Nick Kennett
Susan Crichton
Anne Fletcher
Heather Bignell-Blye

Post Office Limited – Strictly Confidential
POST OFFICE LTD BOARD MEETING (Company Number 2154540)

Meeting to be held at 09.00 on 15 March 2012
at 148 Old Street, London, EC1V 9HQ in the Board Room

0900	1	Infrastructure (IT and Procurement)	POLB(12)28	Lesley Sewell
0950	2	Network Transformation		Kevin Gilliland
		• Agency	POLB(12)29	
		• Crowns	POLB(12)30	
1025	3	FS Sales	POLB(12)31	Nick Kennett / Kevin Gilliland
1050	4	Minutes of previous meetings	POLB(12)2 nd POLB(12)3 rd	Alice Perkins
	5	Minutes for noting		
		• POFS Minutes	POFS(12)1 st	Alice Perkins
1055	6	Matters Arising		
		• Status Report	POLB(12)32	Alice Perkins
1105		Break		
1115	7	Managing Director's Report including Health & Safety Update	POLB(12)33 POLB(12)34	Paula Vennells
1130	8	Finance/Performance Update	POLB(12)35	Chris Day
1145	9	Eagle Update		Nick Kennett
1215	10	Resignation of Director	POLB(12)36	Alwen Lyons
		• Les Owen		
1220		Lunch		
1235	11	Budget and Operational Plan 2012-13	POLB(12)37	Chris Day
1300	12	Pensions - Next Steps	POLB(12)38	Chris Day
1320	13	Board Governance Update	POLB(12)39	Susan Crichton
		• POL Sealing Authorities	POLB(12)40	
		• Appointment of Alice Perkins to the Royal Mail Holdings Board	POLB(12)41	Alice Perkins
1355	14	Any Other Business		
1400		Close		
	15	<u>Items for Noting</u>		
		Significant Litigation Report	POLB(12)42	Susan Crichton
		Post Office Ltd - Sealings	POLB(12)43	Alwen Lyons
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		Olympics	POLB(12)45	Lesley Sewell
		Privacy Compliance Strategy	POLB(12)46	Susan Crichton
		Verification of Telecoms Supplier	POLB(12)47	Martin Moran
		Treasury – Authority Levels	POLB(12)48	Chris Day
		RMG Price Changes	POLB(12)49	Martin Moran
		Horizon Update	POLB(12)50	Lesley Sewell

Post Office Limited – Strictly Confidential

Attendees:

Alice Perkins (Chairman)
Neil McCausland (SID)
Les Owen (NED)
Paula Vennells (MD)
Chris Day (CFO)
Alwen Lyons (Company Secretary)

In Attendance:

Lesley Sewell
Kevin Gilliland
Nick Kennett
Susan Crichton
Anne Fletcher
Heather Bignell-Blye

Post Office Limited – Strictly Confidential

POLB(12)2nd
POLB12/018-27

Post Office Limited
(company no. 2154540)
Minutes of the meeting of the Board of Directors
held at 148 Old Street, London EC1V 9HQ on 9th February 2012

Present:

Alice Perkins	Chairman, Post Office Ltd (excluding item POLB 12/25)
Neil McCausland	Senior Independent Director, Post Office Ltd
Les Owen	Non Executive Director, Post Office Ltd
Paula Vennells	Managing Director, Post Office Ltd
Chris Day	Chief Financial Officer, Post Office Ltd

In attendance:

Alwen Lyons	Company Secretary, Post Office Ltd
Kevin Seller	Head of Government Innovation (Item POLB12/18)
Nick Kennett	Financial Services Director (Item POLB 12/24)

POLB12/18

FRONT OFFICE OF GOVERNMENT (FOoG)

- (a) Kevin Seller circulated a paper (attached as Appendix A to the minutes) showing the estimated contribution for known FOoG opportunities. The Board noted the relative importance of winning the DVLA and Passport contracts. Les Owen asked if Network capacity planning had been undertaken to ensure the business could cope with all the initiatives. Kevin Seller explained that detailed capacity planning was underway, but that many of the new propositions did not use traditional counter time. The Chairman asked how the tensions between Network Transformation and the introduction of new products were being managed. Paula Vennells assured the Board that the Network Director and Commercial Director were both involved in the respective Steering Groups set up to ensure these issues were aligned.
- (b) In Neil McCausland's view the biggest commercial opportunity lay in continuing to develop identity checking services and he suggested that the Business should focus on this area as a core strength. He asked why the commercial returns for new contracts were significantly lower than those which were already in place. Kevin Seller explained that the historic contracts with returns of circa 75% were not won through competitive tendering and were not sustainable. He pointed out that the paper POLB(12)17 showed forecast returns from new contracts with a 25% contribution. In reality POL is winning new contracts at between 30 and 40% contribution. Chris Day said that pricing was key to winning these contracts and that although the recent contract wins were small, they would be used to showcase the Business to different Government departments.

The Chairman stressed the importance of presenting opportunities to Government departments which facilitated cost savings and assisted digital inclusion.

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- (c) DVLA Tender
Kevin Seller assured the Board of the strong relationship with DVLA and explained that the main competitor for the tender was likely to be a consortium, possibly with Capita, and Paypoint as its network provider. There seemed to be little appetite for the work from the major banks or supermarkets despite the fact that the competitor analysis showed them as being the most credible network partners.
- ACTION:**
Kevin Seller
- The Chairman asked how the Board could support the tender process. Paula Vennells suggested that the tender stakeholder communications plan be circulated to the Board highlighting the Ministers and Officials involved in the decision making processes and detailing how the Board could support this.
- (d) Neil McCausland asked for a more detailed DVLA project plan and resource plan and the incentives in place for the team. Kevin Seller was asked to organise a meeting with Neil McCausland to take him through the FOOG communications plan.
- ACTION:**
Kevin Seller
- (e) The Chairman informed the Board that the DVLA tender would return to the July Board meeting but if any significant changes arose in the interim they would be reported to the Board.
- ACTION:**
Paula Vennells
- POLB12/19** **MINUTES OF PREVIOUS MEETINGS**
- (a) The minutes of the meeting of 12th January 2012 were agreed;
- (b) the minutes of the Health & Safety Sub-Committee (POLBSC-HS(12)1st) were noted.
- POLB12/20** **MATTERS ARISING – Status Report**
- (a) No. 5d (POLB12/02/(b))
Chris Day explained that the red status in the Midasgrange Board Minutes related to the migration of MI databases. The status was currently amber, moving to green as the majority of products had now been successfully migrated. ACTION CLOSED
- ACTION:**
Chris Day
April
- (b) No 5e (POLB12/06(a))
Chris Day confirmed that POL's Going Concern status would be covered within the RMG consolidation for this year, and that a paper would be provided to the Board in due course on the proposed Going Concern process/external audit for FY 12/13.
- ACTION:**
Pauline Holroyd
- (c) No 6b (POLB12/01(c))
Les Owen acknowledged the rigour applied to the PDR scoring system. Chris Day commented that he had also been impressed by the process used by the Business. Paula Vennells stressed that the Post Office was a very honest organisation but that the scores highlighted a concern with the low number of high achievers. Les Owen explained that he was used to a two-dimensional matrix rating performance and potential. Paula Vennells suggested the inclusion of potential ratings for the Top Team in the succession planning paper at the April Board (subsequently changed to May).

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POLB12/21

MANAGING DIRECTOR'S REPORT

- (a) Pay Review
Paula Vennells reported that RMG are working with the Communications Workers Union (CWU) on a 3-year profit share payment in return for a no strike deal. She highlighted the CWU's expectation for a similar offer from POL and the potential risk to the plan. Chris Day emphasised that the financial headroom this year did offer an opportunity to the Business if it wanted to offer a payment to help deliver the plan which assumed a pay freeze over the next 3 years. However, such headroom would not be available in FY 12/13. The Chairman challenged whether there was time to negotiate a deal. Neil McCausland stressed that the Business was still under an obligation to get the Crowns back to break-even, so any solution needed to be sustainable.

ACTION:
Kevin Gilliland

Kevin Gilliland would be asked to provide a cost benefit analysis paper to cover all the options available on Crown pay and their associated risks.

ACTION:
Alwen Lyons

An additional Board meeting may be required to consider the pay mandate in detail.

- (b) Budget Meeting – 8th March
The Chairman asked that the pre-reading for the meeting should start from the requirements for achieving the strategic plan; highlighting areas where there is scope to exceed the plan; documenting the risks and assumptions in order to demonstrate that the targets have sufficient rigour and stretch.

ACTION:
Chris Day

Chris Day explained that work had already taken place to reconcile the original strategic plan back to the budget and that he would be using the meeting to get agreement that the plan contained the appropriate stretch and risk. The Chairman asked that key elements in the plan be highlighted such as Mails and methodology of approach explained.

- (c) Quarterly Performance Reviews
Paula Vennells reported to the Board that Quarterly Performance Reviews were being introduced with individual Directors.

ACTION:
Martin Moran

- (d) Stamp Pricing
Paula Vennells explained that RMG were planning a significant increase in stamp prices. She assured the Board that Alana Renner, the Acting Communications Director, was working closely with her counterpart in RM to deal with any adverse PR. Martin Moran to circulate a note covering the effects of the RM price increases on Post Office revenues and margin.
- (e) Collections and Returns
Paula Vennells reported that a joint presentation had been made at RMH Board which had been very well received.

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POLB12/22

HEALTH AND SAFETY UPDATE

- (a) The Health & Safety Update (POLB(12)20) was noted.

POLB12/23

FINANCE/PERFORMANCE REPORT

- (a) Chris Day reported the strong performance in Period 9 had continued in Period 10. He assured the Board that the investment-spend was now on track and that he was ensuring it was being spent appropriately. He explained that a provision of circa £6m may be made in this year to cover the General Insurance Policies in Force risk.

**ACTION:
Chris Day**

Neil McCausland requested a change to the presentation of the Insurance Policies data to make the trend information clearer.

POLB12/24

EAGLE UPDATE

- (a) Nick Kennett explained the twelve workstreams in place to ensure Eagle is achieved. The most challenging of these being: the valuation of Midasgrange; ensuring the correct termination terms are enshrined in the contract and the wider HR effects of the change. He has a target date of early March for signing the contract and will bring the final agreement to the March Board.

**ACTION:
Nick Kennett**

- (b) Insurance
Nick Kennett presented the negotiations mandate to the Board. The Chairman asked how far the proposal would reduce the bureaucracy inherent in the current relationship. Nick Kennett agreed that the current proposal had not been his initial desired outcome but was confident it would work. Les Owen urged the Business to retain as much control as possible over product design and marketing. Paula Vennells explained that the relationships between the two businesses would be very important.

**ACTION:
Alwen Lyons**

Nick Kennett said that Government concurrence to the contract extension had not been received. Les Owen expressed concern at the potential impact on signing Eagle. Nick Kennett did not anticipate any issues but confirmed that the delay in BIS sign-off risked the achievement of the critical path as the Bank would not proceed on other matters until the extension was confirmed.

POLB12/25

PERSONAL INJURY REFERRAL FEES

The Chairman left the meeting due to conflicts.

Minutes shown at Appendix B.

The Chairman rejoined the meeting.

POLB12/26

ANY OTHER BUSINESS

- (a) The issue of aggravated robbery and burglary had been raised at RMH Board and the Chairman asked that future Health & Safety reports include a report on any incidents.

**ACTION:
Alwen Lyons**

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The risk would also be raised with the Audit, Risk and Compliance Committee for future monitoring.

- (b) Separation
The Chairman updated the Board on the likely agreed structure for the Group post separation. POL would sit as a sister company to Royal Mail Group under a very thin TopCo consisting of the Chairmen of both Companies. Responsibility for the businesses would sit with the respective Boards.
- (c) The Chairman informed the Board of several Non-Executive Director candidates under consideration and three possible candidates for the Chair of Audit.

POLB12/26

NOTING PAPERS

- (a) • Significant Litigation Report (POLB(12)23) was noted.
- (b) • Post Office Sealings (POLB(12)24) was noted.
- (c) • Communication Action Group Minutes (POLB(12)25) were noted.
- (d) • Project Alaska (POLB(12)26) was noted.

POLB12/27

CLOSE

- (a) There being no other business, the Chairman closed the meeting.

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POLB(12)2nd Appendix A

Annual net income and estimated contribution percentage for all known Front Office of Government propositions

Contract	Expected Timescales	Net Income12/13 £m	Net Income13/14 £m	Net Income14/15 £m	Net Income15/16 £m	Net Income16/17 £m	Est Cont (target 25%)	Probability	Weighted income
London PSN	Aug-12	0.1	0.1	0.1	0.1	0.1	32%	100%	0.1
Westminster	Live	0.1	0.1	0.1	0.1	0.1	25%	100%	0.1
TfL Public Carriage Office	Live	0.1	0.1	0.1	0.1	0.1	64%	100%	0.1
Student Loans	tbc	0.1	0.4	0.4	0.4	0.4	75%	100%	0.4
Skills Funding Agency	Jun-12	0.4	0.2	0.2	0.2	0.2	49%	100%	0.2
Care Quality Commission	Mar-12	0.9	0.6	0.6	0.6	0.6	70%	100%	0.6
UKBA	Mar-12	6.7	6.7	6.7	6.7	6.7	53%	100%	6.7
DVLA tender (incremental)	Oct-12	1.0	21.0	25.0	35.0	35.0	30%	90%	31.5
IPS Passports	Sep-13	19.0	27.0	35.0	35.0	35.0	40%	90%	31.5
DSA	Mar-13				30.0	30.0	30%	30%	9.0
Identity Services UC	2012/13			8.0	11.0	11.0	30%	75%	8.3
Identity Services HMRC	2012/13			5.0	5.0	5.0	30%	75%	3.8
Identity Services GB	2012	3.0	7.0	7.0	7.0	7.0	35%	90%	6.3
Identity Services Other e.g. Land Registry	2013/14			4.5	9.0	9.0	30%	60%	5.4
Universal credit (Asst Applications)	2014/15				5.0	10.0	30%	75%	7.5
HMRC (Asst Applications)	2013/14				1.0	5.0	30%	75%	3.8
Security Industry Authority	Oct-12	0.1	1.0	1.0	1.0	1.0	35%	75%	0.8
Local Authorities	Ongoing	1.0	2.0	5.0	7.0	12.0	25%	80%	9.6
CRB	2014/15				5.0	10.0	25%	50%	5.0
HMCTS (Court Services)	2012	0.1	2.0	5.0	10.0	10.0	25%	75%	7.5
HMRC network	2013/14		1.0	1.0	1.0	1.0	25%	50%	0.5
London PSN (extension to others)	Ongoing		3.0	5.0	10.0	10.0	35%	75%	7.5
Scottish Govt	2012/13		1.0	2.0	4.0	4.0	30%	50%	2.0
Scottish LA	2012/13	0.1	0.5	1.0	2.5	2.5	30%	50%	1.3
TfL contactless	2012	1.0	2.5	2.5	2.5	2.5	30%	25%	0.6
Total		33.7	76.2	115.2	189.2	208.2			149.9

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POLB(12)2nd
POLB12/018-27

Post Office Limited
(company no. 2154540)
Minutes of the meeting of the Board of Directors
held at 148 Old Street, London EC1V 9HQ on 9th February 2012

Present:

Alice Perkins	Chairman, Post Office Ltd (excluding item POLB 12/25)
Neil McCausland	Senior Independent Director, Post Office Ltd
Les Owen	Non Executive Director, Post Office Ltd
Paula Vennells	Managing Director, Post Office Ltd
Chris Day	Chief Financial Officer, Post Office Ltd

In attendance:

Alwen Lyons	Company Secretary, Post Office Ltd
Kevin Seller	Head of Government Innovation (Item POLB12/18)
Nick Kennett	Financial Services Director (Item POLB 12/24)

POLB12/18

FRONT OFFICE OF GOVERNMENT (FOoG)

- (a) Kevin Seller circulated a paper (attached as Appendix A to the minutes) showing the estimated contribution for known FOoG opportunities. The Board noted the relative importance of winning the DVLA and Passport contracts. Les Owen asked if Network capacity planning had been undertaken to ensure the business could cope with all the initiatives. Kevin Seller explained that detailed capacity planning was underway, but that many of the new propositions did not use traditional counter time. The Chairman asked how the tensions between Network Transformation and the introduction of new products were being managed. Paula Vennells assured the Board that the Network Director and Commercial Director were both involved in the respective Steering Groups set up to ensure these issues were aligned.
- (b) In Neil McCausland's view the biggest commercial opportunity lay in continuing to develop identity checking services and he suggested that the Business should focus on this area as a core strength. He asked why the commercial returns for new contracts were significantly lower than those which were already in place. Kevin Seller explained that the historic contracts with returns of circa 75% were not won through competitive tendering and were not sustainable. He pointed out that the paper POLB(12)17 showed forecast returns from new contracts with a 25% contribution. In reality POL is winning new contracts at between 30 and 40% contribution. Chris Day said that pricing was key to winning these contracts and that although the recent contract wins were small, they would be used to showcase the Business to different Government departments.

The Chairman stressed the importance of presenting opportunities to Government departments which facilitated cost savings and assisted digital inclusion.

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- (c) DVLA Tender
Kevin Seller assured the Board of the strong relationship with DVLA and explained that the main competitor for the tender was likely to be a consortium, possibly with Capita, and Paypoint as its network provider. There seemed to be little appetite for the work from the major banks or supermarkets despite the fact that the competitor analysis showed them as being the most credible network partners.
- ACTION:**
Kevin Seller
- The Chairman asked how the Board could support the tender process. Paula Vennells suggested that the tender stakeholder communications plan be circulated to the Board highlighting the Ministers and Officials involved in the decision making processes and detailing how the Board could support this.
- (d) Neil McCausland asked for a more detailed DVLA project plan and resource plan and the incentives in place for the team. Kevin Seller was asked to organise a meeting with Neil McCausland to take him through the FOOG communications plan.
- ACTION:**
Kevin Seller
- (e) The Chairman informed the Board that the DVLA tender would return to the July Board meeting but if any significant changes arose in the interim they would be reported to the Board.
- ACTION:**
Paula Vennells
- POLB12/19** **MINUTES OF PREVIOUS MEETINGS**
- (a) The minutes of the meeting of 12th January 2012 were agreed;
- (b) the minutes of the Health & Safety Sub-Committee (POLBSC-HS(12)1st) were noted.
- POLB12/20** **MATTERS ARISING – Status Report**
- (a) No. 5d (POLB12/02/(b))
Chris Day explained that the red status in the Midasgrange Board Minutes related to the migration of MI databases. The status was currently amber, moving to green as the majority of products had now been successfully migrated. ACTION CLOSED
- ACTION:**
Chris Day
April
- (b) No 5e (POLB12/06(a))
Chris Day confirmed that POL's Going Concern status would be covered within the RMG consolidation for this year, and that a paper would be provided to the Board in due course on the proposed Going Concern process/external audit for FY 12/13.
- ACTION:**
Pauline Holroyd
- (c) No 6b (POLB12/01(c))
Les Owen acknowledged the rigour applied to the PDR scoring system. Chris Day commented that he had also been impressed by the process used by the Business. Paula Vennells stressed that the Post Office was a very honest organisation but that the scores highlighted a concern with the low number of high achievers. Les Owen explained that he was used to a two-dimensional matrix rating performance and potential. Paula Vennells suggested the inclusion of potential ratings for the Top Team in the succession planning paper at the April Board (subsequently changed to May).

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POLB12/21

MANAGING DIRECTOR'S REPORT

- (a) Pay Review
Paula Vennells reported that RMG are working with the Communications Workers Union (CWU) on a 3-year profit share payment in return for a no strike deal. She highlighted the CWU's expectation for a similar offer from POL and the potential risk to the plan. Chris Day emphasised that the financial headroom this year did offer an opportunity to the Business if it wanted to offer a payment to help deliver the plan which assumed a pay freeze over the next 3 years. However, such headroom would not be available in FY 12/13. The Chairman challenged whether there was time to negotiate a deal. Neil McCausland stressed that the Business was still under an obligation to get the Crowns back to break-even, so any solution needed to be sustainable.

ACTION:
Kevin Gilliland

Kevin Gilliland would be asked to provide a cost benefit analysis paper to cover all the options available on Crown pay and their associated risks.

ACTION:
Alwen Lyons

An additional Board meeting may be required to consider the pay mandate in detail.

- (b) Budget Meeting – 8th March
The Chairman asked that the pre-reading for the meeting should start from the requirements for achieving the strategic plan; highlighting areas where there is scope to exceed the plan; documenting the risks and assumptions in order to demonstrate that the targets have sufficient rigour and stretch.

ACTION:
Chris Day

Chris Day explained that work had already taken place to reconcile the original strategic plan back to the budget and that he would be using the meeting to get agreement that the plan contained the appropriate stretch and risk. The Chairman asked that key elements in the plan be highlighted such as Mails and methodology of approach explained.

- (c) Quarterly Performance Reviews
Paula Vennells reported to the Board that Quarterly Performance Reviews were being introduced with individual Directors.

ACTION:
Martin Moran

- (d) Stamp Pricing
Paula Vennells explained that RMG were planning a significant increase in stamp prices. She assured the Board that Alana Renner, the Acting Communications Director, was working closely with her counterpart in RM to deal with any adverse PR. Martin Moran to circulate a note covering the effects of the RM price increases on Post Office revenues and margin.
- (e) Collections and Returns
Paula Vennells reported that a joint presentation had been made at RMH Board which had been very well received.

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POLB12/22

HEALTH AND SAFETY UPDATE

- (a) The Health & Safety Update (POLB(12)20) was noted.

POLB12/23

FINANCE/PERFORMANCE REPORT

- (a) Chris Day reported the strong performance in Period 9 had continued in Period 10. He assured the Board that the investment-spend was now on track and that he was ensuring it was being spent appropriately. He explained that a provision of circa £6m may be made in this year to cover the General Insurance Policies in Force risk.

**ACTION:
Chris Day**

Neil McCausland requested a change to the presentation of the Insurance Policies data to make the trend information clearer.

POLB12/24

EAGLE UPDATE

- (a) Nick Kennett explained the twelve workstreams in place to ensure Eagle is achieved. The most challenging of these being: the valuation of Midasgrange; ensuring the correct termination terms are enshrined in the contract and the wider HR effects of the change. He has a target date of early March for signing the contract and will bring the final agreement to the March Board.

**ACTION:
Nick Kennett**

- (b) Insurance
Nick Kennett presented the negotiations mandate to the Board. The Chairman asked how far the proposal would reduce the bureaucracy inherent in the current relationship. Nick Kennett agreed that the current proposal had not been his initial desired outcome but was confident it would work. Les Owen urged the Business to retain as much control as possible over product design and marketing. Paula Vennells explained that the relationships between the two businesses would be very important.

**ACTION:
Alwen Lyons**

Nick Kennett said that Government concurrence to the contract extension had not been received. Les Owen expressed concern at the potential impact on signing Eagle. Nick Kennett did not anticipate any issues but confirmed that the delay in BIS sign-off risked the achievement of the critical path as the Bank would not proceed on other matters until the extension was confirmed.

POLB12/25

PERSONAL INJURY REFERRAL FEES

The Chairman left the meeting due to conflicts.

Minutes shown at Appendix B.

The Chairman rejoined the meeting.

POLB12/26

ANY OTHER BUSINESS

- (a) The issue of aggravated robbery and burglary had been raised at RMH Board and the Chairman asked that future Health & Safety reports include a report on any incidents.

**ACTION:
Alwen Lyons**

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The risk would also be raised with the Audit, Risk and Compliance Committee for future monitoring.

- (b) Separation
The Chairman updated the Board on the likely agreed structure for the Group post separation. POL would sit as a sister company to Royal Mail Group under a very thin TopCo consisting of the Chairmen of both Companies. Responsibility for the businesses would sit with the respective Boards.
- (c) The Chairman informed the Board of several Non-Executive Director candidates under consideration and three possible candidates for the Chair of Audit.

POLB12/26

NOTING PAPERS

- (a) • Significant Litigation Report (POLB(12)23) was noted.
- (b) • Post Office Sealings (POLB(12)24) was noted.
- (c) • Communication Action Group Minutes (POLB(12)25) were noted.
- (d) • Project Alaska (POLB(12)26) was noted.

POLB12/27

CLOSE

- (a) There being no other business, the Chairman closed the meeting.

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POLB(12)2nd Appendix A

Annual net income and estimated contribution percentage for all known Front Office of Government propositions

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Westminster	Live	0.1	0.1	0.1	0.1	0.1	25%	100%	0.1
TfL Public Carriage Office	Live	0.1	0.1	0.1	0.1	0.1	64%	100%	0.1
Student Loans	tbc	0.1	0.4	0.4	0.4	0.4	75%	100%	0.4
Skills Funding Agency	Jun-12	0.4	0.2	0.2	0.2	0.2	49%	100%	0.2
Care Quality Commission	Mar-12	0.9	0.6	0.6	0.6	0.6	70%	100%	0.6
UKBA	Mar-12	6.7	6.7	6.7	6.7	6.7	53%	100%	6.7
DVLA tender (incremental)	Oct-12	1.0	21.0	25.0	35.0	35.0	30%	90%	31.5
IPS Passports	Sep-13	19.0	27.0	35.0	35.0	35.0	40%	90%	31.5
DSA	Mar-13				30.0	30.0	30%	30%	9.0
Identity Services UC	2012/13			8.0	11.0	11.0	30%	75%	8.3
Identity Services HMRC	2012/13			5.0	5.0	5.0	30%	75%	3.8
Identity Services GB	2012	3.0	7.0	7.0	7.0	7.0	35%	90%	6.3
Identity Services Other e.g. Land Registry	2013/14			4.5	9.0	9.0	30%	60%	5.4
Universal credit (Asst Applications)	2014/15				5.0	10.0	30%	75%	7.5
HMRC (Asst Applications)	2013/14				1.0	5.0	30%	75%	3.8
Security Industry Authority	Oct-12	0.1	1.0	1.0	1.0	1.0	35%	75%	0.8
Local Authorities	Ongoing	1.0	2.0	5.0	7.0	12.0	25%	80%	9.6
CRB	2014/15				5.0	10.0	25%	50%	5.0
HMCTS (Court Services)	2012	0.1	2.0	5.0	10.0	10.0	25%	75%	7.5
HMRC network	2013/14		1.0	1.0	1.0	1.0	25%	50%	0.5
London PSN (extension to others)	Ongoing		3.0	5.0	10.0	10.0	35%	75%	7.5
Scottish Govt	2012/13		1.0	2.0	4.0	4.0	30%	50%	2.0
Scottish LA	2012/13	0.1	0.5	1.0	2.5	2.5	30%	50%	1.3
TfL contactless	2012	1.0	2.5	2.5	2.5	2.5	30%	25%	0.6
Total		33.7	76.2	115.2	189.2	208.2			149.9

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POLB(12)2nd Appendix B

POLB12/25

PERSONAL INJURY REFERRAL FEES (POLB(12)18)

- (a) Les Owen challenged the statement made at the January Board that POL could be certain it was not involved with any injury referral fees. Paula Vennells explained that data was only passed to a third party if the customer asked for this action to be taken. Les Owen explained he had two fundamental issues that we should be mindful of; TCF in a growing FS Business, and also the possible bad PR if we are shown to be involved in referral fees.

**ACTION:
Nick Kennett**

- (b) Paula Vennells asked for a formal referrals policy to be agreed with Junction ensuring no active encouragement of personal injury referrals unless requested by the customer. This would be copied to the Board as a future noting paper.

**ACTION:
Nick Kennett**

- (c) Nick Kennett would also investigate the flow of fees to ensure that there is no inducement for wrong behaviours.

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**POLB(12)4th
POLB12/28-43**

Post Office Limited
(company no. 2154540)
Minutes of the meeting of the Board of Directors
held at 148 Old Street, London EC1V 9HQ on 15th March 2012

Present:

Alice Perkins	Chairman, Post Office Ltd
Neil McCausland	Senior Independent Director, Post Office Ltd
Les Owen	Non Executive Director, Post Office Ltd
Paula Vennells	Managing Director, Post Office Ltd
Chris Day	Chief Financial Officer, Post Office Ltd

In attendance:

Alwen Lyons	Company Secretary, Post Office Ltd
Lesley Sewell	Interim Chief Operating Officer (item POLB 12/28)
Kevin Gilliland	Sales and Network Director (item POLB 12/29 & 30)
Nick Kennett	Financial Services Director (item POLB12/30 & 36)
Susan Crichton	Legal and Compliance Director (item POLB 12/39 & 40)
Sarah Hall	Financial Controller (item POLB 12/39)
Martin Lacey	Pensions Specialist (item POLB 12/39)

POLB12/28

INFRASTRUCTURE (IT AND PROCUREMENT)

- (a) Lesley Sewell explained the IT Strategy for the next 3 years which will support the wider business activity, procure circa 60 IT contracts and deliver the cost reduction challenge. The Board discussed the Strategy which involves the proposed introduction of a Service Integrator (SI) to manage IT providers. Les Owen asked if the SI would be allowed to provide any of the work towers in the framework of suppliers. **(POL(12)28 Appendix 2)**. Lesley Sewell explained that the SI would only supply the service desk but no other tower;
- (b) Lesley Sewell emphasised that the business lacked the capability and maturity to manage the changes required to deliver the future IT infrastructure. This work was not a core competency and it made more sense to outsource. She stressed the importance of getting the SI contract terms correct and getting good governance in place to manage that contract;
- (c) Chris Day assured the Board that the SI and contracts would include efficiency targets which were already assumed in the budget;
- (d) Neil McCausland had suggested at a pre-meet that the SI approach be tested to give the Board some assurance that it was the best solution. Lesley Sewell reported that Berkeley Partnership had reviewed the SI strategy and were supportive of the approach agreeing that the SI would bring the required capabilities to the business;

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- (e) Paula Vennells questioned whether the SI would in fact raise capability, as the same POL staff who were currently working in this area of the business would be TUPE'd over to the SI. Lesley Sewell assured the Board that the contract would insist on raised capability and people would not be retained if they did not achieve the required level. Paula Vennells flagged to the Board that the redundancy cost could return to POL under TUPE rules;
- (f) Les Owen asked the business to ensure that POL retained the procurement decisions for the tower contracts. Lesley Sewell assured him this was the way the SI contract would be structured. She emphasised that the SI contract negotiation was vital and the business would need to buy-in consultancy support for this work;
- (g) Lesley Sewell assured the Board that the business would retain and strengthen its in-house resource which would focus on the IT changes needed for new products and services;
- (h) the Chairman understood that Berkeley Partnership had challenged the concept of the towers within the framework, Lesley Sewell explained that the Berkeley Partnership have suggested other solutions and proposed that the framework could be structured around the business applications. She would take a further look at a different approach but thought it would be too radical a change for the business in one go. However, Lesley Sewell assured the Board that changes could be made to the proposal as it developed and the team would keep an open mind;
- (i) Les Owen asked if the model had been successfully deployed in other organisations. Lesley Sewell reported that she had visited Rolls Royce who were currently moving to the model. She agreed to find a business who are already successfully using the SI and similar structure to benchmark. She would look at retail / services sector as well;
- (j) Neil McCausland asked for an explanation of the Financial overview **(POL(12)28 APPENDIX 1)** and why the costs were so high for 13/14 and 14/15. Lesley Sewell explained that the optimised baseline was based on existing contracts including RPI increases and also included the projects involved in business transformation. Neil McCausland challenged the additional costs. He agreed the expenditure of £13.38m to implement the programme, but stated that this did not mean he agreed the targets for subsequent years. The Chairman clarified that the Board were not being asked to approve the IT Budget for subsequent years and asked Lesley Sewell and Chris Day to provide a breakdown and explanation of the optimised expected cost scenarios for the Board;
- (k) the board endorsed the proposed strategy subject to the points made and authorised expenditure of £13.8m for the implementation of the programme.

ACTION:
Lesley Sewell

ACTION:
Lesley Sewell

ACTION:
Lesley Sewell
Chris Day

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POLB12/29

NETWORK TRANSFORMATION

- (a) Agency
Les Owen asked if the business had the necessary skills to assess Subpostmaster business plans submitted for Network Transformation. Kevin Gilliland assured the Board that the business was experienced in these assessments as 10% of branches change every year and the business plans for all these changes were put through a retail assessment and then a financial assessment led by Chris Day's team;
- (b) the Chairman emphasised the importance of the selection criteria used to prioritise branches and the need for them to be fairly and robustly applied. Neil McCausland suggested a further criteria to look at the benefit for the Subpostmaster as this could provide advocacy for the change;
- (c) Kevin Gilliland explained that most of the negative press for Network Transformation was focused on locals and a previous 'down-grading' of service. He reported that 'locals' could carry out 98% of the core business carried out by the whole Network which would move closer to 100% once a manual solution was in place for business banking;
- (d) Crowns
The Chairman congratulated Kevin Gilliland on the progress being made. Neil McCausland encouraged the business to push for more trials. Kevin Gilliland explained that the most difficult area of the plan was the staff savings and that achieving the targets would rely on engaging the front line staff. This was why more time had been spent on the initial trial at Birmingham. Some of the staff at this office are now being used as advocates in the next trial offices. The Chairman reiterated that the Board was pleased with what it had seen and understood that cultural change was needed, but encouraged the business to keep pushing for faster deployment. Paula Vennells agreed and suggested that six to ten pilots are now needed instead of the couple which are planned;
- (e) Neil McCausland asked for a reconciliation between the numbers in the paper and the Crown P&L.

ACTION:
Kevin Gilliland
Chris Day

POLB12/30

FS SALES

- (a) Nick Kennett explained the suggested management structure and the importance of the relationship between the financial services representative (FSR) and the branch staff. Neil McCausland asked what incentives would be in place for the FSR. Nick Kennett explained that a qualified FSR would earn circa £25k with an incentive of an additional £10k available if reaching sales targets. Kevin Gilliland reported that the structure of the branch staff incentive was still to be agreed;

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- ACTION:**
Kevin Gilliland
- (b) Neil McCausland suggested that the new FSR model be built into the Crown Trial, including branch incentives. Kevin Gilliland accepted this would be a good place to trial new concepts. Nick Kennett reported that the Birmingham trial had already seen an up lift in sales which if replicated through the Network would bring a £1m additional profit;
 - (c) Les Owen asked for clarification as to whether the proposed FSR role could give advice. Nick Kennett confirmed that although the FSR would be qualified they would not give advice but would perform an assisted sale;
 - (d) Les Owen highlighted the potential opportunity as other financial organisations' advisors move to charging a fee post RDR (Retail Distribution Review). Up to 40% of the population will no longer be given free financial services advice and this presented an opportunity for the Post Office.

POLB12/31

MINUTES OF PREVIOUS MEETINGS

- (a) The minutes of the meeting of 9th February 2012 were agreed;
- (b) the Minutes of the POFS Board Meeting (POFS(12)1st) were noted. Paula Vennells challenged the minuting of the MDA Commercial Contract; she will ensure it is challenged at the next Midasgrange Board.

POLB12/32

MATTERS ARISING – Status Report

- ACTION:**
Nick Kennett
- ACTION:**
Neil McCausland
- (a) POLB11/62/(c) Appendix A
Les Owen asked for a report of the number of personal injury referrals made by Junction. Neil McCausland agreed it would be good to track these especially as they are part of an incentive scheme. Because of her potential conflict of interest on this issue, the Chairman asked Neil McCausland to take ownership of it to ensure the business was getting the required information and challenging Junction to ensure that the Post Office was beyond criticism.

POLB12/33

MANAGING DIRECTOR'S REPORT

- (a) Paula Vennells updated the Board that cheques would now be acceptable at 'locals' as a new manual process had been agreed;
- (b) Paula Vennells told the board about the successful BIS week where 500 Senior Civil Servants attended meetings and seminars with the Front Office of Government (FOoG) team with very positive feedback.

POLB12/34

HEALTH AND SAFETY UPDATE

- (a) The Health & Safety Update (POLB(12)34) was noted.

Post Office Limited – Strictly Confidential**POLB12/35****FINANCE/PERFORMANCE REPORT**

- (a) Chris Day presented the period 10 performance which continued to show strong sales in FS and Mails as well as accelerated spend in key investment expenditure. He also reported that period 11 continued the strong performance. The Full Year interim forecast was now £65 - £70m "profit" including the network subsidy payment of £180m. Les Owen asked if there was a risk that the Government would reduce the Network Payment because of the good performance. Chris Day reported that this had been a concern especially around cash flow, but was unlikely because the business had already made the case for next year.

POLB12/36**EAGLE UPDATE****ACTION:
Les Owen****ACTION:
Nick Kennett**

- (a) Nick Kennett gave the Board an oral update on the Eagle negotiations. He explained the problems with the valuation of the future portfolio which would be sold when the contract expired. Les Owen suggested an alternative proposal and the Chairman asked that Les Owen and Nick Kennett convene after the meeting to discuss. Nick Kennett to send a note round to the Board to summarise the discussion;
- (b) Nick Kennett reported that the Bank had re-opened discussions on FSR numbers, an area which they had previously dropped in the Heads of Terms. The Chairman told Nick Kennett to relay the Board's disappointment that this issue, which they thought had been settled, was now being re-opened.

**ACTION:
Nick Kennett****POLB12/37****RESIGNATION OF DIRECTOR - LES OWEN**

The Board noted the resignation of Les Owen as Non Executive Director effective 15 March 2012 and the Company Secretary was authorised to file the necessary TM01 form with Companies House. The Chairman thanked Les Owen for his contribution to the Board.

**ACTION:
Alwen Lyons****POLB12/38****BUDGET AND OPERATIONAL PLAN 2012-13**

- (a) Chris Day took the Board through the budget and operating plan. He explained that he had incorporated the feedback from the budget workshop into the adjusted budget figures. He stressed that the business was not building in costs for independence without due scrutiny, but recognised the concern about the existing base costs. He explained that the non-staff costs already included a considerable stretch challenge of £15m unidentified savings and suggested a stretch of £8m in the staff and agents costs to be held centrally as a contingency;
- (b) Neil McCausland challenged the increase in staff costs and Les Owen supported his challenge as the 12/13 staff cost budget was above the strategic plan agreed with SHEX. Chris Day explained that the increase in costs driven by separation had been shared with SHEX who accepted them but obliged the business to find a way to cover the costs. Les Owen suggested that the business

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consider using a cost reduction firm to look at the staff costs in the business. The Chairman agreed that the business should look hard at its costs but noted that it would need to balance this work against the importance of delivering Network change and revenue growth;

- (c) Chris Day emphasised the need for short term increases in costs but also acknowledged the requirement for an efficiency agenda with forward looking productivity measures. He explained that a company called Vanguard are looking at working practices and re-engineering processes in the Network;
- (d) the Chairman suggested that Paula Vennells and Chris Day discuss the medium term cost reduction challenge with the Executive Team to decide how they will improve productivity without jeopardising the major transformation programmes, and report back to the Board. Neil McCausland supported this approach;

ACTION:
Paula Vennells
Chris Day

- (e) Chris Day to circulate to the Board the updated budget figures including contingency;
- (f) the 2012-13 budget was approved.

ACTION:
Chris Day

POLB12/39

PENSIONS - NEXT STEPS

- (a) Chris Day introduced the Pensions paper which had been produced to provide background for the Board. Sarah Hall and Martin Lacey were on hand to give additional information.

ACTION:
Martin Lacey

The Chairman mentioned the issue of increasing employee contribution rate and asked Martin Lacey to start a piece of work on what POL's options are re employee contributions.

ACTION:
Susan Crichton

Les Owen asked whether POL intended to take independent advice with regard to the comments made in para 5.3 as to the legal standing of the promise – Susan Crichton confirmed that she thought that POL should take independent legal advice.

Les Owen also commented on salary sacrifice stating that although this was common in the private sector, it may not be acceptable in the POL context.

Chris Day then asked Sarah Hall to outline the increased POL contribution rate. She explained that the RM guidance for this year was that the P&L pension rate should be increased from 17.1 to 18.2%. Sarah Hall also mentioned that this flowed through into cash assumptions. This assumed a stable population but the reality might be different. Les Owen asked about the risk that the contribution rate could increase up to as much as 24%. Sarah Hall responded that this would equate to a cash risk of c£9m per annum which should be manageable within the context of POL's cash flows.

Following a question with regard to the POL section of the RMPP it was explained that POL would have a separate section of the pension fund but would use the same trustees as RMG until one of

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two things happened: either that there was a sale of RMG to the private sector or it became apparent that the strategic objectives of POL and RMG ceased to be aligned. It was concluded that for time being and provided the interests of both companies were aligned and that the RMPP governance arrangement was satisfactory and cost effective.

ACTION:
Chris Day

The Chairman mentioned that one of the Non Executives who would shortly be joining the board had a particular interest/expertise in pension matters so suggested that Chris Day should engage with her regarding POL's pension issues. The POL Board will avoid taking any unnecessary long-term irrevocable decisions until the new NED has been fully engaged.

ACTION:
Susan Crichton

It was thought that three months would be required to develop the work with respect of risk appetite and looking at the financial impact of the various options. This work will be deferred until the new NED has been fully engaged.

ACTION:
Martin Lacey

There was a brief discussion with regard to the RMSEPP scheme where Les Owen informed the board that RMG is seeking a final legal interpretation of the RMSEPP pension revaluation rule. Martin Lacey outlined a proposal that RM is considering regarding a lump sum contribution to the RMSEPP Trustees in return for certainty of future contributions until March 2018. POL has the option to participate in this arrangement this year. The Chairman suggested that the Board were not in a position to make a decision on this proposal and that a paper should be circulated

The board agreed to delegate authority to Chris Day as set out in the board paper.

POLB12/40

BOARD GOVERNANCE UPDATE

- (a) Susan Crichton reported that the European Commission are likely to approve the UK Government's notification that the aid to be given to POL is State Aid in accordance with the EU SGEI Framework on 28th March and that SHEX have sent an email expressing comfort that they are confident that this will happen to that timetable. The UK Government's application is going through inter service consultation and no issues have been raised. Chris Day having reviewed POL's financial position was content with the support from SHEX. The Board took comfort from the assurance and deemed it was not necessary to write to SHEX at this point;
- (b) Susan Crichton explained the stages the business needed to complete before separation took place on the 2nd April; all the activities were contingent on Royal Mail Pension Solution State Aid;
- (c) Susan Crichton reported that the new POL Articles of Association were not yet finalised as additional tax clarification was required. At the request of the shareholder the Articles are aligned with those of RM Group, apart from the section on Delegated Authorities where POL will have to get SHEX approval for spend of over £50m. Susan Crichton and Chris Day were asked to update and circulate a

ACTION:
Chris Day
Susan Crichton

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proposal for Delegated Authorities below SHEX level;

ACTION:
Susan Crichton/
Paula Vennells

- (d) the Articles also require SHEX sign off of a 5 year rolling Strategic Plan. Paula Vennells pointed out that the operational intention of the Articles was different to the actual words and wanted comfort that this would not cause problems. Susan Crichton explained that a ways of working document would be put in place between SHEX / BIS and POL with read across for the Articles to ensure they worked in practice. The Chairman was comfortable to leave Susan Crichton and Paula Vennells to come to a working accommodation on this with BIS;

ACTION:
Alwen Lyons

- (e) the Board resolved that a sub committee be formed to give effect to the legal requirements necessary for the Transaction to move Post Office Limited to become a sister company of Royal Mail Group Limited (the “Transaction”). This sub committee comprising of Paula Vennells and Chris Day would execute the documents required to give effect to the Transaction including, but not limited to, the secondment termination agreement; the new Articles of the Company; the Shareholder approvals and the subscription letter in connection with the special share. Minutes of this sub committee would be circulated to the Board;

(f) **POL Sealing Authorities**

Susan Crichton advised the Board of the need to revise the delegated authority to authenticate the fixing of the Company’s seal.

The Board approved that the affixing of the company seal may be authenticated by any current Director of the Company or the Company Secretary or Assistant Company Secretary or the following signatory:

- Susan Crichton

(g) **Appointment of Alice Perkins to the Royal Mail Holdings Board**

The Board noted the appointment of Alice Perkins to the RMH Board;

it was noted that Alice Perkins had notified the Board in accordance with article 89(B) of the Company’s Articles of Association that she was proposing to take up a position as a director of Royal Mail Holdings plc (“**RMH**”) and that this could be regarded as reasonably likely to give rise to a conflict of interest for the purposes of section 175 of the Companies Act 2006 (the “**Act**”). The Board considered this interest and position and noted the potential for certain situations to give rise to a conflict of interest or conflict of duty. The Board also noted the terms of the Letter Agreement from the Department of Business, Innovation and Skills to Alice Perkins dated 15th March 2012 regarding the structure of the RMH group, corporate governance arrangements and the Crown indemnity in favour of Alice Perkins;

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it was resolved that it would promote the success of the Company for Alice Perkins to remain a director of the Company notwithstanding her position and interest as a director of RMH and accordingly that such position and interest shall be authorised for the purposes of section 175 of the Act and in accordance with article 89 of the Articles of Association, and that such authorisation shall extend to any actual or potential conflict which may arise out of the matter so authorised;

the Board may notify Alice Perkins from time to time of any additional obligations or restrictions that it considers appropriate for her to observe in order to manage the conflict situation;

in respect of a matter to which this authority relates, Alice Perkins shall not be obliged to disclose to the Company any information in respect of which she owes a duty of confidentiality to a person other than the Company;

this authority may be terminated by the Board at any time;

subject to any duty of confidentiality, Alice Perkins shall be required to notify the Board as soon as reasonably practicable if there occurs any other material change of circumstances of which in her reasonable opinion the Board should be aware if it were considering granting or renewing any such authorisation;

it was noted that, pursuant to Article 89 and section 175(6) of the Act, the meeting was quorate without counting Alice Perkins and Alice Perkins did not vote on the foregoing resolution.

POLB12/41

ANY OTHER BUSINESS

- (a) Appointment of Yorkshire Bank as Bankers POLB(12)51
The Board approved the appointment of Yorkshire Bank;
- (b) the Chairman informed the Board that, following their recommendation to the Shareholder Executive, Virginia Holmes had been given Ministerial approval to become a POL Non-Executive Director and would join the Board in April;
- (c) the Chairman explained that she and the Company Secretary had met James Arbuthnot MP, at his request to discuss the Subpostmaster cases questioning the integrity of the Horizon system. The Chairman hoped that she could find a way to convince him and other MPs that the system was not at fault. This might mean looking at a further independent study of the issues.

ACTION:
Paula Vennells

POLB12/42

NOTING PAPERS

- (a) Significant Litigation Report (POLB(12)42) was noted.
- (b) Post Office Sealings (POLB(12)43) was noted.
- (c) Communication Action Group Minutes (POLB(12)44) were noted.
- (d) Olympics (POLB(12)45) was noted.
- (e) Privacy Compliance Strategy (POLB(12)46) was noted.
- (f) Verification of Telecoms Supplier (POLB(12)47) was noted.
- (g) Treasury – Authority Levels (POLB(12)48) was noted.

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- (h) RMG Price Changes (POLB(12)49) was noted.
- (i) **Horizon Update (POLB(12)50) was noted.**
 - a) Lesley Sewell reported that a tactical review was underway to understand the single points of failure within the system. A more strategic review was also needed for re-visiting decisions made on critical back-up for system failures. Lesley Sewell would return to the Board with the outcome of the two reviews and the options available for the future.
 - b) the Chairman informed the Board that she and Paula Vennells were meeting with Duncan Tait (CEO Fujitsu) and Rod Vawdry (Vice chairman of Fujitsu) that evening.

**ACTION:
Lesley Sewell**

POLB12/43

CLOSE

- (a) There being no other business, the Chairman closed the meeting.

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POLB(12)3rd
POLB12/028-30

Post Office Limited
(company no. 2154540)
Minutes of the meeting of the Board of Directors
held at 148 Old Street, London EC1V 9HQ on 29th February 2012

Present:

Alice Perkins	Chairman, Post Office Ltd
Neil McCausland	Senior Independent Director, Post Office Ltd
Paula Vennells	Managing Director, Post Office Ltd
Chris Day	Chief Financial Officer, Post Office Ltd

In attendance:

Alwen Lyons	Company Secretary, Post Office Ltd
Susan Crichton	Legal & Compliance Director
Matthew Starks	Head of Employee Relations

POLB12/028

STATE AID

- (a) Susan Crichton updated the Board on the progress of the UK Government's notification for approval of the proposed state aid to fund the Post Office's transformation programme and network subsidy. She explained that POL's notification is the first to be considered under the European Commissions' new framework for the review of Services of General Economic Interest (SGEI). In this context the Commission is focused on Article 19, which requires that all SGEI contracts are procured in compliance with EU Public Procurement law. The Government has been told that a favourable decision has been drafted but the UK Government are required to provide two undertakings. Firstly, that the re-procurement of the POCA contract would be in compliance with EU public procurement law when it expires. Secondly that the UK authorities will review by the end of 2017 the processes under which all public contracts to provide the SGEIs have been awarded and ensure their compliance with obligations under Union public procurement rules. The UK authorities' assessment under this review will be made available to the Commission.
- (b) Susan Crichton explained that this would mean the MDA would fall within the latter category, and provided that RMG is not privatised by end of 2017 would be one of the contracts reviewed by the UK authorities. It has been suggested that Royal Mail (RM) and the Post Office (POL) should sign a side letter to the MDA to the effect that if, following the review by the UK authorities and discussion with the Commission, the Government request RMG to re-procure the contract and if the Post Office do not win the contract from Royal Mail then the MDA will terminate any claim for loss of earning from POL. Neil McCausland asked that the shareholder should request this on the basis that such undertaking would facilitate in BIS's State Aid notification.

The Chairman asked that BiS's advice be captured alongside the

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ACTION: side letter for future reference.

Alwen Lyons

ACTION: (c) Susan Crichton promised to keep the Board updated

Susan Crichton

ACTION:

Paula Vennells/ The Board agreed to delegate authority to either of the Executives
Chris Day Directors to sign the side letter.

POLB12/029

LONG TERM INCENTIVE SCHEME (LTiP)

- (a) Matthew Starks took the Board through the proposed LTiP structure. The Board discussed the different measures which could be used and the difficulty of setting the revenue/sales targets so far in advance. Three measures were highlighted as appropriate; absolute profit (deficit reduction); sales revenue; and Network Transformation conversions.
- (b) Neil McCausland and the Chairman argued in favour of using deficit reduction rather than profit because they thought the latter was a misleading term given the continuing existence of the NSP.
- (c) Neil McCausland proposed that deficit reduction be the only measure in the LTiP. Chris Day asked if it was right that successful sales and conversion results should get no reward if deficit reduction was missed by a small amount despite the business showing good growth in the year. The Chairman agreed that this could lead the business to drive cost cutting to achieve the budget instead of focusing on growth. Neil McCausland agreed that the three measures were important but still wanted deficit reduction as the prime target.
- (d) Chris Day reminded the Board that the business also has a short term bonus scheme which uses profit (deficit reduction) as a primary measure and that he would want to guard against rewarding individuals twice for the same performance.
- (e) Paula Vennells and the Chairman stressed the importance of hitting the Network Transformation target as this was agreed with Government as part of the funding and was also a contractual requirement of the MDA and suggested that this could be the gateway measure. This would also help with the transition from the current scheme which includes Network Transformation conversions as a gateway.
- (f) The Board discussed the range over which the LTiP would be paid, agreeing that it would pay a relatively small amount for performance marginally below target, the agreed payment if the target was hit and a significantly higher level if a stretch target was achieved.
- (g) The Board agreed that the LTiP scheme should have a gateway of 5400 Network Transformation conversions. If this number was not achieved there would be no payment. The LTiP would then be split 50:50 between deficit reduction and sales growth. The payouts for these two bonuses would range from slightly below target to a significant stretch target, and it was acknowledged that the two

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scales would need to be different.

ACTION:
Matthew Starks

- (h) The Board asked Matthew Starks to provide a paper setting out the detail of the Board decision with some worked scenarios using the numbers in the plan as an example to show the LTIP which would be paid for different levels of performance.
- (i) The Board agreed the percentage of salary to be used for each category covered by LTIP. Paula Vennells and Chris Day left the meeting and the Chairman and Neil McCausland agreed the differentiation for the CEO and CFO as laid out in the paper to be appropriate.
- (j) The company secretary was asked to clarify which roles within the Business require Ministerial authorisation for LTIP and if 'senior executives' LTIP should be reviewed by ShEx to fulfil the requirement in the funding agreement. (See footnote)

ACTION:
Alwen Lyons

POLB12/030

CLOSE

- (a) There being no other business, the Chairman closed the meeting.

Footnote:

The shareholder has confirmed that salary changes including bonus and LTIP for executives on the Board - ie CEO and CFO will need Ministerial and Chief Secretary of the Treasury approval.

Under clause 10.1 of the funding agreement ShEx should also have sight of incentives for the 'senior executives' (defined as the ET) to ensure they are aligned to the Strategic Plan. These would not go through the formal Ministerial approval process that applies above.

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POLB12/40
Appendix A**Proposal: authorities to commit spend or implement change****ShEx Consent Required Under Articles of Association**

SHEX	> £50m
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Authorise

	Planned Spend	Unplanned & Complex Spend	Decisions with brands and risk impact
	<u>Value</u>	<u>Value</u>	<u>Description</u>
Board	> £20m	>10m	Carries significant risk (ERM score4). Attract public and media interest Risk of impact on brand value New product
POLIC/ ET	£5-20m	£0.5-10m	Carries significant risk (ERM score 3). Attracts local public and media interest Impact on customer experience Changes to products
CFO	£1-5m	£0.25-0.5m	Price changes
Director	<£1m	<£0.25m	N/A

To be reviewed at the end of 2012/13.

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Planned Spend

Covers both bau costs of running the business and projects approved in the budget unless deemed in the budget to be complex.

Includes: extending a product range, system upgrades, and property projects.

Examples:

- Horizon releases
- Rhino Doors cash centre security upgrade
- Payment Card (PCI) security compliance
- Marketing campaigns

Unplanned & Complex Spend

Spend not in budget and projects in the budget that were identified as complex.

Includes: product development, acquisition of new system, major capital spend

Examples:

- IT Transformation
- Channel Integration
- Returns and Collections
- Olympics
- FOoG tenders

Change with Risk

Any activity that places business at risk (refer to ERM score).

Includes: change of supplier, compliance cases, and single person vehicles.

Examples:

- HomePhone and Broadband supplier selection
- PINpads
- Eagle
- Sale of credit cards in branch

Brand Impact

Significant issue that will be noticed by all customers and significantly impact a group of customers.

Includes: completely new product, change to product, new branch model

Examples:

- POCA statement frequency,
- Premier trial
- Online retail shop
- Cheque acceptance
- Project POLO

NB some cases will fit under more than one heading.