POL00151514

GROUP EXECUTIVE AGENDA

for the meeting to be held on 12th March 2015 in Boardroom, Room 501, Old Street

Present: Paula Vennells (Chair), Alisdair Cameron, Martin George, Kevin Gilliland, Neil Hayward, Jane MacLeod, David Ryan, Henk Van Hulle (deputising for Nick Kennett) and Alwen Lyons

Apologies: Nick Kennett

In attendance: Gavin Lambert, Geoff Smyth, Jonathan Hill, Henk Van Hulle, Nick Beal and Tom Moran

Start time : 09.30hrs **End:** 16.30hrs

Time	Item	Sponsor/Presenter
09.30 – 10.30	Approval and recommendation to the Board of: • 2015/16 budget (aligned with high level 3 year plan) • 2015/16 Scorecard	Alisdair Cameron
10.30 - 10.40	BREAK	
10.40 - 11.40	Telephony Strategy – Options and Recommendations	Martin George / Geoff Smyth
11.40 - 12.10	HAWK	Jonathan Hill
12.10 - 12.40	Banking Service	Henk Van Hulle
12.40 - 13.10	LUNCH	
13.10 - 13.40	SME Strategy	Martin George
13.40 - 14.10	Digital Sales	Martin George
14.10 - 14.20	BREAK	
14.20 - 14.50	NFSP Negotiating Approach & Mandate	Neil Hayward / Nick Beal
14.50 - 15.20	Transforming Employee Relations	Neil Hayward / Tom Moran
15.20 - 15.50	Talent Retention – Managing Flight Risk	Neil Hayward
15.50 – 16.05	Verbal update on Sparrow	Chris Aujard / Jane MacLeod
16.05 - 16.15	GE Action Log	All
16.15 - 16.25	Noting paper(s): • Cyber Security & Information Assurance Report • Health & Safety Report • Significant Litigation Report • Pensions Update	
16.25 – 16.30	AOB	All
16.30	CLOSE	

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POST OFFICE LTD GROUP EXECUTIVE COMMITTEE

Update on strategic options for the telecommunications business

1. Purpose

The purpose of this paper is to:

1.1. agree with the Group Executive what role we expect the telecommunications business ('telco') to play within our 3 year operating plan, including specifically what financial projections to include in our base case scenario; and

1.2. update the Group Executive on progress in reviewing the alternative strategic options for telco, including divesting or franchising the business, and to outline the proposed next steps.

The accompanying slide deck sets out more of the detailed analysis of the telco market, our place within it and the strategic and financial options going forward.

2. Background

2.1. In 2012 the Post Office began the process of migrating from BT Wholesale to Fujitsu for the provision of the technology platform and managed services which underpin the delivery of our HomePhone and Broadband (HPBB) products. While the technical migration was executed successfully and within a tight time scale, the managed services transition proved to be more challenging with the call centre function failing to maintain adequate service levels due to poor planning and preparation. This failure caused the loss of 25,000 customers over the period September 2013 to July 2014, alongside brand damage and network dissatisfaction.

2.2. Call centre performance has stabilized with the addition of an additional 70 FTE's above the original launch assumption of 225 FTE's. However while we have seen marked improvement in customer service, billing and collections, technical support staffing levels continue to be inconsistent leading to frequent failure to answer 80 % of calls within 20 seconds. In commercial terms trading performance has improved over the past 4 months with a forecast net addition of 5,000 customers this financial year. The business will deliver a direct product contribution of c£15.6m in 2015/16, and as set out in more detail in the slide deck this value is expected to improve over the next three years through the potential for both steady price increases and net growth in customer numbers.

2.3. However, the strategy for telco has not been reviewed in detail since the preparation of the 2013 Strategic Plan – it was not an explicit part of the work done for last year's June Board away day, other than to reach the high level conclusion that it was a secondary pillar rather than one of our core strategic priorities of mails and financial services. The Executive Committee therefore agreed in November 2014 that a review should be undertaken of the strategic options available to us for the telco business, and in particular whether it should be retained as part of our group portfolio or divested to release capital and reduce management distractions.

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3. Activities/Current Situation

3.1. Since then we have reviewed these options in greater detail, including pursuing a preliminary dialogue with BT and Fujitsu to estimate the potential market valuation of our business under a full disposal and to assess whether there is market appetite for a franchising or merger arrangement which would retain a role for the Post Office brand within the telco market, but with a third party taking on responsibilities for running the business.

3.2. During the dialogue in December, BT expressed enthusiasm for either an acquisition or franchising arrangement, which might be consolidated alongside their Plus Net subsidiary (which targets a similar value-focussed segment of the market). However, these discussions were temporarily paused at the start of January while Ofcom reviews the competition implications of BT's acquisition of EE.

3.3. Fujitsu has not at this stage expressed enthusiasm for either an acquisition or franchising arrangement, on the grounds that owning a telco franchise is not part of their core business model - although they remain keen to continue working with us under the current arrangement.

3.4. Alongside the assessment of these full or partial divestment options (covered in more detail in the next section and accompanying slides) we have continued to develop our plans for the telco business under the base case assumption that it is retained, with the objective of maximising its direct product contribution (DPC). A price increase of £2 per month on the Home Phone service was executed successfully in January 2015, delivering an annualised EBITDAS improvement of £7 million. Plans are in place with the network and other distribution channels to deliver a net increase of 20,000 customers in 2015/16 (taking the total base to 475,000 customers by end 15/16). This together with the proposed £1.00 monthly price increases (effective Jan 1 2016) would deliver an £7.5m year on year increase in DPC in 2015/16. These growth plans are supported by a proposed £0.7m investment to introduce fibre based broadband in Q2 and £0.1 m to develop our internet security product ('Post Office Safeguard'). The scope for further price and volume growth in subsequent years is outlined in the next section and the accompanying slide pack.

3.5. Post Office launch of mobile was delayed from November 2014 to May 2015, primarily to improve our financial outlook this year by reducing marketing spend within Q4. In addition the delay allowed u more time for rigorous testing through a friendly user trail with colleagues and relations. As the slide deck sets out in more detail, we are proposing to stagger the roll-out of mobile with clear check points in place to review trading performance before committing to further investment.

3.6. Post Office Homephone product pricing does provide an opportunity to increase EBITDAS by "cash-cowing". We anticipate that in the next price increase round (November 2015) the market will increase Line Rental by £1.00 a month, as a result based on Post Office positioning versus BT it possible to consider increasing our Line Rental price on Homephone by £2.00. This would generate an additional £3.5 million EBITDAS. However it is important to note that 82 % Home Phone base is over 65 and likely on fixed income. Further since September 2013 we have increased our Line Rental charges by 31 %. If we were to implement a further £2.00 rise effective January 1 2015, this increase would represent a 51 % increase in Line Rental in a 39 month period. This degree of increase compared to a basically unchanged wholesale price may be considered excessive by both our customers driving increased churn and potentially brand damage. Therefore it is recommended

POL00151514

that we increase prices in line with the market in 2015/12. Further it is recommended Broad Band pricing remains unchanged, due to the competitive environment.

3.7. There is little reliance on Post Office IT systems and processes. Horizon is the only core system used, and its use is limited to entering basic customer order details in branch; a channel which represents 39 % of all orders.

4. Options Considered *(see slide deck for further detail)*

4.1. Option 1: Retain and grow the telco business and maximize DPC

- The UK telco market is very mature with some major competitors with far larger marketing budgets and more compelling bundled 'quad play' propositions – therefore our right to play in this market remains confined to a limited, value-focussed segment, particularly amongst the over 65s.

  Telco is also planning 10% gross income growth year over year in 15/16. In addition telco also delivers a positive DPC of £8.1m (2014/15 FYF) to the overheads of the business, and provides a useful degree of diversification during a period when we are facing significant structural challenges in the mails market.

- Furthermore, while we are only projecting an 11 % customer growth over 3 years, we expect the DPC to continue improving at a higher % rate, due to continued annual price increases, reflective of a rational market with BT as a price leader. We also have the option of reducing the price differential versus BT on HomePhone in order to maximise the DPC, but with some potential trade off against longer-term value. Under our 'balanced' growth scenario set out in the accompanying slides, we project gross income to increase from £121m in 2014/15 to £133m in 2017/18, delivering £26m DPC by year 3. This assumes that we maintain our current price differential and increase prices only in line with market.

- Telco also places limited demands on the wider Post Office group, both in funding terms (Capex over next 3 years estimated at £5 to £10 m) and operating model requirements. In particular, in the context of the constraints and risks associated with our IT transformation plans, telco has the significant advantage of being serviced by an independent technology platform at Fujitsu with limited interface requirements with Horizon and its replacement system.

- The product is also predominantly traded online and through call centres (accounting for 70 % of projected sales in 2017/18), limiting the demands on the network during the deployment of Front Office.

4.2. Option 2: Sell the Base of Customers to a Competitor and Exit the Business

- Estimated value £90 million, based upon a market tested price of £250.00 per Broadband customer and an estimated £175.00 per Homephone customer.

  a. BT the most likely purchaser of the combined base, as other competitors less likely to be interested in Homephone customers. There is a possibility that we could split the customer base and sell to different parties; in this instance the likely purchaser of the Dual Play base would be Talk Talk at a small premium, while BT remain the target purchaser of the Homephone Base.

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b. Write off of Technology investment in OSS/BSS Fujitsu solution projected at end 15/16 as £5 million

c. In the event that the Mobile Business is not considered viable due to the sale of the Telephony Business, write off of £6 million investment is likely.

- Discussions with BT have progressed well. Discussions were paused in January by BT, due to their EE acquisition announcement and an Ofcom review of broadband market impact. BT has continued to express interest in pursuing discussions in May/June.

- Divesting of the business would arguably reduce management distractions from core priorities in mails and FS. However, financially the question is whether the opportunity cost of not disposing of the business to release c£90m capital is greater than the £20-30m of annual DPC which we believe is achievable by retaining the business (we have not identified any material central costs which would be saved if we no longer had a telco business, and therefore this loss of DPC would be largely unmitigated).

- At this stage we have not identified alternative investment opportunities which clearly deliver a greater risk-adjusted annual return and which would only be affordable if we were to divest of telco. However, this will be kept under review as part of the next stage of work to refine and prioritize (by pay back) the options for spending against our limited discretionary budget (see the separate 2015/16 budget pack for an overview of these options).

- There is also potential for brand damage if customers feel unhappy about being transferred to another provider, and also an undermining of network confidence in the growth aspirations of the Post Office (notwithstanding the fact that 60 % of HPBB sales are via non-network channels).

- Finally, it should be noted that shareholder approval would be required for a disposal of telco (both because this is an explicit deviation from the Strategic Plan and there are specific obligations under the Articles for approval of disposals). Alongside the commercial considerations, BIS would wish to take account of the potential stakeholder, network, regulatory and competition implications of such a move.

4.3. Option 3: Franchise the business or merge with another player

- Depending upon the model selected, the Post Office would either earn a modest franchise fee, based on customer volumes, or would become a minority shareholder in a merged entity. In particular this could be a value enhancing move for both parties if one believes the Post Office brand is better leveraged using the capabilities and infrastructure of a larger player such as BT.

- This option has the potential benefit of reducing management distractions by handing over operational control to a better qualified third party, and in financial terms could release both some upfront capital and maintain a recurrent annual dividend/royalty payment.

- However, at this stage this remains only an estimate and to accurately gauge the current market price we would need to formally approach qualified purchasers.

- While management and operational distractions might be reduced by a franchising arrangement, we would need to build and maintain an effective framework and

POL00151514

competence for managing our exposure to brand risks through the third party arrangements. As part of any proposed deal we would also need to assess arrangements over data ownership e.g. for use in cross-selling into our other product lines.

5. Proposal

5.1. Given the considerations outlined above and the fact that we have not received a concrete expression of interest in either an acquisition of franchising arrangement, at this stage our recommended default strategy is to retain telco within the corporate portfolio and seek to maximise the net cash contribution to the overall business over the next three years through the right combination of pricing, sales and investment levers.

In practice this is likely to mean keeping the investment in marketing and product development to relatively low levels compared with industry benchmarks, and maintaining the price differential vs. BT in HomePhone over the period. The optimum pricing and marketing strategy will be reviewed ahead of the next expected price increase round in Jan 1 2016, based on the available evidence at that point. It is noted however that the regulator Ofcom may intervene in the Line Rental component of telco pricing to introduce a price cap.

5.2. In parallel to the development of this 'retain' strategy, we would propose resuming the exploratory discussions with BT once the EE regulatory embargo has lifted in early summer, to seek to obtain more reliable estimates of the financial impacts of the disposal and franchising options outlined above. These updated figures will then be considered alongside our latest assessment of alternative investment opportunities (including any arising from further consideration of the 'Plan B' options in mails or other areas) to understand the effective opportunity cost of retaining telco. A further update on this assessment will be provided to the Group Executive at this point.

5.3. It is also recommended that we increase the number of possible purchasers to create a more competitive bidding environment; these parties would include but not be limited to Sky, Virgin, Talk Talk, Vodaphone.

6. Commercial Impact/Costs

6.1. See financial impacts detailed above and in the accompanying slides.

7. Key Risks/Mitigation to Recommendation of "Retain and Grow"

7.1. The Fujitsu relationship and performance delivery is critical to the success of the telco business. The Post Office team consists of a total of 9 FTE's in 15/16 encompassing Commercial and Managed Services, while approximately 490 FTE's are engaged by Fujitsu and their supply chain in supporting and delivering the Post Office telco service. Fujitsu performed admirably in developing the telco technology platform against a very challenging timeframe but struggled to prepare and operate the call centre at time of launch. As a result of these challenges Post Office has been endeavouring to reclaim damages from Fujitsu for business loss during the launch period. In addition the call centre sub-contractor Capita has continued to have difficulties, partly caused by their own staff scheduling errors, but also by their initial contract pricing. Specifically for both Fujitsu and Capita the Post Office contract has been loss-making to date. There has been a substantial improvement in the management of the Fujitsu relationship since September, and Fujitsu now indicate

POL00151514

they are at break-even while Capita continue to claim they are loss-making. One of the primary drivers of the financial challenges facing our partners Fujitsu and Capita is the contract structure only remunerates the call centre fees on a cost per customer resulting in a flat rate fee. While this controls Post Office costs and places the risk with the partners it does not provide sufficient flexibility to ensure great customer service in periods of volatile call volume. The answer to these issues is a limited re-negotiation of the contract and a 3 year extension. If we are unable to successfully achieve a mutually beneficial contract extension this will manifest as a risk to the on-going operation of the business.

7.2. The migration of the call centre also poses a risk to the integrity of the business. The last migration saw the loss of 25,000 customers and a huge spike in complaints to the regulator. The last migration was poorly planned, and underfunded due to the contract structure. It is essential that any migration is meticulously planned and fully funded. The funding is required to ensure the new agents are fully trained, the operation is over-staffed during the transition phase, and retention payments are made to current agents. The funding will be encompassed within the contract extension and if successfully negotiated should have minimal impact in 15/16.

7.3. In the event that a decision is made to either divest or merge the telco business, there is a risk that our homephone customer base in particular will be confused leading to an increase in complaints and potential brand damage. This risk should be mitigated by the fact that the purchaser will have had a lot of experience in this area and will have successfully migrated telco customers.

7.4. In the event that Post Office elects to pursue a “cash cow” strategy, and increase line rental ahead of the market i.e. £2.00 v an expected BT increase of £1.00, the total increase in Line Rental prices over 39 months will be in excess of 50 %. In the event that this was widely and publicly recognised there is some risk of brand damage and increase in complaints.

8. Conclusion

8.1. As set out above and in more detail in the slide pack, telco currently delivers a DPC of £7.4m pa, but underlying £2.7m DPC (less £4.7m one offs) which we expect to increase to £26m by 2017/18. It therefore provides a useful source of diversification and meaningful contribution to the central overheads associated with out strategic priorities of mails and financial services, and this is the benchmark against which alternative corporate portfolio options should be assessed. We will continue to assess these alternative investment opportunities alongside further work to validate and quantify the economics of either a disposal or franchising/merger arrangement.

9. Recommendations

The Group Executive is asked to:

9.1. note the update on strategic options for telco set out above; and

9.2. discuss and agree the proposed base case financial projections to include in our 3 year operating plan on the provisional assumption that the telco business is retained.

Martin George
March 2015

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Post Office
Strategic Options for Telecommunications

February 2015

POL00151514

Contents

1. Background and objectives
2. Assessment of the business as it currently stands
3. Market and customer view
4. Assessment of our strategic options
5. Our vision for Telecoms at Post Office
6. Financial projections and underlying assumptions
7. Next steps

POL00151514

Contents

1 **Background and objectives**

2 Assessment of the business as it currently stands

3 Market and customer view

4 Assessment of our strategic options

5 Our vision for Telecoms at Post Office

6 Financial projections and underlying assumptions

7 Next steps

POL00151514

Background:

- In November 2014 we set out three options for the future of our telecoms business in the Exco 'Telecoms Deepdive'. The three options were:
  1. Retain and grow business
  2. Sell the base of customers to a competitor and exit the business
  3. Sell the business as Post Office Franchise
- Following the ExCo session a 3 person team was appointed to review and scope divestment opportunities (Geoff Smyth, Martin Edwards and Robin Gregory).
- Two companies were identified and placed under NDA as potential acquirers: Fujitsu (with loose agreement with Talk Talk) and BT. We discussed market validation of base value and qualification of franchise/merger opportunity, throughout November and December. It is recognized that this is a limited sample.
- As a result, BT expressed enthusiasm and identified their Plus Net subsidiary as a likely acquirer or merger partner. Fujitsu elected not to pursue opportunity, as owning a Telco franchise was not their business model.

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Objectives of this session

1. To establish clarity with the GE on the **vision and direction of the telco business** (including mobile) and its role within our overall strategy.

2. Specifically to agree **which financial scenarios** should be included in our base case 3 year plan for the overall business (bearing in mind that this could be a significant factor in our path to profitability).

3. Reach agreement on **approach to alternative strategic options** for the telco business, and provide clear direction

On the basis of reaching agreement, identify what telco needs from the wider business to support these financial projections, including any Fujitsu contract amendments, investment, IT, network or other operating model requirements.

Implications : Telco will receive investment consistent with the business goals of the organisation

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Executive summary

- **Today:** We have a focus on the senior, fixed income, value-seeking market. Our business is growing (20k net acquisitions in 2015/16, ARPU and net income growing and a new platform in place). We have a base of 455k customers, 315k Homephone only, 145k broadband. The mobile launch now planned for May 2015 remains a key component of our strategy.
- **The Market:** The bundled communications market is forecast to grow *, although most of this growth is in Pay-TV and superfast broadband, areas we do not currently play in. Fixed voice (Homephone) is forecast to decline. The Post Office market has limited growth opportunity, but 5-8 % YOY Gross Income Growth is achievable.
- **Strategic Options:** We have 3 strategic options: 1) Retain & grow the business, 2) Sell, 3) Franchise/Merge.
- **Key questions for Exco:** **i)** Do we believe that Post Office HomeServices is a credible and profitable business unit going forward, or is it likely to decline? **ii)** Even if it is a profitable business that is likely to produce returns over the coming decade, would we rather take the cash now?
- **Recommendation at this stage:** We believe that we have a profitable business that can grow. Moreover, there is no immediately obvious alternative business that we could re-invest the cash into that would generate better returns. As such, we recommend pursuing option 1) Retain and grow, according to the base case scenario. However, this view could change depending on the commercial terms for franchising. We do not recommend a “cash-cow” strategy, due to churn and brand implications .

POL00151514

Contents

1 Background and objectives

2 **Assessment of the business as it currently stands**

3 Market and customer view

4 Assessment of our strategic options

5 Our vision for Telecoms at Post Office

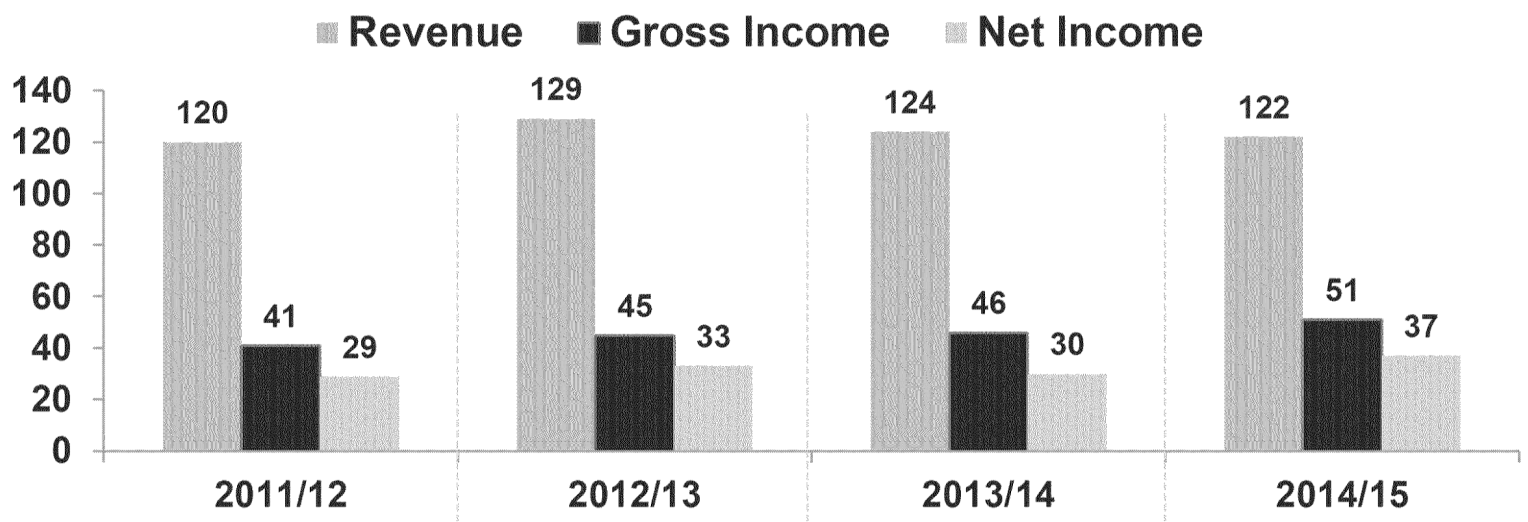
6 Financial projections and underlying assumptions

7 Next steps

POL00151514

Gross and Net income have increased over the past three years

Post Office Telecoms performance 2011/12 – 2014/15:



	2011/12	2012/13	2013/14	2014/15
Customer Numbers (k)	460	479	463	455*
Monthly ARPU	£20.29	£21.22	£21.42	£21.85

Post Office® 455,000 customers : 145,000 Broad Band; 315,000 Homephone

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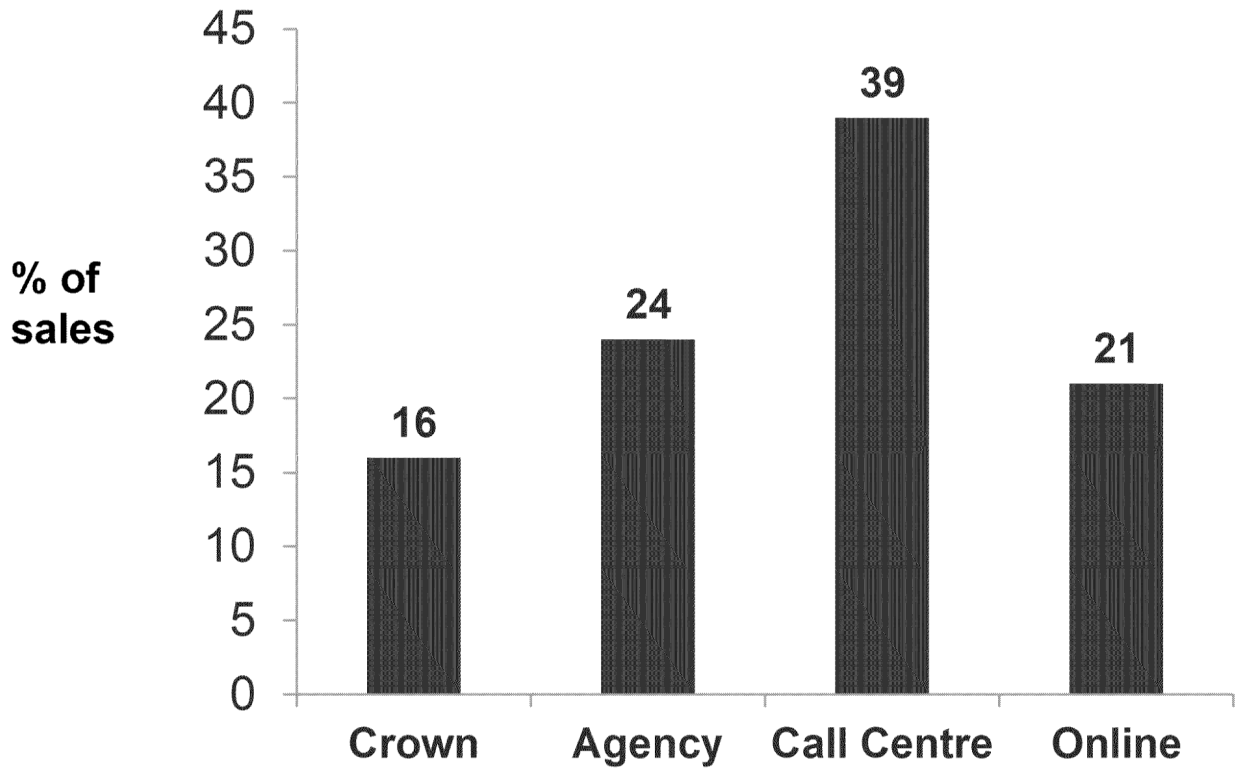
Non-physical channels (call centre and online) account for 60% of telecoms sales

Post Office Telecoms sales split by channel, 2014:



- We know that online is a significantly cheaper channel for acquiring customers, and more is being done to quantify this.
- Homephone 2 year net margin value £275
- Dual Play 2 year net margin value £156 due to increased cost of sales i.e. Customer home equipment, engineering services.

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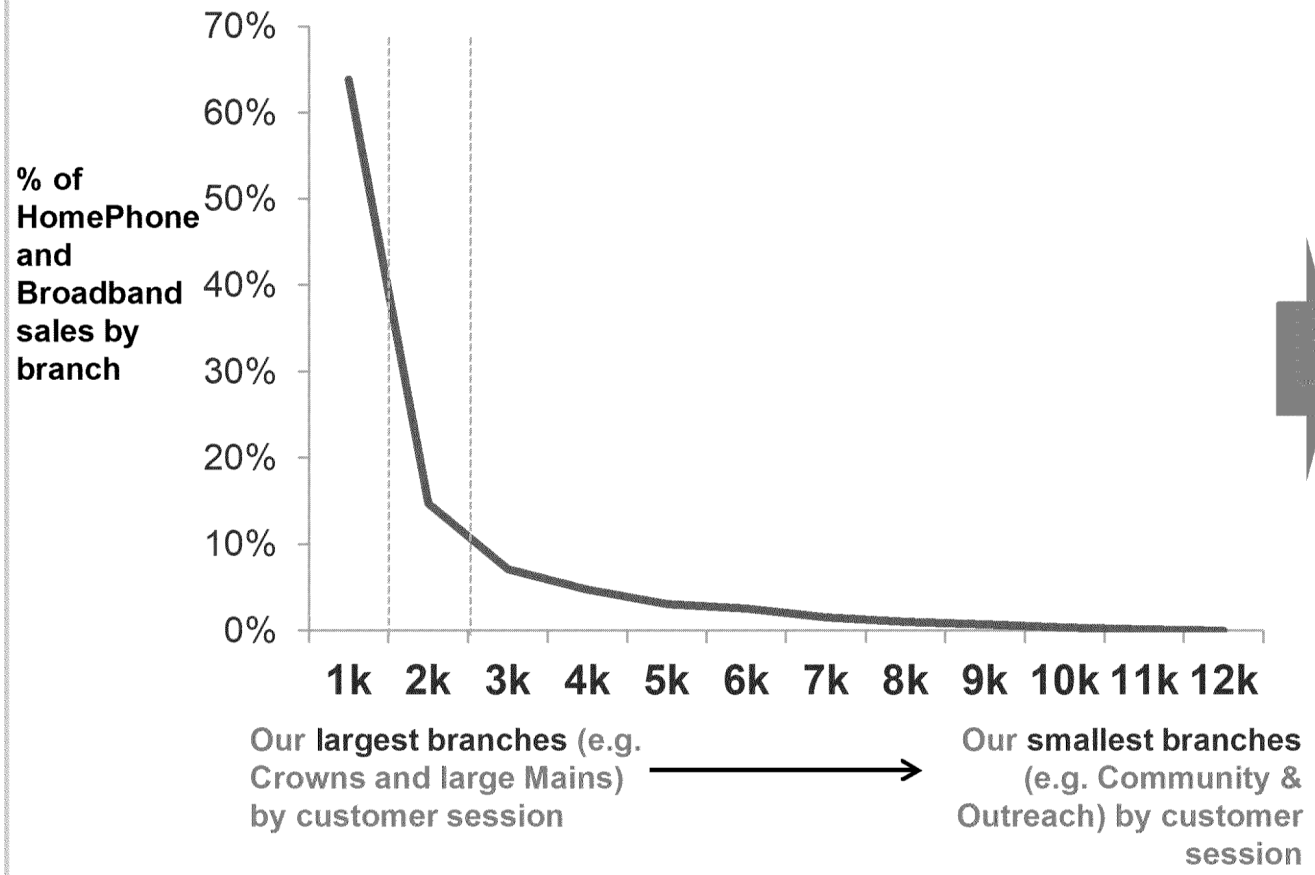
Of the in-branch sales, the majority are in Crowns and larger agency branches

Distribution of HomePhone and Broadband sales across our network*



- Of the 40% of HomePhone and broadband sales that are in branch, **64% come from our top 1,000 branches.**
- **80% from the top 2k** largest branches.

*Post Office income 2012/13

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HomePhone customers are older and in the lower socio-economic groups

% of UK population with Home Phones who use POL as their Home Phone provider

Social Grade	Age 15-24	Age 25-34	Age 35-44	Age 45-54	Age 55-64	Age 65+
A	0.00%	0.00%	0.00%	4.90%	1.32%	0.96%
B	0.00%	0.16%	0.55%	0.75%	1.76%	1.88%
C1	0.84%	0.61%	0.40%	0.95%	0.81%	3.10%
C2	0.95%	1.19%	0.11%	1.33%	2.10%	3.54%
D	0.74%	0.19%	0.83%	0.81%	1.36%	4.92%
E	0.12%	1.35%	1.07%	0.95%	3.13%	4.94%

- We have an aging customer base: 82% of Homephone Base over 65; 46% of Broadband base over 65.
- Many of our customer are in lower socio-economic groups. They are attracted to our low prices and ability to pay in cash.
- We are conducting further research to qualify whether BT's homephone base can be attracted to Post Office products.

Note: Home phone numbers as indicative of HS, as telephony is c.90% of HS revenue at present
Source: GB TGI 2014 Q2 (January 2013 – December 2013). (c) Kantar Media UK

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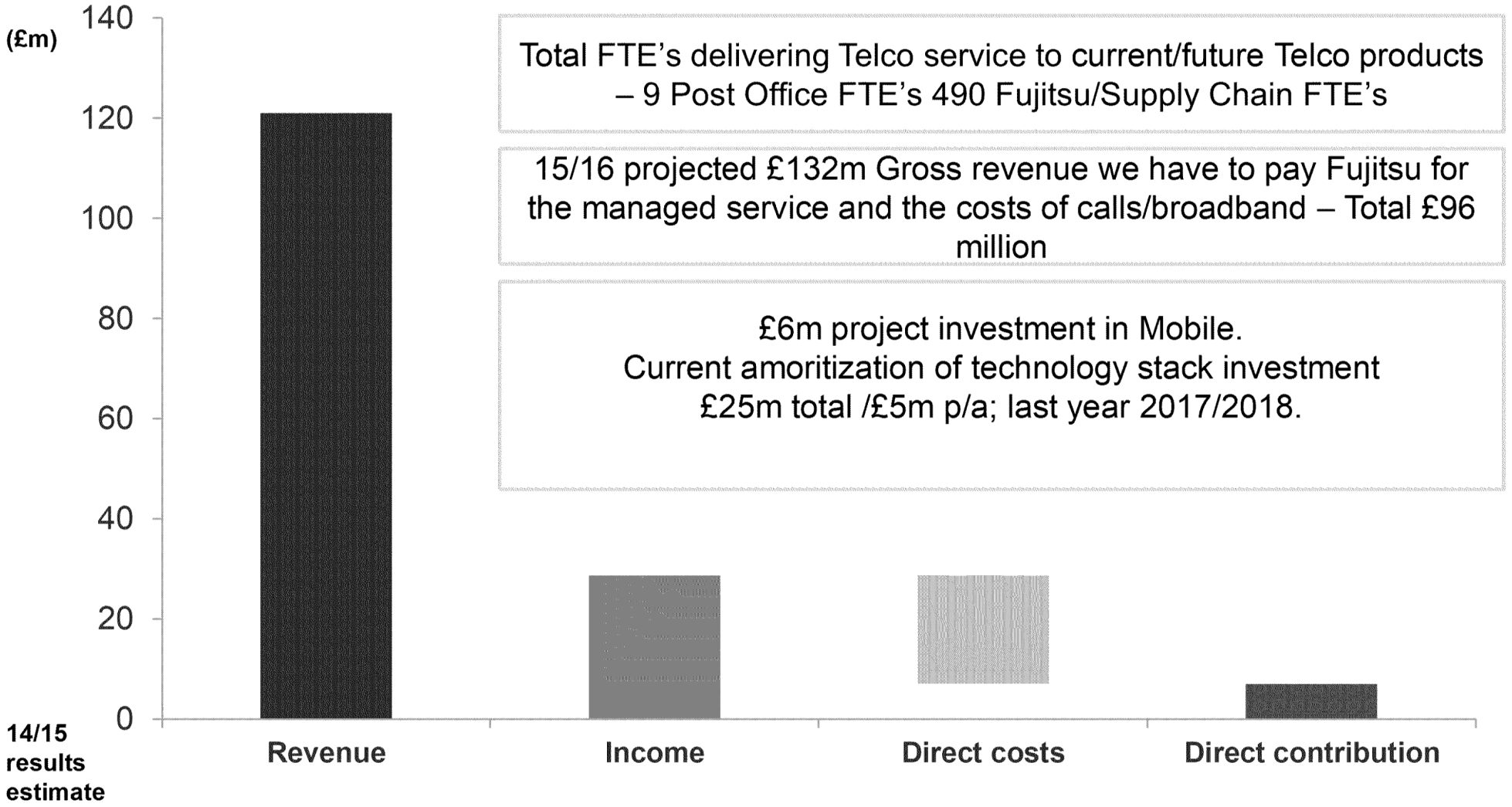
Telecoms makes a direct contribution to the business and this will improve over the coming three year plan



Total FTE's delivering Telco service to current/future Telco products – 9 Post Office FTE's 490 Fujitsu/Supply Chain FTE's

15/16 projected £132m Gross revenue we have to pay Fujitsu for the managed service and the costs of calls/broadband – Total £96 million

£6m project investment in Mobile.
Current amoritization of technology stack investment £25m total /£5m p/a; last year 2017/2018.

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Post Office has a number of assets that we can leverage

Strengths

- **New Platform:** Our new Fujitsu technology platform provides flexibility, and lower cost of change
- **Brand:** Post Office brand does provide advantages in customer recognition and trust
- **Network :** Our target demographic does visit our branches on a frequent basis

Weakness

- **Limited marketing:** Limited marketing and PR investment in the Brand and Telco products
- **Aging Customer base:** 82 % of Homephone Base over 65, 46 % of Broadband base over 65.
- **Cost of Acquisition/Churn -** The 15/16 budget shows 100 k new sales to achieve a 20k net additions target, due to churn

Opportunities

- **Bundling:** In comparison to other players, our customer base remains relatively 'unbundled'. This provides us with a Triple Play opportunity
- **Mobile:** Our mobile proposition is going to market
- **Value-seeking customer segment:** There is an opportunity to establish ourselves with the value - seeking customer segment

Threats

- **Fixed Voice in decline:** The fixed voice market is forecast to decline, the growth is in Pay-TV and superfast broadband.
- **Competition and Consolidation:** Market is in considerable flux
- **Single Partner Dependency:** Fujitsu relationship will require careful management in the light of Front Office replacement

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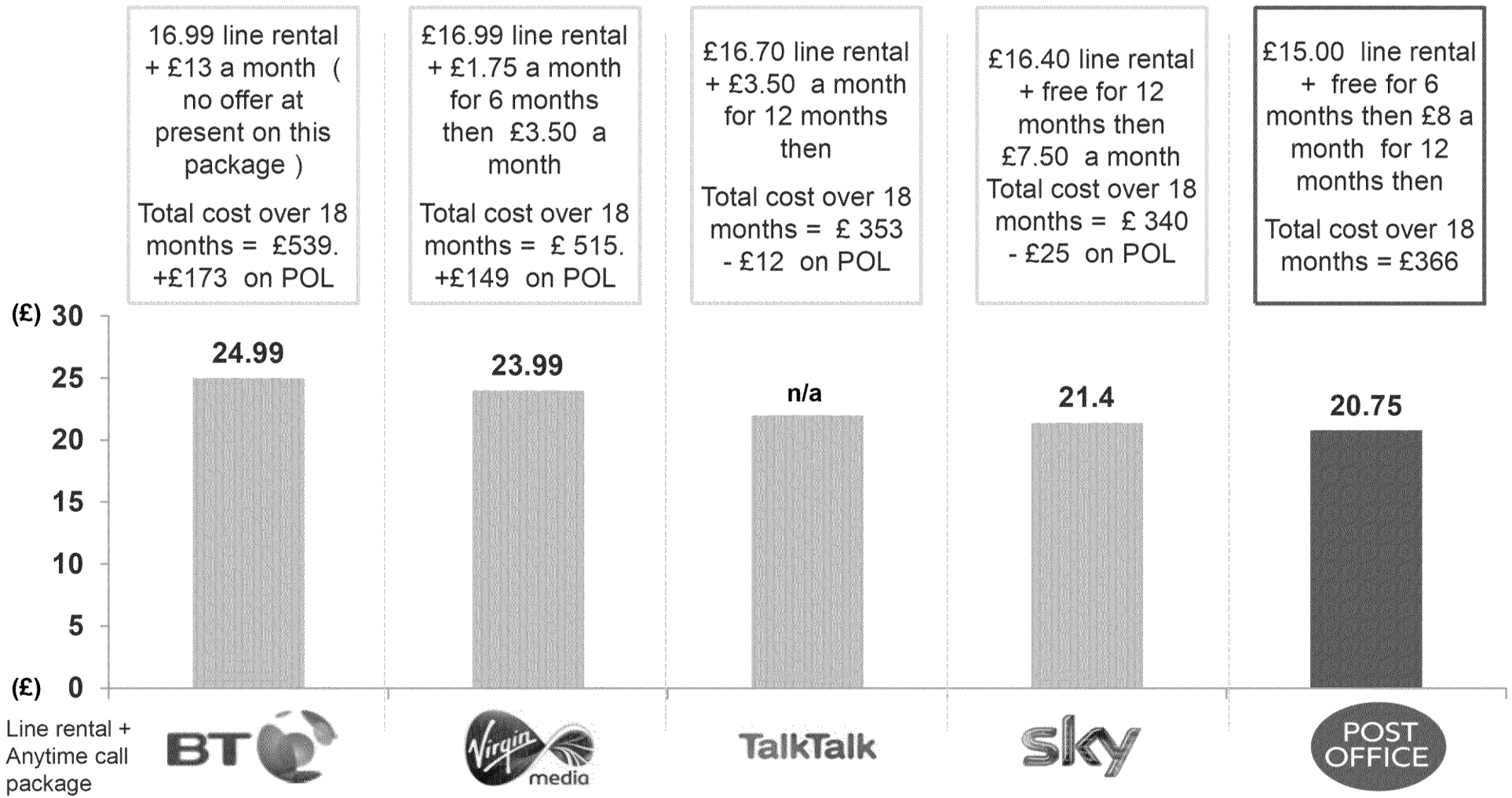
Within the HomePhone market, POL is well placed to maintain value leadership



Line rental + Anytime call package (£/month)

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Within the dual play market our value leadership is not as clear as in HomePhone, as Value segment is Shared with Talk Talk

BT

£16.99 line rental + £13 a month (no offer at present on this package)
Total cost over 18 months = £ 539 .82 + £173.82 on POL

Virgin media

£16.99 line rental + £1.75 a month for 6 months then £3.50 a month
Total cost over 18 months = £ 515 .82 + £149.82 on POL

TalkTalk

£16.70 line rental + £3.50 a month for 12 months then
Total cost over 18 months = £ 353.10 - £12.90 on POL

sky

£16.40 line rental + free for 12 months then £7.50 a month Total cost over 18
= £ 340.20 - £25.70 on POL

POST OFFICE

£15.00 line rental + free for 6 months then £8 a month for 12 months then
Total cost over 18 months = £ 366

POL00151514

Contents

1. Background and objectives
2. Assessment of the business as it currently stands
3. **Market and customer view**
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6. Financial projections and underlying assumptions
7. Next steps

POL00151514

There are a number of key market trends that are impacting our business

1	**Decline in fixed line** (Homephone):	• Fixed-line Voice (HomePhone) market value continues to decline due to falling call volumes. The fixed-line voice market is forecast to decline from £8.4 billion revenue pa 2014 to £7.3 billion per annum in 2019.
2	**Growth in Triple/Quad play:** (TV, fixed-line telephony & fixed-line internet, mobile)	• Fixed-line telephony and broadband providers e.g. BT and TalkTalk have been diversifying into TV, attracted by the lower churn and higher average revenue that triple-play consumers provide. • Whilst Sky has moved from Pay-TV (its heritage market) into the broadband market to increase the stickiness of its base.
3	**Growth of Superfast broadband**	• Over a quarter of all fixed broadband connections are now superfast. By the end of Q1 2014 there were 6.1m UK superfast broadband connections; an increase of 2.2m (58%) compared to the previous year, indicating increasing consumer demand for higher speeds. Virgin have also announced a $3 billion investment in 1 gigabyte fibre over next 3 years.

Source: Ofcom / Mintel Technology Tracker Base: All adults aged 16+ (2014 n=3740)
QG1. Do you receive more than one of these services as part of an overall deal or package from the same supplier?

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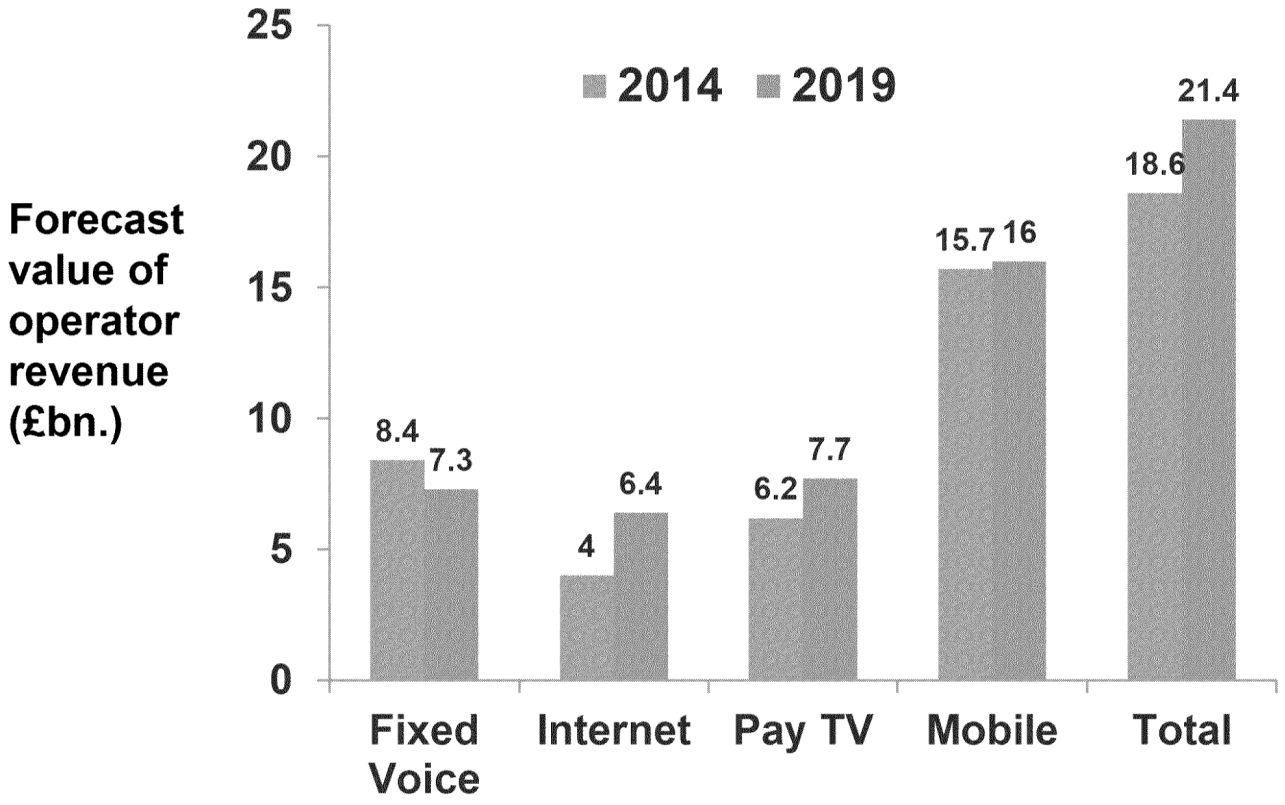
Growth in the overall market will be driven by Pay-TV and superfast broadband, whilst Fixed Voice will decline.

Forecast value of operator revenue (£ billion) 20014-19*:



- Fixed-line will continue to decline
- Overall the communications market will see steady growth
- Pay TV and Internet will drive the majority of growth in this market. Players that are not strong in these two markets will struggle to deliver growth.

Source: Mintel, "Bundled Communications Services" January 2015
Mobile is the retail value of mobile network connection sales

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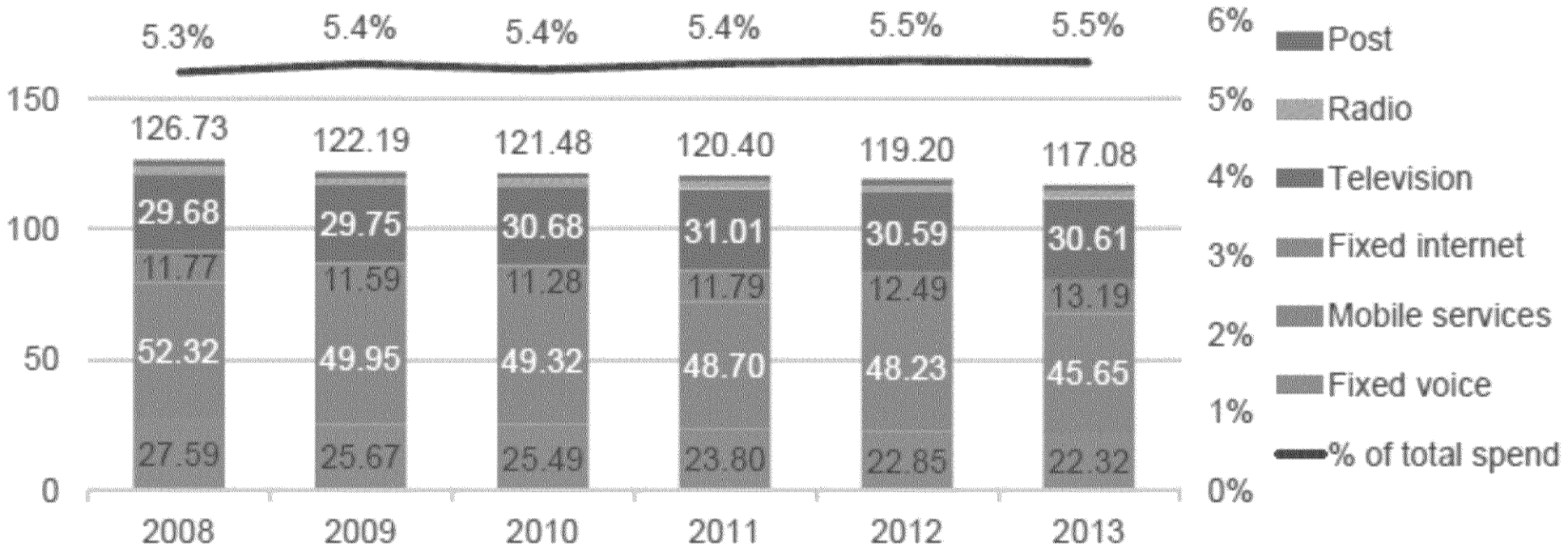
In line with this, the average spend on fixed voice has declined to just £22.32 per month

Average household spend on communications services: (£ per month (2013 prices))



Notes: Adjusted for CPI; includes VAT.

Source: Ofcom "Communications Market Report" 2014

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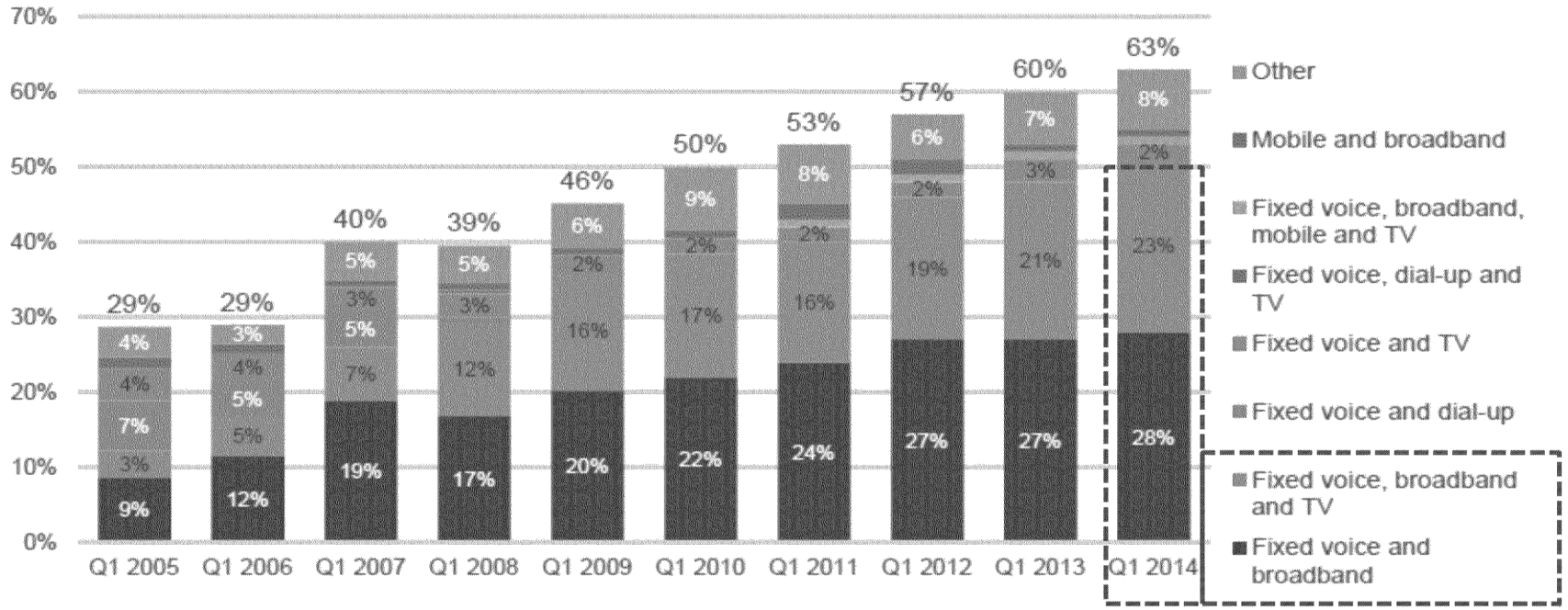
The growth of bundling services is the key underlying trend

Take-up of bundled services: (Proportion of households)



- 63% of consumers bought at least two services together in a bundle in Q1 2014
- A **dual-play package** of landline & broadband was the most popular, taken by 28% of households.
- A **triple-play package** of landline, broadband and TV, taken by 23% of households, is the fastest growing bundle.

Source: Ofcom Technology Tracker Base: All adults aged 16+ (2014 n=3740)
QG1. Do you receive more than one of these services as part of an overall deal or package from the same supplier?

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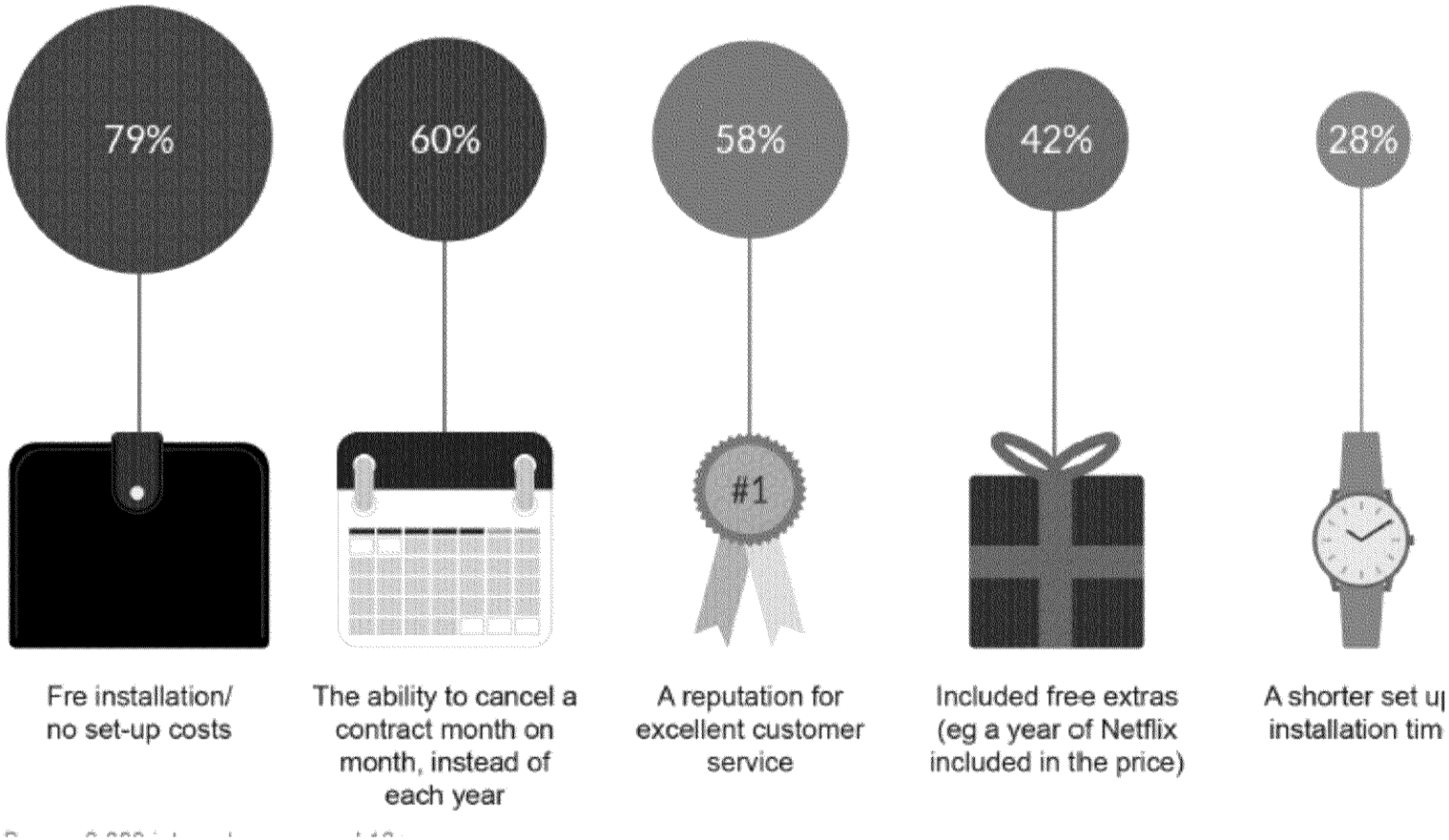
Free installation and set-up is the main influence on choice of bundled communications provider

Influences on bundle choice: (November 2014)



Source: Lightspeed GMI. Base, 2000 adults.

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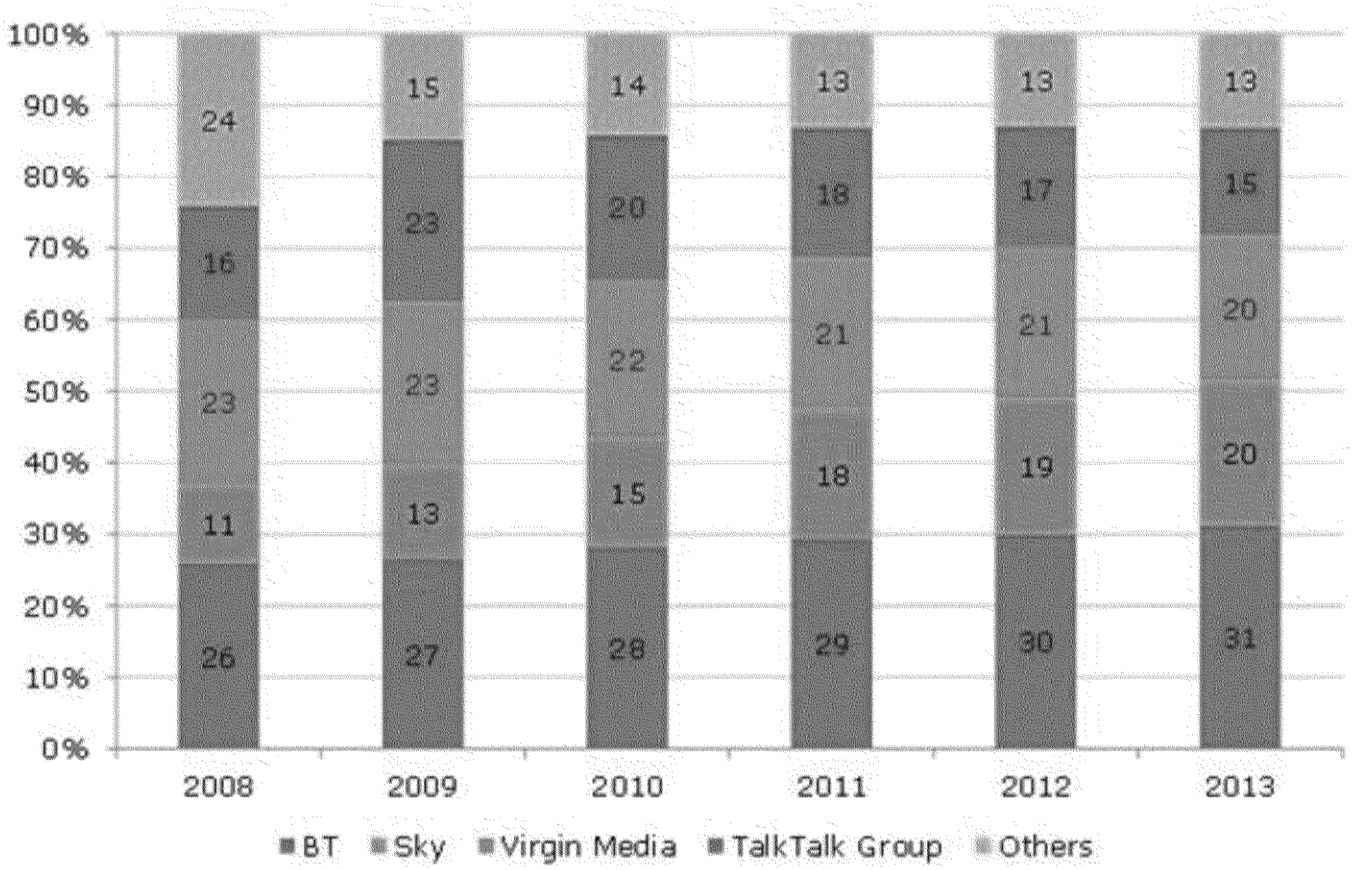
The market is dominated by the big 4 who together have 88% share of the bundled communications market

Fixed-line internet connection market share, 2008-13



- The big four control 88% of the bundled communications markets*:
  - Sky: 27%
  - Virgin: 23%
  - BT: 21%
  - Talk Talk: 17%

Source: Lightspeed GMI/Mintel
"Who provides the bundle of services (eg TV and internet, landline phone and internet) you currently receive for your home?"
1,761 internet users aged 16+ who have some form of bundle (with or without a landline)

Source: Source: Ofcom "Communications Market Report" 2014

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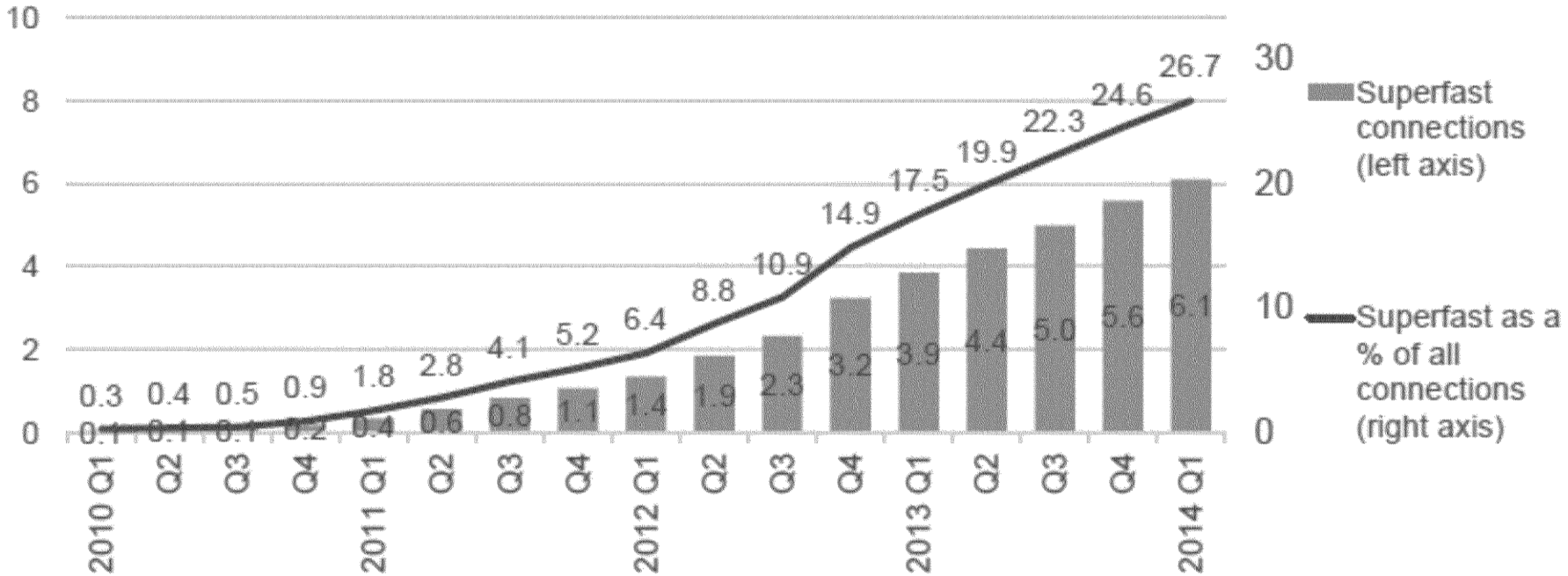
The take-up of superfast broadband is increasing with superfast now accounts for 26% of all connections

Take-up of superfast broadband services: (connections, million)



- Superfast growth has mostly been attributable to BT over 2013. BT's 2013/14 annual report states that it has taken 69% of net superfast or cable consumer market additions over the fiscal year. Virgin have also announced 1 gigabyte fibre to the premise plans

Source: Ofcom / operator data

Note: Includes estimates where Ofcom does not receive data from operators; the total connections figure used to calculate the percentages above does not include an adjustment for corporate connections which is used elsewhere in this report.

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Each player is moving into the triple / quad play market, but tailoring their approach according to their heritage and strengths

BT

- Superfast growth has mostly been attributable to BT over 2013
- BT's rate of TV subscribers has increased dramatically in the last two years
- BT is acquiring EE. BT may elect to divest Open Reach and separately list Open Reach on FTSE

sky

- Sky remains the most popular provider of TV services in the UK in 2014 with ~10m subscribers
- Sky's broadband base has grown considerably since 2006. The main motivation in offering an internet connection is to decrease churn amongst its TV customer base

Virgin media

- Virgin's market positioning is in the provision of super-fast internet
- Virgin Media is focused over the next year in boosting the number of customers who take high value post-pay mobile subscriptions

TalkTalk

- Talk Talk remains confident that it will convert up to 80% of its 4m customer base to its TV-inclusive triple-play proposition
- It announced in 2014 that it would be promoting its quad-play bundles, where it has seen 64,000 customers added over the course of one 2014 quarter

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Other market developments

- 3 acquiring O2
- Vodaphone entering consumer broadband market
- Sky/Talk Talk have each established new strategic MVNO relationship with O2
- Sky and Talk Talk both in play for the merged 3/O2 (Hutchinson)
- Virgin (Liberty Global) yet to declare are they in acquisition/divestment mode
- Reseller market in both Dual Play/Mobile sectors in flux
- Vodaphone squeezing their MVNo's and not releasing 4G to them
- Margins in Fibre very tight for any primary reseller of Open Reach fibre which in turn places additional pressure on secondary resellers such as Post Office
- Virgin announcing 1 GB to the premise
- Industry consolidation of Telecommunications reseller sector highly likely
- Industry profitability (EBITDA) will continue to be very healthy 20 % +

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Contents

1 Background and objectives

2 Assessment of the business as it currently stands

3 Market and customer view

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6 Financial projections and underlying assumptions

7 Next steps

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We have a range of strategic options for our telecoms business going forward

	Option 1 Retain and grow Business	Option 2 Sell the base of customers to a competitor and exit	Option 3 Sell business as Post Office Franchise
PROs	• Maintain income stream for POL and agents • Contributes to fixed costs • Still have options 2 and 3 open to us in the future	• Cash injection • Free-up network and management space • Clearer management focus on the 2020 Strategic pillars	• Maintain a regular (and profitable) profit stream, with direct management responsibilities. • Set a precedent for future business models • Sweats our brand
CONs	• Will require ongoing investment • The growth in the market is not in our sector thus our growth will be sourced from value segment consolidation	• Lose an ongoing income • No current identified alternate use of proceeds • Capex write-off circa £10 million. • Potential regulatory issues	• Unclear at this juncture but could include migration risk, brand damage, network dissatisfaction

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There are a number of key financial assumptions that sit behind each option

	Option 1 Retain and grow Business	Option 2 Sell the base of customers to a competitor and exit	Option 3 Sell business as Post Office Franchise
Financial assumptions	• The £8m Direct Product Contribution in 2014/15, increasing to £26m in 2017/18. • Revenue of £122m in 2014/15 grows to £165m in 2017/18.	• Assumes £250 per customer for Dual, this is a market tested assumption. • £175 per customer for Homephone, although there is a ~15% variance on this either way.	• The most likely scenario is a merger with PlusNet, where we would receive a one-off payment and then an ongoing 'fee' / dividend. • We have not yet started to discuss figures with BT/PlusNet.

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We should 'retain & grow' the business, but we are not ruling-out disposal or mergers in the future, depending on the terms and the future performance of the business

Reasons to believe in Retain & Grow:

1	**Potential to grow income and Direct Product Contribution**	Over 3 years we are projecting an 11% customer growth. We also expect the DPC to continue improving over the next 3 years through the potential for continued annual price increases. We will grow our base next year by 20k.
2	**Limited investment and cost to business**	• Limited funding required (capex over next 3 years estimated at £5m - £10m). • 60% sold online/ Call centres limiting the demands on the network.
3	**Lack of alternative investments that deliver equivalent**	We have not identified alternative investments which deliver a greater risk-adjusted return and which would only be affordable if we were to divest of telco.
4	**Costs would not reduce materially if divested**	Telco makes a positive DPC of £8m p/a and we believe this will grow. We have not identified any material central costs which would be saved if we no longer had a telco business, and therefore this loss of DPC would be largely unmitigated.

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Recommendation

1. Pursue Option One (Retain and Grow). Continue to build business and execute 2015/16 plan (the 'base case'): £132m Gross Revenue; £56m Net Revenue; £13m estimated EBITDAS.
2. Within the Retain and Grow option, conduct more analysis to understand which is the value maximising scenario.

Summary:

1. *Continue trading and deliver against a 15/16 agreed plan, and do not "cash-cow" the business while maintaining discussions to divest the business if we conclude that the business remains as described as tactical, and non-strategic.*
2. *Launch Mobile as planned and review trading performance at 90/180 days*

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Contents

1. Background and objectives
2. Assessment of the business as it currently stands
3. Market and customer view
4. Assessment of our strategic options
5. **Our vision for Telecoms at Post Office**
6. Financial projections and underlying assumptions
7. Next steps

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We have a clear market positioning…

Who are we targeting?	• Singular focus on Senior, Fixed Income, Value-seeking market • Total New Customer Acquisitions in 15/16 109,000. Net Acquisitions in 2015/16 plan 20,000, concluding Base Size ay end 15/16 480,000. • Within mobile there is an opportunity in value segment as MNO's and Retailers consolidate and move up the value chain.
What is our proposition?	• Value Provider of choice in the Phone/Broadband/Mobile market. • We will always provide better value than our competitors. • Our mobile product is well-suited to our network (SIM only, simplicity). The handsets are not sold in branch; only available via contact centre/online.
What do we need?	• Modest ongoing investment in product portfolio (£5m - £10m) over the next 3 years. This will be evaluated on its marginal impact on Direct Product Contribution. • There will be a review in 2017 when we are due to refresh the technology. At that point we will need to decide what level of further investment is required. • Contract extension with Fujitsu & reliance on Fujitsu as very long-term partner • Open to acquiring other value providers during market consolidation.

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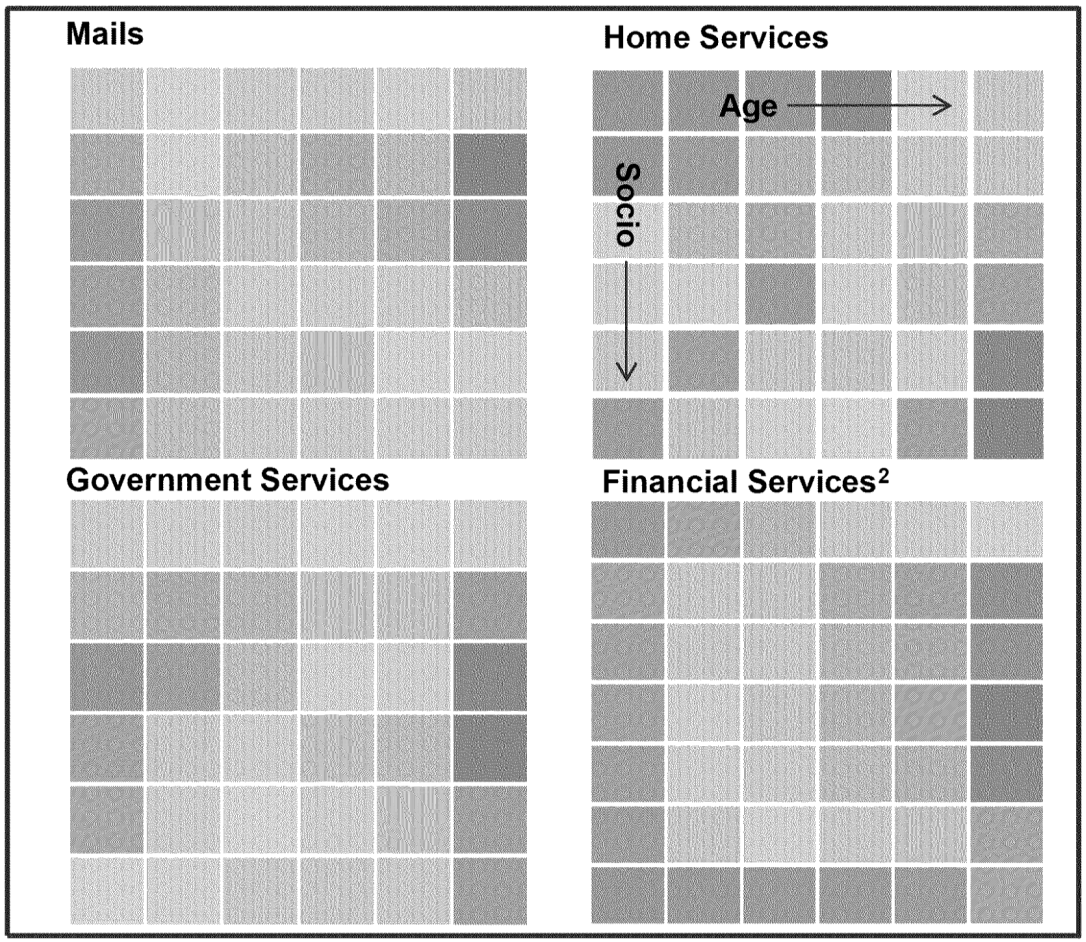
Telecoms customers tend to be older and poorer that the national average, although most of our customer tend to be older

Pillar customers

Those who use the Post Office for the various pillars[1]



- At the moment there is no cross-selling from Telco to other pillars, or vice versa.
- However, going forward we will look for opportunities. For example, we could assess the potential value through a direct marketing campaign.
- The opportunities for cross-selling within a digital environment with a single view of the customer, is being evaluated as part of the digital strategy.
- Of all the product areas, Telecoms has the oldest and the lowest socio-economic profile customer base.

1 MS & GS are indexed against UK population; FS absolute distribution is shown; HS is indexed against market

2 Internal FS database uses modelled household income rather than social grade

Source: GB TGI 2014 Q2 (January 2013 – December 2013). (c) Kantar Media UK, n=c.25,000; FS internal database, pulled by Mimecast on 22/04/2014

POL00151514

Contents

1. Background and objectives
2. Assessment of the business as it currently stands
3. Market and customer view
4. Assessment of our strategic options
5. Our vision for Telecoms at Post Office
6. **Financial projections and underlying assumptions**
7. Next steps

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Income will grow next year due to 20k customer additions, price increases and launch of new fibre product

Income (£m)	2013/14	2014/15 Full year forecast	2015/16 Budget	% change 2015/16 budget vs. 2014/15 FYF
HomePhone income	£80.5m	£75.8m	£77.5m	+2%
Dual income	£38.3m	£39.5m	£48.4m	+22%
Mobile income	-	-	£3.8m	-
Other income (e.g. eTop-ups)	£5.5m	£4.6m	£7.5m	+64%
TOTAL income	£124.2m	£121.5m	£133.3m	+8%
HomePhone cost of sales	(£78.3m)	(£74.6m)	(£76.3m)	+2%
Mobile cost of sales	-	-	(£1.5m)	-
Total Net Income	£45.9m	£46.9m	£55.4m	+18%
One-offs		£4.7m		
TOTAL NET INCOME		£51.6m	£55.4m	+7%

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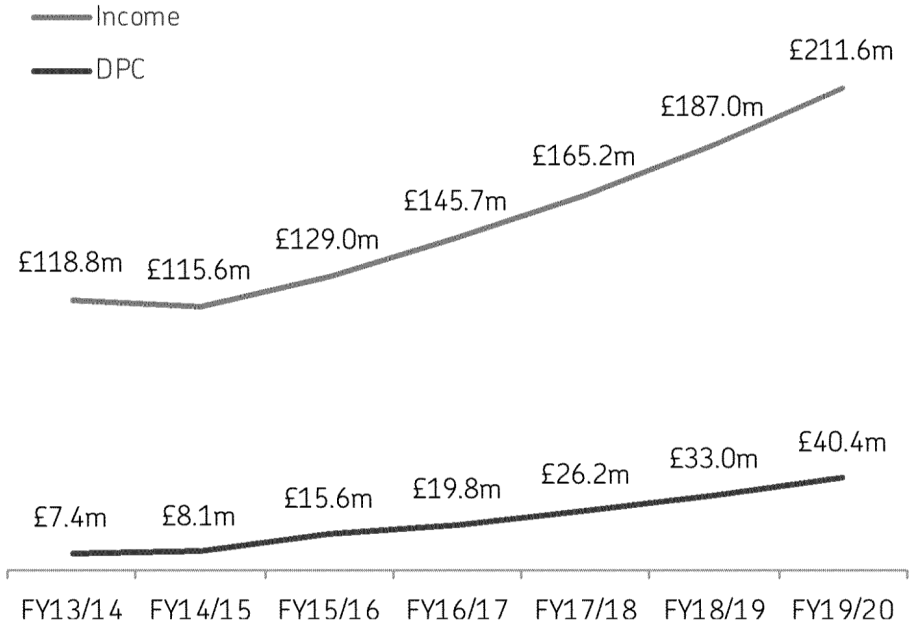
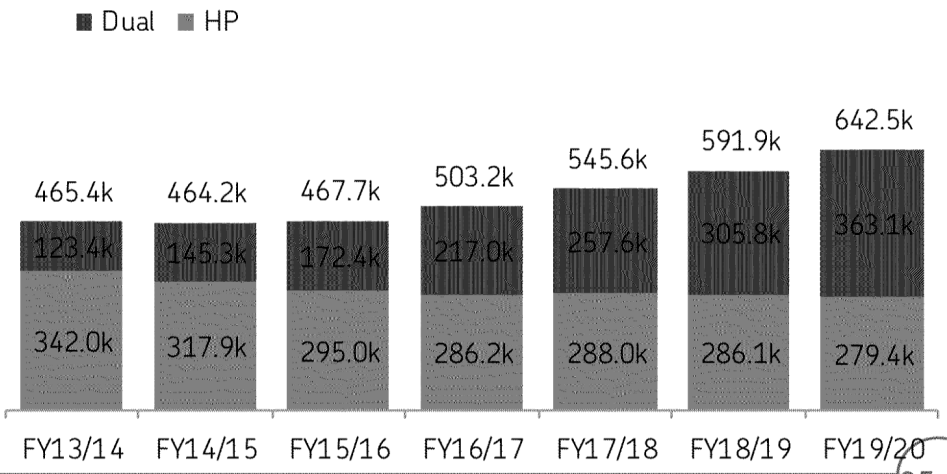
The scenario we are recommending, the 'Base Case', will see us grow the customer base and increase prices

Key assumptions in Base Case scenario:

1. Base case scenario assumes line rental price increases by £1 every year to 2020
2. BB wholesale charges remain flat in line with new agreement with Fujitsu
3. Subscribers increase by 8% year-on-year from 15/16

Base case scenario:





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Within 'Retain and grow' there were other options that we considered…

- Within the 'Retain and grow' the business there are a number of scenarios*.
- We believe that the 'Base case' scenario is the optimum mixture of price rises, customer growth and investment to ensure that we maximise the Direct Product Contribution from telco.
- The table below shows some of the alternative scenarios that we considered.

Direct Product Contribution (£m)	2017/18 Direct Product Contribution	2019/20 Direct Product Contribution
Base Case	**£26.2m**	**£40.4m**
No price increase from 2016/17	**£13.4m**	**£10.3m**
No price increase, no growth in customer numbers, but 8% HP upgrade to Dual	**£10.5m**	**£4.1m**
Price increase and 8% HP upgrade to Dual, but no customer growth	**£21.9m**	**£26.8m**
HP only price increase (£2 in 2015/16), £1 thereafter, no customer growth	**£26.2m**	**£31.7m**

*More detail is available on each scenario in the Appendix

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There are a number of risks to our telco business

Fujitsu platform	The Fujitsu relationship and performance delivery is critical to the success of the telco business. Fujitsu performed admirably in developing the platform but struggled to prepare and operate the call centre at time of launch.
Call centre migration	The migration of the call centre also poses a risk to the integrity of the business. The last migration saw the loss of 25k customers, and a huge spike in complaints.
Brand risk from divestment or cash cow strategy	There is risk of brand damage and complaints if “cash cow” strategy is pursued. There is also risk to our brand of an ‘untidy’ handover if we divest or merge our base.
Technology disruption	Technology disruption has the potential to disrupt the entire market, and specifically mobile via wi-fi has the ability to change our plans for Mobile. Supercharged fibre has Capex implications.

POL00151514

Contents

1 Background and objectives

2 Assessment of the business as it currently stands

3 Market and customer view

4 Assessment of our strategic options

5 Our vision for Telecoms at Post Office

6 Financial projections and underlying assumptions

7 **Next steps**

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Next steps

1. Continue conversations with BT/PlusNet, once the EE embargo is lifted. Understand the best deal they are likely to offer for merging / franchising our base with PlusNet. Engage with other likely partners including but not limited to Sky, Virgin, Talk Talk, and Vodaphone.

2. Further evaluation of the best scenario within the 'Retain and Grow' option.

3. Successfully launch Mobile, and demonstrate trading success in initial six months, thus enabling continued investment in Post Pay Monthly product launch in H2 2015/16

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Appendix

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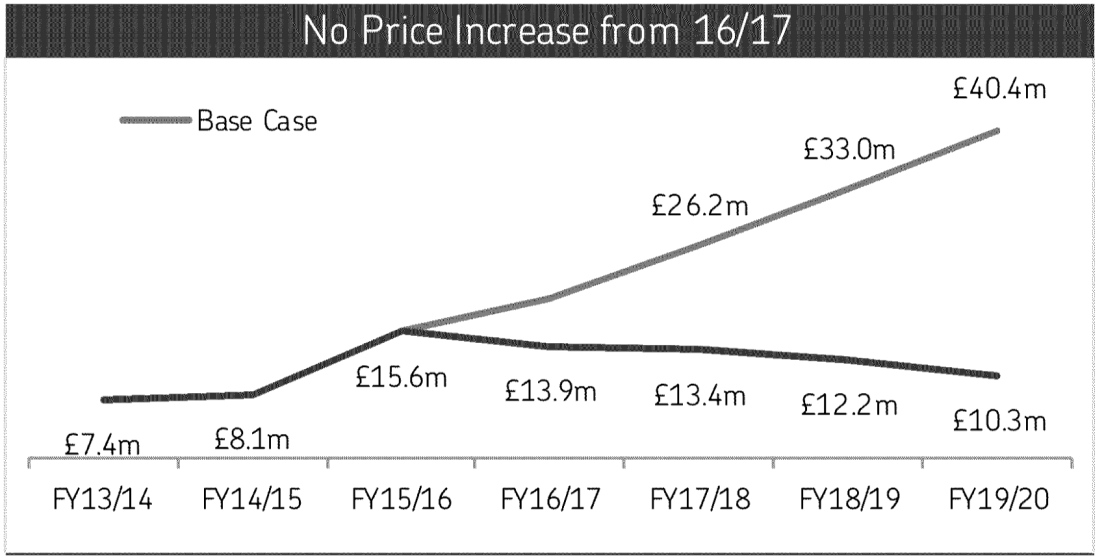
Financial Strategies within HP&BB – No Price Increase



- Assumption is that price remains flat from January 15. 15/16 impact is minimal given price rise in Q4.
- Growth in customers remains as base case
- Reduction in DPC due to growth in dual customer base at a lower product margin, & increased managed service cost that is semi variable based on number of customers.

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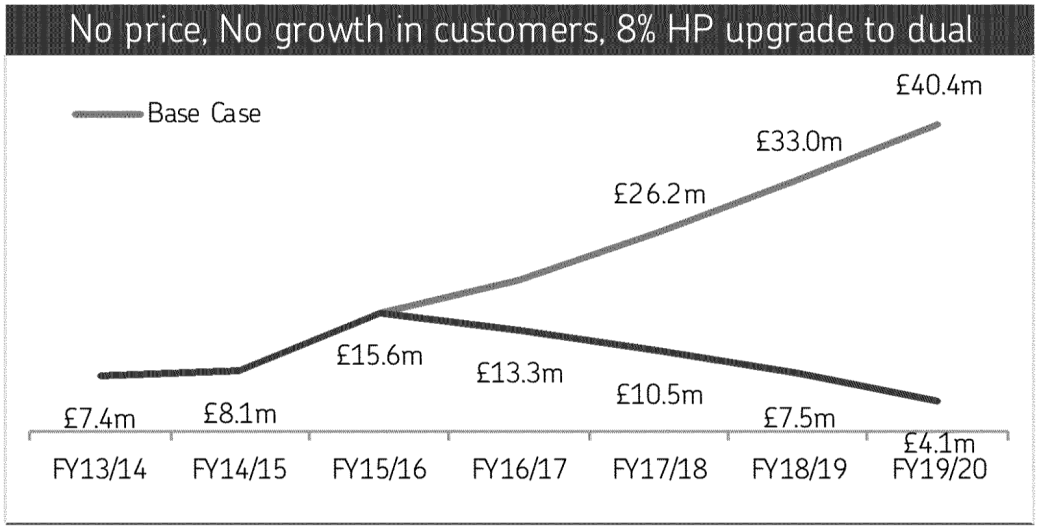
Financial Strategies within HP&BB – No Price Increase, No growth in base



- Scenario modelled shows what would happen if investment in Telco was removed.
- Retention strategy would become key in keeping base at 480k, adds & churn assumed neutral

- DPC is reduced by the upgrades from HP only to dual proposition.

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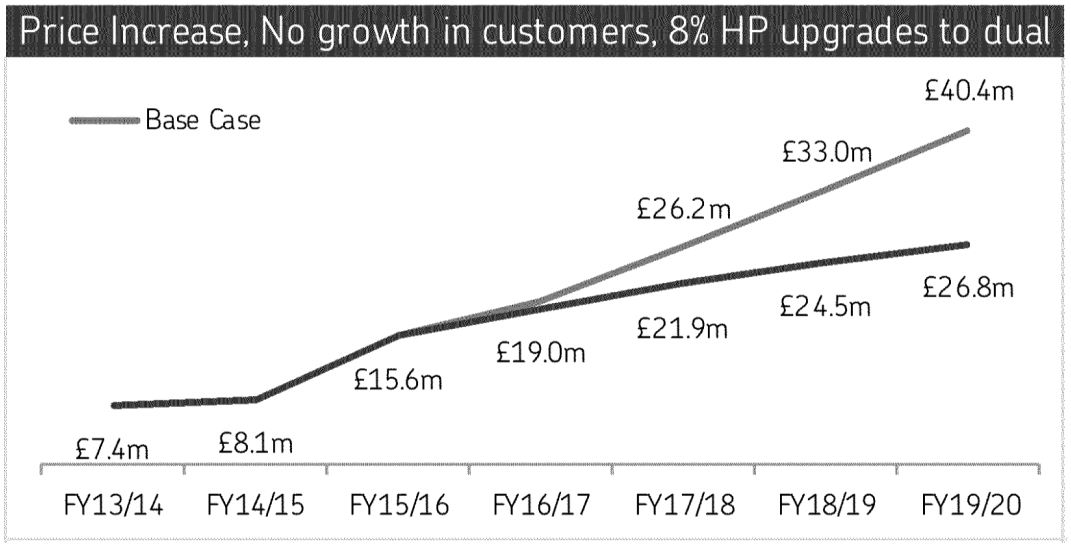
Financial Strategies within HP&BB – Price Increase, No growth in base



- In this scenario we take a traditional cash cow approach.
- Increase price in both HP & BB, by £1 per annum.
- Focus on retention is key to keep base at 480k, adds/churn assumed neutral

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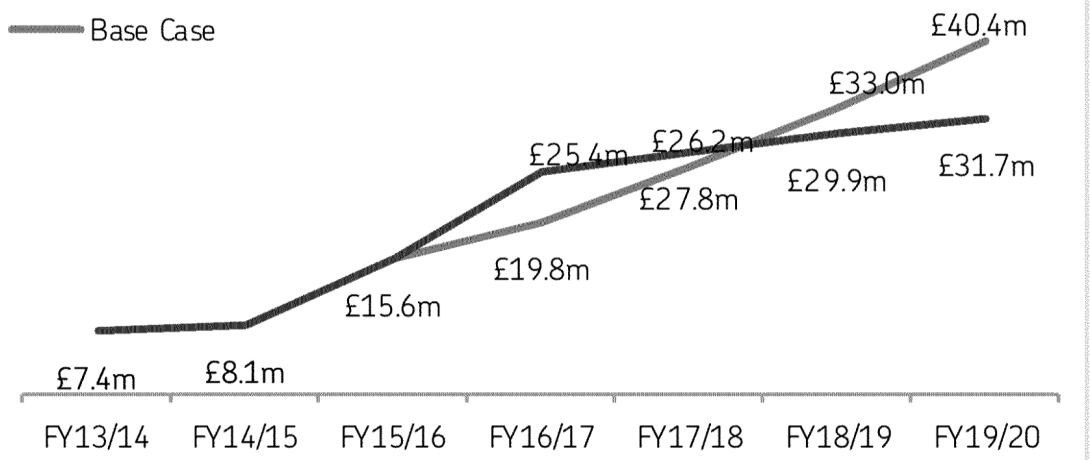
Financial Strategies within HP&BB – Price Increase to market in HP&BB, No growth in base

HP only price to market (£2 inc) in 15/16, £1 therafter, no growth in customers



- Maximise DPC through pricing to market on HP. Dual ARPU increase of £1
- HP price increase of £2 in 16/17 , £1 there after. This would b ring line rental up to £16.99 in line with BT.
- Assumes base position remains flat at 480k.
- Scenario up to 17/18 would de-risk growth of 8% in base case.

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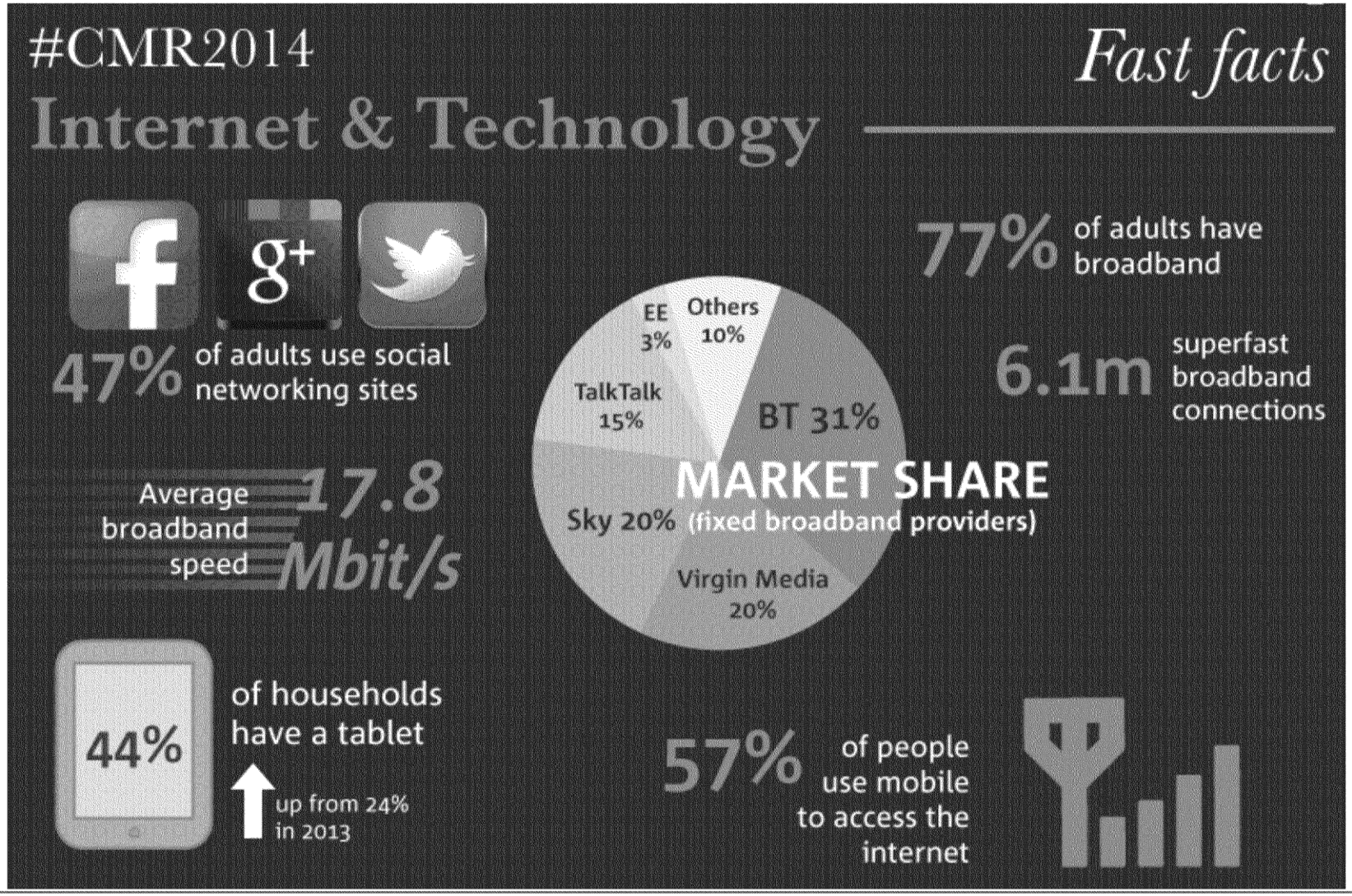
OfCom internet and technology factsheets - 2014



 Source: Ofcom Technology Tracker Base: All adults aged 16+ (2014 n=3740)

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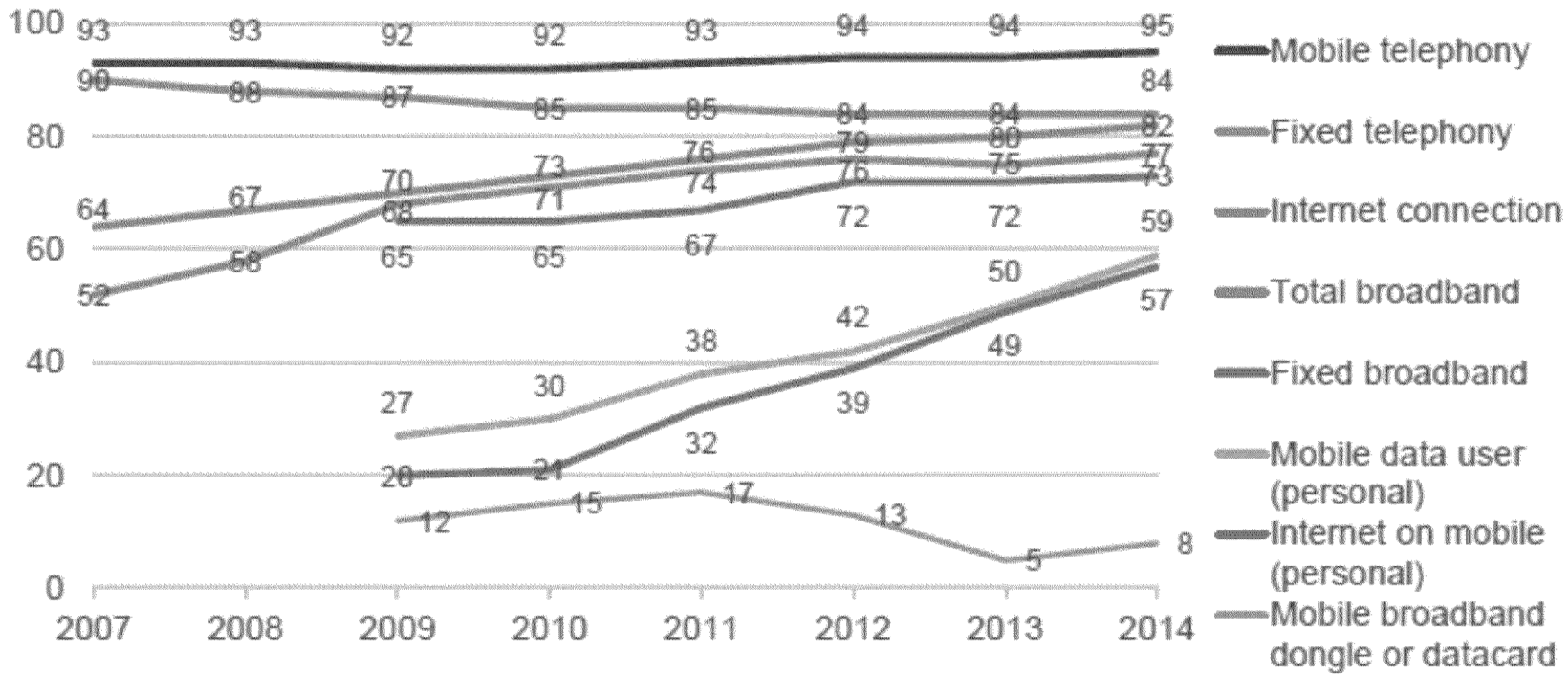
Household take-up of communications services

Household take-up of communications services: (% of households / adults)



 Source: Ofcom research, data as at Q1 of each year

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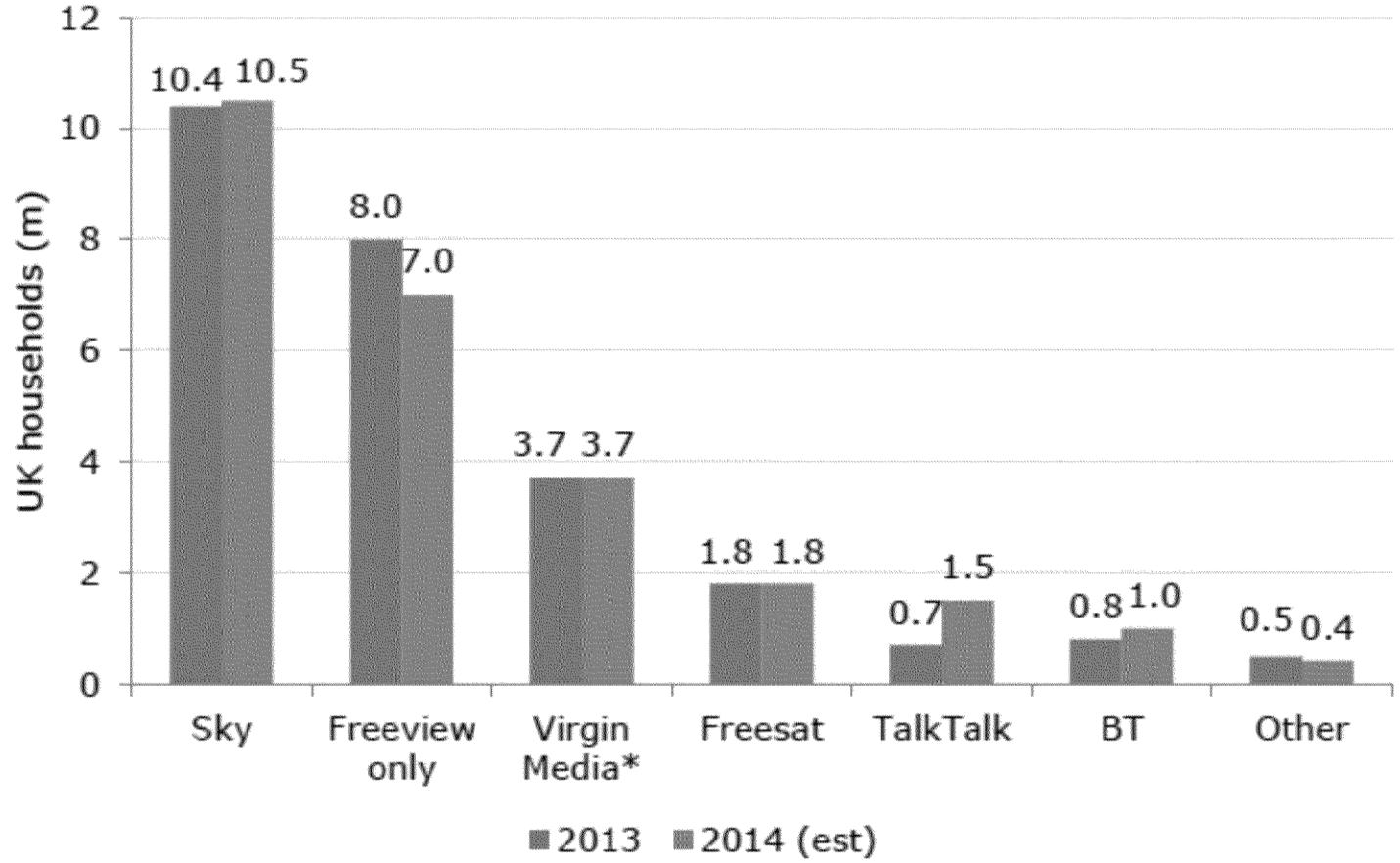
Sky remains the most popular provider of TV with an estimated 10 million households taking its pay-TV services in 2014

Volume of UK TV Households, by provider, 2013 and 2014: (volume of households)



Virgin Media include free and pay TV
SOURCE: OPERATING COMPANIES/MINTEL

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POST OFFICE LIMITED GROUP EXECUTIVE

Project Hawk
Exercising the Option to buy Bank of Ireland's share of Post Office Insurance

1. Purpose

1.1. This paper updates GS on the negotiations with Bank of Ireland UK plc (BoI) on Project Hawk - the exercising by Post Office of its option to buy BoI's share of the joint insurance business (the Business) as set out in the Eagle agreement ("FSJVA").

1.2. This submission follows the paper presented to the Board on 16th July 2014, where approval was given for "management to negotiate a buy-out of BoI's share of Post Office Insurance business at a cost not exceeding £40m" (Board Minute POLB 14/91).

1.3. The Independent Insurance Expert (IIE) has opined, concluding that the valuation of the Business is £43.9 million; this determination is final and binding on both parties (although there will be a final true-up on completion). This value, while 9.8% outside the Board mandate, is within Post Office's value horizon.

1.4. This paper seeks Board approval to allow management to proceed with the acquisition BoI's share of the Business at the given valuation. Management further seeks scope to negotiate potential alternative structures with BoI.

2. Background - Transforming Insurance to deliver value to Post Office

2.1. The insurance transformation programme is targeted to increase Post Office's gross income from insurance activities from £18 million in 2013/14 to £138 million in 2020 and net income of £86 million. As set out in the Financial Services strategy presented to the Board at various times, the program comprises three phases, viz:

- Phase 1 – Titan (new travel insurance model);
- Phase 2 – Exercise buyout option as set out in Eagle;
- Phase 3 – Migration of other insurance businesses as contracts expire (e.g., Junction).

2.2. Phase 1 has been completed with the establishment of POMS. Project Hawk is Phase 2.

3. Negotiations and the IIE determination

3.1. The FSJVA set out a defined process for Post Office to exercise its option as follows:

- Post Office initiates the process with a "market value" offer. This was completed when Post Office submitted an offer of £20 million in September 2014;
- If BoI and Post Office cannot conclude an agreement, Post Office can escalate to an IIE, who would be appointed by both Parties;
- The IIE will determine the price based on representations from BoI and Post Office. This determination is binding on the parties if Post Office chooses to exercise the option.

3.2. Following the submission of Post Office's offer, BoI responded in October with a counter valuation of £100 million.

3.3. As it was quickly evident that the Parties would likely be unable to negotiate an agreement, in November Post Office advised BoI that it would refer the matter to an IIE. The FSJVA provided for the role of the IIE and set out a clear valuation approach including timings. In January Grant Thornton was appointed as IIE, working within an agreed four week timeframe.

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3.4. The IIE process comprised:

- Initial submission by both Parties setting out their valuation rationale:
- Oral presentation by both Parties;
- Interview with the Managing Director of the Business;
- Second submission by both Parties;
- Questions from the IIE.

At each stage papers were shared with the other party; all Parties attended the interview.

3.5. Post Office was supported by KPMG and Linklaters (the same team that drove Eagle), while BoI retained Morgan Stanley, utilised its corporate finance in-house business and appointed a leading insurance valuation expert to its team.

3.6. The IIE delivered his outcome to the parties to schedule on 27th February 2015:

- He determined BoI's share of the Business to be **£43.9 million**.
- This valuation is final and binding on the Parties.

4. Financial Analysis

4.1. Whilst the Board granted a mandate upto £40 million, the discussion at the time discussed a realistic value of £45-55 million. Subsequent analysis by Post Office Finance has suggested that an even higher valuation would have worked for Post Office. Diagram 1 below sets out an analysis of the theoretical maximum acquisition price Post Office could pay and see a commercially sustainable return.

4.2. This analysis shows the value derived from the various step changes an acquisition of the Business would enable. Each scenario highlighted below builds on the previous scenario.

- Scenario 1 is based on Post Office simply acquiring the Business and not developing it. This was the basis of our opening offer to the Bank.
- Scenario 2 shows the incremental value of Post Office undertaking the work carried out by Budget Insurance Services Limited ("Junction") from 2017/18. POMS would take on this role.
- Scenario 3 expands the value from the business by replicating, for some insurance products (e.g., Life), the share of underwriting benefit similar to that being done in the travel insurance business in POMS.
- Scenario 4 builds additional value from new products, which we would only seek to develop following Hawk (those products would not be commercially or operationally viable if BoI were still to particulate.
- Finally, Scenario 5 assumes that we can achieve the growth and return that the joint insurance team has forecast.

4.3. In all cases the acquisition of the Business would reduce BoI's contribution to the marketing fund by £3.0 million per annum. These funds would be provided by POMS (and have been assumed in the budget submissions for 2015/16.

4.4. The initiative creates a business with a total value NPV of £324.1 million (based on a 10% discount rate), less the acquisition investment (ie net £280.2 million). On a conservative, risk adjusted basis, the value add NPV of the acquisition id £205.8 million.

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Diagram 1

HAWK - THEORETICAL MAXIMUM ACQUISITION PRICE SUMMARY

£ million	Value added in forecast period	Value added in Terminal	Total value added	Risk adjustment	Risk adjusted value added	Theoretical max price (cumulative)	
Scenario 1: POL acquires, but no additional benefits	15.1	6.9	**22.0**	100%	22.0	**22.0**	Uses sales values as submitted to IE, no other benefits. Upside comes from taking BOI share
Scenario 2: POL acquires, gets upside from taking on Junction activity	24.3	35.5	**59.8**	66%	39.5	**61.5**	Benefit comes from taking on Junction activity from FY17/18 (c£12m pa net benefit) less termination costs c£27m
Scenario 3: POL acquires, gets upside from share of underwriting profits	9.8	16.4	**26.3**	50%	13.1	**74.6**	Benefits of sharing in underwriting profits.
Scenario 4: POL acquires, gets upside from new products it would not have otherwise had	23.6	28.8	**52.4**	50%	26.2	**100.8**	Uses new product sales values per the POI forecast.
Scenario 5: POL acquires, gets upside from additional sales of existing products it would not have otherwise had	41.9	23.2	**65.1**	10%	6.5	**107.3**	Uses sales values per the POI forecast for existing products only.
NPV of whole business (existing + value add)			**324.1**			**205.8**	

Source: Post Office Finance

5. Risks

5.1. The buy-out of the Business is a key pillar of the Post Office's Financial Services 2020 Strategy. Its increases the likelihood of the successful delivery of the strategy, and opens additional opportunities, such as investments (see below).

5.2. There remains a risk that the conclusion of the acquisition could be frustrated by BoI seeking to slow the process. However, the buy-out is a contractually binding obligation as set out in the FSJVA. Moreover, the Bank has indicated that it is keen to get this process concluded and focus on the growth of the remaining businesses.

5.3. There is a risk that the business transfer will be delayed whilst Post Office develops the infrastructure to manage it. This risk has been largely offset by the establishment of POMS and the FCA's "minded to authorise" letter, which was received on 19th February[1].

5.4. POMS will need to advise the FCA that its business will grow beyond travel insurance; this is not an exceptional process. POMS will also need to implement capabilities, process and controls in order to run the newly-acquired business. The analysis and process to develop this is underway, building on the existing POMS infrastructure and capabilities. It is expected and anticipated in the FSJVA, subject to TUPE, that the existing and experienced joint insurance team will move across into POMS.

6. Next Steps

6.1. Working with Post Office Legal and Finance, Linklaters and KPMG, we will engage with BoI to conclude the contractual discussions and arrange for the transfer of the business to Post Office. To start the process and following support from the FS Committee, Post Office has written to the CEO of BoI advising him that we will be seeking Post Office Board support to proceed to acquire the Business, based on the IIE's valuation.

6.2. Anticipating that the business will be run through POMS, POMS is preparing itself to be ready for the business, including ensuring it has all the relevant regulatory, compliance, technical and commercial capabilities in place.

[1] Board approval for POMS to proceed to stand-up as a principal under the FCA regime is tabled separately at this meeting.

POL00151514

6.3. With Finance leading, supported by our legal team, we are assessing the most cost effective and practical financing structure for the acquisition and how to ensure its delivery into POMS.

7. Summary

7.1. The IIE determination has a valuation of the Business of £43.9 million, which is slightly above the Board mandate but within the Post Office value-horizon.

7.2. The acquisition is a core component of the delivery of the FS strategy.

7.3. The acquisition would reduce BoI contribution to marketing by £3.0 million per annum.

7.4. Management strongly believes that the acquisition of the Business at this valuation represents a good investment for Post Office, with a strong NPV.

7.5. Management is assessing the appropriate structure and process to acquire the Business and integrate it into POMS.

8. Recommendation 1.

8.1. Management seeks Board approval to proceed to acquire the Business for £43.9 million.

9. Alternative models with BoI

9.1. Subject to approval 8.1 above, management will seek to conclude Hawk.

9.2. There are, however, alternative models that could further opportunities. These are supported by:

- BoI being keen to retain the exclusivity of its relationship with POL. This is both an optical/market and operational concern;
- BoI being concerned at the dilutionary impact on branch and marketing activities/focus if those activities were split between remaining BoI business and insurances;
- In 2014/15 the Parties failed to negotiate a commission structure and operating model that enabled the launch of investment products. While this is a potentially significant market opportunity for Post Office, the commission proposals from BoI did not provide an economic return.

9.3. Preliminary discussions were held in late 2014 to ascertain the interest and value of an alternative model for Hawk, on the basis of:

- Hawk to proceed;
- BoI to gain a small share of POMS (say 10%); this would therefore include a share of value from the travel insurance business (which is outside BoI today);
- BoI would not be able to influence strategy, but certain aspects would require consent (eg acquisition or dilution);
- Utilise POMS as the vehicle to develop the investments strategy, with POMS engaging directly with the market.

9.4. This opportunity has considerable merits, including

- Significant opportunity from investments;
- Maintaining BoI focus in the Post Office FS business; and
- Reduced acquisition investment and retention of the annual marketing contribution.

9.5. However it also raises a number of issues:

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- BoI would own part of a Post Office subsidiary and BoI would gain a share of the long term upside from insurance growth;
- Negotiations on this solution could delay Hawk.

10. Recommendation 2.

10.1. Management proposes to:

- Proceed with Hawk as recommended above (8.1), establishing a clear timeline for completion; and
- Initiate parallel conversations with BoI to determine whether there is a financial and strategic alignment to proceed further with the alternative solution.

10.2. The Board is asked to note the alternative solution and authorise management to assess its veracity, while continuing to complete Hawk (as per 8.1 above).

Nicholas Kennett
Director, Financial Services
March 2015

POL00151514

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POST OFFICE LIMITED GROUP EXECUTIVE

Establishing a Banking Services "Scheme"

1. Purpose

1.1. This paper provides an update to the Group Executive on the strategy for Banking Services and of the negotiations underway to create a national Scheme. Group Executive is asked to note the paper and support the negotiating strategy.

2. Background

2.1. Post Office provides services to the retail, and in some cases, business customers of UK retail banks to enable them to undertake various transactions in Post Office branches. It is a "B-to-B-to-C" service with Post Office acting as an agent to the banks. The transactions are anonymous and most (although not all) are automated (ie require no active involvement of the counter staff member).

2.2. Banking Services is a key generator of footfall into branches and generates income to Post Office of c£55 million per annum (c£26.2 million after agents' commissions); it represents c18.5% of Financial Service's gross income. In recent years, Santander revenue has declined, although this has been offset by the addition of new Clients (particularly HSBC and RBS) and additional services with existing Clients. This has had a net effect of revenue remaining largely flat.

2.3. The service, which generated £24.8 million DPC as at P9, was initially established to support banks with limited branch networks (especially Alliance & Leicester following its acquisition of Girobank), and to support the launch of the Basic Bank Account. Over the past three years the service has been extended, with 95% of debit card holders (including 100% of Basic Bank Account holders) able, as a minimum to withdraw cash.

2.4. The arrangements have been established through bi-lateral agreements with each bank resulting in different services being available for their customers[1], with varying standards, offerings and commission structures. A consequence of the multifarious arrangements is that it is not possible to market the service to customers.

2.5. Santander customers from Alliance & Leicester and Bradford & Bingley (who operate Santander accounts) can use the service; those who migrated from Abbey or took out a Santander account directly, cannot, although both have a Santander account[2].

2.6. While there had been concern, expressed especially by RBS and Santander, that Post Office would use the service to sell its own-branded products against theirs, it is now being seen by banks as an alternative delivery platform as they rationalise their branch networks. Thus the service is now seen to support and augment banks' distribution and customer strategies.

3. Challenge and Opportunity for Post Office

3.1. While banks have embraced the service, there has been increasing tendency to see Post Office as providing an immediately available solution, without the need for engagement; for example, advising customers that a branch is closing and that they can utilise a Post Office branch for transactions, without having discussed this with Post Office. Thus Post Office is assumed to have the capacity and capability to deliver the service, irrespective of cost, logistics or customer/ branch implications).

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1 Details of the differing services are set out in Appendix 1.

2 Post Office counter staff cannot determine which account-form the customer holds. A transaction attempt for the "wrong" account will result in an unexplained decline, causing negative customer outcomes.

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3.2. While transactions will increase as bank branches close, Post Office risks cementing a high fixed cost structure (especially cash delivery), while the banks are able to have flexibility to remove high fixed (branches) and variable (cash services) costs and replace them with a low variable cost (Post Office's transaction fee). Post Office, however, would retain the full service cost and an inability to exit the market (if it were to so chose) as we would be the final provider of cash services to the community.

3.3. Finally branch services have become a political issue, particularly as it has become inter-twined with a backlash from the closure of bank branches. Since December there have been two "roundtables" hosted by Vince Cable (VC) (the latter also by Andrea Leadsom, Economic Secretary to the Treasury (AL)); VC has been very supportive of Post Office providing the service, and privately so has AL.

4. Creating a Scheme

4.1. Post Office is seeking to redefine and simplify the contractual and operational structure of banking services into a national "Scheme", comprising:

- Restructuring the services into a single set for consumer and business banking activities;
- Standard contractual and operational structure, simplifying the multifarious bi-lateral structure today, whilst at the same time enabling the banks to represent to their regulators (FCA and PRA) that they are meeting the operational and prudential risk requirements through using the Post Office;
- Consumer services would be available at all Post Office branches (but not any new access points), while the need for larger business banking deposits (in excess of £1,000) would only be available at those branches with the capacity and security[3];
- Standard commission structure combining consumer and commercial transactions, based on threshold bands, with diminishing rates occurring as volumes increase (details to be agreed);
- A communications protocol that ensures that Post Office is engaged (centrally) well ahead of a prospective branch closure. This would ensure that the likely additional volume is understood and a joint assessment made as to whether any additional services would be needed (for example, business services). This would enable Post Office to consider whether it could invest to provide additional local capacity (eg create a business banking counter[4]) or change the designation of the branch[5]; this would be on a "no-commitment" basis and would require the support of the sub-postmaster (if applicable);
- Agreed communications strategy, including the ability of Post Office to market the service;
- The payment of an annual "option" fee by all banks to Post Office. This fee, which Post Office proposes would be based on the number of personal and business bank accounts and would contribute to the fixed cost of cash distribution and provide funds to invest in upgrading the service – eg local changes to support business banking, process changes such as cheque deposits and truncation at source. It would be payable irrespective of the usage of the service; and

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3 There is no commitment to actual branch numbers. Service details have been discussed and agreed by Network and Legal (to ensure that any competition risks are appropriately managed).

4 Any branch offering business banking services must have a secure area and appropriate safe.

5 For example, in February Barclays looked to close its branch in St Agnes, Cornwall; as Barclays cash deposits are paper based (which cannot be transacted in a Local) and as all the neighbouring Post Offices are Locals we upgraded one branch to Local Plus (which can accept paper-based cash deposits).

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- A migration strategy to move all existing contracts on to the new structure within a defined time period.

Post Office benefits:

4.2. The Scheme will:

- Simplify the provision of banking services at branch and operational level;
- Provide a unique proposition to Post Office branches;
- Provide funding to support local service changes to support the service (eg building of a secure area for business banking services);
- Provide a significant contribution to the fixed costs of cash distribution.
- Ensure that Post Office is aware of bank branch changes well ahead of their implementation, enabling more effective capacity planning;
- Enable Post Office and branches to advertise and market the service; and

4.3. Overall the Scheme as proposed would put the business on a sustainable commercial footing enabling Post Office to support customers and assist banks as they change their branch configuration.

Banks' benefits

4.4. The structure would give the banks the operational flexibility they need and potentially local operational and "political" support to ensure that their customers are supported, and seen to be supported, in the transition.

4.5. By working closely with Post Office through the Scheme, banks can better plan and communicate branch closures, ensuring that basic services for customers are available.

4.6. The creation of funding through the Option Fee would enable Post Office to build local capability; there would be no commitment on Post Office to extend services, but a reasonable endeavours to assess options; Any additional investment or service change would require the support of the Postmaster (as appropriate).

Summary

4.7. Under the Scheme, Post Office would get increased financial security, removing the risk of grandfathered fixed costs, simplified service requirements, and long term revenue.

4.8. One area of negotiations that may arise surrounds a desire from the banks for a commitment by Post Office to branch numbers and capability. Post Office's position to date has been that we are unable to offer any commitments beyond those set in public policy.

5. Negotiations & Timings

5.1. Negotiations to date, which have focussed on services and operational standards, have been managed through the British Bank Association (BBA). The BBA coordinates responses to its members through its Retail Committee. A copy of the latest discussions through the BBA is in the attached appendix.

5.2. The Parties anticipate that these operational matters will be largely concluded by late March.

5.3. Once this has occurred Post Office will write directly to the CEO of each bank setting out the commercial terms that Post Office proposes for the service, covering the transaction commission rates and the annual option fee. The proposals will be identical. The initial targets will be HSBC and Barclays as these banks have been particularly keen on the Scheme.

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5.4. If a bank does not support the proposal, Post Office has the option to give notice on the arrangements. In particular Lloyds Bank is out of contract and operating under one-year rolling notice. Post Office would look to give notice and withdraw the service. This action has been discussed with staff from the Department of Business Innovation & Skills.

5.5. The Parties are seeking to conclude high level negotiations by 31st March 2015.

6. Recommendations

6.1. Group Executive is asked to note the strategy to establish a banking Services Scheme and support the negotiations positioning.

Nicholas Kennett
Director, Financial Services
March 2015

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POST OFFICE LTD GROUP EXECUTIVE

SME Proposition Update

1. Purpose

The purpose of this paper is to:

1.1. Update the Group Executive (GE) on progress made in the development of Post Office Limited (POL) proposition for the SME market, since the last update in January 2015.

2. Background

2.1. At the January 2015 Executive Committee (ExCo), a noting paper was submitted updating on progress on the SME proposition development work.

2.2. The January 2015 paper outlined the market context and the approach undertaken to shape a compelling SME proposition, following over 110 interviews. The most credible proposition areas were in mails and financial services in the form of added value services for SME's (e.g. customised packaging and payment services).

2.3. The January 2015 noting paper summarised that following an extensive piece of research, further work was being undertaken to determine the key priorities and focus areas for the SME proposition including an updated view of the potential financial benefits.

2.4. Work has been continuing at pace since the January update to review and refine the proposition in order to protect declining SME revenues.

2.5. The March position re-states the value of a POL SME proposition, following a final round of research. This work re-enforces the need for a phased approach to delivering an SME proposition, notably by working in 15/16 to address the fundamental basics in mails which SME's require, ahead of launching the non-mails element of the proposition in 16//17. In short, POL lacks credibility in any product area outside mails until the core mails product offering is improved.

3. Current situation

3.1. The SME market is becoming increasingly competitive with POL losing an estimated IRRELEVANT market share in SME only mails in the last 10 months. If this trend continues, by 2019 POL will have lost around IRRELEVANT SME customers IRRELEVANT revenue). For POL, standing still without a strong, robust and sustainable proposition for these segments is no longer an option.

3.2. IRRELEVANT

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3.3. It is proposed to build and launch an SME proposition to halt the decline in customer numbers and in time help POL regain and grow mails market share. In addition, we intend to seize this opportunity to look for new revenue opportunities from the SME audience.

4. Proposition Overview

4.1. The proposition put into the final research was developed from an extensive piece of research and development, where over one hundred ideas were identified based on in-depth interviews with SME's and internal ideation. This latest phase narrowed the focus to Mails and Financial Services.

4.2. The proposition was presented as a series of services from POL, with some forming a loyalty programme or monthly subscription service.

5. Proposition research summary

5.1. Research was undertaken amongst SME's in January/February 2015 (750 x 20 minute online interviews amongst small businesses) with the following key objectives:

- To understand proposition appeal
- To prioritise features and benefits
- To assess monthly pricing or discounts

5.2. The findings from the research undertaken in January/February 2015 were:

- SMEs are primarily interested in a simple and focused set of mails based services from POL but find the current experience frustrating (queues, pricing, little or no online experience, no collections service, limited tracking, etc).
- Financial Services and additional non-mails services are of interest but only once SME's have confidence in the core mails offering POL provides. POL need to earn the right to offer a more sophisticated and broader set of SME services outside mails.
- 6 in 10 would be "very" or "fairly" interested in the idea of a points based loyalty scheme around mails and this was favoured ahead of a subscription service at this stage.
- Additional subscription services with a monthly fee would be considered by SME's once POL improves its core mails offering. SME's are willing to pay for these services but only if sufficient value is returned to them for this charge. Additional services include business analytics, business hub and financial services payment facilities. At this stage only 3 out of 10 SME's would be interested in these services: however this would increase if POL improved its credibility with this audience by fixing the basics.
- Of the additional service features researched, domestic tracking and collection services in mails performed the strongest in terms of stated impact on consideration:

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- **Domestic tracking** ranked top for appeal - **70%** much more likely or slightly more likely to consider the proposition and **36% would be willing to pay** for this.

- **Parcel collection** service ranked second for appeal - **57%** much more likely or slightly more likely to consider the proposition and **50% would be willing to pay** for the service.

5.3. Other key insights from this research again confirmed the high incidence of market place sellers, with 53% of the research base selling through online market place(s); with 13% being Ebay Powersellers.

5.4. Conclusions from the research – POL must:

- Provide a simple and focused mails proposition (businesses are time poor so saving time and effort are key consideration points when looking at mails providers).

- Use technology to save businesses time and effort (i.e. more online).

- Treat businesses as priority customers, particularly in branch.

- Work with Royal Mail (RMG) on improving pricing for SME's; particularly higher volume mails users.

- Focus on fixing and improving the core mails proposition offered to this audience to retain and winback SME's. The priority areas identified include online mails, drop and go, in branch experience, collections and tracking.

- Work to deliver an initially mails based loyalty style programme, which has strong traction with this segment. Additional subscription services can be offered over time once the core POL mails proposition is improved.

- Shape the go forward SME proposition alongside ongoing discussions with Ebay, given the clear overlap between SME's and online market place and Ebay sellers.

6. Recommendations

6.1. Our immediate priority must be to focus efforts and investment in 15/16 on strengthening the core mails proposition ahead of any development of wider non-mails subscription services in 16/17. This would be realised by drawing down budget from the £5.3m currently set aside for the SME proposition in 15/16.

6.2. POL must develop a basic but consistent and efficient multi-channel SME service for mails in 15/16, bundling the following areas:

- An improved and enhanced Drop and Go (D&G) account. This will build on the Phase 2 D&G fix work currently being undertaken by Kevin Seller and the mails team.

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- Volume/value based pricing/loyalty following continuing positive engagement with Royal Mail (RMG) on the SME proposition.

- A consistent in-branch experience that supports businesses as priority clients who are time poor.

- An online mails service to provide purchasing, administration support and reporting to customers.

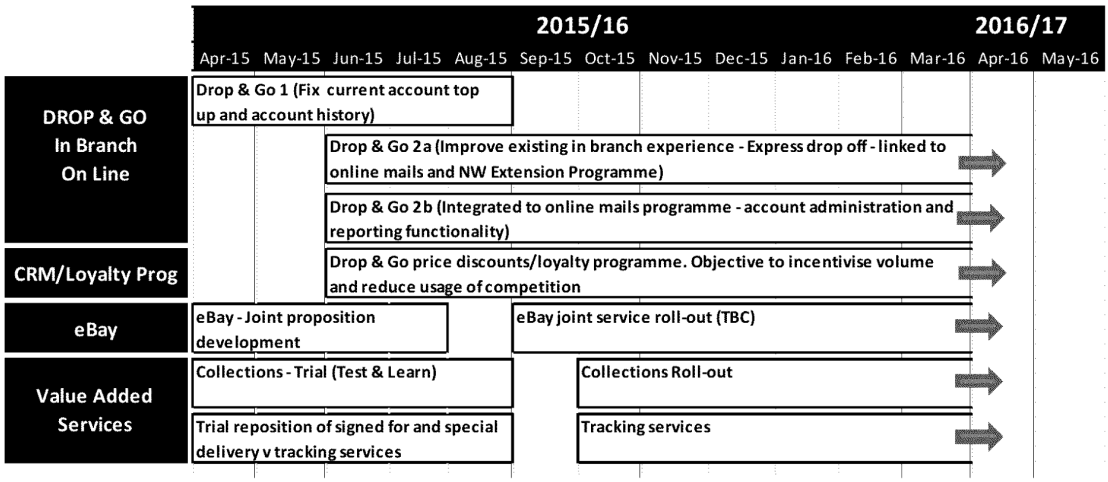
- A link to market place accounts (e.g. Ebay) for SME's to upload their order and shipping information. Therefore POL opportunities to develop propositions in conjunction with key brands (notably Ebay) needs to be pursued.

- A chargeable collection service linked to the Drop and Go customer account registration (this requires further testing).

- Tracking (or indeed special delivery/signed for). This also requires further testing.

7. Implementation Plan

7.1. The following chart highlights the major strands of work to be undertaken and broad timelines for delivery:



7.2. Fix and improve the Drop & Go (D&G) proposition:

- Build on the Phase 2 D&G fix work currently being undertaken by Kevin Seller and the mails team.

- Identify the optimal D&G in-branch experience through a programme of test and learn and roll out.

- Develop a commercial loyalty scheme to incentivise D&G customers to send more items via the Post Office (volume based discounts/loyalty points working with Royal Mail). POL need to continue work with Royal Mail (RMG) to offer mails discounts for volume SME senders. Positive

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discussions are underway with RMG who are currently working through if and how they can discount.

- Improve data capture through D&G account registration to enhance prospecting opportunity from POL.

- Map the end to end operational and retail processes involved in processing a D&G item and identify opportunities to become more efficient.

- Develop a multi-channel journey and sales process – linking online mails with D&G requirements. For example ensure online mails supports account top-up, online purchase, integration with market place seller systems, account reporting and historical transactions.

- In all the above, continue to work closely with the IT Team, mindful of the Towers replacement work and constraints around Horizon in 15/16.

7.3. Test and develop additional added value services:

- Collections – building on Agency Network's pilot in Birmingham, more formal pilots need to be undertaken to fully determine SME appetite and relevant price points for this service. A relevant product owner in the mails team will lead the work to understand current service tests including operational requirements, customer needs, likely commercial model and benefits to both POL and Royal Mail (RMG) of undertaking collections.

- Tracking – review of current and potential tracking services with Royal Mail tied to the development and launch of the online mails solution.

- Ebay – a direct link with Ebay and pending workshops with their customer insights and market development teams will be used as an opportunity to explore marketplace seller capabilities. This would help inform the development of D&G and value added services.

8. Financial Case

8.1. The decline in the Post Office mails market share in the SME base is continuing therefore "do nothing" is not an option. We know we have lost 5% market share in this market in the last 10 months. If this trend continues the Post Office will have lost around 250K SME customers by 2019 equating to £16m of annualised income.

8.2. The table below produced by POL finance highlights the size of the prize (income) by 2019 for every 1% improvement in retention.

	SME Volumes							
Annual Decline	2013	2014	2015	2016	2017	2018	2019	Change in Income to 2019
1%	925,000	915,750	906,593	897,527	888,551	879,666	870,869	-£3,599,702
2%	925,000	906,500	888,370	870,603	853,191	836,127	819,404	-£7,022,121
3%	925,000	897,250	870,333	844,223	818,896	794,329	770,499	-£10,274,310
4%	925,000	888,000	852,480	818,381	785,646	754,220	724,051	-£13,363,111
5%	925,000	878,750	834,813	793,072	753,418	715,747	679,960	-£16,295,160

8.3. Initial focus and investment needs to be in fixing the basics and test and learn programmes. This will mean putting in place resource to run the projects with clear ownership and accountability. £5m capex and £300k opex has been

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budgeted for this activity in 15/16 to be drawn down on a "case by case" basis via the Transformation Management Group (TMG) to support the delivery of the SME proposition.

9. Next Steps and resources needed

9.1. The SME vacancy in the mails team will be filled, with this role accountable for working across the various programmes touching SME's - network access/extension, online mails, and collection trials. This role will continue to ensure all SME activity being undertaken by POL remains aligned.

9.2. Business cases will be built for each of the elements identified in section 8 with specific requests made for draw down on a "case by case" basis. At this stage the proposal is to ring-fence £5m capex budget for 15/16 in anticipation of the national roll-out of concepts discussed in this paper. Full business cases will be developed and submitted on a "case by case" basis through the Transformation Management Group (TMG).

9.3. At this stage, to support the set-up and management of the field tests for collections, detailed customer experience journey mapping and testing of a loyalty scheme £200k will be requested to be made available (from the £300k opex budget put aside for SME in 15/16). Approval for this budget will now be sought via the Transformation Management Group (TMG).

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SME Update:
Group Executive (GE)
March 2015

POL00151514

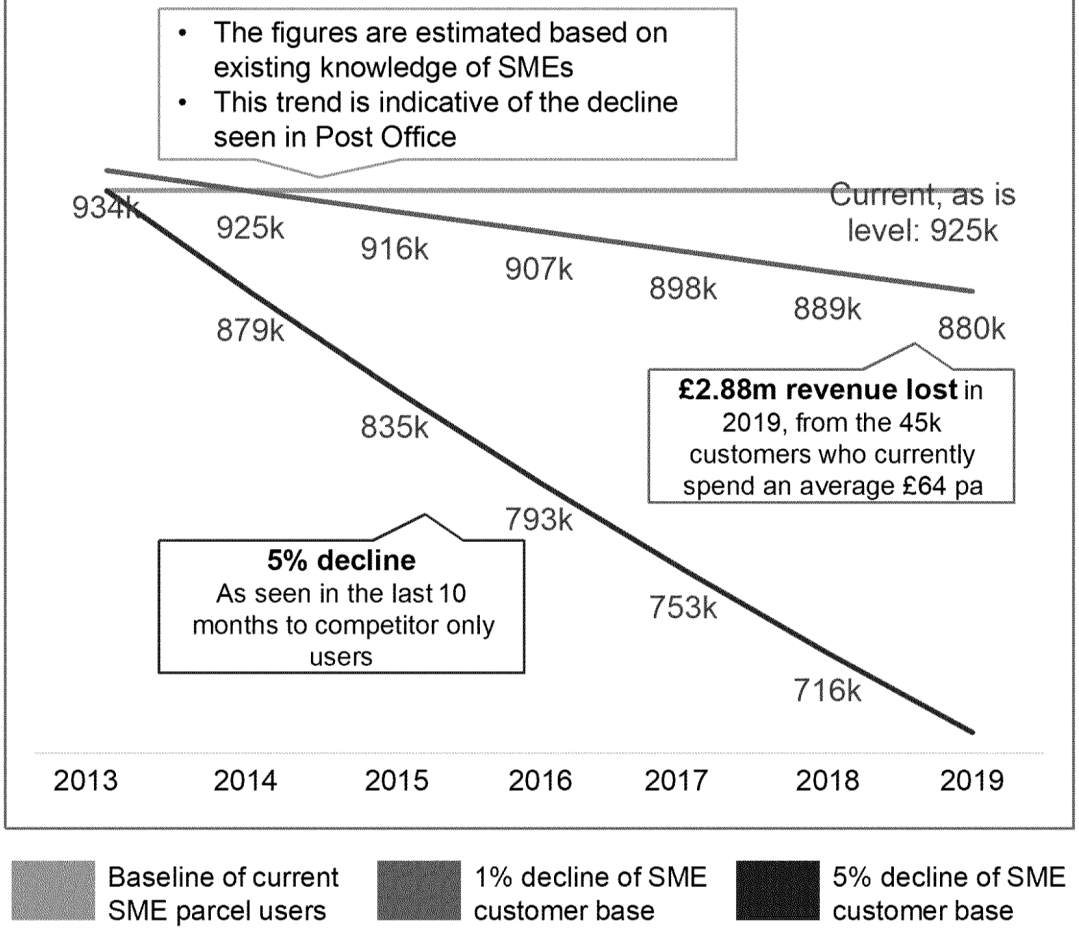
Executive Summary

- POL are losing market share in the SME mails market to My Hermes and Collect Plus with an estimated 5% share loss in the past 10 months alone. If this trend continues by 2019 POL will have lost around 250k SME customers (£16m annualised revenue).
- To arrest this decline, work has been undertaken to shape a new POL SME proposition:
  - Over 100 interviews with SME's
  - Ideas generated were grouped and clustered based on SME segment needs with mails and financial services viewed as the most credible areas for the proposition in the form of a loyalty or subscription service
- Final round of research was undertaken in February 2015 with the core aim of determining the proposition appeal and to prioritise features and benefits
- The research conclusions help shape the core focus areas for POL for 15/16:
  - Fix the basics in the mails proposition. Without this anything offering from POL beyond mails lacks credibility (and currently would only appeal to around 3 out of 10 SME's)
  - Primary focus areas for fixing the basics in mails are improving the current "Drop & Go" offering, work to improve pricing with Royal Mail (RMG), test collections, work with RMG to improve tracking and take proposition discussions with Ebay to the next level
- It is recommended that the £5.3m set aside for SME in 15/16 (of which £5m is capex) is approved on a "case by case" basis through the Transformation Management Group (TMG)

POL00151514

Background: Post Office is losing SME parcel business to competitors at current rate this will equal £16m in lost income annually by 2019

Overall Post Office parcels only customer numbers



- Currently, 19% of all UK micro SMEs (925,000) interact with the Post Office
- Overall market share is declining by ~1% but amongst online sellers it has declined 5% in 10 months

- On average SMEs are sending 25 parcels a week
- In the last 10 months we have lost 5% market share from Post Office only SMEs (19%) to competitor only (24%)
- SMEs that are very satisfied (TB) with competitors (MyHermes 42%) is higher than Post Office (20%)

Doing nothing to address this decline is not an option. We need to re-engage SMEs on a level where we have the "right to play" (Mails) and develop credible business services over time. There is no silver bullet…….

Source: Project: Online sellers – Wave 3, Optimisa Research, (Sept 2013 & Aug 2014)
Internal Post Office SME research 2014

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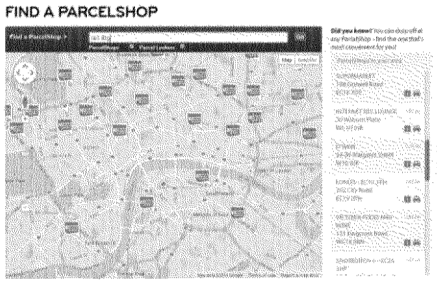
Competition for SME parcels lies in both changes current competitors are making and new tech start-up mails businesses

FLEXIBLE SENDING – DROP OFF POINTS

Traditional competitors

myHermes

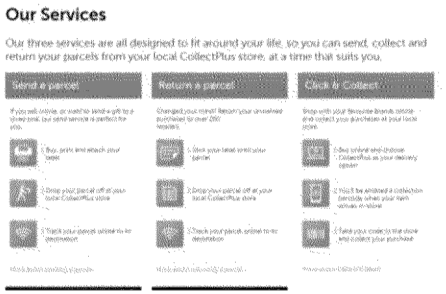
Reinvented their traditional catalogue order business, now focussing on collections and also offering drop-offs at ParcelShops or Parcel Lockers, with a large range of options in all central locations, and a core focus on SMEs



New start-ups

collect+

have reinvented the traditional Post Office within your local shop, using the space to serve customers drop off, pick up and returns needs. With a key focus on returns

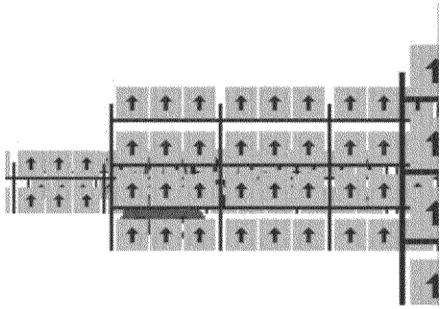


FULFILMENT

Traditional competitors

FULFILMENT by amazon

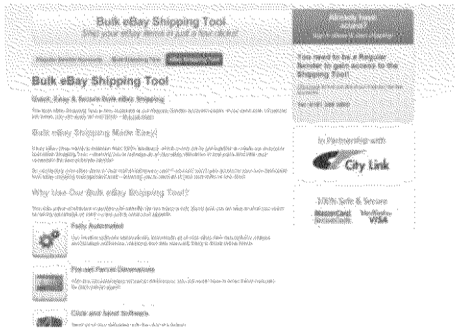
have expanded into full logistics and fulfilment services that are available to businesses of all size, on a pay as you go basis



New start-ups

myParcelDelivery.com

are progressing within this market by acting as a Mails aggregator and offering specialised services for large ecomm platforms



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Our work revealed that there are 4.7 million micro SME's (representing 95% of all SME's) in the UK, which we segmented into three groups based on attitude to growth and life stage

Start Up

ATTITUDE TO GROWTH

Individuals that have made the decision to set up in business, are in the process of setting up or have recently set up

AVERAGE TURNOVER

£100,000 for year one

AGE OF BUSINESS

Two years or less

SIZE OF SEGMENT

Approximately 500,000 start-ups each year

Lifestyle

ATTITUDE TO GROWTH

Owner managed business with little aspiration to grow above levels that maintain their relative position in the market

AVERAGE TURNOVER

£300,000

AGE OF BUSINESS

Two years or more

SIZE OF SEGMENT

Roughly 2.5 million

Growth

ATTITUDE TO GROWTH

Owner managed businesses with the ambition to grow above the levels that maintain their relative position in the market

AVERAGE TURNOVER

£900,000

AGE OF BUSINESS

Two years or more

SIZE OF SEGMENT

Roughly 500,000

Source: Segmentation and associated data based on Business Link Segmentation Model, 2006, updated 2010, Lastdropofink 2012

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We co-created an SME proposition with internal teams and over 110 SME customers

EXTERNAL EXPERTS

GRO

Travers Clarke-Walker
MD EMEA Firserv

Rebecca Glenapp
Co-founder Lux-Fix

GRO

Robin Mackenzie
Former marketing Director at BT Business

Kevin Gillett
Former MD Business Banking - HBOS

GRO

Rory O'Connor
Founder of Scurri

Nicholas Street
Chairman of Mail Carrier's Association

POST OFFICE TEAM

- SME TEAM
- MAILS
- FINANCIAL SERVICES
- MARKETING
- DIGITAL
- I.T.
- INSURANCE
- NETWORK

35 INTERNAL POST OFFICE TEAM

SME'S

DEPTH INTERVIEWS

18

Interviews across segments to identify needs, frustrations, attitudes and behaviours

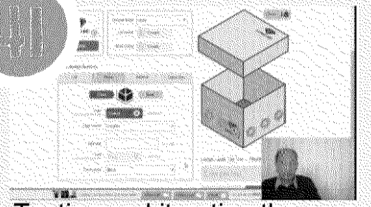
CO-CREATION

12

Co-creation sessions to generate new ideas and build on initial features

DIGITAL EXPERIENCE TESTING

11



Testing and iterating the core digital features of the proposition

PHYSICAL EXPERIENCE TESTING

12

Physical experience testing for specific SME ambassador features

18

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The customer needs analysis work demonstrated that SME customers *expect* a core service they can trust but *want* services that help them 'win'

LEVEL OF DIFFERENTIATION

WHAT SMEs WANT

'HELP ME WIN'

Help all SMEs reach their goals and ambitions for their business – from Start-ups to Growth

- Start-ups want guidance on how to get up and running in an affordable way
- Lifestyle want to maintain their brand reputation in the minds of customers
- Growth wants help driving operational efficiency and exploring ways to expand

WHAT THEY NEED

START UP	LIFESTYLE	GROWTH
'HELP MANAGE MY COSTS'	'MAKE IT SIMPLE FOR ME'	'GIVE ME BACK TIME'

- Start-ups need services that meet their basic needs, at an affordable price
- Lifestyle require simple services that reassure them and fit into their schedule
- Growth require simple, efficient processes that allow them to focus on their core business

WHAT THEY EXPECT

'Do the basic stuff well, every time'

- All segments want core services they can trust to deliver every time

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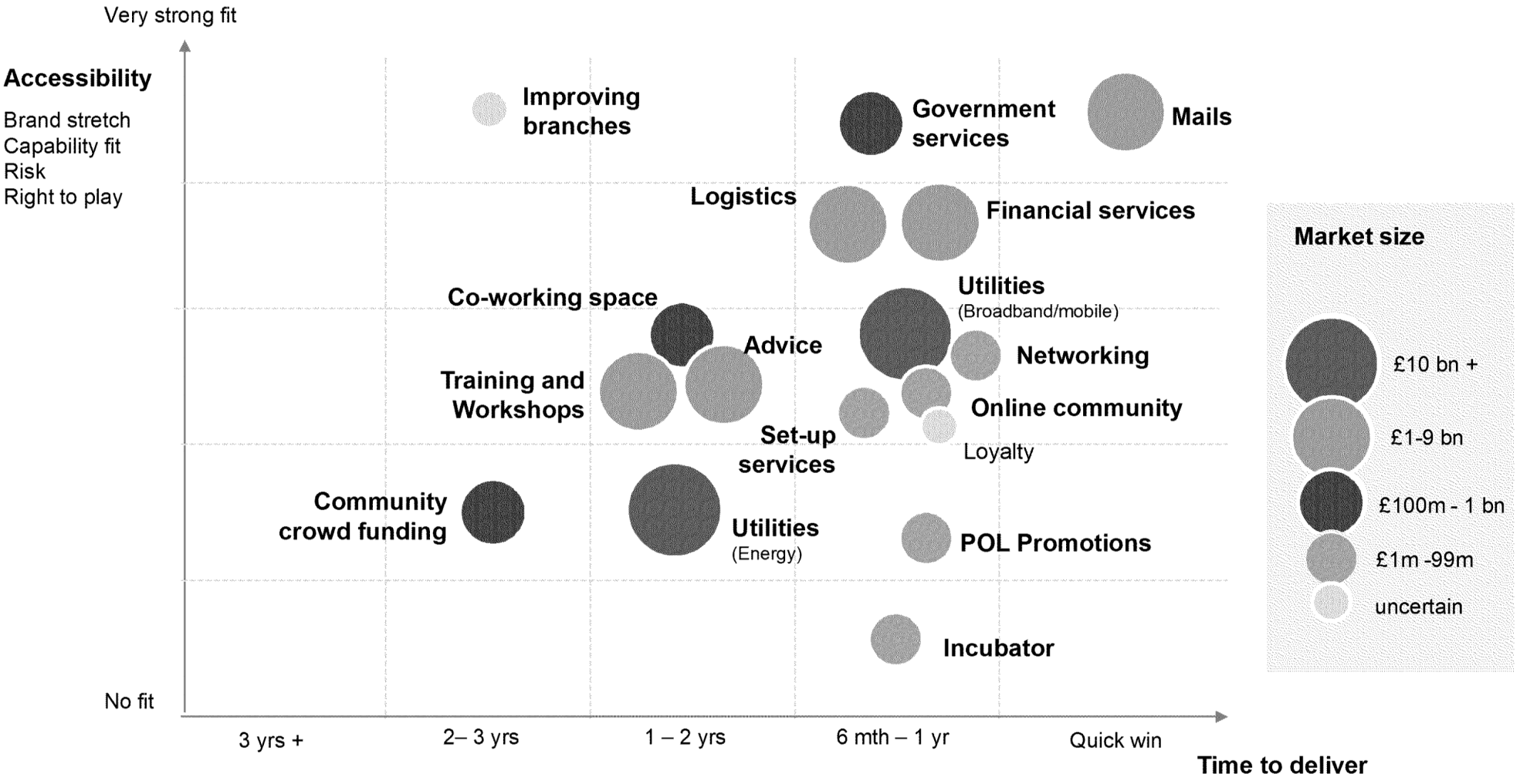
100+ ideas were identified, grouped into 15 potential opportunity areas and mapped against capabilities, time to deliver and market size



For more information: Appendix

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Initial research indicated a subscription service providing access to a comprehensive set of features that allow SMEs to run and develop their business was appealing

The mails subscription provides all core features SMEs require, including:
(1) Unique features that differentiate Post Office from our competitors
(2) Additional bolt on features to meet all SME needs

Mails subscription

SME MAILS ACCOUNT
A single SME account paid by monthly subscription

- Customised packaging
- Flexible shipment methods
- Pre-Shipment preparation options
- Tracking

ADDITIONAL FEATURES
Features that can be accessed at an additional charge

- Collection options
- Insurance

SME Ambassador features

SME AMBASSADOR
Additional features, accessible as part of the subscription, that help SME's develop their business

- Small business hub
- Team sme advisor
- Co-working space
- Funding finder
- Business analytics

Ambassador features provide additional services that:
(1) SME's can use to make the most of their account
(2) Help SME's reach their business ambitions

Banking Bolt-on

SME BANK ACCOUNT
A single account to manage all SME financial services

- Current account
- Payment acceptance
- Credit card
- Savings account

ADDITIONAL FEATURES
Features that can be accessed at an additional charge

- Overdraft
- Business loans

Simple banking can be added allowing everything to be managed in one place

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The SME proposition was put into a final stage of research with a number of key objectives

Key Objectives

1. Understand proposition appeal
2. Prioritise additional added-value features
3. Assess monthly pricing/ discounts

Approach

750 x 20 minute online interviews amongst small businesses:

- <10 employees
- Key decision makers
- Must send parcels

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Key findings: The proposition needs to initially be simple and focussed on mails. Until the core mails offering is fixed there was low consideration for non-mail features

- Key findings overall on the proposition were:
  - In mails, domestic tracking and collection services perform strongest in terms of stated impact on consideration
  - Mails related features (domestic tracking, collection services and customised packaging) also rank highest when looking at impact on consideration and willingness to pay in combination
  - Less additional impact "reach" is gained when bundling non-mails features with mails at this stage (driven by SME's desire for POL's core mails service to improve)

In short: Fix the basics on mails first

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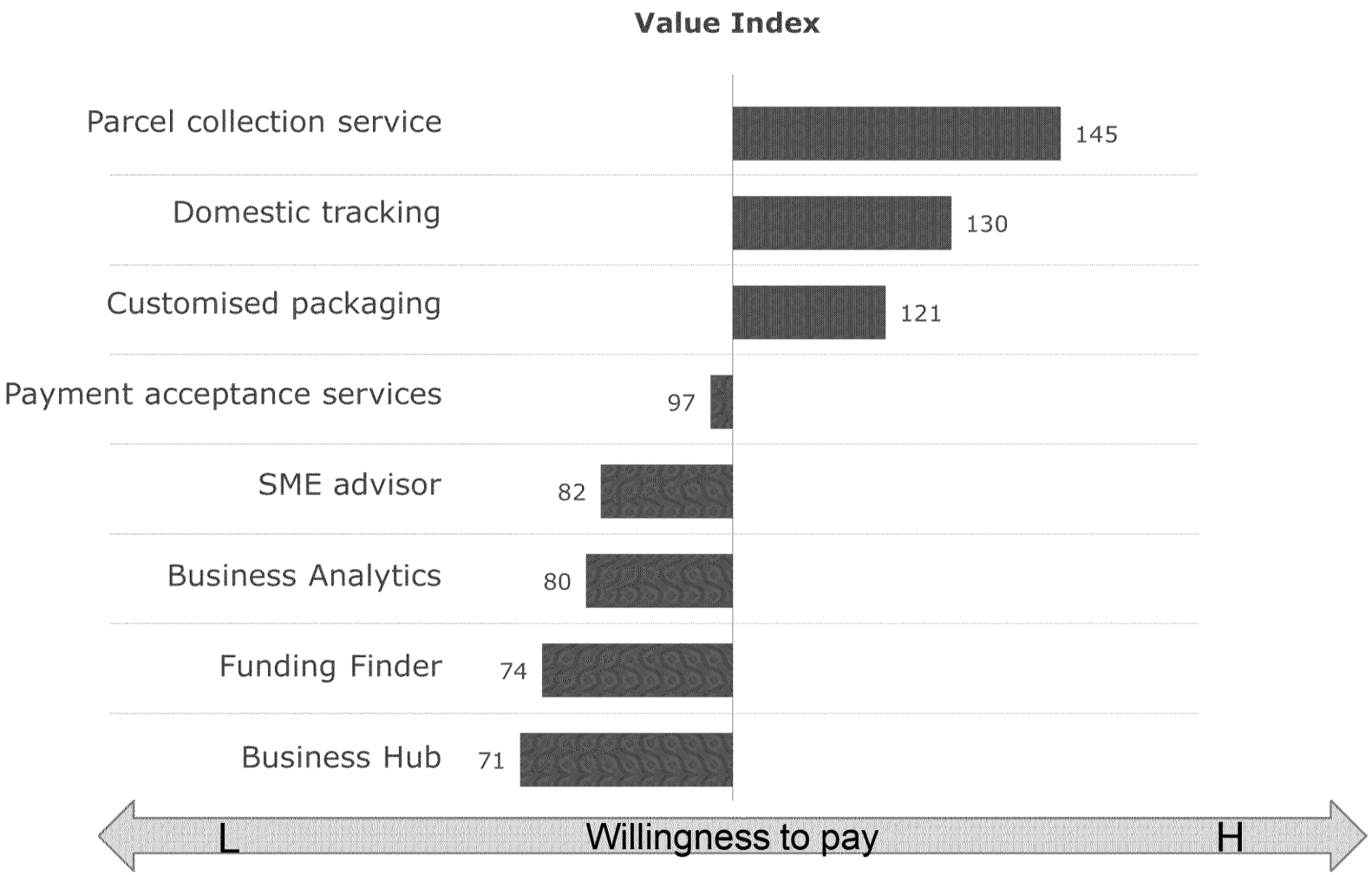
Key findings: Mails related features perform most strongly for SME's when looking at impact on consideration and willingness to pay in combination



S4Q4, S4Q5, Base: Total sample : 750

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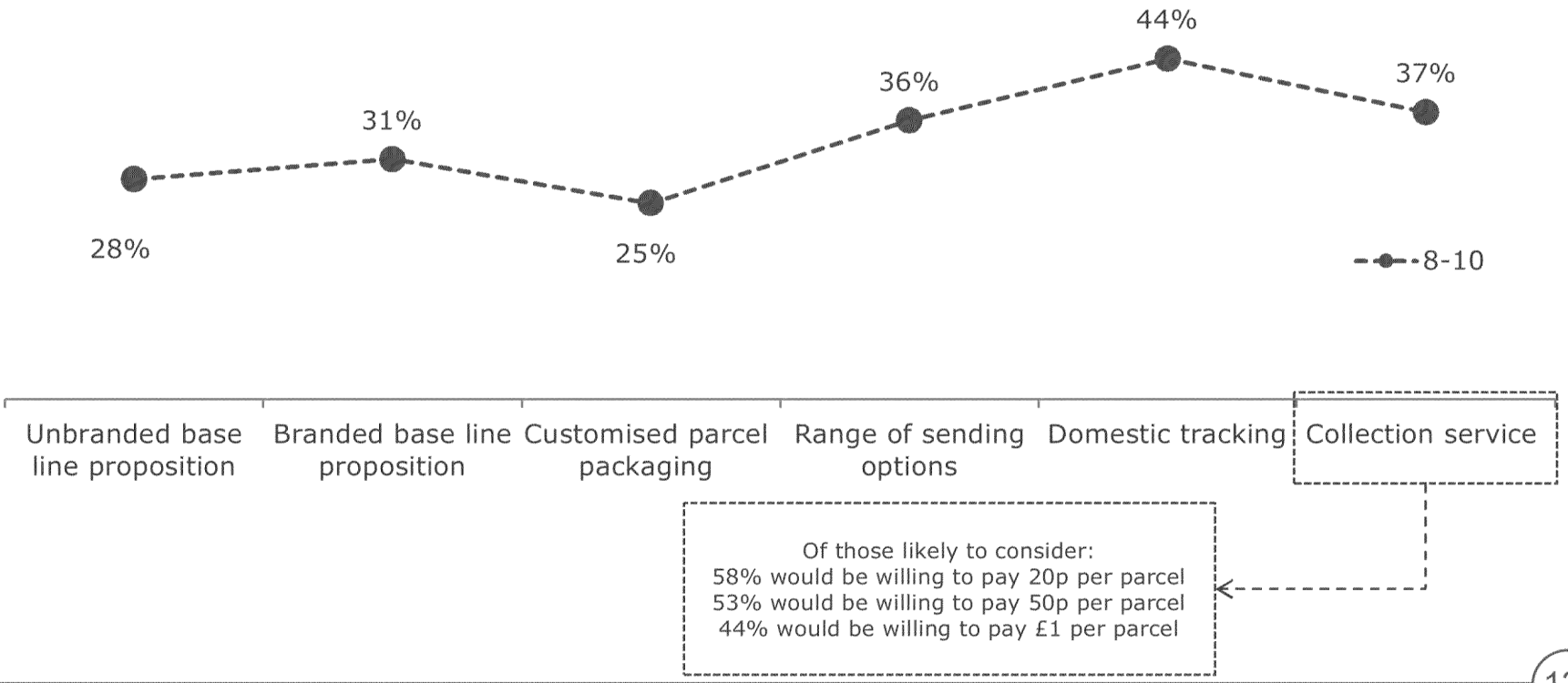
Research findings: Domestic tracking is the most appealing feature, customised packaging is the weakest. Collections was the most likely feature that customers would be willing to pay extra for

Likelihood to consider proposition – by additional feature



S3Q1, S4Q1, S4Q2, S4Q3, S4Q3B Base: Total sample : 750

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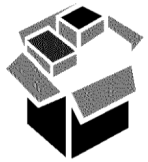
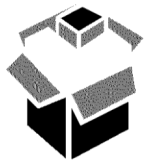
Key findings: For SME's to commit to any form of subscription service they need to see immediate value to justify the cost and commitment

Period comfortable to committing to for subscription service – *amongst those likely to consider*

1 month	24 %
2-3 months	48 %
4-6 months	18 %
Over 6 months	6%

Proportion of parcels likely to send through service - *amongst those likely to consider*

100% of parcels		52 %
75% of parcels		29 %
50% of parcels		7%
25% of parcels		3%

S3Q2, S3Q5 Base: Those likely to consider (213)

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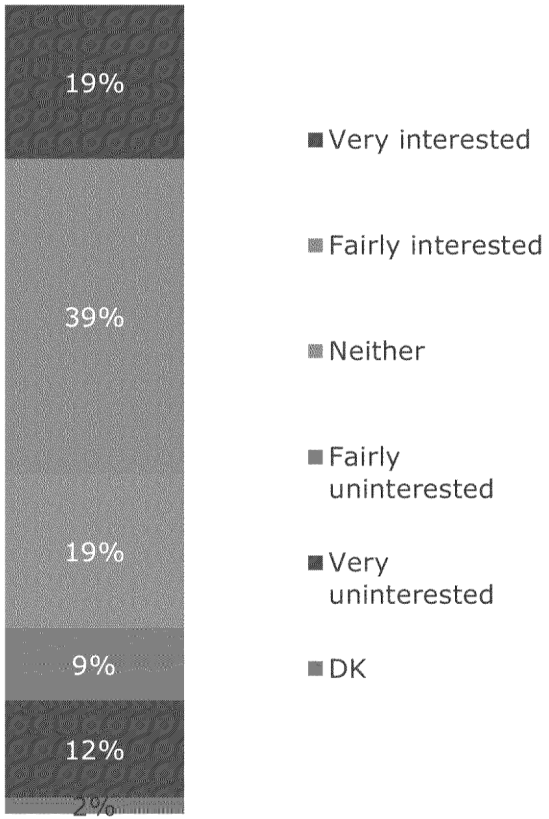
Key findings: Around 6 out of 10 SME's would be very or fairly interested if a points-based loyalty scheme was launched by Post Office

Interest in a points based loyalty scheme for mails

Post Office is exploring the idea of a loyalty programme that could operate much the same way as any other points-based loyalty scheme.

After registering, every time you sent a parcel using your Post Office account you would collect points. These would then add up to provide discounts on future parcel postage spend. Different points would be applied, depending on the service used and the cost of the parcels you have sent.

The scheme would be focused on offering you volume based loyalty benefits to use towards your future parcel needs rather than offering you non-related things like high street vouchers.



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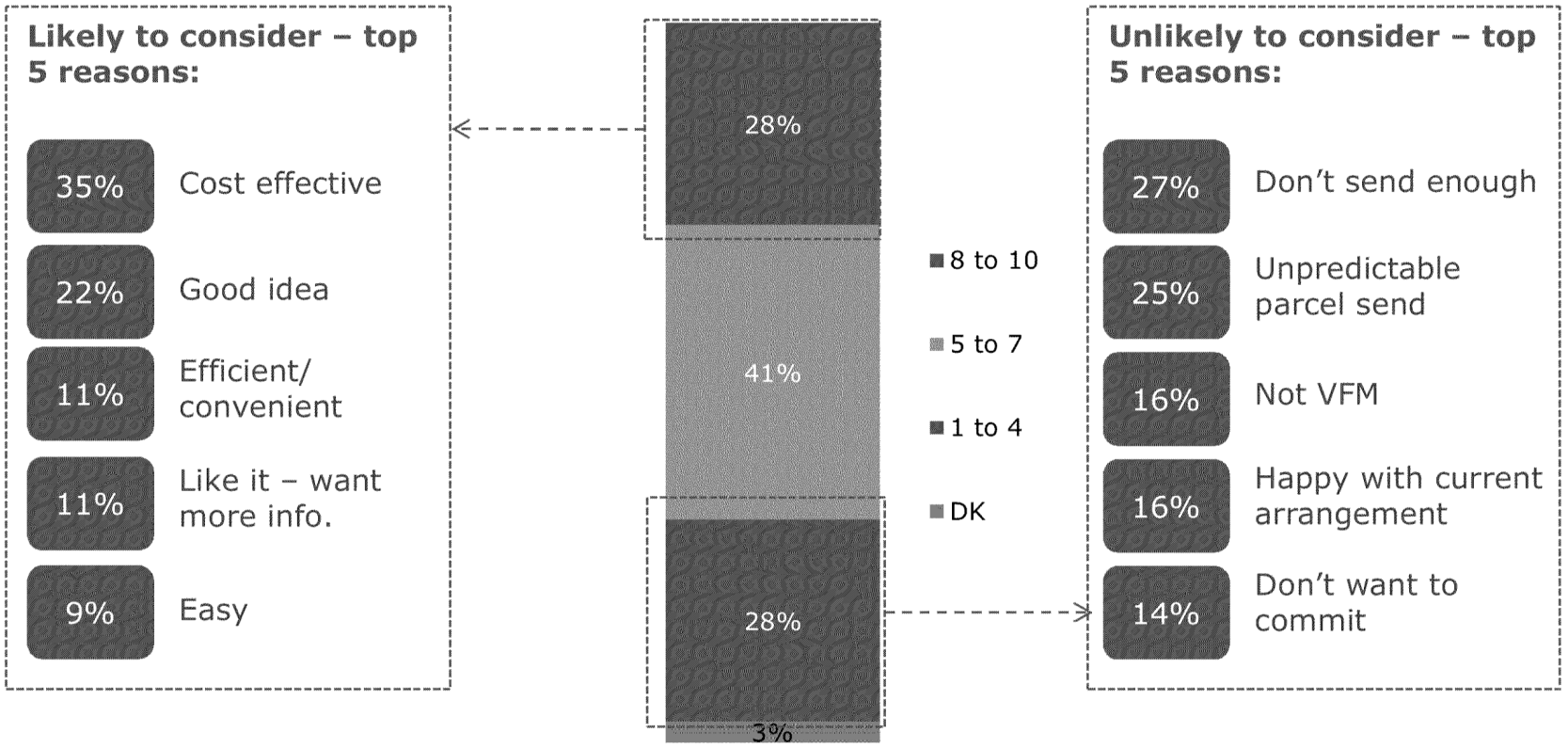
Key findings: 3 out of 10 SME's would consider a broader subscription based service from POL at this stage. This would likely increase if POL improve its core mails offering

Likelihood to consider overall subscription proposition



S3Q1 Base: Total sample (750), S3Q2 Base: Likely to consider (213), Unlikely to consider (207)

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Overall research conclusions

- Provide a simple and focussed mails proposition - this research confirms that **propositions aimed at SMEs need to stay simple and focussed**, in this case on mails – it's an area of strength and where the Post Office have most credibility and permission to play.

- Develop a mails based loyalty scheme - the idea of a **loyalty style proposition seems to have traction** and could negate some of the objections to a subscription service. Potential impact on retention/win back and parcel behaviour needs to be explored in more detail to make a more balanced assessment

- **Additional non mails services are of interest** but only once the core SME mails proposition from POL is improved. This should therefore not be the primary focus for 15/16

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Recommendations & Next steps

- Focus effort and investment in 15/16 on strengthening the core SME mails proposition ahead of any development of wider non-mails subscription services in 16/17

- We must develop a basic but consistent and efficient multi-channel SME service for mails in 15/16 bundling the following areas:
  - Drop & Go – an improved account facility linked to online mails
  - An online mails service to provide purchasing, administration, support and reporting to customers
  - Volume/value based pricing/loyalty programme following continuing positive engagement with Royal Mail (RMG) on the SME proposition.
  - Delivery of a consistent in-branch experience that supports businesses as priority clients who are time poor
  - A chargeable collections service linked to the Drop & Go customer account registration (this requires further testing)
  - Tracking (or indeed special delivery/signed for). This also requires further testing
  - Link to market place accounts (e.g. Ebay) to upload order and shipping information.

- The SME vacancy in the mails team will be filled with this role accountable for working across the various programmes touching SME's

- Business cases will be built for each of the elements in the proposition outlined above with specific requests for a draw down of the £5.3m (£5m capex, £0.3m opex) on a "case by case" basis via the Transformation Management Group (TMG):
  - Each request to be backed up by its own clear and robust business case

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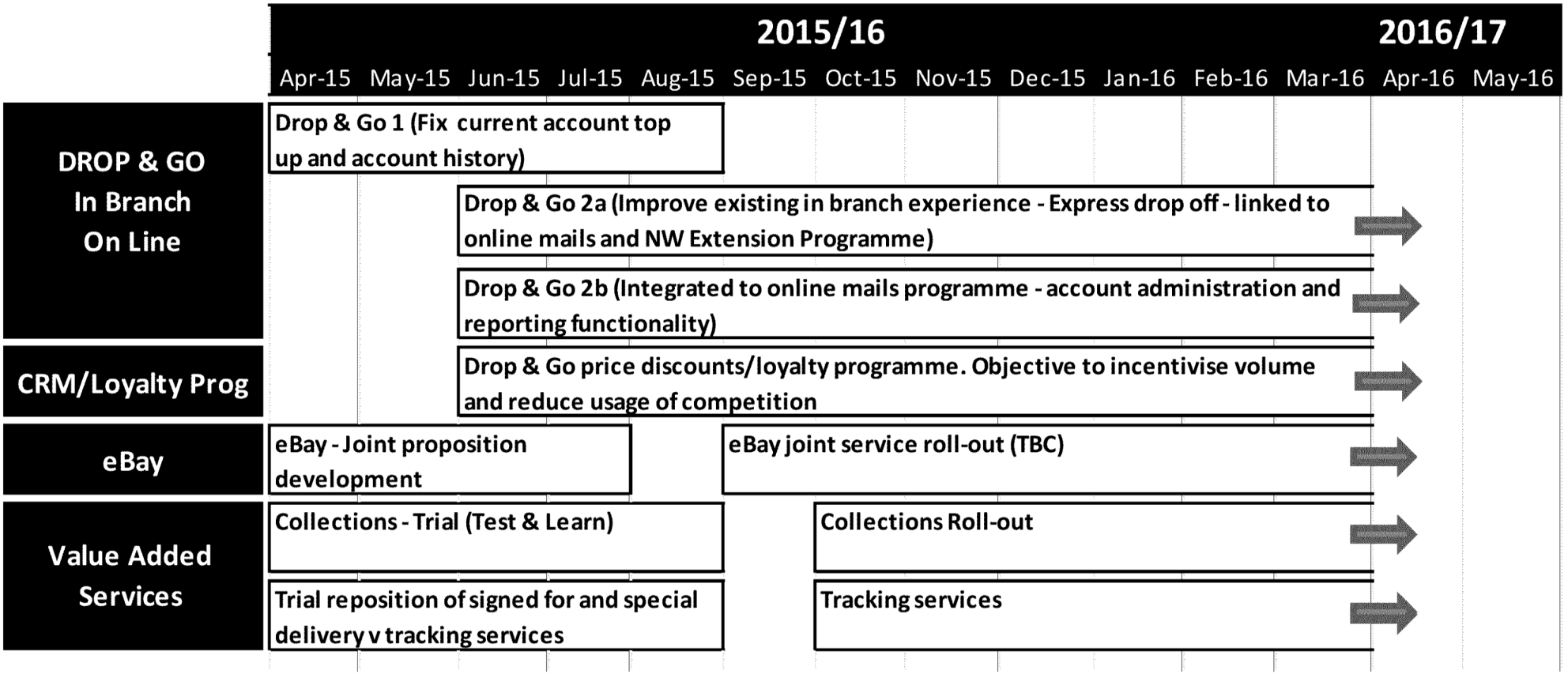
Implementation Plan



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Financial Case

The table below produced by POL finance highlights the size of the prize (income) by 2019 for every 1% improvement in retention.

	SME Volumes							
Annual Decline	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Change in Income to 2019**
1%	925,000	915,750	906,593	897,527	888,551	879,666	870,869	-£3,599,702
2%	925,000	906,500	888,370	870,603	853,191	836,127	819,404	-£7,022,121
3%	925,000	897,250	870,333	844,223	818,896	794,329	770,499	-£10,274,310
4%	925,000	888,000	852,480	818,381	785,646	754,220	724,051	-£13,363,111
5%	925,000	878,750	834,813	793,072	753,418	715,747	679,960	-£16,295,160

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POST OFFICE LTD GROUP EXECUTIVE

Digital Update

1. Purpose

The purpose of this paper is to:

1.1. Update the Group Executive on the proposed activity and funding required to accelerate growth in digital sales.

1.2. Seek additional funding for 2015/16 in line with this ambition.

2. Background

2.1. At the January Executive Committee we outlined the actions that were in plan to increase income generated via digital channels from c3% in 2014/15 to 5% in 2015/15 and described our ambition to achieve 25% (£250m) in 2019/20.

2.2. The plan showed a balanced growth plan for online income in all pillars, with the significant growth towards the latter years of the plan. Exco challenged what it would take to bring forward the significant increase in the contribution of digital, and specifically in the Financial Services pillar.

2.3. Since that time we have evaluated the opportunities by product, developed a detailed plan in Financial Services, and sense checked whether there are also additional significant opportunities outside of the FS pillar.

2.4. We have also worked to ensure that the plan is deliverable, reviewing the operating model required to deliver the desired outcome, as well as the relationship between the digital acceleration plan and delivery of the Front Office tower and other business transformation initiatives.

2.5. We have also sought to explain what is already assumed within the baseline cost and revenue profile, in order to describe the incremental costs and revenue associated with this proposal. This work will be finalised over the next two weeks.

3. The opportunity and need for digital acceleration

3.1. **Opportunity** - In detailing this plan, we looked at the capabilities of a world-class multi-channel retailer, and how these relate to our goal of transforming the Post Office. In doing this we aim to exploit the key benefits of digital, including lower cost to acquire and service, ability to scale economically, data driven product development, data driven communications to drive cross-sell and up-sell, and speed and ease of entry to markets. As well as increasing sales revenue, our digital programme will also create a data asset for future exploitation and monetisation, supporting our ambition to move our interactions with customers from being transactional to relationship based.

3.2. Comparing our current channel performance with external industry benchmarks shows significant opportunity to increase income through digital channels via an immediate programme of 'fix the basics', while setting a platform for future growth

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within and outside of FS. As an example, our conversion rate on Instant Saver from application start to submission is 23%, compared to an industry benchmark of 62%. An investment case to improve the sales funnel has been built based on achieving realistic conversion levels.

3.3. **Customer** – customers' expectations of online banking capability have risen significantly in recent years. An easy to use, end-to-end application process, available on any device and an online servicing portal giving access to all customer holdings is a minimum set of expectations. Failure to provide a fit for purpose online service to customers and prospects will impact our credibility as a challenger in banking and hence our ability to grow our revenues and retain existing customers.

4. Proposal

4.1. Focussing on FS products, and working closely with the Post Office Money team, the first stage of digital acceleration seeks to deliver the basic capabilities required to maximise sales revenue. As well as providing an uplift in product sales, this also sets the foundations for other products and propositions by establishing ownership of the experience and customer data. As we lack many of the basics required to meet our customers' expectations, investment is required before we can realise the full benefits and any short term gains are limited.

4.2. We will improve the customer journey to fix our sales 'funnel'. In 2015/16 we will focus on greater understanding and optimisation of our website, ensuring more customers apply online. Alongside this, we will redevelop the application process across savings, insurance, loans, mortgages and credit cards to deliver increased conversion of visitors to sales. We will build and host product application journeys on our Common Digital Platform (CDP). We will not just link to our third party product providers as we have done in the past. This approach gives us greater ownership of customer data - a key lever for competitive advantage and future growth. This is a significant change in the way we operate and the approach and prioritisation needs to be agreed with third parties including Bank of Ireland. We have already begun work to define this new customer journey for our loans product. Our delivery plan has been built to align with delivery of the Front Office tower; this ensures maximum return with lowest risk of 'throw-away' build. We will also provide 'live chat' help across the journey to drive more customers to completion.

4.3. We will seek to develop these customer journeys to be available in all channels, not just online. This will ensure that the benefits of quicker, paperless processing are available in branches and contact centres, as well as direct to customers.

4.4. We will increase and focus our marketing spend – once we have a more effective sales funnel, we can flex our marketing spend more cost-effectively, delivering more prospects to the website and driving more sales.

4.5. We will deliver 'My Account' capability – this will give customers a single entry point to their Post Office accounts. In the first instance we will enable this for FS and Telco, but in a way that scales easily to all other products. MyAccount will deliver intelligent marketing messages to customers to drive cross-sell. Personalised messaging within MyAccount and a simple application process will deliver significant revenue through increased cross product holdings at low cost of

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sale. Our plan has been built alongside the Customer Management Programme, ensuring that the two sets of deliverables work to a single common vision.

4.6. These core capabilities give us the digital and data assets on which to build digital propositions in the medium term. A description of potential propositions is outlined in slide 13 of the accompanying presentation.

4.7. These capabilities also give us the foundation to fulfil our digital ambitions in other pillars. In Telco, we will apply a similar improvement to the application journey, with an improved journey to be introduced in Q2 2015. In mails, we will develop an online proposition in line with the strategy work currently under way. In Government Services, our next stage will include delivery of an in-branch digital application for passports and develop a proposition that will enable us to bring value to both ourselves and Government and build on the potential competitive advantages our IDA service brings.

5. Financial case

5.1. The business case for investment in the digital capability is based on increasing the number of online sales, using current income factors. Taking today's performance as the baseline, for a total incremental investment of £36m (comprising £18.3m IT spend and £15.6m implementation costs, and £2.3m marketing investment) over the next five years, the programme expects to deliver £106.5m income over the 5 years. These figures are outline costs and a full business case including capitalisation and exceptionalisation will be produced as part of the next stage. Work is underway to ensure alignment with current FS revenue growth and cost plans and an update will be brought to the Group Executive with this paper.

5.2. A number of other benefits will be realised, but these have not yet been factored into the current financial case. As an example, incremental channel switch from branch to online would not realise a lower cost of sale until the Financial Specialist population in the Crown network reaches full utilisation. We do recognise that a switch from sales in the agency network to online will reduce the cost of sale due to reduced agent commission.

5.3. The full business case, including phasing and 2015/16 draw down will be brought to the Transformation Committee for approval.

6. Delivering the capability

6.1. In order to deliver the acceleration plan, a step change in organisational digital capability is required. As the Post Office is digitally immature, three actions are recommended to increase capability and move towards digital maturity.

6.2. We propose to immediately create a single Digital Programme Office (DPO) to oversee all digital initiatives to bring programme discipline, consistency, standards and principles to existing digital projects. Focussed on ensuring better co-ordination and optimisation of delivery, this requires two additional FTE (incremental to current plan). This resource will be aligned to the Business Transformation governance.

6.3. Alongside this, we must build out the current Digital team to create a Digital Centre of Excellence (CoE) to set and execute the digital strategy across the organisation,

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develop a consistent digital customer experience, embed digital principles, processes and standards, and develop and prioritise the digital capability roadmap. Whereas the DPO will initially act as a delivery 'wrapper' around all projects, the CoE will define and deliver the new digital capabilities. They will ensure that full benefits of digital capabilities are realised, and bring innovation and pace into digital proposition development. Estimates are that an additional 2 FTE will be needed, but these will be fully evaluated in line with agreed development. We are working with Bank of Ireland to understand what resource, skills and experience can be leveraged within the CoE. All resource models are built on an assumption of minimum permanent staff, scaled up with agency/contract staff. Once established, the CoE will absorb the DPO.

6.4. Thirdly, we propose to create a Digital Leadership Programme to build digital understanding and behaviours at all levels. This programme would embed a 'digital first' approach, communicate the digital vision, and build a culture which is agile, customer obsessed, innovative and responsive. Resource would be provided from the Digital CoE, but would need additional funding for training, etc.

6.5. To gain the maximum benefit, mobilisation of all three workstreams needs to take place immediately, although full accountability for digital delivery should only move to the CoE once the operating model has been defined and the resource is in place. Trying to move to this immediately will slow development down as responsibilities and working practices need to be appropriately defined. Work is under way to define the detailed processes and ways of working needed to operate this model effectively.

7. Key dependency – data and analytics

7.1. The Data & Analytics programme has a key role to play in the success of the digital programme. It needs to provide the analytics and decisioning capability to drive the appropriate targeting and communications. It will also need to provide the insights that close the loop on test and learn developments of the digital platform.

8. Key risks

8.1. Organisational change requirement: There is significant risk that return on investment will not be achieved if activities are delivered within existing processes. Realisation of benefit assumes the adoption of the recommendations for operational change put forward in this paper.

8.2. Marketing effectiveness: There is a risk that online marketing, given the variability of impact and cost due to competitor activity and changes in market conditions, does not drive consistent and high growth in site visits. This will be mitigated by the marketing team conducting regular assessment of forecasts and investment requirements to deliver the most effective return.

8.3. Partner ability to handle increased volumes: Benefits are based on increasing volumes of product sales that may not be legally or operationally feasible. Forecasts have been tested with product leads. As part of the next stage, confirmation from partners is required on the feasibility of processing and supporting sales. In particular, BOI product volumes need to be fully assessed against bank regulatory rules (i.e. lending ratios).

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8.4. Sales attribution: The model is focused on online vs. branch impact and does not reflect multi-channel sales attribution. An effective sales attribution strategy is a pre-requisite of successful multi-channel retail. The Post Office must ensure that increased online sales are also a win for agents. A proposal will be developed by the CoE once in place.

8.5. Front office linkage: There is a risk that investment is more 'throw-away' than anticipated due to lack of compatibility with Front Office supplier solutions. Mitigated through close working with IT and the preferred supplier pre-contract award to ensure compatibility/alignment and agree migration as part of scope.

8.6. Technical feasibility: The aspiration assumes that data and connections are available to and from all third parties. This feasibility study needs to be worked through in detail.

9. Network impact and cost of sale

9.1. The business case includes an initial working assumption that 20% of the 'new' digital volume is as a result of cannibalisation of existing channels, assuming that the main growth comes from better conversion and customers already looking for products online. Modelling this 20% against current sales in agency branches shows a negligible impact per branch. A product by product evaluation will be conducted as part of the full business case development.

9.2. The cost of sale benefit is also not currently factored into the overall business case at this stage, although it is clear that direct business online will have a lower cost of sale as a result of not having to pay agents. The full impact of this will be modelled into the final business case.

10. Next steps

10.1. The case has been aligned to the business transformation plans. A request for funding will be taken to the Transformation Management Group in March.

10.2. Work is already underway to improve the website with a target of Q2 for the next set of design changes. We have started the redesign of the personal loans application form; this will set the standard for all our online applications.

10.3. We will require £100k to finalise the business case and mobilise on our initiative to fix the sales funnels. This will complete the detailed business case and clarify the dependencies on operating model change.

10.4. We must gain agreement with third party providers to Post Office hosting the application processes and still satisfying information security and data. We have started this discussion with Bank of Ireland.

11. Recommendations

11.1. Group Executive is asked to sanction the approach proposed, agree to the next stage of organisational design and agree that the plan should go forward to Transformation Committee for next stage funding.

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Martin George

March 2015

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Digital Acceleration Challenge

12 March 2015

GE presentation

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At the January ExCo you asked what it would take to…

- Turbocharge the growth of digital revenues with a focus on Financial Services
- Do this in a way that creates a platform for building Post Office into a competitive multi-channel retailer
- Successfully deliver this at an accelerated pace

- This deck describes:
  - Progress and Plan
  - Our approach in summary
  - Opportunity and need – The WHY
  - Proposal – The WHAT
  - Proposal – The HOW
  - Business case
  - Risks

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Plan for investment approval

Date	Plan	Request
2nd Feb – 3rd March	Develop plan and benefits case to respond to digital acceleration challenge	
6th March	Present overall plan for 'What' and 'How' to TMG Clearing House	Seek approval of approach and drawdown of **£100K** (subject to GE approval)
12th March	Present overall plan for 'What' and 'How' to Group Executive	Endorse the approach taken so far and confirm approach for business case development
March – May 1	Develop full business cases and submit to TMC	Full investment in recommended options

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The summary of our approach

Accelerate Financial Services revenues

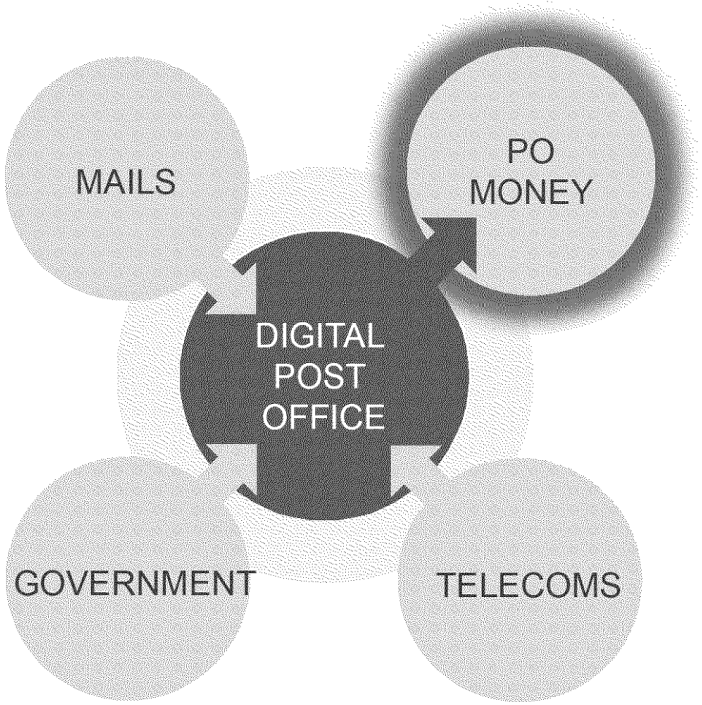
- Short term focus on broken FS funnel: attack headroom to benchmark - attraction and conversion
- Build capability that enables us to own the customer relationship and realise cross-sell benefits within FS and from other pillars

Progressively build capability to support digital and multichannel maturity

- Delivery and operating model – pragmatic but scalable
- Commercial platform from which to open up new revenue streams

Provide foundation for digital ambition of other pillars and future cross-pillar proposition development

- Mails – Align digital to strategy in progress
- Government – Develop holistic proposition including IDA
- Telecoms – Align to strategy. Deliver sales/cross-sales. Channel shift in service.



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Why Post Office MUST do it now

Threat and opportunity

The competitive threat

- Post Office faces focused digital competition in all pillars
- Competitors are developing digital capabilities at pace
  - The financial services market in particular has big ambition and deep pockets
- Competing with our partners to own the customer
  - Government services going online
  - Royal Mail seeking to own the online mails customer

The competitive opportunity

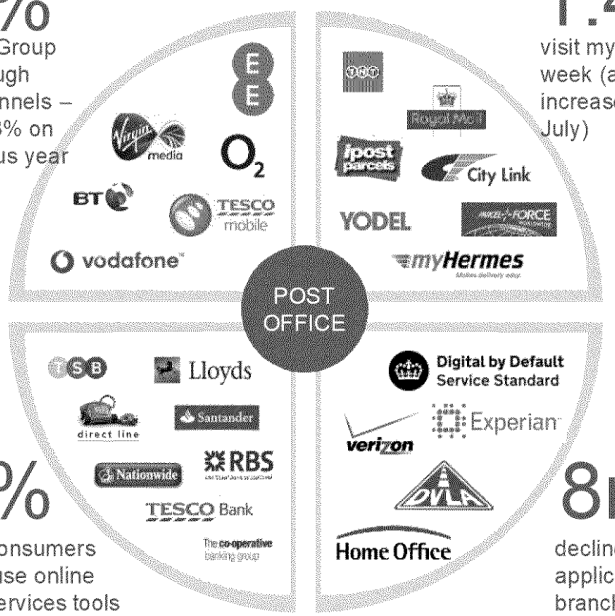
- Digital leadership in Post Office markets is not yet established – still very siloed with legacy systems and service issues
- Post Office assets of branch, range, brand, trust and customer are differentiating

The time is now

- The digitally literate customer will not wait – customers are migrating behaviour online and Post Office needs to own and retain it's customer base
- Own your customer – before someone else does

44%
Talk Talk Group sales through online channels – up from 33% on the previous year

1.4m
visit myHermes every week (a 40% increase since late July)



82%
of digital consumers regularly use online financial services tools

8m
decline in road tax applications in branch in 14-15

Background
Opportunity
Proposal
Business case
Risks
Ask

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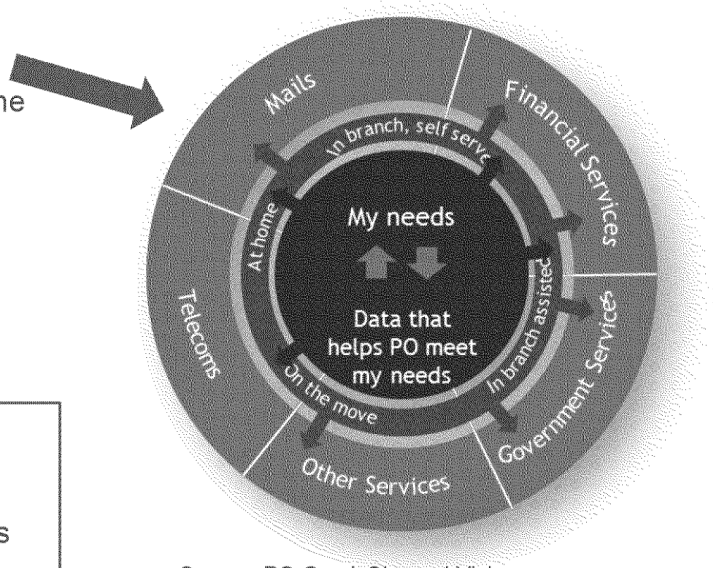
Why Post Office CAN do it now

What's different within the Post Office

- A clear vision for the role of digital across the organisation
  - Moving from transactions to enduring and profitable relationships
  - Differentiating on service; actively gathering and using data; and using the network as a bridge to multichannel relationships

- Other initiatives within Post Office in alignment
  - Business Transformation setting agenda for change
  - Complements and builds on Front Office capabilities
  - Digital is a requirement if PO growth plans are to be achieved



Source: PO Omni-Channel Vision, *Transform, June 2014*

This plan

- A robust plan for driving digital revenue and ROI
  - Getting Financial Services to benchmark performance to add revenue while building wider PO capability and differentiating service propositions that will benefit FS and other pillars

- A clear understanding of the organisational change required
  - Wrapping immediate projects into programme discipline while building a digital capability with the skills and authority to deliver
  - Getting the 'how' right will drive the success (or otherwise) of the 'what'

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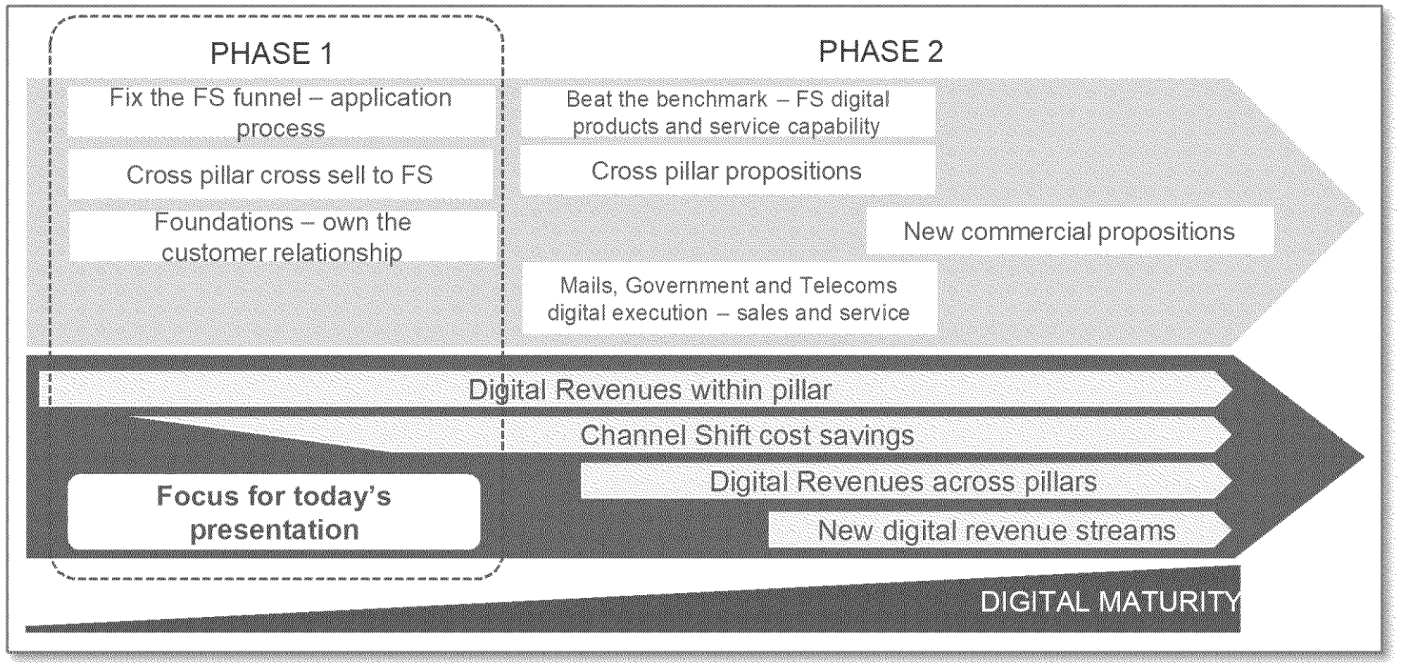
The activity proposed here will fix some key basics and build the foundation for the future

The digital acceleration plan has two phases:

- *Phase 1* :
  Fix the sales funnel; drive cross sales and put in place foundations to own wider customer relationship
- ***Phase 2*** :
  Build cross-pillar and new commercial propositions for Post Office



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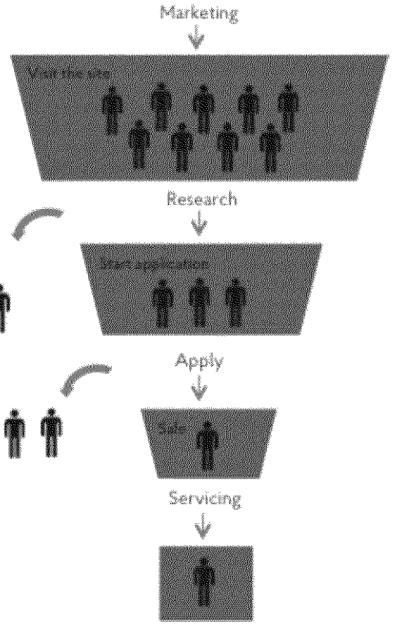
The WHAT: Phase 1a: Fix the FS conversion funnel

THE PROBLEM	SOLUTION	BENEFIT
Across many products we are lagging behind market benchmark for online conversion	Bring PO up to benchmark quality at each stage of customer journey/funnel	Success in increasing credit card application conversion from 9% to 22% demonstrates effectiveness of this approach

e.g. Instant Saver



98% drop out

23% drop out

Digital marketing: SEO and PPC activity → Increase visits to the FS pages

Improving CX, product discovery and effectiveness of PO website: Website design, research tools and live chat → Increase application starts in FS

Build optimised application processes on CDP– Control consistent design, pre-fill and pre-eligibility. *Activation,* not application. → Increase sales completions; PLUS capture data via CDP to enable greater ownership of the customer relationship (see next slide)

Platform agnostic processes to ensure applications are optimised for branch and mobile

Full product summaries available in supporting information

See supporting document **Project Charters** that describe scope of deliverables, products affected, requirements and costs.

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Product summary – potential benefit from conversion improvements

Product	Current performance			Future performance			Potential additional revenue				
	Visits	App starts	App completion	Visits uplift (SEO & PPC)	App starts	App completion	2015/16	2016/17	2017/18	2018/19	2019/20
Mortgages*	1.3m	2%	5%	10%	3%	33%	£2,424,632	£7,610,274	£9,768,442	£12,519,742	£16,024,535
Credit Card	0.4m	39%	22%	10%	39%	60%	£163,640	£1,369,976	£1,874,466	£2,533,861	£3,392,397
Online Saver	1.6m	12%	51%	10%	12%	52%	£502,216	£806,553	£1,217,227	£1,766,270	£2,494,781
Instant Saver	0.5m	2%	23%	10%	5%	62%	£168,119	£401,179	£513,940	£657,551	£840,330
Reward Saver	0.4m	3%	24%	10%	5%	62%	£142,246	£373,922	£483,226	£623,028	£801,640
Premier Cash ISA	1m	12%	20%	10%	12%	52%	£367,221	£1,265,731	£1,668,978	£2,189,260	£2,859,116
Fixed rate ISA	0.7m	16%	27%	10%	16%	52%	£83,859	£473,230	£639,543	£856,064	£1,137,021
Motor Insurance	0.4m	12%	2%	-	21%	18%	£178,361	£461,195	£530,375	£609,931	£701,421
Term Life	0.02m	26%	6%	-	26%	18%	£28,877	£83,021	£95,474	£109,795	£126,265

*Mortgage application uplift attributed to planned FS activity, not Digital investment. Volumes reduced by 40%.

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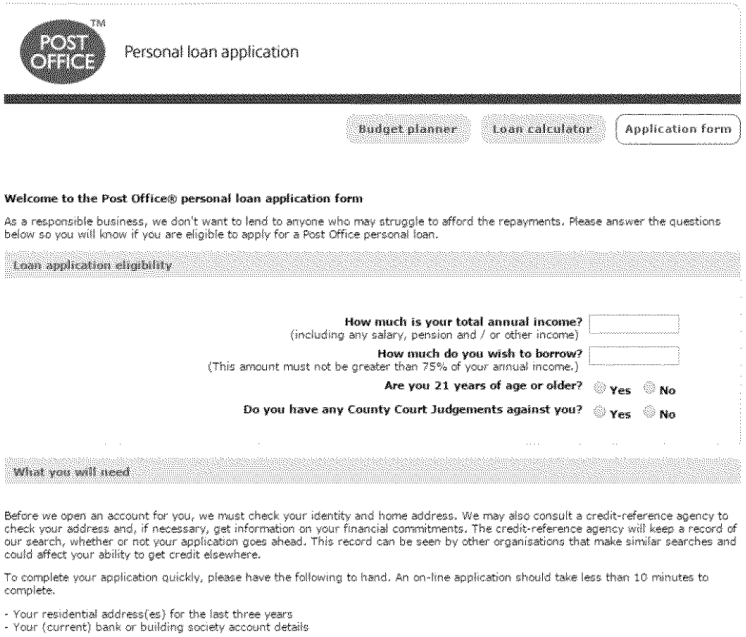
Example user experience improvement – loans
Actual screens to be demonstrated at GE

Current form is functional, unattractive and not optimised for today's devices



POST OFFICE™ Personal loan application

Budget planner | Loan calculator | Application form

Welcome to the Post Office® personal loan application form

As a responsible business, we don't want to lend to anyone who may struggle to afford the repayments. Please answer the questions below so you will know if you are eligible to apply for a Post Office personal loan.

Loan application eligibility

How much is your total annual income?
(including any salary, pension and / or other income)

How much do you wish to borrow?
(This amount must not be greater than 75% of your annual income.)

Are you 21 years of age or older? Yes No

Do you have any County Court Judgements against you? Yes No

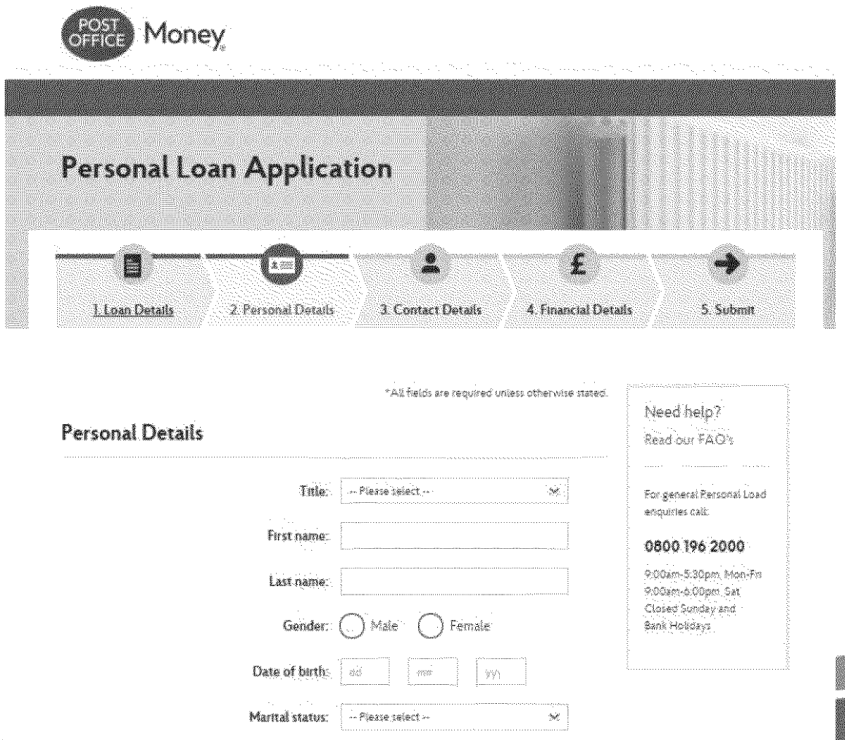
What you will need

Before we open an account for you, we must check your identity and home address. We may also consult a credit-reference agency to check your address and, if necessary, get information on your financial commitments. The credit-reference agency will keep a record of our search, whether or not your application goes ahead. This record can be seen by other organisations that make similar searches and could affect your ability to get credit elsewhere.

To complete your application quickly, please have the following to hand. An on-line application should take less than 10 minutes to complete.

- Your residential address(es) for the last three years
- Your (current) bank or building society account details

Proposed design is more contemporary, easier to use and adaptive to device



POST OFFICE Money

Personal Loan Application

1. Loan Details | 2. Personal Details | 3. Contact Details | 4. Financial Details | 5. Submit

*All fields are required unless otherwise stated.

Personal Details

Title: -- Please select --

First name:

Last name:

Gender: Male Female

Date of birth: dd mm yy

Marital status: -- Please select --

Need help?
Read our FAQ's

For general Personal Load enquiries call:

0800 196 2000

9:00am-5:30pm, Mon-Fri
9:00am-6:00pm, Sat
Closed Sunday and Bank Holidays

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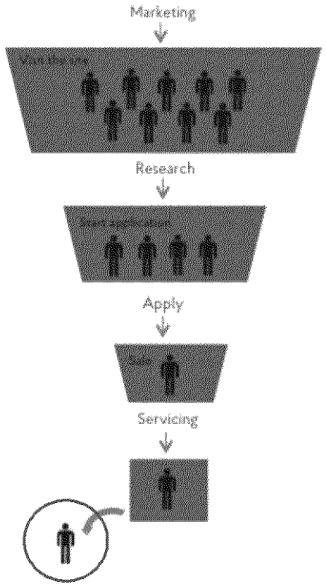
The WHAT: Phase 1b: Own the customer relationship in order to cross-sell

THE PROBLEM

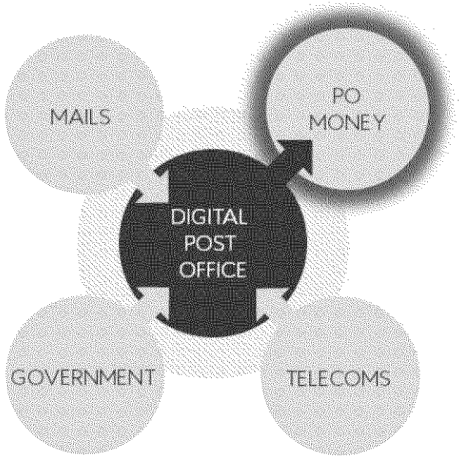
Losing sales opportunities at the end of the funnel.

Owning very little customer data makes it harder to know who they are, what they want and realise cross-sell opportunities



THE AMBITION

Capture and own data about customers across all product pillars to offer seamless servicing and the ability to deliver targeted cross-sell in FS



SOLUTION

Build core capability to enable capture and leverage of data that drives customer relationships

- Create a **Single Customer View** (SCV)
- Deliver PO **My Account for all products** which provides customers with a single view of their products
- **Next Best Action engine** integrated with SCV to deliver targeted, relevant comms
- Deliver **eReceipts** in branch

BENEFIT

Ability to cross-sell in a relevant and targeted way and a platform for new propositions

- Capture customer journey data and use it to know your customer across product and channel
- Generate more data, improve service to customers, and use it as a platform for cross-sell.
- Targeted, relevant messaging sent to My Account and email post sale to drive cross-sell
- Capture customer email in branch for cross-sell

See Appendix for Project Charters that describe scope of deliverables, products affected, requirements and costs.

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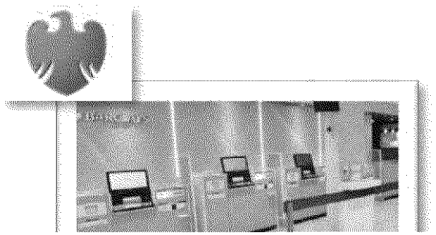
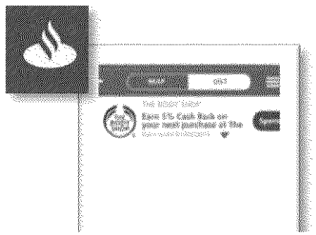
The capabilities proposed in Phase 1 (a & b) will deliver the kind of digital experience that customers expect

STAGES	Customer visits website	Research and application	Servicing	Ongoing comms
FROM	Same content seen by all. No personalisation even if visitor has been before or is an existing customer. Hard to find product information.	Low level of decision support. Inconsistent and poorly designed application forms. Same data required for new and existing. No data retained in Post Office.	Disjointed across products and channels. Relationship held by partners, not PO. Missed opportunity to drive usage and cross-sell.	Irregular, impersonal messaging based on blanket segmentation with little variation. Not joined up across channel.
TO	• Personalised banners/content delivered by intelligence/ knowledge. • Product comparison tools	• Data flows from and through Post office data repository to 3rd parties. • Activation not application.	• Comprehensive account data and personalised messaging/ cross-sell. • Consistent cross-channel journey	• Personalised, real time trigger based messages in all channels
e.g.	HSBC customers are presented with clear personalised up/cross-sell messages based on user profiles	Lloyds single account portal provides excellent targeted cross-sell. Four clicks to open a new account.	 Barclays in branch self service delivers channel agnostic service	 Santander customers sent relevant 3rd party offers based on preferences via SMS directing them to the app

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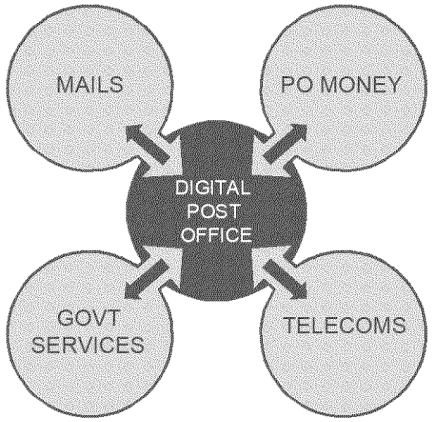
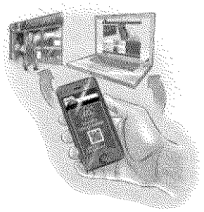
The WHAT: This plan will provide the foundation for Phase 2 that enables new internal and cross pillar propositions and revenue growth

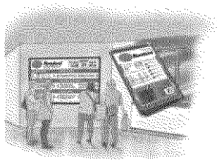
PHASE 2

IN PILLAR GROWTH
Mails, Telco and Government Services can leverage and support this capability to enhance digital propositions



NEW X-PILLAR AND COMMERCIAL PROPOSITIONS*
'Owning the customer' will enable new revenue generating propositions to be developed with greater ROI and reduced time to market. Examples:


Loyalty scheme


Local Post Office

Insight Monetisation

PHASE 1

- Cross pillar My Account (and Single Sign On)
- Single customer view
- Optimised sales funnel and revenue base

Successful delivery of phase one provides not just its own return on investment, but also the option to invest in building truly differentiating Post Office propositions

*Full list of potential propositions and descriptions in Appendix

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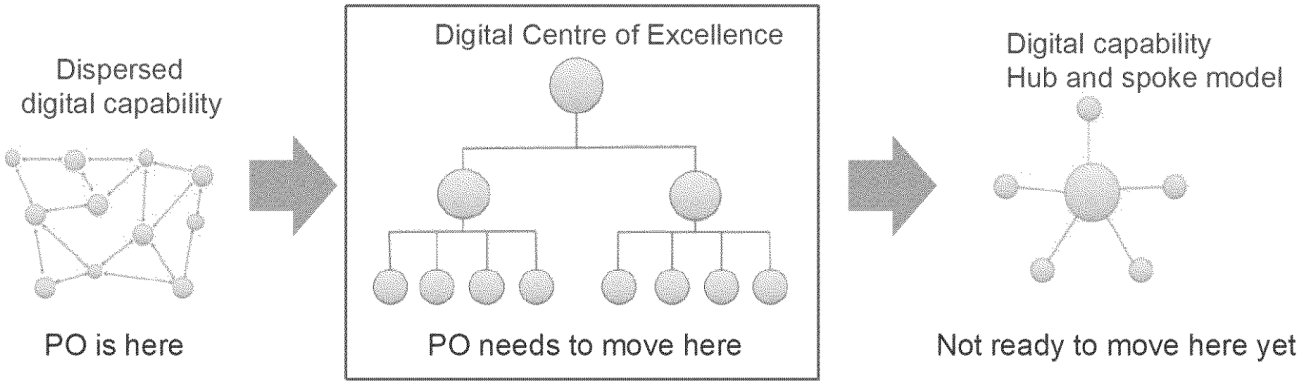
The HOW: The Post Office needs to move to the next level of digital maturity

- Getting the 'how' right will drive the success (or otherwise) of the 'what'
- Change will be required in order to ensure that proposed investment is managed effectively
- Post Office should wrap current and new digital projects into programme discipline while building a digital capability with the skills and authority to deliver and ability to steer the organisation's culture and readiness to exploit the capability

There is a well-trodden path to digital maturity



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We propose three concurrent streams of activity to deliver rapid development of digital capability

Digital Centre of Excellence (CoE)

Impacts wider product, marketing and business digital proposition community

- Supports the product pillars to deliver digital channel objectives
- Drive the execution of the PO digital strategy and deliver digital capabilities at pace
- Lead digital customer experience across PO products
- Needs more development groundwork before can start work

Set up costs £250k
Ongoing *+£200k (2 FTE)*
Stage 2 proposition costs one off in 15/16 £200k
Included in business case

Set up → Sept 2015 → Deliver

Digital Programme Office (DPO)

Impacts immediate community associated with project development

- Accelerates delivery of existing projects without organisational restructure
- Brings programme discipline, consistency, standards and principles to digital projects
- Builds experience, methodology and shared digital learning to accelerate new projects
- Establishes digital decision making at cross-pillar, company level

Set up costs £100k
Ongoing costs £300k
Included in business case

Set up May 15 → Deliver → Subsumed into CoE

Digital Leadership Programme

Impacts the whole organisation from senior leadership team outwards

- Programme of activities to build digital understanding and behaviours at all levels
- Embedding 'digital first' approach
- Communication of digital vision and principles
- Build culture which is agile, customer obsessed, innovative and responsive

One off costs c£400k
15/16
£600k 16/17
Included in business case

Assess readiness → Leadership focus → end 15/16 → Communications focus

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Business Case: Phase 1 investment options are driven by whether to start before or after Front Office has taken on CDP

	OPTION 1*	OPTION 2	OPTION 3
	Accelerated delivery: Procure FO components early at additional cost	Delayed delivery: Deliver all components against FO schedules.	Low investment option - only invest in 'Fix the sales funnel'
FIX THE SALES FUNNEL			
SEO and paid marketing	✔ - From 2015	✔ - From 2017	✔ - From 2015
Website design, research tools and Live Chat	✔ - From 2015	✔ - From 2017	✔ - From 2015
Optimised forms on CDP (pre-fill)	✔ - From 2015	✔ - From 2017	✔ - From 2015
OWN THE CUSTOMER			
Single Customer View	✔ - From 2015	✔ - From 2017	✗
My Account and SSO	✔ - From 2015	✔ - From 2017	✗
Next Best Action	✔ - From 2015	✔ - From 2017	✗
eReceipts	✔ - In CMP plan	✔ - From 2017	✗
Operational (see How section)	✔ - From 2015	✔ - From 2017	✔ - Partial
Phase 2 proposition development	✔ - From 2015	✔ - From 2017	✗
Cost over 5 years (IT and Business)	Capex: £18.3m Opex: 17.6m	Capex: £16.4m Opex: 16.9m	Capex: £4.3m Opex: 5.4m
Benefit (income) 5 years	£106.8m	£89m	£36.2m
ROI 5 years	£71m – payback mid 2016/17	£56m – payback mid-2017/18	£26.6m – payback early 2016/17
	RECOMMENDED OPTION		

*Assumed costs will be same as Option 2 if incumbent delivers FO Full financial model in Appendix xx

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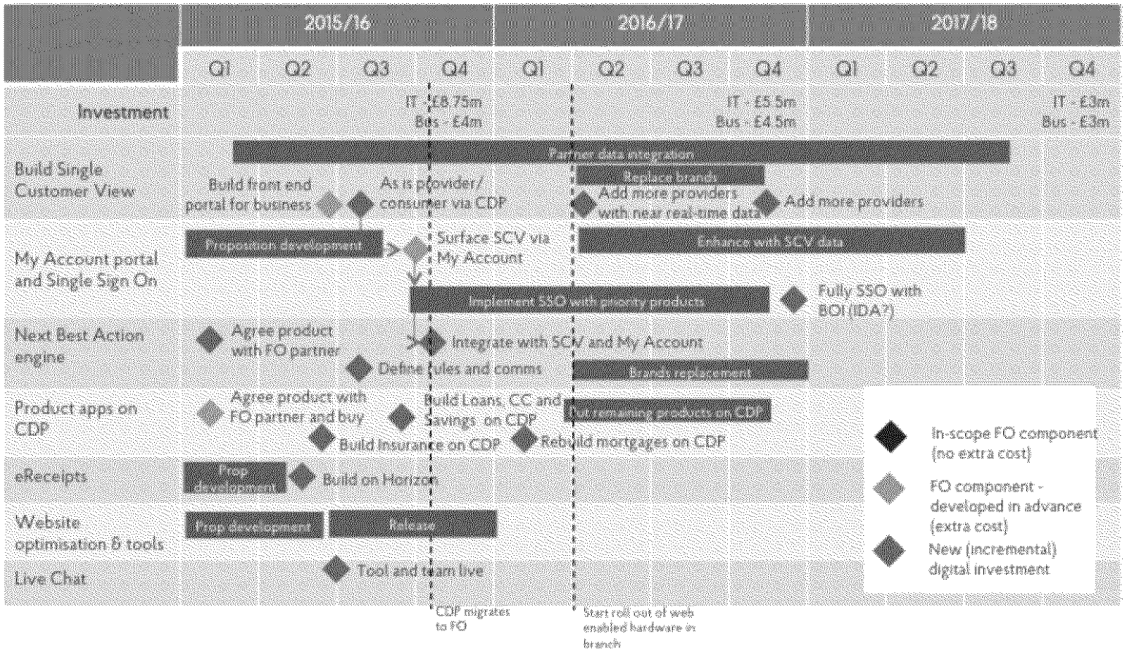
In recommended Option 1, investment required to deliver Front Office components at an accelerated pace

- The majority of capabilities in our plan are outside of FO scope and therefore require additional investment
- FO dependencies within the plan have been developed with IT
- The elements of FO that the plan is reliant on, and therefore would be built in advance, are highlighted in orange below
- It is assumed that migration costs of new capabilities will be minimised by agreeing schedules with the new FO supplier



FO components that will be delivered in advance – at additional cost
Data presentation and viewer All other capabilities outside FO scope
Data presentation and viewer All other capabilities outside FO scope
All outside FO scope (TBC)
BPM Tool (agree with partner to reduce risk of throw-away)
All outside FO scope
All outside FO scope
All outside FO scope

Full screen version on next slide

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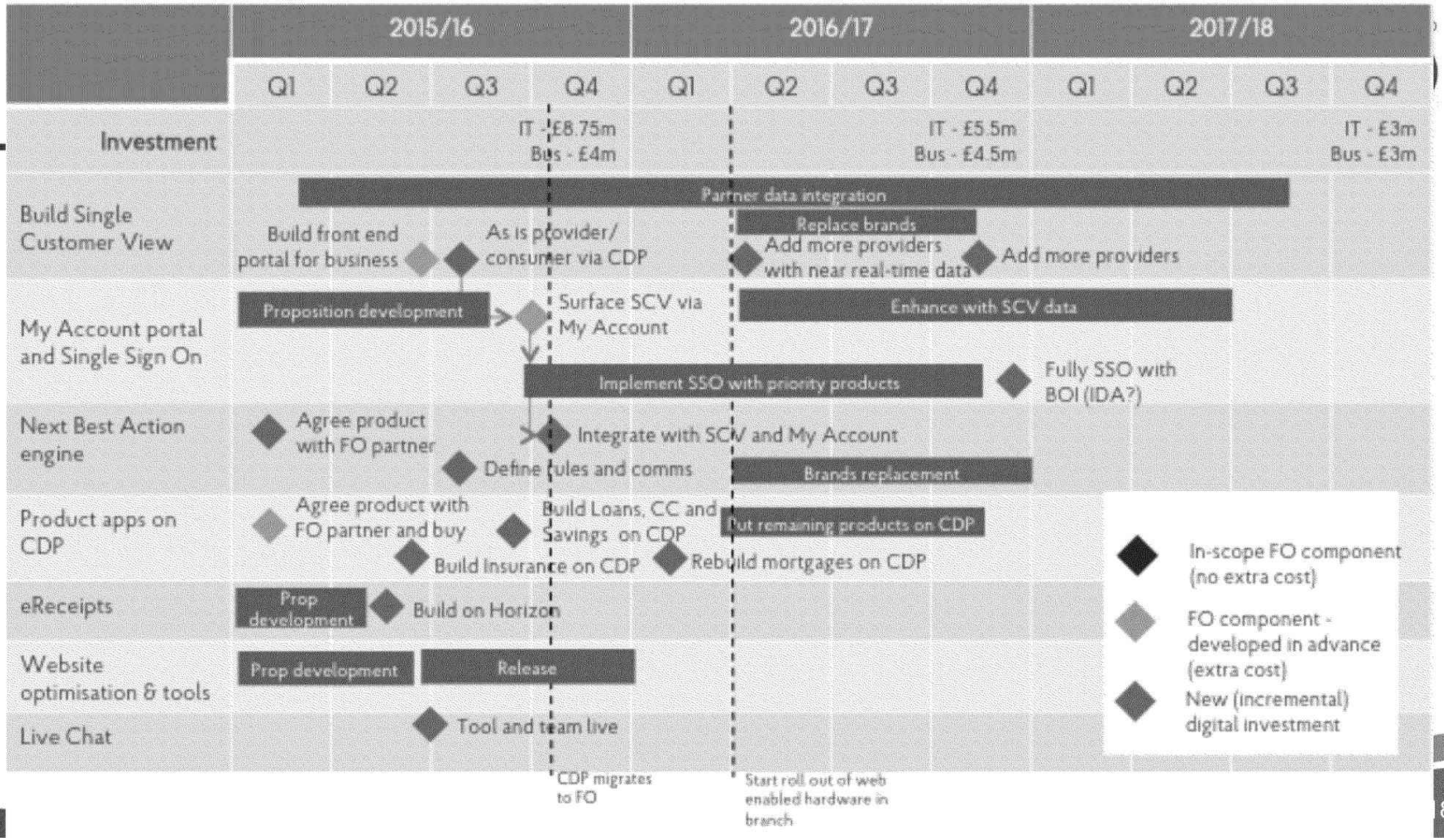

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Risks

Risk	Proposed mitigation
Organisational change *requirement:* Realisation of benefit assumes the adoption of the recommendations for operational change put forward in this paper.	See recommendations in 'How' section of this presentation. There is a significant risk that return on investment will not be achieved if activities are delivered within existing processes.
Marketing effectiveness: There is a risk that online marketing, given the variability of impact and cost due to competitor activityand changes in market conditions, does not drive growth.	Marketing team to conduct regular assessment of forecastsand investment requirements to deliver the most effective return.
Partner ability to handle increased volumes: Benefits are based on increasing volumes of product sales that may not belegally or operationally feasible	Initial forecasts tested with product leads. As part of the next stage, confirmation from partners is required on the feasibility of processing and supporting sales. In particular, BOI product volumes.
Technology feasibility: Benefits assume that customer and account data can be passed between Post Office and 3d party platforms.	Detailed work being carried out with 3d parties as part of the next stage of work
Sales attribution: The model is focused on online vs. branch impact and does not reflect multi-channel sales attribution	A well thought-out sales attribution strategy is a pre-requisite of successful multi-channel retail. The Post Office must ensure that increased online sales are also a win for agents.
Option 1 results in more throw-away investment than anticipated due to lack of compatibility with FO supplier solutions	Work closely with IT and the preferred supplier pre-contract award to ensure compatibility/alignment and agree migration as part of scope
Costs may increase due to changes to the way service management charges will be cross charged to projects	It is anticipated this will have a minor impact on overall costs. Any changes will be identified and captured in the plan.

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Strictly Confidential

POST OFFICE GROUP EXECUTIVE

NFSP Negotiating Approach & Mandate

March 2015

1. Purpose

The purpose of this paper is to:

1.1. Update the Post Office Group Executive (GE) on the current position of the NFSP Grant Agreement (GA)/NT cliff/Network Development (ND) discussions;

1.2. Identify options for approach to negotiation of the GA/NT cliff/ND scenarios

1.3. Gain the GE's agreement for the mandate for negotiation with the NFSP on the GA/NT cliff/ND scenarios.

2. Background

2.1. We have reached a point where a formal mandate for the negotiations with NFSP is now required in order to ensure these negotiations have clear parameters that take account of the various business wide dependencies and risks.

2.2. We have made good progress in the last 12 months in achieving delivery of NT and moving NFSP towards a position of supporting further business change including our plans for Network Extension, in an environment where we have yet to sign the Grant Agreement whilst maintaining our position of wanting to work collaboratively but only in circumstances that are right for the business.

2.3. NFSP have been public in their support for generic business strategies, typified by the messages contained in the recent publication of their Annual review:

- Post office network is changing, and 'the majority of subpostmasters have a much greater retail offer than ever before';
- NT has allowed subpostmasters to leave the network with compensation and 'be replaced in their communities with branches that are much more retail focussed than before'
- 'Subpostmasters have to become as retail focused as they possibly can to the changing face of UK high streets'… trying their best to 'maximise not only post office sales, but retail sales'
- 'Important that NFSP continues to work with POL and the Royal Mail to identify the changes affecting our marketplace, ranging from an explosion of mails collection and drop off points, to extra competition in the international money transfer outlets'…
- ' as a network we are at a definite disadvantage to the competition in our lack of opening *hours and it is something that needs to be addressed'*

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2.4. NFSP have provided good support for us/collaboration in terms of POCA, ATM business rates and BIS Horizon Select Committee.

2.5. We had some tension related to the Ivy trials last September – but delivery of trials and negotiation needed to get tacit support was very useful for Post Office in building a negotiating asset for further extension and exposing NFSP's demand position.

2.6. NFSP have been challenged/hampered with internal politics to move quickly in achieving an agreement with us on the back of the MOU – they have lost their Trade Union status, the MOU was leaked pre 2014 conference forcing them to make commitments to look at other options (CWU/NFRN) and took a long time to review and respond to the draft GA.

2.7. NFSP have provided some support for Transitional Locals – but these compulsory elements of NT (which will have to increase in the next 6 months) are pushing the boundaries of NFSP's ability and desire to be supportive of Post Office in difficult cases. Whilst they support the principles of compulsion, they have struggled supporting detail in the implementation that they find it difficult to take responsibility for. Therefore any agreement must ensure this support is forthcoming.

2.8. Current position is finely balanced – we do not believe a merge with CWU is their preferred outcome and we have reduced their demand position significantly. An agreement with suitable termination rights, agreement to public support for NT cliff (that may enable acceleration/better conversion:leaver ratio), agreement to 2k access points in 2 years and avoid the need for further annual remuneration discussions would be a good outcome for Post Office.

2.9. This approach has improved our position substantially - it would be a significant reduction in NFSP demands and represent genuine movement from them on extension – at the time of the agreement in November 2013 to support NT2, additional access points was a red line for them and the last issue to be resolved (by it being removed from any public statement) just before their special conference/ministerial announcement.

3. Activities/Current Situation

3.1. Since NFSP returned their reviewed version of the GA in October we have had several meetings to discuss both the GA and ND. The initial meetings were constructive in nature and tone but stalled as we were unable to agree on aspects related to termination. NFSP introduced an obligation on Post Office to make a payment to the NFSP in the event of termination of the GA. Furthermore, as currently re-drafted by NFSP, the GA gives Post Office limited rights of termination. We indicated to NFSP that we would not accept a clause that relates to making a payment to them in the event of the agreement being terminated for material breach. We also indicated that if NFSP were to agree to a more generic termination (break) clause, we would consider an associated termination payment. NFSP indicated this was not acceptable. In any circumstance, we will not recommend a termination payment without any associated conditions/concessions.

3.2. Other areas of disagreement are listed at Annex 2. NFSP have refused to discuss these other areas any further until the termination aspects are resolved.

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3.3. Additionally, since October, they had asserted (i) that they would not engage in any detailed discussions related to NT cliff and Network Development until the GA is signed and (ii) that the GA should clearly state that they are not required to support Network Development beyond that defined in the current NT plan – i.e. excludes Network Extension.

3.4. However, this position recently changed and further discussions on these areas have now taken place. These discussions have clarified respective positions and indicated that, subject to the parameters (including funding) outlined in annex 1, agreement could be reached on NFSP support for NT cliff, Network Extension over the next 2 years and annual remuneration review for the next 2 years. However, NFSP continue to assert a position that they will not agree to a break clause in the GA and our assessment is that this will be a deal breaker for them. They have indicated they would be prepared to remove the requirement for a termination payment. They assert any termination aspects must not undermine their ability to position themselves as independent from the Post Office.

3.5. NFSP's desire is to gain agreement to the GA and then hold a Special Conference to confirm their preferred future organisation design – whether this is with PO/CWU/NFRN – via a Special Conference. Timing for this has drifted – originally it was November 2014, recently positioned as March 2015 but increasingly likely to be at the May annual conference or beyond.

3.6. PO timescales are linked to NT cliff activity and NE. On the former, we are expecting to engage with agents mid-May, with formal notification of contractual change by end June for a January 2016 implementation (for any branches that have not opted to leave or convert by that point). NE activity is likely to create additional public awareness in May if we implement a technology trial.

3.7. These circumstances indicate PO's best approach is to

- maintain our position as defined in the negotiation mandate (see annex 1) and confirm our approaches for delivery of the cliff and Network Extension, which will include a scenario of no NFSP support.
- undertake close engagement with BIS to ensure we have their input and that they are supportive.
- craft a further version of the GA termination clause in an attempt to clarify what constitutes a material breach in order to try to provide further comfort that the agreement will not be terminated on a whim. This is intended to strike the balance NFSP need to ensure they maintain their independence.
- assuming agreement to satisfactory termination rights and agreement on NT cliff/NE/annual remuneration, remove our requirement for a break clause in response to NFSP removing their requirement for a termination payment.

3.8. Opinion remains that NFSP's preferred outcome to their organisational future is an agreement with Post Office – but we believe that this is a finely balanced issue for the NFSP, and recent tensions relating to Network Extension and termination aspects of the Grant Agreement have definitely increased the possibility of them merging with CWU.

POL00151514

3.9. NFSP acknowledge that this would not be a good outcome for subpostmasters – their influence in CWU would be minimal, membership numbers would decline and most of the senior leadership would find it very difficult to remain in post, primarily from an ideological basis. However, George Thomson would secure a position and sufficient influence/longevity to satisfy his own needs – and would probably cope with the ideological challenge given his own history of adaptation.

3.10. Post Office's response to this would be to resist any recognition attempt by the CWU and look to consult with postmasters (including multiples) to set up/work with another organisation such as Association of Convenience Stores.

3.11. Coupled with this, NFSP would withdraw their support for the compulsory aspects of NT and/or raising a formal challenge (possibly as an attempted Judicial Review) to these aspects and further network extension. Additionally, they would instigate stakeholder agitation – particularly lobbying BIS/Minister/MPs which could be very unsettling for them with an imminent election.

3.12. The absence of NFSP support for compulsion within NT would be a complication to achieving full transformation as it could discourage postmasters to volunteer for change in advance of the cliff and therefore force a higher number of compulsory actions. Whilst the NT programme is confident it can deliver in these circumstances, a public fall out with NFSP would have an impact, both financially (as a result of potential delivery delays) and in the stakeholder environment. Our assessment is that on the balance of probability we would come through this with a Network Strategy broadly fit for purpose BUT it would not be without risk and would cause significant external stakeholder disruption. Therefore our preferred outcome is also an agreement with NFSP, but one that does not place undue restrictions on Post Office and also has the ability for us to exit in the event of further unacceptable pressures from NFSP.

3.13. Similarly, further Network Extension would be disrupted without NFSP support. In reality, we have made significant progress with them in the last 12 months on gaining support for Extension – from a position of not being prepared to countenance any additional access points to acceptance of 2k over the next 2 years.

3.14. Any agreement would be entirely consistent with our position on the MOU last year which visioned an NFSP re-constituted as a quasi Trade Organisation that focuses on developing postmasters' business whilst remaining independent and able to challenge Post Office

3.15. The options that follow reflect this environment, recognising that there is no single simple solution and that none are without risk.

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Option 2 is recommended.

5. Next steps

5.1. Activity underway as follows:

- Continue discussions with NFSP in order to narrow NFSP demand position within the framework of the negotiating mandate
- Ensure detailed audit trail of engagement
- Ensure stakeholder/communications environment is prepared for NFSP reaction

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6. Key Risks and Mitigation

6.1. NFSP withdraw support for NT (particularly compulsion) – this and other stakeholder activity undermines NT delivery and Network Expansion. Mitigation: we will have a proactive engagement approach for stakeholders and handling negative PR noise.

6.2. A commitment to a 15 year agreement whereby NFSP are able to continually challenge Post Office and threaten to block change/attempt to exert more money places constraints on PO's ability to transform. George will argue that NFSP must maintain their independence and that their route to modernisation has to be sold to their members – evolution not radical change overnight - and that we should be able to trust him on this aspect, particularly with the financial benefits (in terms of achieving NT conversions) he believes their support brings. **Mitigation:** The agreement must provide safeguards against this.

6.3. BIS withdraw support whilst under political/election pressure. **Mitigation:** We will work with BIS to ensure continued ministerial support for our strategy.

6.4. Commercial plan undermined by lack of customer confidence in Post Office. **Mitigation:** There remains an on-going need to put the customer voice at the heart of Post Office thinking.

7. Long term considerations – horizon scan

7.1. **Acceleration of NT/expansion/compulsion/implementation of cliff.** Withdrawal of support for NT is likely to have a mixed impact. In the short term, some converters would reverse their decision and compulsory exiters would use this as a means to try to avoid exit with NFSP support for this on the ground (though note that PO have government policy backing for this). Design of processes to accelerate compulsion could be easier if we do not take account of NFSP requirements. Significant roll out of access points could encourage some existing postmasters to leave. Any success of this approach obviously assumes NFSP's disruption would not prevent PO from undertaking these activities but this is less than certain – operating the cliff in agreement with NFSP is clearly the best option.

7.2. **Potential for NFSP alternative leadership.** Currently no indication that George Thomson's position is at risk but an aggressive stance that pushes for a merger with CWU could be at odds with the more commercial part of his executive who, in the past, have privately (to PO and in secret) demonstrated some concerns with his attitude to change (this related to his lack of support for Mutualisation). This might emerge if tensions grow – though equally likely is that this faction remains silent and exits after a CWU merge.

7.3. **Alternative to NFSP as postmasters' representative organisation.** Depending upon the outcome of these discussions and the impact of a merger with CWU, we should explore developing relations with other organisations to function as a voice for postmasters. This would clearly be framed as a commercial/trade play and not be badged as representation/recognition. This could include support grants based on the numbers of voluntary members (rather than the NFSP model which includes automatic membership). Examples include National Federation of Newsagents (NFRN) and Association of Convenience Stores (ACS).

POL00151514

8. Communications Impact

8.1. There is significant communications/stakeholder impact and the Communications team are closely aligned to this activity and the fortnightly NFSP Relations SG is a regular review mechanism. NFSP activity is a specific strand within the communications plan whilst noting that all comms activity must be integrated and take account of all business change activity. See Annex 3 for propose external lines.

9. Conclusion

9.1. As previously described via the P & E strategy papers, we are reaching critical points in our relationship with the NFSP and decisions relating to network/wider business transformations.

9.2. We should not underestimate the potential for NFSP to create significant environmental noise in the short/medium term, particularly in the political arena, or the resource required to manage this noise.

9.3. A supportive NFSP does aid the business – POCA, relationship with RM, ATM business rates and, most recently, BIS Horizon Select Committee are all examples of where a collaborative relationship helps the business. Significant progress has been achieved in the last 12 months in gaining NFSP recognition for the need for Network Extension, pragmatic consideration of implementation approaches and movement from them in ensuring we were able to launch the pilots.

9.4. There is no single simple solution to these challenges and all come with risks. The recommended approach outlined in this paper is considered to balance all the competing tensions but outcomes cannot be guaranteed. PO must be prepared to accept these risks in order to ensure best chance of long term delivery of the strategic plan financials.

10. Recommendations

The GE is asked to:

10.1. note the update and actions set out above;

Neil Hayward
March 2015

POL00151514

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Annex 1

Negotiating Mandate (see attached file for expanded version)

	NFSP					POL Position				
	Issue	Current Position	Initial compromise	Red/line (estimate)	Ability to compromise	Red-line	Potential Compromise	Current Position	Ability to compromise	Notes
1	NFSP requirement to agree and sign Grant Agreement prior to agreements on Cliff and Network Extension (NE) - agreement was for NT2 only.	Non negotiable - this was a part of NT2 - will withdraw support for compulsion, pay CWU and work against Network Extension.	Verbal recognition that the world has moved on etc. and that NFSP recognise the need for NE	Current position indicated as red line and no real indication given that compromise is acceptable BUT MAJOR RISK TO NFSP IF AGREMENT NOT ACHIEVED.	Medium	No agreement without either break clause or termination clause or CWNE agreement.	Clear termination rights with no termination payment. Time to break clause up to 5 years. Non-binding review at break clause. Could concede further to Arbitration.	Document remains un-signed and PO have signalled reticence to any signature without a break clause or cliff/NE resolved.	Low	Key issue - Risk line is that long term agreement without NFSP commitments to CWNE will mean continuous negotiations and financial demands. Business view is that we can deliver NTNE operationally and legally but legal challenge would be made and there would be significant stakeholder disruption. Major risk to NFSP if agreement fails - no way back from any public withdrawal of support for NT. Key issue for business is whether it is prepared to take risk of NFSP withdrawal and the subsequent impacts on NTNE, recognising also wider implications for NFSP relationship value - e.g. historic support for POCA, ATM business rates, previous change programmes, working together to influence RM, Sparrow
2	NFSP requirement for 3 year payment in event of termination (value is £7.5m)	Principle of payment non-negotiable (albeit this was not in the original MOU). Value of payment negotiable.	18 months	May withdraw requirement if break clause removed.	High	No payment without break clause	Value of payment - max 18 months	Not agreed - this is a new requirement.	High	NFSP have made suggestions around how this can be funded, given that due to the timing of the implementation of the agreement, POL will not have incurred expected costs in 2014/15 and 2015/16. However, it should be noted that these costs were dependent upon NFSP transforming and in any event, simply create an up front payment of the termination payment.
3	NFSP requirement for pre-payment of Specific Grants prior to project authorisation (value £1m pa)	Demand position is that it is fair to pay in advance.	None	Can afford to concede this	High	Can afford to concede this providing legal status of grant is unaffected and confident that authorisation processes are robust.	Concede	Will not agree as this conflicts with grant principles.	Medium	Already assumed in budgets - issue is how the money is paid and controls to manage it.
4	PO requirement for a Break clause	No agreement to this - this was not a part of MOU	Verbal recognition that the world has moved on etc. and that NFSP recognise the need for NE	Links to issue 1.	Medium	No agreement without either break clause or termination clause or CWNE agreement.	Time to break clause	Have suggested consideration of break clause - NFSP have rejected to date.	Medium	Could concede if termination rights clear and other areas - NT cliff, NE etc. are agreed.
5	NFSP watering down of termination events.	Re-draft of document reflects spirit of partnership and protects NFSP against PO attempts to terminate.	None	Depends on outcome of termination payment/break clause issues.	High	Depends on outcome of termination payment/break clause, issues, but cannot agree less than original MOU.	Break clause would remove need for these.	Watering down not acceptable - termination events were minimal and our absolute bottom line at the time.	Low	
6	NFSP requirement for free membership for all postmasters/operators irrespective of which contract they are on.	Launch of agreement is 12 months later than originally expected, therefore PO has made savings. Cannot prevent emergency motion/private conference from existing members to reduce subscription rates anyway.	This is a new demand.	Would concede but probably get though actions of members anyway.	High	Able to concede	Agree free membership for all but linked to break clause issue.	Original requirement stands	High	Minimal financial impact on PO as most branches will convert. Difficult to defend Community branches not having free membership. This will happen anyway as likely that membership will force subscription reduction.
7	NFSP requirement that PO must gain agreement for future Network Strategy	Re-word to "consult and discuss".	Recognise PO have right to manage	Would probably concede, exclusion if others issues resolved.	High	Cannot have agreement such that PO is legally bound to achieve agreement. Must not be tied to continuous need to gain agreement. "Discuss & Consult as long as management have right to manage" may be a acceptable approach.	Current committed to consult and discuss through agm-operators contract. In practice, committed to this anyway. Therefore could concede commitment to consult.	Not agreed - part of wider discussions around fundamental issues.	Medium	
8	NFSP support for compulsion - guided leavers/cliff	Agree principle but not detail (cliff) dependent upon GA signed. Current assumption is that cliff could be brought forward and this would facilitate savings, equality - cliff could run until 2018 as savings would be realised later. PO will not get any compulsion (i.e. no cliff) if GA not signed and NFSP will withdraw support	None	Compensation for NE impacts, funded by early implementation of cliff	High	Compulsion essential to delivering full NT. BIS required NFSP support. Compulsory activity achievable operationally and legally and BIS acknowledge that GA has to protect PO against NFSP stopping NE or supporting increased payments, but no NFSP support would undermine stakeholder position	Discretionary fund for branches impacted by NE. Overall agreement to cliff & NE tied into any payments.	Recognise need to consider existing branches and that financial support for this is an option. Believe impact of NE will be low and slow and therefore do not accept principle of upfront payments prior to implementation. Do not recognise NFSP number of benefit of cliff being £30/£40m pa.	Low	
9	NFSP requirement for limitation on number of access points for a defined period	2k in 2 years (subject to wider agreements)		No indication yet - but assumed this could be flexible if locations were not big impact.	High	Ideally would want complete flexibility but likely that this order of magnitude would work for us for shorter period. Revised Win in Mails programme case assumes 1K APs ever to end of FY16/17	1k in 18 months	We need maximum flexibility to ensure we can respond to the market with agility.	High	
10	NFSP requirement to limit product set	Current Paystation + on-line Mails providing transaction is same (i.e. not better technology in access point)		No indication yet - but potential to concede to "buy-in-alone" if technology was same in both.	Medium	Must be able to deploy a B2B offer that competes with our competitors (Online Mails + in store bill pay / FS). Forward growth and flexibility of product set also key to future competitiveness.	Agree subject to competitive offer. Competitive offer makes agreement null and void. Develop solution in meantime.	We need maximum flexibility to ensure we can respond to the market with agility.	Medium	
11	NFSP requirement for geographical parameters	No access point within 0.5m where nearest branch is providing extended hours. No access point within 0.25m where nearest branch does not provide extended hours.		No indication yet.	Medium	Big issue for PO unless we are able to manage Multiples and customer proposition effectively. Also risk of setting policy on distance which must be avoided.	Set distance at 0.25m, constrain products set within 0.5m.	We are not looking to undermine current branches but must remain flexible and cannot concede a situation where the competition gest the best sites. Whole estate deals are essential. This is going to happen anyway - with the business retained in the wider PO., we have a better opportunity to gain market share. NFSP ill represent Multiples and Access Points - they will demand this.	Medium	Ideally, we would want to control this anyway as a concession that can be aligned to the Multiple agreements would work for us. Must ensure any distance criteria does not undermine wider positioning on no commitments to spin territory.
12	NFSP requirement for limitation on whole estate deals with Multiples	Linked to above								
13	NFSP requirement for up-front compensation arising from extension impacts	Total expectation £30-£40m driven by perceived benefits of accelerated cliff. Currently positioned as fixed payment for modelled and live Mails (additional £10k) and Locals (£5k) where agent has "purchased franchise".		£25m - £30m linked to NT cliff and annual remuneration review. Demand position has decreased significantly from original (>£100m). Value demand is based on assumptions around cliff - as a more realistic acknowledgement of the value of cliff could help here.	Low	Estimate fund of £25m - £30m linked to wider agreements.		No extra funding available and cost would likely be born by BR contingency fund as a buy down of NT risk.	Medium	Source of funds a big issue for PO, but there is a value to the cliff and if all other aspects are agreed (including effective termination rights), overall this cost would be v4s, particularly when tied to a remuneration review. Increases our ability to maintain a healthy position in the stakeholder environment, not least by being able to ensure we can say that we want to, and are able to, ensure that the commerciality of the post office franchise market is protected, healthy and maintained. See it as a marketing fund if nothing else – disruption and a poor media outlook could create brand damage.
14	NFSP requirement for additional payments to NFSP for representing access points.	Additional €300k annual grant (for 2k outlets) and additional €300k project grants.		No indication yet - though expected that "per outlet" price could be reduced significantly.	High	We would not pay more "per outlet" than existing branch - in fact would expect to be significantly less. Would have to be pro-rata on number unless €300k is max.	Limited financial impact on PO – potential benefit of NFSP representing access points is that their needs will be lobbied for and therefore enhances delivery environment.	Have acknowledged NFSP's desire, but made no indication on price.	High	Current equivalent price per outlet is around €150, access point demand is €150. Additional project funding limited impact as agreement was for minimum of €1.5m anyway and unspent funds come back to PO.

AS AGREED BY POST OFFICE NFSP STEERING GROUP

NFSP Negotiating Mandate Mar15 v 4-3

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Annex 2 – Legally Privileged

Grant Agreement main issues following NFSP review

	Issue	NFSP proposed amendment	Post Office view	Action
1.	Post Office structured the agreement as a grant with the annual grant being subject to the approval of an annual plan.	The concept of the annual plan has been removed. Instead, funds to be paid in advance and held by NFSP. This amendment has been proposed by NFSP so they maintain greater control of their funding and day to day operations.	This relates to the £1m per annum grant payment. NFSP approach would risk funds being used for purposes not intended by Post Office. It would also limit Post Office's ability to have funds repaid if not spent. The effect of the proposed amendment is that the agreement is less likely to be viewed as a grant. There would therefore be an increased procurement risk).	Legal have advised that as the payments have not been publicly procured or competitively tendered, there is a risk that Post Office has not complied with public procurement law obligations. One way of mitigating this risk is to structure the agreement as a grant – this needs to be considered if Post Office concedes this point.
2.	Agreement is for NT2 only.	Specific references to NT2 have been added and implication that anything beyond this is subject to further agreement. Likely to be positioned as a red line for NFSP.	Significant issue – agreement cannot constrain future business change and/or legally bind Post Office to having to have NFSP agreement for change.	Post Office would be obliged contractually to seek agreement with NFSP for all further strategies for the Post Office network.
3.	Termination payment.	Post Office obliged to make a payment equal to 3 years' grant payment in the event of termination/ceasing of the GA for any reason.	There was no termination payment in the GA as drafted by Post Office. The GA would expire at the end of a 15 year term unless terminated earlier for breach of contract.	This is a commercial decision. There may a benefit to Post Office in agreeing a shorter term or having greater freedom to terminate the agreement in exchange for a termination payment (lower than suggested by NFSP).

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	Issue	NFSP proposed amendment	Post Office view	Action
4.	NFSP's obligation not to engage in activities which are actively detrimental to Post Office.	NFSP's obligation not to engage in activities which are actively detrimental to Post Office has been caveated by a statement that NFSP must have freedom to undertake activities that protect and represent Post Office Operators. This allows NFSP to criticise Post Office without this being a breach of contract giving rise to a right for POL to terminate. Note also that the NFSP's amendments remove the ability for Post Office to terminate for a breach of contract of any kind.	The effect of the amendments to this obligation and the removal of the ability to terminate mean that NFSP could engage in any activities "that represent Post Office Operators", even if detrimental to Post Office and POL would still be under an obligation to provide the funding for the full 15 year term. Always understood that Post Office needs to agree NFSP will continue to have independent voice but not that it may engage in activities which are actively detrimental to Post Office.	See comment on 2 above
5.	Watering down of ability of Post Office to terminate the Agreement or suspend or withhold payment of the grant where NFSP is in breach	Rewriting of the provisions relating to POL's rights to suspend or withhold payments for breach significantly reduces protection offered to Post Office. The ability to terminate if specified breaches are not rectified has also been removed. Removal of ability to terminate immediately on a material breach of confidentiality has been removed.	Red line for Post Office – document is badly written by NFSP in this area and this could be deliberate.	NFSP to clarify. Legal have advised that Post Office's right to terminate the GA and clawback grant monies need to be clearly included in the document.

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	Issue	NFSP proposed amendment	Post Office view	Action
		The NFSP has introduced a dispute resolution process which does not provide sufficient protection to Post Office.		

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Annex 3

External positions in the absence of NFSP support for NT/Cliff/Extension

Introduction

This note covers the general external position that POL would take with stakeholders (and by extension the media) on key network issues in 2015 (continuing NT, the Cliff and extension). It analyses the position from the perspective that the NFSP are not supporting POL's activities on the specific issue. Each specific issue is supported by comments that explore timing and associated issues that are relevant to the external stance that POL is taking.

Network Transformation – external positioning

NT is now a mature activity which is based on a solid external media position;

- This is an unprecedented investment programme for the network
- It is not a closure programme, rather it is about improving hours and improving environments
- We work with the individual agent on the change and consult in the community if the location of the Post Office is changing
- The new models work – customer satisfaction, retail growth
- The Community branch and associated fund supports the 'last shop in the community' situations
- Over half the network now on the new models.

If NFSP withdrew support, its attack lines would be along the lines that 'general circumstances have changed and the models are not now appropriate' and on the perceived 'compulsory' parts of the programme – transitional locals and non-core mains. The defence lines for POL are the evidence that the models do work, the sensitive application of transitional locals/non-core Mains (underpinned by the emphasis that we work with the agent to create a more sustainable future for the Post Office and that the community will not lose its Post Office) and heightened emphasis on the Community Branches and Community Fund. The NFSP opposition would be positioned as being about the vested interest of a minority of the network – a supplier interest that wants to retain open ended Government subsidy irrespective of market or customer needs.

Comments and timing implications

The biggest risk to the above POL position is an anti-NT campaign that gains momentum through the linking of individual cases and which is amplified by the volatile media and political environment in the run up to the election. This risk is best countered by POL emphasis on the benefits / successes of NT plus heightened emphasis on Community branch security – and, critically, ensuring the sensitive individual case handling of transitional locals and non-core Mains to avoid 'cause celebres' emerging that then may get joined up into a coherent campaign.

In timing terms, NFSP activity in advance of the election would gain more traction than afterwards. In a post-election environment, even if there remains political uncertainty, there will inevitably be an cross party emphasis on public expenditure reduction (whilst seeking to maintain service availability). NT falls squarely into that philosophy and by June 2015, a clear majority of the network will already have been changed or committed to. In such an

POL00151514

environment, NFSP opposition can be more readily placed into self-serving supplier interest from a minority in opposition to the wider public and customer interest.

Cliff – external positioning

The concept of the 'cliff' is very much internal shorthand for the decision point within the Programme at which we need to consider a change in approach to ensure the Programme achieves its objectives by 2017/18 when assured funding ceases. It is prudent preparation against the key end stop that we don't have funding after March 2018 to operate a Programme of change, to invest in branches who are considering change nor to compensate subpostmasters leaving. This leads to three key external arguments for the Cliff

- *Duty of care to our agents.* We know that current funding ends in March 2018 – there is no assurance of on-going funding (other than some potentially limited funding for Community branches). We therefore have a duty of care to our agents, and the communities they serve to take the actions that avoid the situation whereby they carry on receiving fixed pay – only for it suddenly to end through lack of funding jeopardising their business and service to the community. We need to give them the chance to take advantage of the transitional funding arrangements, or the potential to leave the business, - and allow time for the programme to implement changes (including any necessary consultations) so that a secure, sustainable Post Office can be in place for the relevant community by March 2018. The Cliff is driven on these principles
- *Moral Fairness.* The branches to which the Cliff applies are those branches that we know have sustainable retail but which are choosing to continue to take an on-going state subsidy rather than change to a more efficient way of operating that would be better for their customers, more sustainable for their community and which isn't unnecessarily bleeding public money. Given that most of the network has now moved onto more sustainable, efficient models that don't drain public funds, it is morally unfair that these branches should believe they can just continue with open ended state subsidy. The Cliff is a fair way of addressing this issue – it is about clarity to agents on the economic realities and it gives agents time to commit to and make the changes – and it gives time for a funded programme to implement them. We avoid a situation whereby a branch might get itself into a situation where it can't take advantage of programme funds for leaving or for change.
- *Fairness to the public purse in times of austerity.* When there is a clear need for continued reduction in public expenditure, it is not right that viable retailers (often multiples) carry on drawing a public subsidy when the evidence is now clear that this isn't necessary for an efficient Post Office operating model. The Cliff addresses this position in a way that is fair to the agent – but also fair to the public purse.

These arguments enable opposition to the Cliff to be positioned in terms of individual supplier self-interest. The approach gives time and generous funding for the agent to change – all it requires from the agent is a commitment to future change. Opposition to this is effectively claiming an open ended right to unlimited future public subsidy – clearly unfair in places that have successful retail. Support for such opposition would clearly be against the wider public interest.

POL00151514

Comments and timing implications

These arguments gather more strength as time moves on and the more NT is completed through the programme (painting refuseniks into more of a minority and emphasising that the new models and change to them works). They are also stronger in a post-election environment where the pressure on future public spending will be a clearer cross party reality. In the run up to the election there is more risk with these arguments from political posturing – and from the potential to seek out individual negative NT cases and combine into an overall campaign (see NT arguments above). There is also the risk that extraneous 'opportunistic political factors' can be drawn into the debate prior to an election – e.g. 'lack of Government work has changed the environment, these branches were right to hold off making a decision and now further commitments are needed from prospective Governments before they are forced to commit'.

Extension – external positioning

The positioning of extension is a combination of emphasising the customer advantages, ensuring the 'one integrated network' concept whilst negating the 'fear of change' supplier narrative. Key arguments are therefore

- *Extension is beneficial for customers in terms of better access and services*. It is a natural development in a competitive marketplace from which the customer benefits.
- *It is complementary to the existing network*. This is not a network set up in opposition to the current network or to take work away from it. On the contrary, it complements the existing network, extending its reach and ensuring that the overall network remains competitive in existing markets as well poised to best take advantage of new growing ones. It is not in POL's or the networks interest to take work away from existing branches – it is in POL and the networks interest to be positioned to best defend the overall work we have and be poised to grow in developing and fast moving markets. The benefits of this approach accrue to the network as a whole. This is about protecting and expanding our business within the overall POL narrative of revenue growth.
- *Extension is therefore being driven by these philosophies* – so that siting of new locations is about protecting and expanding revenues for the whole network.
- *The alternative to extension is leaving the field to the competition in a very fast moving market*. If we were not extending we'd effectively be acquiescing to a network decline narrative. Extension is, at one level, a defence ring for our network – if we put our heads in the sand – then other parties will grab growth market sectors, will eat into our future and current work and we'll passively let it happen. Our ambitions for our whole network are greater than that.
- *We are about one network* – the vast vast majority of our growing work is through the existing network – extension complements this and allows that growth to continue.

Comments and timing implications

The core arguments against extension play on fears that extension would, either deliberately or inadvertently, cannibalise work in the existing network and therefore undermine its viability and therefore extension could be positioned as a strategy of network decline and

POL00151514

downgrading. To avoid this opposition narrative gaining traction, it is essential that the 'one network' approach is strongly promoted. It is also critical to display 'proof points' that our agenda is 'protect and grow' – the key element to this is some commitment to support activities (e.g. fund) should there be any individual cases where the network developments create issues for individual branches. The aim is that such support mechanisms won't actually be necessary – but they are in place to reassure. The biggest risk in terms of opposition to extension is the one of 'fear' stopping extension happening until it is too late.

Opposition to extension needs to be positioned as 'head in the sand' and against the customer interest – and, because ultimately its acquiescing in a network decline narrative, against the public interest. We are aware and conscious of existing agent concerns – so we have contingency support mechanisms in place – but critically this is a 'one network play'.

In terms of timing, the biggest risks to extension are that the 'supplier fear' narrative gains prominence and builds on itself (with ancillary suggestions that this is a plan to undermine the existing network). The risk of this is greatest in a volatile pre-election environment. Counteracting the fear narrative (and promoting the customer benefit narrative) also means clarity as to what extension is and a model that is effective and workable. Therefore timing needs to be consistent with clarity on a model and thereby showing how that model complements the existing network and fits the 'one network' narrative. If the debate is held too early without that clarity , there is more scope for the fear and conspiracy agendas to gain traction. Finally, it is critical that extension is not positioned as 'handing the network to the multiples' – as this will create a small business – big business dynamic that will feed the fear and conspiracy agendas. Therefore – in positioning any extension arrangements with multiples, we need to complement with parallel arrangements with perhaps symbol groups and other routes for independents to show our commitment to a continued 'mixed network'. Critically we need to continuously push the 'one network' concept and that network is a mixture of the right operators for the right sites in the right locations (and that small businesses remain the core of our network).

Final comment

The above arguments are all sustainable in the absence of NFSP support – but timing and positioning needs to be consistent. We also need to ensure that the three issues – NT/Cliff/Extension are likely to be combined in terms of narratives. All the positions above are consistent with the 'meta narrative' of a commercial Post Office committed to its social purpose confidently developing in a changing world and serving the public interest. The opposition narratives should all be positioned around vested, narrow, self-serving, self-interest that are in conflict with the wider public interest and which can only be served by a public approach of 'open ended future public subsidy' irrespective of market conditions or customer needs.

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POST OFFICE LTD GROUP EXECUTIVE

Transforming Employee Relations – Noting Paper

1. Purpose

1.1. The purpose of this paper is to:

- Update the Group Executive on our progress in transforming Employee Relations within Post Office and highlight the improvements made recently;
- Invite the Group Executive to note and support the approach and next steps being taken; and
- Ask that the Group Executive note and endorse the updated Code of Business Standards.

2. Background

2.1. Improving employee engagement is a fundamental part of the People & Engagement strategy. One aspect of this – the Industrial Relations strategy – is already well under way. Another, transforming our approach to Employee Relations (ER), has seen significant progress in recent months and is now sufficiently developed to be presented to the business for review and endorsement.

2.2. To give us the best chance of delivering successfully, we have integrated the IR, ER and engagement teams. This is crucial as many of the largest obstacles to improving employee engagement are collective agreements we have with our unions, some of which are not fit for purpose.

2.3. Defining Employee Relations: Employee Relations has two main dimensions:

- First, the policies that govern our day-to-day business such as Recruitment, Conduct, Leave, Bullying & Harassment and Performance Management; and
- Second, the support, advice and guidance which employees and managers are given to manage (and be managed) effectively and fairly. This includes the support we give to colleagues and managers through a grievance process, including appeals and potential employment tribunal (ET) cases.

2.4. Our vision for Employee Relations: We need highly engaged employees who are proud to work for the Post Office and support a high performance customer service and sales culture. This should be based on simple, best practice policies, well-understood by colleagues and consistently applied by managers.

2.5. The past – challenges and issues: Pre-separation, ER in the Post Office was characterised by a reactive approach to ER and an inconsistent application of our policies. This was evident in the large number of policies we held (120 in 2012) and the large variations in tone, language and format between them. Furthermore, there was no central access point, with a consequently low level of awareness and understanding across the business. This contributed to confusion on when and how to apply these policies, causing frequent problems for managers and employees.

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2.6. As a result, we saw too many Employment Tribunal (ET) cases brought and subsequently lost or settled by Post Office. 2011 saw 17 cases which cost us a total of £133k, plus legal costs and management time.

3. Activities/Current Situation

3.1. We have taken practical steps to address the legacy issues summarised above. These have resulted in significant improvements in our ER policies and the key metrics against which we judge success. These include:

- A 73% reduction – from 120 to 32 – in the number of policies we have. This was achieved through a comprehensive review which has simplified our approach without undermining our values or employee offer (see Appendix 1);

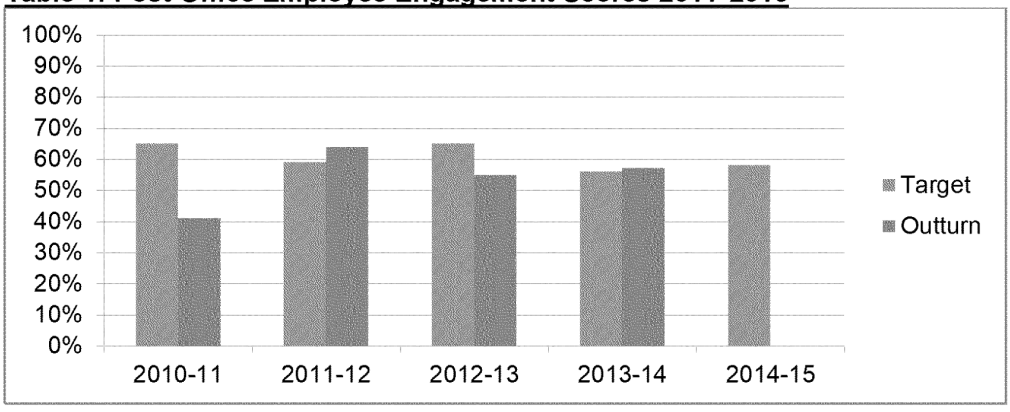
- All policies now fully updated in line with best practice and recent changes in legislation. Each policy now has a named SLT member with personal responsibility for ensuring it is up to date. This was not the case previously and had led to some policies becoming anachronistic. The ER team has instituted a rolling review cycle of all policies to ensure this does not re-occur in the future;

- The introduction of AdviserPlus (branded My HR for Post Office Ltd) to create and promote accessible 'how to' guides for ER policies. AdviserPlus delivers a good service for the Post Office and achieved a marginal increase in customer satisfaction last year. This is particularly pleasing as we reduced the spend on this contract from £370k to £170k in 2013 to contribute to ongoing business efficiencies; and

- A 71% reduction in ET claims (from 17 to 5) from 2011 to 2014 and the near elimination (-98%) of ET settlement costs, from £133k in 2011 to £1k in 2014. At the time of writing, the Post Office has no pending ET claims for the first time in its history as an independent business (and possibly well before then).

3.2. Despite this progress, we still struggle to engage our employees as well as we should and have not achieved our targets in every year, despite them being modest (see Table 1 below). Improving this is absolutely vital to the success of our business, as reflected in its status as a bonus-worthy metric. Research shows what we all intuitively recognise – that improving engagement benefits the business bottom and top lines. For example, engaged employees take fewer sick days than disengaged employees – improving the Post Office's absence rate by one percentage point from its current level of 3.7% would save us £1.35m per year.

Table 1: Post Office Employee Engagement Scores 2011-2015



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4. Options Considered

4.1. Given the problems inherent in our pre-separation approach to ER set out above, we do not believe that the status quo is a valid option. Our P&E Strategy clearly sets out our intention to improve employee engagement through improvements in both ER and IR. Our options therefore relate to how we will prioritise and organise our available resources to deliver this aspect of the P&E Strategy. The options are therefore yet to be decided as they will be decided following our next steps set out below. For example:

4.2. *Which collective agreements should we prioritise for renegotiation or removal?* – this will be the outcome of a review in Q1 2015/16, details of which are below

4.3. *Which areas of the business should we prioritise for support from the ER team and AdviserPlus?* – this will be informed by the results of the Engagement Survey and feedback from operational managers. Our working assumption is that these should be front-line colleagues but we will review this in Q1 2015/16.

5. Proposal including Timeline

5.1. **Proposal:** We intend to take forward a twin-track approach, based on the two key aspects of ER defined at Section 2.3. The key workstreams are set out below.

5.2. Workstream 1: Simplifying policies

- 1A: Replacing collective agreements: Many policies are based on collective agreements eg. Attendance, Conduct, Performance Management, Grievance, Stop Bullying and Harassment, MtSF. We will hold a joint IR/ER/Operational review in Q1 2015/16 of these agreements. Engagement with unions on largest impact policies will follow from Q2 onwards;

- 1B: Benchmarking: We will increase engagement with the Civil Service and other external ER networks to identify opportunities for improvement; and

- 1C: Regular policy review: From 2015/16, all policies will be reviewed at least annually (key policies more often) by the ER Manager in conjunction with the SLT policy owner. Reviews will focus on opportunities for simplification and efficiencies in line with legal requirements and Acas best practice.

5.3. Workstream 2: Improving support to colleagues

- 2A: Building Capability: We will run a training programme, linked to the launch of the new Performance Improvement Process. We will also raise awareness of ER and the support available through AdviserPlus, focusing on front line managers in Crowns, Supply Chain and FS;

- 2B: Targeted support: We will work closely with AdviserPlus to increase effective deployment and embedding of policies. We will also investigate the potential to increase the scope of services which AdviserPlus provide, assuming this would further reduce Post Office spend and improve the standard and consistency of support. We will also continue the recently-adopted approach of 'Complex Case Conferences' to reduce the number of high risk cases and the time it takes to resolve them. Since introduction, this has halved the number of 'live' cases from 34 in June 2014 to 17 in December 2014.

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- Listening to, and acting on customer and stakeholder feedback: The ever-closer working between engagement, ER and IR will continue with the joint review of all collective agreements noted above. We will be using the Engagement Survey to focus on priority areas within the business, in terms of engagement scores and also 'hotspots' in terms of grievances. We will also be reviewing the business-wide approach to hearing Appeals to identify what improvements can be made. We have already secured agreement with the Crown team that appeals from Crown employees will be heard within the Crown line management structure. This addresses a long-standing concern of the Crown team, namely that some appeals were being upheld by senior managers from other parts of the business – in good faith – due to a lack of operational understanding regarding the Crown network.

5.4. Code of Business Standards: Linked to this work is the specific issue of the Post Office Code of Business Standards (CBS). This document is crucial as it sets out our values and expectations of all employees. It is frequently used when recruiting employees and demonstrating the Post Office's values to prospective clients. However, while it has been kept under review in recent years, it has not been updated since separation.

5.5. The CBS is now completely updated and signed off by all relevant business leads. The Group Executive is formally required to note and endorse the document for governance purposes. The full document is therefore attached for reference. Once agreed, the document will be formatted and made available on our intranet for colleagues, managers and use in bids and recruitment. We will not issue hard copies and there are therefore no costs associated with this work.

5.6. **Timeline:** The EE&E team is taking forward our work on ER in line with the overall P&E Strategy. This paper is intended to secure business endorsement of the approach and, for governance purposes, of the updated Code of Business Standards. Our next steps, assuming approval, are:

- Q4 2015: Start rolling policy review programme with SLT leads (see para 3.1 above);
- Q1 2015: Briefing of lead teams prior to roll-out of new approach;
- Q1 2015/16: Start of training and briefing programme across POL;
- Q1 2015/16: Joint review of all collective agreements with the IR team and operational leads (eg. Crowns and Supply Chain); and
- Q2-Q4 2015/16: Renegotiation of prioritised collective agreements (eg. MtSF) to 'free up' our ER policies and empower front-line managers.

6. Commercial Impact/Costs

6.1. There is no significant short-term cost associated with taking this approach forward as any training requirements can be met within existing resources. Continuing the positive trend on reduction of ET cases will deliver modest cost avoidance (as set out at para 3.1). We will be reviewing the commercial relationship with AdviserPlus in 2015/16 as set out above which could result in a renegotiation of our contract with them.

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7. Key Risks/Mitigation

7.1. The key risks are as follows:

- ER policies will not be updated as intended and will fail in to disrepute – *our new approach of regular reviews and personal SLT-level accountability for policies should prevent this happening;*

- Managers do not implement policies effectively, through lack of awareness or 'buy-in' – *this is our biggest risk and raising awareness and support for our new approach to ER is a key focus for 2015/16; and*

- Unions are unwilling to update and/or remove collective agreements – *this is highly likely and our review in Q1 will include a legal assessment of which agreements are contractual and therefore harder to change unilaterally. Separately, our current review of union facility time is aimed at reducing the ability of our unions to block or delay necessary changes.*

8. Long term considerations – horizon scan

8.1. Employee engagement is notoriously hard to improve in short order. However, our Strategy to 2020 is dependent on taking our employees with us and that means improving engagement. We are likely to see our directly employee workforce (Crowns, Supply Chain and various support functions) reduce further in future years but they will continue to play a vital role in our success. They are also the employees traditionally least supportive of change, hence the focus on direct engagement in this approach. Our work on defining our Vision, which is ongoing, will complement this.

9. Communications Impact

9.1. We do not anticipate any external communications impact from this work. Internally, this will be an evolution rather than a revolution and will be delivered with close support from Comms through our existing channels to front-line colleagues.

10. Conclusion

10.1. We have already made significant progress in transforming Employee Relations and are well placed to take this to the next level in the next 12-24 months. The approach set out here gives us the best chance of delivering the improvement in employee engagement we need to deliver our wider commercial objectives.

11. Recommendations

11.1. The Group Executive is asked to:

- Note the positive progress on employee relations and support the next steps to transform ER as set out above; and

- Note and endorse the Code of Business Standards.

Neil Hayward

18 February 2015

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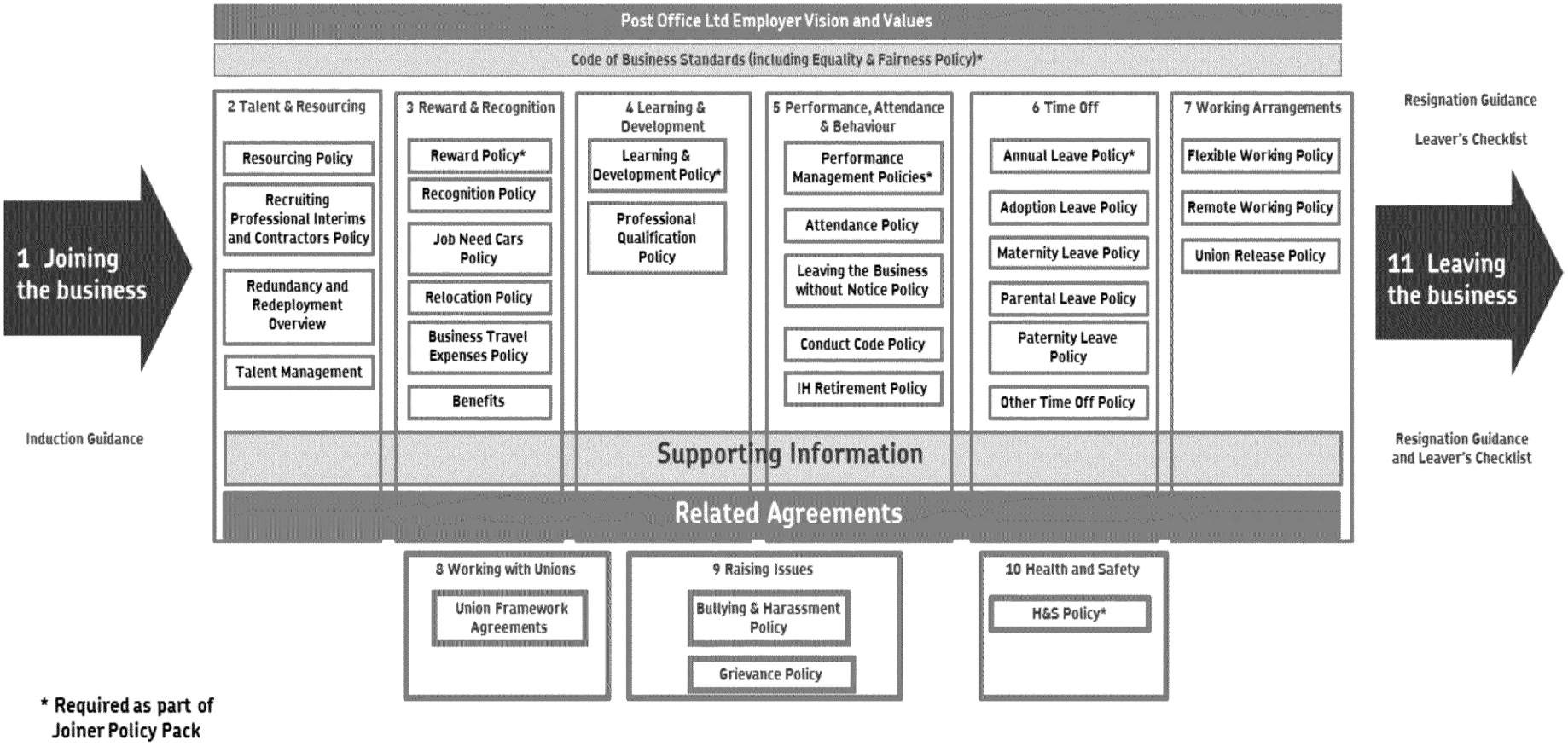
APPENDIX 1: NEW HR AND ER POLICY LANDSCAPE



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Transforming Employee Relations

Employee Relations & Engagement Team

January 2015

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Transforming Employee Relations

Overview

- **Vision for Post Office Employee Relations**
- **The past – challenges and issues**
- **The present – problems, progress and results**
- **The future – proposed next steps**

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Transforming Employee Relations
Vision for Post Office Employee Relations

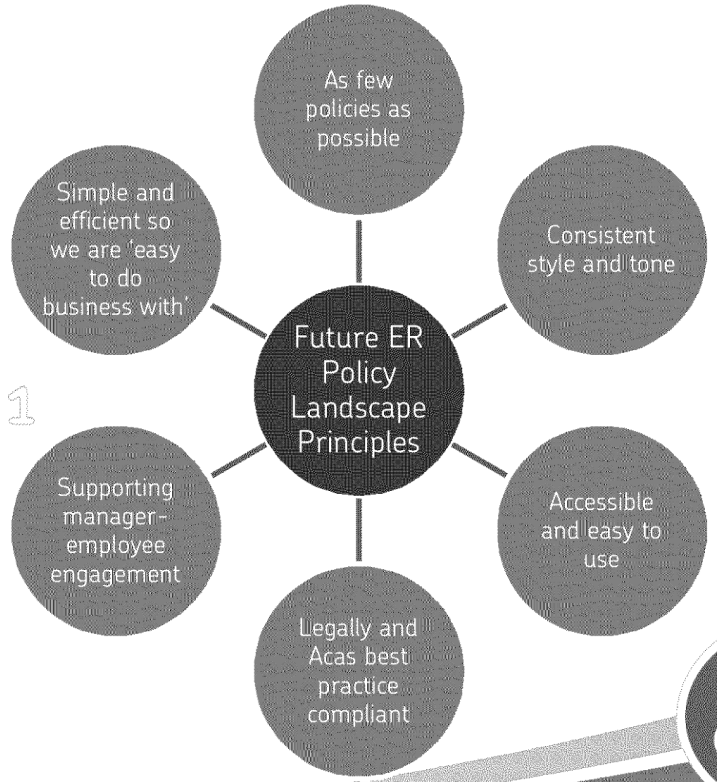
Our Vision for Post Office Employee Relations

We need:

- Highly engaged employees who are proud to work for the Post Office and support a high performance customer service and sales culture.

...based on...

- Simple, best practice policies, well-understood by colleagues and consistently applied by managers.



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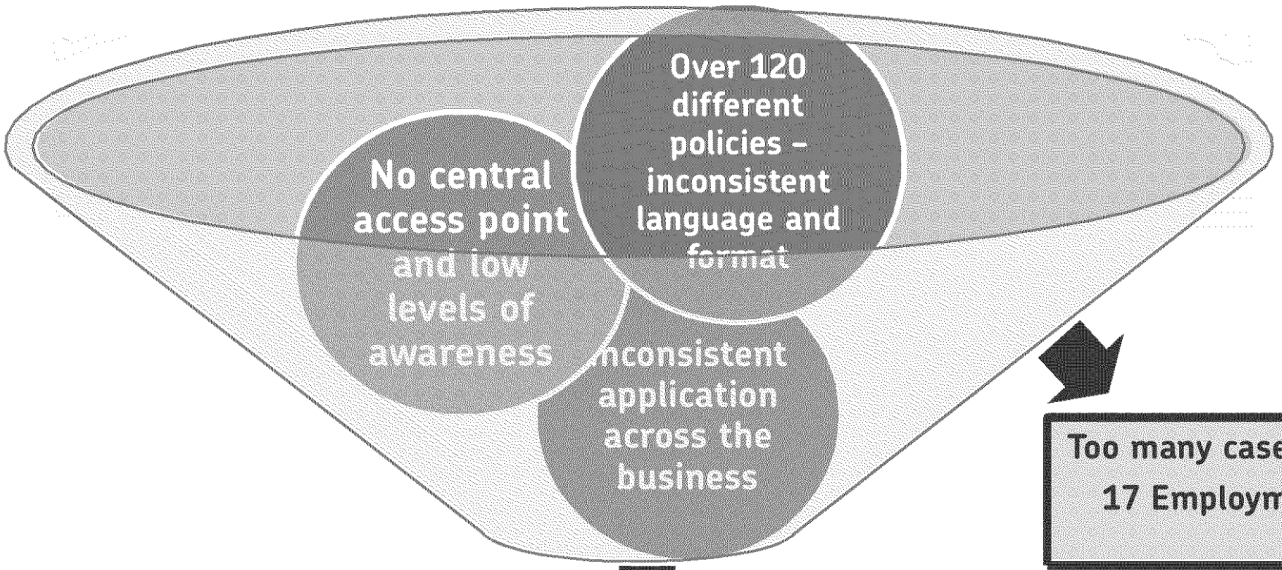
Transforming Employee Relations
The past – challenges and issues



Too many cases brought – and lost or settled by POL

17 Employment Tribunals costing £133k + legal costs in 2011

Confusion on policies

Day-to-day challenges for managers and employees

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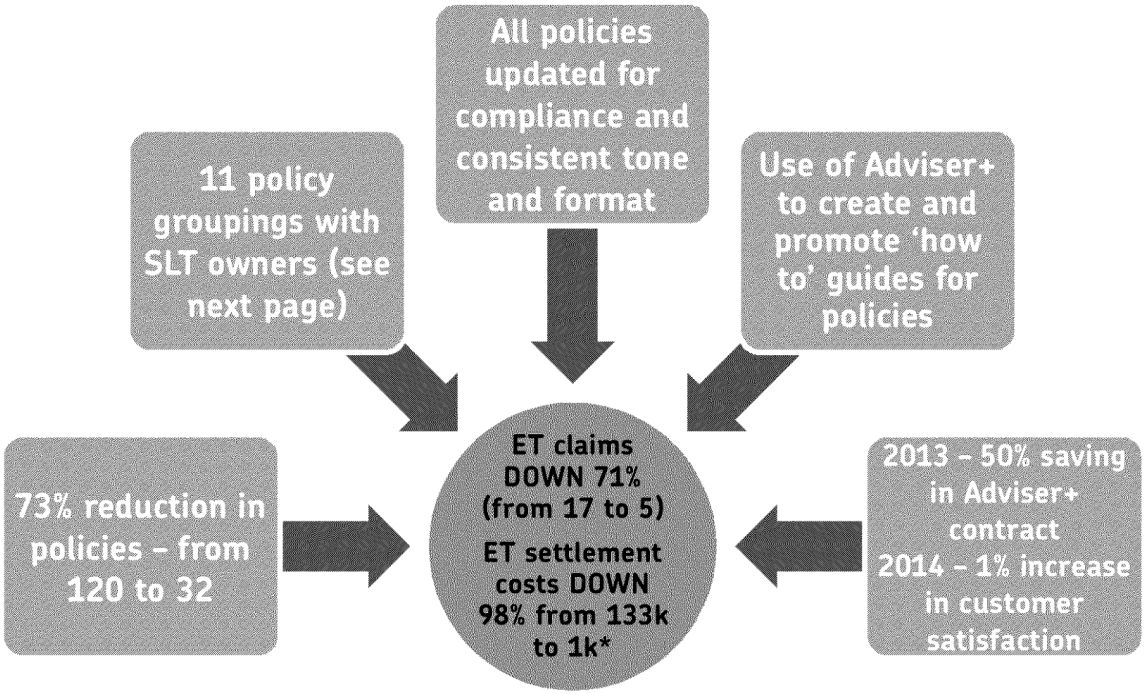
Transforming Employee Relations
The present – problems, progress and results



HOWEVER...employee engagement remains too low (58% 2014). Improving it is crucial to the success of the business.

*All figures based on comparison between 2014 and 2011

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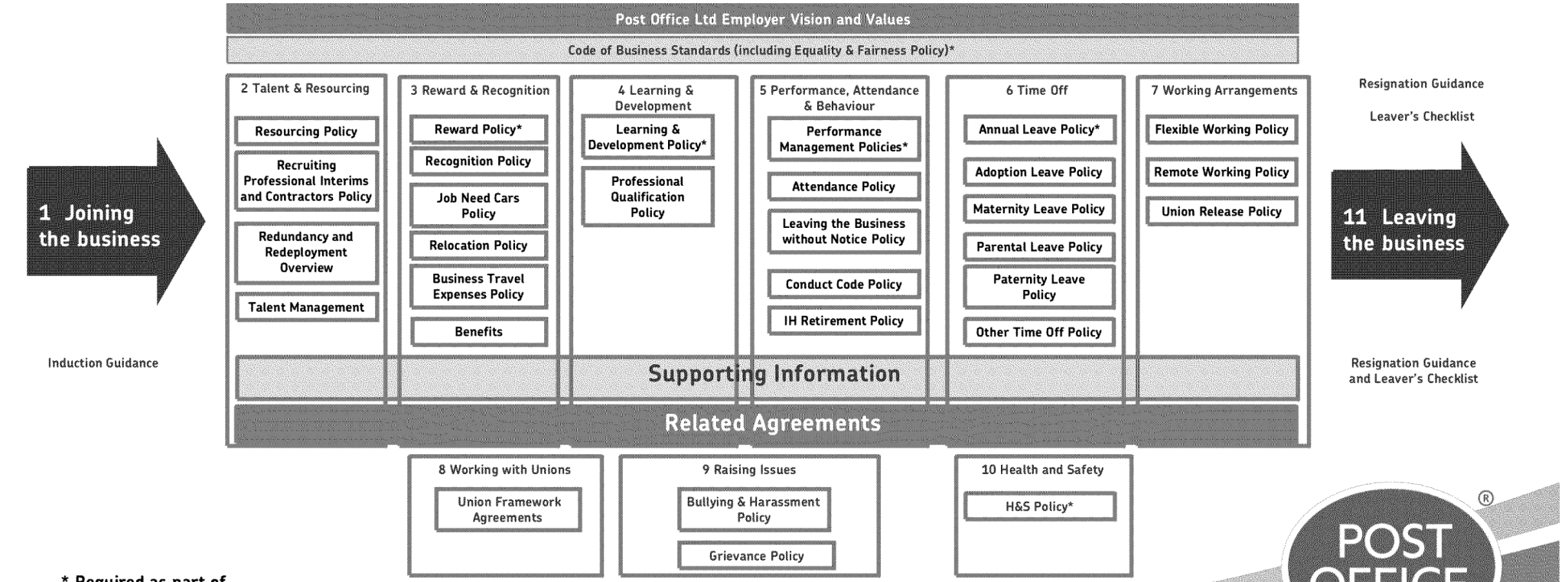
The present – new HR and ER policy landscape



*** Required as part of Joiner Policy Pack**

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Transforming Employee Relations
The future – proposed next steps (1)

Simplifying policies

- Replacing collective agreements:
  - Many policies based on collective agreements egg. Attendance, Conduct, Performance Management, Grievance, Stop Bullying and Harassment, MtSF.
  - Joint IR/ER review in Q1 2015/16 of these agreements. Engagement with unions on largest impact policies to follow over rest of year.
- Benchmarking:
  - Increase engagement with Civil Service and other external ER networks to identify opportunities.
- Regular review:
  - From 2015/16, all policies will be reviewed at least annually (key policies more often) by the ER Manager in conjunction with the SLT policy owner.
  - Focus on opportunities for simplification and efficiencies in line with legal requirements and Acas best practice.
  - QUICK WINS: Produce Parenting Policy to amalgamate 4 existing policies.

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Transforming Employee Relations
The future – proposed next steps (2)

Improving support to colleagues

- Building Capability
  - Training programme – supporting launch of Performance Improvement Process with Conduct Code sessions for Crown Managers.
  - Awareness raising with lead teams/across the Network – Crowns and Supply Chain. Including 'myth busting' on the value of good employee relations and of Adviser+.
- Targeted support
  - Working closely with AdviserPlus to use their expertise to increase effective deployment of policies which are in scope for My HR.
  - Continued use of Complex Case Conferences to reduce number of high risk cases and case cycle time– a recent push has reduced these from 34 in June 2014 to 17 in December 2014.
- Listening to, and acting on customer and stakeholder feedback
  - Closer tie between Engagement, Employee Relations and Industrial Relations.
  - Forward programme of reviewing collective agreements underpinning ER Policies.

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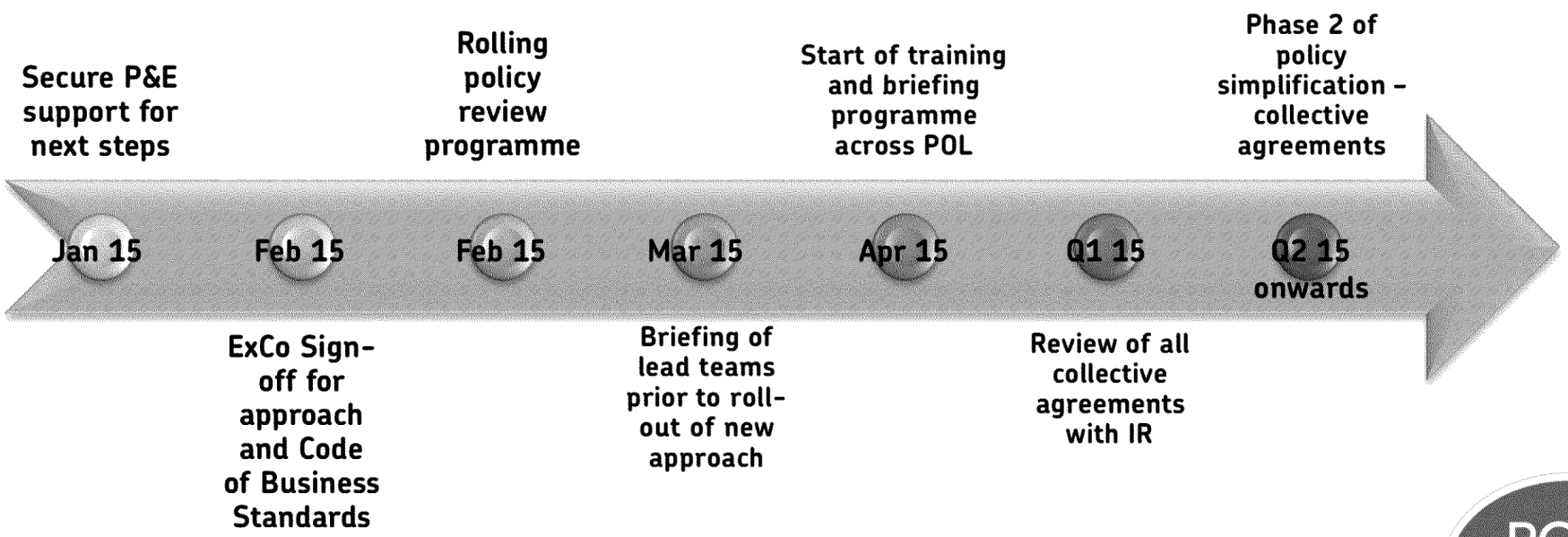
Transforming Employee Relations

The future – proposed timeline



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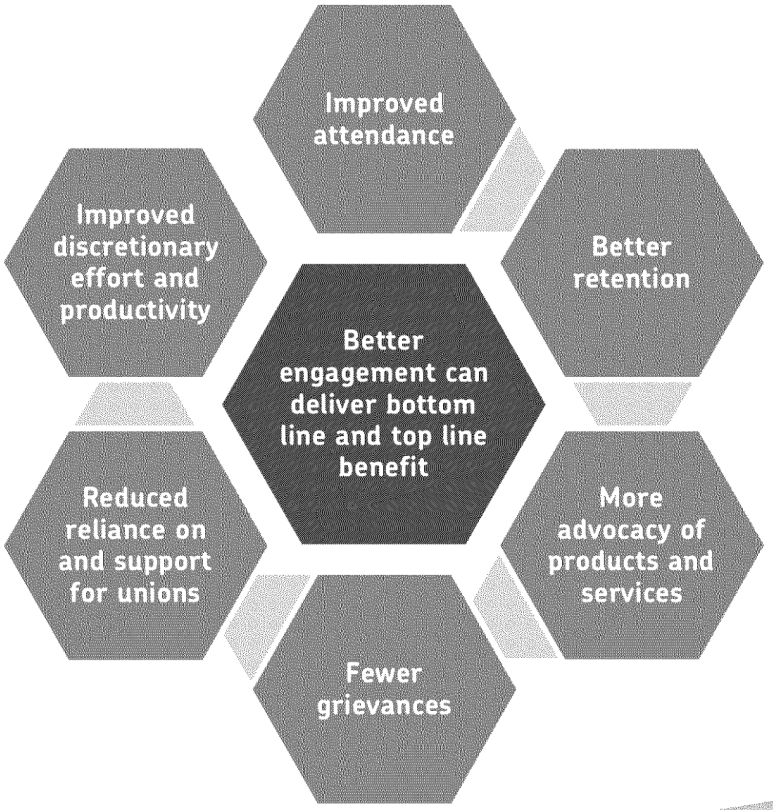
Transforming Employee Relations

The future – business benefits



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Transforming Employee Relations

Appendix 1: Annual Schedule for Reviewing Policies

Quarterly	Biennially	Annually
Attendance, Remote working	Leave policies	Ill health retirement
Conduct, Grievance, B&H	Parental policies	Abandonment of service
Performance Management	Recruitment policies	L&D policies
Travel and Expenses	TU policies	
Reward, Recognition	Flexible working	
Health & Safety		
MtSF		

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(front cover)

Post Office Code of Business Standards

- 55,000 people
- Over 11,500 branches
- 24/7 service
- One nation's trust
- Your pride

- We are the Post Office

- The largest retail network in the UK

- A growing business

- Investing in thousands of local communities

- Investing in cutting edge new technology

- An independent business publicly owned

- At the heart of communities

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Making Things Clear: A Guide For Our People

Contents

1. Introduction
2. Observing the Code
3. Our Brand
4. Customer Excellence
5. Our People
6. Health and Safety
7. Trust and Security
8. Use of Company Property and Expenses
9. Use of Computers, Internet, Mobile Phones and Business IT Systems
10. Social Media
11. Political and Pressure Group Activity
12. Conflicts of Interest
13. Gifts and Sponsorship
14. Hospitality and Entertainment
15. Risk Management
16. Useful Contact and Links

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1. Introduction

The Post Office is unique: a commercial business set apart by its public purpose. We believe in the importance of connecting communities and enhancing the powerful role they play in all our lives. We will stay true to this commitment by meeting customer needs through our unrivalled local presence across the UK.

This statement is underpinned by a set of principles and pledges.

To deliver our purpose we will run our organisation by following four principles:

- Keep customers at the heart of everything we do;
- Build relationships based on trust;
- Treat everybody with fairness and honesty; and
- Make a positive social and economic contribution to all the communities in which we work.

As an organisation we pledge to:

- Maintain ethical attitudes in our behaviours;
- Invest in the organisation to secure the business for the future; and
- Listen with care to the views of customers, colleagues and others with an interest in the Post Office, and support their development.

Most importantly, our customers are at the heart of everything we do.

This Code is designed to help you understand the Post Office vision and to make sure you know what you need to do to support it. The Code of Business Standards captures our key individual responsibilities and how we behave to make the Post Office a success.

Note insert picture of Paula and Paula's signature

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2. Observing the Code

Post Office has high standards and our customers, clients, colleagues and shareholders have an expectation that they will be treated professionally. We all have a responsibility to promote the Business Standards and managers should help and encourage their teams to understand and observe the Code. The Code forms part of our company rules which you must adhere to as part of your employment.

The Code is also meant as guidance when difficult situations arise. We all, at some time in our working lives, confront dilemmas about whether an action is right. If you are faced with a dilemma:

- Read the relevant parts of Code;
- Ask yourself whether you could justify your action to your manager, your colleagues and your own conscience, and
- Think through the likely results of your action for yourself and others.

If you are still unsure what is the right thing to do, talk to your manager.

If you discover that the company's standards and reputation are being put at risk by unethical or even criminal behaviour, you should report the facts to a manager. Ignoring bad behaviour is wrong – it can be detrimental to our colleagues, and damage the perception of our brand by our customers, clients and partners. If you feel you can't talk to your own manager, you should talk to a senior manager, or contact the HR helpline. Of course, we realise it isn't always easy reporting unethical or criminal behaviour. If you have any concerns and want to speak to someone confidentially please contact the Speak Up line on 0800 048 4531.

Please be aware that any breach of this Code may be dealt with under our Conduct Code, and that gross misconduct could result in your dismissal.

Note insert picture of colleague in a Post Office

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3. Our Brand

For any organisation competing in today's fast-paced world, there's nothing more vital than a powerful brand. And if that brand is clear, relevant, engaging and has a purpose, then more and more people will interact with it. With people like you completely behind it, the Post Office brand will be just that.

- We have a brand that must run through everything we do: our products & services; environments; behaviours; communications; and the way we manage our people;
- It builds on our heritage and strengths and helps us stay relevant for our customers in a fast-changing digital world; and
- We are the brand. We need to live it to deliver consistently for our customers.

By brand, we don't just mean a logo, a certain set of colours and a strapline. We mean the services we provide; the way we deliver them; the perceptions of those who use us, and of course the people like you who represent us. We mean the way we do business.

So what does our brand say to people? What does it promise?

We're here to help the important things in life happen for our customers. We make it easy, as life is complicated enough. Whether it's sending money for a loved one's birthday, calling them to show you care, travelling to far-flung places, or getting your broadband connected, we remove the stress and complexity of sorting them.

Insert picture of our lozenge

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4. Customer Excellence

Our customers are at the heart of everything we do. We all know what good customer service is and there are hundreds of examples of us all delivering it every day. Our challenge now is to make sure we deliver great service for every customer, every time. The more we understand our customers and their expectations – and put ourselves in their shoes – the easier it will be to provide consistently great service.

Our Customer Promise is to make the important things in life happen for them. There's nothing that beats the buzz of achieving the important things in life, whether that's getting that dream house, starting a business, or even just relaxing on that well-earned holiday. And yet, accomplishing the important stuff in life can be fraught with complexity, which can cost our customers time, effort and added stress.

You may ask does this mean for each one of us? How can we at the Post Office make sure that we full fill the Customer Promise?

We can help our customers focus on the important things by removing the stress of sorting them.

- We connect with our customers on an emotional level;
- We listen first and fully understand their needs and expectations;
- We talk respectfully, leaving out the jargon to give them the best advice that meets their expectation, to achieve their goal;
- We always think about the customer and not the process;
- We make it simple, straightforward and quick to reach us, in branch, online, on mobile;
- We always focus on the Service before anything else;
- We give the best possible experience, each time; and
- Everyone is responsible for putting the customer first.

Service excellence is an attitude engrained in everyone at the Post Office. Our customers have to be at the heart of everything we do.

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5. Our People

Our people are our biggest asset. Post Office is nothing without people. They provide the human touch that forms the central part of our vision. It's you and your colleagues who make things happen – for customers, for clients, for each other, and for our business. And it's you who can make great things happen.

We should always ensure we are all delivering the best possible customer experience, while at the same time giving everyone within our business the chance to fulfil their potential and enjoy a varied, challenging and rewarding career.

We need you to take ownership of the part you play, but also work as a team and support your colleagues when they need it. Always put yourselves in your customers' shoes and think about what else you can do to improve their experience. Speak up when you think there is a better way of doing something – don't be afraid to challenge convention and inject new ideas.

We have high standards of personal behaviour and respect of everyone at all times. We create a culture where everyone is able to give their best at all times.

We are open, honest and courteous with each other at all times. We challenge any instances we encounter of bullying, intimidation, harassment, unlawful discrimination or abuse of any kind and we report any instance to our line manager or via the confidential Speak Up support line. We show that such behaviour has no place whatsoever in Post Office.

We do not exploit colleagues for loans, private work or favours of any kind nor abuse others in speech, writing, social media or electronic communications. Our behaviour supports our excellent service to customers, it enhances our reputation. Any behaviour which damages our brand is unacceptable, including lateness, poor attendance, dishonesty, drunkenness, use of illegal substances,violent or disorderly behaviour; and abusive language. Gambling is not permitted at work.

Our appearance at work reflects our brand. We are professional, we are part of the community, we respect our customers and we are easy to do business with.

We value the diversity of our customers and employees and are committed to being inclusive at all times. When it comes to language, the common language of business should be English (English or Welsh in Wales). However, as long as it doesn't jeopardise the job or health and safety and it doesn't deliberately exclude people then workers should be able to speak their own language within reason.

Customers are at the heart of our business and therefore have an expectation of the professionalism of the colleagues at Post Office. We should appear professional in our appearance, therefore we expect people to wear business attire at work. Personal appearance includes ensuring that any ribbons, jewellery or ornaments (including items used in body piercing) and tattoos should not be offensive, a health and safety risk or incompatible with being professional.

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6. Health, Safety and Environment

Everybody has the right to work in a safe and healthy way. We will fulfil our promises without compromising the safety of our customers, employees, suppliers and all those affected by our activities.

We will make healthy and safe working a way of life.

Pursuing this aim reflects the high value we place on our employees and all those touched by our business activities.

- We comply fully with relevant legislation;
- We ensure that the health and safety responsibilities of our employees, including managers, are clearly defined, allocated and understood;
- We encourage and help all managers and employees to carry out their responsibilities through effective health and safety management systems, with safe premises, equipment and processes;
- We improve our employees' capability to manage and work safely, through coaching and training;
- We support and encourage our people and unions to get involved in the health and safety performance of our business;
- We support and encourage our people and unions to get involved in pursuing a healthy and safe way of living and working; and
- We monitor and review how well we put our health and safety policies into practice.

We are all responsible for health and safety. Every manager is accountable for the health and safety of their people.

A full copy of the Health and Safety policy can be found on the Health and Safety intranet site.

Environment

We recognise that our business activities and policies have impacts on the environment. We shall take full account of the environmental effects of our policies in our planning, decision making and day-to-day activities. In particular we aim to reduce our environmental impact through

- Reduction in the use of water;
- Efficient use of energy and a reduction in our CO_2 emissions;
- Reduction in waste to land fill by recycling where possible; and
- The use of sustainable materials.

Everyone has a part to play in reducing our environmental impact.

Note Insert a picture of a CVIT vehicle and a crewman carrying a smoke and dye box

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7. Trust and Security

Millions of transactions are entrusted to us by our customers every day. We handle large volumes of cash and valuable items and we gain information in the course of our business that is confidential to our customers and clients every day, therefore honesty and trust are qualities that our part of our core.

Of course, we must keep the absolute trust of our customers, clients and others we come into contact with. The strength of our company rests on the integrity of our people.

Maintaining our standards means:

- Honesty in handling all items, cash and valuables entrusted to us;
- Correct accounting in all financial transactions and claims, and observance of established business control procedures;
- Safeguarding company property and assets, ensuring that they are not stolen, abused, damaged, or appropriated for personal use;
- Making economic use of resources, avoiding waste and extravagance;
- Ensuring that company funds and property are never used for private purposes;
- Ensuring that company premises and facilities are not abused for unauthorised commercial transactions;
- Safeguarding confidential information against abuse or unauthorised disclosure, and complying with laws protecting personal data, in particular the Data Protection Act 1998;
- Protecting Card Holder Data against unauthorised disclosure in accordance with Payment Card Industry Data Security Standards; and
- Ensuring we are compliant with legislation including, but not limited to, the Financial Services and Markets Act 2000, Road Transport Act 2013, Equality Act 2010 and Private Security Industry Act 2001.

Insert an appropriate picture

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8. Use of Company Property and Expenses

We each have a duty to ensure that reasonable and professional standards are maintained in our work. This includes being watchful against abuse in matters such as claiming expenses and proper use of official stationery and telephones.

Remember that:

- To claim money from the company for hours you did not work, a journey you did not make, or an expense you did not legitimately incur is a criminal offence;
- Using pre-paid envelopes or other official stationery for private purposes is a disciplinary and criminal offence; and
- Making personal phone calls in work time is sometimes unavoidable, but unnecessary, frequent or prolonged personal calls are unacceptable.

All the above are unacceptable and may be treated as gross misconduct, which could result in your dismissal. If theft or fraud is involved, it may well result in prosecution.

Please remember that, as an employee, you also have a duty to declare any criminal conviction, and you must inform your manager if you are arrested and charged with any criminal offence.

Insert an appropriate picture

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9. Use of Computers, Internet, Mobile Phones and Business IT Systems

The work tools we provide to many of our people include computers, mobile phones and a range of mobile equipment such as laptops and tablets. These devices must not be left unattended in public areas, screens must always be locked when not in use and in the office environment, and laptops must be secured using appropriate locking devices when away from the immediate vicinity. The use of privacy screens should be adopted to protect our information from being overseen by unauthorised people. When importing or disseminating documents and/or emails, we must only use our corporate email account or a Post Office approved data transfer system; ensure it is processed using the appropriate method of protection and be satisfied the recipient is authorised to receive our information.

While company policy allows some reasonable personal use of business IT equipment and systems in an employee's own time, it does not permit:

- Use of unauthorised software;
- Unauthorised modification of computer components or other mobile equipment;
- Access to gambling, pornography or other indecent, illegal or offensive material, to include storing and transmission of such content;
- Sending indecent, illegal, offensive, threatening or insulting material, chain or 'spam' emails;
- An unreasonable amount of work time spent on the internet for personal use or sending personal emails; and
- Removal of hardware from Post Office premises without permission.

All of the above are unacceptable and may result in investigation and disciplinary action under the Conduct Code, up to and including dismissal for gross misconduct.

For further advice and guidance please refer to our Policy Set on the intranet or contact Post Office's Information Security and Assurance Group – isag@postoffice.co.uk

Insert a picture of a computer / mobile phone

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10. Social Media

Post Office recognises that many of our people enjoy using social networking sites in their own time. Comments we publish on these sites may reach a surprisingly wide audience, and therefore we must all protect our brand and avoid doing anything that might bring our reputation into disrepute.

Everyone must be aware that information gained about Post Office as a result of your work for the business should never be discussed or shared on social media sites.

Employees must carefully consider any reference to Post Office in their messages and ensure that:

- No information relating to clients, partners or suppliers is published in a personal context;
- Technical, confidential or sensitive information of any nature is not disclosed;
- Copyright and fair usage laws and restrictions are respected;
- Social media is not used to offend or harass people; and
- Post Office brands or logos are not used or altered in any way.

Where an employee is asked to make any comment about Post Office in a published form external to the business, such as newspaper, radio, television or a website, they must direct the request to Communications.

Insert facebook and twitter symbols

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11. Political and Pressure Group Activity

The interests of the company, and those of its customers, must not be compromised by your interest or activity with a political party.

If you are involved in political activities in your own time, you must ensure that they are kept completely separate from your work. There are a few simple rules to remember and keep to:

- Political activity by employees is not permitted at work. This includes any active support of parties, pressure groups, religious sects or other causes;
- Badges, slogans or notices advertising parties or causes must not be displayed while on duty or in uniform, or on company premises, notice boards or vehicles;
- You must not distribute or deliver unauthorised material while you are on duty or in uniform, or allow anyone else to use business services free of charge; and
- Take care not to make any statement or comment to the media on behalf of the company unless you are authorised to do so and have cleared the statement first with the Communications team. This applies whether or not party political issues are involved.

Insert picture of Palace of Westminster

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12. Conflicts of Interest

A conflict of interest occurs when your position within the business means you can make a personal gain or benefit over and above your terms and conditions of employment. We should all make sure that our personal interests do not conflict with the interests of the business, our clients or our customers.

If you feel that you might have a potential conflict of interest please inform your line manager and seek their advice if you are unsure.

Please be open and frank about any outside activity or business you are involved in which may conflict with Post Office or your duties as an employee. The essential principles of conduct are:

- You must not do anything which conflicts with your duty as an employee or agent of the company, or use your official position for private advantage;
- You must declare any outside employment; directorship or material shareholding and these must not be contrary to the company's commercial interests or bring it into disrepute;
- Your actions as an employee or agent must not be improperly influenced by any relationship (e.g. by blood, marriage, partnership or membership of any social, religious or political association) or by any personal or financial consideration. For clarity, no one should exploit their personal or family relationship with any colleague for any gain or differential treatment whatsoever including gain for personal or any other family member's benefit;
- You must not make any statement to the media that brings the company into disrepute;
- If you receive a fee from an outside source for performing a service which forms part of your official duties or takes place in business time, e.g. giving an interview or lecture you must report it to your manager. You will normally be expected to pay the money to the company or to a charity connected with it. If the service arises from your work but is not directly connected with it and is given in your own time, you must still report it to your manager; and
- You must declare to your line manager and HR Services, any outside employment, directorship or material shareholding, and these must not be contrary to the company's commercial interest or bring it into disrepute.

Insert picture of colleague

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13. Gifts and Sponsorship

You must not accept any gift, payment, bribe, favour or inducement that might influence (or appear to influence) your action as an employee. Equally, you must not offer any bribe or inducement to anyone else. If any such offer is made to you, you must report it to your manager.

In general the giving and receiving of gifts is not permitted with the exception of low value promotional items costing under £10 each, such as pens, calendars, diaries, notepads and paperweights.

- In a situation where refusal to give or accept a gift would cause embarrassment or offence, such as when giving or receiving a gift from an overseas postal administration in an official capacity as a representative of Post Office, the gift must not appear lavish or extravagant and should not cost more than £200;
- Before giving any gift costing more than £10 written approval must be obtained from your line manager and forwarded to the Risk & Compliance team at GRO
- If you receive a gift worth more than £10 you must notify your line manager in writing, and forward the details to the Risk & Compliance team at GRO and
- The Risk & Compliance team will maintain a Register of all Gifts given and received.

If in doubt about whether it is proper to accept a gift, please discuss the matter with your manager.

Private arrangements for gifts, discounts or concessions must not be solicited or accepted in connection with any contract for goods or services to which the company is a party.

You must not ask for or accept sporting or charitable sponsorship from an organisation that has (or is seeking) a contract to supply the company, or is in competition with it. You must declare any plan to accept sponsorship to your manager and ask if there is any conflict with company interests.

Note insert picture of a gift (wrapped present?)

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14. Hospitality and Entertainment

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

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

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

Do not provide or accept hospitality or entertainment which, because of its expense or nature, may cause the company embarrassment or bring it into disrepute.

Modest hospitality to other company employees on business occasions is sometimes justifiable, but extravagance must be avoided.

Alcoholic drinks are not permitted at business meetings or on company premises except for authorised social functions out of the working hours of those present.

Use judgement and restraint, and consult your manager if in doubt.

Note Insert picture of a fully laden restaurant dining table or electronic good

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15. Risk Management

We have made a commitment to risk management as an integral part of running the Post Office. Our risk management practices are intended to help you make better informed decisions and to increase the likelihood of meeting our strategic objectives, to achieve customer excellence and to safeguard business interests.

Effective risk management is demonstrated in how we behave and consider risk in everything we do, from decision making to operational management. We encourage people to consider risks, manage them and be transparent about it. This pragmatic approach is set out in the risk management policy and our appetite to risk taking in the POL risk appetite statements. Please contact the central risk team for more information.

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16. Useful Contacts and Links

Grapevine
www.grapevine.co.uk

HR Help Desk
https://portal.royalmailgroup.com/sites/PostOffice/HR/Site Pages/HRAdviceGuidance.aspx

Post Office Policies
https://portal.royalmailgroup.com/sites/PostOffice/inside/Pages/Policies-and-guidelines.aspx

Speak-Up Helpline
GRO

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POST OFFICE LTD GROUP EXECUTIVE

Talent Retention – Managing Flight Risk

1. Purpose

The purpose of this paper is to:

1.1. update the GE on plans to identify and manage flight risks

1.2. gain agreement to the proposed measures and processes to identify key individuals

1.3. ask GE members to take accountability for taking appropriate action to mitigate flight risks where possible with these individuals in their teams

2. Background

2.1. As Business Transformation gathers pace, the organisation will need to pro-actively retain the best talent amongst the senior leadership population to lead and transform the business.

2.2. With the likelihood of a lower bonus payout for 2014/15, and morale and employee engagement likely affected by job losses and organisational structure changes, now is the time to consider what action we should take to ensure we retain the right people.

2.3. Replacing employees is a costly business – costing up to £75k to replace a senior manager when you take into account productivity as well as direct costs.

2.4. Current attrition rates give part of the picture (see graph in appendix 1) – but other key metrics to note are:

- Of the 18 Senior Managers who we placed on a talent programme, 5 have left or are leaving (28%) and 2 have been promoted to SLT (9%) (see appendix 2 for details)
- The SLT has seen churn of 8% over the past year (year ending Dec 2014) – with 40% of these being leavers within the first year.
- FS first year leaver attrition is currently 55%. This is subject to a specific review being led by Sean Leahy in the HR team.

2.5. Engagement has a direct correlation with retention, our intention to stay is heavily influenced by how engaged we are and how valued we feel. The MacLeod report and other engagement research shows what key factors need to be in place to create the conditions for high engagement:

- A strong strategic narrative: We need to create a positive future picture that our people want to be part of. The GE is building this narrative.
- Engaging managers: Feeling trusted and having a good relationship with our manager; feeling stretched and valued. Engagement data will be shared next week and we will be able to clearly see “hot spots”.

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- Organisational integrity: espoused values are reflected in day to day behaviour. The GE development day in early March will enable GE to consider their roles as leaders of change. Are we authentic and empathetic leaders?

3. Principles of our retention strategy

3.1. Key players generally account for about 35% of the overall population[1] – and a retention strategy should find who is both critical (in business terms) and a genuine flight risk from this group. This is normally around 5-10% of the overall population.

3.2. Financial incentives will not motivate and/or retain everyone, so this shouldn't and can't be a purely financial scheme. Furthermore, we have some limitations on salary budgets and we do not have extensive budget to fund retention measures.

3.3. Individuals who are in the DB pension scheme are less likely to be a risk – any additional financial compensation for those who are members of the DB scheme, therefore, should be carefully considered.

3.4. LTIP for SLP provides a longer term mechanism for retention and anything on top of this should be a short-medium term measure. A promise of payment too far into the future will not be attractive, too short term and it will not serve its' purpose.

4. Proposal

4.1. Financial considerations have an impact, but on their own, they are not enough – both financial and non-financial measures should be considered:

4.2. Non-Financial incentives

- **Regular Conversation:** Simply, regular conversations to ensure that an individual understands that they are valued and we want them to be part of the future Post Office. See Appendix 3 for top tips in having conversations with individuals that you wish to retain.

- **Future advocacy:** Give them a role in creating and shaping the future – this could be part of the team designing future OD for their area, part of the visioning team, or a special role to report to the Lead team that provides higher profile for them. What can you do to give talented people more work to do or have greater visibility in your team?

- **Role expansion/project/profile:** Create a role that provides a more challenging remit that satisfies career aspirations and/or provides a stretch opportunity; ensure that they have the best line manager in the team to support their aspirations and to keep them motivated. Are you keeping talent in mind in your wave 2 OD?

- **Flexible work patterns:** Whilst we are all moving to a more agile way of working, flexibility for some can be a key retention tool. It demonstrates trust in action and can make a significant difference and impact for an individual in balancing their work and home commitments. Do you know the working arrangements that suit key individuals in your team? The move to Finsbury Dials is an opportunity to look at this again.

[1] McKinsey Quarterly, Retaining key employees in times of change (2010)

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- **Training/Development:** Ensure that they have a personal development plan, and that we are doing all we can to support their personal development. Whilst we are keeping a close eye on costs, we should still be investing in our future leaders. Do your key individuals have robust Personal Development plans in place?

- **Coach/Development Support:** For SLT, a facilitated session to develop personal development plan with use of a business coach if required. Gabriella Driver can support this also. Are your SLT members ensuring this happens for their key people too?

- **Succession interview:** For most senior talent across SLT, a one to one structured interview with Neil Hayward to determine career aspirations and suitability for succession, covering potential horizontal moves to broaden development.

4.3. Financial incentives

- It is recommended that two primary financial mechanisms are used for the purpose of retention. A discretionary retention bonus or a salary uplift.

- A retention bonus of up to 10% of salary should be the most common option. This would be conditional on remaining in post (and not under notice period) and maintaining a minimum performance rating of 3 at mid and full year.

- For individuals whose salary is low in range/when benchmarked, a salary uplift could also be suitable.

- Decision making for local (within Function) financial retention measures should be agreed with the Director and HRBP, with the Head of Reward signing off as is common practice for salary changes. This provides governance and oversight across the organisation.

- All financial measures will have to be funded within local staff budgets.

- Promotions or changes to job role may also attract a salary uplift, as normal.

4.4. There are two key factors to consider when identifying who is a real retention risk. Both require a judgement to be made.

- What is the **actual likelihood that they may leave**? Considerations here are length of service, personal circumstances and financial package. Financial package should be compared with appropriate Market data
- How **difficult would they be to replace**? The factors here are performance and impact/difficulty to replace (both due to role and current market conditions, and their Post Office knowledge/experience)
- An example matrix is shown in Appendix 4.

4.5. Note that this exercise is distinct and separate from identifying Talent "potential". Those that we put effort into retain may be crucial to today's business as it stands rather than those people who we believe have the future potential to take on greater roles within the organisation.

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5. Identifying flight risks - process

5.1. There is no "one size fits all" approach and each HRBP will be asked to determine the most appropriate process with each Director within agreed timelines.

5.2. Timelines:

1. First discussions take place before April 30.	HRBPs will facilitate a discussion to include focus on Senior managers within the function. This could be, for example; • discussed with the Lead Teams (maybe at the same time as peer comparison sessions) • gathering recommendations from Lead Team members for the discussion A list of individuals who are felt to be both business critical, and a genuine flight risk should be created.
2. Consider and agree actions	HRBPs will review individuals' financial package (and whether or not they are members of DB pension scheme) and review and agree individual measures with Director. Costs should be taken into account and the impact on staff budgets considered.
3. Review by Head of Reward	HRBPs will review any financial proposals with Head of Reward by end of May 2015.
4. Implementation by end of June	Letters for any retention bonus or salary awards will be provided by HR. Guidance for holding conversations will also be provided as there is added complexity given we will be in consultation for Wave 2 concurrently.

5.3. This process, looking specifically at SLT who are flight risks was undertaken with HRBPs and with Director's input over December. The list of identified individuals is provided in Appendix 5 and is provided as a "starter for ten" with a view to being agreed at GE on 7 May as part of the SLT Performance Comparison session.

6. Key Risks/Mitigation

6.1. The timetable coincides with engagement survey cascades; end of year performance review/peer comparison timetable and wave 2 consultation. Senior management attention will be limited. Mitigation: Managing people effectively and retaining talent is a substantial business risk which can only be mitigated if given time to review. This activity should be prioritised and HRBPs will provide support.

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7. Communications Impact

7.1. This needs to be light touch and carefully handled, with personal ownership by members of the Group Executive. Individual conversations will be required, and HRBPs will support Directors through the process.

8. Conclusion

8.1. A robust process, deployed across all functions simultaneously allows us to look at retention risk holistically and agree actions within agreed guidance.

9. Recommendations

The GE is asked to:

9.1. note the update set out above

9.2. agree to the proposed measures, processes and timeline outlined;

9.3. take accountability for taking appropriate measures to mitigate flight risk where possible with these individuals without your teams.

Neil Hayward
March 2015

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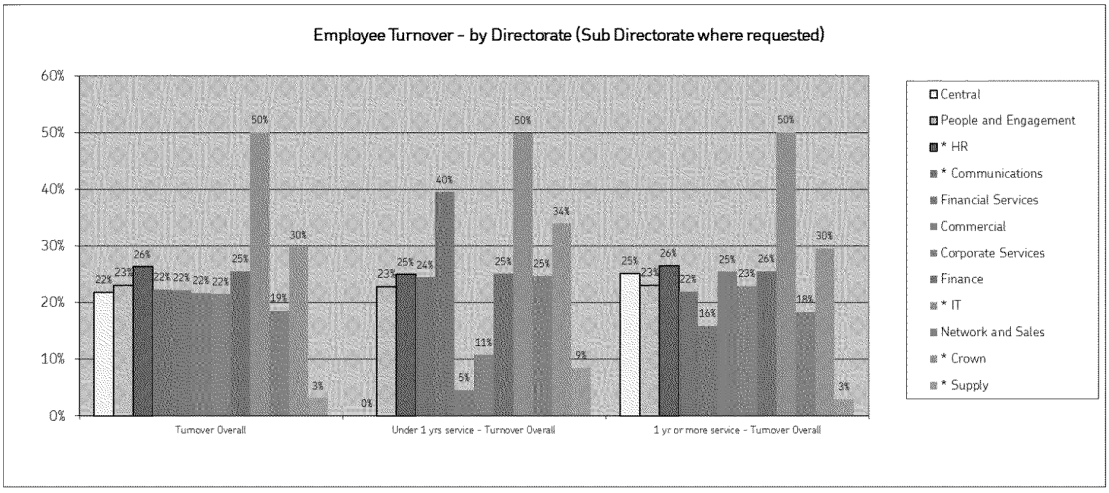
Appendix 1 – Employee Turnover by Function – to year end December 2014



Note: IT appears high as it includes those who have left our employ and TUPE'd to ATOS

Appendix 2 – Participants in the Senior Management Talent Programme

Participant	Status
Joel Davis -Digital Marketing Manager, Commercial	In Post
Rachael Walter - Product Manager, Commercial	Resigned
Chinh Dinh - Product Manager, Commercial	In Post
Vicky Hampshire - Pricing Analyst, Commercial	Resigned
Piero D'Agostino - Lawyer, Legal	Promoted
Rob Pearce - Senior Product Manager, Financial Services	In Post
Jayaan Tank - Senior Development Manager, Financial Services (Savings)	In Post
Antonio Jamasb - Branch IT Service Manager, Strategy (IT)	In Post
Mario Michael - Senior Operations Manager, Strategy (IT)	In Post
Daniel Farber - Commercial Planning Manager, Strategy	In Post
Sophie Bialaszewski - Public Affairs Manager, Communications	Resigned
Pam Heap - Regional Sales Manager, Network	Promoted
Aidan Alston - Talent and Diversity Manager, HR	In Post
Martyn Lewis - HR Strategy & Governance Manager, HR	In Post
Sarah Long - Financial Accounting & Governance Manager, Finance	In Post
Adam Page - Senior Finance Analyst, Finance	Resigned
Robin Gregory - Investment & Benefits Manager, Finance	In Post
Fay Chandler - Senior Procurement Manager, Finance	Resigned

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Appendix 3 – Top Tips for conversations with individuals who are a flight risk

- ***Notice*** if someone in your team is less productive than normal; taking odd, or more frequent sick days; not engaging with the team as normal. Talk to them about it.
- Have ***regular*** 1:1 conversations and ensure that you ask how people are feeling; create the conditions and right atmosphere for meaningful conversations
- Paint a ***positive*** picture of the future, but also recognise that it is tough right now. Remember, the conversation is about them and not you. Remind them about what is special and unique about working here ☺.
- ***Trust*** is a key ingredient in a successful working relationship – make time for people; listen and be supportive but honest. Don't make promises that we can't keep.
- Try to ***address frustrations*** wherever you can – sometimes alleviating frustration can be the difference between someone choosing to stay or not.

Appendix 4 – Example matrix (from McKinsey Quarterly, Retaining key employees in times of change, 2010)

Risk heat map for European industrial company, figures indicate number of employees in category (total = 497)

Based on market demand for employee's skills, latest salary trends, existing competitive offers, family situation, and known preferences and concerns.

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Appendix 5 – SLT retention list

Note this also includes some Band 4 managers who were considered as part of the exercise.

High Risk	
SLP	Harry Clarke
SLP	Henk Van Hulle
SLP	Alison Thompson
SLP	Giles Dunning
SLP	Gavin Lambert
SLP	Martin Edwards
SLP	Jeremy Law
SLP	Pete Markey
SLP	Tom Moran
4	Magnus Schoeman
4	Gabriella Driver
4	Paul White
4	Sarah Long
4	Robin Gregory

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GE & ExCo - Current Actions and Decisions Log

ExCo Meeting 3 July - Actions and Decisions

Significant Litigation

03/07/05	Action 1	Schedule an ExCo discussion on prosecution policy	JM/AL	31st March

ExCo Meeting 16th October - Actions and Decisions

Project Titan

16/10/2014	Action 6	Overlay the Risk Appetite framework and operational risk for POMS. Update 09/12/15 – Preparing the risk appetite for POMS in the context of the risk appetite for Post Office. Update: 12/01/15 - POL Risk Appetite Approach being submitted to POL ARC on 12th January.2015. POMS will develop its Risk Appetite Statement aligned to POL. Update 4/3/2015 – Going to March POMS Board. Action Closed.	NK / JM	CLOSED

ExCo meeting 20th November 2014 – Actions and Decisions

Telecoms

20/11/2014	Action 3	Commercial Committee, including LS, to work up the possible options for the future of the telecoms strategy.	Geoff Smyth / MG/ComCom	12th March
20/11/2014	Action 4	Present the options and a recommendation to the ExCo in early February for discussion and recommendation to the March Board.	Geoff Smyth	12th March

ExCo meeting 16th December 2014 – Actions and Decisions

Period 8 Performance

16/12/2014	Action 1	Paper to ExCo to cover working capital cash management, and the actions to be put in place to ensure tighter control on cashflow.	Martin Edwards	GE on 4th June / Board Away Day

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OD Wave 2

16/12/2014	Action 4	Review the delegated authority levels and any changes needed to align with Waves 1&2 and circulate.	AL/ AC	31st March

POca Call off agreement

16/12/2014	Action 1	Undertake a lessons learned review with the ShEx team	Gavin Lambert	31st March

Risk Framework & Risk Data

16/12/2014	Action 1	Provide a risk scorecard with metrics to measure the risk appetite statements	JM	30th April

Christmas Network Support

16/12/2014	Action 1	Provide a list of people who have not turned up for Network Support, all to follow up and find out why. Update KG: all colleagues within Network & Sales contacted to discuss non-attendance.	KG / All	Completed

ExCo meeting 15th January 2015 – Actions and Decisions

Financial Performance

15/01/2015	Action 10	Provide a paper on State Aid including worst case scenario for discussion at Monday GE	JM	27th February

Mails

15/01/2015	Action 1	Set up Scenario planning and financial modelling for the future Mail strategy and relationship with RM. Clear TOR for the work with the top 3/4 themes and then under each, what questions are we trying to answer to be agreed.	MG	30th June

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Digital

15/01/2015	Action 3	Giles to work with Martin Edwards to produce a Business case and options on how to prioritise and drive opportunities in digital, with an ambitious challenge to increase on-line sales by 4 times	MG / Giles Dunning / Martin Edwards	GE on 12th March

SME

15/01/2015	Action 1	Include SME as part of the March Board, detailed paper required on what needs to be done to deliver the SME offer. Pick up SME at a later GE Meeting.	MG	GE on 12th March and Board on 25th March

ExCo meeting 20th January 2015 – Actions and Decisions

Budget, Operating Plan and Proposed Scorecard

20/01/2015	Action 4	Agenda item for May GE to look at the forward plan for future funding.	Martin Edwards / AC	GE on 7th May & Board Awayday

SLT Event

20/01/2015	Action 1	Timetable and agenda for SLT Events for the next year to be discussed at GE On Agenda for 12th Feb GE	NH	16th April Closed

New Group Executive (GE) Current Actions and Decisions

GE on 12th February 2015

Resourcing update – Talent Attraction

12/02/2015	Action 2	Include frontline retention (especially FS) and any geographical issues (e.g. London) in the GE slot on retention.	NH	16th April

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12/02/2015	Action 3	Consider graduate proposition, and how we build relationships with universities; the timing of the graduate recruitment. To include in the Board paper.	NH	7th May

SLT Events – Communications Calendar

12/02/2015	Action 1	Mark Davies to review the Teamtalk proposal to consider: • messages for different audiences; • the different purpose and outcomes required; • how they align with the channels which already exist in network and supply chain; how they align with SLT briefings; • how they could be supported by visibility (GE & SLT?); • the metrics by which we would measure. As part of the analysis go out to SLT to ask if Teamtalk is working for them, if they use it to update their teams, and if not why not. To return to GE for further debate. MD update: review in progress and to return to GE for further debate	Mark Davies / NH	GE on 16th April
12/02/2015	Action 2	MD to discuss proposed changes to operational comms with Angela VDB, to ensure they align with the Branch Improvements planned. MD update: *in discussions with Angela*	Mark Davies / Angela Van Den Bogerd	31st March
12/02/2015	Action 3	SLT Events – produce a paper for GE on the purpose and expected outcomes from SLT events. And the planned themes and agenda items for the year ahead. MD update: *in discussions with Gabriella Driver who is producing a paper focussing on development days*	Mark Davies / Gabriella Driver	GE on 16th April

POMS

12/02/2015	Action 2	Ensure the POMs process and meetings are included in the POL business planning. Update 03/03/15: Will be included once finalised.	AC	On-going
12/02/2015	Action 3	POMs performance to be included in the GE POL reporting pack. Update 03/03/15: Will be included in the P11 pack.	AC	On-going
12/02/2015	Action 5	POMS MDA included an commercial agreement on services provided by POL to be charged at a margin. Report back to GE when the margin is agreed. Update 03/03/15: In hand – the likely structure will be a mark-up on costs.	AC	On-going
12/02/2015	Action 6	Circulate POMS Articles and Board TOR to GE for information	AL	27th February
12/02/2015	Action 7	Provide a document explaining the timelines for establishing POMS including Board sign off. Update 4/3/15: POMS established FCA Authorisation 'minded to approve'. Implementation target date 1 May.	NK	20th March

POL00151514

12/02/2015	Action 8	The impact on POL of investment decisions taken by POMS to be discussed at GE	AC	On-going
12/02/2015	Action 9	Push ahead with preparing the NED nominations for CFO & GC ready for presenting after receipt of the MtA letter from the FCA (POMS matter). Update 4/3/15: Submissions occurring early March	NK/AL	27th February
12/02/2015	Action 10	NK and JM to discuss risk management if MtA letter is delayed (POMS matter). Update 4/3/15: Letter received. Action CLOSED.	NK/JM	CLOSED
12/02/2015	Action 11	Provide a table setting out how the Governance processes between POL and POMS will work. Update 4/3/15: See POMS governance paper table to GE Feb '15 and Titan Board Paper. Action CLOSED.	NK/JM	CLOSED

Branch Support Process (BSP)

12/02/2015	Action 2	Establish what resources, knowledge, capability (name individuals if appropriate) are needed to understand what could be done to accelerate branch improvements. To enable a strategic view on branch support aligned with the business transformation. Particular areas of focus: • Case management tool • What does good look like for the roll out of Front Office/Horizon replacement? • What can we put in place now/what learning can we use to support the transition from today to Horizon replacement roll-out • Are there any things we could simplify now to make the front office change easier	Angela Van Den Bogerd / DR	31st March

Second Sight Thematic Report

12/02/2015	Action 1	Consider how we should test the contract managers engagement with sub postmasters to see if new approach is working	Angela Van Den Bogerd	30th April
12/02/2015	Action 2	PV & JM to go through the Sparrow criminal cases	PV/JM	31st March
12/02/2015	Action 3	Circulate the Board Sparrow Committee paper to the GE	AL	16th February

SLT Events

12/02/2015	Action 1	It was agreed that the 'IT challenge' and 'embedding the risk culture into the Business' would be both be good items for future SLT agendas *Update: Items will be noted when building future agendas.* *MD update: updating GE at 16 April meeting*	Mark Davies / NH	GE on 16th April

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POST OFFICE LTD GROUP EXECUTIVE

Cyber Security and Information Assurance Update

1. Purpose

The purpose of this paper is to:

1.1. inform Group Executive of the response to the Board questions following the Cyber Security Briefing by Tony Smith, a representative from the Centre for the Protection of the National Infrastructure (CPNI);

1.2. provide Group Executive with an update relating to the risks of Cyber Security and Information Assurance (CS & IA) and the management of those risks.

2. Overview/Executive Summary

On the 28th January 2015 Tony Smith a Deputy Director from the Centre of the Protection of the National Infrastructure (CPNI) raised a series of questions at a Board briefing regarding CS & IA, these are specifically responded to in Appendix A, as are the CPNI 20 Questions in Appendix B.

This paper provides the Board and the Group Executive with a regular update on CS & IA and provides an overview of risks relating to legal, contractual and regulatory obligations. However it is recommended that future papers begin their journey at Risk and Compliance Committee for transition to Audit, Risk and Compliance, with a Board paper being produced annually.

3. Obligations around Information

- We have legal obligations to protect 'personal data' under the Data Protection Act (DPA) (which are being enhanced under new EU regulations) and the sanctions for breach (reputational and fines) are material (a more detailed list is set out in Appendix C);

- We have contractual obligations to various suppliers (including the government and others e.g DVLA, POca, Bank of Ireland, Aviva etc to meet various 'security standards', and a breach of these contractual standards would also carry material costs (damages, rectification etc) and reputational damage, as well as possibly preventing us from contracting with those parties in future - which would be substantially detrimental to our business model;

- There is other 'information' which we hold (e.g relating to the financial performance /status of the business) which we value and therefore need to develop our risk appetite which will define the level of protection appropriate to protect that data in accordance with our risk appetite.

The agreed risk appetite for each risk will determine the level of protection required to mitigate that risk, as well as defining the applicable risk/reward relationship. Where management of these risks are delegated from a Group Executive to an SLT member or other staff member, the scope of that delegation must be well-defined and applied consistently.

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4. Information Security Activities

4.1. Risks, Incidents and Breaches

There are currently seven active incidents. Of these, 71% relate to the alleged incorrect handling of personal data, it is important to note that although these incidents have increased over the last year, to date, no complaint to the Information Commissioner has been upheld. This is largely due to the fact that we have an accessible audit trail of Information Security and Data Protection training, policies and processes.

4.2. Supplier Meetings

The Information Security Management Forum (ISMF) process was created to manage the relationship between Post Office and its key suppliers. The meetings are formally recorded and involve ISAG validating their understanding and compliance to our CS & IA risk appetite.

4.3. Cyber Security Standards and Memberships

- CBEST

  CBEST [1] is the first initiative of its type. Working alongside the Bank of England, "CREST[2]" has developed a framework to deliver controlled, bespoke, intelligence led cyber security tests.

- CiSP and CERT-UK

  We are now receiving regular information and updates from the Cyber-Security Information Sharing Partnership (CiSP)[3], part of the UK National Computer Emergency Response Team (CERT-UK).

- Cyber Essentials

  Cyber Essentials is a government-backed, industry supported scheme to help organisations protect themselves against common cyber-attacks.

4.5 Cyber Security Profession

ISAG continue to participate in external speaking events, forums and associated workshops. We are heavily involved in the PCI Council (Payment Card Industry) and sit on the PCI-ISAG (Information Security and Assurance Group) committee that was formed to shape the way forward in terms of cyber security. The PCI Council is also responsible for the development of the new CBEST financial requirements.

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[1] Intelligence - Cyber Bank of England Security Testing Standard
[2] CREST is a not for profit UK organisation that serves the needs of a technical information security market-place that requires the services of a regulated professional services industry.
[3] CiSP is part of UK National Computer Emergency Response Team (CERT-UK), is a joint industry and Government initiative to increase overall situational awareness of the threat environment and therefore reduce the impact on UK interests.

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We are also on the steering group for the e-Skills council for the development of the cyber security profession.

5 Regulatory Development

5.1 General Data Protection Regulation and Cyber Security Directive

The proposed new European Union (EU) data protection regime seeks to support Data Protection legislation by providing a consistent framework and to make it easier for non-EU countries to comply with the harmonised regulations. Sanctions for a breach of the new Regulations could include a fine of up to 100million Euro or up to 5% of a corporation's worldwide turnover.

The Network and Information Security Directive has been accepted by member states and is likely to be adopted this year, this is likely to enforce the reporting of Cyber breaches to a centralised HMG function.

6 Current Engagement

6.1 Technical and Security Operation Initiatives

ISAG continue to work on clear separation of 1st and 2nd Line Defence activities. The remit of an IT security operational function is 1st Line of Defence, supported by Atos Operational Security resources, and is being worked through with the support of the Director of IT and Operations.

6.2 Sparrow Support

ISAG support is being provided in the provision of evidence for forensic analysis; collation of information on system security and integrity; and in discovery of evidence in support of Post Office position on the investigations to date.

6.3 Project and Change

ISAG have created an Information Security business impact and risk process that includes Data Protection and Payment Card Industry requirements and this is being aligned with the new Transformation activities.

Further work has also been completed to simplify the process with the development of workflows and guidance documents. The documents have been shared with Risk and Compliance for alignment.

6.4 ISAG will be working with the business to identify Information Security Champions within each area. The role of the Information Security Champions is to be the main point of contact for ISAG and to forward the understanding of risk for any updates or changes that may need to be communicated to the business. Training and regular updates will be provided to all Information Security Champions in 2015. We will work with our Corporate Risk colleagues to ensure we join up this process where applicable.

6.5 2015/2016 CSIA Training and Awareness

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We are in the process of reviewing last year's CBT (Computer Based Training) and intend to ensure, for 2015/2016 that it is compatible with devices such as tablets.

The Information Security and Data Protection e-learning annual training module for 2014/2015 was completed by 97% of colleagues which is an industry leading result. The proposed Information Security Champions programme will ensure each area completes their training in a much more effective way than is currently being undertaken by ISAG.

Information Security and Data Protection Workbooks are also in process of being developed to provide an alternative media for the parts of the business without Internet access.

6.6 ISAG has been involved in the development of Information Security requirements for Post Office subsidiaries such as Post Office Money Services (POMS). ISAG will be responsible for the delivery of strategic and tactical Information Security/Data Protection requirements (including resourcing) for POMS. ISAG will use the POMS process as a template for any further subsidiary support requirements.

7 Recommendations

The Group Executive Team is asked to:

7.1 Note the update set out above and approve the transition of the Paper to the Board on 31^{sh} March 2015.

7.2 Underpin the work of ISAG by providing visible support/communications on the importance of protecting our information. Emphasising that Cyber/Information Security is essential in managing risk to our business, that designated SLT attend the Information Security Committee and training is mandatory for all colleagues.

Name of sponsor: Jane McLeod
04/03/2015

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Appendix A

Cyber Security Discussion – Tony Smith , 28th January 2015

Whilst particular questions were asked that the Board felt where particularly pertinent to the Head of Information Security and Assurance, a response to the discussion paper in its entirety has been provided. This will join up the work that is undertaken by ISAG across the business for the Boards information.

Tony Smith recommended the Board ask itself the following questions:

Identify what matters to the Business

- What is critical
- **Where is it – where is what? Perhaps 'status' or something would be more appropriate.**
- How many copies
- Who has access
- Who might be interested in getting or damaging it
- How much do I care
- Can't protect everything

What is critical?

ISAG consider information in any form (people, data/information, technology, media, and location) as a business asset, as such it is identified, categorised and is part of an on-going assurance and risk assessment management and mitigation programme.

The Governance Risk and Compliance tool has been populated with Group Executive's and Senior Leadership Team's view of the information that they felt was key to their area of business.

This information is categorised in terms of importance to the business, using industry 'good practice' requirements of Confidentiality, Integrity and Availability and a dynamic (Cyber Risks change all the time) Threat/Risk profile completed for all identified critical environments. For example strategic planning documents and financial management information are categorised as at least "Confidential". Protocols to protect classes of documents have been developed for each security categorisation.

It is generally the case in other corporations/organisations that Risk and Business Continuity and Disaster Recovery (BC/DR) use a 'cut' of the same information to highlight a list of all critical systems, importance to the company and their location, currently this is not the case, although ISAG work closely with Risk and Audit, business areas.

ISAG have set up and aligned Post Office's Information Security Management System on a foundation of ISO27001 (International Information Security Management System – often referred to as 'the Information Security Standard'. The advantages of doing this means that by complying (and certifying for part of the business) to this 'standard' we also align to the recommendations of centre for the Protection of the National Infrastructure (CPNI) and majority of other good/best practice Information Security standards across a variety of industries (see Appendix C):

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ISAG have developed a 'House Position' for Procurement requirements and for Contracts, which passes on our business requirements to all third parties. We then engage with major suppliers, and those that are measured as higher than usual risk, due to the nature of our information in their care; to discuss and assure their risk position and incidents and breaches that may affect our business. We also 'sample' other suppliers and undertake information Assurance Audits and 'penetration tests'/vulnerability assessments on their technology where appropriate.

Our supplier/partners often undertake 'Audits' on Post Offices Information Security Management System (ISMS) (i.e. how we look after our data and theirs). We have not had any major issues with any third party audits and some have commented on the quality of our ISMS.

Our industry 'good/best practice' aligned policies and training provide an auditable record of our information security ethos and our Business Impact Assessments (BIA) have been accepted and are embedded within the 'Change' community. These are often an advantage when dealing with third-parties.

Customer Data

The loss of, or/and the potentially significant unauthorised access to customer data will attract both reputational damage/financial penalties

ISAG are undertaking various Privacy reviews on contracts projects and suppliers and are planning for the expected revision of Data Protection Regulations

Behaviours of the business (and in some cases our partners) doesn't always reflect how important correct handling of personal data is. 70-80% of our incidents relate to incorrect handling. All known incidents, whether within Post Office or within our supply chain, are followed up through to closure and 'lessons learnt' incorporated in our business as usual activities or where we are contractually able, our suppliers.

Cyber Security technology is recommended based on our risk assessment – Threats, Vulnerability Impact and also likelihood, recognising that Cyber risks are on the increase, especially in the personal data and financial industries. Nevertheless these solutions are not a universal control and cultural change towards Information Security remains fundamental.

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The Board posed the additional questions:	**Response:**
Do staff understand why important?	A new programme to introduce Cyber/Information Security Champions in each business area is being introduced to reinforce the messages.
Do we measure/track?	Completion of training is tracked through Orbit but mainly the analysis is undertaken manually. Using specialist Cyber/Information Security professionals to undertake this work is not efficient, but it is essential, ISAG are looking for a more automated process, which is less of an administrative burden.
Have we set the culture?	It would greatly enhance the take up and culture of our business's Information Security posture for the Board and GE to communicate their support for ISAG and their remit of protecting the organisations information.
Defence against / spear fishing?	Information Security communications have previously been regularly published on the Intranet for colleague awareness. Our third-party suppliers are actively engaged to support through technical means.
What is in the public domain about the business?	Increased visibility via advertisements and media coverage on products and services. Adverse publicity regarding Mediation activities. Potential for authorised use of Social Media by the Network in order to increase sales which may lead to adverse comments, damaging reputation. Communications monitor such publicity.
Cyber: • Gain entry, may target human being 'firstBuild fences, but then monitor fences • People looking for the things that matter	Training and HR are key to ensuring we employ the right people. Their induction into the business must include IS/DP training (it is within Networks) and when they move or leave, system access is changed accordingly. Our people are both the biggest risk and the greatest asset to our business. Separation from RMG will give our business more autonomy to better protect our information through improved services and better contractual requirements.
Supply Chain – Outsourcing • Same security expected from suppliers • Tool – **Cyber Essentials** • Critical controls – e.g. access control	ISAG have developed a 'House Position' which incorporates all the 'good practice requirements' detailed in the first part of this response.

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• Can apply for accreditation • Are your suppliers cyber essentials compliant	
Human Sources – Care • Especially travelling • Advice : do not take IT with you (laptop) • Eyes open • (Cyber – barrier to entry is low)	Information Security and Data Protection Handbook and eLearning address these points, however there are plans in place to provide a 'handbook' with 'tops tips'.

The Board also raised the following which are being considered and will be the subject of further updates:

- Which organisations like us are on top of this e.g. HMRC?
- Board members top tips
- What does good look like
- How do we measure security culture
- Cultural question – embedded – there to support
- Should iPads be wiped of Board papers after the meeting?
- Emails – cross polluting – risk based judgement

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Appendix B

CPNI 20 Questions and Response

CPNI 20 Cyber Questions
General Statement: **ISAG have the right to undertake Assurance measures on all third parties and we also have established regular Information Security Management Forums with all major suppliers to ensure risks are managed appropriately. Further ISAG have made recommendations to the Technology Office for Cyber Information Security requirements to address new/forthcoming regulations including a Security Incident and Event Management (SIEM) facility, and Data Loss Prevention (DLP). £15m has been earmarked to address these requirements in the Technology Strategy/Roadmap.**
Response for Question 1 – 8 and 10 - 20 **This is covered in our requirements and contracts under the Tower procurements. All suppliers are required to meet this control and governance processes in place for monitoring its effectiveness. Adherence to ISO27001 and relevant regulations/standards is also required of suppliers; which establishes industry best practice. The provision of appropriate capabilities to meet the businesses current and future needs has also been written into contracts.**
Response for Question 9 **A comprehensive programme is in place within Post Office including professional development, awareness and training. Similar requirements and enshrined in our contracts with tower suppliers, monitored through ISO27001 based governance structures.** **Any incident or breach is followed up with further training where necessary.** **Information Security skills are maintained and developed.**
1 - Inventory of Authorised and Unauthorised Devices Actively manage (inventory, track, and correct) all hardware devices on the network so that only authorised devices are given access, and unauthorised and unmanaged devices are found and prevented from gaining access.
2 - Inventory of Authorised and Unauthorised Software Actively manage (inventory, track and correct) all software on the network so that only authorised software is installed and can execute and that unauthorised and unmanaged software is found and prevented from installation or execution.

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3 - Secure Configurations for Hardware and Software on Mobile Devices, Laptops, Workstations and Servers Establish, implement and actively manage (track, reporting, correct) the security configuration of laptops, servers and workstations using a rigorous configuration management and change control process in order to prevent attackers from exploiting vulnerable services and settings.
4 - Continuous Vulnerability Assessment and Remediation Continuously acquire, assess and take action on new information in order to identify vulnerabilities, remediate and minimise the window of opportunity for attackers.
5 - Malware Defences Control the installation, spread and execution of malicious code at multiple points in the enterprise, while optimizing the use of automation to enable rapid updating of defence, data gathering and corrective action.
6 - Application Software Security Manage the security lifecycle of all in house developed and acquired software in order to prevent, detect and correct security weaknesses.
7 - Wireless Access Control The processes and tools used to track/control/prevent/correct the security use of wireless local area networks (LANS), access points and wireless client systems.
8 - Data Recovery Capability The processes and tools used to properly back up critical information with a proven methodology for timely recovery of it.
9 - Security Skills Assessment and Appropriate Training to Fill Gaps For all functional roles in the organization prioritising those mission critical to the business and its security), identify the specific knowledge, skills and abilities needed to support defence of the enterprise; develop and execute an integrated plan to assess, identify gaps and remediate through policy, organizational planning, training and awareness programs.
10 - Secure Configurations for Network Devices such as Firewalls, Routers and Switches Establish, implement and actively manage (track, report on, correct) the security configuration of network infrastructure devices using a rigorous configuration management and change control process in order to prevent attackers from exploiting vulnerable services and settings.
11 - Limitation and Control of Network Ports, Protocols and Services Manage (track/control/correct) the ongoing operational use of ports, protocols and services on networked devices in order to minimize windows of vulnerability available to attackers.

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12 - Controlled Use of Administrative Privileges The processes and tools used to track/control/prevent/correct the use, assignment and configuration of administrative privileges on computers, networks and applications.
13 - Boundary Defence Detect/prevent/correct the flow of information transferring networks of different trust levels with a focus on security damaging data.
14 - Maintenance, Monitoring and Analysis of Audit Logs Collect, manage and analyse audit logs of events that could help detect, understand or recover from an attack.
15 - Control Access Based on the Need to Know The processes and tools used to track/control/prevent/correct secure access to critical assets (e.g., information, resources, and systems) according to the formal determination of which persons, computers and applications have a need and right to access these critical assets based on an approved classification.
16 - Account Monitoring and Control Actively manage the lifecycle of system and application accounts, their creation, use, dormancy, deletion in order to minimize opportunities for attackers to leverage them.
17 - Data Protection The processes and tools used to prevent data exfiltration, mitigate the effects of exfiltrated data and ensure the privacy and integrity of sensitive information.
18 - Incident Response and Management Protect the organisation's information, as well as its reputation, by developing and implementing an incident response infrastructure (e.g., plans, defined roles, training, communications, management oversight) for quickly discovering an attack and then effectively containing the damage, eradicating the attacker's presence, and restoring the integrity of the network and systems.
19 - Secure Network Engineering Make security an inherent attribute of the enterprise by specifying, designing, and building in features that allow high confidence systems operations while denying or minimising opportunities for attackers.
20 - Penetration Tests and Red Team Exercises Test the overall strength of an organisation's defences (the technology, the processes, and the people) by simulating the objectives and actions of an attacker.

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Appendix C

CS & IA related Legal, Regulatory and Contractual Requirements

The laws, regulations and good/best practice standards that we are obliged to comply with and/or we use to protect our information are used across all industries in UK as well as by global corporations and are built on the foundation of measuring risk include, but aren't limited to:

- Relevant Laws:
  - Data Protection Act 1998 – DPA – currently being enhanced by new EU Regulations
  - Human Rights Act 1998
  - Computer Misuse Act 1990
  - Regulation of Investigatory Powers (RIPA) Act 2000
  - EU Network and Information Security Directive – planned to be adopted by member states 2015
- Regulations and Standards:
  - Payment Card Industry Data Security Standard (PCI/DSS) – current Level 1 Certification in place;
  - Sarbanes Oxley – 404;
  - Basel 4 – Information Security aspects;
  - Prudential Regulatory Authority (PRA) – Information Security Aspects;
  - Financial Services Authority – Information Security Aspects;
  - HMG Security Policy Framework;
  - International Standards (ISO's) in Risk, Information Security, Business Continuity, Disaster Recovery, Service Management;
  - HMG Cyber Security Essentials;

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POST OFFICE LTD GROUP EXECUTIVE

Health & Safety Report

1. Purpose

The purpose of this paper is to:

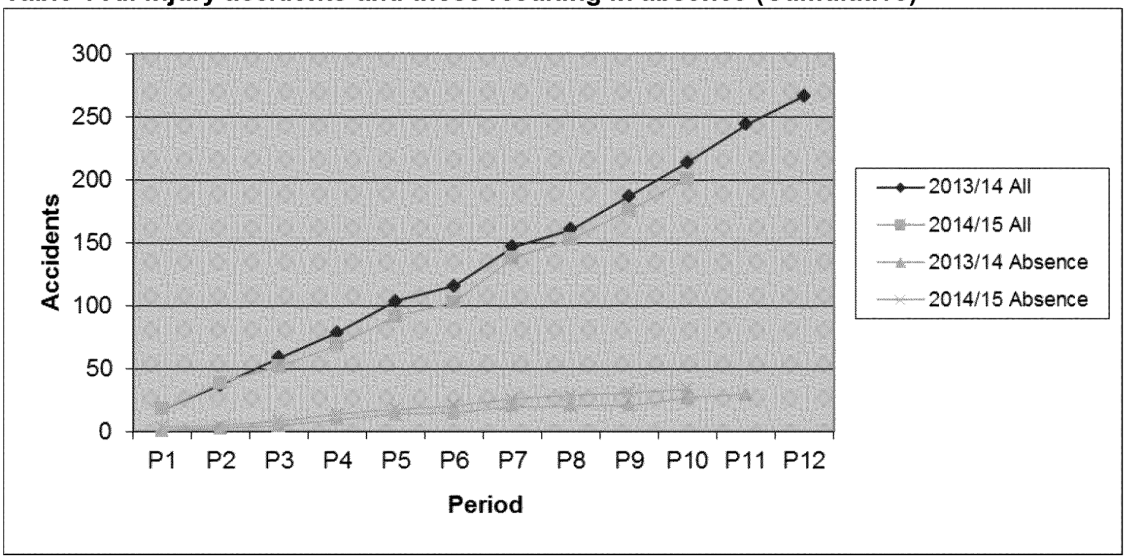
1.1 Provide an update on safety performance.
1.2 Outline risk reduction activities.

2. Current Situation

2.1 The majority of accidents fall into three main categories lifting and handling, stepping and striking and outdoor falls. These are higher frequency events with, in the majority, relatively low severity. The lower frequency types of incident can carry the potential for very high impact, for example, assaults and road traffic collisions.

2.2 Performance during the past 10 months of 2014/15 indicates that the 5% reduction target in absence accidents will not be achieved. This needs to be considered in the context of the overall low number of absence accidents and the adverse impact that an additional one or two absence accidents per month has on the overall performance. The severity of those accidents, measured by the number of days lost, indicates that while volume has increased, severity has significantly decreased with days lost from accidents well ahead of the target reduction of 5%. The reduction of all injury accident incidents is currently on target for a 5% reduction at year end.

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



2.3 Personal injury compensation claims have fallen significantly in line with the reduction in accidents that result in sick absence. Comparison with a similar retail organisation indicates that the Post Office claim rate is significantly lower in both public and employer's liability and of those claims the 'denial' or 'defence' rate is significantly higher. The general level of claims is recognised by the insurers as extremely low both in volume and value. The insurance year runs from October to September.

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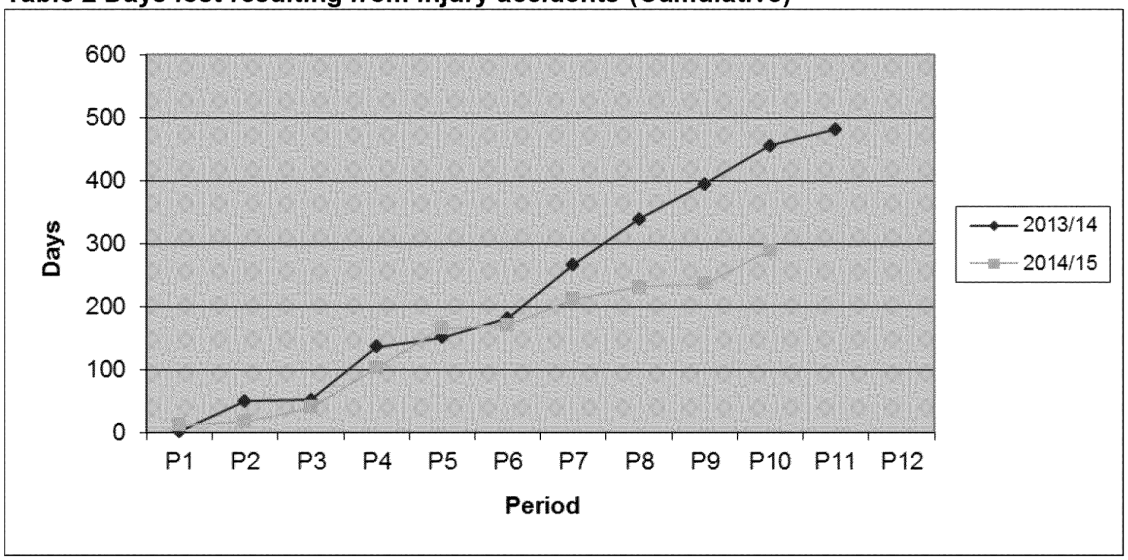
UW Year	Policy Class	Claim Count	Total Paid	Recoveries	Open Reserves	Gross Incurred	Net Incurred
2012	Employers' Liability	7	£25,482	£0	£19,710	£45,192	£45,192
	General Liability	17	£43,026	£0	£111,635	£154,661	£154,661
	Total	24	£68,509	£0	£131,344	£199,853	£199,853
2013	Employers' Liability	7	£9,878	£0	£67,463	£77,341	£77,341
	General Liability	16	£16,646	£0	£84,067	£100,713	£100,713
	Total	23	£26,524	£0	£151,530	£178,054	£178,054
2014	Employers' Liability	1	£0	£0	£81,000	£81,000	£81,000
	General Liability	2	£0	£0	£0	£0	£0
	Total	3	£0	£0	£81,000	£81,000	£81,000
Total	Total	50	£95,033	£0	£363,874	£458,907	£458,907

Note: Employers' liability – employees. General liability – customers.

2.4 The number of days lost due to accidents is currently well ahead of target and forecast to outturn ahead of the 5% reduction target. (Table 2 below refers)

Table 2 Days lost resulting from injury accidents (Cumulative)



2.5 The total number of road traffic collisions (RTCs) for the past 10 months is up 39 on last year. While this is of concern it is believed that there continues to be a more robust approach to the reporting of incidents, irrespective of severity, and what appears to be an increase in minor damage incidents e.g. broken mirrors and minor scrapes The number of incidents where the Post Office driver is 'at fault' is also up compared to last year and accounts for 54.5% of the incidents. (Table 3 refers) Road risk reduction opportunities continue to be the subject of analysis at the Road Risk Forum with a view to identifying improvement activities in addition to those already in place. (3.1 below) Reversing incidents remain a cause for concern and will be the subject of additional attention. Injuries as a result of road traffic collisions are extremely infrequent and road traffic collisions account for less than 3% of the overall number of injury accidents, however they have the potential for high impact in terms of injury and loss. Currently the majority of incidents involve low speed – less than 25mph.

There was however a serious road traffic incident involving a Post Office vehicle on 6th February as a result of which the 3rd party died. Indications are that the 3rd party, who had been reported as driving erratically, was on the wrong side of the road (overtaking) at the time of the collision. The Post Office

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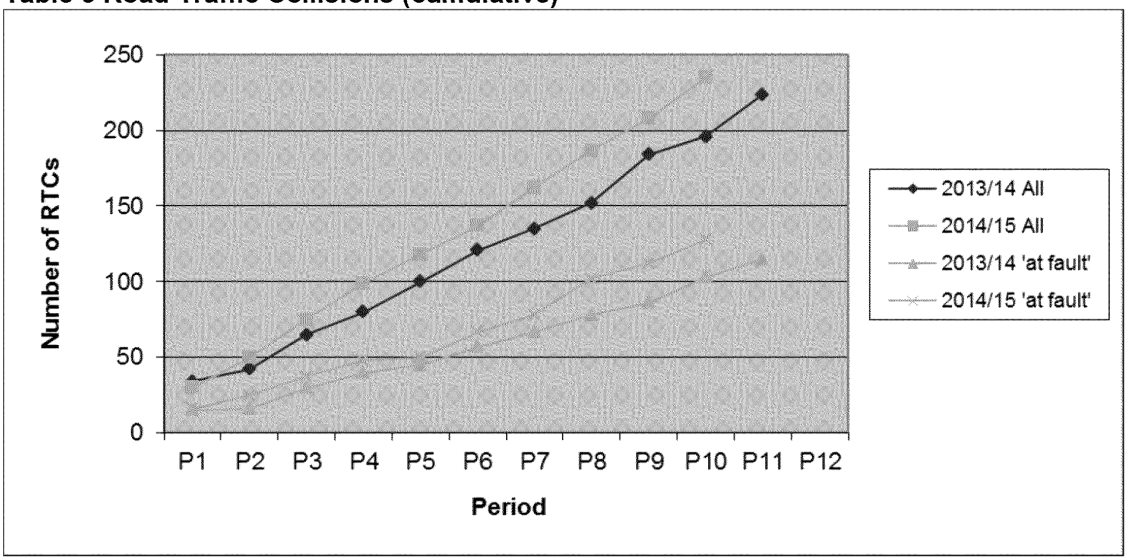
driver received non-life threatening injuries which required hospital treatment and is being supported via line management and occupational health interventions. Post Office insurers have been notified of the incident.

Governance of all three areas of vehicle use – commercial, business car and private vehicle – is being tightened to mitigate the associated risks.

Table 3 Road Traffic Collisions (cumulative)



2.6 Robberies involving Post Office Cash and Valuables in Transit (CViT) crews are down 5 on last year from 33 to 28 for the past 10 months. Physical injuries during robberies, of which there have been 9, 1 less than last year for the same period, remain relatively minor in severity. The level of use of firearms remains consistent with last year with 5 of the 28 robberies (17.8%) enabled by the presence and/or threat of use of fire arms. There has been one occasion where the fire arms were discharged (into the ceiling). Support for those affected by robberies is provided by trained trauma supporters and professional support resources available through the occupational health service provision. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers). Following discussions at the Group Executive H&S sub-committee the robbery risk assessment and the business' approach to body armour is now the subject of a formal 3 monthly review.

2.7 Robberies and attempted robberies on the Post Office network, up to and including P10, are up 4 on last year to 94 of which 55.3% were successful. Injuries sustained during robberies are down from 17 to 14. Robberies take place predominantly at sub post offices leaving Crown branches largely unaffected. Supporting activities have been introduced to continue to mitigate the robbery risk and are identified at 3.2. (Appendix 1 – Significant Incidents refers).

3. Activities

3.1 Road Risk

Current longer term activities to mitigate road risk are:

- Road risk forum in place to scope and develop road risk reduction initiatives and activities supported by the risk management division of our insurers

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- Analysis and deployment of interventions for reversing incidents to mitigate the increased incidence rates, including yard assessments and technical accident reduction interventions on new vehicles e.g. Reversing aids to reduce accidents
- Analysis and evaluation of data including risk profiling to identify drivers who need additional support and to determine further generic accident reduction interventions
- Safe driver of the year award to encourage and reward responsible driving
- Weekly case conferences to ensure consistent approach to accident investigation, follow up activity and sharing of good practice
- Programme of driving and road risk communications to raise awareness of current and emerging risks
- On site coaching to improve slow manoeuvring skills e.g. reversing

3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

- Active liaison activities with the police to understand 'at risk' areas and to deploy surveillance teams
- Increased use of 'advertising' on vehicles of new deterrent technologies e.g. DNA taggant – a solution that contains a unique identifier that is released automatically in the event of a robbery, spraying those involved and enabling identification of the individuals involved in the robberies
- Trialling new point of transfer arrangements to reduce exposure at Post Office counters - the majority of robberies take place at the point of transfer which in Post Office's is the counter where there is ready public access. The new arrangements allow for the cross pavement protection box to be emptied / filled in a secure location.
- Significant reduction in opportunities for duress type robberies linked to the introduction of single person vehicles – single person vehicles eliminate the opportunities for Supply Chain employee duress type incidents which historically have been the most violent and likely to involve injury.

3.3 Health and Wellbeing

Healthcare interventions:

- Second programme of visits to Crown branches, Supply Chain units and Admin offices to offer health checks using equipment that provides a wide range of indicators on physical wellbeing. The anonymised data is used to develop future health and wellbeing campaigns and target interventions.
- The programme of visits is supported by an online 'Wellbeing Zone' health check tool as a 'self- help' option
- Ongoing campaign of communications to promote a range of different wellbeing issues
- Wellbeing events to promote general health, exercise and dietary initiatives
- Attendance levels are at 96.5% which compares very favourably with the public sector and relatively favourably with the private sector
- Mental health - A programme of activity has been running for the past 9 months to raise awareness of mental health conditions and the support available to those affected and those supporting them. Mental health conditions remain the single most common cause of longer term absence however related monthly absence (days lost) is down from a peak of 2274 in P5 to 2185 in P10 and occurrences are down from 121 in P5 to 106 in P10.

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3.4 Safety

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

4. Residual Risks

4.1 Driving activities have the potential for high impact/loss and therefore remain as a significant residual risk. However, the actions identified in 3.1 above are aimed at mitigating that risk and improving performance.

5. Recommendation

The Group Executive is asked to:

5.1 Note the overall safety performance
5.2 Note the risk reduction activities.
5.3 Note the residual risks

Neil Hayward
March 2015

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Appendix 1

Significant Incidents (Period 10)				
Crowns and Network				
Location	**Loss**	**Circumstances**	**Physical Injuries**	**Any further details**
Blyton outreach, Blyton Parish Council Office, Blyton, Gainsborough DN21 3LA	£5,000	Tue 6/1/15 9:30. Male armed with a knife entered the office and took cash. (Core branch Epworth 498311).	Nil	One previous incident robbery Jan 2010.
Beech Road SPSO, 12 Beech Road, St Albans, AL3 5AS	£27,000	Mon 19/01/2015 5:39 - Supervisor had the safe open to take out the till and stamps. Two masked men forced their way in and held supervisor at knifepoint. He was pushed to the floor and has cuts & bruises. Cash taken. Phone ripped out, the alarm was activated.	Cuts and bruises	No previous incidents
Supply Chain				
Location	**Loss**	**Circumstances**	**Physical Injuries**	**Any further details**
Mill Lane, 41a Mill Lane, London, NW6 1NB	£26,000	Wed 28/01/2015 10:15 -Crew member was at the counter when 2 males were waiting in the queue in the post office once she opened the Ibox the pouches were snatched 1 cash pouch and 1 stock pouch 2 males made off on foot. No weapons were seen..	Nil	No previous incidents

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March 2015

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

PART (A) – CIVIL LITIGATION

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
Horizon claims (aka "Project Sparrow")	Rodric Williams	Belinda Crowe / Angela van den Bogerd	Post Office has received various claims from subpostmasters (SPMs) alleging defects in the Horizon system and POL's internal processes. These allegations were initially made in 5 claims brought through solicitors Shoosmiths. Similar allegations have been made by the "Justice for Subpostmasters Alliance" (JFSA) and advanced through SPMs' MPs. Following discussions with James Arbuthnot MP and JFSA, independent investigator Second Sight Support Services Ltd (Second Sight) was appointed in July 2012 to carry out a review into these allegations. On 08.07.13, Second Sight published a Report finding shortcomings in Post Office's internal training and support to SPMs on the Horizon system, but no systemic problems with Horizon itself. Following the Second Sight Report, on 27.08.13 Post Office launched a Mediation Scheme (Scheme) aimed at resolving individual complaints made about Horizon.	This matter is the subject of separate updates to senior management and the Board. The Scheme received 150 applications, which have been progressed under the direction of a Working Group comprising retired Court of Appeal Judge Sir Anthony Hooper (as Chair), Post Office, Second Sight, and JFSA. 80 cases are still being progressed through the Scheme. On 03.03.15 the Board approved a course of action by which Post Office would presume to mediate all non-criminal cases within the Scheme, the Working Group would be closed, and the current engagement with Second Sight would be terminated. Post Office's project team is acting in accordance with the Board's direction. To date, no claim has been made against Post Office in the civil courts, and no appeal has been made against any conviction in the criminal courts, following Second Sight's Report. Post Office is however in	Bond Dickinson

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				correspondence with the Criminal Cases Review Commission about its past prosecution practices. There has also been significant media and political activity concerning the Scheme, which is likely to continue in the immediate future. Post Office's Communications team is fully engaged on this activity.	
Employment	Nisha Marwaha	Colin Stretch	**Legal Privilege**	**Legal Privilege**	Eversheds

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				Legal Privilege	
Employment	POL/NM	Colin Stretch	Legal Privilege	Legal Privilege	Weightmans

PART (B) – CRIMINAL LITIGATION

PROSECUTION POLICY
Post Office is in the process of finalising a new prosecution policy drafted by former First Senior Treasury Counsel Brian Altman QC.

PROSECUTION CASES
Post Office is not currently pursuing any live prosecutions in England and Wales, although there are 5 cases being dealt with by the national prosecutors in each of Scotland and Northern Ireland. A number of security investigations are being reviewed as to whether a prosecution could be commenced (supported by an independent expert report on the Horizon branch accounting system if appropriate - see below).

EXPERT REPORT

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Steps continue to be taken to determine the basis on which Imperial College London may be able to provide expert evidence to support prosecutions which involve data obtained from the Horizon system.

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POST OFFICE LTD GROUP EXECUTIVE

Post Office Pensions - Update

1. Purpose

The purpose of this paper is to:

1.1 Update the Group Executive on the defined benefit, Royal Mail Pension Plan (RMPP) and the proposed new defined contribution Group Personal Pension, Post Office Pensions Plan (POPP).

2. Royal Mail Pension Plan (RMPP) - Background

2.1. Following the transfer of RMPP liabilities to the Royal Mail Statutory Pension Scheme (RMSPS) and HMG in 2012, Post Office became responsible for the funding of its own section of the RMPP.

2.2. As part of the agreement of the transfer, it was agreed to retain the link between the RMSPS and final salary for Post Office employees still in employment. It was agreed to set future increases at RPI + 1%. It was further agreed that HMG would fund this link and £178m was left in the Post Office section of the RMPP.

2.3. At the valuation on 31 March 2012, the Trustee of the RMPP utilised the same assumptions used by the Government Actuaries Department (GAD) when they valued the liabilities that were transferred to HMG.

2.4. Based upon these assumptions the employer contribution rates and the investment strategies were set for both Royal Mail and Post Office by the Trustee. The employer contribution rate proposed was 30.1% of pensionable pay (compared with 17.1% which was being paid at the time). It was felt that this higher rate was not economically viable and would put the future of the RMPP in jeopardy.

2.5. Royal Mail and Post Office examined ways to limit their contributions to the RMPP whilst providing a degree of certainty for the future of the RMPP. It was agreed with the Trustee to limit Pensionable Pay increases to RPI (to a maximum of 5%) regardless of any pay increase an employee would receive from 1 April 2014 onwards.

2.6. By capping future Pensionable Pay increases it was agreed that the contribution rate would remain at 17.1%. However, it needs to be understood that the economic rate the Company should still be paying is 30.1%. The gap of 13% was subsidised by the assets in the fund. This was possible due to the money left by HMG to fund the pensionable salary link at a rate of RPI +1%. The removal of the 1% created a surplus that would be drawn down over time. It was projected at the time that, if the assumptions and investment returns were realised, the RMPP would cross-over into a deficit position by 2021. Prior to this point, Post Office would have to consider the future of its section of the RMPP.

3. RMPP - Current Situation

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3.1 Following an update from the Trustee at the last Pensions Committee (December 2014), it was highlighted that Post Office might want to consider its position and support of the RMPP as it was estimated that the deficit crossover point could be between March 2018 and late 2019 and not 2021.

3.2 RMPP Financial position as at 30 November 2014 (position at 31 December 2014 will be available end of February 2015):

	Gilts basis ABO 31 August 2014 (estimated)	**Gilts basis ABO 30 November 2014 (estimated)**
Liabilities	£176.6m	£209.3m
Assets	£302.4m	£333.6m
Surplus/(Deficit)	£125.8m	£124.3m
Funding Level	171%	159%
Effective nominal discount rate	3.0%	2.7%
Effective real discount rate	-0.4%	-0.6%

• The surplus position has remained largely unchanged over the period, with assets increasing by c£31m and liabilities increasing by c£33m.

• The positions include the effect of the April 2012 salary increases assumed in the 2012 actuarial valuation basis (3.5% base increase plus an allowance for promotional salary increase), as well as the promotional salary increases from 2013 onwards assumed as part of the 2012 actuarial valuation.

• The gilt basis ABO measure shown here uses demographic assumptions from the 2012 actuarial valuation basis, market gilt yields and RPI inflation rates. The RPI/CPI differential is also from the 2012 valuation basis. LPI rates are Mercer defined.

• The figures exclude an expense allowance.

3.3 The major contributor to the increase in the liabilities is the significantly reduced returns in UK government bond yields. Since March 2012 the 20 year UK government bonds yield has dropped from circa 3.5% to circa 2.3% in September 2014 (source Bank of England).

The impact of this has been significantly to increase the cost associated with accruing pension benefits in the RMPP, as they are measured with reference to UK government bonds.

The POL section has a hedging programme in place, however this currently only extends to benefits accrued to 31 December 2015, and benefits accrued after this date remain subject to market movements.

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The Trustee will be taking the current situation with UK government bonds into consideration when they determine the assumptions to be used in the valuation due on 31 March 2015.

4. RMPP – Next steps

4.1. Post Office will begin dialogue with the Trustee and its advisers with regards to the assumptions that will be used to determine the liabilities of the Post Office section of the RMPP. The first meeting is scheduled for March 2015.

4.2. Post Office will not know the full extent of the financial implications of the valuation until September 2015 when the initial results will be available. In the meantime, all possible scenarios will be examined ranging from not doing anything to closing the RMPP to future accrual. Possible actions will be presented to the Group Executive in April 2015.

4.3. A risk profile for the different scenarios will need to be completed, and other areas of risk will need to be highlighted ie industrial relations and the financial risk to the business.

4.4. Royal Mail Group faces a similar situation concerning this issue. A joint approach might lessen the IR risk.

5. New Group Personal Pension (Project Nemo) – Update

5.1. The name of the new pension arrangement will be Post Office Pension Plan (POPP).

5.2. A 60 day consultation with all employees affected by the change began on 23 December 2014 and ended on 23 February 2015. We considered the feedback from employees and the Unions before making a final decision to proceed with the POPP. Unite was broadly positive and this view was echoed in correspondence to members. Their main issue concerned the governance of POPP.

5.3. As part of the consideration we met with the Unions to gain their support and discuss any issues they still may have. We addressed the situation surrounding the governance of the new pension scheme and provided them with the feedback from employees. It was agreed in principle to the formation of a joint Post Office and Unions governance group. The terms of reference have been discussed but still need to be finalised between Post office and the Unions. Based upon the formation of the joint Governance Group, both Unions provided their support for Post Office's proposal to set up a new Defined Contribution pension scheme to replace the Royal Mail Defined Contribution Scheme. It was further agreed to issue a joint statement between the Unions and Post Office demonstrating Union support for the proposal.

5.4. The implementation of POPP is proceeding, system changes are in an advanced stage, with this project being given preference over other HR SAP changes.

5.5. It has been agreed with Zurich to provide presentations to employees joining POPP, these presentations will take place in London and Bolton. It has also been agreed to provide presentations to the Union representatives from CWU

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and Unite. These reps will that have the necessary information to answer questions from their members.

5.6. The Trustee of the Royal Mail Defined Contribution Plan (RMDCP) and Royal Mail has agreed to allow current Post Office members of the RMDCP with less than 3 months' pensionable service to take a full transfer of their "pension pot" to POPP instead of the usual refund of the members own contributions.

5.7. Formal notification will be provided to Royal Mail, informing them that Post Office will cease to participate in the RMDCP from 1 April 2015, will be issued by 10 March 2015.

6. Recommendations

The Group Executive/Executive Team is asked to:

6.1. Note the update and actions proposed in respect of the RMPP set out above; and

6.2. Note the outcome of the consultation for Project Nemo and the fact that this project is currently on track as intended.

Neil Hayward
March 2015