

Post Office Limited – Strictly Confidential

**POST OFFICE LTD BOARD MEETING (Company Number 2154540)****Meeting to be held at 09.00 on 23 January 2013  
at 148 Old Street, London, EC1V 9HQ in the Board Room**

1	Network Transformation/ Crown Transformation Progress and Crown Pay Proposals	Kevin Gilliland
2	Digital strategy: results of Javelin report	Martin Moran/Sue Barton
	<b>BREAK</b>	
3	Update on cost reduction and business efficiencies	Chris Day (with Sue Barton)
4	Financial Performance Update, including Q3 results and full year forecast	Chris Day
5	Chief Executive's Report	Paula Vennells
	<b>LUNCH</b>	
6	Minutes of Previous Meeting and matters arising  Minutes for noting: ARC, Pensions Committee, Remuneration Committee	Alice Perkins
7	Corporate governance review	Alwen Lyons
8	Any Other Business:	Alice Perkins
9	<b>Items for Noting</b>	
	<ul style="list-style-type: none"> <li>• Mails update including collections and returns</li> <li>• Significant Litigation Report</li> <li>• Sealings</li> </ul>	Martin Moran Alwen Lyons Alwen Lyons
	<b>BREAK</b>	
	<b>MUTUALISATION SUB COMMITTEE</b>	Please see separate agenda
	Present: Alice Perkins (Chairman) Neil McCausland (SID) Tim Franklin (NED) Virginia Holmes (NED) Alasdair Marnoch (NED) Susannah Storey (NED) Paula Vennells (CEO) Chris Day (CFO) Alwen Lyons (Company Secretary)	In Attendance:  Kevin Gilliland (item 1) Sue Barton (items 2 and 3) Martin Moran (item 2)
	<b>CLOSE</b>	

**Strictly Confidential****POST OFFICE LTD BOARD****Update on Network Transformation Programme****1. Purpose**

1.1 The purpose of this paper is to update the Post Office Ltd Board on progress against the current financial year target for the Network Transformation Programme.

**2. Progress against this year's target – and confidence statement**

2.1 An update was issued to the Board on 18<sup>th</sup> December. The last page of this report shows the latest report at the 11<sup>th</sup> January.

2.2 Progress has been maintained for the last four weeks, although in a limited way as expected over the Christmas period. Overall, the programme is in line with the minimum targets for mid-January. Our position has therefore not changed from the 18<sup>th</sup> December: the programme believes that the 1200 target is still possible.

2.3 Progress against the 11<sup>th</sup> January targets:

- 5 out of 5 targets met for independent agents
- 3 out of 4 targets met for new applicants
- 2 out of 4 targets met for multiples
- 3 out of 3 summary targets met.

2.4 There are three key risks. The first remains that independent agents will not sign contracts according to our timetable. In particular, some agents will be unwilling to sign until sure of the schedule and cost of their building works – yet this relies on agents' ability to secure their own building contractors. We have strengthened our field-based efforts to help agents obtain quotes, while encouraging agents to sign contracts before every last detail has been confirmed.

2.5 The second major risk concerns our multiple partners' behaviour over contracts. To simplify the process and try to eliminate delays in reviewing each individual contract, we are negotiating framework agreements with each partner. These are supplemented by a simple preface and appendix for each converting branch. Once the framework agreement is in place, it will speed up the process to secure contract signatures for each branch. McColls have just signed the framework agreement, so we are confident it should be acceptable to our partners. Through January, however, we will likely receive fewer multiple contract signatures than planned while the framework agreements are finalised. There is no reason why we should not catch up in February and March, but we are behind the target we set.

2.6 The third risk area relates to new applicants. Although leavers are a key part of our approach, they are very time-consuming conversions as we are bringing new operators into the Post Office. This year we are focusing on 115 branches with single applicants already confirmed as interested. Despite this, we are reliant on them moving ahead to our timetable and passing the application process. This group has moved into consultation in line with plan, but they are not submitting their applications and business plans as quickly as hoped. We have strengthened the field-based support and guidance for new applicants but are also planning for how any shortfall below 100 would be made up from independent conversions and/or multiples.

**Strictly Confidential****3. Handling the physical implementation volume through Q4**

3.1 In the November board meeting the Chairman requested that the later stages of the conversion process should be stress-tested to ensure that prospective failure points were identified and mitigated. This has been addressed from two aspects:

- Capacity testing of internal Post Office implementation processes
- Capacity analysis of suppliers.

3.2 Internal Post Office processes that have not previously been subjected to high volumes have been modelled to identify capacity failure points and, where possible, subjected to capacity testing to validate the likelihood of failure at peak order volume. Capacity testing has been carried out by passing high volume test orders through the existing teams to analyse performance under pressure and both the quantity and quality of the outputs. This activity identified two key potential points of failure:

- The property scheduling/ admin teams and the equipment team are not resourced up to accommodate our peak target of 70 branches per week
- The number of issues with equipment and services orders is higher than in business-as-usual, putting further pressure on existing resource. Diagnosis has identified the root cause as a lack of Post Office-specific experience of the project managers from our property supplier, RLB, who are responsible for placing the orders. Training sessions have been completed to address this issue, followed up by ongoing support.

3.3 Resourcing is under way for an additional 14 temporary administrative staff to cover the peak period this quarter across the property and equipment teams.

3.4 An engagement session was held with senior members of key suppliers in December to demonstrate the arrival of orders at high volumes in Q4 and confirm suppliers' commitment to deliver against our plan. An approach to evaluating their capacity and the constraints within their areas of the supply chain was agreed. Scenario testing has been taking place through January with all key suppliers. Outputs to date include:

- Through transparent run-through of processes and resourcing, suppliers have demonstrated capacity to meet a demand of between 70-80 orders per week with a daily peak of 15-20 orders when considering more complex mains branches
- Stock levels of signage have been built to a level which will satisfy the full 1200 target for this financial year
- Management information is now being shared with suppliers on a weekly basis to provide them with greater visibility of upcoming order volumes.

**4. Planning for years two and three**

4.1 We are aware the Board asked for a year 2/3 projection. We have modelled the effect on the programme of the latest forecasts of the mix and distribution of Post Office income. Further information will be shared at the Board strategy meeting on the 17<sup>th</sup>.

**5. Action for the Board**

5.1 The Post Office Ltd Board is requested to note the progress of the programme towards its first year target.

**Kevin Gilliland**  
**16<sup>th</sup> January 2013**

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NT Summary Report 11<sup>th</sup> January

NT programme progress since October baseline

Independents	Actuals		Targets				RAG
	9th Nov	11th Jan	By 11th Jan	By end Jan	By end Feb	By end Mar	
Scoped	650	1153	885	1000	1150		Significantly ahead of minimum target.
Financial assessments received	375	625	605	690	800		Target met. 40 received since last update.
Financial assessments approved	260	547	490	550	640		Target met. 80 approved since last update.
Passed to Property	70	489	400	550	640		Target met.
Contract signed	50	262	200	290	430	556	Target met. 91 signed since last update.
<b>New applicants for leavers</b>							
Visited	200	444	260				Significantly ahead of minimum target.
Scoped	200	253	240				Scopings not on critical path for new applicants due to length of consultation period. Included for completeness.
Moved into consultation	0	98	91	115			Target met. 6 since last update.
Passed to Property	0	0	20	75	80	100	Behind target as applications not arriving as quickly as planned. Passing to property not itself on the critical path to contract signature.
Contract signed	0	0	0	0	50	100	Contracts signed dependent on progress through application. 32 applications now received, with 11 at interview stage - this is behind plan but with time to catch up.
<b>Multiples</b>							
Scoped	135	419	350				Scopings continue as partners put forward further branches for consideration.
Partner confirmation to proceed	30	196	195	260			Target met. 40 received since last update.
Passed to Property	30	168	180	260			Behind target but not on critical path for multiple partners as contracts signed independently of physical implementation process.
Contract signed	0	48	55	100	180	260	Minimum target not met. 31 further contracts signed, but Jan targets will likely be missed as most individual contracts follow agreement to a framework contract. Full target still achievable.

NT programme progress towards 1200 target

Main and local branches open at mid-Oct	284	284	284	284	284	284	The table below adds 284 onto all totals to reflect the branches open at the time of the 12-Oct baseline.
<b>Summary</b>							
Scoped	1269	2109	1759	1874	2024	2024	Significantly ahead of target. 255 completed since last update.
Permission to proceed*	689	1203	1175	1349	1459	1459	Targets met for all three conversion types. 84 since last update.
Contracts signed	334	594	539	674	944	1200	Target met. 122 contracts signed since last update.

\*Agent gives a good indicator of commitment: independent financial assessment received; multiple partner written confirmation to proceed; leaver and new applicant give permission for public consultation.

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**POST OFFICE LTD BOARD****Update on the Crown Transformation Programme (CTP) – January 2013****1. Purpose and summary**

- 1.1 This paper provides an update to the Post Office Ltd (POL) Board on the CTP. It focuses on the increased shortfall in income identified through the recent budgeting round and the proposed response to it. It also addresses the two Crown Transformation Programme (CTP) actions agreed at the previous Board meeting in November 2012.<sup>1</sup>

**2. Background**

- 2.1 The funding agreement with the Government requires Post Office to ensure the Crown Network is breaking even by April 2015. The CTP will achieve this through: additional income generation; staff cost reductions; reduced property costs; and divestment of 50-70 of the worst performing branches.

**3. Current situation**

- 3.1 The CTP will meet its target of improving the Crown P&L to a c£40m loss for 2012/13. However, despite having a clear path to achieving better than forecast cost reductions, the budgeting round for 2013-15 indicates the risk to the programme has now increased markedly to c£9m (from a previous estimate of £5m). This is primarily a result of further reductions in projected income, particularly for Front Office of Government.
- 3.2 It is important to note that whilst the c£9m benefits shortfall is subject to change, as the current budgeting round will not complete until March 2013, it is unlikely to be significantly reduced. We are therefore highlighting this increased risk and our proposed response to it.

**4. Our proposed response**

- 4.1 To address the gap in benefits we propose to enact 'Plan B'. This involves implementing cost-cutting measures which are more radical than existing planned activity. Elements of these measures have been noted in previous Board updates and are all set out in Section 5.
- 4.2 Delivering the additional staff productivity savings elements of 'Plan B' requires the support and buy in of our colleagues in the Crown network and the unions. Our franchising programme would also be at increased risk without union agreement. Colleagues and unions will expect recognition for their support in the form of a consolidated pay deal. However, the size of the shortfall precludes Post Office from meeting union demands for such a deal.
- 4.3 As we are highly dependent on colleagues and unions understanding the challenge and working with us to solve it, we propose instead to offer the unions a deal providing unconsolidated transformational payments conditional upon securing their assistance and support in delivering the CTP. As part of the agreement Post Office would give a guarantee of not franchising more than 70 branches in the life of the programme. The detail of the proposed offer and conditions is referred to at Section 6 and set out in full in the 'Pay Approach for Crown Network 2012/13' paper submitted to the January 2013 Board.

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<sup>1</sup> POLB12/118 (h) "KG was asked to plan for both scenarios in terms of closing the potential gap for Crown profitability, with clear trigger points for switching to the more radical solution." and POLB12/118 (i) "The Business would carry out risk assessments (re profit gap) for each Crown workstream, highlighting sensitivities and milestones which might trigger a move to plan B (to be available for the January Board)"

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- 4.4 Union agreement to the full 'Plan B' would help to de-risk c£12m of recurring savings in return for a one-off investment of £17m, providing a return on investment by the end of the programme. Industrial action is highly likely if we cannot reach an agreement. This would put those savings at risk.
- 4.5 Industrial action may still occur as a result of the staff perception that Post Office tends to capitulate after industrial action. A reasonable pay offer on the table, supported by a robust communications plan, will help mitigate the scale of the industrial action, retain the co-operation of staff and reduce the impact on savings.
- 4.6 Additional franchising would be the only remaining option to exercise. Aside from the difficulties in effecting the additional franchising, the increased benefits from it are limited. The programme would remain inherently high risk in either event.

**5. Plan B activity and risks**

- 5.1 'Plan B' involves more radical cost-cutting than previously planned. It will bring the plan to a break-even position through implementing the components listed below.
- 5.2 People: An additional £7m has been identified from the following:
- Delivering an additional 75 FTE saving from automation, over and above the 345 FTE envisaged in the original plan, would generate an additional £2m pa. The Post and Go pilots suggest that this can be achieved without damaging customer service;
  - Reducing branch management numbers by a further 75 FTE which would realise savings of £3m pa above the original plan;
  - Introducing a new, lower starting salary for counter colleagues would save £0.5m pa if introduced from 2013/14;
  - Introducing a new operational role in branch so counter colleagues can focus on sales and lower-skilled, non-customer facing duties can be transferred to an entry-level grade. Based on the current churn rate of 5.4%, this could realise a saving of £0.5m pa; and
  - Increasing the proportion of flexible, part-time contracts by recruiting new staff and agreeing new working arrangements could save £1.0m pa, eg. through less overtime.

If we do not secure union and colleague agreement, then a proportion of these savings are at risk, mitigated by the success of our staff communications and a reasonable pay offer.

- 5.3 Property: The lease on 148 Old Street expires in May 2015. We could use the office space within Crown branches in Greater London to accommodate staff currently based at 148 Old Street. This would enable Post Office to avoid leasing a large Head Office building but more importantly allow the Crown branches to offset around £1m of property costs. We do not believe this is at risk if we are unable to secure union agreement, although taking forward some future property-related activity such as mergers could be more difficult.
- 5.4 Product: We can expect an additional £2.5m income from Financial Services by driving strong sales performance through targeted conversations, cross-selling and up-selling. A proportion of this may be at risk if we do not secure support from the unions.
- 5.5 Divestment: Franchising 62 branches to realise c£8m of recurring savings remains a key element of the plan. We do not need union agreement for this, but there is a risk that the more franchising we embark upon the greater the likelihood unions could gain support for industrial action and reduce the staff cooperation. Furthermore, we may be unable to secure franchise partners within the programme timescales for those branches where divestment is

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identified as the preferred outcome. This is being mitigated by recruiting and strengthening the franchising team to conduct market testing and to explore potential partners' appetite ahead of a formal selection process.

- 5.6 This consideration, and the need to provide certainty and consistency to our colleagues, means we propose to stick to our original plan and commit to franchising no more than 70 branches as part of the CTP.
- 5.7 The table below summarises: the initial projections for the CTP; the latest view of benefits based on the budget round; the impact of 'Plan B' (assuming we have union agreement); and an assessment of the risk if we do not secure union and staff agreement and are unable to achieve all the planned franchising. Cost savings (people, property and divestment) are £3m higher in the latest view than the initial plan. This is offset significantly by a £11m reduction in projected product (income) growth.

**Table 1: Projections for Crown Transformation savings and income growth**

	Initial Plan – Mar 2012 (£m)	Latest View - budget round (£m)	If 'Plan B' projections are realised (assuming union agreement) (£m)	If no union and staff agreement (£m)
People	12	13	20	13
Property	4	3	4	4
Product	18	7	10	7
Divestment	6	9	8**	6
Other*	1	-1	-1	-1
<b>TOTAL</b>	<b>40</b>	<b>31</b>	<b>41</b>	<b>29</b>
<b>Target</b>	<b>40</b>	<b>40</b>	<b>40</b>	<b>40</b>
<b>GAP</b>	<b>--</b>	<b>-9</b>	<b>1</b>	<b>-11***</b>

\*'Other' includes reduction in Gamma income from original Bank of Ireland deal, offset by business wide efficiencies.

\*\* Benefit from divestment would be reduced if income increased as savings are based on total losses per branch franchised. Additional product (income) in this scenario would mean less total loss from those branches franchised.

\*\*\* c£12m of proposed Plan B savings at risk if no union and staff agreement but c£1m additional property savings could still be achieved.

- 5.8 Securing union agreement would allow 'Plan B' to progress and help bring the Crown network to break-even. If we do not secure union agreement we will be faced with a c£11m shortfall. This could, in principle, be addressed by franchising more branches. However, we believe the number of branches able to be franchised is constrained by two factors:
- Limited branch property lease breaks or expiries occurring before March 2015; and
  - The commercial consequence if we were seen to 'flood the market'.
- 5.9 Franchising additional branches would limit our ability to realise other savings e.g. with a smaller Crown network we would have fewer branches to deliver income growth and to realise staff savings pro rata. For example, current budget projections show that franchising 100 rather than 62 branches (a 61% increase) would only increase total savings by c£2m to c£11m (a 22% increase) due to these diminishing returns.

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**6. Proposed Pay Deal**

- 6.1 Pay discussions regarding employees working in the Crown network have been on-going with CWU and Unite CMA for a number of months. We have been trying to engage with unions in a more collaborative way to get them to understand and jointly own the challenge. The CWU has submitted a formal pay claim for fully consolidated and pensionable pay increases and also wants a commitment that we will not undertake any franchising. Unite CMA has also submitted a claim for a 1 year consolidated pay rise of 3.5%.
- 6.2 The CWU has stated that it will ballot members for industrial action if pay is still unresolved at the end of January 2013. Please refer to the 'Pay Approach' paper for full details.

**7. Recommendations**

- 7.1 The Board is asked to endorse the proposed approach of:
- Enacting 'Plan B' in order to realise further savings to the Crown P&L; and
  - Seeking a pay deal with unions which will offer unconsolidated transformational payments in return for union and colleague support to the full range of CTP activity.

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**POST OFFICE LTD BOARD**

**Pay Approach for Crown network 2012/13 – 2015/16 & Middle Managers**

**1. Purpose**

The purpose of this paper is to seek approval of:

- 1.1 A pay approach to engage the support and co-operation of the unions and Crown colleagues and managers in delivering the transformational change required as part Crown Transformation Programme (CTP) plan enabling the Crowns to get to profit by April 2015.
- 1.2 A pay approach for non-Crown middle managers.
- 1.3 Request for funding of £21.5m to facilitate the delivery of the Crown Transformation Programme made up of £17m over 3 years 12/13 – 14/15 for unconsolidated transformational change payments and c£4.5m for a consolidated pay agreement in year 4.

**2. Background**

- 2.1 Pay discussions have been on-going with the unions, CWU and Unite CMA for a number of months in respect of a pay agreement for employees working within the Crown network. The agreed pay review dates are 1st April 2012 for CWU Crown employees; 1st June 2012 for Middle Managers; 1st July 2012 for Senior Managers (not under a collective agreement but traditionally there has been a read across from the middle managers).
- 2.2 The discussions to date have been difficult as they have been in the context of the Crown losses in 2011/12 of £46m and the need to close this gap and break even by March 2015. The unions have been working closely with us and have supported significant change this year, resulting in savings of c£8m in staff costs achieved through improved ways of working and voluntary redundancy.
- 2.3 Both unions support the principle of a profitable Crown network and have actively supported our plans this year to improve the Crown P&L. This co-operation has been given in the expectation of agreeing a pay deal this year.
- 2.4 We have publicly acknowledged the co-operation of the unions and our Crown colleagues and managers in reducing the losses this year and we have said that we are keen to recognise their contribution in a way that doesn't make the task of achieving break-even even harder.
- 2.5 CWU has submitted a 2 year pay claim for a 3.5% fully consolidated and pensionable pay increase from 1 April 2012 and a further 3.3% fully consolidated and pensionable pay increase from 1 April 2013. If this level of pay rise were to be applied to CWU and Unite CMA - represented grades in Crowns, this would equate to c£23m for a 3 year deal and have a c£11.5m adverse impact on the Crown P&L over this period.

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- 2.6 Unite CMA has submitted a 1 year pay claim for a 3.5% consolidated pay rise in respect of middle managers in Crowns and the rest of the business.
- 2.7 CWU has stated that if pay is unresolved by January 2013 they will ballot their members for industrial action.

### 3. Recent POL and RMG Pay Agreements

- 3.1 Despite separation from Royal Mail the trade unions continue to pursue a read across approach to RMG and therefore their expectation is aligned to recent pay agreements.
- 3.2 CWU - represented grades in POL (Supply Chain and Admin functions), Royal Mail and Parcelforce have all received a 3.5% consolidated pay rise this year. This is the benchmark that CWU is using to justify their pay claim. Furthermore, as a result of different pay agreements over the years, the counter colleague salary is now c£2k less than the equivalent grade in Supply Chain.

### 4. General External Market Pay Overview

- 4.1 The external pay market has seen median salary increases of 2.0 – 2.5% in the UK in the last 6 months, pay freezes in public and private sectors and Treasury guidelines of 2 years pay freeze followed by 2 years of 1% average increase.
- 4.2 The unions' driver for their pay claim and expectation is what has already been agreed in POL and RMG for their respective members rather than what has happened in the external pay market. So, whilst £21.5 million is a large sum of money, the unions claim this is a pay cut as it erodes the value of the base salary.

### 5. Current Situation

- 5.1 The POL budgeting round for 2013-15 indicates the risk to the programme has now increased to c£9m (from a previous estimate of £5m). This is primarily a result of further reductions in projected income, particularly for Government Services. To address the resultant c£9m gap in benefits the CTP proposal is to implement more radical cost-cutting measures (Plan B) than existing planned activity. These measures have been noted in Board CTP updates and are set out in Appendix B.
- 5.2 Delivering the additional savings in 'Plan B' relating to staff productivity requires the support and buy in of our colleagues and managers in the Crown network and the unions. Crown colleagues, managers and unions will expect recognition for their support in the form of a consolidated pay deal. The size of the shortfall, however, precludes POL from meeting union demands for such a deal.
- 5.3 With the £9m gap in benefits we are now dependent on our Crown people and unions to understand the challenge and work with us to solve it. We propose therefore to offer the unions a deal providing unconsolidated transformational payments conditional upon securing their assistance and support in delivering the CTP. As part of the agreement POL would give a guarantee on the size of the network.

**Strictly Confidential****6. Proposal**

## Crown Colleagues and Crown Managers

- 6.1 Our proposed approach is to break with the past and develop a different way of rewarding and incentivising colleagues in line with mutualisation and shared ownership principles. This will be difficult for our unions as this is a radical departure from previous pay deals; we have not previously done a deal that is wholly conditional on meeting business targets and involves extremely unpalatable elements for the unions such as franchising and unconsolidated payments.
- 6.2 We want to change what has gone before and demonstrate that we want to work together in a shared problem approach and not seek to negotiate a lower settlement but offer a credible deal upfront rather than as we have in previous years negotiated for a number of weeks; put our final offer on the table; the unions have balloted members for industrial action (IA); unions have got a yes to IA vote; at this point we've either met their demands to avoid a strike or when they have gone out on strike we have agreed to their demands to get a return to work - this was as a result of RMG direction.
- 6.3 The proposal therefore is to shape a deal of unconsolidated (below the line) payments offered in return for union and Crown employees' support of the full range of Crown Transformation activity in years 1, 2 and 3 with the commitment to a consolidated pay deal in year 4 subject to 6.4 below. The transformational change required is detailed at Appendix A. The additional stretch elements required are detailed at Appendix B.
- 6.4 Achieving break-even in March 2015 is the gateway to a consolidated pay rise in year 4, the value of which would be determined as part of our pay discussions with the unions. The proposal is that this is linked to RPI but capped at 5% but is self-funding ie if the value of the pay deal is circa £4.5m then profit in the Crown network would need to hit this level before the pay increase was triggered.
- 6.5 The proposal therefore is that our offer of c£21.5m is our final position and is a credible offer to our Crown employees in the context of the current external climate; that POL is loss making without the Government subsidy and that the Crown network contributes heavily to that loss making position. We would need to be fully committed to this position and be prepared to successfully deal with IA.

## Non-Crown Middle Managers

- 6.6 For our non-Crown Middle Managers our proposal is a 2 year deal with the same principle of an unconsolidated award linked to transformational changes (within their respective work area) and based on individual performance. The average award is calculated as 2.5% of salary. The cost of this is c£2m in each of the 2 years and budget has already been allocated. The same rationale given above for the Crown population applies to the non-Crown Managers for an unconsolidated increase.

**Strictly Confidential****7. Risks/Mitigation**

- 7.1 Given that CWU colleagues in POL and RMG have received a 3.5% consolidated pay rise in this year, our offer may not be sufficient to secure union agreement. We do believe however that the level of our offer does demonstrate that we are doing all we can to secure a deal with the unions. Should we fail to reach agreement with the unions our communication plan is to appeal directly to our front line staff to engage their support in building a sustainable Crown network for the future in exchange for transformational change payments.
- 7.2 There is a risk that if we did settle on an agreement worth £21.5 m over 4 years this could attract negative press and PR if positioned as a % pay increase. We need therefore to be clear in our communication that this agreement was a 0% pay rise and that lump sum payments were being made for achievement of significant on-going savings and P&L improvements being made to the Crown network.
- 7.3 Industrial action could be avoided by meeting the demands of the unions and agreeing a consolidated pay award; however, this would add significant risk to the Crown Transformation Programme and worsen the P&L by circa £11.5m by 2014/15 if a 3.5% consolidated pay rise were to be agreed. This would require the CTP to flex the implementation plan to recover the additional cost to the P&L. This would be in addition to the identified circa £9m risk against the projected benefits of £40m.
- 7.4 The effect of a strike by Crown colleagues would be mitigated by the Crown contingency plan that involves keeping 71 strategically and geographically placed Crown post offices open and staffed by Crown managers and other non-Crown managers from within the business.

**8. Conclusion**

- 8.1 The CTP plan whilst achievable is high risk and has been received by the unions with their usual scepticism (based on previous plans to get the Crown network to breakeven not being successful). The stretch initiatives to meet the income shortfall will not be palatable to the unions, particularly given that the shortfall makes it impossible to meet union demands for a consolidated pay deal. Delivering the additional savings we have identified such as more staff exiting as a result of automation and more flexible and part-time working will be extremely difficult without union, Crown colleague and manager support.
- 8.2 The deal we are therefore proposing to offer the unions is in return for help in delivering the Crown Transformation Programme. This would include union agreement to our franchising programme, subject to a guarantee that we would not franchise more than 70 branches (the unions will demand a guarantee of some kind in exchange for agreeing a deal).
- 8.3 Union agreement to the full CTP plan including stretch would de-risk circa £12m of recurring savings in return for a £17m of one-off investment and would therefore show a return on investment by the end of the Programme. No agreement is highly likely to lead to industrial action and put at risk those savings.

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- 8.4 Industrial action may well still occur as a result of the staff perception that POL tends to capitulate after industrial action. A credible pay offer on the table, supported by a robust communications plan, will help mitigate the scale of the industrial action, retain the co-operation of staff and reduce the impact on savings.

**9. Recommendations**

The Board is asked to:

- 9.1 Approve the pay approach to enlist the support and co-operation of the unions and Crown colleagues and managers in delivering the transformational change required as part of the Crown Transformation Programme (CTP) plan, enabling the Crowns to get into profit by April 2015.
- 9.2 Approve the pay approach for non-Crown middle managers.
- 9.3 Approve the funding request of £21.5m to facilitate the delivery of the Crown Transformation Programme, made up of £17m over 3 years 12/13 – 14/15 for unconsolidated transformational change payments and c£4.5m for a consolidated pay agreement in year 4. £3.5m is accrued this year, hence £17m is the funding request.

**Kevin Gilliland**  
**16 January 2013**

**Strictly Confidential****Appendix A****Crown Transformation to Profit Plan and Transformational Payments**

The CTP plan was predicated on a degree of co-operation from the CWU and Unite CMA. The Crown P&L and the 'to profit plan' showing projected savings have been shared with both unions since early September with a view to engendering their support for the plan to close the 2011/12 £46m loss in the Crown P&L.

Both unions have stated they share the aim to make the Crown network profitable however both have said they object to franchising on any scale. Despite this they have however actively worked with us to realise circa £8m in staff savings from the voluntary redundancy exercise this financial year although they have done this on the expectation that they would get a pay rise this year; both have independently said that without reward for their co-operation in this regard they will not co-operate in respect of further activities.

The proposal is to make transformational payments to incentivise the unions and employees to co-operate in delivering the benefits in each year of the CTP plan with the ultimate goal of profit by April 2015. Clear line of sight from the deliverables of the Plan to the benefits needs to be established and be easily understood by Crown colleagues and managers – confidence in the do-ability of the plan is critical to the successful delivery of the Plan as is line of sight to the transformational change payments.

Four phases are proposed to structure the deal focusing on savings where union co-operation is important and also assumes colleague co-operation in delivering income growth in branch. These are:

- **2012/13: Shared vision** – the unions agree the detail of the plan and sign up to publicly declaring their support for the Crown Transformation Plan, the identified component parts of the plan and the goal of breakeven by March 2015.

An average payment of £1400 per colleague and £2000 per middle manager would be paid in recognition of the savings made this year and for signing up to the delivery plan that takes us to breakeven. Payments in year 1 total c £7.3m.

- **2013/14: Joint implementation** – union co-operation in benefit realisation including delivery of 50 – 70 franchises over the course of the programme; agreement of Crown operating model with new operational and branch manager roles and a more flexible combination of full and part-time working (current ratio 55:45); delivery of agreed property savings from mergers, relocations and 2 in to 1s.

An average payment of £1000 per colleague and £1400 per middle manager would be paid on achieving the target savings for year 2. To continue to incentivise the delivery of the savings through the activities planned for year 2 we will need to keep the transformational payment in sight for colleagues by agreeing to make the payments when we are confident that the savings will be realised eg if our forecast position at end of Q3 is to clearly achieve the target savings then we should agree to make the payments to Crown staff in January. Making the payments at the end of the year will erode commitment to the delivery of the plan as the payment will be too far into the future for it to incentivise. Payments in year 2 total c £4.9m.

- **2014/15: Guaranteeing sustainability:** delivery of remaining branches to be franchised in yr. 3, remaining staff savings (up to 450; original plan assumed 345) from Post & Go migration and income which would result in the Crown breaking even by March 2015.

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An average payment of £1000 per colleague and £1400 per middle manager would be paid on achieving the breakeven position in year 3. As in year 2 the proposal is to agree to make the payments when we are confident that the breakeven will be achieved eg if our forecast position at end of Q3 is to clearly achieve then we should agree to make the payments to Crown staff in January. Payments in year 3 total c£4.7m.

- **2015/16: Profit share:** on condition that breakeven is achieved by March 2015 a consolidated pay deal (mechanism for % amount agreed on signing the pay agreement in 12/13 year – recommendation is RPI capped at 5%) is triggered at the point at which the Crown P&L can fund from profit generated the cost of the pay rise in the 15/16 year ie if the half year positioned showed a profit of more than the value of the consolidated and from the forecast we were comfortable of the profit to flow through to year end we could make the payments in Q3 or Q4 if we were not so confident. Payments in year 4 total c£4.5m.
- The overriding principle of the proposed pay approach is that if the savings are not delivered then the transformational payments are not made.

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## Appendix B

Additional savings & income generation opportunities identified

Saving/Income Generation	Summary Explanation	Saving/Income generation p.a. (£m)	Dependence on union support
Additional Post & Go savings	Exiting 420 FTE as a result of automation rather than the 345 currently budgeted	2	High – CWU has expressed support for this in principle but was with the expectation of a pay rise
Branch Managers	Reducing branch managers by c. 75 through re-organisation	3	Medium – would need to re-negotiate current agreement with CMA. Consultation period required for VR
Operational Role	Introduction of a new, lower-skilled and lower-paid role in branch	0.5	Medium – Crown Office Staffing Agreement would need to be renegotiated with CWU
More part-time working	Better aligning duties to work through flexible and part-time working (and less overtime)	1	High – Crown Office Staffing Agreement would need to be renegotiated with CWU and duties would need to re-aligned
Lower starting salary	Introduce a lower starting salary for new joiners	0.5	High - would need to re-negotiate current agreement with CWU
Re-location of staff to Crown Offices	Moving Head Office staff to vacant space in Crown Offices	1	Low - other than H&S site assessments not dependent on unions
Stretch income targets	Push to deliver stretch targets on income in FS	3	High - staff in branch need to proactively cross and up sell
Franchising	Delivery of agreed target of £9m savings based on 62 branches	2	Medium – unions could actively deter potential partners and brief against POL approach to staff exit or transfer as part of any deal
<b>Total</b>	<b>All additional savings identified</b>	<b>13</b>	
<b>Total (High or Medium dependence on union support)</b>		<b>12</b>	<b>High or Medium</b>

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**POST OFFICE LTD BOARD**

**Digital Strategy Update (Javelin Report)**

**1. Purpose**

The purpose of this paper is:

- 1.1 To update the Board on the three month project, conducted in collaboration with Javelin Group, to review our current digital capability to assist us in developing a digital and multi-channel vision and strategy for the Post Office; and
- 1.2 To note and agree the baseline and roadmap for the delivery of the building blocks to assist Post Office in becoming a multi-channel business over the next three years. This multi-channel vision will be further developed as part of our full strategic review.

**2. Context**

- 2.1 As a result of the Board Strategy away day in June 2012, it was agreed that Post Office should work with an external expert consultancy to help us develop a digital and multi-channel strategy.
- 2.2 In September 2012 Post Office engaged the Javelin Group to assist in the development of the digital and multi-channel strategy. The terms of reference were to analyse our current digital capability and produce a baseline and roadmap to assist us in becoming a multi-channel business over the next three years.

**3. Background**

- 3.1 Customers' use of the Internet continues to increase, with 84% of the UK adult population using the Internet. Over half of UK adults access the Internet every day and over 90% on a broadband connection.
- 3.2 The rapid increase in smartphone and tablet penetration has driven significant growth in mobile Internet use. 45% of UK adult internet users access the web via a mobile device.
- 3.3 Customers are significantly shifting to online channels for pre-purchase information and to transact. By 2020 this is expected to account for at least two thirds of activity for Financial Services, Telecoms and Insurance.
- 3.4 By 2020 Government is aiming for 30–50% of transactions to take place via online channels, driven by their clear "Digital by default" agenda.
- 3.5 Retail is undergoing a multi-channel revolution driven by customers who are empowered by greater choice, better information and who are demanding improved experiences. Online retail sales in the UK have grown by 15% in 2012. [source IMRG]
- 3.6 Multi-channel customers are at least twice as valuable as those using only one channel.

**Confidential****4. Current Situation**

- 4.1 Post Office is wholly underrepresented in the provision of digital channels to customers, with limited capability to provide information, purchase products or to service products.
- 4.2 The Post Office digital offer is trailing the competitive market and we need to move quickly to compete. Companies that fail to embrace multi-channel trends will quickly lose market share.
- 4.3 If we do not change to operate in a more multi-channel way, potentially between 60% and 90% of our income will be at risk as customers switch channels, competitors improve their capabilities and clients move a greater proportion of their business online. (See slide 5)
- 4.4 From a total Post Office income of £983m in 12/13, only £9m is generated through our website channel and £9m through our contact centres. 83% of the website income comes from just 9 products.
- 4.5 The previous strategy of using white label versions of our partners' digital services has led to a disjointed and confusing customer experience and is operationally unmanageable.
- 4.6 All parts of the business require improvement and there is not a single simple action that will make a significant difference. To get the Post Office to an upper quartile position will take three years of activities and significant investment.
- 4.7 Implementing a digital and multi-channel strategy will deliver a personalised, integrated proposition which offers seamless multi-channel customer journeys. This drives commercial benefits, through an increased share of wallet, improved retention of existing customers, attracting new customers and serving customers in the most appropriate channel for their needs.

**5. Proposal**

- 5.1 The digital and multi-channel project proposes a set of deliverables and a roadmap for implementation. The strategy aims to provide hugely enhanced pure digital capability combined with digitally enhanced branches.
- 5.2 The proposal is based on six critical enablers and six customer-facing digital strategies.
- 5.3 The six key enablers are the changes required to the business to ensure the successful delivery of the digital strategy recommendations:
  - Organisation to reflect a more digital customer focus
  - Sophisticated digital marketing strategy for acquisition and retention
  - Single view of customer data enabling insight and development
  - Partner management to enable and implement change
  - Technology solutions that are fully integrated
  - Branch engagement to advocate our digital proposition

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- 5.4 The six principles of the digital strategy set out the future requirement we want customers to experience and a series of best practices we should adopt:
- Leading website user experience
  - Optimised mobile device experience
  - Digital product range strategy
  - Innovative digital delivery of services and products
  - Digitally enabled customer support
  - Digitally enabled branches for customer and staff
- 5.5 These components of the strategy form the basis of 11 workstreams, with the two branch initiatives grouped together as one. Within these workstreams, there are 56 activities, of which 27 can be considered business as usual and 29 to be set up as projects.
- 5.6 Four options have been considered to reflect differing levels of investment and degrees of change. Our recommendation is for option 1, which forecasts incremental digital income above the plan of £40.5m in FY16, with a cumulative investment of £8.8m Opex and £6.4m Capex. The other options are detailed on page 14 of the attached pack.
- 5.7 The first steps in the strategy are as follows:
- 5.7.1 Establish a digital transformation programme to drive through the changes required across the business. During January 2013, appoint a Programme Director and create a programme board with cross functional representation.
- 5.7.2 Review the ExCo responsibility, to agree whether our overall customer proposition should sit under one directorate, with a single director and whether we have the right person internally to focus and lead the change required. This is not a critical dependency to progress the programme at this stage.
- 5.7.3 Agree the funding and projects for FY13 to build momentum.

## 6. Conclusion

- 6.1 If we do not change to operate in a more multi-channel way, a critical amount of our income will be at risk.
- 6.2 Implementing the roadmap of deliverables is expected to enable us to reach a minimum incremental income of £40m through our digital channels by 2016.
- 6.3 This baseline and roadmap of deliverables gives us multi-channel capabilities but does not make us a multi-channel business. The vision of a Digital Post Office and the impact on all of our channels is being developed as part of the full strategic review.
- 6.4 The baseline and roadmap of deliverables supports our strategy to move from a channel to a retailer.

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**7. Recommendations**

The Board is asked to:

- 7.1 note the details of the review of the Post Office digital strategy conducted in collaboration with Javelin Group and the proposed projects set out above; and
- 7.2 agree to the project initiation activities and to support the implementation of the programme.

**Martin Moran**  
**23<sup>rd</sup> January 2013**



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**Post Office Digital Strategy Update**  
**Board presentation**  
**23<sup>rd</sup> January 2013**



## Agenda

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1. Executive Summary – slide 3
2. The issues – slides 4 - 7
3. The opportunity – slide 8
4. Enablers to deliver – slides 9 – 11
5. The roadmap – slide 12
6. The commercials – slides 13 - 14
7. Next steps – slide 15



## *Executive Summary*

- This baseline and roadmap of deliverables gives us multi-channel capabilities but does not make us a multi-channel business. This will be developed as part of our full strategic review.
  - If we do not change to become more multi-channel, a critical amount of our income will be at risk as customers switch channels and clients move a greater proportion of their business online. (See page 5)
  - The change required to our digital position is significant as we are behind our competitive market. (See page 6)
  - All parts of the business require significant improvement and there is not one single action that will make a significant difference.
  - To get the Post Office Digital proposition to an upper quartile position will take 3 years and significant investment.
  - The strategy draws out 12 focus areas that translate into 56 projects. 27 are business as usual, 29 are projects. These are a mixture of transformation projects in train as well as structural developments in product development and customer marketing.
  - Review EXCO responsibility to ensure we have the right person to lead these changes to our customer proposition.
  - Four options have been considered, our recommendation is option 1. (see page 14)
  - The forecast incremental digital income is £40m in 2016, with a cumulative £8.8m Opex and £6.4m Capex spend.
-



## Digital Strategy Update • The Issues

# Five drivers behind the need to develop and implement this digital & multi-channel strategy

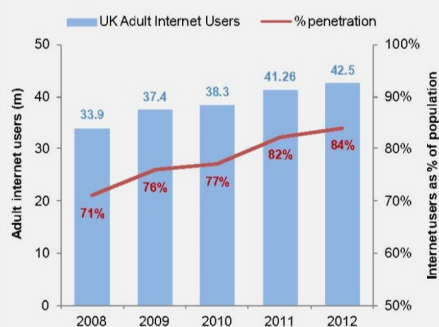
### 1 Post Office strategy

- Post Office today predominantly acts as a channel for other peoples' products / services
- In order to become a more commercially sustainable business, the future ambition is to shift the balance towards being a retailer rather than predominantly a channel for other people's products/services

Source: Post Office

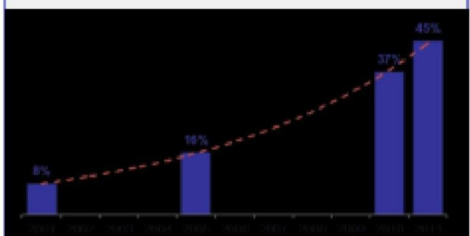
### 2 Customer shift

**84% UK adult population are internet users (2012)**



Source: ONS UK Internet Access, 2012

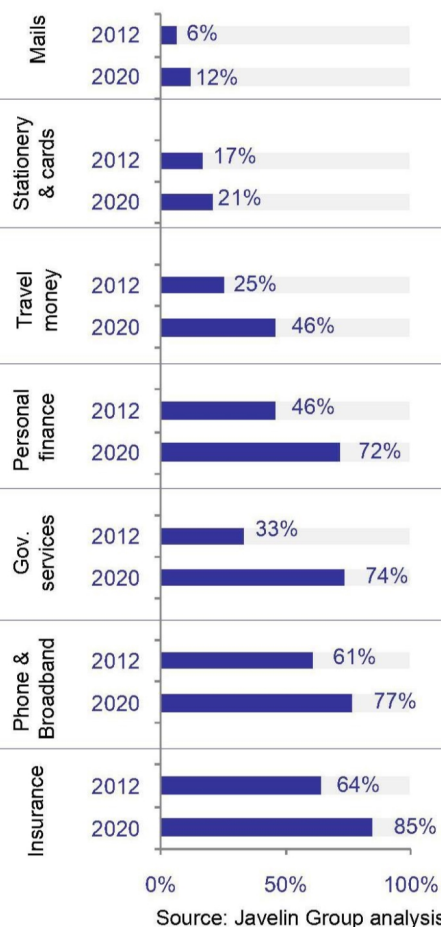
**45% UK internet users access web via mobile (2011)**



Source: Ofcom Internet Usage, 2011

### 3 Channel shift

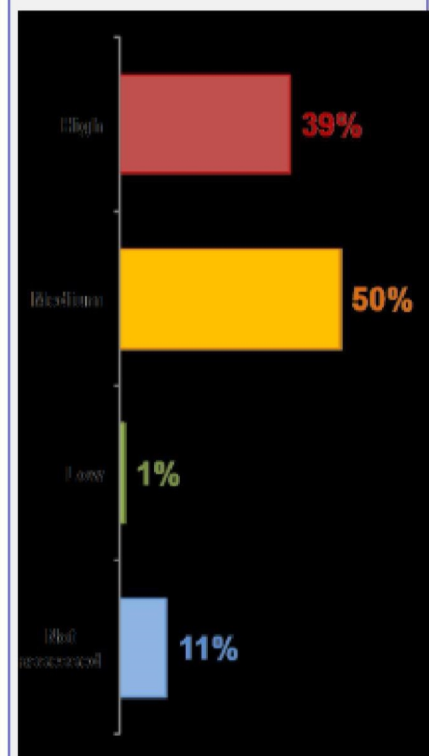
**Online research pre-purchase**



Source: Javelin Group analysis

### 4 Revenue risk

**89% of PO income at risk if no action taken**



Source: Javelin Group analysis

### 5 Gov. digital agenda

- By 2020, Government aiming for **30-50%** transactions via online channels
- Currently limited Government Services fully transactional online.
- Digital inclusion agenda

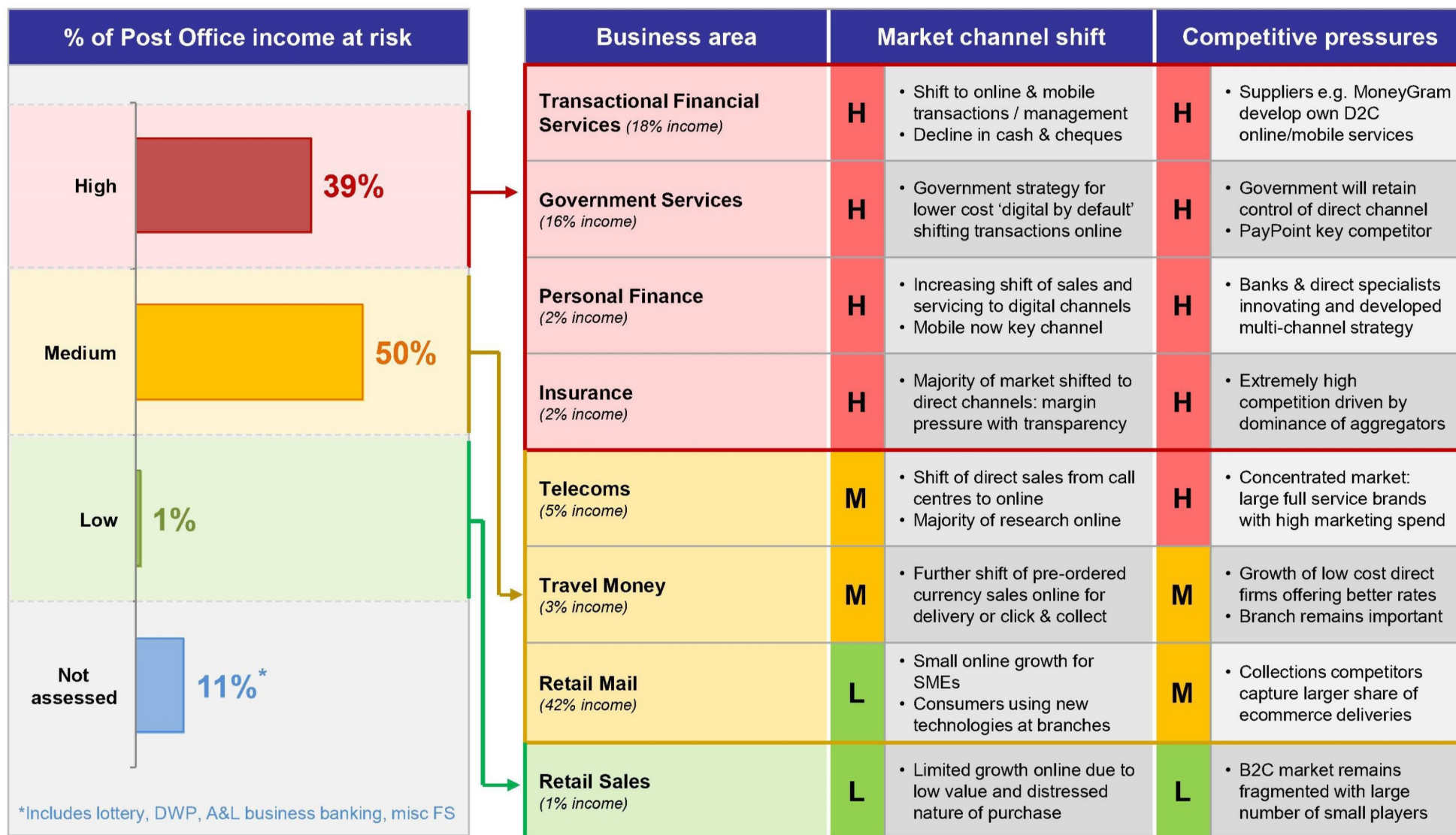
**“New digital strategy reflects our digital ambitions & signals clear roadmap to work with depts. to achieve digital goals”**

- Exec. Director, Govt. Digital Service

Source: Forrester



**BAU presents med or high risk for 89% of Post Office income due to changing marketplace**







*Digital & multi-channel strategy will also support Post Office to address BREC*

Four key customer challenges to address as part of future strategy (BRE C)

Impact of digital & multi-channel strategy

**B**

**Beyond mails:** awareness of PO product range beyond mails declining – average association down from 47% to 44% for secondary products over last 12 months, static at 13% for tertiary products in same period

*Non-mails awareness driven by enhanced digital marketing & branch staff acting as digital advocates*

**R**

**Relevance:** consumers who think PO brand is forward thinking down from 23% to 19% over last 12 months (mainly older, lower SEGs), those who think it is not relevant up from 15% to 19% in same period

*Digital Post Office will improve brand perception across wider demographic / socio-economic groups*

**E**

**Effort:** number of people who consider PO difficult to deal with increased from 19% to 24% over year to June, number of people who disagree down from 48% to 39% in same period

*Customer focused organisation ensures constant focus on customer experience*

**C**

**Credibility:** just 13% of consumers believe PO to be a credible Financial services brand, down from 16% at the start of Q2 2012

*Multi-channel FS offer to bring PO in-line with industry best practice e.g. mobile app, specialist branch areas*



***Realising this opportunity can ensure Post Office is a winner in the new, digital world***

- Implementing the strategy detailed here will deliver a strong multi-channel customer proposition at Post Office
  - This will drive significant benefits:

**Increased share of wallet of existing customers**

**Improved loyalty and retention of existing customers**

**Additional revenue from Digital Front Office of Government**

**Attracting the new generation of customers**

**Serving customers in the most appropriate channel(s)**







**Better knowledge of the customer through data**








**6 critical enablers & 6 components of digital strategy comprise the future digital & multi-channel proposition. These form 11 implementation workstreams.**

**Post Office digital & multi-channel strategy**

**6 critical enablers**

	<b>1. Organisation</b>
	<b>2. Digital marketing</b>
	<b>3. Customer data &amp; single view</b>
	<b>4. Partner management</b>
	<b>5. Technology</b>
	<b>6. Branch engagement</b>

**6 components of digital strategy**

	<b>1. Website user experience strategy</b>
	<b>2. Mobile strategy</b>
	<b>3. Digital product range strategy</b>
	<b>4. Delivery strategy</b>
	<b>5. Customer support strategy</b>
	<b>6. In branch digital strategy</b>



## 6 key enablers to ensure the successful delivery of digital strategy recommendations

### 1. Organisation



**PO needs to become customer focused organisation**

1. Organisational restructure;
  - ExCo role: responsible for customer experience
  - Changes to working processes: e.g. virtual teams, data use, compliance & partners
  - Upskill Digital team
2. Culture change: shift towards multi-channel
  - Appropriate funding
  - Increased agility etc.

### 2. Digital marketing



**Sophisticated digital marketing strategy will drive acquisition & retention**

1. Improve customer acquisition; boost awareness, drive traffic, facilitate purchase
  - Search & visibility improvements
  - Affiliates strategy
  - Multi-channel messaging/advertising
2. Improve cross-sell & retention; engage customer, merchandise, re-activate lapsed
  - Email & CRM capability
  - Mobile marketing
  - Social media presence

### 3. Customer data



**Single customer view is critical, enabling development & sharing of insight**

1. Improve data collection
  - Full loyalty scheme vs. digital account data
2. Improve data management
  - E.g. harness existing PO technology, Logica IDA, or third party data partner
3. Analyse data to create insight/inform BUs
  - Data culture, new analytical expertise & appropriate technology key enablers
4. Utilise targeted marketing campaigns

### 4. Branch engagement



**Need to communicate strategy to branches & acquire critical network buy-in**

1. Develop communications plan to sell need & value of digital strategy to branches
  - Required to compete in digital world
  - To provide new support to branches
2. Project to review branch incentivisation and identify best long-term solution to drive multi-channel behaviour

### 5. Partner management



**Partners are critical enabler and implementer of majority of changes**

1. Ensure relevant PO teams involved from contract initiation stages
2. Build in additional PO requirements to existing contracts where possible, & all future contracts
3. Retain contract management within product teams
4. Look to rationalise partners longer term

### 6. Technology



**Technology team to identify best technology solution in 5 areas**

1. Web platform
2. Mobile optimised site
3. Branch technology
4. Post Office account / single customer view
5. Single sign-On



**6 principles of the digital strategy set out best practices we want customers to experience**

**1. Website Experience**



**Must support all customer journey stages via changes in 7 key areas**

1. Quick win changes
2. Customer account
3. Search and navigation
4. Application journeys
5. Merchandising
6. Content and community
7. On-site help and support

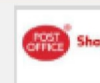
**2. Mobile**



**Aim to launch basic mobile site by April 2013, add full transactional version in 2014**

1. Create a mobile site to satisfy basic customer demand and understand its use
2. Develop a transactional mobile site in line with the new web platform and build cross channel journeys
3. Develop targeted mobile apps to satisfy customer demand without creating a high street of apps

**3. Product range**



**All Post Office branded products to be offered digitally and saved for re-access**

1. All products available for digital purchase and post purchase servicing
2. Customers should be able to save and re-access application / purchase in any channel
3. Digital channels will support Post Office migration to Customer Value Propositions

**4. Delivery**



**Customers should be able to have products and services delivered through the channel of their choice.**

1. Digital delivery of documentation
2. Appointment booking
3. Tracking of application / delivery
4. In-branch collections

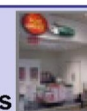
**5. Customer support**



**Continued optimisation of existing operating model recommended**

1. Optimise existing customer support operating model
2. Improve help & support content on Post Office website
3. Essential to ensure customer support is key consideration in future partner negotiations
4. Transfer of Royal Mail managed contact centre to Post Office in 2014

**6. In branch digital strategy**



**3 strategic requirements in branches to support implementation of digital & multi-channel strategy**

1. Customer & staff information
  - Will drive enhanced staff & customer interaction
2. Customer self-service
  - Opportunity to expand in branch self-service
3. Staff-assisted customer access
  - Support wider range of digital customer missions with assistance from staff



**7 projects are immediate priorities for Post Office, 5 quick-wins could deliver benefits in Y1**

- Majority of 56 projects / activities will require large scale change with concerted effort to drive high potential benefits
  - 7 immediate projects required to establish footing to drive strategy forward
- 5 projects are quick-wins which could drive tactical benefits whilst larger projects are ongoing

7 immediate priorities for Post Office digital & multi-channel strategy	
1	P1. Transformation programme
2	P15. Mobile working group
3	P16. Basic Mobile Optimised Site
4	P23. Branch digital strategy review and roll-out plan
5	P47. Data collection feasibility study
6	P48. Data management feasibility study
7	P54. Website and mobile platform review

5 potential quick win benefits	
1	P7. User experience quick wins
2	P10. Search and navigation
3	P.39 Quick-win multi-channel marketing
4	P.46 Data collection quick-wins
5	P.50 Insight & targeting quick-wins



*Digital income and costs have been modelled for 4 potential scenarios*

Scenario 1: Full implementation	Scenario 2: Full implementation (exc. branch digital)	Scenario 3: Medium implementation	Scenario 4: Minimum implementation
<i>All 56 initiatives implemented</i>	<i>All 56 initiatives implemented</i>	<i>Med-high critical initiatives implemented</i>	<i>Only high critical initiatives, associated lower costs</i>
<i>All costs included</i>	<i>Except no interim digital solution launched in branches</i>	<i>Interim digital solution only in Crowns and Mains</i>	<i>No interim digital solution in branches</i>

<b>DIGITAL INCOME</b>	<ul style="list-style-type: none"> <li>• <b>Services income</b> (Savings, Lending, Insurance, Telecoms) = year on year digital income from sales in each individual year</li> <li>• <b>Transactional income</b> (Mails, Retail, Government, Travel Money) = digital income from sale each year</li> </ul>
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<b>COSTS</b>	<ul style="list-style-type: none"> <li>• <b>Opex</b> = Resources, Contractors, Consultancy, Marketing, Staff training, Consumables, Technology Opex</li> <li>• <b>Capex</b> = Technology</li> </ul>
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## Cumulative 4 yr Opex of £8.8m and £6.4m Capex drives £40.5m digital income in FY16

Option 1	Option 2	Option 3	Option 4																								
<i>All changes implemented, all costs included</i>	<i>All changes implemented apart from interim digital solution in branches</i>	<i>Med-high critical changes implemented, interim digital solution in Crowns and Mains</i>	<i>High critical changes implemented, costs stripped back, no interim digital solution in branches</i>																								
<table border="1"> <tr> <td>£40.5m</td> <td>£8.8m</td> <td>£6.4m</td> </tr> <tr> <td>FY16 digital income</td> <td>Cumulative 4 year Opex</td> <td>Cumulative 4 year Capex</td> </tr> </table>	£40.5m	£8.8m	£6.4m	FY16 digital income	Cumulative 4 year Opex	Cumulative 4 year Capex	<table border="1"> <tr> <td>£30.3m</td> <td>£4.0m</td> <td>£2.2m</td> </tr> <tr> <td>FY16 digital income</td> <td>Cumulative 4 year Opex</td> <td>Cumulative 4 year Capex</td> </tr> </table>	£30.3m	£4.0m	£2.2m	FY16 digital income	Cumulative 4 year Opex	Cumulative 4 year Capex	<table border="1"> <tr> <td>£32.4m</td> <td>£5.5m</td> <td>£3.8m</td> </tr> <tr> <td>FY16 digital income</td> <td>Cumulative 4 year Opex</td> <td>Cumulative 4 year Capex</td> </tr> </table>	£32.4m	£5.5m	£3.8m	FY16 digital income	Cumulative 4 year Opex	Cumulative 4 year Capex	<table border="1"> <tr> <td>£23.6m</td> <td>£1.6m</td> <td>£2.2m</td> </tr> <tr> <td>FY16 digital income</td> <td>Cumulative 4 year Opex</td> <td>Cumulative 4 year Capex</td> </tr> </table>	£23.6m	£1.6m	£2.2m	FY16 digital income	Cumulative 4 year Opex	Cumulative 4 year Capex
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FY16 digital income	Cumulative 4 year Opex	Cumulative 4 year Capex																									

### Underlying CAPEX, to serve the broader Post Office strategy, not included here:

- Digital & multi-channel strategy (FY12-16) dependent on:
  - ✗ CRM / data warehouse solution
  - ✗ Messaging hub
  - ✗ Roll-out of Post&Go machines in branches (c.650 by FY2014/15)
  - ✗ Roll-out of FS specialist areas to more Crowns & Main agency branches (feasibility study planned in Q1)
- Digital & multi-channel strategy (FY12-16) not dependent on:
  - ✗ Branch POS solution
  - ✗ Changes to current contact centre operations
  - ✗ In-branch collections project technology & process changes



*Important to build on momentum generated from this project to drive strategy forward*

**1**

- Establish Digital transformation board in Feb

**2**

- Identify an appropriate, experienced Programme Director by end Jan

**3**

- Continue Javelin Group involvement and build plans with relevant teams

**4**

- Discuss organisation restructure at EXCO

**5**

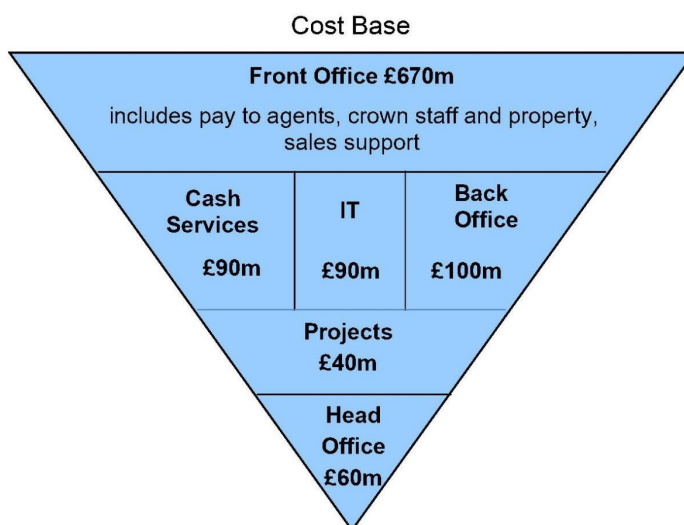
- Agree funding and start projects for 1314
-

**Confidential****POST OFFICE LTD BOARD****Cost Reduction Update January 2013****1. Purpose**

The purpose of this paper is to provide the Board with an update of cost reduction activity against each area of the cost reduction framework, and delivery against current year cost reduction targets.

**2. Background**

The total cost base of the Post Office is c£1bn, of which around 70% has historically been considered fixed. A high-level breakdown of POL's overall cost base is shown below:



Post Office has developed an overall approach to cost reduction, aiming to optimise operating efficiency across its business, comprising three strands of activity:

- Transformation programmes
- Tactical in-year cost reduction
- Strategic cost reduction

Previous Board papers have described the overall framework and each of these areas in more detail.

At the October Board meeting it was agreed that progress within the cost reduction framework would be reviewed by the Board on a quarterly basis.

**Confidential****3. Current cost reduction agenda**

The summary targets of the three pronged approach are presented in the table below:

<b>Targets</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Comment</b>
3 year transformation programme targeted savings	£8m	£30m	£67m	On track to deliver. Annualised benefit when completed of £70m on-going.
Tactical in-year	£20m	£20m	c£20m TBD Mar-14	2012/13 on track for delivery; 13/14 target in the process of being finalised.
Strategic cost reduction	N/A	N/A	c£15m TBD Mar-13	Aspirational target to be verified through Strategy Review.

The subsequent sections present additional information on each cost area, and performance against these targets for the current year.

**4. Transformation programmes**

The transformation programmes are largely focused on the retail network and the IT estate. They seek to address c75% of the £1bn cost base with the objective of reducing it by 9% whilst variablising a further 9%.

The breakdown and profile of the expected savings is as follows:

<b>Forecast</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Comment</b>
Network Transformation Programme	£2m	£8m	£16m	Full year on-going benefit is £20m per annum.
Crown Transformation Programme	£6m	£17m	£28m	Includes efficiencies from automation and restructuring of estate.
IT Transformation	--	£3m	£21m	Delivered through more economical supply model.
Finance Transformation	--	--	£1m	Full year on-going saving of £2.2m by targeting a c20% reduction in finance core process cost.
<b>Total</b>	<b>£8m</b>	<b>£28m</b>	<b>£65m</b>	

The business strategy requires additional on-going IT activity, resulting in additional costs of c£14m per annum if left unchecked. In response to this, and to derive greater value from IT expenditure overall, the IT Transformation Programme seeks to reduce the new cost base by c£21m per annum.

The changes from the previous update are:

- a slight re-profiling of the savings under the Network Transformation Programme
- a risk to the Finance Transformation benefits, as we review our approach to separation in order to de-risk the delivery of the overall plan.

**Confidential****5. Tactical cost reductions – current year delivery**

The whole £1bn cost base is considered in scope for in-year tactical cost reduction. However, due to the programme activity already in the front office, in practice further tactical savings are limited in this area.

As part of the 2012-13 budget process, ExCo targeted an additional £20m of tactical cost reduction for the current year. Our latest (Q3) forecast confirms that these targets are highly likely to be achieved through the following elements:

Cost area	2012/13	Delivery
Staff related costs	£5.0m	Management of resource to avoid filling vacancies, use of temporary contracts.
Computers & telephones	£8.9m	On-costs of system enhancements delivered below budget, or implementation delayed.
Supplier contract management (Other non-staff)	£2.0m	Efficiency improvements and penalties enforced.
Other (Other non-staff)	£4.1m	Locally delivered initiatives.

In addition, staff costs will be a further £4.2m under budget due to lower than budgeted LTIP payments.

**6. Tactical cost reductions – programmed savings for 2013/14**

For 2013-14, ExCo adopted a 'zero based' approach to the budget with each Directorate required to justify each element of their projected spend for the year.

This has resulted in a £20m cost challenge inherent in the 2013-14 budget:

- Further year on year staff cost reduction of £10.8m
- Year on year reduction in agents' pay of £3.7m (mainly DVLA), after removing the impact of volume-related changes
- Year on year increase in non-staff costs of £6.1m (net of £3m inter-business reduction). A cost increase of £11m was required to cover additional separation and strengthening activities, as well as RPI increases on supplier contracts. Therefore, a cost challenge of £5m has been put in place to mitigate this increase, resulting in the reduced £6m overall increase.

Additionally, 'one-off' project expenditure has been reduced from a peak of £41m in 2012/13 (per Q3 forecast) to £28m next year.

**7. Radical cost reduction for beyond 2014**

In addition to the above activity, ExCo has identified and prioritised four additional strategic cost areas for review. These cover all elements of the operating model and related support structure. The evaluation of these opportunities will be presented to the Board when finalised and incorporated into the Strategic Plan submission to Government by March 2013.

In the meantime, we continue to pursue opportunities to reduce costs in each of the four areas whilst recognising the need to align with our evolving strategic review. The aim of the wider piece is to align the cost base of the business with the future strategy. This involves looking for new ways to deliver things differently in a more cost effective manner, but is also likely to involve the need to invest in certain areas (e.g. sales capability, CRM) to achieve our ambitious revenue growth goals.

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Front office and IT costs are covered under the current Strategic Programmes and along with Cash Services have been ring-fenced for consideration under the Strategy Review. This leaves £250m under immediate consideration for strategic cost review opportunities.

Progress under the four work-streams identified as critical independent of the strategy review is as follows:

1. **Ways of Working:** Examining the governance and day to day processes to identify opportunities to be a leaner organisation with more efficient use of time/resource and reduced bureaucracy.

We are currently in discussion with PA Consulting to look at how they can most cost effectively support us to deliver this, ensuring knowledge transfer into the business, so that this practice becomes engrained in the business. We anticipate formal engagement during Q4.

A review of accommodation alternatives to the Head Office at 148 Old Street is also being undertaken, focusing on utilising spare office space above Crown offices. A recommendation will be made by the end of February, depending on cost to transition and other practical considerations.

2. **Support Services Strategy:** Evaluating which support functions could be supplied through alternative models such as shared services, outsourcing, and integrated back-office, and the related cost benefit.

A focused review to provide a high-level evaluation of the options for three specific areas is in progress working in partnership with a leading BPO organisation; the scope includes call centres and HR and Finance back office activity. This will be used as a template for extending the approach into other areas. The review of these first three areas will be complete in early February, with resulting recommendations available shortly thereafter.

3. **Organisation Structure:** Focusing on the grade, remuneration model and staff pyramid in place across the business and considering options to improve its effectiveness.

This area is also in the scope of the work supported by PA Consulting.

4. **Stakeholder Engagement:** Opportunities to streamline relationships with third parties and the extent to which we could improve our engagement model.

The scope of the call centre review above will be extended to understand what synergies could be gained by applying the same approach to the call centres that our suppliers provide on our behalf, for example Bank of Ireland for personal financial services products, AON for travel insurance.

## 8. Conclusion

This focused, rigorous and co-ordinated programme of tactical, programme and strategic cost reduction will result in a more efficient and flexible cost base to underpin a more competitive commercial business.

**Chris Day/Sue Barton**  
16th January 2013

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## Appendix A - Breakdown of the current cost base

The table below breaks down Post Office's overall cost base, to demonstrate which areas are being considered under each of the 3 strands of cost reduction activity.

	2012-13 Budget	2012-13 Cost reduction	2013-14 Cost reduction	2014-15 cost reduction	Comment
Fixed agents' costs	£138m	£2m	£8m	£16m	Some cost reduction but the main focus is to improve flexibility of costs through converting fixed pay to variable.
Variable agents' costs	£345m		£4m		By 2014-15 fixed agents' costs are expected to be halved as c£70m will be converted to variable costs.
Crown Costs	£163m	£6m	£17m	£28m	Includes efficiencies from automation and restructuring of the estate.
IT infrastructure	£89m	£11m	£3m £5m	£21m	On-going cost assumed to increase by £14m for new IT Delivery. Reduction of this new cost base delivered through more economical supply model.
Finance	£17m		£0m	£1m	Delivered through improved automation and processes.
RM Central Charge	£16m				Independence & Separation Programme in place to transition these services at the lowest net cost.
Network Support Costs	£57m		£0m	TBD	Retail line, equipment and contact centre costs.
Supply Chain	£89m	£2m	£0m	TBD	Excludes cash holding costs.
Remaining Head & Back Office	£104m	£7m	£11m	TBD	Includes Commercial, HR, Comms, Legal & Compliance, Security, Property, Procurement and Managed Services.
Project One-Off Costs	£38m				
<b>TOTAL COST BASE / REDUCTION</b>	<b>£1,056m</b>	<b>£28m</b>	<b>£48m</b>	<b>&gt;£100m</b>	

## Key:

	Transformation programme deliverables
	Tactical benefits
	Radical cost reductions under evaluation

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# POST OFFICE LIMITED

## Performance Report

December 2012

Produced By : Financial Control and Compliance Team

For Queries & Comments Contact : Sarah Hall or Kam Bassra

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# Headlines

December 2012

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## Financials - YTD

### Profit

Period 9 YTD operating profit was £98.9m against the budget of £71.5m, giving a favourable variance of £27.4m.

- Net Income was £676.7m which was £6.9m favourable to budget and £21.9m favourable to prior year - this is driven by the stamp sales ahead of the May price increase, which have still not eroded significantly, as well as strong Mails pillar performance from premium products - Special Delivery and Parcelforce. Lottery and retail sales are all ahead of budget. Financial Services has recovered and is ahead of budget.
- Staff costs were £11.1m favourable to budget and £4.6m adverse to prior year. Versus budget the variance is due to strong cost control with the majority of efficiencies identified. There also remain a number of vacancies, specifically in the Network. The variance against prior year is due to pay awards.
- Agents' costs were £7.6m favourable to budget due to a provision release and the reversal of last year's accrual relating to Core Tier Payments, and £6.3m favourable to prior year mainly due to the one off payment to agents in the prior year.
- Non people costs were £9.0m favourable to budget, but £12.2m adverse to prior year. The underspend is driven by the reduced costs for Mails Dangerous Goods work not required this year and the delay to the committed Eagle sales capability expenditure, but a small favourable variance remains so the efficiency task is being covered. This is through a combination of active cost saving and a delay to costs being incurred. The increase since last year is as a result of a one off provision write back last year, increase in marketing related costs as well as contracted Fujitsu RPI increases.
- Interbusiness expenditure was £1.0m favourable to budget and £2.9m favourable to prior year due to lower property costs as a result of contract renegotiations this year and separation impacts versus prior year.
- Project costs were £8.6m over spent against the budget. The forecast was reviewed in September and the full year position is still on track.

### Cashflow

The YTD cashflow was an inflow of £137m which was £43m favourable to the £94m budget (period 8 was £130m favourable).

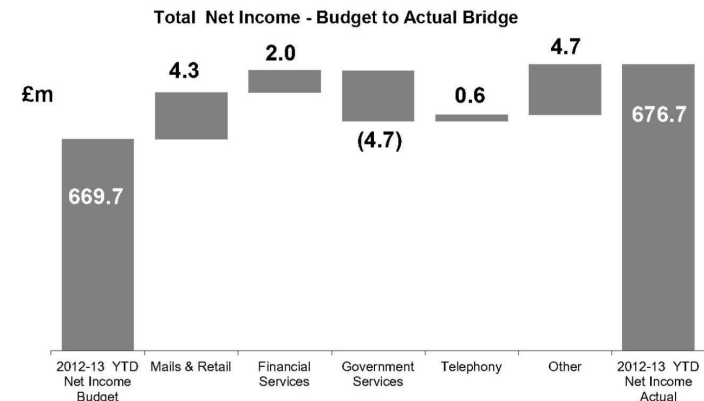
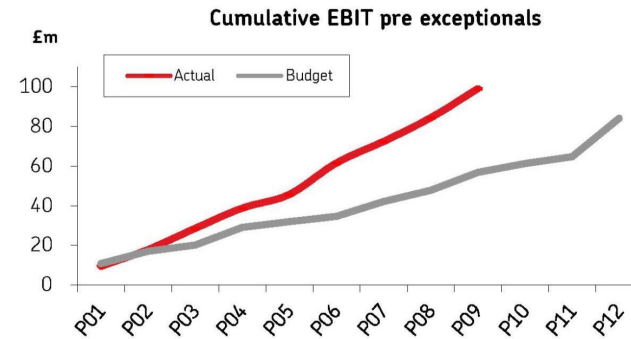
The £43m favourable variance was due to the higher than budgeted profit, lower than budgeted Network Transformation costs and lower working capital due to a one off timing variance. Network cash was adverse driven by the proximity to Christmas, but has since improved.

### Crown Profit - YTD

The Crown profit is ahead of plan with income £1.5m favourable to target. Staff, property and infrastructure related costs drove the overall favourable variance of £6.7m, although this favourable variance is expected largely to reverse by year end.

### Non financials - YTD

- Queue time in branches (less than 5 minutes) is 2.4% favourable. This follows strong results leading up to Christmas.
- Network conversions are now 48 ahead of plan, with 149 conversions in the period.



### Financials

- Total Revenue (excluding NSP) £m (Bonus)
- Operating profit £m (Bonus)
- Free cashflow £m
- Crown Profit (Loss) £m (Bonus)

### Non Financials

- Queue time % < 5 minutes - Top 1k branches (Bonus)
- Network Conversions (Mains & Locals) (Bonus)\*

	Year to Date		
	Act	Target	Var
Total Revenue (excluding NSP) £m (Bonus)	765.4	757.3	8.1
Operating profit £m (Bonus)	98.9	71.5	27.4
Free cashflow £m	136.6	93.8	42.7
Crown Profit (Loss) £m (Bonus)	(22.5)	(29.2)	6.7
Queue time % < 5 minutes - Top 1k branches (Bonus)	79.8%	77.4%	2.4%
Network Conversions (Mains & Locals) (Bonus)*	507	459	48

## Profit &amp; Loss Statement

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December 2012

£m	Current Month			Prior Year Period		Year to Date			Prior Year YTD		Full Year			Prior Year
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q2 Forecast	Budget	Variance	
External Income	51.3	49.7	1.6	47.3	3.9	494.2	491.2	3.0	466.7	27.5	672.3	668.6	3.8	621.1
Interbusiness Income	39.8	43.1	(3.3)	41.7	(1.9)	271.2	266.1	5.2	273.2	(2.0)	346.2	347.2	(1.0)	358.6
<b>TOTAL GROSS INCOME</b>	<b>91.1</b>	<b>92.7</b>	<b>(1.7)</b>	<b>89.0</b>	<b>2.0</b>	<b>765.4</b>	<b>757.3</b>	<b>8.1</b>	<b>739.9</b>	<b>25.5</b>	<b>1,018.5</b>	<b>1,015.8</b>	<b>2.7</b>	<b>979.7</b>
Cost of Sales	(9.7)	(9.5)	(0.3)	(9.4)	(0.3)	(88.8)	(87.6)	(1.2)	(85.1)	(3.7)	(119.8)	(117.9)	(1.9)	(114.4)
<b>TOTAL NET INCOME</b>	<b>81.3</b>	<b>83.2</b>	<b>(1.9)</b>	<b>79.6</b>	<b>1.7</b>	<b>676.7</b>	<b>669.7</b>	<b>6.9</b>	<b>654.8</b>	<b>21.9</b>	<b>898.7</b>	<b>897.9</b>	<b>0.8</b>	<b>865.3</b>
Staff Costs	(19.2)	(20.8)	1.7	(21.2)	2.0	(189.2)	(200.4)	11.1	(184.6)	(4.6)	(263.8)	(268.9)	5.1	(251.3)
Agents Costs	(42.3)	(45.1)	2.8	(42.4)	0.0	(355.6)	(363.2)	7.6	(361.9)	6.3	(483.5)	(482.8)	(0.7)	(482.9)
Non-Staff Costs	(12.7)	(14.4)	1.7	(10.8)	(1.9)	(112.7)	(121.7)	9.0	(100.5)	(12.2)	(163.6)	(166.2)	2.5	(149.2)
Interbusiness Expenditure	(6.0)	(6.3)	0.3	(6.4)	0.4	(60.6)	(61.6)	1.0	(63.4)	2.9	(83.3)	(83.3)	(0.0)	(84.9)
Depreciation	(0.3)	(0.1)	(0.2)	(0.0)	(0.3)	(0.7)	(0.6)	(0.1)	(0.3)	(0.4)	(0.8)	(0.8)	0.0	(0.4)
<b>Total Expenditure (pre POOC)</b>	<b>(80.4)</b>	<b>(86.7)</b>	<b>6.2</b>	<b>(80.8)</b>	<b>0.4</b>	<b>(718.9)</b>	<b>(747.4)</b>	<b>28.6</b>	<b>(710.8)</b>	<b>(8.1)</b>	<b>(995.1)</b>	<b>(1,002.0)</b>	<b>6.9</b>	<b>(968.7)</b>
POFS - Share Of Operating Profits	0.0	0.0	0.0	(1.5)	1.5	(0.6)	0.0	(0.6)	0.2	(0.7)	(0.4)	0.0	(0.4)	(0.6)
FRES - Share Of Operating Profits	1.3	1.3	(0.0)	1.3	(0.0)	27.7	28.7	(1.0)	27.3	0.4	31.5	32.6	(1.1)	31.4
<b>EBIT Pre Overhead Allocations</b>	<b>2.2</b>	<b>(2.1)</b>	<b>4.3</b>	<b>(1.3)</b>	<b>3.5</b>	<b>(15.0)</b>	<b>(49.0)</b>	<b>34.0</b>	<b>(28.5)</b>	<b>13.5</b>	<b>(65.2)</b>	<b>(71.5)</b>	<b>6.2</b>	<b>(72.6)</b>
Group Overhead allocations	(1.2)	(1.4)	0.2	(1.7)	0.5	(10.7)	(12.8)	2.0	(15.3)	4.6	(14.6)	(16.8)	2.2	(19.6)
<b>EBIT - BAU</b>	<b>1.0</b>	<b>(3.4)</b>	<b>4.5</b>	<b>(3.0)</b>	<b>4.0</b>	<b>(25.8)</b>	<b>(61.7)</b>	<b>36.0</b>	<b>(43.9)</b>	<b>18.1</b>	<b>(79.8)</b>	<b>(88.3)</b>	<b>8.4</b>	<b>(92.2)</b>
One off Project costs (POOC)	(2.2)	(2.9)	0.7	(2.0)	(0.2)	(29.9)	(21.3)	(8.6)	(10.1)	(19.8)	(39.8)	(37.7)	(2.1)	(26.5)
<b>EBIT - Post Project Costs</b>	<b>(1.2)</b>	<b>(6.4)</b>	<b>5.2</b>	<b>(5.1)</b>	<b>3.9</b>	<b>(55.7)</b>	<b>(83.0)</b>	<b>27.4</b>	<b>(54.0)</b>	<b>(1.7)</b>	<b>(119.7)</b>	<b>(126.0)</b>	<b>6.3</b>	<b>(118.7)</b>
Network Payment	15.8	15.8	0.0	13.8	2.0	154.5	154.5	0.0	135.0	19.5	210.0	210.0	0.0	180.0
<b>EBIT pre exceptionals items</b>	<b>14.7</b>	<b>9.5</b>	<b>5.2</b>	<b>8.8</b>	<b>5.9</b>	<b>98.9</b>	<b>71.5</b>	<b>27.4</b>	<b>81.0</b>	<b>17.8</b>	<b>90.4</b>	<b>84.0</b>	<b>6.3</b>	<b>61.3</b>
Interest	(0.4)	(0.3)	(0.1)	(0.1)	(0.3)	(0.9)	(4.5)	3.6	(3.5)	2.6	(5.0)	(8.0)	3.0	(4.4)
Impairment	(1.6)	(7.2)	5.6	(4.8)	3.1	(40.0)	(71.0)	31.0	(17.1)	(22.8)	(124.1)	(132.7)	8.6	(36.2)
Exceptionals & Redundancy & Severance Costs	(0.5)	(14.3)	13.8	0.0	(0.5)	(39.4)	(68.0)	28.6	(1.3)	(38.1)	(114.3)	(108.4)	(5.9)	0.3
Government Grant Utilisation	5.2	18.7	(13.5)	0.0	5.2	55.4	110.2	(54.8)	0.0	55.4	182.0	200.0	(18.0)	0.0
Profit/(Loss) On Asset Sale	(0.1)	0.0	(0.1)	(0.0)	(0.1)	(28.0)	0.0	(28.0)	0.7	(28.8)	0.0	0.0	0.0	1.3
Colleague Share/ Business Transformation Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	(2.8)
<b>Total Profit/(Loss) Before Tax</b>	<b>17.3</b>	<b>6.4</b>	<b>10.9</b>	<b>3.9</b>	<b>13.4</b>	<b>45.9</b>	<b>38.2</b>	<b>7.7</b>	<b>59.8</b>	<b>(13.9)</b>	<b>29.0</b>	<b>34.9</b>	<b>(6.0)</b>	<b>19.5</b>

## Period vs. Budget

Operating profit (EBIT) of £14.7m was £5.2m favourable to budget.

BAU variance of £4.5m was mainly due to:

- Lower staff cost of £1.7m due to the number of vacancies/ efficiencies,
- Lower agents costs of £2.8m due to a £1m WHS provision release and VAT recovery impacts, and
- Lower non staff costs of £1.7m due to lower IT expenditure and lower Telephony costs, offset by
- Lower net income of £1.9m mainly due to Government Services; POCA, ID Services and FOOG and due to lower Mails income in the period.

One-off variance of £0.7m favourable was all due to:

- Lower project costs.

Below EBIT

The main adverse variance is the grant utilisation due mainly to slower spend on Network Transformation (NTP) than planned.

## YTD vs. Budget

Operating profit (EBIT) of £98.9m was £27.4m favourable to budget.

BAU variance of £36.0m was mainly due to:

- Higher net income of £6.9m mainly due to Mails and Financial Services income,
- Lower staff cost of £11.1m due to the number of vacancies and efficiencies being delivered so the contingency budget has not been required,
- Lower agents costs of £7.6m due to the WHS a provision release and the reversal of last year's accrual relating to Core Tier Payments,
- Lower non staff costs of £9.0m due to no Dangerous Goods cost and the delay to the committed Eagle sales capability expenditure, and
- Lower IB and overhead allocations of £3.0m, offset by
- Lower JV income of £1.6m.

One-off variance of £8.6m adverse was all due to:

- Higher project costs.

Below EBIT

The main variance remains the anticipated loss on sale of Midasgrange (POFS) recognised in P6 at £29.7m. The other variance is the underutilisation of the grant due to slower spend on programmes and capex, mainly NTP.

## YTD vs. Prior Year

Operating profit (EBIT) of £98.9m was £17.8m favourable to prior year.

Like for like variance of £18.1m was mainly due to:

- Higher net income of £21.9m primarily due to Mails and Financial Services,
- Lower agents costs of £7.5m mainly due to a one off payment made to agents last year, and
- Lower IB and overhead allocations of £6.5m due to separation. offset by
- Higher staff cost of £4.6m due to pay awards, and
- Higher non staff costs of £12.2m due to higher property, IT and marketing costs.

Non like for like variance of £0.3m adverse was due to:

- Higher project costs of £19.8m, offset by
- Higher Network payment of £19.5m.

Below EBIT

The main variance was the anticipated loss on sale of Midasgrange (POFS) and the spend and grant for Transformation.

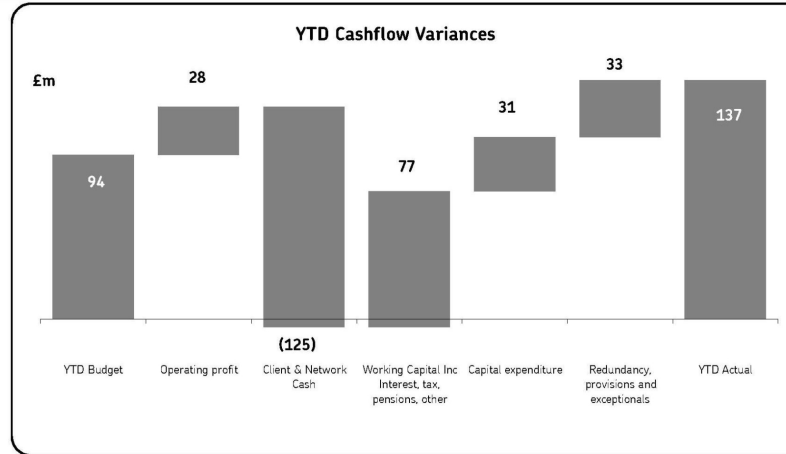
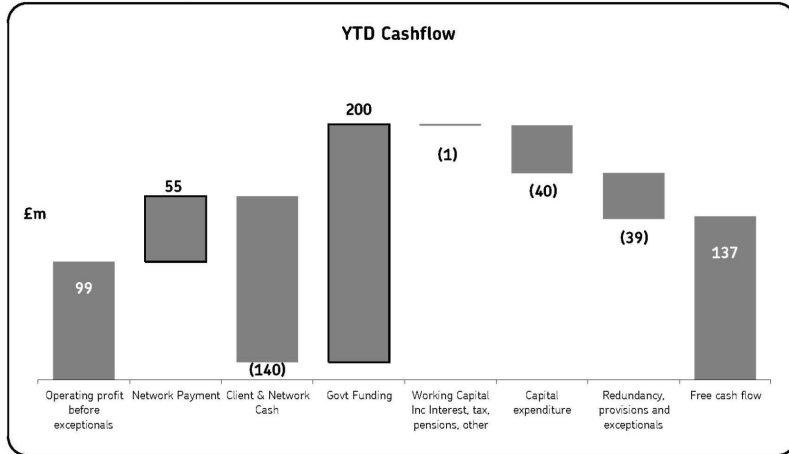
## Cashflow Analysis & Balance Sheet Summary

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December 2012

Cashflow to period 9 is a cash inflow of £137m versus a budget of £94m resulting in a favourable variance of £43m (P8 £130m F). The movement from last month is mainly Network Cash related, with both cash centres and branch holdings exceeding budget due to seasonal volatility of Christmas.



### Balance Sheet

£m	Mar-12	P9		
		Actual	Budget	Variance
Fixed Assets	101	78	115	(37)
Debtors	89	106	76	30
Cash	759	847	745	102
Client Balances	(194)	(142)	(166)	24
Trade Creditors	(245)	(459)	(306)	(153)
Pension (deficit)/surplus *	(206)	48	(199)	247
Provisions	(15)	(16)	(12)	(4)
Investments, Funding	48	65	114	(49)
Loan	(377)	(255)	(350)	95
<b>Net Assets</b>	<b>(40)</b>	<b>272</b>	<b>17</b>	<b>255</b>

Reserves	Mar-12	Actual	Budget	Variance
Capital and Reserves	40	(272)	(17)	(255)
	<b>40</b>	<b>(272)</b>	<b>(17)</b>	<b>(255)</b>

### Cash Management Table

£m	Prior Year P9	Mar-12 Opening	P9		
			Actual	Budget	var
Retail, Cash Centres	636	614	678	600	(78)
Bureau	40	54	44	40	(4)
Cheques, debit cards	124	91	125	105	(20)
<b>Network Cash</b>	<b>800</b>	<b>759</b>	<b>847</b>	<b>745</b>	<b>(102)</b>

	Opening	P9
<b>Headroom (£m)</b>	<b>509</b>	<b>792</b>

\* The balance sheet includes a half year estimate of the accounting position on the pension post sectionalisation.

### Cashflow

The YTD cashflow was an inflow of £137m which was £43m favourable to the £94m budget (period 8 was £130m favourable).

The £43m variance was mainly due to:

- EBIT £28m favourable to budget.
- Client balances and Network Cash combined were £125m adverse. Network Cash was overall £102m adverse to budget driven by a £58m adverse variance from cash centres, £20m adverse from branches (first adverse variance this year) and £20m adverse from cheque and debit card balances. Network Cash has improved post Christmas.
- Working Capital was £77m favourable to budget. This included a one-off timing variance of £60m as the budget assumption was the payroll would be run before the end of period 9. Trade debtors are also favourable to budget due to the prepaying of a telephony balance to Fujitsu, also high Bank of Ireland indebtedness, offset by high trade payable and Gamma creditors.
- Capital expenditure includes the unbudgeted £11m investment in Midasgrange (POFS associate) offset by £42m lower than budgeted other capital expenditure.

### Cash Management

- Retail and Cash Centre cash (manageable cost) - £78m adverse to budget, and £42m adverse to prior year. Of this variance, Cash Centres were £58m adverse to budget and branches were £20m adverse.
- Bureau (manageable cost) - £4m adverse to budget and prior year.
- Cheques and debit cards (customer driven) - £20m adverse to budget and £1m adverse to prior year.

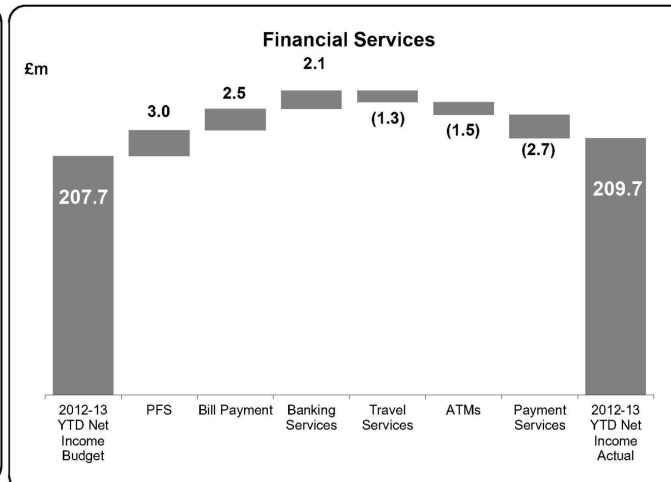
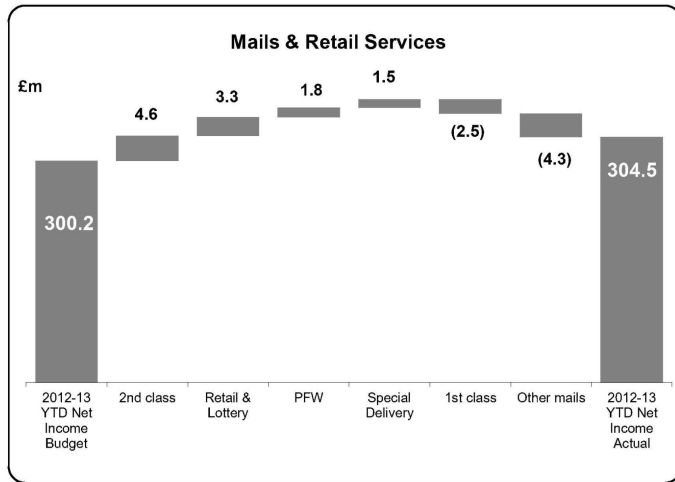
**Net Income By Pillar vs Budget**

December 2012

Strictly Confidential



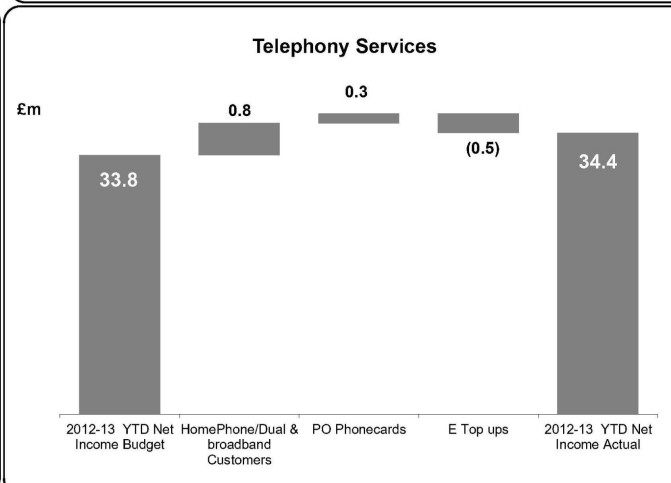
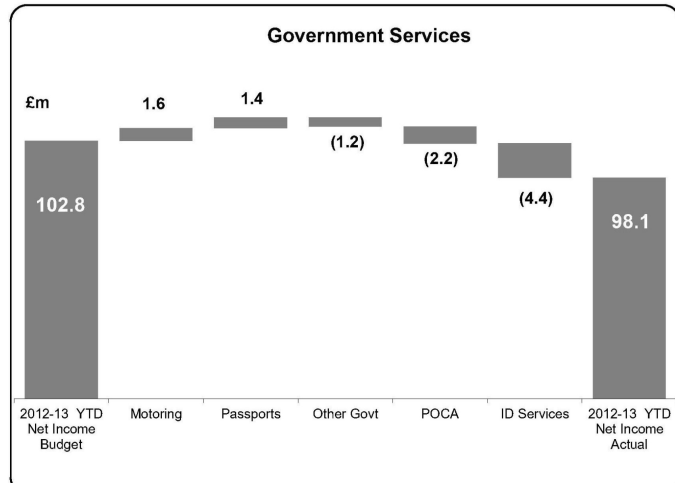
Net Income (£m)	Period			Prior Year Period		Year to Date			Prior Year YTD		Full Year			Prior Year	
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q2 Forecast	Budget	Variance	Outturn	Variance
Mails & Retail	43.8	44.4	(0.6)	44.1	(0.3)	304.5	300.2	4.3	295.7	8.9	406.3	403.8	2.5	387.5	18.8
Financial Services	22.5	22.2	0.3	20.4	2.1	209.7	207.7	2.0	198.1	11.6	276.7	274.7	2.0	261.5	15.2
Government Services	8.3	9.6	(1.3)	9.1	(0.8)	98.1	102.8	(4.7)	101.9	(3.8)	135.7	139.9	(4.2)	135.7	0.0
Telephony	3.8	3.5	0.3	3.3	0.5	34.4	33.8	0.6	31.6	2.8	45.2	45.7	(0.5)	41.4	3.8
Other	3.0	3.6	(0.6)	2.8	0.1	30.0	25.3	4.7	27.5	2.4	34.8	33.8	1.00	39.3	(4.5)
<b>TOTAL NET INCOME</b>	<b>81.3</b>	<b>83.2</b>	<b>(1.9)</b>	<b>79.6</b>	<b>1.7</b>	<b>676.7</b>	<b>669.7</b>	<b>6.9</b>	<b>654.8</b>	<b>21.9</b>	<b>898.7</b>	<b>897.9</b>	<b>0.8</b>	<b>865.3</b>	<b>33.4</b>



**Pillar Performance vs YTD Budget**

**Mails & Retail Services - £4.3m Fav**  
1st and 2nd Class Stamps £1.9m fav due to buy forward experienced prior to the May price increase. There was little erosion over Christmas. 1st and 2nd Class Labels £0.2 fav driven by higher 2nd class volumes, but lower 1st class volumes than in the plan. 1st class (both stamps and labels) YTD was £2.5m adverse, £1.6m of which relates to P9. PFW £1.8 fav driven by PF 24 & 48 - 39% higher volumes than plan and 34% higher than prior year. Special Delivery £1.5m fav driven by 2.7% higher volumes than plan and 0.1% higher than prior year. Retail & Lottery £3.3m fav Lottery £2.9m fav due to recent rollovers and retail £0.4m fav due to Jubilee and Olympic collectibles. Other Mails - £4.3m adv due to Dangerous Goods income (and costs) moving to next year.

**Financial Services - £2.0m Fav**  
PFS £3.0m fav driven by insurance related additional commissions. Bill Payment £2.5m fav driven by higher volumes and delay in lower pricing. Banking Services £2.1m fav driven by prior year adjustments and some volume increases (RBS). Travel (£1.3m) adv due to primarily to bureau (travel market down generally). Moneygram and Travel Insurance volumes also down. ATMs (£1.3m) adv due to delayed 550 rollout and hence lower volumes. Payment Services (£2.7m) adv due to the EU regulation relating to unused gift vouchers, extending their write back over a longer period of time. Also due to lower Postal Order and Post Office payout volumes.



**Government Services - (£4.7m) Adv**  
Motoring £1.6m fav primarily due to higher than planned volume. Passports £1.4m fav due to volumes and price increase. POCA (£2.2m) adv due to fewer accounts, greater ATM usage and impact of lower LIBOR rate. ID Services (£4.4m) adv due to lower DVLA volumes. UKBA rollout now complete, but volumes and income are still behind target.

**Telephony Services - £0.6m Fav**  
Homephone £0.8m fav - Current customer numbers stand at 479k, which is 13k higher than budget. Phonocards £0.3m fav - Higher than budget due to provision release related to previous provider. E Top ups £0.5m adv - lower volumes which are at 93% of target.

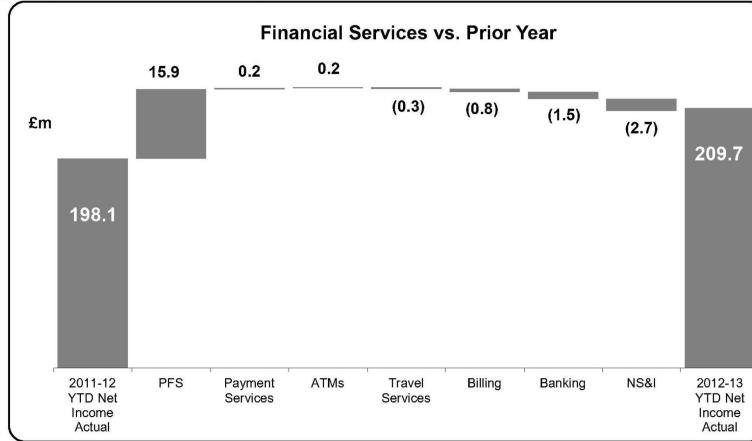
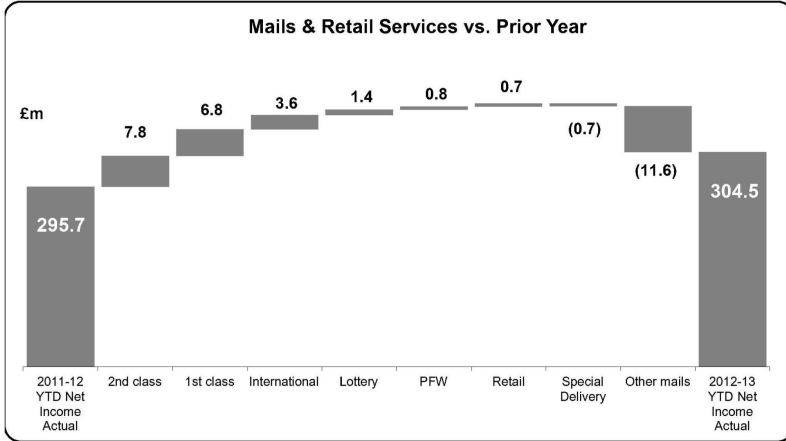
**Other - £4.7m Fav**  
Increased warehousing income from RM for Olympic stamps was £1m favourable. Remainder due to budget phasing of RM income changed post budget being set.

**Net Income By Pillar vs Prior Year**  
December 2012

Strictly Confidential



Net Income (£m)	Period			Prior Year Period		Year to Date			Prior Year YTD		Full Year			Prior Year	
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q2 Forecast	Budget	Variance	Outturn	Variance
Mails & Retail	43.8	44.4	(0.6)	44.1	(0.3)	304.5	300.2	4.3	295.7	8.9	406.3	403.8	2.5	387.5	18.8
Financial Services	22.5	22.2	0.3	20.4	2.1	209.7	207.7	2.0	198.1	11.6	276.7	274.7	2.0	261.5	15.2
Government Services	8.3	9.6	(1.3)	9.1	(0.8)	98.1	102.8	(4.7)	101.9	(3.8)	135.7	139.9	(4.2)	135.7	0.0
Telephony	3.8	3.5	0.3	3.3	0.5	34.4	33.8	0.6	31.6	2.8	45.2	45.7	(0.5)	41.4	3.8
Other	3.0	3.6	(0.6)	2.8	0.1	30.0	25.3	4.7	27.5	2.4	34.8	33.8	1.0	39.3	(4.5)
<b>TOTAL NET INCOME</b>	<b>81.3</b>	<b>83.2</b>	<b>(1.9)</b>	<b>79.6</b>	<b>1.7</b>	<b>676.7</b>	<b>669.7</b>	<b>6.9</b>	<b>654.8</b>	<b>21.9</b>	<b>898.7</b>	<b>897.9</b>	<b>0.8</b>	<b>865.3</b>	<b>33.4</b>



**Pillar Performance - Year on Year Variances**

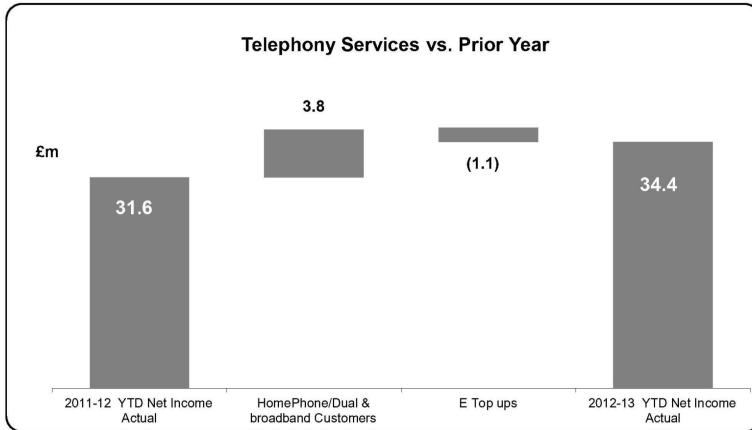
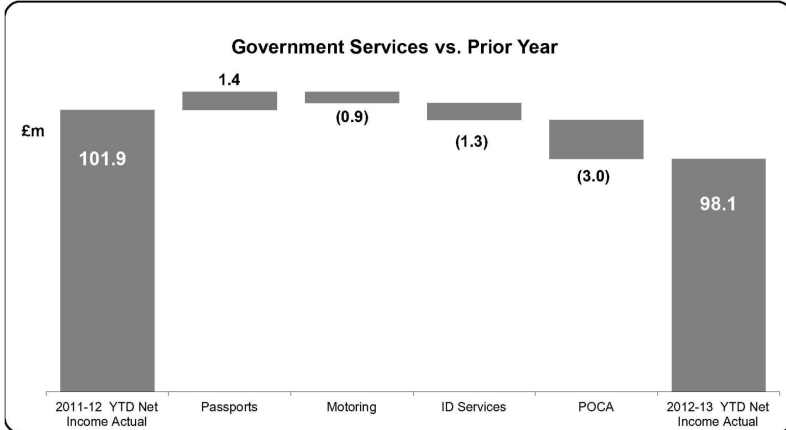
**Mails & Retail Services - £8.9m Fav**  
Overall strong volumes prior to the price increase from Royal Mail which came into effect at the end of period 1. The distribution agreement has reduced the fixed element and increased the variable element of income.  
1st and 2nd Class £14.6m fav - driven by price increases. Labels drive the majority of the variance.  
Other Mails £5.7m adv - driven by reduced fixed payment.

**Financial Services - £11.6m Fav**  
PFS £15.9m fav - driven by savings products. NS&I (£2.7m) adv - driven by NS&I withdrawing products from POL to sell directly.  
Banking (£1.5m) adv - driven by lower DWP Exceptions and lower Santander volumes.  
Billing (£0.8m) adv - driven by lower Energy, Telecoms and Housing income.  
Travel (£0.3m) adv - due primarily to Travel Insurance and Bureau (market down).

**Government Services - (£3.8m) Adv**  
Passports £1.4m fav - due to both volume and price increase.  
POCA (£3.0m) adv - due to fall in number of accounts and greater ATM usage.  
ID Services (£1.3m) adv - due to one off service level payment received last year.  
Motoring (£0.9m) adv - due to volume falls.

**Telephony Services - £2.8m Fav**  
HomePhone £3.8m fav - higher customer numbers.  
E-Top ups (£1.1m) adv - general volume decrease and lower pricing.

**Other - £2.4 Fav**  
Supply Chain - mainly increased warehousing related to stamp storage before the price rise and CVIT income.



## Crown Profit &amp; Loss Statement

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December 2012

£m	Period			Prior Year Period		Year To Date			Prior Year YTD		Full Year			Prior Year
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q2 Forecast	Budget	Variance	Outturn
Income and Distributions														
Variable income														
- Mails	5.2	4.9	0.3	4.6	0.6	34.6	30.7	3.9	28.6	6.0	44.7	40.1	4.6	37.6
- Financial Services	2.5	2.3	0.1	2.5	(0.1)	23.5	23.4	0.1	25.0	(1.5)	30.4	30.2	0.2	31.9
- Government Services	1.8	1.8	0.0	1.3	0.5	18.8	19.5	(0.7)	15.0	3.8	25.4	26.6	(1.2)	20.3
- Telephony	0.1	0.1	(0.0)	0.1	(0.0)	1.0	1.2	(0.2)	1.0	(0.0)	1.4	1.6	(0.2)	1.6
Fixed income	2.0	2.0	0.0	2.7	(0.7)	21.1	20.7	0.4	30.0	(8.9)	28.6	30.0	(1.4)	40.2
Gamma/ Other	0.7	1.1	(0.4)	0.8	(0.1)	8.0	8.7	(0.7)	6.9	1.1	11.7	12.2	(0.5)	11.4
Renewals and Retentions	1.6	0.7	0.8	0.3	1.2	7.4	8.7	(1.3)	3.1	4.2	10.3	11.2	(0.9)	4.1
<b>Total Income including Gamma/other</b>	<b>13.8</b>	<b>13.0</b>	<b>0.8</b>	<b>12.4</b>	<b>1.4</b>	<b>114.3</b>	<b>112.8</b>	<b>1.5</b>	<b>109.6</b>	<b>4.7</b>	<b>152.6</b>	<b>152.0</b>	<b>0.6</b>	<b>147.2</b>
Direct Product Costs	(0.4)	(0.6)	0.2	(0.5)	0.1	(5.2)	(5.6)	0.4	(3.9)	(1.2)	(7.4)	(7.4)	0.0	(5.9)
Branch costs														
- Staff	(8.1)	(8.7)	0.6	(9.0)	0.9	(86.4)	(87.5)	1.1	(88.4)	2.0	(117.5)	(117.5)	0.0	(119.2)
- Property	(2.8)	(3.0)	0.2	(3.0)	0.2	(25.9)	(28.5)	2.5	(29.8)	3.9	(39.0)	(39.0)	0.0	(41.8)
- Other branch costs	(0.4)	(0.5)	0.2	(0.4)	0.0	(4.1)	(5.1)	0.9	(4.8)	0.6	(6.8)	(6.8)	0.0	(6.3)
Infrastructure costs	(1.8)	(1.8)	0.0	(1.9)	0.1	(16.3)	(17.0)	0.7	(17.6)	1.3	(23.7)	(24.4)	0.7	(23.1)
Allocated central costs	(0.6)	(0.7)	0.2	(0.5)	(0.0)	(5.9)	(5.9)	(0.0)	(4.2)	(1.7)	(7.0)	(7.0)	0.0	(6.5)
<b>Total Expenditure</b>	<b>(14.1)</b>	<b>(15.4)</b>	<b>1.3</b>	<b>(15.4)</b>	<b>1.3</b>	<b>(143.9)</b>	<b>(149.4)</b>	<b>5.6</b>	<b>(148.7)</b>	<b>4.8</b>	<b>(201.4)</b>	<b>(202.1)</b>	<b>0.7</b>	<b>(202.7)</b>
JV Share of Profits	0.3	0.3	(0.0)	0.0	0.3	7.1	7.5	(0.4)	8.1	(1.1)	9.3	9.8	(0.5)	9.2
<b>Statutory PBIT</b>	<b>0.1</b>	<b>(2.1)</b>	<b>2.2</b>	<b>(2.9)</b>	<b>3.0</b>	<b>(22.5)</b>	<b>(29.2)</b>	<b>6.7</b>	<b>(31.0)</b>	<b>8.5</b>	<b>(39.4)</b>	<b>(40.3)</b>	<b>0.8</b>	<b>(46.4)</b>

## Summary

- Income is higher than target:
  - Pillar income is £3.1m favourable driven by Mails £2.1m including stamp sales earlier in the year ahead of the price increase and a strong performance on Priority Services £0.4m and Olympic Retail/Philatelic items £1.4m. This is offset by a shortfall in Government Services Income £0.7m
  - Retention income - The impact on the back book due to the delay in signing the Eagle contract.
- Costs are lower than plan:
  - Crown Staff costs are £1.1m favourable due to savings being generated earlier than planned and in advance of the full duty reviews. This will reduce as the costs of the increase in London Weighting and additional Productivity costs are absorbed.
  - Property costs are £2.5m favourable. This variance is due to the delay at the start of the year, when a full review of maintenance requirements for each branch was carried out.
  - Other branch costs are £0.9m favourable due to savings in the Sales training team. This was as a result of a structure changes that took place earlier in the year.
  - Infrastructure costs are £0.7m favourable due to budget efficiencies delivered in Branch; Losses £0.3m and Cash Holdings £0.2m.
  - All other costs, including allocated costs and JV, net off to £0.4m adverse.
- Forecasts:
  - There are a number of areas across both income and costs that are currently under review with the expectation that further opportunities will be taken to forecast, in line with the Q3 business forecast update.

**Business Scorecard**

December 2012

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Key Performance Indicators	Current Month			Year to Date			Prior Year	Full Year			2011-12 Outturn
	Act	Target	Var	Act	Target	Var		Q2 F'cast	Target	Var	
<b>Growth</b>											
Total Revenue (excluding NSP) £m (Bonus)	91.1	92.7	(1.7)	765.4	757.3	8.1	739.9	1,018.5	1,015.8	2.7	979.7
Total Net Income (excl NSP) £m	81.3	83.2	(1.9)	676.7	669.7	6.9	654.8	898.7	897.9	0.8	865.3
Operating profit £m (Bonus)	14.8	9.5	5.3	98.9	71.5	27.4	81.0	90.4	84.0	6.4	61.3
Free cashflow £m	(223.7)	(136.4)	(87.2)	136.6	93.8	42.7	(38.6)	(79.0)	(85.3)	6.3	(15.0)
Collections & Returns ability to serve RM (Milestones)	0	1	(1)	4	5	(1)	N/A	8	8	0	N/A
FOoG bid wins (value won) (Rev £m)	0.7	1.0	(0.3)	5.0	8.8	(3.9)	N/A	10.7	11.7	(1.0)	N/A
<b>Customer</b>											
Customer Satisfaction	87.7%	88.0%	(0.3)%	86.7%	88.0%	(1.3)%	86.8%	88.0%	88.0%	0.0%	86.9%
Queue time % < 5 minutes - Top 1k branches (Bonus)	73.5%	62.7%	10.8%	79.8%	77.4%	2.4%	76.1%	78.9%	78.9%	0.0%	77.8%
Welcome & Farewell - (mystery shopped) - Top 1k branches	81.0%	85.9%	(4.9)%	83.7%	85.9%	(2.2)%	80.8%	85.9%	85.9%	0.0%	81.5%
Call Centres 3D (Bonus)	110.7%	100.0%	10.7%	107.0%	100.0%	7.0%	103.0%	100.0%	100.0%	0.0%	105.5%
Retail Standards (actual) - Top 1k branches	84.2%	84.9%	(0.7)%	85.0%	84.9%	0.1%	83.6%	84.9%	84.9%	0.0%	84.1%
Horizon availability	99.8%	99.6%	0.2%	99.8%	99.6%	0.2%	99.9%	99.6%	99.6%	0.0%	99.5%
Branch - Compliance (new basket)	100.0%	95.0%	5.0%	98.6%	95.0%	3.6%	N/A	95.0%	95.0%	0.0%	N/A
<b>Modernisation</b>											
Crown Profit (Loss) £m (Bonus)	0.1	(2.1)	2.2	(22.5)	(29.2)	6.7	N/A	(40.3)	(40.3)	0.0	(46.4)
Engagement Index % (Once a year)	64%	65%	(1)%	64%	65%	(1)%	58%	65%	65%	0%	64%
Network Conversions (Mains & Locals) (Bonus)*	149	125	24	507	459	48	N/A	1200	1200	0	184
IT Transformation (Milestones)	0	1	(1)	9	10	(1)	N/A	12	12	0	N/A

Bonus worthy metrics

\* The Network Conversion targets were rebaselined in period 9 with the full year target remaining at 1200.



## Progress Against Funding Plan Commitments

December 2012

	Will miss	At risk	On target	
Key Performance Indicators	2012-13	2013-14	2014-15	End State Mar-15
<b>Maintain network of 11,500 offices</b>				
Performance against target				
<b>Maintain accessibility criteria</b>				
Performance against target				
<b>Eradicate loss in Crowns</b>				
Target £m	(40)	(20)	0	0
2012 Q2 Forecast £m	(40)	(20)	0	0
<b>Conversions to new operating models</b>				
Mains				
Target	800	1,600	1,600	3,830
2012 Q2 Forecast £m	800	1,600	1,600	4,000
Locals				
Target	400	800	800	2,000
2012 Q2 Forecast £m	400	800	800	2,000
<b>Customer experience</b>				
Target				>86.6%
December actual	86.7%			
<b>Grow net income *</b>				
Target £m	23	15	60	
2012 Q2 Forecast £m	23	15	60	
<b>PBIT</b>				
Target £m	84	102	99	
2012 Q2 Forecast £m	90	102	99	
<b>PBIT excluding NSP</b>				
Target £m	(126)	(98)	(61)	
2012 Q2 Forecast £m	(120)	(98)	(61)	
<b>Cashflow</b>				
Target £m	(155)	(141)	(170)	
2012 Q2 Forecast £m	(79)	(141)	(170)	

\* includes profits from Associates and Joint Ventures, and is as compared with the forecast 10/11 income of £907m in the Funding Plan.

Agreed outcome from page 3 of the Government Funding and Strategic Plan (2012/13 to 2014/15)

Internal Commitment

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# Cost Management Report



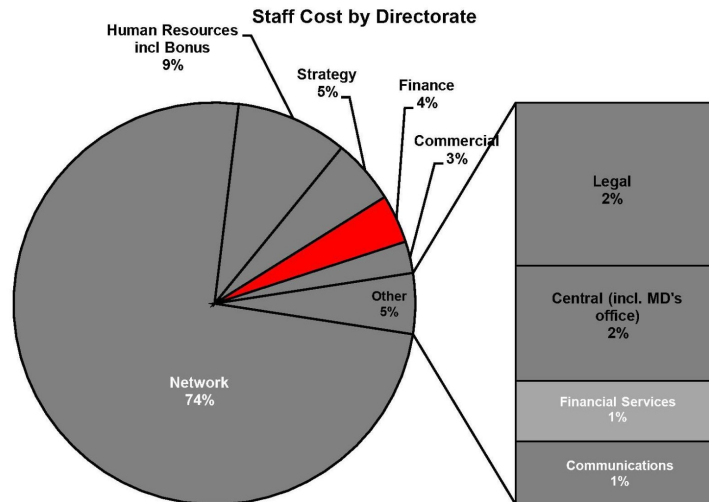
**Staff Cost by Directorate**  
December 2012

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£m	Year to Date			Prior Year YTD		Full Year			YTD Headcount		
	Actual	Budget	Variance	Actual	Variance	Q2 Forecast	Budget	Variance	Actual	Budget	Variance
Staff Cost by Directorate											
Central (incl. MD's office)	(2.6)	(10.9)	8.3	(2.8)	0.1	(10.7)	(14.5)	3.8	13	8	(5)
Commercial	(4.8)	(4.9)	0.0	(3.7)	(1.1)	(6.8)	(6.5)	(0.3)	102	104	2
Communications	(1.5)	(1.4)	(0.0)	(0.6)	(0.9)	(1.9)	(1.9)	0.0	33	25	(8)
Human Resources	(3.9)	(3.7)	(0.1)	(3.6)	(0.3)	(4.9)	(4.6)	(0.3)	103	124	21
HR - Centrally Held Bonus Payments	(13.1)	(13.3)	0.2	(12.2)	(0.9)	(18.0)	(18.0)	0.0	-	-	-
Financial Services	(1.4)	(3.5)	2.1	(1.2)	(0.2)	(3.4)	(4.7)	1.3	62	44	(18)
Finance	(7.4)	(7.4)	0.0	(6.9)	(0.5)	(10.0)	(9.8)	(0.2)	231	237	6
Network	(140.9)	(140.8)	(0.1)	(141.8)	0.8	(189.7)	(189.6)	(0.1)	6,968	7,000	32
Supply Chain	(41.3)	(40.8)	(0.5)	(39.7)	(1.5)	(55.3)	(55.1)	(0.2)	1,583	1,566	(17)
Crowns	(84.8)	(86.2)	1.4	(86.9)	2.1	(115.1)	(115.9)	0.8	4,613	4,584	(29)
Other Network	(14.9)	(13.9)	(1.0)	(15.1)	0.3	(19.2)	(18.6)	(0.6)	772	850	78
Legal	(3.7)	(4.2)	0.5	(3.1)	(0.6)	(5.3)	(5.6)	0.3	87	94	7
Programme costs	(0.1)	0.0	(0.1)	(0.0)	(0.1)	0.0	0.0	0.0	-	-	-
Strategy	(9.9)	(10.2)	0.3	(8.7)	(1.1)	(13.1)	(13.7)	0.6	246	225	(21)
C&IS / Managed Services	(9.4)	(9.3)	(0.0)	(8.3)	(1.1)	(12.4)	(11.5)	(0.9)	238	221	(17)
Strategy / Programme office	(0.5)	(0.8)	0.4	(0.4)	(0.1)	(0.7)	(2.2)	1.6	8	4	(4)
<b>Total Staff Costs</b>	<b>(189.2)</b>	<b>(200.4)</b>	<b>11.1</b>	<b>(184.6)</b>	<b>(4.6)</b>	<b>(263.8)</b>	<b>(268.9)</b>	<b>5.1</b>	<b>7,845</b>	<b>7,861</b>	<b>16</b>

PY Actual 7,720  
PY Variance (125)

\* Includes CTP and NTP Heads



YTD Staff Costs are £11.1m favourable to budget. £8.3m is held centrally and is made up of lower than budgeted LTIP payments and the remainder is a favourable variance for the centrally held £5m staff cost contingency budget. £2.1m is within the Financial Services directorate and is due to the delay in implementing Eagle and the associated headcount. Crown staff costs are favourable despite delays to the Crown Transformation duty reviews as branches have been challenged to deliver their own efficiencies. The staff efficiency task for Network is in the 'other Network' budget and is covered by the savings in Crowns.

Vs. Prior Year  
The staff costs are £4.6m adverse due primarily to pay awards and centrally held bonus payments, but also to increased use of staff, both temporary and permanent such as F0oG and the new communications directorate.

Headcount of 7,845 is 16 below plan and is due to vacancies with the Network directorate, of which the majority of vacancies are within the Network Transformation Programme (NTP). The adverse variance in Crowns is due to the delay to the duty reviews. Tight control of recruitment has partially mitigated this. Vs. prior year headcount has increased by 125 primarily due to NTP.

**Non Staff Cost by Directorate & Type**  
December 2012

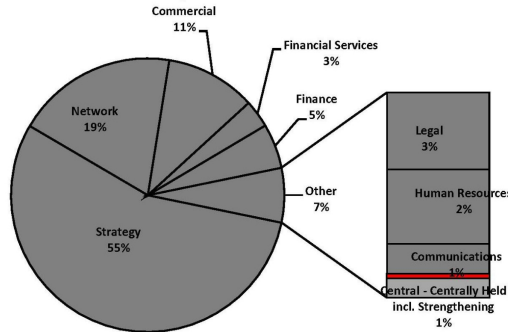
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£m	Year to Date			Prior Year YTD		Full Year		
	Actual	Budget	Variance	Actual	Variance	Q2 Forecast	Budget	Variance
Non- Staff Cost by Directorate								
Central - Centrally Held incl. Strengthening	(0.7)	0.8	(1.4)	3.7	(4.4)	(3.9)	(1.6)	(2.3)
Commercial	(12.1)	(17.3)	5.2	(8.4)	(3.6)	(16.4)	(21.7)	5.3
Communications	(1.1)	(1.2)	0.1	(0.4)	(0.7)	(1.5)	(1.5)	0.0
Finance	(6.0)	(5.6)	(0.3)	(4.2)	(1.8)	(9.0)	(8.2)	(0.8)
Financial Services	(3.7)	(5.5)	1.8	(4.5)	0.8	(7.3)	(7.5)	0.2
Human Resources	(2.6)	(2.8)	0.2	(3.6)	1.0	(3.7)	(3.7)	(0.0)
Network	(21.5)	(24.2)	2.7	(20.5)	(1.0)	(31.8)	(32.3)	0.5
Supply Chain	(11.3)	(13.0)	1.8	(11.7)	0.4	(16.2)	(16.9)	0.7
Crowns	(2.3)	(3.4)	1.1	(2.9)	0.6	(4.2)	(4.5)	0.3
Other Network	(7.9)	(7.8)	(0.1)	(5.9)	(2.1)	(11.4)	(11.0)	(0.4)
Legal	(2.7)	(3.87)	1.1	(2.4)	(0.3)	(5.4)	(5.2)	(0.2)
Programme costs	(0.2)	0.0	(0.2)	(0.1)	(0.0)	0	0	0
Strategy	(62.3)	(62.0)	(0.3)	(60.2)	(2.1)	(84.6)	(84.4)	(0.2)
C&IS / Managed Services	(61.7)	(61.8)	0.1	(60.1)	(1.6)	(84.5)	(84.4)	(0.1)
Strategy/Programme office	(0.6)	(0.1)	(0.5)	(0.1)	(0.5)	(0.1)	0	(0.1)
<b>Total Non Staff Costs</b>	<b>(112.7)</b>	<b>(121.7)</b>	<b>9.0</b>	<b>(100.5)</b>	<b>(12.2)</b>	<b>(163.6)</b>	<b>(166.2)</b>	<b>2.6</b>

£m	Year to Date			Prior Year YTD		Full Year		
	Actual	Budget	Variance	Actual	Variance	Q2 Forecast	Budget	Variance
Non- Staff Cost by Type								
Computers & Telephones	(55.2)	(61.3)	6.1	(53.8)	(1.4)	(77.7)	0	(77.7)
Other Operating Costs	(13.5)	(13.3)	(0.2)	(14.0)	0.5	(20.6)	0	(20.6)
Consultancy, Marketing & Legal Fees	(19.9)	(13.7)	(6.2)	(8.0)	(11.9)	(28.4)	0	(28.4)
* Skills Group external contractors	(9.3)	(1.1)	(8.3)	(0.6)	(8.7)	(12.0)	(1.4)	(10.5)
Remainder	(10.5)	(12.6)	2.0	(7.3)	(3.2)	(16.4)	1.4	(17.9)
Finance	(12.3)	(11.6)	(0.7)	(9.8)	(2.5)	(17.2)	0	(17.2)
Property Facilities	(5.0)	(5.1)	0.1	(3.8)	(1.2)	(7.1)	0	(7.1)
Property Maintenance	(4.4)	(4.0)	(0.5)	(3.3)	(1.1)	(5.6)	0	(5.6)
Vehicles	(1.8)	(1.7)	(0.1)	(1.5)	(0.3)	(2.4)	0	(2.4)
Compensation	(0.7)	(0.8)	0.0	2.0	(2.7)	(1.0)	0	(1.0)
Collection, Delivery & Conveyance Charges	(0.9)	(0.5)	(0.4)	(0.7)	(0.2)	(0.9)	0	(0.9)
Staff & Agent Related Costs & Consumables	0.9	(9.8)	10.7	(7.7)	8.6	(2.6)	0	(2.6)
* Skills Group off-charges to projects	12.3	3.2	9.1	4.2	8.1	15.0	4.4	10.6
Remainder	(11.5)	(13.1)	1.6	(12.0)	0.5	(17.6)	(4.4)	(13.2)
<b>Total Non Staff Costs</b>	<b>(112.7)</b>	<b>(121.7)</b>	<b>9.0</b>	<b>(100.5)</b>	<b>(12.2)</b>	<b>(163.6)</b>	<b>0.0</b>	<b>(163.5)</b>

**Non Staff by Directorate**



The Central directorate has a positive prior year actual which relates to the WHS TUPE transfer provision release.

Variance  
YTD non people costs were £9.0m favourable to budget and £12.2m adverse to prior year.

**By Directorate**

**Vs. Budget**  
The Commercial directorate was £5.2m favourable due primarily to the planned dangerous goods costs not being incurred this year.  
The Network directorate was £2.7m favourable due primarily to Supply Chain equipment budget being higher than required.  
Financial Services was £1.8m favourable due to the delay in Eagle implementation.

**Vs Prior Year**

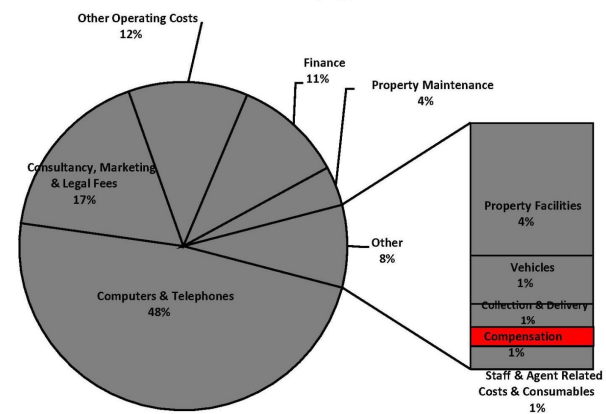
Central - last year included a £2.4m release relating to the WHS TUPE transfers. The remainder in central relates to provision reassessment for personal injury and vacant leasehold.

This year Commercial has increased spend for 'point of sale' and rebranding. Other marketing budgets have also been centralised under this directorate.

**By Type**

YTD versus budget variance was driven by lower IT costs (Paystation), lower legal costs and lower consumables (printing), with the variance against prior year being driven by higher compensation costs (one off relates to CWU TUPE claim last year), marketing costs and higher legal costs

**Non Staff by Type**



\* Skills group is the internal 'consultancy' providing project resource made up of a mixture of employees topped with contractors. If demand is high the contractor spend increases but this is offset by higher recharges to projects.

## Transformation Summary

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December 2012



### Summary

Good progress across a number of programmes but slippage in key milestones on a number of others.

- Specific focus being placed on assessment of alternative options to smooth impact of Separation on costs and delivery. Impact of these on related programmes Finance Transformation and IT&C Transformation being assessed.
- Significant uncertainty on Capex spend (as well as exceptional spend) during balance of year remains with continued risk of underspend against forecast. Opex spend more robust but requires tight management over Q4 to ensure costs remain supportive of P&L expectations.
- Headline funding in support of FY13-14 change plans agreed. Focus now turning to Capex spend and development of detailed planning and assessment of delivery.

### Key milestone hit in last month

- FOoG: DWP framework contract signed. Commercial discussions on IDA call off contract underway
- Crown Transformation: Preferred supplier for provision of automated Post and Go solution agreed in principle (subject to Programme Board ratification)
- Penguin: Agency route to market (with FRES) agreed in principle by programme board. Commercial discussions underway
- IT&C Transformation: SISD supplier process progressed to next phase with supplier shortlist reduced to three
- Separation: Four week options review started

### Key milestones missed in last month (see Transformation Delivery page for supporting detail)

- Crown: Finalisation of Post and Go supplier delayed to end January to allow completion of commercial discussions.
- Polo: Commercial negotiations agreed in principle but not signed off by ExCo / POL Board.
- Mails: Collections and Returns: Implementation moved from April to mid July due to prioritisation of Crown / Channel Integration activity.
- Telephony: Home Phone and Broadband integrated migration plan between Fujitsu and BT continues to be delayed.
- Finance Transformation: Supplier contract for Core solution implementation partner not signed.

**Transformation Delivery**

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December 2012

Will miss	At risk	On target
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↓ Increasing risk over last month trending towards higher level RAG status

↑ Reducing risk over last month trending towards lower level RAG status

Programme / Project	Plan	Spend	Benefits*	Headlines
			£m	
FOoG Sales Pipeline		↓	3.5	DVLA contract for extended services signed with activity now moving into implementation. Key timings being confirmed with April target likely dependent on other DVLA supplier capacity to support. DWP framework contract signed, now progressing contract negotiations in relation to on call off contract (and related contract with Logica) agreement expected by end Jan in support of target service commencement date of October. Significant spend on Logica in Q4 at some risk.
Network Transformation		↓	3.0	Delivery of programme to FY12-13 targets (confirmed as 1200 contracts signed) remains very challenging, however progress continues with daily tracking against required programme beat rate with good progress maintained over Christmas period resulting in delivery in line with "minimum" targets. FCA's continue to account manage Agents through process especially re completion of financial assessments / contract signatures. Multiples team continue to engage with Partners strategically to gain confirmation to proceed.
Crown Transformation			13.1	Decision on preferred Post and Go supplier currently being ratified by Programme Board. Commercial / contractual discussions now underway - target completion date by 21st January. Two strategic pilots are now underway with a further three on track to go live 4th Feb (Chester, New Malden, Camden). Extensive planning work on Franchising workstream underway with overall approach agreed at December Programme Board.
IT&C Transformation		↓	(0.1)	Evaluation of SISD supplier submissions completed with shortlist (down to three) agreed and planned for communication to suppliers and internally on 8th January. Next phase of SISD dialogue due to commence 15th January (for 6 weeks). Planning activity for towers procurement continues. Work on an integrated plan across IT&C, IT, Separation and Finance Transformation continues but being impacted by activity in January on separation options. Potential bring forward of spend into 12-13 still under review.
IT Delivery			0.8	Channel Integration: Phase 2a and Post Office Managed Switch on plan and integrated plan with Crown Automation near completion. Channel Integration and Post and Go2 project boards to be amalgamated to avoid duplication. Salesforce: Brands extract and further customer e-mailing to be trialled to determine if expected benefits can be achieved. Discussions underway on transferring sponsorship to Financial Services. Benefits forecast for this year now £0.4m, but future years contribution of £1.3m still expected.
FS: Polo			N/A 12/13	Commercial terms for the current account business (PoC and wider rollout) have been agreed in principle between PO and BOI with endorsement to be sought at both businesses Boards in January. Operational and technical solutions in place and live testing with colleagues underway. Public proof of concept now due April 2013, with planning underway for full roll out in October.
FS: Penguin			0.1	Launch of Pre Paid card via an agency agreement with FRES agreed in principle by project board. Business case and contract due in February following commercial discussions with FRES. Launch of PO branded card due September 2013.
Mails Collections & Rtns			0.8	Collections: Decision to prioritise Fujitsu resource on Channel Integration has resulted in a delay in implementation of C&R to Mid July 2013. Impact of delay on project spend and benefits is being assessed with aim of maximising spend out of 12/13 budgets. Engagement with the 4k branches for out of hours services (needed for both Collections and Returns) cannot start until the RM business case is signed off and therefore at risk. Benefits green mainly due to Returns income above plan.
Mails: Drop & Go			0.5	2100 branches live with technical solution and 1554 active customers. Q4 marketing activity planned to increase customer take up, forecast to reach 7K of the 10k target by year end. Now unlikely that income growth will be enough to enable £0.5m contribution this year due to slower than planned customer take up.
Mails : Small Bus Club			N/A 12/13	Phase 1 and 2 feasibility studies due in January and April. Scope of phase one implementation (due April 13) to be determined through feasibility study. Quick wins business case, covering Drop and Go product enhancements and promotions approved and activities currently being planned for Q4 12/13.
Independence & Separation			N/A 12/13	Options currently being investigated for the separation of IT and Finance systems from RM. Potential solution could result in existing supplier (CSC) continuing to supply the services via a direct contractual relationship with Post Office. Evaluation of options due to complete by end Jan. Physical Security services extension to 1st March 13 required to agree new debarment register processes between RMG and POL.
Finance Transformation			N/A 12/13	Core: The options under consideration for Separation and the potential wider support services strategy are impacting the programme. The programmes recommendation is to continue with a controlled contract award (ensuring we only commit to limited activity) and complete the detailed design stage. This will run in parallel with the Separations analysis, full discussion of options and implications at FRP Board on 9th January. : April contract award at risk following detailed planning of Proof of Concept activities. Roll out of FMI is also impacted by any delay to the new Core Finance system and the support services strategy.
Telephony	HP&BB ↓		N/A 12/13	HP&BB: System and Call Centre build progressing to plan. Migration planning not agreed between PO, BT and Fujitsu, main issue is data extraction times, which is being escalated to challenge Logica/BT's assumptions. If Logica/BT reduce data extraction times migration will be significantly easier and July migration will be achievable. Mobile: New programme board established where delivery plan was baselined and agreement was given to issue RFP on 9th January.

\* figures represent in £m the contribution target for 2012-13 expressed as change from 2011-12

## Project Costs (OpEx)

December 2012

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Opex costs continue to track below the baseline forecast mainly due to non-transformational projects, and is tracking towards the £40.0m overall forecast.

Transformation Group	Programme	Current Month			Year To date			Full Year		
		Actual	Q2 Baselined Forecast	Var	Actual	Q2 Baselined Forecast	Var	Q2 Forecast	FY Budget	POLIC Approved to Date
Transformation	FOoG	(0.3)	(0.3)	(0.0)	(4.1)	(4.1)	0.0	(5.0)	(3.8)	(4.6)
	IT Delivery	(0.1)	(0.1)	(0.0)	(1.7)	(1.2)	(0.5)	(1.5)	(1.6)	(1.3)
	IT Transformation	(0.1)	-	(0.1)	(0.2)	(0.0)	(0.1)	(0.0)	(5.4)	(6.2)
	Independence & Efficiency	(0.3)	(0.3)	0.0	(2.2)	(2.1)	(0.1)	(3.0)	(4.1)	(2.7)
	Mails	(0.1)	(0.6)	0.5	(0.8)	(2.4)	1.6	(4.1)	(4.9)	(2.1)
	Telephony	(0.2)	(0.3)	0.1	(1.5)	(1.9)	0.4	(3.7)	(6.6)	(3.7)
	Customer Engagement	(0.2)	-	(0.2)	(9.6)	(9.4)	(0.2)	(9.7)	(7.5)	(7.8)
	Digital	(0.0)	-	(0.0)	(0.0)	(0.0)	(0.0)	0.0	-	-
	Financial Services	(0.1)	(0.1)	(0.0)	(1.1)	(0.9)	(0.2)	(1.3)	(2.3)	(1.3)
	Finance Transformation	(0.3)	-	(0.3)	(1.6)	(1.4)	(0.2)	(1.5)	-	(1.6)
<b>Transformation Total</b>		<b>(1.8)</b>	<b>(1.7)</b>	<b>(0.1)</b>	<b>(22.8)</b>	<b>(23.5)</b>	<b>0.7</b>	<b>(29.9)</b>	<b>(36.1)</b>	<b>(31.2)</b>
	Network	(0.0)	-	(0.0)	(0.7)	(1.2)	0.5	(1.2)	(0.8)	(1.0)
	Property	(0.0)	(0.0)	0.0	(1.0)	(0.9)	(0.1)	(1.1)	(1.0)	(0.9)
	Supply Chain	(0.0)	(0.0)	(0.0)	(0.5)	(0.4)	(0.1)	(0.4)	(0.1)	(0.7)
<b>Network Total</b>		<b>(0.1)</b>	<b>(0.1)</b>	<b>0.0</b>	<b>(2.2)</b>	<b>(2.5)</b>	<b>0.3</b>	<b>(2.7)</b>	<b>(1.9)</b>	<b>(2.5)</b>
	Mails	(0.1)	(0.1)	(0.0)	(0.7)	(0.7)	(0.0)	(0.8)	(1.8)	(0.7)
	Telephony	0.0	-	0.0	(0.0)	0.0	(0.0)	0.0	-	-
	Customer Engagement	(0.2)	(0.2)	0.1	(0.3)	(1.3)	0.9	(1.9)	(2.0)	(1.5)
	Digital	(0.0)	-	(0.0)	(0.1)	(0.0)	(0.1)	(0.0)	(0.0)	(0.1)
<b>Commercial Total</b>		<b>(0.2)</b>	<b>(0.3)</b>	<b>0.1</b>	<b>(1.2)</b>	<b>(2.0)</b>	<b>0.8</b>	<b>(2.8)</b>	<b>(3.8)</b>	<b>(2.3)</b>
	Legal & Compliance	0.0	(0.0)	0.0	(0.1)	(0.1)	(0.0)	(0.1)	(0.2)	(0.1)
	Security	(0.0)	(0.1)	0.1	(0.3)	(0.5)	0.2	(0.7)	(0.2)	(0.5)
<b>Legal &amp; Compliance Total</b>		<b>(0.0)</b>	<b>(0.1)</b>	<b>0.1</b>	<b>(0.5)</b>	<b>(0.6)</b>	<b>0.1</b>	<b>(0.8)</b>	<b>(0.4)</b>	<b>(0.6)</b>
IT & Change	Mandatory IT	0.0	(0.0)	0.0	(0.1)	(0.5)	0.4	(0.6)	(1.9)	(0.1)
FS	Financial Services	(0.1)	(0.3)	0.2	(0.8)	(1.6)	0.9	(1.7)	(2.5)	(0.5)
Finance	Finance	(0.0)	(0.0)	0.0	(0.6)	(0.3)	(0.3)	(0.4)	-	(0.2)
HR	PO Story	(0.1)	(0.3)	0.2	(1.2)	(1.6)	0.5	(2.7)	(3.2)	(2.2)
Comms	Communications	(0.0)	(0.1)	0.1	(0.5)	(0.7)	0.1	(0.9)	-	(0.4)
Crown	Crown	0.0	-	0.0	(0.0)	(0.0)	(0.0)	(0.0)	-	-
	Client Funded	0.1	-	0.1	0.2	-	0.2	-	-	-
	Old Programmes/Direct Posting	0.0	-	0.0	0.0	-	0.0	-	-	-
Central	Centrally Held	-	-	-	-	-	-	(2.8)	-	3.0
<b>Non Transformation Total</b>		<b>(0.5)</b>	<b>(1.3)</b>	<b>0.8</b>	<b>(6.8)</b>	<b>(9.8)</b>	<b>3.0</b>	<b>(12.7)</b>	<b>(16.5)</b>	<b>(5.8)</b>
<b>Total Opex</b>		<b>(2.3)</b>	<b>(3.0)</b>	<b>0.7</b>	<b>(29.6)</b>	<b>(33.3)</b>	<b>3.7</b>	<b>(42.6)</b>	<b>(52.6)</b>	<b>(37.0)</b>
<b>Over Programmed</b>								2.6	14.9	
<b>Actual 2012-13 Budget</b>								(39.8)	(37.7)	

**Transformation**

Transformation opex spend to date remains only £0.7m below the baselined forecast.

Mails spend now £1.6m lower as cabinets for collections and returns are still not yet required.

IT Delivery forecast includes £0.6m for Risk and Resilience not yet started.

**All other**

To date spending is now £3.0m less than the baseline forecast.

Areas spending below Q2 forecast are now being rigorously reviewed. Main areas of focus are Customer Engagement (Product Direct Response Communications £0.5m and Customer Data Quality £0.2m); Financial Services where a range of smaller projects have not yet started; HR (talent management phase 2 not happened, £0.3m), and Network where London games cost £0.4m less and is already reflected in forecast

Over programmed:

The baseline forecast assumed that not all the planned costs of the projects would be required, and so £2.6m more spend was included than the total budget could accommodate.

## Project Costs (CapEx and Exceptionals)

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Uncertainty on the larger capex programmes continues, and there is also a £7.5m lag in the non-transformational capex, making the forecast uncertain.



Transformation Group	Programme	Current Month			Year To date			Full Year		
		Actual	Q2 Baselined Forecast	Var	Actual	Q2 Baselined Forecast	Var	Q2 Forecast	FY Budget	POLIC Approved to Date
Transformation	FOoG	0.0	(0.9)	0.9	(0.5)	(4.7)	4.2	(10.1)	(4.8)	(1.3)
	IT Delivery	(0.9)	(8.7)	7.8	(7.1)	(16.1)	9.0	(21.9)	(22.4)	(9.7)
	IT Transformation	(0.3)	-	(0.3)	(0.5)	(0.3)	(0.3)	(0.3)		(0.7)
	Independence & Separation	-	(0.2)	0.2	-	(0.4)	0.4	(0.5)	(0.5)	(0.5)
	Network Transformation	(1.1)	(0.2)	(1.0)	(6.5)	(16.8)	10.3	(33.8)	(44.5)	(43.3)
	Crown Transformation	0.0	(0.4)	0.4	(0.4)	(1.7)	1.3	(4.0)	(4.6)	(2.0)
	Mails	(0.1)	(0.2)	0.0	(0.2)	(1.3)	1.1	(1.5)	-	-
	Telephony	-	-	-	-	-	-	-	-	-
	Digital	(0.1)	-	(0.1)	(1.0)	(1.1)	0.2	(1.5)	(1.8)	(0.9)
	Financial Services	(0.0)	-	(0.0)	(0.1)	(0.3)	0.2	(0.6)		(0.0)
	Finance Transformation	(0.7)	-	(0.7)	(1.1)	(3.4)	2.3	(6.6)		(3.2)
<b>Transformation Total</b>		<b>(3.3)</b>	<b>(10.5)</b>	<b>7.1</b>	<b>(17.3)</b>	<b>(46.1)</b>	<b>28.7</b>	<b>(80.6)</b>	<b>(78.5)</b>	<b>(61.8)</b>
	Network	-	-	-	(0.0)	0.0	(0.0)	0.0		-
	Property	(0.2)	(0.5)	0.3	(2.1)	(3.5)	1.4	(6.3)	(5.1)	(2.9)
	Supply Chain	0.4	(0.9)	1.2	(2.6)	(4.1)	1.5	(10.8)	(30.9)	(11.2)
Network		0.2	(1.3)	1.5	(4.7)	(7.5)	2.9	(17.1)	(36.0)	(14.1)
	Mandatory IT	0.1	(1.3)	1.4	(5.6)	(8.4)	2.7	(10.3)	(11.2)	(9.7)
IT & Change		0.1	(1.3)	1.4	(5.6)	(8.4)	2.7	(10.3)	(11.2)	(9.7)
	Mails	(0.0)	-	(0.0)	(0.1)	(0.0)	(0.1)	(0.0)		-
	Telephony	(0.1)	(0.1)	(0.0)	(1.0)	(0.8)	(0.2)	(1.0)	(1.0)	(1.0)
	Digital	0.0	-	0.0	(0.2)	(0.8)	0.6	(1.2)	(0.9)	(0.2)
Commercial		(0.1)	(0.1)	0.0	(1.3)	(1.6)	0.3	(2.2)	(1.9)	(1.2)
FS	Financial Services	-	(0.2)	0.2	(0.1)	(0.4)	0.3	(0.8)	(0.5)	-
Finance	Finance	0.0	-	0.0	(0.1)	(0.1)	(0.0)	(0.1)		-
HR	PO Story	(0.0)	(0.1)	0.1	(0.2)	(0.5)	0.3	(0.8)	(0.9)	-
Legal & Compliance	Security	-	(0.4)	0.4	-	(0.7)	0.7	(1.1)		(0.1)
	Old Programmes	1.3	-	1.3	0.2	-	0.2	-		-
Central	Centrally Held			-			-		(3.7)	(45.8)
<b>Non Transformation Total</b>		<b>(1.9)</b>	<b>(13.9)</b>	<b>12.0</b>	<b>(29.0)</b>	<b>(65.2)</b>	<b>36.2</b>	<b>(113.1)</b>	<b>(132.7)</b>	<b>(132.7)</b>
<b>Total Capex</b>		<b>(1.9)</b>	<b>(13.9)</b>	<b>12.0</b>	<b>(29.0)</b>	<b>(65.2)</b>	<b>36.2</b>	<b>(113.1)</b>	<b>(132.7)</b>	<b>(132.7)</b>
<b>Exceptional</b>										
Transformation	IT Transformation	(0.8)	(0.6)	(0.2)	(5.3)	(5.4)	0.1	(7.1)		
	Financial Services	0.0	(0.1)	0.1	(1.8)	(2.6)	0.8	(3.0)	(3.0)	
	Network Transformation	(2.4)	(5.4)	2.9	(19.8)	(36.9)	17.1	(86.9)	(96.3)	(101.2)
	Crown Transformation	(0.1)	(0.4)	0.3	(2.6)	(16.1)	13.5	(17.2)	(9.1)	(20.2)
<b>Exceptional Total</b>		<b>(3.3)</b>	<b>(6.5)</b>	<b>3.2</b>	<b>(29.4)</b>	<b>(60.9)</b>	<b>31.5</b>	<b>(114.3)</b>	<b>(108.4)</b>	<b>(121.5)</b>

**Transformation**

NT capex spend to date is lower than the Q2 forecast because rollout costs did not ramp up so quickly and the IT project requirements reduced.

FOoG forecast costs of UKBA implementation not required as more had been paid last year and remaining capex is for DWP IDA.

**All other**

Significant areas not spending to forecast, and rigorous review of forecasts is underway.

IT spend on SAP upgrade project has been delayed (£1.5m forecast to date).

Property projects across the network and cash estate are behind forecast (£1.3m).

Supply Chain vehicles purchases are behind (£1.5m).

Security projects not started (£0.7m).

**Exceptionals - £31.5m underspent**

NT costs continue well below forecast and Crown VR costs not expected until Q4. IT&C have an expectation of bringing forward some activities.

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# Appendices

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**Cashflow Statement**

December 2012



	YTD			Full Year		
	Actual	Budget	Variance	Forecast Q2	Budget	Variance
Operating Profit	99.0	71.5	27.5	90.4	84.1	6.3
Depreciation	0.7	0.5	0.2	0.8	0.8	0.0
Working Capital	(16.1)	(80.1)	64.0	(47.4)	(47.4)	0.0
Client Balances	(52.0)	(27.9)	(24.1)	81.1	73.2	7.9
Network Cash	(87.5)	14.2	(101.7)	(162.7)	(147.5)	(15.2)
Dividends	2.8	(3.7)	6.5	(6.2)	(7.6)	1.4
Capital Expenditure	(40.0)	(71.0)	31.0	(124.0)	(132.7)	8.7
Government funding	200.0	200.0	0.0	200.0	200.0	0.0
NSP in advance	55.0	55.0	0.0	0.0	0.0	0.0
Exceptional Items	(38.5)	(71.0)	32.5	(124.2)	(112.4)	(11.8)
Pensions	0.6	1.3	(0.7)	1.8	1.8	0.0
Proceeds from asset sales	4.4	0.0	4.4	6.0	0.0	6.0
Free cashflow before interest, tax	128.4	88.8	39.6	(84.4)	(87.7)	3.3
Interest	(3.0)	(4.5)	1.5	(5.0)	(8.0)	3.0
Tax	11.2	9.4	1.8	10.4	10.4	0.0
Free Cashflow	136.6	93.7	42.9	(79.0)	(85.3)	6.3

## Income By Product Groups &amp; Pillar

December 2012

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Favourable pillars: Mails is £4.3m favourable, Financial Services £2.0m favourable and Telephony £0.6m favourable.  
Government Services is £4.7m adverse due to POCA and ID Services.  
Other income is £3.7m favourable and represents the Mails (IB) calendarisation agreed post the budget setting process.



Net Income £m	Current Month			Prior Year		Year to date			Prior Year		Full Year			Prior Year
	Actuals	Budget	Variance	Period Actual	Month (Yr On Yr)	Actuals	Budget	Variance	YTD Actual	YTD (Yr On Yr)	Q2 Forecast	Budget	Variance	2011/12 Outturn
Parcelforce	2.5	2.2	0.4	2.5	0.0	14.9	13.1	1.8	14.1	0.8	19.2	17.2	2.0	18.3
Special Delivery	4.7	5.1	(0.4)	5.3	(0.6)	39.4	37.9	1.5	40.1	(0.7)	51.9	50.5	1.4	53.3
International Priority & Standard	5.22	5.1	0.1	4.58	0.64	26.77	27.9	(1.2)	23.20	3.57	36.85	36.6	0.3	29.9
Stamps (1st & 2nd Class plus other stamps)	7.4	7.6	(0.2)	7.4	(0.0)	29.2	27.8	1.4	25.7	3.5	36.0	35.4	0.7	31.8
Labels (1st & 2nd Class)	10.59	11.0	(0.4)	10.38	0.21	75.77	75.6	0.2	64.58	11.19	101.44	100.4	1.0	83.9
RM Mail Fixed	4.4	4.4	0.0	6.8	(2.4)	42.6	45.5	(2.8)	66.1	(23.5)	57.9	63.6	(5.7)	88.1
Retail & Lottery	4.0	3.7	0.2	3.5	0.5	34.4	31.0	3.3	32.2	2.2	47.1	42.5	4.6	42.2
Mails Other	5.0	5.4	(0.3)	3.7	1.4	41.6	41.4	0.2	29.8	11.9	56.0	57.6	(1.6)	39.9
<b>Total Mail Services</b>	<b>43.8</b>	<b>44.4</b>	<b>(0.6)</b>	<b>44.1</b>	<b>(0.3)</b>	<b>304.5</b>	<b>300.2</b>	<b>4.3</b>	<b>295.7</b>	<b>8.9</b>	<b>406.3</b>	<b>403.8</b>	<b>2.5</b>	<b>387.5</b>
<b>Total Telephony Services</b>	<b>3.8</b>	<b>3.5</b>	<b>0.3</b>	<b>3.3</b>	<b>0.5</b>	<b>34.4</b>	<b>33.8</b>	<b>0.6</b>	<b>31.6</b>	<b>2.8</b>	<b>45.2</b>	<b>45.7</b>	<b>(0.5)</b>	<b>41.4</b>
Motoring Services	1.7	1.9	(0.3)	2.0	(0.3)	23.4	21.8	1.6	24.2	(0.9)	32.4	29.6	2.8	32.3
Card Account	5.0	5.4	(0.4)	5.5	(0.5)	50.0	52.2	(2.2)	53.1	(3.0)	66.9	69.3	(2.4)	70.2
Passport	0.8	0.6	0.1	0.6	0.1	14.8	13.4	1.4	13.4	1.4	20.0	19.0	1.0	18.8
AEI (DVLA & UKBA)	6.6	11.4	(4.8)	0.9	(0.2)	6.6	11.4	(4.8)	8.3	(1.7)	12.7	15.9	(3.3)	10.7
Other Government Services	(5.8)	(9.8)	4.0	0.1	0.0	3.2	4.0	(0.8)	2.9	0.3	3.8	6.2	(2.4)	3.8
<b>Total Government Services</b>	<b>8.3</b>	<b>9.6</b>	<b>(1.3)</b>	<b>9.1</b>	<b>(0.8)</b>	<b>98.1</b>	<b>102.8</b>	<b>(4.7)</b>	<b>101.9</b>	<b>(3.8)</b>	<b>135.7</b>	<b>139.9</b>	<b>(4.2)</b>	<b>135.7</b>
Bill Payment (incl Ticket & Travel)	3.1	3.1	0.0	3.1	0.0	30.4	27.9	2.5	31.1	(0.8)	39.6	37.7	1.9	40.5
Payout	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	(0.3)	0.7	(0.0)	0.4	(0.4)	0.2
Postal Orders	1.8	1.8	(0.0)	2.0	(0.2)	17.5	18.0	(0.5)	19.4	(1.9)	22.6	23.8	(1.2)	25.6
Fin Servs opportunities and projects	0.0	0.1	(0.1)	0.0	0.0	0.0	0.7	(0.7)	0	0	1.0	1.0	0	0
MoneyGram	1.3	1.5	(0.1)	1.5	(0.2)	11.5	11.9	(0.4)	10.9	0.6	15.6	15.8	(0.2)	14.4
Gift Voucher	0.4	1.2	(0.8)	0.7	(0.3)	0.9	2.4	(1.4)	1.3	(0.4)	2.9	2.9	0	0.9
Banking Services	2.2	2.1	0.1	2.4	(0.3)	20.6	19.3	1.3	19.2	1.4	28.2	25.9	2.3	25.3
DWP	0.3	0.2	0.1	0.6	(0.3)	3.1	2.4	0.7	5.7	(2.5)	4.0	2.7	1.3	7.9
NS&I	1.0	1.0	0	1.3	(0.3)	9.8	9.7	0.1	12.6	(2.7)	13.3	13.2	0.1	16.6
A&L Business Banking	2.9	2.8	0.0	2.9	(0.0)	25.8	25.8	0.1	26.3	(0.5)	34.3	34.3	0	34.2
ATM	2.3	2.5	(0.2)	2.4	(0.2)	22.5	24.0	(1.5)	22.3	0.2	30.7	32.4	(1.8)	29.3
Bureau (excl profit share)	1.6	1.4	0.2	1.5	0.1	18.8	19.3	(0.4)	19.2	(0.4)	22.9	23.7	(0.9)	24.1
Travel Insurance	0.4	0.3	0.1	0.4	(0.0)	7.3	7.2	0.1	7.4	(0.1)	9.0	8.5	0.6	8.9
POFS - Savings	4.3	3.2	1.1	1.5	2.8	27.4	27.7	(0.2)	12.8	14.7	34.5	37.2	(2.7)	15.7
POFS - Insurance	0.2	0.3	(0.1)	0.5	(0.3)	3.0	2.7	0.3	3.4	(0.3)	4.1	4.2	(0.2)	4.6
POFS - Lending	0.4	0.2	0.2	0.1	0.3	3.3	3.0	0.4	1.4	1.9	4.6	3.7	0.9	1.8
POFS Other	0.2	0.2	(0.0)	(0.1)	0.34	4.4	1.9	2.6	4.7	(0.31)	5.1	2.5	2.6	0.0
Miscellaneous (A&L - CLS, Debit Card, Bureau kiosks)	0.1	0.3	(0.2)	(0.4)	0.6	3.1	3.9	(0.8)	0.8	1.9	4.4	4.8	(0.4)	11.5
<b>Total Financial Services</b>	<b>22.5</b>	<b>22.2</b>	<b>0.3</b>	<b>20.4</b>	<b>2.1</b>	<b>209.7</b>	<b>207.7</b>	<b>2.0</b>	<b>198.1</b>	<b>11.6</b>	<b>276.7</b>	<b>274.7</b>	<b>2.0</b>	<b>261.5</b>
Other Income	0.7	1.2	(0.5)	0.6	0.1	7.4	3.7	3.7	6.6	0.7	3.5	3.5	0	10.9
Supply Chain	2.3	2.4	(0.1)	2.3	0.0	22.6	21.6	1.0	20.9	1.7	31.3	30.3	1.0	28.4
<b>Net Income</b>	<b>81.3</b>	<b>83.2</b>	<b>(1.9)</b>	<b>79.6</b>	<b>1.7</b>	<b>676.7</b>	<b>669.7</b>	<b>6.9</b>	<b>654.8</b>	<b>21.9</b>	<b>898.7</b>	<b>897.9</b>	<b>0.8</b>	<b>865.3</b>



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# Quarter 3 Forecast

## January 2013



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## Quarter 3 FYF Variances to Budget



## FYF Profit Performance - Lower staff and Agents costs drive the forecast over-performance but the last quarter forecast shows a reversal of the YTD favourable position

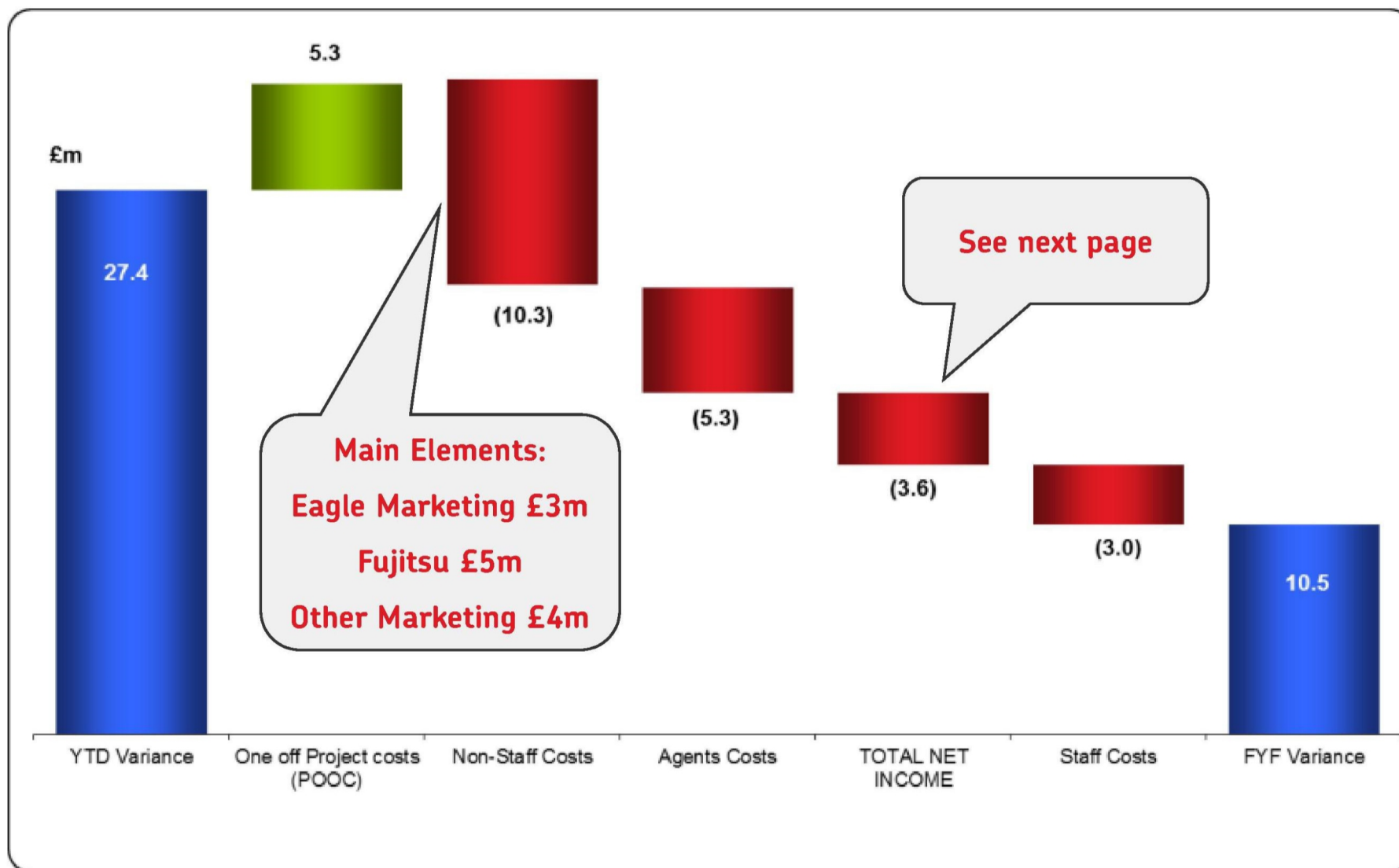
£m	2011-12 Outturn	2012-13 Budget	2012-13 Q2 FYF	2012-13 Q3 FYF	Difference Q3 vs Budget	Difference Q3 FYF vs Q2 FYF	2012-13 Q3 YTD Variance	2012-13 FYF Variance	Difference Q3 YTD var vs FYF var
<b>TOTAL NET INCOME</b>	865.3	897.9	898.7	901.2	3.3	2.5	6.9	3.3	(3.6)
Staff Costs	(251.3)	(268.9)	(263.8)	(260.8)	8.1	3.0	11.1	8.1	(3.0)
Agents Costs	(482.9)	(482.8)	(483.5)	(480.5)	2.3	3.0	7.6	2.3	(5.3)
Non-Staff Costs	(149.2)	(166.2)	(163.6)	(167.0)	(0.8)	(3.4)	9.0	(0.8)	(9.8)
Interbusiness Expenditure	(84.9)	(83.3)	(83.3)	(82.8)	0.5	0.5	1.0	0.5	(0.5)
Depreciation	(0.4)	(0.8)	(0.8)	(0.9)	(0.1)	(0.1)	(0.1)	(0.1)	0.0
<b>Total Expenditure</b>	<b>(968.7)</b>	<b>(1,002.0)</b>	<b>(995.1)</b>	<b>(992.0)</b>	<b>10.0</b>	<b>3.1</b>	<b>28.6</b>	<b>10.0</b>	<b>(18.6)</b>
POFS - Share Of Operating Profits	(0.6)	0.0	(0.4)	(0.6)	(0.6)	(0.2)	(0.6)	(0.6)	(0.0)
FRES - Share Of Operating Profits	31.4	32.6	31.5	31.5	(1.1)	(0.0)	(1.0)	(1.1)	(0.1)
<b>EBIT Pre Overhead Allocations</b>	<b>(72.6)</b>	<b>(71.5)</b>	<b>(65.2)</b>	<b>(59.9)</b>	<b>11.6</b>	<b>5.3</b>	<b>34.0</b>	<b>11.6</b>	<b>(22.4)</b>
Group Overhead allocations	(19.6)	(16.8)	(14.6)	(14.6)	2.2	0.0	2.0	2.2	0.2
<b>EBIT - BAU</b>	<b>(92.2)</b>	<b>(88.3)</b>	<b>(79.8)</b>	<b>(74.5)</b>	<b>13.8</b>	<b>5.3</b>	<b>36.0</b>	<b>13.8</b>	<b>(22.2)</b>
One off Project costs (POOC)	(26.5)	(37.7)	(39.8)	(41.0)	(3.3)	(1.2)	(8.6)	(3.3)	5.3
<b>EBIT - Post Project Costs</b>	<b>(118.7)</b>	<b>(126.0)</b>	<b>(119.6)</b>	<b>(115.5)</b>	<b>10.5</b>	<b>4.1</b>	<b>27.4</b>	<b>10.5</b>	<b>(16.9)</b>
Network Payment	180.0	210.0	210.0	210.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT pre exceptionals items</b>	<b>61.3</b>	<b>84.0</b>	<b>90.4</b>	<b>94.5</b>	<b>10.5</b>	<b>4.1</b>	<b>27.4</b>	<b>10.5</b>	<b>(16.9)</b>

**BAU loss is forecast to improve by £17.7m when compared to 2011-12**

**YTD Favourable variance of £27.4m is forecast to erode by £16.9m in the last quarter**

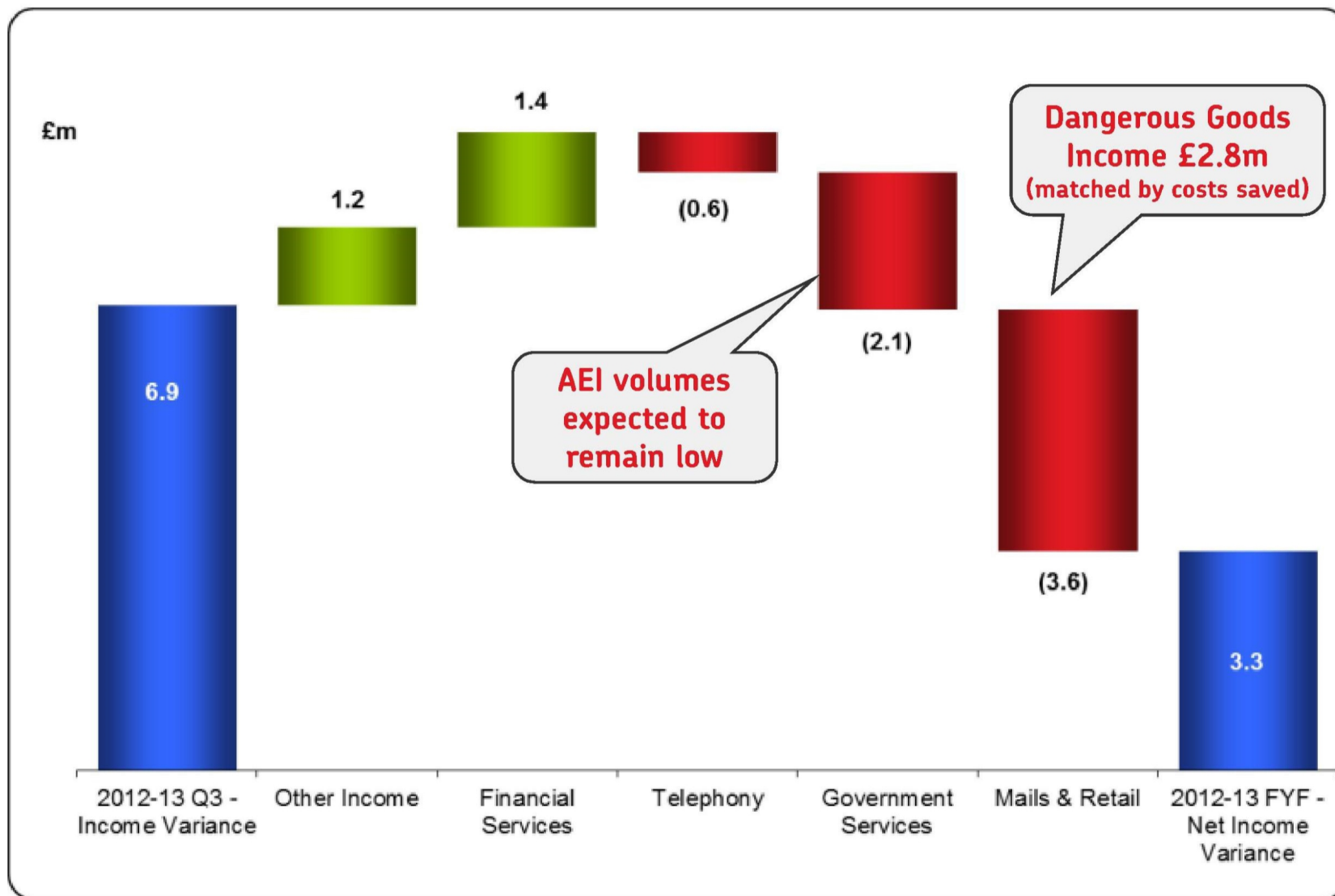


# The Q3 YTD favourable variance is eroded by £16.9m – mainly non staff and agent costs

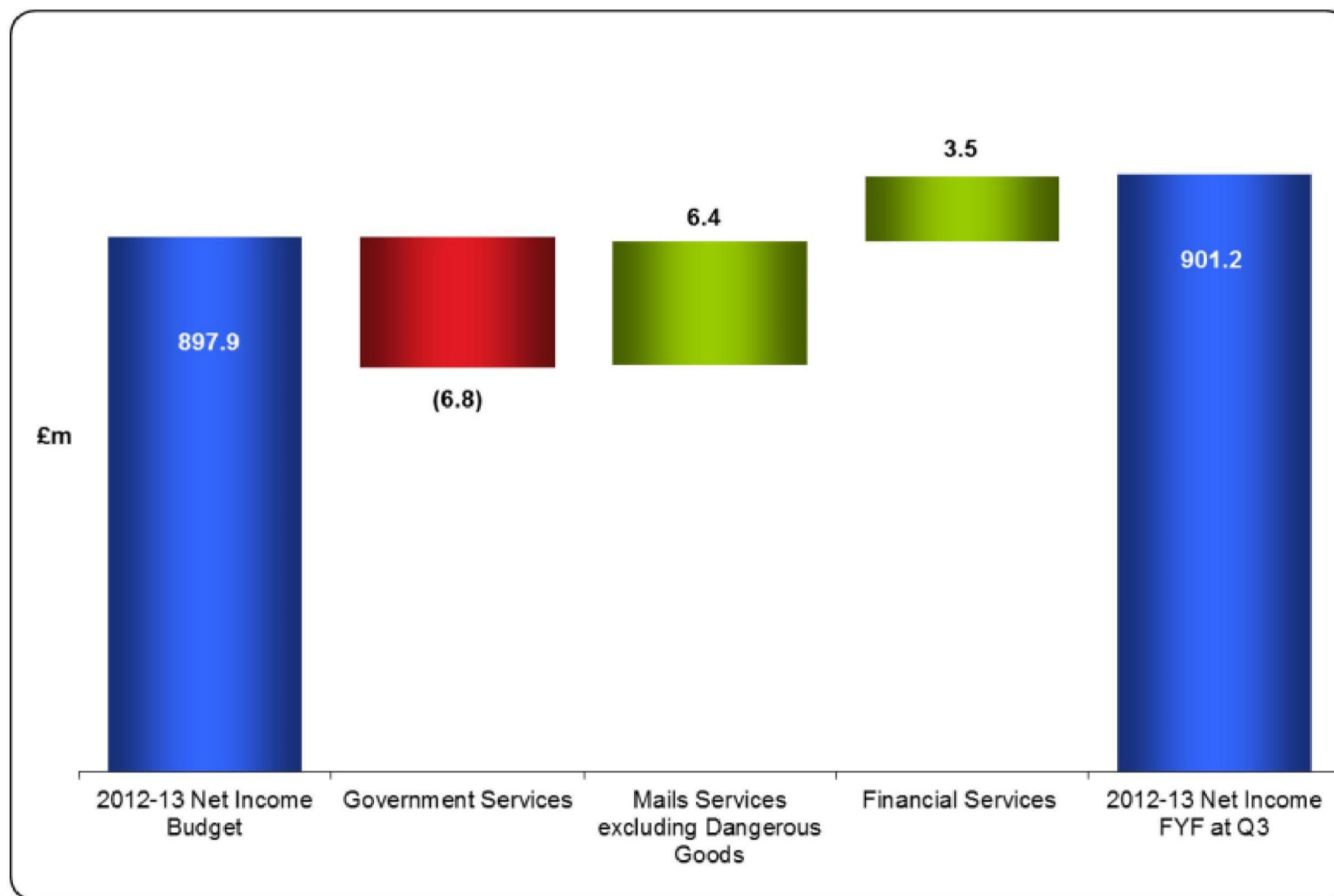




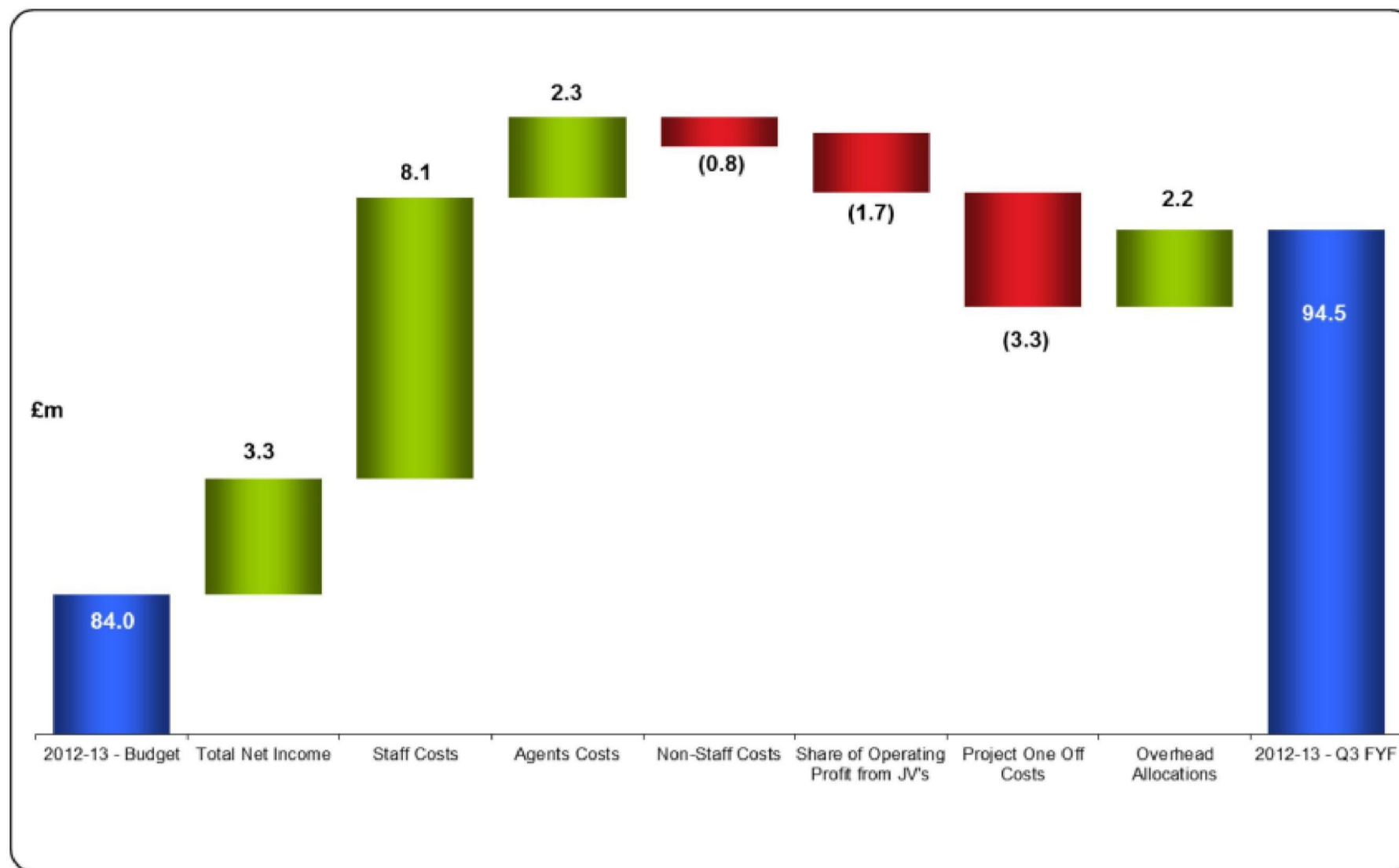
# Net income – YTD variance is eroded by £3.6m primarily by Mails and Government Services



**Net Income is greatly impacted by Government Services income not materialising as planned. This has been offset by a good performance from Mails and Financial Services**

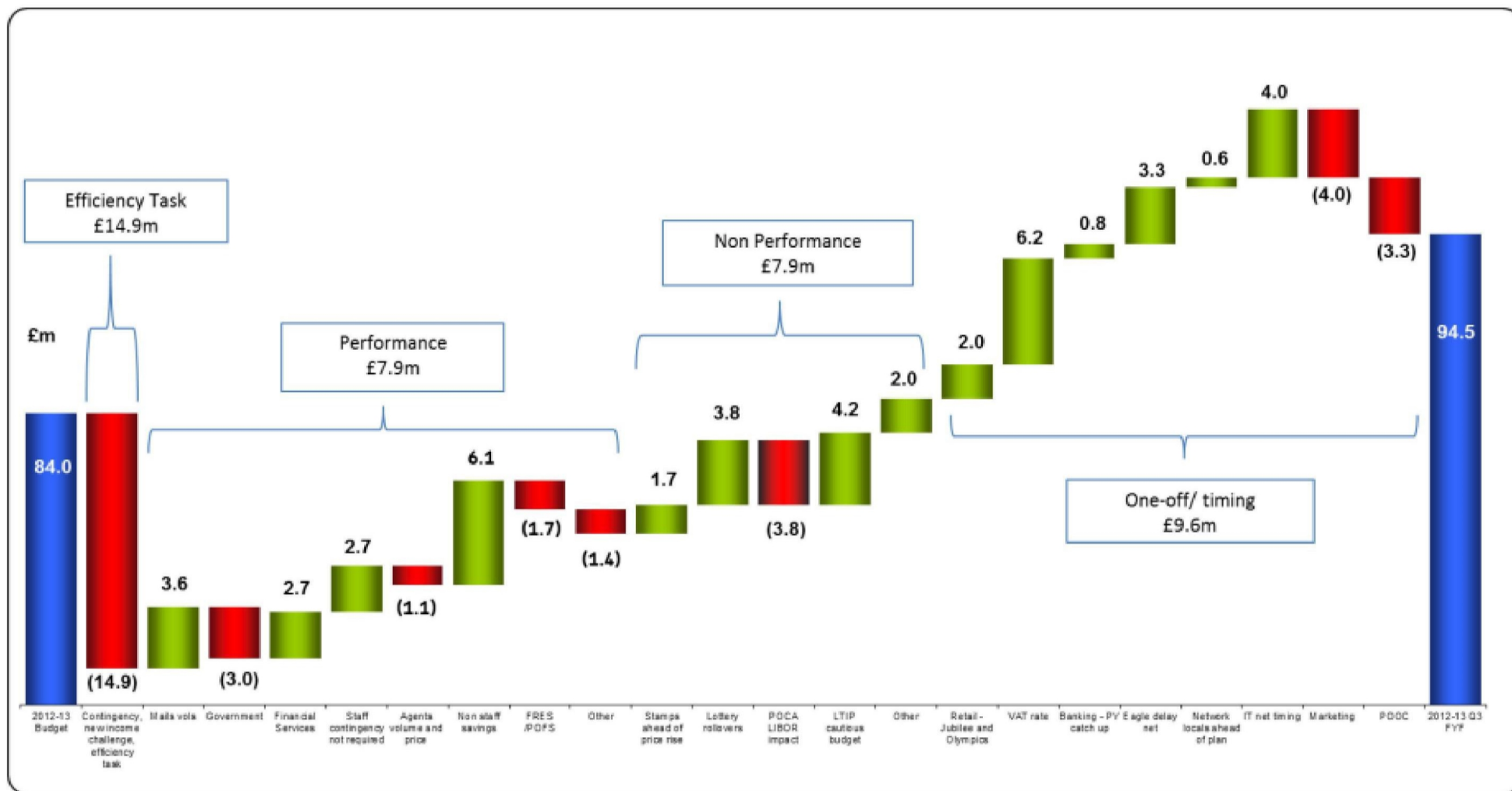


**Operating profit budget to FYF bridge - £10.5m favourable**  
**But within this are the impacts of performance, some non performance upsides and timing - these are analysed on the next slide**





# Profit FYF – high level review indicates that most of the improvement in forecast is includes significant non performance upsides and one off benefits





## Conclusion and next steps

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- Forecast of £95m equates to net deficit of £115m.
- This result masks an underlying improvement as £14.5m was freed up for additional project spend.
- To deliver next year's strategic plan profit target requires a further £17m improvement in the net deficit.
- Work is well progressed in preparing the budget and the intention is to update the Board at the February meeting.

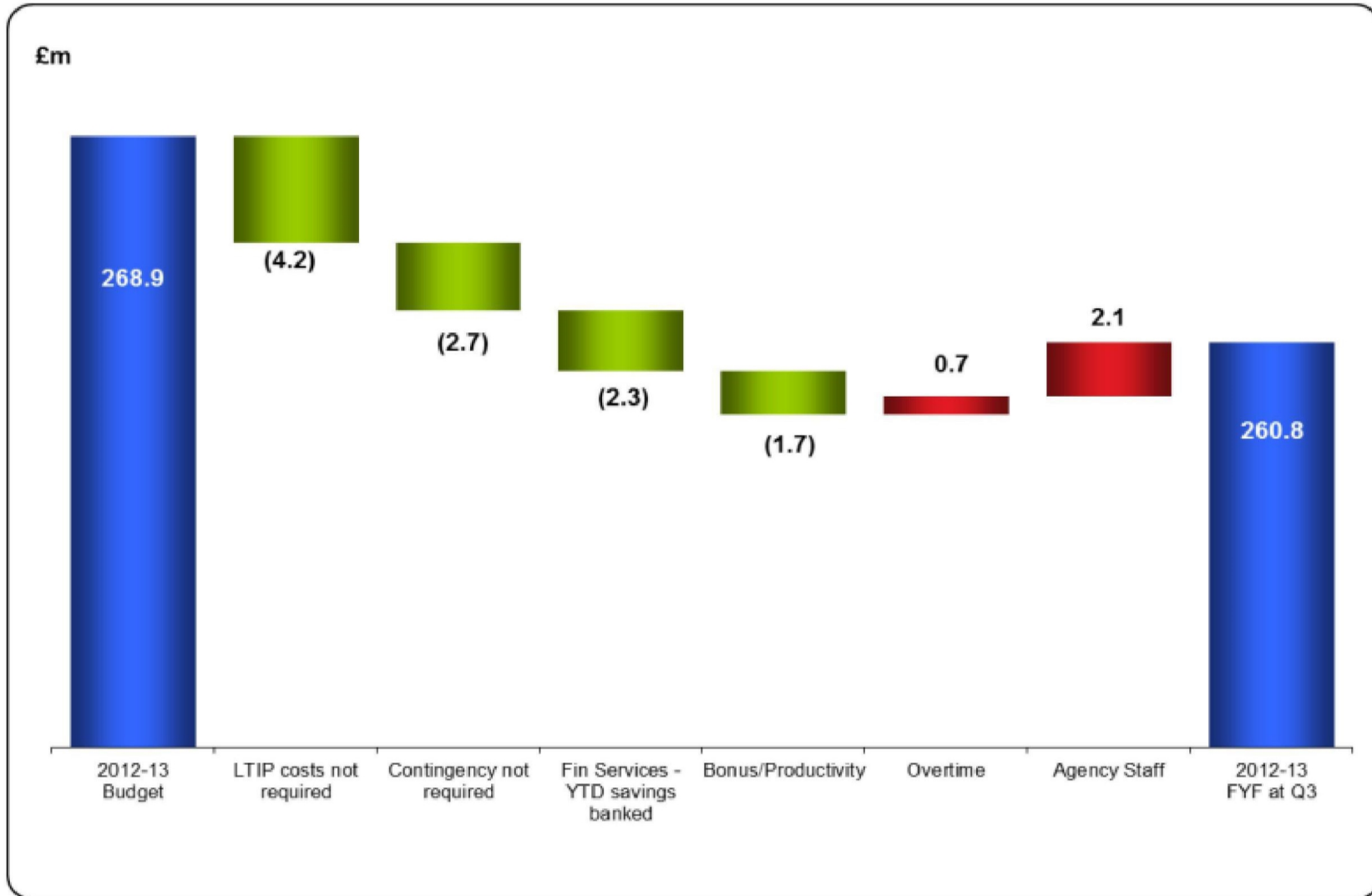


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# Appendices

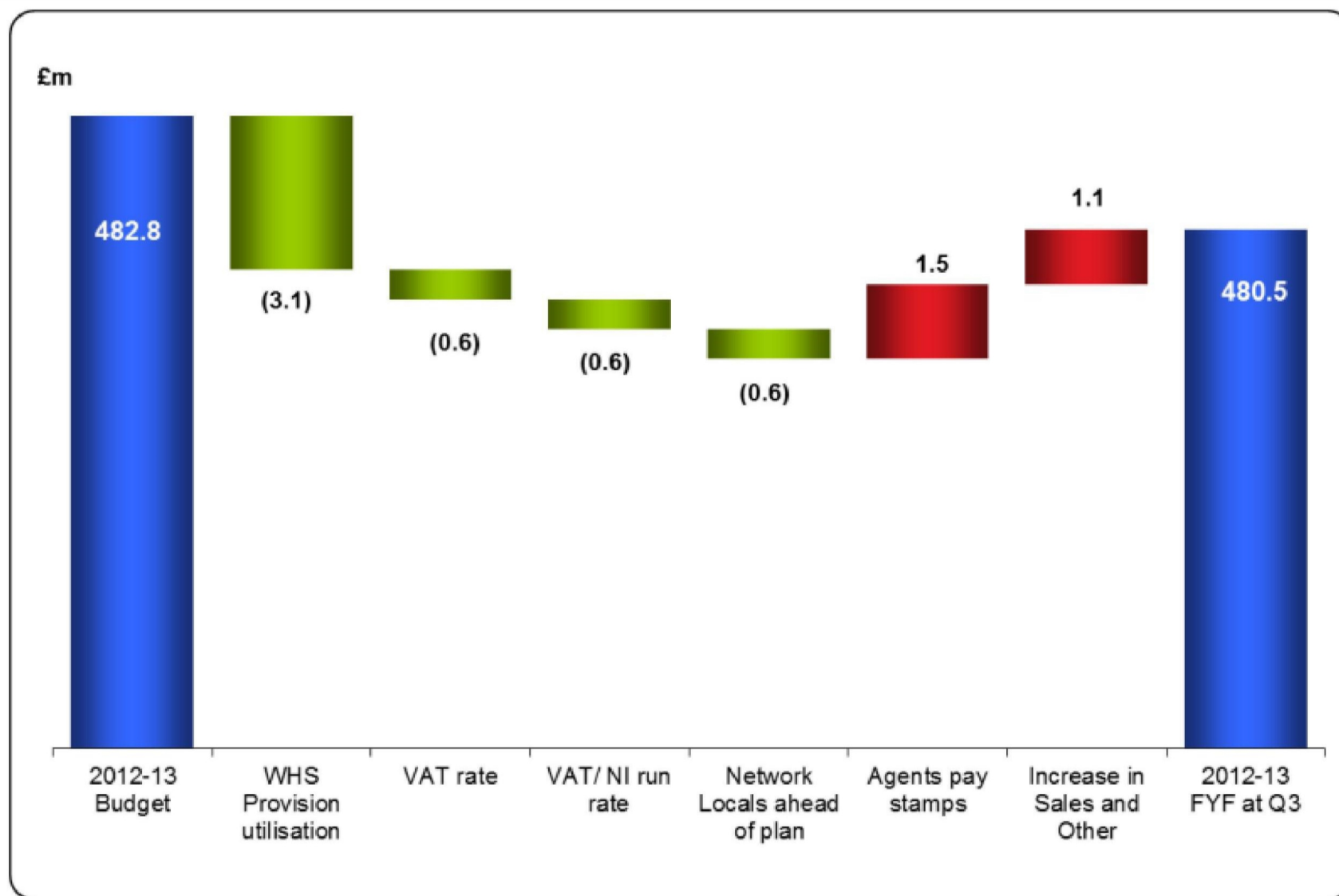


# FYF Staff Cost: £8.1m favourable



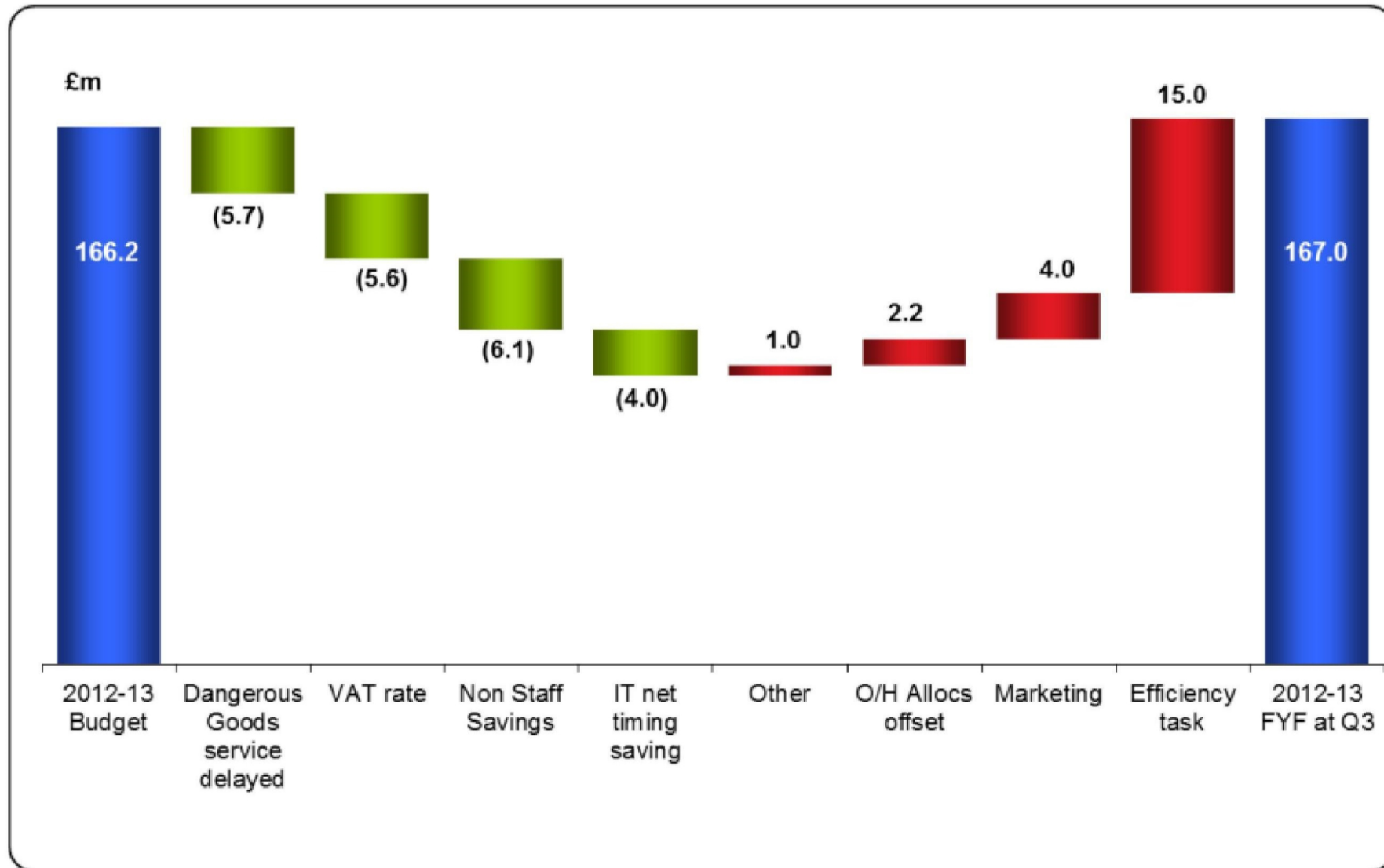


# FYF Agents Cost: £2.3m favourable





# FYF Non Staff Cost: £0.8m adverse



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**POST OFFICE LTD BOARD****Chief Executive's Report****1. Christmas (and youth employment)**

- Christmas is our busiest period, with the number of weekly customer sessions typically increasing by around 25%, and the 8 weeks from the start of November accounting for 37% of our annual mails volumes. While the direct increase in income during this period is less pronounced (because of the high number of low margin transactions), customer research shows that it is a key driver in forming opinions about the Post Office. This insight is particularly important for the customers who are central to our growth strategy – at Christmas there is a 15% higher penetration of AB customers and an 11% higher penetration of customers earning over £30k per year.
- We therefore set out to provide our customers with the best Christmas ever, including by extending branch opening hours (by 7.5% on average across the Crown network), redeploying staff from head office and recruiting 60 unemployed young people for the period. This was supported by additional brand communication activities.
- These measures helped deliver an improvement in all our customer management metrics compared with last year. 73.5% of customers were served in less than 5 minutes which was 14.5 percentage points ahead of last year's performance (which itself was our best year at that point). Feedback from customers has been very positive, including letters to local newspapers, comments posted on Twitter and 'Voice of the Customer' feedback. This in particular showed that 86% of customers were satisfied with their experience at the Post Office and 83% felt the waiting time was acceptable.
- In commercial terms, the 5 week Christmas period was our best ever for Focus Mails performance, with income of £8.1m, exceeding last year by over 3.8%. This figure represents just over 12% of our total Focus Mails target for the year.
- The recruitment of unemployed young people in central London and Manchester during the Christmas period proved to be a significant success: feedback from their managers confirmed that in general they were enthusiastic and committed, delivering excellent standards of customer service - and in the process they gained valuable experience for their future careers. We have now provided 14 of them with ongoing employment, and a further 12 are on our waiting list for vacancies.

**2. Government services and utilities**

*(See separate noting paper for update on mails)*

- The DVLA contract was signed on 24 December. DVLA have been supporting us in marketing the services covered by the framework contract to other government departments, including by establishing a senior level cross-Whitehall forum which met for the first time on 21 December. This has helped generate specific interest from a number of departments.

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The Passport Service (IPS) is looking to move across the existing 'check and send' contract when it expires later this year, creating the opportunity to move to a paperless automated service at a later point which could potentially double our income to £30-40 million per year.

The UKBA is interested in using the framework to expand its services delivered through Post Offices, including application checking and payments (with potential additional income of £2-3m). We are also pursuing discussions with DWP in relation to Universal Credit services, with the Cabinet Office in relation to voter registration, and with HM Courts and Tribunals Service to support the rationalisation of its network.

- On 11 December we were advised by HMRC that we had been successful in our bid to provide secure cash distribution services under the new Government Courier Services Framework Agreement. It is estimated that this contract could be worth up to £2m over 4 years, with the Ministry of Justice expected to be the first users.
- In December we wrote to Danny Alexander, the Chief Secretary to the Treasury, setting out our capabilities to deliver a wider range of front office services on behalf of government, and his office has confirmed that he would like to meet with us before March.
- The Telecoms portfolio is on track to deliver its target of £45.7m of net income this year, a 10% increase on 2011/12 performance, with the HomePhone and Broadband customer base reaching 480,000. This growth was primarily achieved through a specific marketing campaign at the end of 2012 that enabled us to acquire 53,000 customers in three months, largely driven from the branch network. We are running a further campaign this quarter to continue to drive this growth. Preparations are also continuing to migrate the product from BT to Fujitsu in August, which will enable us to improve customer service and lower costs by around £47 million over the four year period of the contract.
- On 9 January we formally launched the tender to procure a partner to provide a branded mobile service, which we are aiming to launch prior to Christmas 2013.
- We are currently exploring two different options to launch an energy proposition to complement our existing suite of utilities services - either partnering directly with a single supplier to offer Post Office branded gas and electricity, or alternatively working with an intermediary agent that helps customers find the cheapest deal for customers across the full range of suppliers. Preliminary discussions have been held with a number of potential partners, with positive feedback to date, and we will be continuing this dialogue over the coming months so we are ready to evaluate our options in the context of the 'customer value propositions' that are being developed as part of the strategy work.

### 3. Marketing

- Initial indications from the marketing campaign launched in October remain encouraging, with 38% of people surveyed last month saying that they recalled the campaign (compared with an industry benchmark of 26% for campaigns with similar expenditure), and 72% of people asked stating that it does an effective job in advertising that the Post

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Office offers more than just mails services. The next indication of how consumer perceptions have moved will be available when the quarterly brand tracking analysis is produced in early February, and our full econometric evaluation of the first six months of the campaign will be completed in May.

- The brand advertising now moves to a high profile campaign in February focussed on our mortgage products, covering press, outdoor, branch and digital outlets at a cost of £1.8 million, which is designed to both capture immediate mortgage sales and strengthen the credibility of the overall Post Office brand. The Channel 4 weather sponsorship will remain a continual presence through until March, reinforcing the campaign messages.

#### 4. Media and communications

- Our media and stakeholder engagement programme to "tell the nation" about the transformation of the Post Office is making good progress. Our evaluation report for November (December was not available at the time of writing) shows us consistently achieving over 900 pieces of media coverage per month, with 55% of the coverage positive compared with 9% negative. Recent highlights include the DVLA contract win, half year results and the CEO appearing on BBC Breakfast on 27 December.
- We have taken a number of steps to raise the profile of the network transformation programme, particularly at the local level, and this now accounts for around a third of our media coverage. Building on this, we are testing local press advertising and door drops to support branch business, and are also developing a PR strategy to support the push on mortgages sales.
- Engagement across Westminster and Whitehall is also increasing. 94 MPs (including Jo Swinson) have confirmed their attendance at a 'drop-in' session we are hosting in Parliament on 21 January to celebrate network transformation, the DVLA win and the wider transformation story. Paula Vennells and Mark Davies are also hosting three private dinners for smaller groups of MPs in February and March.

#### 5. IT&C transformation

- We have successfully completed the first phase of dialogue with potential suppliers for our Service Integrator and Service Desk contract, short-listing three companies (Atos, Cap Gemini and CGI Logica) to proceed to the second phase of dialogue which starts this month.
- Dialogue is also ongoing with potential suppliers for our Data Centre, Applications & Infrastructure and End User Computing services. In addition, we are currently part way through a 6 month planning exercise with Royal Mail for the physical separation of IT services currently provided to Post Office. Alongside this process we are assessing alternative sourcing options for the IT services currently provided by BT and CSC through Royal Mail, including the option of contracting directly with these suppliers to reduce execution risks and potentially costs. We will provide an update to the Board in March on both this work and our progress in developing the Transitional Service Agreement with Fujitsu, our main incumbent supplier, for the period 2015-17.

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## **6. Information security review**

- Deloitte is in the process of finalising its assessment of our information security (IS) processes and capability against relevant industry standards. We have asked them to develop a pragmatic transformation roadmap to address the areas where we need to improve, including in the resourcing of our internal IS capability, governance frameworks and oversight of supplier contracts. This report and our action plan will be presented to the ARC in February.
- We will provide an oral update on the status of Project Rainbow at the Board meeting.

## **7. Project Robin**

- Negotiations with both unions are ongoing, with no agreement to proceed with the proposed reforms to the pension scheme reached at this stage. A meeting with Dave Ward of the CWU has been set up for the end of January. Discussions are also in progress with the trustees, both on the Project Robin reforms and the actuarial valuation. The first proposal from the trustees on the assumptions and approach was considered unacceptably cautious and a response has been sent to that effect. We plan to meet with them again in February.

## **8. Stakeholder Forum, mutualisation and stakeholder engagement**

- A separate update on progress will be provided at the Mutualisation Sub-Committee.

**Paula Vennells**  
**16 January 2013**

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**POST OFFICE LTD BOARD**

**Health & Safety Report**

**1. Purpose**

The purpose of this paper is to:

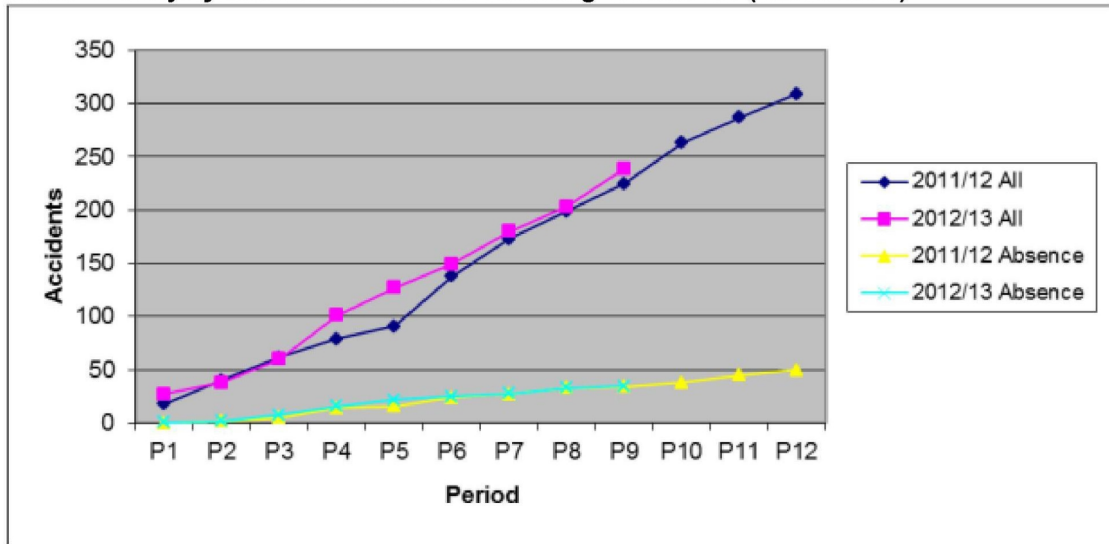
- 1.1 Provide an update on safety performance.
- 1.2 Outline risk reduction activities.

**2. Current Situation**

2.1 Injury accidents, up to and including period 9, are showing a marginal negative trend against target and last year. The positive trend back towards the target reduction has been adversely affected by the recent severe weather. Accidents involving absence have also increased marginally against last year but continue tracking back towards target.

Overall, the adverse performance is primarily due to a significant increase in slips, trips and falls due to the wet weather and manual handling incidents which affected Supply Chain performance, in particular, in previous periods. A manual handling “work-time listen and learn” has been scheduled to mitigate the increase in numbers. The “per 1000 staff in post” comparison indicator, which takes account of head count fluctuation year on year, is showing a slightly less unfavourable increase for all accidents.

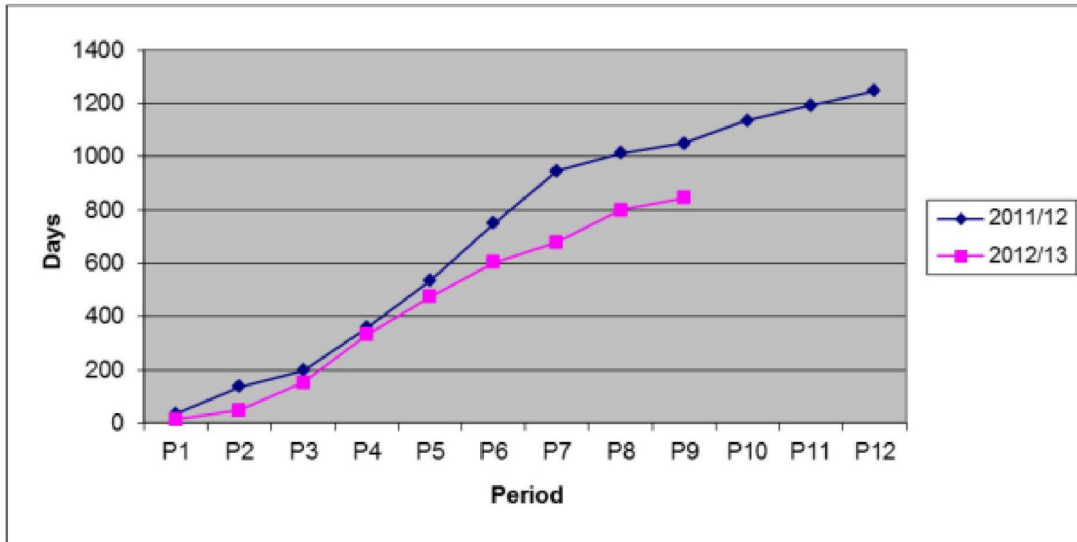
**Table 1 All Injury accidents and those resulting in absence (Cumulative)**



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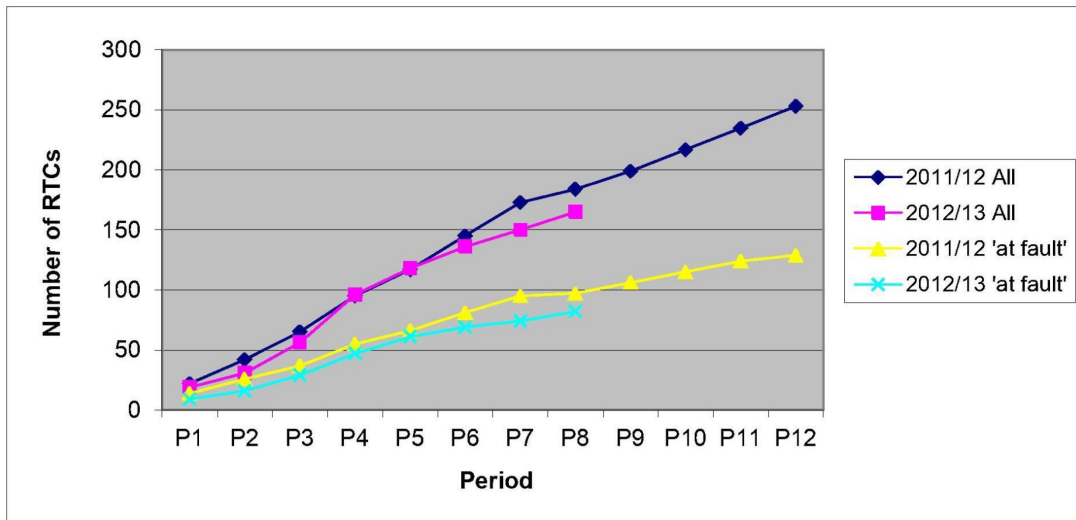
2.2 The number of days lost due to accidents is encouragingly ahead of target, showing a 19.5% reduction against a target reduction of 5%. (Table 2) This indicates that, while there is a negative trend on the frequency of accidents, there is a positive trend on the severity, or level of injury, of those accidents.

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



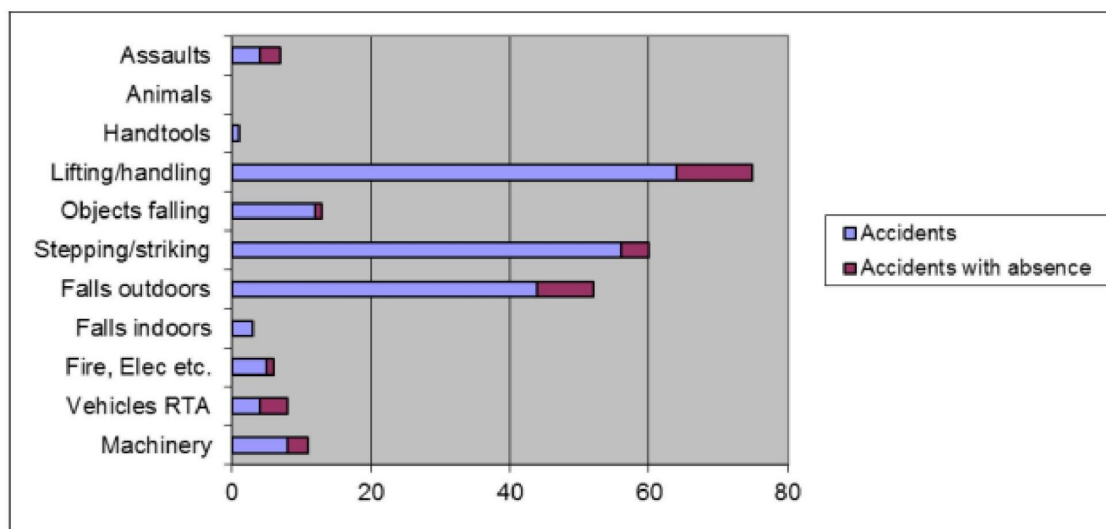
2.3 The number of road traffic collisions (RTCs) cumulative to period 9 is down by 10.3% on last year. 'At fault' collisions, where the Post Office driver is considered to be at fault due to the circumstances of the accident, are showing a significant improvement on last year, down 15.5% from 97 to 82. Road traffic collisions account for less than 3% of the overall number of injury accidents, but they have the potential for higher impact in terms of injury and loss. Activities that are contributing to the improved performance are identified in 3.1 below.

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



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- 2.4 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are significantly up on the same year to date period as last year, from 24 to 42. However 2011/12 was an atypical year and performance this year, while of concern and attracting mitigating activities, is not adverse to Post Office's percentage share of the market. Physical injuries during robberies, of which there have been 13 compared to 11 last year, remain relatively minor in severity. Fire arms continue to play a relatively minor, but more frequent, part in CViT robberies with 8 of the 42 robberies being enabled by the presence and/or threat of use of fire arms. There have been no occasions where the guns were discharged. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)
- 2.5 Robberies and attempted robberies on the Post Office network so far this year are up marginally from 83 to 86 compared to last year. Supporting activities have been introduced to mitigate this increased risk. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)
- Burglaries and attempted burglaries (which do not involve personal attack) are down significantly from 108 to 72 compared to the same year to date period.
- 2.6 The majority of accidents currently fall into three main categories: lifting and handling, stepping and striking and outdoor falls. These are high frequency events with, in the majority, relatively low impact. The lower frequency types of incident carry the potential for very high impact, for example, assaults and road traffic collisions.

**Table 4. Types of accident**

### 3. Activities

#### 3.1 Current activities to mitigate Road Risk:

- Road risk forum established to scope and develop road risk reduction initiatives and activities
- Analysis of effectiveness of face to face training given to top 50 high risk drivers has indicated that accidents amongst this community have reduced significantly following the refresher training
- Eye sight checks for operational drivers are in place

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- Technical accident reduction interventions on new vehicles e.g. Reversing aids
- Analysis and evaluation of data (e.g. risk profiles) to determine further accident reduction interventions
- Piloting the introduction of high visibility seat belt sleeves
- Safety team input and concurrence for vehicle specification and changes
- Safe driver of the year award introduced
- Weekly case conferences to ensure consistent approach to accident investigation, follow up activity and sharing of best practice

## 3.2 Current activities to mitigate Robbery and Burglary risk:

- Active liaison activities with the police and increased police support activity
- Liaison with Met. Police on the increase in gun enabled robberies
- Introduction of new deterrent technologies e.g. Smartwater – a solution that contains a unique identifier that is released automatically in the event of a robbery, spraying those involved and enabling identification of the individuals involved in the robberies
- Significant reduction in opportunities for duress type robberies linked to the introduction of single person vehicles
- Increased security support visits to Post Offices in 'hotspot' areas
- Increased use of crime alert communication techniques to Post Offices
- Trialling new point of transfer arrangements to reduce exposure
- Increased use of surveillance vehicles

## 3.3 Current activities to enhance Health and Wellbeing:

- Programme of visits to Crown offices to offer and encourage the use of health check equipment that provides a wide range of indicators on physical wellbeing
- Programme of visits extended to Supply Chain units
- Plans in place to visit all Post Office Crown Branches and Supply Chain sites within 12 – 18 months
- Development of a wellbeing intranet landing page
- Development of a wellbeing booklet and associated communications
- Enhanced Occupational health service provision from January 2013

**4. Residual Risks**

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

**5. Recommendation**

The Post Office Ltd Board is asked to:

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

**Susan Crichton**  
**January 2013**

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## Appendix 1

<b>Significant Incidents (Period 8)</b>				
<b>Crowns and Network</b>				
<b>Location</b>	<b>Loss</b>	<b>Circumstances</b>	<b>Physical Injuries</b>	<b>Any further details</b>
Woodhouse, M33	£228.30	Two masked males entered the retail shop (21:25hrs), the clerk slipped and was hit with an axe requiring stitches. The retail till was stolen containing paystation and lottery money.	Cuts requiring stitches	
<b>Supply Chain (Cash, delivery and collection)</b>				
Holland on Sea, CO15	£25k	Crewmember threatened with 'taser' type weapon and forced to open the box.	None	
Eastham Crescent, CM13	Nil	Escort forced back in to PO, demanded that box be opened, when told it was empty, a 'taser' type weapon was used on his shoulder/chest.	Electric shock	
Baycliffe Road, L12	Nil	During scuffle, escort knocked to the ground, empty box was taken.	Minor	

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**POLB (12)11<sup>th</sup>**  
**POLB 12/115-127**

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

**Minutes of a Board meeting held on 21st November 2012**  
**at 148 Old Street, London EC1V 9HQ**

**Present:**

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive
Chris Day (CMD)	Chief Financial Officer

**In attendance:**

Alwen Lyons	Company Secretary
Fay Healey (FH)	Chief HR Officer (item 12/116)
Hugh Flemington (HF)	Head of Legal (item 12/117)
Lesley Sewell (LS)	Chief Information Officer (item 12/117)
Kevin Gilliland (KG)	Network and Sales Director (item 12/118)
Martin Moran	Commercial Director (item 12/119)
Sue Barton	Strategy Director (item 12/119)
Tim Giles	AON Hewitt (item 12/124 only)
Zoe Taylor	AON Hewitt (item 12/124 only)

**POLB 12/115**

**INTRODUCTION**

- (a) A quorum being present, the Chairman opened the meeting. She welcomed Fay Healey, Acting Chief HR Officer, who was deputising for Susan Crichton, HR & Corporate Services Director.

**POLB 12/116**

**PEOPLE UPDATE**

- (a) The Chairman updated the Board on the recent Nominations Committee meeting (the minutes of which had been circulated in the Board papers).
- (b) The Committee had discussed its Terms of Reference. It would focus on appointments to the Board and to Executive Committee positions reporting directly to the Chief Executive. The Remuneration Committee would similarly deal with remuneration policy and packages at these most senior levels.
- (c) The Nominations Committee had noted that there was still a considerable gap in succession planning at senior levels and had agreed to take a broader interest in growing talent and diversity within the Business, until the position was materially improved.

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- (d) The Nominations Committee would also make proposals about Board evaluation.
- (e) Neil McCausland, Chairman of the Remuneration Committee, reported progress from that Committee.

Their focus was on the interim STiP and LTIP, which were currently with ShEx and Ministers for approval, as well as designing an appropriate remuneration framework for the future, including benchmarking. The next meeting in December would explore an updated proposal for the short and long term incentive schemes.

**ACTION: Company Secretary**

- (f) Revised terms of reference for all committees, including the Nominations and Remuneration Committees, would be brought back to the Board for final approval in January.
- (g) Fay Healey gave an overview of the performance measurement exercise which had been undertaken for the Senior Leadership Team (SLT) and the results of the half year reviews for managers across the directorates within the organisation. She explained that there had been a 30% turnover in the last year and that this had led to fewer 'critical issue' 1 ratings in the SLT analysis.
- (h) The Board recognised the changes in the ExCo and SLT and asked if this performance management was replicated throughout the organisation. Fay Healey explained that the framework was in place for all management levels, with levelling to ensure a normal distribution of marks. However the business did not force the distribution, especially at the extremes of excellent and critical performance.
- (i) The Board discussed the approach to performance appraisal and asked the Business to ensure that it set clear objectives for delivery and behaviours before the beginning of the next financial year and introduced more rigorous performance management to ensure extremes of performance were recognised and managed appropriately.

**ACTION: FH/SC****ACTION: FH/SC****POLB 12/117****PROJECT RAINBOW**

- (a) The Chief Executive gave an update on the current situation. She had invited Hugh Flemington and Lesley Sewell to join the meeting to provide further guidance on the legal discussions which had taken place and which were continuing.
- (b) The ARC had discussed high risk contracts at its recent meeting and had agreed to undertake a more detailed review at the next ARC meeting in February. The Board requested that the contract review include any liability caps in place and the pass through to subcontractors.

**ACTION: HF/LS**

**Post Office Limited – Strictly Confidential****ACTION: Company Secretary**

POLB 12/118

- (c) The Board asked for the ARC papers on Project Rainbow to be circulated to the full Board for their information, and that the CEO keep the Board informed of any major developments.

**NETWORK TRANSFORMATION REPORT AND CROWN UPDATE**

- (a) Kevin Gilliland (KG) joined the meeting to provide the latest update on the conversion rate and progress within the transformation programme for the wider network and in particular the plans for turning around financial performance within the Crown offices.
- (b) Network Transformation Programme  
KG reported that the new approach adopted by the team was having an effect and the areas of concern such as property reviews and financial assessments were no longer critical. Contract signature was still causing concern, but he was cautiously optimistic that the Business could still achieve the 1,200 target. He stressed that the voluntary nature of the programme meant that no target could be assured but that he was confident he would deliver at least 900-1,000 conversions, and was still planning to deliver 1,200.
- (c) The Board asked if any more could be done to incentivise sub-postmasters to become early adopters. The CEO explained that the Business was investigating a more creative approach, including helping to fund new screens where possible and local PR and advertising for the new branches. Some additional suggestions were made (eg a meeting with the Prime Minister or Vince Cable for a number of subpostmasters of newly-converted branches), which the Business would consider further.
- (d) The Board asked if there was any opportunity to get more Multiples into this year's plan. KG explained that there may be a few more opportunities than the 260 reported but he would not want to include them at this point.
- (e) The Board asked if the Shareholder had been made aware of the risk to the plan. KG assured the Board that ShEx and the Minister were aware of the risk, and that the Minister had offered to support a communication to the NFSP Branch Secretaries to attempt to get them to support the programme more actively.
- The Shareholder understood that the target was "contracts signed" but had asked for an SLA to cover the time gap from signature to conversion to give them some comfort.
- (f) The CEO reassured the Board that everything possible was being done to deliver the 1,200 conversions, and she had asked KG to undertake a failure-points analysis for the implementation plan.
- (g) The Board thanked KG for the progress being made and asked for an update report to be circulated in the week commencing 17<sup>th</sup> December and a full report at the next Board meeting in January.

**ACTION: KG****ACTION: KG**

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Crown Transformation Update

- (h) KG was confident that the Business would achieve this year's Crown target but he explained the risk in the following two years of the plan, as set out in the Board paper.
- (i) The Board recognised that the additional risk to the plan was driven by revenue shortfall as FOOG income was squeezed by lower margin contracts.
- (j) KG explained the possible approaches to the unions and the different solutions to closing the £5m gap. The Board asked KG to plan for both scenarios with clear trigger points for switching to the more radical solution.

**ACTION: KG**

- (k) The Board asked for assurance that the £5m gap was realistic and unlikely to worsen. The CFO warned that the gap may widen to £10m and the CEO agreed that the Business would carry out risk assessments for each Crown workstream, highlighting sensitivities and milestones which might trigger a move to plan B. This would be available for the January Board meeting.

**ACTION: KG/CD**

The Board was comfortable with the approach but asked that KG keep in mind the pay differential for front line staff, compared with the market.

**POLB 12/119**

**POST OFFICE BASICS**

- (a) Martin Moran and Sue Barton joined the meeting.  
  
Sue Barton presented the Basics concept and explained that two scenarios were being considered; basics as an addition to the 11,000 mains and locals, or basics as a replacement for some of the locals. The Board was not convinced that this was a priority for the Business and did not want it to be a priority for management focus.
- (b) The CEO supported the proposal to develop a Business case as the model might be a good replacement for small branches where a local would not be viable.
- (c) The Board agreed that more work should be undertaken in order to provide an update at the February Board meeting.
- (d) The Board formally congratulated Martin Moran and his team on winning the DVLA and DWP contracts.

**ACTION: SB/MM**

**POLB 12/120**

**CHIEF EXECUTIVE'S REPORT**

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

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- (b) **Royal Mail interaction:** The CEO reported to the Board that changes in the RMG product portfolio were likely to give the Post Office a windfall income of circa £2m per annum.

RMG had asked to renegotiate the rate. This gave the Post Office an opportunity to revisit other parts of the contract including 'click and collect' and mails segregation. It was important to establish that, if RMG could ask to renegotiate part of the agreement, so could the Post Office, in the future.

**ACTION:SB/  
Company Secretary**

- (c) **Mutualisation:** It was reported that the Stakeholder Forum was progressing well. The CEO would like the Board and ExCo to have more exposure to the people involved and the CEO would present a plan to this effect.

- (d) The Health and Safety report appended to the Report was noted.

**POLB 12/121**

**MINUTES OF PREVIOUS MEETING AND MATTERS ARISING**

- (a) Virginia Holmes (VH), Chairman of the Pension Committee, asked for it to be made clear in the minutes of the 23 October 2012 meeting, that Project Robin was the responsibility of ExCo and not the Pensions Committee. (POLB12/101 (b)). This amendment being made, the minutes were duly approved for signature by the Chairman.

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

- (c) The Board noted the minutes of the Pensions Committee meeting held on 11 October 2012. The Board also noted the minutes of the Nominations Committee meeting held on 7 November 2012.

- (d) Alasdair Marnoch (AM) provided an overview of the matters discussed by the Audit, Risk and Compliance Committee meeting (ARC) held on 13 November. The minutes would, similarly, be included in a future Board pack.

- (e) The CFO reported that, after taking into account the comments of the ARC, the half year trading statement for the six months ended 23 September 2012 had been approved by a sub-committee of the Board earlier that morning. Copies of the final statement and press release would be circulated to all Board members. The statement would be released to the press on 22 November for publication on 23 November.

**ACTION: Company  
Secretary**

- (f) The Board agreed that the process of agreeing the full year Trading Statement would need to be much tighter and should be agreed in advance. Time would be allocated at the February Board meeting for a discussion on the tone and messages of the full year Trading Statement. The Chairman asked that the Communication Director lead this agenda item, highlighting the five or six key messages.

**ACTION: MD**

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POLB12/122

**FINANCIAL PERFORMANCE UPDATE**

- (a) The CFO presented the review of financial performance for October 2012, and reported that performance continued in line with the full year forecast. Period 7 had seen an improved cashflow position as the additional cash in the network caused by the Olympics was reduced.
- (b) The Board asked for clarification on the headcount figures presented. The CFO suggested that this was caused by the changes within functions but suggested he include an analysis in his January Board report.
- (c) He assured the Board that project spend was now in line with the full year forecast of £40m and that he was producing a project spend benefits realisation analysis for the ARC which would give more detail.

ACTION: CD

ACTION: CD

POLB 12/123

**PROJECT POLO AND BANK OF IRELAND GOVERNANCE**

- (a) The Board noted that POLO had not been included on the agenda and asked for an update. The CEO explained that the negotiations were progressing with BoI, but their new Chairman was scrutinising the negotiations because of the high start-up costs for the Bank.
- (b) The CEO explained that she and the CFO, along with her Chief of Staff and Nick Kennett (NK), were working on the negotiation strategy for POLO and that they would report back to the Board in January.
- (c) The Board also discussed the governance and any early warning metrics which could be used to monitor the strength of BoI (UK). It was agreed that the CFO would review with Tim Franklin (TF), Alasdair Marnoch and NK and report back to the ARC and then to the Board.
- (d) The CEO and TF would review the Financial Services sales strategy with NK and Sue Barton and report to the Board when available.

ACTION: NK

ACTION:  
CD/TF/AM/NKACTION:  
PV/TF/NK/SB

POLB 12/124

**PENSIONS: INVESTMENT BELIEFS AND ASSET ALLOCATION**

Tim Giles and Zoe Taylor joined the meeting.

- (a) VH explained that the papers contained recommendations from the Pensions Sub-Committee. These took forward the principles agreed at the last Board in relation to the liability hedging element of the Post Office sections of the RMPP in addition to recommendations regarding asset allocation for the growth portfolio which would be proposed to the RMPP Trustee on behalf of the Post Office. It was suggested that authority be delegated by the Board to the Pension Sub-Committee to finalise the approach to RMPP on investment preferences.
- (b) TG summarised the strategy contained in the attached papers recommending that extended hedging be put in place to protect against the risks associated with pension benefits being accrued over the period to the next valuation (31 March 2015) and the adoption of a “trigger-based” strategy for subsequent extensions to the hedging.

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After discussion, the Board delegated authority to the Pensions Sub-Committee to approve the recommendation to implement the strategy and engage with the Trustee of the RMPP, through AON Hewitt.

- (c) VH explained that, in order to meet the request of the Trustee of the RMPP for the Board's preferred asset allocation, it was important for the Pensions Sub-Committee to establish the Board's views on appropriate investment objectives and asset types for the Post Office sections of RMPP.
- (d) It was agreed that the aim should be to build a growth portfolio alongside the index-linked gilts portfolio, based on the following objectives; achieving an expected return for the growth portfolio of around 8% (a target real return of c.5% above cash); minimising the risk of not meeting this objective; investing in assets consistent with the Board's beliefs as expressed through the Pension Sub-Committee; and managing the asset cost effectively.
- (e) The current asset allocation for the Post Office sections was discussed further. TG demonstrated that it should be possible to increase current returns without increasing unduly the risk characteristics of the growth portfolio, by adopting a more diverse portfolio of return seeking assets.
- (f) After discussion of the merits of wider diversification, the long term nature of the portfolio, and an appreciation of the value of active management, it was agreed that authority be delegated to the Pensions Sub-Committee to finalise the investment strategy to be presented to the Trustee of the RMPP, to include diversifying return seeking assets and removing the current restriction on investing in illiquid assets.
- (g) It was noted that the Trustee of RMPP was under no obligation to do more than note the Board's preferences.
- (h) Directors further acknowledged that the investment strategy proposed depended on the implementation of Project Robin. If the buffer to be produced by Project Robin was not forthcoming, the rate of contributions would need to be very different and the investment strategy would be rethought completely because of the different circumstances

**Project Robin**

- (i) The CFO presented the draft term sheet setting out the current basis under which negotiations were progressing on Project Robin. The Board expressed concern about the 6 year moratorium on change and the ability to agree effective triggers to end such a moratorium if necessary.
- (j) The CFO was asked to return to the Board if he needed to change the mandate or if the negotiations broke down or there was a threat of industrial action. The Board asked the CEO to cover the status of the negotiations in her future updates.

**ACTION: CD**

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**POLB 12/125**

**ANY OTHER BUSINESS**

**ACTION: Company Secretary**

**ACTION: Company Secretary**

- (a) The Company Secretary confirmed that the dates for Board meetings in 2013 would now be as set out in the document presented to the meeting. Some Committee dates (notably those for ARC) would be changed following further discussions with the respective Committee Chairmen.
- (b) The Company Secretary was asked to organise a follow up half day strategy workshop for January.
- (c) The Board dinner on 22 January was cancelled but Board members were asked to keep the date in their diaries for dinner with the Chairman.
- (d) The Delegated Authorities paper was discussed and the Board challenged the limit of £1m unplanned spend delegated to ExCo members. The Board asked the CFO to consider this specific limit further and, in the light of that consideration, to send a note round to the Board with his recommendation.

**ACTION: CD**

It was noted that all unlimited indemnities needed to go to the Shareholder. With these two amendments made, the proposal to update and increase the limits of delegated authority was approved.

**POLB 12/126**

**ITEMS FOR NOTING**

- (a) The Significant Litigation report was noted.
- (b) The Board noted the Report on Sealings.

It was resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 823 to 833 inclusive in the seal register is hereby confirmed.

- (c) Uncommitted credit facilities

It was noted that the ARC had discussed the proposal set out at the last Board meeting to set up two uncommitted loan facilities of up to £50 million each for short term funding flexibility, such that no more than £50 million would be able to be drawn down at any time.

The proposal had been approved by the ARC but would require a formal resolution by the Board to satisfy the counterparties' requirements.

It was agreed that the following approved wording should be included in the minutes of the meeting:

After due and careful consideration of all the circumstances, the Board expressed the opinion that it was satisfied that it would be most likely to promote the success of the Company for the benefit of its members as a whole to enter into:

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- (i) a letter in the form produced from The Royal Bank of Scotland plc (the “**Bank**”) in respect of the uncommitted revolving credit facility of £50,000,000 made or to be made available to the Company by the Bank; and
- (ii) a similar letter to be issued by Citibank in respect of a further uncommitted revolving credit facility of £50,000,000 to be made available to the Company by Citibank.

It was resolved that, in addition to and without amending, prejudicing or revoking any Bank Mandate / Company Excerpt Minute or any other instruction/s provided or to be provided by the Company to the Bank, the CFO (Chris Day) and the Head of Corporate Finance (Charles Colquhoun) be and are hereby authorised to enter into facilities and to sign and deliver any documents required in connection with loan facilities up to a maximum of £100 million, on behalf of the Company.

POLB12/127

**CLOSE**

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

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**POST OFFICE LIMITED BOARD  
Status Report**

<b>No.</b>	<b>REFERENCE</b>	<b>ACTION</b>	<b>BY WHOM</b>	<b>STATUS</b>
<b>1. Actions Appertaining to Network Transformation and Crown Offices</b>				
1a	July 2012 POLB12/71(d)	Alasdair Marnoch asked that a separate value for money NT scorecard be produced to show the number of branches converted; the investment made in their transformation and the benefits flowing from that investment.	<b>Kevin Gilliland/ Chris Day</b>	Currently being developed. First draft will be available for ExCo review in February. Scorecard metrics will be finalised in March. Report will be effective from the start of the next financial year, when the outcomes from converted branches begin to flow through.
<b>2. Actions Appertaining to Financial Services</b>				
2a	September 2012 POLB12/90(b)	The decision on whether to proceed with Project Polo (current account) would be discussed in November. Nick Kennett was asked to provide research on customer appetite for fees, more information on the implications of the change (including on our partner banks); and to raise any contingency issues.	<b>Nick Kennett</b>	POLO on agenda for January strategy meeting.
	November 2012 POLB12/123 (b)	Work on the negotiation strategy for POLO to continue (PV, CD, ME, NK). Executive team to report back to the Board in January.		
2b	November 2012 POLB 12/123(c)	CFO to review early warning metrics which could be used to monitor the strength of Bol (UK) with TF, AM and NK and report back to the ARC and then to the Board.	<b>Chris Day/ Nick Kennett</b>	Complete. Meeting took place 9 Jan; ARC Chairman to provide update at ARC meeting on 13 Feb and Board as appropriate.
2c	November 2012 POLB 12/123(d)	CEO and Tim Franklin to review the FS sales strategy with NK and SB and report back to the Board.	<b>Paula Vennells/ Tim Franklin</b>	FS sales strategy being discussed in January 2013. Will be discussed at Board strategy session on 17 Jan.

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<b>3</b>		<b>3. Actions Appertaining to Finance</b>		
3a	November 2012 POLB12/122(b)	The Board asked for clarification on the headcount figures presented. CFO to include an analysis of headcount figures in the January Board report.	<b>Chris Day</b>	CFO will cover headcount in his Financial Performance update.
3b	November 2012 POLB12/122(c)	CFO would produce a project spend benefits realisation analysis for ARC to give more detail on project spend against forecast.	<b>Chris Day</b>	On ARC agenda for 13 February
3c	November 2012 POLB12/121(e)	Time to be allocated within the February Board agenda for a discussion on the tone and messages for the full year Trading Statement. The Chairman asked that the Communications Director lead this agenda item, highlighting the five or six key messages.	<b>Mark Davies</b>	Time allowed on February agenda
3d	November 2012 POLB12/125(d)	CFO to consider further the specific authority limit of £1m unplanned spend delegated to ExCo members and send round a note to the members of the Board with his recommendation.	<b>Chris Day</b>	Note to be circulated.
3e	October 2012 POLB12/104(a)	The Board noted the cost reduction work to date and agreed that the CFO would include a quarterly update on cost reduction as part of this report to the Board.	<b>Chris Day</b>	Paper included in the January Board pack
3g	October 2012 POLB12/110(a)	The Board resolved that a new dormant subsidiary be incorporated under the name "Post Office Group Services Limited"	<b>Chris Day/ Susan Crichton/ Company Secretary</b>	Delayed pending Royal Mail clearance.
		<b>4. Actions Appertaining to Strategy</b>		
4a	November 2012 Strategy Evening	Supply Chain paper to come back to the Board strategy session in January: 3 <sup>rd</sup> party verification needed of cash cost base (in time to look at outsourcing as an option).	<b>Sue Barton</b>	Insufficient time within strategy session for full discussion. Paper to come to February Board meeting.
4b	November 2012 Strategy Evening and POLB12/119(c)	More work should be undertaken on the business case for the "basics" concept, with an update at the February Board meeting.	<b>Sue Barton/ Martin Moran</b>	"Shape of the network" on agenda for February meeting.
4c	November 2012 Strategy Evening	"Point person" to be identified for SME's, across pillars	<b>Martin Moran</b>	By February Board meeting
4d	November 2012 Strategy Evening	Strategy team to consider opportunities for different broker models eg becoming an "aggregator" for energy	<b>Sue Barton/ Martin Moran</b>	To be included in 17 January strategy session
4e	November 2012 Strategy Evening	Finance to circulate revised base case showing position without NSP and from 2012/3 onwards looking at investment and then organise a teach-in on what was said before and what will now be different.	<b>Chris Day</b>	Will be covered in 17 January strategy session

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<b>5. Actions Appertaining to People and Remuneration</b>				
5a	November 2012 POLB 12/116 (g)	The Board asked the Business to set clear objectives for delivery and behaviours before the beginning of the next financial year; and introduce more rigorous performance management to ensure the extremes of performance are recognised and managed appropriately.	<b>Susan Crichton</b>	Update on performance management on agenda for February.
5b	November 2012 POLB 12/116 (h)	The Board requested an update on the people and performance management framework at the February Board meeting.	<b>Susan Crichton</b>	On agenda for February.
<b>6. Actions Appertaining to Personal Injury Referral Fees</b>				
6a	Feb 2012/ March 2012 POLB 12/32	Nick Kennett to investigate the flow of fees to ensure there is no inducement of wrong behaviours, after which Paula Vennells would review to enable her to give comfort to the Board. Neil McCausland to take ownership of this issue going forward to ensure the business was getting the required information and challenging Junction to ensure that the Post Office was beyond criticism.	<b>Nick Kennett</b> <b>Neil McCausland/</b> <b>Nick Kennett</b>	Post Office Insurance has audited the processes at ACM (BGL's claims management business). <b>(See update below)</b>
ACM does operate an incentive program for the correct referral of PI claims. Management is confident that there are sufficient systems and controls in place to highlight any inappropriate claim referrals, and is confident overall that the processes followed are consistent with Post Office's customer and brand values.				
From April 2013, referral fees for personal injury will be banned. Post Office Insurance will work with BGL to evaluate the impact on the business model (including income and incentives) and management proposes to update the board later in 2013 of any changes.				
<b>7. Actions Appertaining to Pensions</b>				
7a	November 2012 POLB12/124(i)	CFO to return to the Board if the mandate for negotiations on Project Robin needs to change, or if negotiations break down, or if there is a threat of industrial action. CEO to cover the status of the negotiations in her future reports for the Board.	<b>Chris Day/</b> <b>Martin Edwards</b>	Update included in the CEO's Report.
<b>8. Other Actions</b>				
8a	November 2012 POLB12/117 (c)	CEO to keep the Board informed of any major developments re Project Rainbow (also called Antelope)	<b>Alwen Lyons</b>	
8b	November 2012 POLB12/120 (c)	A plan to be presented to enable members of the Board and ExCo to have greater exposure to the people involved in the Stakeholder Forum	<b>Sue Barton/</b> <b>Alwen Lyons</b>	
8c	October 2012 POLB12/106(d)	A report is expected back to the Board in March 2013 on the work of the Stakeholder Forum	<b>Susan Crichton</b>	Update to be presented to the Board in the New Year

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8d	October 2012 POLB 12/106	The Board asked to see the reactive communication lines which would be used by the Board if required (Project Rainbow).	<b>Mark Davies</b>	Not yet needed. Opportunity taken to revise further – will be circulated.
8e	November 2012 POLB12/125(a)	Company Secretary to update Committee dates following further discussions with respective Chairmen.	<b>Alwen Lyons</b>	Committee meeting dates to be reviewed as required..
<b>9. Actions delegated specifically to Board Committees</b>				
9a	November 2012 POLB12/117(b)	ARC to undertake a more detailed review of high risk contracts at its meeting in February. The Board requested that the contract review include any liability caps in place and the pass through to subcontractors.	<b>Lesley Sewell/ Hugh Flemington for ARC</b>	On ARC agenda for 13 February
9b	October 2012 POLB12/108 (b)	ARC to agree the arrangements for control of banking and treasury operations and agree limits of authority and reporting arrangements.	<b>Alasdair Marnoch/Chris Day</b>	On ARC agenda for 13 February.

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**POLARC12 (2<sup>nd</sup>)  
POLARC12/8-15**

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

**Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE  
held on Tuesday 13 November 2012  
at 2pm at 148 Old Street, London EC1V 9HQ**

**Present:**

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

**In attendance:**

Alice Perkins (AP)	Chairman, Post Office Limited
Chris Day (CD)	CFO
Paula Vennells	CEO (item 12/11 only)
Sarah Hall (SH)	Head of Financial Control and Compliance
Nick Kennett (NK)	Financial Services Director (item 12/13 only)
Alwen Lyons (AL)	Company Secretary
Hugh Flemington (HF)	Head of Legal Services (item 12/11 only)
Lesley Sewell (LS)	Chief Information Officer (item 12/11 only)
Malcolm Staite (MS)	Interim Head of Risk Governance
Malcolm Zack (MZ)	Head of Internal Audit

Stephen Collins (SC)	Audit Manager, Royal Mail Group Internal Audit (item 12/12 only)
Angus Grant (AG)	Audit Partner, Ernst & Young (item 12/12 only)
Jeremy Midkiff (JM)	Audit Manager, Ernst & Young (item 12/12 only)

**POLARC12/8**

**INTRODUCTION**

- (a) A quorum being present, the Chairman of the Committee opened the meeting and welcomed all those present.
- (b) The Chairman noted that the Committee would not be able at this meeting to discuss Risk Management in detail, as the executive team were still working through the processes and the necessary recruitments had not yet been completed. The approach to risk management would be a matter for particular focus at the next meeting in February.

**POLARC12/9**

**GOVERNANCE**

- (a) The Chairman asked MZ to talk through the new format proposed for the Terms of Reference of the Committee, including an outline schedule of matters to be discussed and a form of standing agenda.

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- ACTION: Company Secretary**
- (b) Following discussion, it was agreed that the revised Terms of Reference for the Committee, dated November 2012, are approved and adopted subject to an amendment in 2.1 to clarify that the HR & Corporate Services Director and the General Counsel were the same role.
- (c) These Terms of Reference would be included in the pack of corporate governance documents to be approved by the Board in January 2013.
- ACTION: CD**
- (d) The Committee requested that the banking and treasury delegated authority limits discussed at the Board meeting on 23 October 2012 should return to the ARC in February for discussion and that outstanding balances and any breaches by counterparties be brought to the attention of the ARC.
- ACTION: MZ**
- (e) The Committee asked for sight of the internal audit reports completed since April 2012, and a status report on the audit actions to be presented at the February meeting.
- (f) The Committee requested discussion at the February meeting on:
- (i) the policies in place to mitigate against key business risks (a paper to be produced by the Head of Risk Governance); and
  - (ii) the process for establishing and ensuring compliance by the Business with those policies and with regulatory requirements. It was recognised that this exercise would take some time, with priority areas starting to become clear over the course of 2013.
- ACTION: MZ/SC**
- (g) The CFO and HR & Corporate Services Director would then lead a session at the Board to give comfort that the Business understands its regulatory risks and has the policies in place to monitor and mitigate.
- ACTION: CD/SC**

POLARC12/10

**ANNUAL REPORT AND ACCOUNTS AND HALF YEAR TRADING STATEMENT**

- (a) CD presented the latest draft of the half-year trading statement. It was noted that the DVLA decision had now been announced and could therefore be included in the statement.
- (b) It was noted that the trading statement had not been reviewed formally by Ernst & Young but it was confirmed that the basis of preparation was consistent and that there had been no major changes in accounting policies or practice.
- (c) The proposed date for release of the statement to the press and general public was 22 November 2012. Discussions would be held separately with the Shareholder.
- (d) The Committee discussed the tone of the statement and the comments received to date from members of the Board and it was agreed that final comments would be input by 14 November, after which the statement would be re-circulated to the Board for final approval.
- ACTION: CD**

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- ACTION: Company Secretary**
- (e) A copy of the final statement and press release would be circulated to the Board.
  - (f) The paper presented by SH, setting out an approach for preparation of the full year accounts for 2012/13, was considered.
  - (g) After discussion it was agreed that:
    - (i) Post Office should not take advantage of the exemptions from being a wholly owned subsidiary of a UK parent producing group financial statements;
    - (ii) Post Office should continue to report under UK GAAP but the consolidated financial statements will be under IFRS;
    - (iii) the Post Office Annual Report and Financial Statements should be prepared as one formal document for lodging at Companies House;
    - (iv) Post Office should include the additional Business Review disclosures applicable to quoted companies where appropriate;
    - (v) Post Office should aim to meet the elements of the UK Corporate Governance Code and DTR disclosure requirements on corporate governance that are appropriate; and
    - (vi) Post Office should comply with legal requirements concerning the disclosure of directors' remuneration but would not seek to go beyond the statutory level of disclosure for the financial year 2012/3.

**ACTION: Company Secretary**

A full analysis of Post Office's compliance with the UK Corporate Governance Code was under way and would be provided for discussion by the Committee at its next meeting.

There appeared to be nothing which would prevent the Post Office from confirming that it upheld the principles of the Code, even if some of the detailed recommendations would not be applicable to a Government-owned organisation.

**POLARC12/11****RISKS – HIGH RISK CONTRACTS**

The CEO, LS and HF joined the meeting to provide an update on the information security issue which had recently been faced by the Post Office.

An approach to establishing the risk profile of customer data held within the Post Office had been set out in the paper from LS and this was discussed.

The Committee thanked the CEO and the Business for the rigour with which they had handled the issue and asked for a short update report in mid-December followed by a formal report on information security for the next ARC meeting in February, including a noting paper on High Risk Contracts.

**Post Office Limited – Strictly Confidential****ACTION:LS**

The Committee asked to be kept informed in the meantime of any actions necessary to mitigate against any actual or perceived liability on the part of the Post Office.

**POLARC12/12****INTERNAL AND EXTERNAL AUDIT**

- (a) SC, AG and JM joined the meeting.
- (b) MZ was introduced as the new Head of Internal Audit. He explained the future audit team he was recruiting for the Business and that going forward the audit plan would be based on the key risks which would be signed off by the ARC. He confirmed the activity in the Audit plan for 2012/13 and that Royal Mail's Internal Audit Team would assist Post Office up to 31 March 2012.
- (c) The Committee agreed that there may be a need to monitor the increased strategic risks driven by separation and transformation, but that there also needed to be a focus on compliance within the Network.
- (d) The Committee asked for a summary of the areas covered by RMG Internal Audit reports to be presented to the ARC in February.

**ACTION:MZ**

Stephen Collins left the meeting

- (e) AG, the Ernst & Young Audit Partner responsible for the Post Office external audit, reported that the previous year's audit had been finalised. He expected that 2012/13 would be a challenging year for the Business in several areas because of separation and major change, and that the audit would need to focus on separation, pensions, and taxation with an overlay of IT. He set out the proposed approach to external audit of the full year accounts and the outline timetable. The detailed focus of the audit would be:
  - (i) Revenue recognition and the accounting treatment across diverse revenue streams;
  - (ii) Counterparty risk;
  - (iii) Pension valuation and accounting;
  - (iv) Separation accounting risks; including pensions and treasury;
  - (v) Valuation of accounting provisions;
  - (vi) Risk of fraud/burglary in the Network and Cash operations;
- (f) The ARC was comfortable with the approach, alongside the separate ISAE 3402 IT audit which had been jointly commissioned by the Post Office and Fujitsu.
- (g) The Chairman asked at what level of materiality the E&Y team would report. AG explained that this would be similar to previous years. Although E&Y did put a figure on P&L materiality, they would propose to report any identified audit adjustments above £600k to the Committee and, as a general rule,

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insist on changes to the accounts for any single item or accumulation of items with an effect of over £5-6 million. This was accepted.

**ACTION:AM/CD**

- (h) The Chairman informed the meeting that he would pick up the Ernst & Young fees with the CFO outside the meeting
- (i) The external audit plan was agreed. The external auditors left the meeting.

**POLARC12/13****MATTERS REFERRED TO ARC BY THE BOARD**Governance of the “Eagle” Contract**ACTION: NK**

- (a) NK joined the meeting.  
  
He presented the paper and explained the governance processes now in place with the Bank of Ireland (BoI) following agreement of the new contract. The Committee was informed of the arrangements and the governance committees put in place to monitor performance. The Committee asked that the minutes of future Regulatory Risk Committees (RRC) be provided for the ARC.
- (b) NK noted the termination rights currently contained in the contract. BoI was obliged to provide certification within 15 days of each quarter end to assure Post Office that BoI was meeting its requirements in respect of:
  - (i) Tier One Ratio and Capital buffers
  - (ii) Liquidity
  - (iii) NSFR requirement

and that it had not breached any of the terms of the contract creating a Termination Obligation.
- (c) The Chairman asked if this gave the Business sufficient warning of any problems. NK assured the Committee that the Bank was obliged to give Post Office early warning of any capital or liquidity problems and Post Office had a buffer above the regulatory and statutory requirements set by HM Treasury (HMT), the Bank of England (BoE) and the FSA.
- (d) Post Office had also established a system for tripartite meetings with HMT and BoE, to which the FSA was also invited. The purpose of this meeting was to give Post Office a medium to long term view of the banking environment and how any developments might affect the Post Office.
- (e) NK explained that the FSA would soon be splitting to form two organisations: the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). This should lead to a strengthening of regulatory relationships and give the Business more comfort.
- (f) The Committee asked NK to provide an interim update on the regulatory position in September 2013, 6 months after the changes had taken effect.

**ACTION: NK**

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- (g) The Chairman noted that it would be useful at the same meeting to look at scenarios in which Post Office would need to respond to a termination event.
- (h) NK reported that Post Office deposits had grown substantially above the planned £16.6 billion target agreed with the FSA. The parties were working together to agree a commercially sustainable position on pricing for BoI whilst ensuring protection for Post Office customer assets and the Post Office brand.

NK explained the securitisation of assets by BoI and noted that the new contract required consent from the Post Office to securitise any Post Office customers' assets. The terms were designed to ensure that Post Office customers' assets were managed effectively but also ring-fenced in the event that a transfer to an alternative provider became necessary.

NK then left the meeting.

Uncommitted Credit Facilities**ACTION:  
CD/Company  
Secretary**

- (i) The CFO asked for the Committee's views on the proposals relating to uncommitted loan facilities which had been put forward to the Board. He noted that banking counterparties would require a resolution of the full Board.
- (j) The Committee discussed the proposals to enter into two loan facilities. CD confirmed that these proposals had been discussed with the Shareholder and no concerns had been expressed.
- (k) The Committee endorsed the following recommendations to the Board:
  - (i) approval for Post Office to enter into external borrowing facilities up to a maximum value of £100m, such that external borrowing of up to £50m may be drawn down at any one time;
  - (ii) approval for the CFO and Head of Corporate Finance to conduct negotiations with counterparties and sign and deliver the loan and related documentation
  - (iii) approval for the form of Board resolution included in the paper, subject to review by Susan Crichton (Head of HR and Corporate Services).

**POLARC12/14****ANY OTHER BUSINESS****ACTION:  
Company  
Secretary**

- (a) It was agreed that the schedule of meeting dates for 2013 should be revised to allow for meetings in February, May, September and November. The Company Secretary was asked to recirculate the dates.

**POLARC12/15****CLOSE**

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

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PC 12/16-22

**POST OFFICE LTD**

**PENSIONS SUB-COMMITTEE**

**Minutes of a meeting of the Pensions Sub-Committee of the Board  
held at 148 Old Street, London EC1V 9HQ on Wednesday 14 November 2012**

Present: Virginia Holmes (VH) – in the Chair  
Chris Day (CMD)  
Susannah Storey (SS)

In Attendance: Sarah Hall (SH) Financial Controller  
Ken Potter (KP) Pensions Consultant  
Helen Perkins (HP) Secretariat  
Tim Giles (TG) AON Hewitt (from item 12/10)  
Zoe Taylor (ZT) AON Hewitt (from item 12/ )

**PC 12/16 OPENING OF MEETING**

A quorum of two directors being present, VH opened the meeting and noted that apologies for absence had been received from Susan Crichton, HR and Corporate Services Director.

**PC 12/17 MINUTES OF PREVIOUS MEETING AND MATTERS ARISING**

The minutes of the meeting held on 11 October 2012 were approved for signature by VH, subject to the agreed deletion of one sentence.

The following matters arising from the minutes were not otherwise covered under agenda items:

**Meeting with Chairman of Trustees**

CMD noted that he would be meeting Joanna Matthews, the new RMPP Chair of Trustees, on 15 November.

**Project Robin**

The Chairman reported that it had been agreed, after the last meeting, not to incur expenditure on detailed work looking at alternatives if Project Robin was not implemented. The Committee noted that a "Plan B" might still be needed in future, in which case work would need to be done quickly.

**Shareholder Views**

KP commented that Project Robin had been outlined in discussions with ShEx and the Shareholder had appeared to be supportive of the proposals. SC would be asked to provide further details on discussions with the Shareholder and any impact of the proposals for State Aid purposes at or before the next Pensions Committee meeting.

**ACTION: SC**

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Investment management and administration costs

SH had provided an outline of investment management and administration fees incurred by the RMPP Trustees.

SH highlighted that Post Office currently paid a small proportion of the overall costs through a recharging arrangement. Future costs could not be predicted accurately and the amounts shown were therefore indicative rather than invoiced costs. Administration costs were budgeted to increase in the current year but to reduce in 2013-14, when a substantial decrease in the Pension Protection Fund levy, set before the Pensions Solution was implemented, was expected.

It was agreed that efforts should be made to keep track of these costs in the context of the size of assets and to be aware of the size and capability of the Trustee team.

**ACTION: SH/KP**

**PC12/18**

**PROPOSALS ON INVESTMENT BELIEFS AND ASSET ALLOCATION**

The Post Office Board had agreed the high level principles for pension investments at its last meeting but the strategic asset allocation would be reviewed in more detail at its next meeting on 23 October.

The Committee agreed that a clear understanding of the Board's investment beliefs was essential to provide a firm basis for the decisions on allocation. AON had suggested that directors complete an online survey to identify common beliefs about types of investment and indicate where further explanation and discussion of relative risks and reward might be helpful. Although not all directors would complete the survey, ZT noted that there were already indications of common views eg some distrust of high yield credit.

AON's assumption was that a return of at least 2% above gilts would need to be generated to cover costs and allow for extended hedging. The existing portfolio was producing a reasonable return but the analysis showed that it would be possible to target a higher return, without increasing risk, by eliminating the restriction against illiquid assets and by using some absolute return funds with a low sensitivity to interest rate risk.

It was agreed that greater definition of absolute return funds would be needed and the market context of how other funds were using this type of investment might be useful. Some small presentational amendments were also agreed.

**ACTION: AON**

The Committee anticipated Board interest in the expected level of return and how returns might be impacted by a change in interest rates.

It was, however, recognised that decisions on asset allocation did not need to be rushed while the current portfolio was producing a satisfactory return. While the strategic asset allocation for the Post Offices sections should be reviewed at least annually, the Trustees would also have their own views and could not be forced to accept the Board's preferred asset allocation strategy. AON noted that a higher return might provide some protection against a need to increase contributions, thereby promoting the sustainability of the scheme, which was a priority for the Trustees.

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The Committee then discussed different structures for investment management. AON's view was that the size of assets would certainly permit a choice of single managers for different assets but a diversified portfolio was also possible. The Board might indicate a preference and costs would certainly be a factor, but this was likely to be a longer term decision for Post Office, with the Trustees.

Trigger Mechanism for Extended Hedging

The Committee discussed the proposal set out by AON for the trigger points at which index linked gilts would need to be purchased. The initial period of protection would be three years, in line with the valuation cycle. Reaching a trigger point at which bond prices reduced or yields increased would prompt action to purchase further gilts to extend the protection by six months.

AON confirmed that this was a standard approach within the industry and would be familiar both to the Trustees and to the investment managers (BlackRock) currently managing the gilts portfolio.

The Committee noted that an annual review process would also be put in place to consider if any other action was necessary to protect the Post Office sections against a potential increase in liabilities, if no triggers had been activated during the year. The Committee also noted that this mechanism relied on the buffer from Project Robin being available to maintain the affordability of the Plan.

**ACTION: AON** AON would prepare a recommendation for the Board on this basis, for distribution with the Board pack for the meeting on 21 November.

**PC12/19 PROJECT ROBIN UPDATE**

**ACTION: SC** KP provided an update for information, it being noted that the investment strategy was built on the assumption that the Project would be delivered by the executive team. The Committee restated its need to have early warning if it began to appear that the Project would not be implemented by 30 June 2013, the final date for the valuation.

A first meeting had been held with union representatives and a letter had been sent to the Trustees to inform them of the proposed Rule Change. The Board would discuss on 21 November a draft term sheet for negotiations with the Trustees and with employee representatives.

**PC12/20 REVIEW OF PROFESSIONAL FEES**

TG and ZT left the meeting.

SH tabled a schedule of fees incurred and estimated by professional advisers.

Towers Watson – actuary

The estimate of £50,000 for actuarial work up to the end of January 2013 was questioned by the Committee.

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**ACTION: CMD** It was agreed that costs should continue to be controlled carefully. CMD would send a note to Towers Watson setting out expectations on the use of actuarial time and asking for a fixed fee for completion of the valuation.

**ACTION: SH** The Committee gave authority for expenditure of up to £50,000 for Towers Watson but asked SH to raise purchase orders only as justified, in smaller amounts, and to report back to the Committee on the time being spent on actuarial work over the next few months.

AON Hewitt – investment advisers

SH reported that £40,000 had been spent from the £100,000 initially authorised. Authority was now sought for a further £24,000 for ongoing monitoring of investments. This was agreed.

VH again stressed that Post Office would need to understand and monitor investment management fees being incurred on its behalf by the Trustees.

**PC12/21**

**ANY OTHER BUSINESS**

Valuation

**ACTION: KP/SH** Towers Watson had asked for clarification of the key objectives of Post Office in agreeing the basis of the valuation. KP and SH were asked to produce a paper for the Pensions Committee on the key objectives, to be circulated by email.

Closure of RMSEPP

The Committee noted that the process of closure of RMSEPP to future accrual was underway. HR would manage the implications of this decision for the two Post Office members of this Plan.

Date of Next Meeting

The next meeting of the Committee would take place on Tuesday 22 January 2013 at 3.30pm at 148 Old Street. The meeting would focus on investment strategy, taking into account the feedback from the Board. An update on Project Robin would be included for information only.

Separation of sections within the RMPP

KP noted that a letter of comfort had been requested from Towers Watson confirming that the assets held within the Post Office sections following separation were in line with expectations. In fact, the value of assets was slightly higher than originally anticipated.

**PC12/22**

**CLOSE**

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

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PC 12/23-26

**POST OFFICE LTD**

**PENSIONS SUB-COMMITTEE**

**Minutes of a meeting of the Pension Sub-Committee of the Board  
held by conference call on Tuesday 27 November 2012 at 10am**

Present: Virginia Holmes (VH) – in the Chair  
Chris Day (CMD)  
Susannah Storey (SS)

In Attendance: Susan Crichton (SC) HR & Corporate Services Director  
Helen Perkins (HP) Secretariat  
Ken Potter (KP) Pensions Consultant

Tim Giles (TG) AON Hewitt  
Zoe Taylor (ZT) AON Hewitt

PC 12/23

**INVESTMENT STRATEGY**

A quorum being present, VH opened the meeting, which had been convened to finalise the preferred strategic asset allocation for the Post Office Fund, for communication to the RMPP Trustee.

The Board had agreed the high level principles of allocating 50% of the Fund to index-linked gilts, investing the remaining 50% in a growth portfolio of return-seeking assets (removing the restriction on investment in property) and using extended hedging of the gilts portfolio to protect against increases in liabilities for an initial three year period. An indicative expected return of around 5% above cash had been discussed.

Authority had been delegated to the Pension Committee to set the final risk and return expectations and confirm in greater detail the preferred strategic asset allocation with the RMPP Trustee.

The paper prepared by AON was discussed. The Committee clarified that setting a target return was intended to help to maintain contributions at the current level for as long as practicable, but not indefinitely and on the assumption that Project Robin would be implemented.

Tim Giles explained that the figures for expected returns and volatility were slightly different from those presented to the Board, as further information had been provided by RMPP and the assumptions had been updated to 30 September 2012.

The main differences between the existing asset allocation for return-seeking assets and the alternative structure proposed were a new 20% allocation to UK property investment and a significant movement from duration hedged investment grade credit into absolute return funds. Overall, the proposals were expected to increase the target return for the Post Office Fund from 5.5% to 8% with volatility moving from 3% to 4%.

The likely rates of return from UK property and absolute return funds were discussed. Investment in property had previously been excluded from the Post Office portfolio for reasons of liquidity, rather than

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insufficient potential return. Property exhibited low correlation with other asset classes, helping to diversify the portfolio. Yields of around 5%, together with some capital appreciation, had been assumed.

**ACTION: AON**

It was agreed that the guidelines for the Trustee should remove the restriction on investment in UK property but specify that property investment should be in unitised form, to allow for easier transfer of ownership or liquidation of assets if needed in the future. Post Office would ask the Trustee to invest in appropriate open market property funds rather than unitising existing property holdings.

**ACTION: AON**

It was further agreed that the fundamental principle to be communicated to the Trustee on investment on behalf of the Post Office would be that "cost matters". The Trustee should be comfortable that their investment decisions were aligned with Post Office's investment beliefs and its guidance on the importance of managing costs.

No restriction would be set on the types of absolute return fund to be used but the Post Office would expect fund choices to take account of the likely returns, net of cost. The extra layer of cost involved in fund of funds structures was therefore likely to make them unsuitable for the Post Office Fund.

**ACTION: AON**

Tim Giles confirmed that Aon's assumptions had allowed for investment management costs. Aon would circulate separately the return assumptions per asset class over a 5-10 year period.

**ACTION: AON**

It was agreed that a return of 5% above real cash returns was an appropriate target for the growth assets and the Committee agreed that the revised asset allocation should be recommended to the Trustee.

The Committee noted the importance of timing in changing the investment strategy. It was believed that the Trustee was already making adjustments to the portfolio and the Fund was currently cashflow positive so the changes should be able to be effected over a 3-6 month period.

Communicating with the Trustee

Chris Day noted that he would be presenting to the Trustee Board on Post Office's half year results on Thursday, with a further meeting involving the Trustee due to take place in the following week. There would therefore be an opportunity to talk informally to the Post Office Fund manager, Ian McKnight, about the proposals, with Post Office's formal instructions to the Trustee following in writing.

AON agreed to produce a revised paper to form the basis of instructions to the Trustee, including the expected target return of 5% above cash and statements about the importance of cost management and UK property investments being in unitised form. The instruction would note that the preferred asset allocation was based on information as at November 2012 and assumed no significant time delay before implementation of the changes.

**ACTION: AON**

The document would be circulated to the members of the Committee in a form which could be shared informally with the Trustee.

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**ACTION: CD** Once any comments had been received, the Committee delegated authority to Chris Day to approve the final letter of instruction to be issued to the Trustee.

**PC 12/24 VALUATION OBJECTIVES**

The Chairman noted that Ken Potter (KP) had circulated a matrix of objectives in respect of discussions with the Trustee on the Fund valuation. Members of the Committee were asked to provide any comments directly to KP.

**PC 12/25 DATE OF NEXT MEETING**

The next meeting was scheduled to take place on 22 January 2013 at 3.30pm. It was agreed that the Secretary would monitor items for the agenda and consider whether the meeting could be held by conference call.

**PC 12/26 CLOSE**

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

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REMCOM  
12/8-12/14

**POST OFFICE LTD**

**REMUNERATION COMMITTEE**

**Minutes of a meeting of the Remuneration Committee of the Board  
held at 148 Old Street, London EC1V 9HQ on Monday 10 December 2012**

Present: Neil McCausland (Committee Chairman)  
Virginia Holmes  
Alice Perkins

In Attendance: Susan Crichton (SC) HR and Corporate Services Director  
Jane Williams (JW) Interim Head of Reward  
Karen Hamer (KH) Reward Manager  
Alwen Lyons Company Secretary

Jonathan Hutchings New Bridge Street (item 12/11 onwards)

**REMCOM 12/8 OPENING OF MEETING**

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

**REMCOM 12/9 MINUTES OF PREVIOUS MEETING AND MATTERS ARISING**

- (a) The minutes of the meeting held on 4 October 2012 were approved for signature by the Chairman of the Committee.
- (b) Delegated Authorities and Terms of Reference (REMCOM 12/2)

The paper setting out the respective authorities of the Executive Committee and the Remuneration Committee had been revised, following discussion at the last meeting. The budget for advice had been increased to £50,000 and the Terms of Reference had also been reformatted. It was proposed that the revised paper and Terms of Reference would be submitted to the Board for approval at its meeting in January 2013.

**ACTION:  
Company  
Secretary**

The Committee agreed that the paper should go forward to the Board in the form presented to the meeting.

- (c) Current Remuneration Framework (REMCOM 12/3)

The Committee agreed that the CFO would retain his STIP PDR multiplier for the current year 2012/13.

**ACTION:SC**

It was clarified that Susan Crichton should communicate the LTIP decision after ShEx approval had been obtained.

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- (d) It was noted that the CEO had not been invited to the Committee meeting as the majority of the agenda related to her own remuneration. However, she had received the Committee papers, redacted where appropriate.
- (e) The review of New Bridge Street's provision of remuneration advice was carried forward.
- (f) Alice Perkins gave an update to the Board on her meeting with the Chief Executive of ShEx and their discussions regarding the current pay environment. The Chairman described his meeting with the Chairman of Royal Mail Group REMCOM, including an outline of their approach to pay proposals. The Committee discussed the Shareholder's lack of appetite for major change and acknowledged the need to develop the existing framework, ensuring a robust commercial proposal.
- (g) The list of Post Office employees with annual pay of £100k or over was noted. The Committee acknowledged that the Communications Director's pay was significantly less than that of other ExCo members. Fay Healey explained the context and that his salary would be reviewed after an appropriate time in the role.

## REMCOM 12/10

## UPDATE ON STIP/LTIP FOR 2012

- (a) Karen Hamer gave an update on discussions with ShEx concerning the STIP and LTIP for 2012. The proposal had been progressed through SROC and was currently with the Minister for consideration. Once agreed, it would then pass to HM Treasury for final sign-off. It was hoped that this would be completed before Christmas.
- (b) The Chairman presented the recommendations in the paper, highlighting areas where the approach could be improved by:
  - (i) closer dialogue with ShEx at the design stage of remuneration packages for the CEO and CFO;
  - (ii) further understanding of the underlying challenges facing ShEx in presenting proposals to SROC;
  - (iii) presenting a full, strongly-argued paper, supported by a business case and a clear link to remuneration, with detailed examples
  - (iv) understanding the audience for the written proposal and ensuring adequate detail is given.

The Remuneration Committee supported the approach going forward.

- (c) The proposed rules and performance conditions for the LTIP, a schedule of limits and a list of proposed awards to nominees were noted.
- (d) It was agreed that both the STIP and LTIP for 2012/13 should be implemented on this basis. Arrangements should be made to communicate the awards to participants as soon as they are agreed

**ACTION:SC**

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REMCOM12/11

**BENCHMARKING UPDATE AND RESULTS**

- (a) Jonathan Hutchings from New Bridge Street Consultants was welcomed to the meeting.
- (b) He presented the process and the findings of the benchmarking exercise undertaken in respect of the CEO and CFO. The Committee discussed the relevance of the companies chosen and confirmed that it was comfortable with the selection. The Committee was informed that ShEx had also agreed the benchmarking groups.
- (c) The Committee agreed to adopt the set of benchmark companies and the developed market median for benchmarking purposes.
- (d) The Committee agreed to benchmark total, fixed and variable remuneration which would allow for the relative market strengths and weaknesses of individual elements to be taken into account in agreeing the total remuneration package.
- (e) Jonathan Hutchings explained that it was the industry's widely preferred and practised approach to use a range around the market median rather than an absolute measure. The Committee discussed the use of a range around the market median and agreed on a range of 85% to 115%.
- (f) Members of the Committee were comfortable with the overall total fixed pay proposed but asked that the benefits increase be reduced, with any balance being added to basic pay.

**ACTION:SC**

- (g) The Committee asked Jonathan Hutchings to provide an updated analysis for the CEO and CFO, showing the median total fixed pay and a range of 85% to 115% and an explanation as to why this approach would be rigorous and less generous than previous proposals.

**ACTION: NBS**

- (h) The Committee agreed that any pay increase should be effective from April 2013, and asked for clarification of future annual pay revision dates.

REMCOM 12/12

**FUTURE EXECUTIVE REMUNERATION STRATEGY**

- (a) The Committee discussed the paper on future remuneration strategy for the full Executive Committee, including the Chief Executive and the CFO.
- (b) The Committee agreed that the Business should retain both a STIP and a LTIP and discussed ways of differentiating between the two incentives.  
  
STIP
- (c) It was agreed to align the STIP approach for both the Executive Director roles, with a split of 80% for scorecard measures and 20% for personal objectives.
- (d) It was agreed that the CFO's bonus would sit between that of the CEO and ExCo members and should increase to 37.5% for on-target performance and 55% for stretch. With these changes in place, it was

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agreed that the PDR multiplier would no longer be applied to the CFO's STIP after 1 April 2013.

- ACTION: SC**
- (e) The Committee discussed the scorecard measures. Members were comfortable with using a PBIT threshold target as a gateway to the STIP. There was support for the use of Revenue and Crown Profit as measures along with a Customer Satisfaction measure (possibly a Net Promoter Score). The Committee also supported more specific bespoke scorecard measures for individual ExCo members.
  - (f) The business was asked to propose new scorecard measures for 2013/14 at the next REMCOM meeting on 5<sup>th</sup> February 2013.

- ACTION: NBS**
- (g) The Committee discussed the new disclosure requirements being introduced in 2013/14 and asked NBS to provide a suggested disclosure for the CEO and CFO.

LTIP

- (h) The Committee was disappointed that there seemed little opportunity for radical change to the LTIP but agreed to continue with the current structure, including the gateways of Network Transformation and Access Criteria.
- (i) It was agreed that the CFO should move to an LTIP award level half way between the CEO and ExCo members.

Deferral and Clawback

- ACTION: SC**
- (j) The Committee agreed to strengthen the clawback clause in the scheme rules by lengthening the time period to 12 months or the next audit, whichever is the longer, and making a provision for the inclusion of material reputational damage or profit restatement.
  - (k) Jonathan Hutchings pointed out that the nature of the LTIP meant it was already deferred for 2013/14. He recommended, and the Committee agreed, that deferral should not be applied to the STIP for 2013/14.

Disclosure and transparency

- ACTION: JH**
- (l) Jonathan Hutchings reported on the new disclosure and transparency requirements, as put forward by BIS. The Committee agreed that the Business should introduce some of the new policies in line with 48% of companies and asked NBS to help shape the disclosure policy.

**RECOM 12/13****ANY OTHER BUSINESS AND DATE OF NEXT MEETING**

- ACTION: SC**
- (a) The Chairman summarised the meeting and requested that the pay proposals to be brought to the next meeting align with the budget principles for next year.
  - (b) The next meeting of the Committee was scheduled for Tuesday 5 February 2013, from 9-11am.

**RECOM 12/14****CLOSE**

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

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**POST OFFICE LTD BOARD**

**Corporate Governance Review**

**1. Purpose**

The purpose of this paper is to:

- 1.1 Note Post Office's current level of compliance with the UK Corporate Governance Code which applies to listed companies;
- 1.2 Present updated terms of reference for Board sub-committees and for the Board itself, including a Schedule of Matters reserved for Board decision;
- 1.3 Consider a more formal definition of the roles of the Chairman and Chief Executive; and
- 1.4 Note that the Audit, Risk and Compliance Committee (ARC) will review in February a draft statement on corporate governance for inclusion in the Post Office Limited Annual Report and Accounts to 31 March 2013 and the Remuneration Committee will consider the format for disclosure of directors' remuneration at its forthcoming meetings.

**2. Background**

- 2.1 At the time of separation from Royal Mail, outline terms of reference for Board committees were produced.
- 2.2 Following the completion of appointments of non-executive directors to the Board, the composition for each Board sub-committee has been settled, all committees are now in operation and the committees have discussed proposed new terms of reference.
- 2.3 The revisions follow the recommendations of the Institute of Chartered Secretaries and Administrators and the new formats will be very familiar to those used to looking at corporate governance documents on listed company websites.
- 2.4 The Board's own schedule of matters for decision has also been updated and is presented for consideration. Terms of reference for the Executive Committee are being developed as part of a recent review of ways of working. They will be approved by ExCo at a later date and presented to the Board for information so that the respective expectations of the two most senior management groups can then be more easily compared.
- 2.5 A detailed study has also been undertaken of the areas in which Post Office cannot, or does not currently, comply with the detailed provisions of the UK Corporate Governance Code. There is no statutory obligation on the Post Office to "comply or explain", as listed companies must do in their annual reports, but best practice would be for the Chairman to comment within the Annual Report and Accounts on how Post Office has implemented corporate governance principles in the year under review.
- 2.6 In the current environment, there is likely to be a high degree of interest in any disclosures made on directors' remuneration and on diversity. The Remuneration Committee will review a draft form of disclosure on directors' remuneration at its meetings in February and March 2013; the ARC will review the draft directors'

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report, accounts and notes and a draft corporate governance statement before it comes to the Board for final approval.

### 3. Documents

The following documents are included in the Corporate Governance Review pack:

- An analysis of Post Office's compliance with the UK Corporate Governance Code
- Terms of Reference for the Post Office Board, including a Schedule of Matters reserved for Board decision
- Terms of reference for the Audit, Risk and Compliance, Pension and Nominations Committees (revised Terms of Reference have not been included for the Mutualisation Committee as, in practice, all Board members have contributed to the discussions on mutualisation and are considered likely to continue to do so)
- A paper setting out the respective authorities of the Board, ExCo and the Remuneration Committee relating to remuneration decisions, which also contains the Terms of Reference for the Remuneration Committee.
- A draft "roles and responsibilities" paper which confirms the separation of powers of the Chairman and the Chief Executive

### 4. Publication of Documents

The UK Corporate Governance Code requires listed companies to make available to the public documents such as the Schedule of Matters reserved for Board decision, Committee terms of reference and letters of appointment for non-executive directors. This is often done by publishing standard form documents on the Company's website.

The Board is asked to consider whether Post Office documents should be made available for download directly from the website or whether a statement should simply be made that they can be provided by the Company Secretary, on request.

### 5. Recommendations

The Board is asked to:

- 5.1 note the current level of compliance with the UK Corporate Governance Code;
- 5.2 approve the revised terms of reference presented for the Board, including a Schedule of Matters reserved for Board decision, and for Board sub-committees;
- 5.3 provide any further comments on the draft "roles and responsibilities" document;
- 5.4 agree that the Remuneration Committee should recommend a format for disclosure of directors' remuneration and the ARC should review in more detail the corporate governance position and any draft disclosures for inclusion in the Annual Report and Accounts to 31 March 2013.

**Alwen Lyons**  
**16 January 2013**

UK Corporate Governance Code and DTR requirements<sup>1</sup>

January 2013

<b>PRINCIPLE A1: The Role of the Board</b>	Every company should be headed by an effective Board which is collectively responsible for the long-term success of the company.	
	<b>Code provisions</b>	<b>Explanation/areas for review</b>
A.1.1	The Board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. The annual report should include a statement of how the Board operates, including a high level statement of which types of decision are to be taken by the Board and which are delegated to management	The Board meets regularly. <b>The schedule of matters reserved for the Board will be confirmed as part of the corporate governance review in January 2013 and can be made available to the public on the website. An appropriate statement on decision making will be made in the Annual Report. Terms of reference for ExCo are being considered as part of the Ways of Working Review.</b>
A.1.2.	The annual report should identify the Chairman, CEO, SID and Chairmen and members of Board committees. It should also set out the number of meetings held and individual attendance by directors.	This will be done.
A.1.3	The company should arrange appropriate insurance cover in respect of legal action against its directors.	D&O policy is in place.
<b>PRINCIPLE A2: Division of Responsibilities</b>	There should be a clear division of responsibilities at the head of the company between the running of the Board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.	
A.2.1	The roles of the Chairman and Chief Executive should not be exercised by the same individual. The division of responsibilities between the Chairman and Chief Executive should be clearly established, set out in writing and agreed by the Board.	The roles are clearly separated. <b>The roles of the Chairman and Chief Executive have not previously been documented. A draft document is provided for Board consideration.</b>
<b>PRINCIPLE A3: The Chairman</b>	The Chairman is responsible for leadership of the Board and ensuring its effectiveness. The Chairman should set the Board's agenda and ensure that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chairman should ensure that the directors receive accurate, timely and clear information and should also ensure effective communication with shareholders. The Chairman should promote a culture of openness and debate by facilitating the effective contribution of non-executive directors and by building constructive relations between executive and non-executive directors.	
A.3.1	The Chairman should be independent on appointment. A Chief Executive should not go on to become Chairman.	The Chairman is independent. The Government shareholder, whose consent is required for any director appointment, would want to maintain the independence of the Chairman.

<sup>1</sup> DTR requirements are shown only where they extend Code provisions

<p><b>PRINCIPLE A4: Non-Executive Directors (“NEDs”)</b></p>	<p>As part of their role as members of a unitary Board, non-executive directors should constructively challenge and help develop proposals on strategy</p> <p>NEDs should scrutinise management’s performance in meeting agreed objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and the quality of financial controls and systems of risk management. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and removing executive directors and in succession planning. <i>(Note that Post Office Limited’s Articles of Association give further rights to the Shareholder in respect of the remuneration and appointment and removal of directors).</i></p>	
	<p><b>Code provisions</b></p>	<p><b>Explanation/areas for review</b></p>
<p>A.4.1</p>	<p>The Board should appoint a Senior Independent Director (as a sounding Board for the Chairman, an intermediary for other directors and to be available to shareholders if necessary).</p>	<p>Neil McCausland has been appointed as the SID.</p>
<p>A.4.2</p>	<p>The Chairman should hold meetings with the NEDs without the executives being present. Led by the SID, the NEDs should meet without the Chairman present at least annually, to appraise the Chairman’s performance, and on such other occasions as are deemed appropriate.</p>	<p>An informal “NEDs only” meeting was held on 23 October 2012. NM will lead the process for evaluation of the Chairman. <b>NomCo to agree process for evaluation of Board and Committees early in 2013.</b></p>
<p>A.4.3</p>	<p>Where a director has concerns about the running of the company or a proposed action, which cannot otherwise be resolved, the concern should be recorded in the minutes. On resignation, a NED with any such concerns should provide a written statement to the Chairman for circulation to the Board.</p>	<p>The Company Secretary will record concerns as they arise.</p>
<p><b>PRINCIPLE B1: Composition of the Board</b></p>	<p>The Board and its Committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. The Board should be large enough to manage business requirements but not so large as to be unwieldy. The structure should be such that no individual or small group can dominate the Board’s decision-taking.</p> <p>In considering Committee membership, the value of refreshing the membership and not placing undue reliance on particular individuals should be taken into account. No one other than the Committee Chairman and members is entitled to be present at a meeting of the Nomination, Audit or Remuneration committee, but others may attend at the invitation of the Committee.</p>	
	<p><b>Code provisions</b></p>	<p><b>Explanation/areas for review</b></p>
<p>B.1.1</p>	<p>The Board should identify in the annual report each NED it considers to be independent.</p>	<p>All current NEDs are independent and are so identified on the Post Office website. This will also be done in the Annual Report.</p>
<p>B.1.2</p>	<p>At least half the Board, excluding the Chairman, should comprise independent NEDs.</p>	<p>The Board currently comprises two executive directors, five independent NEDs and the Chairman, who was independent at the time of appointment.</p>

<p><b>PRINCIPLE B2: Appointments to the Board</b></p>	<p>There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board.</p> <p>The search for Board candidates should be conducted and appointments made on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender. The Board should satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management so as to maintain an appropriate balance of skills and experience and to ensure progressive refreshing of the Board.</p>	
	<p><b>Code provisions</b></p>	<p><b>Explanation/areas for review</b></p>
<p>B.2.1</p>	<p>A nomination committee should lead the process for Board appointments and make recommendations to the Board. A majority of its members should be independent NEDs. The Chairman or an independent NED should chair the committee. The Chairman should not chair the committee for the appointment of a successor Chairman. The committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board.</p>	<p>The Post Office Nominations Committee is made up of the Chairman and two independent NEDs.</p> <p><b>The terms of reference for Board committees will be summarised in the Annual Report and can be made available by being published on the website, once the Board's corporate governance review has been completed in January 2013.</b></p>
<p>B.2.2</p>	<p>The nomination committee should evaluate the balance of skills, experience, independence and knowledge on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.</p>	<p>All NEDs are independent and their appointments were based on particular criteria (strong retail background, accounting and audit expertise, financial services experience, detailed knowledge of pensions and investments and understanding of Government).</p>
<p>B.2.3</p>	<p>NEDs should be appointed for specified terms. Any term beyond six years for a NED should be subject to particularly rigorous review and take into account the need for progressive refreshing of the Board.</p>	<p>All NEDs have been appointed for a specific term. The Chairman's appointment is on a rolling 12 month basis. All terms of appointment are subject to the consent of the Shareholder.</p>
<p>B.2.4</p>	<p>A separate section of the Annual Report should describe the work of the nomination committee, including the process it has used in relation to Board appointments. This section should include a description of the Board's policy on diversity, including gender, any measurable objectives set for implementing the policy and progress in achieving the objectives.</p> <p>An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a Chairman or NED. Where an external search consultancy has been used, it should be identified in the annual report and a statement made as to whether it has any other connection with the company.</p>	<p>A section can be included in the Annual Report. Diversity is being considered by the NomCo. <b>A form of wording will need to be agreed about the Board's objectives and progress towards them.</b></p> <p><b>The search for NEDs has not previously been conducted in this way but new director searches and appointments will be controlled by the Nominations Committee. All appointments require the consent of the Government shareholder.</b></p>

<b>PRINCIPLE B3: Commitment</b>	All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.	
	<b>Code provisions</b>	<b>Explanation/areas for review</b>
B.3.1	The nomination committee should prepare a job specification for any appointment of a Chairman, recognising the need for availability in the event of crises. A Chairman's other significant commitments (and those of directors in B.3.2 below) should be disclosed to the Board before appointment and included in the annual report.	All directors complete a record of other commitments on their appointment. Biographies of all directors appear on the website and will be included in the annual report.
B.3.2	The terms and conditions of NED appointments should be made available for inspection. The letter of appointment should set out the expected time commitment.	<b>Letters of appointment for NEDs are not currently made public. A set time commitment (number of days per week) is stated only for the Chairman.</b> The standard form letter could be made available for inspection on request (not including personal information or remuneration).
B.3.3	The Board should not agree to a full time executive taking on the Chairmanship or more than one non-executive directorship in a FTSE100 company.	No Post Office executive director is a director of a FTSE100 company.
<b>PRINCIPLE B4: Development</b>	All directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge. The company should provide the resources for developing and updating directors' knowledge and capabilities. To function effectively, all directors need appropriate knowledge of the company and access to its operations and staff.	
	<b>Code provisions</b>	<b>Explanation/areas for review</b>
B.4.1	The Chairman should ensure that new directors receive a full, formal and tailored induction on joining the Board.	An induction programme is arranged for all new directors.
B.4.2	The Chairman should regularly review and agree with each director their training and development needs.	Specific topics are covered in workshops and briefing. Individual needs may be addressed as part of future Board evaluations.
<b>PRINCIPLE B5: Information and Support</b>	The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. Under the direction of the Chairman, the company secretary's responsibilities include ensuring good information flows as well as facilitating induction and assisting with professional development as required. The company secretary should be responsible for advising the Board, through the Chairman, on all governance matters.	
	<b>Code provisions</b>	<b>Explanation/areas for review</b>
B.5.1	The Board should ensure that all directors have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. Committees should be provided with sufficient resources to undertake their duties.	Independent advice can be arranged if required.  Committee terms of reference include provision for them to obtain professional advice as needed.

B.5.2	All directors should have access to the company secretary who is responsible to the Board for ensuring that Board procedures are complied with. Both the appointment and removal of the company secretary should be a matter for the Board as a whole.	Alwen Lyons is available to all directors. The appointment and removal of the Company Secretary is a matter for Board resolution.
<b>PRINCIPLE B6: Evaluation</b>	The Board should undertake a formal and rigorous evaluation of its own performance and that of committees and individual directors	
	<b>Code provisions</b>	<b>Explanation/areas for review</b>
B.6.1	The Board should state in the annual report how performance evaluation of the Board, its committees and its individual directors has been conducted.	<b>It is suggested that a limited form of disclosure is included this year, allowing the Board to have settled into its role before making more detailed public statements about evaluation in 2013-14</b>
B.6.2	Evaluation of the Boards of FTSE 350 companies should be externally facilitated at least every 3 years.	Not applicable for 2012/13.
B.6.3	The NEDs, led by the SID, should be responsible for performance evaluation of the Chairman, taking into account the views of executive directors.	The process of performance evaluation of the Chairman will be led by NM.
<b>PRINCIPLE B7: Re-election</b>	<b>Section B7 is not relevant to Post Office. It requires the annual re-election by shareholders of directors of FTSE 350 companies.</b>	
<b>PRINCIPLE C1: Financial and Business Reporting</b>	The Board should present a fair, balanced and understandable assessment of the company's position and prospects. This responsibility extends to interim and other price-sensitive public reports and reports to regulators as well as to statutory information. The Board should establish arrangements to enable it to ensure that information presented meets the above criteria.	
	<b>Code provisions</b>	<b>Explanation/areas for review</b>
C.1.1	The directors should explain in the annual report their responsibility for preparing the annual report and state that they consider it as a whole to be fair, balanced and understandable, providing the information necessary for shareholders to assess the company's performance, business model and strategy. There should be a statement by the auditor about their reporting responsibilities.	Responsibility statements will be included in the annual report.
C.1.2	The directors should include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company. (This should be in the same section as the business review).	Wording will be developed for the annual report.
C.1.3	The directors should report in annual and half yearly statements that the business is a going concern, with supporting assumptions or qualifications as necessary.	Going concern status is monitored by Finance, is referred to in the half year trading statement and will be discussed as part of the year end process, with appropriate wording in the annual report.

<b>PRINCIPLE C2: Risk Management and Internal Control</b>	The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.	
C.2.1	The Board should, at least annually, conduct a review of the effectiveness of the company's risk management and internal control systems and should report that they have done so. The review should cover all material controls, including financial, operational and compliance controls.	<b>Note that this is defined as a Board responsibility. This is an area for development for Post Office as an independent business and will receive attention from the ARC over the coming months.</b>
<b>PRINCIPLE C3: Audit Committee and Auditors</b>	The Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.	
	<b>Code provisions</b>	<b>Explanation/areas for review</b>
C.3.1	The Board should establish an audit committee of at least three independent NEDs. In smaller companies the Chairman (if independent on appointment) may be a member of, but not chair, the Committee. The Board should satisfy itself that at least one member of the Committee has recent and relevant financial experience (DTR 7.1.1R requires at least one member to have competence in accounting and/or auditing).	The Audit, Risk and Compliance Committee has been established under the Chairmanship of Alasdair Marnoch, who has recent and relevant financial experience.
C.3.2 and C.3.3	The main role and responsibilities of the Committee should be set out in written terms of reference, which should be made available.	Terms of Reference for the ARC have been drawn up and include the matters set out in more detail in Code provision C.3.2. <b>The Terms of Reference can be made available on the website.</b>
C.3.4	Where requested by the Board, the Committee should provide advice on whether the Board can make the statement referred to above in section C.1.1 (ie the report should be fair, balanced and understandable).	The ARC will review the full Briefing Book before the annual report is recommended to the full Board for approval.
C.3.5	The Committee should review arrangements for staff to raise concerns and for concerns to be investigated ("whistle-blowing")	<b>This is currently reviewed at executive level by the Risk and Compliance Committee.</b>
C.3.6	The audit committee should monitor and review the effectiveness of the internal audit activities. The reasons for the absence of such a function should be explained in the relevant section of the annual report.	The internal audit team is being developed under the leadership of Malcolm Zack. <b>Appropriate wording will be included in the annual report to explain that this is a new function for the independent Post Office.</b>
C.3.7	The Committee should have primary responsibility for making a recommendation on the appointment/reappointment/removal of external auditors (FTSE 350 companies should put the external audit contract out to tender at least every 10 years).	The responsibility is included in the ARC's Terms of Reference. The ARC will keep under review the independence of the external auditor.

	<p>If the Board were to disagree with a recommendation on external audit made by the Committee, an explanatory statement would need to be made by the Committee.</p> <p>DTR 7.1.3R requires the Committee to monitor the independence of the statutory auditor and in particular many provision of additional (ie non-audit) services.</p>	
C.3.8	A separate section of the annual report should describe the work of the Audit Committee.	A report including the required details set out in provision C.3.8 will be drafted for the annual report
<b>PRINCIPLE D1: Levels and Components of Remuneration</b>	Levels of remuneration should be sufficient to attract, retain and motivate directors but a company should avoid paying more than is necessary. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance. Performance -related elements should be stretching and designed to promote the long term success of the company. Remuneration Committees should use comparisons with caution to avoid an upward "ratchet" effect. They should also be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases.	
	<b>Code provisions</b>	<b>Explanation/areas for review</b>
D.1.1	In designing incentive schemes for executive directors, a remuneration committee should follow the detailed provisions set out in Schedule A to the Code.	Post Office must receive consent from the Shareholder for any changes to executive directors' remuneration. Only basic pay is pensionable. The requirements for stretching performance criteria to promote the long term success of the company, for rewards not to be excessive and for remuneration incentives to be aligned with risk policies and systems are noted. Consideration is being given to including provisions to enable the company to reclaim variable amounts in exceptional circumstances of misstatement or misconduct.
	Note: the Listing Rules set out the detailed requirements of a full directors' remuneration report. The information to be included differs from the statutory information required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and would include each element of remuneration, including basic pay, benefits, pension contributions and incentives.	<b>Post Office has not previously published a listed-company style directors' remuneration report. A format for this year's disclosure is being considered by RemCom. The structure and wording for the 2012/3 Annual Report as a whole will take into account recent BIS consultations on changes to narrative reporting and revised directors' remuneration regulations (FRC guidance on both is due to be published in Spring 2013 and consequent legal changes will take effect for Annual Reports for financial years ending on or after 1 October 2013)</b>
D.1.2	Relates to statements to be made about the earnings of an executive director received from Non-Executive directorships where the company has released a director for this purpose.	There are no current Post Office directors holding such a position.

D.1.3	NED remuneration should reflect the time commitment and responsibilities of the role and should not include share options or other performance-related elements.	NED remuneration is agreed by the Shareholder.
D.1.4	RemCom should consider carefully commitments to directors in the event of early termination, to avoid rewarding poor performance. They should take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss.	<b>The new form of director's service contract will take account of these factors.</b>
D.1.5	Notice periods should be set at one year or less.	Maximum notice period to be given by Post Office is 12 months (6 months' notice to be given by director).
<b>PRINCIPLE D2: Procedure</b>	There should be a formal and transparent procedure for developing policy on executive remuneration and fixing the remuneration of individual directors. No director should be involved in deciding his or her own remuneration. The RemCom should consult the Chairman and/or CEO about proposals relating to other executive directors. It should also be responsible for appointing any consultants, in both of the above cases taking care to recognise and avoid conflicts of interest. The Chairman should ensure that contact is maintained with principal shareholders about remuneration.	
	<b>Code provisions</b>	<b>Explanation/areas for review</b>
D.2.1	The Board should establish a remuneration committee of at least three (for smaller companies, two) independent NEDs. The Chairman may be a member of, but not chair the Committee if s/he was considered independent when appointed. The Committee should make available its terms of reference. Where consultants are appointed, they should be identified in the annual report and a statement made as to whether they have any other connection with the company.	RemCom has been established under the Chairmanship of Neil McCausland. <b>The terms of reference can be made available on the website.</b> Consultancy advice is under review. Appropriate statements can be made in the Annual Report about the independence of any consultants used.
D.2.2	RemCom should have delegated responsibility for setting remuneration for all executive directors and the Chairman, including pension rights and any compensation payments. The committee should also recommend and monitor the level and structure of remuneration of senior management (as defined by the Board but normally including the first layer of management below Board level).	RemCom's terms of reference extend to direct reports of the Chief Executive.
D.2.3	The Board itself, or the shareholders, should determine the remuneration of the NEDs within the limits set by the Articles of Association.	ShEx sets the remuneration of NEDs. The limit in the Articles of Association is £400,000 pa.
D.2.4	Shareholders should be invited specifically to approve all new long term incentive schemes and significant changes thereto.	ShEx approves all changes in directors' remuneration, including incentive schemes.

<p><b>Principle E1: Dialogue with Shareholders</b></p>	<p>There should be a dialogue with shareholders based on mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. While most shareholder contact is typically with the Chief Executive and finance director, the Chairman should ensure that all directors are made aware of shareholders' issues and concerns. Code provisions E.1.1 and E.1.2 are designed with institutional shareholders in mind but the Post Office complies with the principles eg the Chairman does ensure that the shareholder's views are communicated to the Board as a whole, NEDs cannot be appointed without shareholder approval and the shareholder's views on key business matters are discussed with NEDs during induction meetings.</p>	
<p><b>Principle E2: Use of the AGM</b></p>	<p>This provision is not relevant to Post Office which, as a private limited company, is not required to hold General Meetings.</p>	
<p><b>FSA Disclosure and Transparency Rules (where they differ from the Code)</b></p>	<p>The Listing Rules require a statement of whether a company has complied throughout the period with all relevant provisions of the Code and the company's reason for any non-compliance.</p> <p>The DTRs require listed companies to produce a corporate governance statement which must be included in the directors' report, or in a separate document with the annual report, or be published on the company's website (DTR 7.2.1R).</p> <p>The statement must contain a description of the main features of the company's internal control and risk management systems in relation to financial reporting (DTR 7.2.5R and 7.2.10). It must also describe the composition and operation of the main management and supervisory bodies.</p>	<p><b>Strictly the Code does not apply to Post Office. However, the Company will be able to state that it complies with the principles of the Code insofar as they apply to a government-owned institution and can mention development areas for the coming year (eg the development of internal audit).</b></p> <p><b>Post Office intends to include a corporate governance statement within the annual report and to publish this statement on the website. An initial draft of the statement will be prepared for the ARC for discussion in February 2013.</b></p>
<p><b>Expected regulation changes</b></p>	<p>BIS has announced changes to narrative reporting (requiring statements on diversity, production of a strategic report, to replace the business review and removing the requirement for some of the existing disclosures in the directors' report) and recommendations on the disclosure of directors' remuneration by listed companies. The changes will take effect for companies reporting on financial years ending on or after 1 October 2013.</p>	<p><b>FRC's recommendations on publication of a single figure for directors' remuneration paid during the period under review and clarification of forward looking remuneration policy will be taken into account as the Post Office prepares its next report and accounts.</b></p>

POST OFFICE LIMITED  
BOARD TERMS OF REFERENCE

Including the Schedule of Matters reserved for Board decision

The Board of Post Office Limited is collectively responsible for setting the Company's primary business objectives, for establishing a proper governance framework to manage and monitor risk and for ensuring that the Company has the resources and leadership required to achieve its stated objectives. Directors' statutory duties are set out in the Companies Act 2006. The primary duty of the directors is to promote the success of Post Office Limited as a Company for the benefit of its Government shareholder and the wider stakeholder community.

The Board remains accountable for performance to the Shareholder Executive within the Department for Business, Innovation & Skills ("ShEx"). The Board is required to notify ShEx of certain activities and capital commitments and to seek the consent of ShEx, as Shareholder, for certain actions, as set out in the Articles of Association.

A. BOARD COMPOSITION

1. The Board is made up of two executive directors and five non-executive directors, including the Chairman.

ROLE	INCUMBENT
Chairman (Chairman of Nominations Committee)	Alice Perkins CB
Senior Independent Director (Chairman of Remuneration Committee)	Neil McCausland (retail expertise)
Non-Executive Director (Chairman of Pension Committee)	Virginia Holmes (pensions expertise)
Non-Executive Director (Chairman of Audit, Risk & Compliance Committee)	Alasdair Marnoch (financial expertise)
Non-Executive Director	Tim Franklin (financial services expertise)
Non-Executive Director	Susannah Storey (Government appointee)
Chief Executive	Paula Vennells
CFO	Chris Day

2. The Company Secretary (Alwen Lyons) will act as Secretary to the Board.
3. The composition of the Board will be monitored by the Nominations Committee, which will make recommendations to the Board for the appointment or retirement of directors, taking into account the need for a diverse board membership with a range of appropriate skills and experience. All appointments will be subject to the consent of the Shareholder.

4. Non-Executive directors will form the majority of the Board. The term of office of each Non-Executive Director will be set by the Shareholder. Non-executive Directors will usually be appointed for a minimum period of three years. The initial term of office may be renewed for a further period but no Non-Executive Director shall serve for longer than [6] years.

#### B. BOARD MEETINGS

1. The Board shall meet as often as required. At least 8 Board meetings will be held each year.
2. In addition to regular Board meetings, separate Strategy sessions will be held twice a year.
3. The quorum for the transaction of business at a Board meeting shall be two directors (one Executive, one Non-Executive).
4. The Board may meet in person, by telephone or by other electronic means, so long as each member can contribute to the business of the meeting simultaneously.
5. Meetings may be convened by the Secretary, at the request of the Chairman, or by any director, at any time.
6. Notice of each meeting shall be given to all directors and, unless there are special circumstances, shall be given at least 3 working days before each meeting.
7. The Secretary (or a nominated deputy) shall attend all Board meetings and keep minutes and records of all decisions and actions.
8. Other Post Office employees and/or external consultants may attend for part or the whole of any Board meeting at the invitation of the Chairman.
9. The Secretary will be accountable to the Chairman for the provision of relevant and timely information to the Board and for ensuring regular reporting from Board Committees and the Executive Committee to the full Board.
10. The Non-Executive Directors will meet twice at least once each year without the executive directors being present.

#### C. DUTIES AND RESPONSIBILITIES

1. In addition to its legal duties, the Board has the following specific responsibilities:
  - Establishment of the Post Office's vision and values
  - Setting the Company's risk appetite and ensuring a proper framework exists for the management of risk
  - Maintenance of proper accounting and tax records, as required by the Companies Act 2006
  - Maintenance of a sound system of internal control so that the Company can meet its statutory and regulatory obligations

- Maintenance of the reputation of the Post Office as a public institution, including consideration of new products and activities which may attract public interest or have an impact on the value of the Post Office brand
  - Ensuring regular and active communications with the Shareholder, particularly on the Company's performance against the Strategic Plan and other key indicators
  - Delegation of authority to Board Committees and to the Post Office Executive Committee, according to their respective Terms of Reference
  - Formal evaluation of the performance of the Board, Board Committees and individual directors
2. The Board may delegate authority to the Executive Committee or to any Board Sub-Committee to deal with any particular matter or to complete a project or task on behalf of the Board. A Board Sub-Committee shall include both standing committees such as the Audit, Risk and Compliance Committee (ARC), the Nominations , Pension and Remuneration Committees and any ad-hoc sub-committees. The Board shall set out clearly the terms of reference of all such committees and shall receive reports on their activities, including copies of the minutes of committee meetings. Directors of the Board shall constitute the majority of members of any Board Sub-Committee.

#### D. SCHEDULE OF MATTERS RESERVED FOR BOARD DECISION

The following matters are reserved specifically for Board decision. Where indicated (\*), the Board may delegate authority to a Board sub-committee to bring forward a recommendation for approval or to complete a project or task on behalf of the Board.

##### Section 1: Strategy and management

- Approval of the annual operating plan and budget
- Approval of the Strategic Plan to be submitted to Government and any changes to it
- Approval of the Funding Agreement with Government and monitoring of the achievement of milestones contained within the plan
- Approval of the criteria for measurement of performance (Key Performance Indicators) and annual review of such criteria
- Ensuring that any necessary corrective action is taken in the light of reviews of performance against budget and against the Strategic Plan and Funding Agreement
- Setting the policy for diversity, talent management and succession planning within Post Office
- Approval of any extension of the Group's activities into new business areas or outside the UK
- Any decision to cease to operate all or any material part of the Group's business

##### Section 2: Ownership, capital structure and constitution

- Consideration of any recommendations for major changes to the Group's ownership and/or control structure\*(Mutualisation Committee)
- Approval of changes to the Group's capital structure including any proposal to issue new classes of shares, to redeem, consolidate or redesignate existing shares or to reduce the share capital,

- Proposals for changes to the Articles of Association or other constitutional documents applicable to the Post Office from time to time
- Approval of the incorporation of any new Group company, partnership or joint venture entity, including any subscription or application for allotment of shares
- Approval for the dissolution of any Group company, partnership or joint venture entity.

### Section 3: Financial reporting and controls

- Approval of the annual report and accounts, including any corporate governance statement and any specific reports required by Company law\* (Board-appointed sub-committee )
- Approval of any half year financial report or trading statement for publication\* (Board-appointed sub-committee)
- Approval and declaration of any dividends or other proposed distributions, subject to the Articles of Association and confirmation of the sufficiency of distributable reserves
- Approval of any significant changes in accounting policies or practices\* (ARC)
- Approval of treasury and banking policies, including methods of mitigating against foreign currency exposure and any use of financial derivatives \* (ARC)
- Monitoring of the independence of internal and external auditors \* (ARC)
- Approval of the appointment or removal of the external auditor\* (ARC)
- Ensuring that an effective risk management system is maintained as part of a sound system of internal controls and internal risk management \* (ARC)

### Section 4: Financial commitments

- Approval of major capital projects (above £3m)
- Approval of material contracts in the ordinary course of business and included in the operating plan (above £20m) and those arising which are not included in the operating plan (above £10m)
- Approval of all material contracts not in the ordinary course of business, including all strategic acquisitions and disposals
- Proposals to enter into financial instruments, bank borrowings and any proposed loan facility (above £20m).
- Any commitment involving the registration of a debenture, mortgage or charge against Post Office Limited assets (above £3m).
- Approval of major asset disposals (above £1m)
- Consideration of any material changes to pension arrangements for Post Office employees, in particular affecting the rate of contributions required to be made\* (Pension Committee)
- Determination of the appropriate investment strategy for Post Office pension funds and monitoring of performance by the investment managers\* (Pension Committee)

## Section 5: Appointments and Senior Remuneration

- Recommendation of the appointment of any person as a Director \* (Nominations Committee)
- Following receipt of consent from the Shareholder, formal appointment of any person as a Director, including the designation of an individual to serve as Chairman, Senior Independent Director, Chief Executive, CFO or Chair of any Board Sub-Committee
- Confirmation of the division of responsibilities between the Chairman and the Chief Executive
- Appointment and any termination of appointment of the Company Secretary
- Recommendations to the Shareholder on changes to remuneration policy and packages for Executive Directors \* (Remuneration Committee)
- Recommendations to the Shareholder on fees to be paid to Non-Executive Directors
- Introduction of any long term incentive scheme and approval of the performance criteria and the amount of any awards to be made under any long term incentive scheme \* (Remuneration Committee)
- Approval of any annual bonus schemes involving participation by Directors\* (Remuneration Committee)
- Confirmation of the terms of any suspension or termination of service of an Executive Director as an employee of the Company, subject to the law and their Director's contract \* (Remuneration Committee)
- Appointments to the Boards of subsidiary and joint venture companies
- Appointment of specified individuals to authenticate the Post Office Limited seal
- Appointment of the Group's principal professional advisers

## Section 6: Governance

- Ensuring delivery of the obligations on the Post Office set by the Postal Services Act 2011, including the publication of an annual Network Report and Postal Heritage Report
- Approval of the Group's overall corporate governance arrangements
- Performance evaluation of the Board, Board Sub-Committees and individual Board members (or confirmation of why this has not occurred).
- Approval of Group policies including, but not limited to, the Health and Safety Policy, Anti-Money Laundering Policy, Freedom of Information Policy, Whistle-Blowing policy and/or Code of Conduct and Anti-Corruption Policy
- Approval of the overall levels of insurance for the Group, including directors' and officers' liability insurance and any arrangements for indemnity of directors
- Decisions on the potential prosecution, defence or settlement of litigation involving potential costs of more than £1m or being otherwise material to the interests of the Group
- Any proposal to make political donations
- Changes to the Schedule of Matters Reserved for Board decision.

January 2013

POST OFFICE LIMITED  
AUDIT, RISK AND COMPLIANCE COMMITTEE  
TERMS OF REFERENCE

1. Purpose

The purpose of the Audit, Risk and Compliance Committee (“ARC” or the “Committee”) is to assist the Board of Directors in fulfilling its fiduciary responsibilities by:

- Contributing an independent view on the accounting, financial control and financial reporting practices of the Company.
- Taking all reasonable steps to ensure accurate and informative corporate financial reporting and disclosures which meet appropriate accounting and corporate governance standards.
- Providing oversight of the company’s risk management systems, operational controls and key systems.
- The responsibilities undertaken by the ARC under delegated authority from the Board will be subject always to the powers and duties of the Board, as set out in the Articles of Association.

2. Composition, Terms of Office and Governance.

2.1 Composition and Terms of Office

- The Committee shall serve as a standing committee of the Board. Its Chairman and members will be appointed by the Board. It shall consist of at least two independent non-executive directors.
- Only non-executive directors shall be eligible for membership of the Committee. Members of the Committee will normally serve for a period of three years. Their appointment may be renewed on an annual basis thereafter with the consent of the Chairman of the Committee but no director shall serve for more than six years.
- The quorum shall be two directors, of whom one will have recent and relevant financial experience.
- The Committee shall meet as often as required but at least three times per year.<sup>1</sup>
- The Company Chairman and executive directors may be invited to attend any meeting, or any part of any meeting, by the Committee Chairman.

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<sup>1</sup> The Financial Reporting Council recommends a minimum of 3 meetings but suggests that more will be usually required.

- The CFO, the General Counsel, the Head of Risk Governance and the Head of Internal Audit (or those holding positions with responsibility for such roles, howsoever named) will be permanent invitees.
- The Company Secretary shall act as Secretary to the Committee and shall attend all meetings to keep minutes and record actions.
- The Committee Chairman will report regularly to the Board. Minutes of each Committee meeting will be circulated to all members of the Committee and, once agreed, to all members of the Board
- The External Auditors may attend all or part of any Committee meeting at the invitation of the Committee Chairman. As a minimum the External Auditors will attend to present their external audit plan for approval and to present their reports.
- The Company will provide current and new Committee members with any training, briefings or induction required. The Company Secretary, Head of Internal Audit and the External Audit Partner will keep members informed of relevant published guidance as necessary.

## 2.2 Governance of Auditing Services

The Committee will:

- Review and recommend to the Board the nomination or discharge of the independent external auditors, the proposed fees (in consultation with management) and the acceptance of the scope and general extent of the engagement.
- Formally review, challenge and approve the agreed annual external audit plans and approach.
- Periodically review the scope, resourcing and capabilities of the Internal Audit function.
- Review and re-approve the Internal Audit Charter on an annual basis.
- Approve each year in advance the Internal Audit plans and review both resources and any proposed amendments that may occur through the following year. The review should include methods employed by the internal auditors to assess risk and to prioritise the various audit proposals identified in the annual plan.
- Assume a primary role in the appointment, assessment and if necessary the discharge of the Head of Internal Audit.
- Ensure the independence of the external and internal auditors including an annual review of any non-audit services provided by either.
- Ensure free and effective communication between the Committee, external auditors and internal auditors and hold separate sessions, or informal meetings and contact as required. These meetings may discuss matters that any of these groups believes should be discussed privately with or without management.

- Ensure lines of communication are maintained with the Board.

### 2.3 Governance – Meetings

- Any member of the committee or the Company Secretary may convene a meeting. The External and Internal auditors may request a meeting with or without management present.
- Meetings may be held in person or by telephone or other electronic means, so long as all participants can contribute to the meeting simultaneously.
- Notice of each meeting shall be given to all those entitled to participate at least 2 working days before the meeting.
- Meetings shall be planned in accordance with key reporting and financial planning dates.

### 2.4 Governance – Other

The Committee will:

- Review and update its terms of reference annually.
- Conduct an annual evaluation of the performance of its duties and responsibilities and of its effectiveness, and discuss the results with the Board of directors.
- Prepare an annual report on its activities for inclusion in the Annual Report and shall review and approve on behalf of the Board statements to be included in the Annual Report concerning financial controls, internal control and risk management.
- In the absence of express authority from the Board, the Committee will not, without the concurrence of both management and the auditors, have either the responsibility or authority for altering the financial statements or the accounting procedures of the Company.

### 3. Accounting, Financial Control and Financial Reporting and Disclosure

The Committee will:

- Review, discuss and consider with the external auditors their approach to risk assessment and the scope and plan of their audits
- Review the annual financial statements which are to be submitted to the Board, including Management's explanatory notes. The review may include:
  - Reports from the external auditors as to the results of their examination to date.
  - Discussion of any problems regarding financial reporting which may need to be reported in the annual report to the shareholders including any disagreements that may have arisen between the auditors and management in any area.

- Meeting(s) with the senior financial executives who shall outline any problems as to financial policies, financial reporting or matters relating to internal control and any matters in contention with or under consideration by the external or internal auditors;
- The appropriateness of existing accounting principles being employed and any change in accounting policies or practices which the corporate auditors may refer to in their report to the shareholders, and the impact on the Company's financial statements.
- Any proposed changes in the presentation of the financial statements or accompanying notes which the auditors may recommend.
- Other matters related to the conduct of the audit communicated to the Committee under generally accepted accounting standards.
- The Management Letter
- The Committee shall review with management any half yearly trading statements or financial reports and the contents of any press release concerning the Company's financial performance or situation, before release to the public or to shareholders.

#### 4. Risk Management, Operational Controls and Policies

##### 4.1 Risk Management Framework

The Committee will:

- Review the overall risk management framework in place for the Company including its appetite for risk.
- Oversee the Risk and Compliance Committee activities and receive summary reports as appropriate
- Review the Company's overall risk position and periodically invite management to outline risk management strategy and status within their specific business units.
- Review management's assessment of the degree of risk the Company prudently incurs in achieving a reasonable balance between the cost of managing risk and control systems and the benefits derived.
- Consider and review areas of specific risk as highlighted by the Risk and Compliance committee. This should include, but is not limited to, sufficient coverage of strategic risk, financial risk, operational risk, technology risk, reputation, regulatory, major change initiatives and people risks
- Review legal, regulatory and any other matters that may have a material impact on the financial statements, related Company compliance policies, and programmes and reports prepared to manage and monitor Company compliance policies.

#### 4.2 Controls and Policies

The Committee will consider and review with the external auditors and the internal auditors:

- The adequacy of the Company's internal controls;
- Recommendations for the improvement of the Company's internal controls, processes and systems.
- Significant findings (the "management letter" from external auditors) and recommendations together with management's responses.
- Any reportable restrictions experienced regarding scope or access to required information by either external or internal audit.

#### 4.3 Fraud, Theft and Ethics

The Committee will

- Review with management their fraud assessment, detection measures and their investigation of illegal acts, as appropriate.
- Review any summary of frauds, thefts and other irregularities of any size.
- Review with the internal auditors and the external auditors the results of any review of the compliance with the Company's codes of ethical conduct and similar policies including whistleblowing.

#### 4.4 Risk Management – Other

- The Committee shall have the power to conduct or authorise investigations into any company matters within the Committee's scope of responsibilities. The Committee shall be empowered to obtain independent legal advice, and engage counsel, accountants, or others to assist it in the conduct of any investigation.
- The Committee shall perform such other functions as may be assigned or delegated to it by the Board, and may review other items of an internal control or risk management nature which may from time to time be brought before the Committee.

#### 5. Committee timetable.

A timetable shall be produced each year showing the current membership of the Committee and the major annual activities of the Committee, in a similar format to that set out in the appendix.

#### 6. Review

These terms of reference were last reviewed in January 2013.

APPENDIX<sup>2</sup>

ARC Membership November 2012

Chairman  
MembersAlasdair Marnoch  
Tim Franklin, Neil McCausland, Susannah StoreyCompany Secretary  
External Audit  
Head of Internal AuditAlwen Lyons  
Ernst & Young  
Malcolm Zack

Annual Timetable	April	June	Nov	Feb
<u>1. Governance items</u>				
Annual review of terms of reference and IA charter.			✓	
External Auditor review/appointment/reappointment		✓		
Minutes and actions of previous meeting	✓	✓	✓	✓
Evaluation (annual)			✓	
Private meetings with auditors/management	✓	✓	✓	✓
<u>2. Financial reporting and disclosure</u>				
Review and approve external audit plan			✓	
Financial statements full year	✓			
Financial statements – half year			✓	
External audit management letter	✓			
Approval of Committee report for inclusion in Annual Report		✓		
<u>3. Risk management and control</u>				
Internal Audit update report	✓	✓	✓	✓
Risk and Compliance activity and highlights	✓	✓	✓	✓
Strategic risk update		✓		✓
Financial risk update	✓		✓	
IT and systems risk update		✓		
Selected business risk review update	✓		✓	
Insurance review				✓
Annual Timetable	April	June	Nov	Feb
<u>Other (Less frequent)</u>				
Fraud and Theft report		✓		
Security update		✓		
Ethics and Code of Conduct and Whistle-Blowing policy				✓

<sup>2</sup> The timetable sets out standing agenda items. It may be modified by the audit committee in light of specific requests or actions arising from meetings. The months indicated are provisional and subject to change.

POST OFFICE LIMITED  
NOMINATIONS COMMITTEE  
TERMS OF REFERENCE

PURPOSE

The purpose of the Nominations Committee is to recommend the appointment of individuals to the Board, to its sub-committees and to Executive Committee positions which report directly to the Chief Executive. The Committee will also consider and, if necessary, recommend to the Board any proposals to remove or replace individuals holding office as a Director or reporting directly to the Chief Executive. It is acknowledged that the actions of the Committee will be subject always to the Articles of Association of the Company, under which any proposal for the appointment or removal of a director of the Company requires the consent of the Shareholder.

A. COMPOSITION AND GOVERNANCE

1. The Nominations Committee is constituted as a sub-committee of the Board.
2. The Chairman and members of the Committee shall be appointed by the Board.
3. The Committee shall be made up of three members, including at least two independent non-executive directors.
4. The Chairman shall chair the Nominations Committee except when the Committee is considering succession to the Chairmanship; the Senior Independent Director shall chair any Nominations Committee dealing with the appointment of a successor Chairman.
5. In the absence of the Chairman of the Committee at any meeting, the Committee members present shall determine who shall chair the meeting.
6. Members of the Committee will normally serve for a period of three years. Their appointment may be renewed for a further three year period but no director shall serve as a member of the Nominations Committee for a period of more than six years.
7. Only members of the committee have the right to attend Committee meetings. The Chief Executive and the HR and Corporate Services Director (or the holder of any equivalent position) shall be informed of the date of each meeting and may be invited by the Committee Chairman to attend all or part of any meeting, as and when appropriate.
8. The Company Secretary shall not be a member of the Committee but shall act as Secretary to the Committee (or shall nominate an appropriate substitute) and shall keep minutes and records of each meeting and ensure regular reporting by the Committee to the full Board.
9. Minutes of each meeting will be circulated to all members of the Committee and, once agreed, to those members of the Board who have no personal interest in the matters discussed. Where a conflict of interest exists, the Company Secretary will provide sufficient information to the full Board to provide an understanding of the matter(s) considered.
10. If so requested by the Board or by the Shareholder, the Committee shall provide an annual report on its activities.

11. The Committee shall have access to sufficient executive time and resources in order to carry on its duties, including access to the Company Secretary and members of the HR team;
12. The Committee shall have authority to appoint executive search consultants and to obtain, at the Company's expense, legal or other professional advice on matters within its terms of reference as required, up to a financial limit determined by the Board.
13. If there should be disagreement between the Nominations Committee and the full Board, the Chairman of the Board shall make time available for discussion of the issue so that the matter may be resolved.
14. Members of the Committee shall conduct an annual review of the Committee's performance.

#### B. MEETINGS

1. The Committee shall meet as often as required but not less than twice each year. The Committee may meet in person, by telephone or by other electronic means, so long as each member can contribute to the business of the meeting simultaneously.
2. The quorum necessary for the transaction of business shall be 2 members.
3. Meetings may be convened by the Secretary to the Committee, at the request of the Committee Chairman, or by any member of the Committee, at any time.
4. Notice of each meeting shall be given to all members of the Committee and any other person required to attend, at least 3 working days before each meeting.

#### C. DUTIES AND RESPONSIBILITIES

The main duties and responsibilities of the Committee are:

1. to keep under review the structure, size and composition of the board (taking account of the skills, experience, knowledge and diversity of its members), to ensure that the key roles of Chairman, Chief Executive, Chief Financial Officer and Senior Independent Director are filled and to recommend changes to the Board's composition as thought necessary.
2. to monitor the independence, and process for evaluation of, Board sub-committees and the skills and experience available within the Board, in order to recommend new appointments to committees, or the replacement of individuals on those committees, as required from time to time.
3. to review the results of the performance appraisal of executive directors and the results of any committee evaluation process which may relate to the composition of the Board, any of its sub-committees or the Executive Committee.
4. to lead the process for identifying and nominating candidates for appointment to the Board, including the formulation and approval of appropriate role descriptions and specifications which seek to attract a wide range of talent and promote diversity within the organisation.

5. in the case of the proposed appointment of a new Chairman, to work with the Shareholder to prepare a full specification which reflects accurately the personal qualities, skills and experience and time commitment needed by the Business.
6. to consider for each proposed appointment the respective merits of open advertising and the use of specialist advisers to facilitate the search for appropriately qualified candidates
7. to review the processes for the engagement of external search agents for senior appointments
8. to consider recommendations made by the Chief Executive on appointments to Executive Committee positions which report directly to the Chief Executive and to ensure that a fair, open and transparent process is followed in identifying and interviewing candidates for Executive Committee positions.
9. to ensure that the business puts in place plans for development of potential and succession plans for key roles on the Board and on the Executive Committee, taking into account the challenges and opportunities facing the company and the skills and expertise needed for leadership of the Post Office in the future.
10. to review, on behalf of the Board, the progress of building talent and diversity within the Post Office and to report to the Board progress against the targets set for performance measurement in this area.
11. to ensure that any proposed appointee to the Board discloses other business interests and any potential conflict of interest, in line with the recommendations of the UK Corporate Governance Code and the precepts set by the Nolan Committee on Standards in Public Life.
12. to work with the Remuneration Committee in respect of new hires, to ensure that the proposed package for new senior appointments reflects the responsibilities of the role and is designed to attract talent but is not excessive.
13. to ensure that consent is sought from The Secretary of State for Business, Innovation and Skills for the appointment to the Board of any new director on terms agreed between the Nominations Committee and the Remuneration Committee.
14. to respond to any queries from the Shareholder on the processes for selection of candidates or the contractual terms proposed for any senior appointment.
15. to consider on behalf of the Board any matters relating to the continuation in office of any director or direct report of the Chief Executive, including the suspension or termination of any contract of employment or contract for services, subject to the provisions of the law.
16. to undertake any other oversight function delegated to the Committee by the full Board.

#### D. ANNUAL REVIEW

1. The Committee will undertake an annual review of the Terms of Reference and recommend to the Board any necessary changes.
2. These Terms of Reference were last reviewed in January 2013.

POST OFFICE LIMITED  
PENSION COMMITTEE  
TERMS OF REFERENCE

PURPOSE

The purpose of the Pension Committee is to make recommendations to the Board in respect of pensions and pre-retirement risk benefits provision within Post Office Ltd and to put into effect appropriate investment strategies for the Post Office Pension Fund (currently managed and administered within the Royal Mail Pension Plan ("RMPP")) on behalf of the Board and in line with the Board's investment beliefs.

A. COMPOSITION AND GOVERNANCE

1. The Pension Committee is constituted as a sub-committee of the Board.
2. The Chairman and members of the Committee shall be appointed by the Board.
3. The Committee shall be made up of three members, including at least two independent non-executive directors.
4. The Chairman of the Committee shall have recent and relevant experience of pensions or investment management.
5. In the absence of the Chairman of the Committee at any meeting, the Committee members present shall determine who shall chair the meeting.
6. Members of the Committee will normally serve for a period of three years. Their appointment may be renewed for a further three year period but no non-executive director may serve as a member of the Pension Committee for a period of more than six years.
7. Only members of the committee have the right to attend Committee meetings. The HR and Corporate Services Director (or the holder of any position(s) equivalent to those of General Counsel and HR Director), nominated representatives of the Finance and HR departments and the external Pensions Investment Adviser shall be informed of the date of each meeting and may be invited by the Committee Chairman to attend all or part of any meeting, as and when appropriate. A representative of the Trustee will be invited to attend at least one Committee Meeting each year to discuss investment management performance.
8. The Company Secretary shall not be a member of the Committee but shall act as Secretary to the Committee (or shall nominate an appropriate substitute) and shall keep minutes and records of each meeting and ensure regular reporting by the Committee to the full Board.
9. Minutes of each meeting will be circulated to all members of the Committee and, once agreed, to those members of the Board who have no personal interest in the matters discussed. Where a conflict of interest exists, the Company Secretary will provide sufficient information to the full Board to provide an understanding of the matter(s) considered.
10. If so requested by the Board or by the Shareholder, the Committee shall provide an annual report on its activities.

11. The Committee shall have access to sufficient executive time and resources in order to carry on its duties, including access to the Company Secretary and members of the HR team;
12. The Committee shall have authority to appoint executive advisers and consultants and to obtain, at the Company's expense, actuarial, legal or other professional advice on matters within its terms of reference as required, up to a financial limit determined by the Board.
13. Members of the Committee shall conduct an annual review of the Committee's performance.

#### B. MEETINGS

1. The Committee shall meet as often as required but not less than three times each year. The Committee may meet in person, by telephone or by other electronic means, so long as each member can contribute to the business of the meeting simultaneously.
2. The quorum necessary for the transaction of business shall be 2 members.
3. Meetings may be convened by the Secretary to the Committee, at the request of the Committee Chairman, or by any member of the Committee, at any time.
4. Notice of each meeting shall be given to all members of the Committee and any other person required to attend, at least 3 working days before each meeting.

#### C. DUTIES AND RESPONSIBILITIES

The main duties and responsibilities of the Committee are:

1. to keep under review the funding levels of the Post Office sections within the RMPP (the "Fund") and the contribution rates required from the employer and employees to ensure that the Fund can meet its liabilities and sustain the payment of benefits
2. to ensure that regular meetings are held with the Trustee and report to the Board on any significant outcomes from those meetings
3. to provide regular reports to the Board on the financial position of the Fund, highlighting the need for any changes to contribution levels, benefits or eligibility to participate and recommending strategies for deficit recovery if required
4. to make recommendations to the Board on the design and structure of Post Office pension arrangements and associated life assurance and income protection arrangements; specifically, the introduction of new or significantly revised pension schemes will need to be investigated fully by the Pension Committee before seeking Board approval
5. to review on behalf of the Board the strategic investment strategy for the Fund
6. to determine on behalf of the Board and review at least annually the preferred asset allocation within the Fund and communicate any proposed changes of investment strategy to the Trustee
7. to communicate to the Trustee the Committee's aims in recommending any particular investment, strategy, including any required rate of return objective and/or risk profile

8. to review with the Trustee the reappointment and/or replacement of investment managers to manage the assets of the Fund
9. to monitor investment performance on a six-monthly basis, net of investment management costs, for the active part of the portfolio
10. to monitor fees for investment management, custodianship and administration and professional advice, including actuarial and consultancy fees and to make adjustments as deemed appropriate, including making recommendations to the Board for re-tendering of contracts
11. to recommend the appointment of pensions advisers and consultants and agree their remuneration (up to a maximum annual limit of expenditure of £1 million)
12. with the benefit of independent pensions investment advice, to take such steps as may be deemed necessary to protect assets of the Fund from increases in liability which might prejudice its long term sustainability
13. to investigate, on behalf of the Board, the implications of any proposed additional discretionary benefits
14. to review and recommend to the Board the pensions accounting assumptions to be used in preparation of the annual accounts of Post Office Limited
15. to review any proposed amendments to trust deeds affecting Post Office Limited or the Post Office Fund(s)
16. to ensure that proper arrangements are made for issuing invitations to join the scheme or making automatic enrolments where required by law, for nominating employee representatives to fulfil statutory requirements and for proper administration of members' records for the Fund
17. to consider on behalf of the Board and in conjunction with the Remuneration Committee any matters relating to proposed pension provision for directors or direct reports of the Chief Executive or any other senior appointments which may involve atypical pension arrangements
18. to undertake any other oversight function delegated to the Committee by the full Board.

D. ANNUAL REVIEW

1. The Committee will undertake an annual review of the Terms of Reference and recommend to the Board any necessary changes.
2. These Terms of Reference were last reviewed in January 2013.

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**POST OFFICE LTD**

**Delegated Authorities for Remuneration Matters  
(subject to Board approval)**

**1.0 Purpose**

- 1.1 To confirm delegated authorities for decisions relating to remuneration for Executive Directors and for Post Office employees below Board level.
- 1.2 This paper is predicated on the principle that the Remuneration Committee will make recommendations on their responsibilities, the Board will approve the decisions and ShEx will authorise their implementation.

**2.0 Background**

- 2.1 The Board will retain ultimate responsibility for approving the Post Office remuneration strategy.
- 2.2 Remuneration decisions need to be made company wide and delegated authorities therefore need to be updated to maintain fairness and to ensure that responsibilities are clear at all levels.
- 2.3 Post Office will uphold the principle that no individual should be able to determine his or her own remuneration.
- 2.4 For this reason, and in line with best practice in corporate governance, a remuneration sub-committee of the Board (RemCom) has been formed to recommend to the Board the remuneration strategy for the Senior Leadership<sup>1</sup>. The latest version of the Committee's terms of reference is attached as Appendix 1.
- 2.5 The delegated authorities detailed in 3 and 4 below have been developed to supplement the terms of reference agreed for the RemCom but not to replace them.

**3.0 RemCom Authorities**

- 3.1 Membership of RemCom will be restricted to non-executive directors so that the Executive Directors will have no part in determining their own remuneration. The remuneration of non-executive directors will be set solely by ShEx.
- 3.2 RemCom will have unrestricted access to the HR team and to the Company Secretariat in relation to remuneration matters with the authority to obtain advice from independent remuneration consultants up to a financial level of £50,000 pa, or as otherwise determined by the Board.

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<sup>1</sup> The Senior Leadership is defined as the Chief Executive, Executive Directors and Executive Committee positions which report directly to the Chief Executive.

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## 3.3 RemCom shall:

- 3.3.1. recommend the total remuneration strategy for the Chief Executive, Executive Directors and Executive Committee members, taking into account the remuneration policy generally set for other employees.
- 3.3.2. with the consent of the Secretary of State for Business, Innovation and Skills, determine each element of the total individual remuneration package (see 5.1) of the Chief Executive and other Executive Directors, both existing and for new hires, including increases in salary resulting from company pay increases, pension provision and the outturn of performance related pay arrangements and incentive schemes.

The Remuneration Committee will be informed of each element of the remuneration package and the total remuneration for any new hires and internal appointments proposed to carry a salary above the level of the lowest salary within the membership of the current Executive Committee. Pay increases which would result in an individual receiving remuneration above the level of the lowest Executive Committee salary will also be reported to the Remuneration Committee, for information.

- 3.3.3. determine each element of the total individual remuneration package of the Executive Directors and any Executive Committee members reporting directly to the Chief Executive, both for existing and for new hires (arrangements for new hires will be proposed in conjunction with the Nominations Committee).
- 3.3.4. recommend to the Board the design of new incentive schemes for the Executive Directors, Executive Committee and any other senior roles eligible to be invited to participate in a Long Term Incentive Plan.
- 3.3.5. review and agree the total remuneration and the outturn of performance related pay arrangements for the Senior Leadership and payments for the Executive Directors and Executive Committee subject to ShEx authorisation.
- 3.3.6. review the overall total remuneration packages for the Senior Leadership.
- 3.3.7. approve any exit package for any Executive Director, Executive Committee member and any other senior individual whose role carries a salary above the level of the lowest salary within the Executive Committee membership and where the exit package is in excess of contractual obligations.

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### 4.0 ExCo and Executive Authorities

- 4.1 ExCo shall:
- 4.1.1 approve the remuneration strategy for all employees below the Senior Leadership.
  - 4.1.2 determine each element of the total individual remuneration package of the Senior Leadership Population and all employees.
  - 4.1.3 delegate to the appropriate level of management authority the responsibility for base salary of their employees on recruitment, promotion and any merit increases within the overall policies determined by the Board
  - 4.1.4 agree the outturn of performance related pay arrangements for all employees below Senior Leadership Population and approve payments.
  - 4.1.5 approve the settlement of pay mandates and collective bargaining arrangements up to the limit of financial authority already delegated by the Board
  - 4.1.6 propose to the Board and, where required, seek Board approval to propose to Shex, the adoption of longer term pay agreements outside the limits of ExCo's delegated authorities.

### 5.0 Total Remuneration Package

- 5.1 The elements that typically form an individual's remuneration package include, but are not restricted to:
- Base salary
  - Short term incentive plan (annual bonus)
  - Long term incentive plan
  - Pension provision
  - Benefits such as car, private health, holidays
  - Contractual terms such as notice periods

### 6.0 Recommendation

- 6.1 The Board is asked to confirm the delegated authorities as described in 3 and 4 above.

**Susan Crichton**  
**January 2013**

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## Appendix 1

POST OFFICE LIMITED  
REMUNERATION COMMITTEE  
TERMS OF REFERENCE

## PURPOSE

The purpose of the Remuneration Committee is to recommend to the board the remuneration strategy and any changes to individual elements of the remuneration package for executive directors of Post Office Limited, members of the Executive Committee who report directly to the Chief Executive and other significant senior level appointments with comparable remuneration, as determined by the Board. Any changes in remuneration for directors of Post Office Limited must be approved in advance by the Shareholder. The remuneration of the Chairman and of non-executive directors will be set by the Shareholder.

## A. COMPOSITION AND GOVERNANCE

1. The Remuneration Committee is constituted as a sub-committee of the Board and its Chairman shall be appointed by the Board. If considered independent at the time of appointment, the Chairman of the Company may be a member of the Committee, but shall not chair it.
2. Members of the Committee shall be appointed by the Board, acting on the recommendation of the Nominations Committee and in consultation with the Chairman of the Remuneration Committee.
3. The Committee shall be made up of at least two independent non-executive directors. Only non-executive directors shall be eligible to be members of the Committee such that no individual shall be involved in determining their own remuneration.
4. In the absence of the Chairman of the Committee at any meeting, the Committee members present shall determine who shall chair the meeting.
5. Members of the Committee will normally serve for a period of three years. Their appointment may be renewed for a further three year period but no director shall serve as a member of the Remuneration Committee for a period of more than six years.
6. Only members of the committee have the right to attend Committee meetings. The Chief Executive and the HR and Corporate Services Director (or the holder of any equivalent position) shall be informed of the date of each meeting and may be invited by the Committee Chairman to attend all or part of any meeting, as and when appropriate.
7. The Company Secretary shall not be a member of the Committee but shall act as Secretary to the Committee and shall keep minutes and records of each meeting and ensure regular reporting by the Committee to the full Board.
8. Minutes of each meeting will be circulated to all members of the Committee and, once agreed, to those members of the Board who have no personal interest in the matters discussed. Where a conflict of interest exists, the Company Secretary will provide sufficient information to the full Board to provide an understanding of the matter(s) considered.

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9. If so requested by the Board or by the Shareholder, the Committee shall provide an annual report on its activities.
10. The Committee shall have access to sufficient executive time and resources in order to carry on its duties, including access to the Company Secretary and members of the HR team;
11. The Committee shall be authorised to seek any information it requires from any employee of the Company in order to perform its duties.
12. The Committee shall have authority to appoint remuneration consultants and to obtain, at the Company's expense, legal or other professional advice on matters within its terms of reference as required, up to a financial limit determined by the Board.
13. If there should be disagreement between the Remuneration Committee and the full Board, the Chairman of the Board shall make time available for discussion of the issue so that the matter may be resolved. Where any such disagreement cannot be resolved, the Remuneration Committee shall report the issue as part of any annual report on its activities required by the Shareholder.
14. Training will be provided by the Company for members of the Committee, as required. Such training may take the form of internal briefings, attendance at formal courses and conferences and/or sessions with external advisers.
15. Members of the Committee shall conduct an annual review of the Committee's performance.

#### B. MEETINGS

1. The Committee shall meet as often as required but not less than three times each year. The Committee may meet in person, by telephone or by other electronic means, so long as each member can contribute to the business of the meeting simultaneously.
2. The quorum necessary for the transaction of business shall be 2 members.
3. Meetings may be convened by the Secretary to the Committee, at the request of the Committee Chairman, or by any member of the Committee, at any time.
4. Notice of each meeting shall be given to all members of the Committee and any other person required to attend, at least 3 working days before each meeting.

#### C. DUTIES AND RESPONSIBILITIES

The main duties and responsibilities of the Committee are:

1. to recommend to the Board the remuneration strategy for the Chief Executive, executive directors and those members of the Executive Committee who report directly to the Chief Executive, always taking into account the remuneration policy set for other employees;
2. with the consent of The Secretary of State for Business, Innovation and Skills, determine each element of the total individual remuneration package of the Chief Executive and other executive directors, both existing and for new hires, including any increases in salary (whether or not resulting from company-wide pay increases), pension provision and the outturn of performance related pay arrangements and incentive schemes.

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3. to determine the elements which will form the remuneration package for an individual in the above group, which may include, but shall not be restricted to:

base salary  
short term incentive (annual bonus)  
Long Term Incentive Plan  
pension provision  
benefits such as car or car allowance, private health, holidays  
contractual terms such as notice periods

4. to keep under review the contractual terms applicable to executive directors such that payments made are fair to the individual and to the company, that success, rather than failure, is rewarded and that the duty to mitigate loss is fully recognised;
5. to work with the Nominations Committee in respect of new hires, such that the Remuneration Committee can recommend to the Board an appropriate level of remuneration which will attract talent but not be excessive;
6. to receive information on each element of the remuneration package and total remuneration for new hires and any internal promotions and appointments which are proposed to carry a salary in excess of the lowest salary of any member of the current Executive Committee;
7. to review the overall total remuneration of the Senior Group (defined as the Chief Executive, executive directors and members of the Executive Committee) compared both with external market comparators and with the remuneration of other employees in the Group;
8. to review and recommend to the Shareholder the implementation of, or changes to, performance related incentive schemes for the executive directors, Executive Committee members and senior managers eligible to be invited to participate in the Post Office Long Term Incentive Plan;
9. to review and agree the criteria for, and the outcome of, performance related pay arrangements for executive directors and Executive Committee members, subject to authorisation from the Shareholder;
10. to review the total outcome of performance related pay arrangements across the business;
11. to approve any exit package for any individual with a salary above the lowest salary within the Executive Committee membership, where the exit package would be in excess of contractual obligations;
12. to undertake any other function delegated to the Committee by the full Board.

D. ANNUAL REVIEW

1. The Committee will undertake an annual review of the Terms of Reference and recommend to the Board any necessary changes.
2. These Terms of Reference were last reviewed in January 2013.

**DRAFT**

## **POST OFFICE LIMITED**

### **Roles and Responsibilities**

#### **Chairman**

The principal duty of the Chairman is to lead the Board as an effective decision-making body, collectively responsible for the long term success and sustainability of the Post Office.

The Chairman is responsible for:

- Leading the Board, challenging the effectiveness of the group as a whole and each director individually
- Encouraging the Board to adopt a clear strategy , with objective performance criteria against which success can be measured
- Leading regular reviews of progress and achievement of strategic goals
- Building constructive relationships between executives and Non-Executive directors
- Setting the agendas for Board discussions and ensuring relevant and timely information is provided for all directors
- Managing Board discussions so that all present can make an effective contribution and no single individual or clique dominates
- Managing any conflicts of interest which may arise at Board level
- Leading performance appraisals for the Chief Executive and setting clear objectives for personal and corporate development
- Ensuring that succession plans are in place for key leadership positions within the Post Office
- Ensuring that all directors receive appropriate induction and ongoing training according to their needs
- Managing the relationships with key stakeholders – in particular, understanding the priorities of the Government shareholder and communicating to the Shareholder the action being taken by the Post Office to respond to current challenges
- Ensuring close liaison with Royal Mail Group on matters concerning public service obligations re mail deliveries and compliance with the Postal Services Act 2011
- Providing access to professional advisers and mentors within the Chairman’s knowledge
- Promoting good corporate governance and taking all necessary steps to maintain high standards and the public reputation of the Post Office
- Leading an annual evaluation of Board performance and effectiveness and pursuing action points arising from such evaluation.

## Chief Executive

The Chief Executive is responsible for delivery of the performance targets set by the Board and for leading and inspiring the management and employees of the Post Office to achieve the actions determined by the Board as being most likely to promote the long term success of the Post Office.

The Chief Executive is responsible for:

- Leadership of the Executive Committee and, through them , the Senior Leadership Team and executive management of the Post Office on a day to day basis
- Continuing development of the Executive Committee to provide strong and effective leadership for the business
- Setting, communicating and demonstrating the values and ethos of the Post Office, including regular review of the Post Office “vision”
- Developing a clear vision and operational business plans for approval by the Board to achieve the financial and performance targets set in each financial and Government reporting period
- Representing the Post Office in public
- Recruitment, development and retention of talented people to ensure the Post Office’s capability to deliver its priorities of growth, modernisation, customer service and business efficiency
- Safeguarding the resources available to the Post Office and raising with the Board any need for significant further investment or support from the Government shareholder
- Pursuing opportunities and initiatives to improve financial sustainability and business efficiency within the Post Office
- Reporting to the Board on progress against targets, implementing remedial action where necessary and promoting any necessary changes to the Strategic Plan
- Setting operational standards which support and enhance Post Office’s brand value and encouraging continuing improvements in customer service
- Co-ordinating the activities of the different business divisions within the Post Office
- Building relationships with stakeholders, with Government, with the media and with a wide range of interest groups and organisations to promote the long term success of the Post Office
- Monitoring developments in government and market trends to maintain Post Office’s business position
- Bringing to the Board concerns raised by stakeholders and key areas of risk for the business

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**POST OFFICE LTD**  
**Noting Paper**

**Mails Strategy Update**

**1. Purpose**

The purpose of this paper is to:

- 1.1 Update the Board on progress against the Post Office Ltd (POL) Mails Strategy and the ongoing commercial relationship with Royal Mail Group (RMG).

**2. Background**

- 2.1 POL has an agreed Mails Strategy which focuses upon growth and retention primarily through capitalising on the growth in the parcels market driven by the increasing popularity of online shopping and offering increasing value and service to our critical small business customer group.
- 2.2 The POL Mails Strategy is supported by a long term Mails Distribution Agreement (MDA) with RMG. The 10 year mutually exclusive MDA commenced on 26<sup>th</sup> March 2012.
- 2.3 Delivery of the POL Mails Strategy is dependent to some degree upon the delivery of joint plans and developments with RMG.

**3. Key messages**

- 3.1 Progress against the overall strategy is positive, supported by a strong financial performance in the first 9 months of the year. A comparison of mails performance against the 2010 strategic plan is attached at Annex 1.
- 3.2 Technical developments and enablers continue for collections and returns and small business propositions. The click and collect launch will be delayed by 3 months as a result of project scheduling priorities.
- 3.3 RMG is entering the click and collect market as a defensive measure and in return for exclusivity given by POL within the MDA. It is possible that RMG will not pursue the market to the extent which POL requires. If this proves to be the case POL will need an alternative plan to ensure that it does not miss this market opportunity.
- 3.4 This paper focuses mainly upon collections and returns and the commercial relationship with RMG. The board should be aware that it does not cover all of the potential challenges and opportunities in POL's mails business.

**4. Progress against the strategy**

- 4.1 Progress on small business propositions and collections and returns enablers has been broadly positive.

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- 4.2 **Collections and returns** – POL identified a market opportunity to grow its mails business through leveraging its network size and reach to provide convenient locations for consumers to collect and return items purchased online.

POL has a joint programme of activities with RMG to develop the capability to improve its offer in this area; progress is detailed below. 2012/13 forecast performance against the collections and returns business plan volumes agreed with RMG is attached at Annex 2.

- **Click and collect:** POL has been building a branch capacity database and RMG has been building an application programming interface (API) that will enable integration with retailer's websites. The POL capacity database has now been delayed by 3 months as a result of project scheduling priorities and will launch in July 2013. This will delay the launch of the overall click and collect solution in line with the revised timescales.
- **Returns:** POL and RMG have been working on developing the current returns product to introduce tracking, starting with the scan at the POL counter. This development is on track and due to be offered to all retailers in February 2013; the product launched with Amazon on 7<sup>th</sup> January 2013. There is already significant evidence supported by the industry press that this development is being well received by retailers.
- **Failed delivery,** POL and RMG have a joint programme of work to investigate the feasibility of POL outlets handling many more of these items, allowing RMG to close its collections offices. There is still a major doubt over whether this activity can be made to cost in for both parties. RMG are currently offering a payment per transaction which would not be desirable for POL.

- 4.3 There are a number of other activities underpinning the collections and returns programme. POL is developing an out of hours solution which will allow 4,000 POL outlets to provide the three products mentioned above outside the traditional 9am - 5.30pm POL counter hours. This is essential in order to compete effectively in the market as key competitors like Collect+ (a joint venture company between Yodel and Paypoint) major their marketing activity on the convenience of longer opening hours. This project is in-flight but has also been delayed until July 2013 by the Fujitsu capacity constraints. POL has also talked to a number of companies which provide locker box solutions for collections and returns with a view to a trial. These conversations continue but low commercial returns combined with limited consumer desire for such solutions make an imminent trial possible but unlikely.

- 4.4 **Small business** - POL has upwards of £100m worth of mails income alone generated through the critical small business customer group. Despite this POL has historically had little intelligence, data, relationships or bespoke propositions for these customers. The mails team has been working on a programme to address this opportunity to improve its offer. The Drop & Go service was launched in 2,000 outlets in August 2012 allowing customers to sign up to a pre-paid card which enables them to avoid queues by simply dropping their mail at the branch for the staff to process later the same day. POL is also working on extending its small business offer through product bundling, extending its technical capability through online accounts and introducing product specific and multi-product discounts. This work is based upon extensive customer research.

**Strictly Confidential****5. Commercial relationship with RMG**

- 5.1 The long-term exclusive contract with RMG makes the commercial relationship critical both to the delivery of the initiatives mentioned above and to the Business As Usual commercial activity. The relationship has generally developed well since the MDA commenced; there have been some frustrations but also some significant achievements.
- 5.2 The successes have been numerous and demonstrated real collaboration. POL supported RMG through a tariff change which was unprecedented in terms of the scale of the price increases; this change was made without any significant customer complaints or negative impact upon commercial performance. POL and RMG worked very collaboratively on the big commercial opportunity presented by the Diamond Jubilee and the Olympics and Paralympics. POL has sold over £10m worth of gold medal stamps generating more than £3m worth of income. POL has also had its best Christmas ever for express and guaranteed product sales with a 10% increase in volume since 2010. As mentioned above, progress against the key strategic plans has also been good.
- 5.3 Frustrations have existed within the relationship where some potential misalignments of commercial and operational interests have surfaced. POL has struggled to achieve some of the key Service Level Agreements (SLAs) contained within the MDA particularly on mail segregation. POL has expressed concerns that efforts by RMG to improve the profitability of its product range may impact negatively on its volumes and income.
- 5.4 RMG has asked POL to reduce its rates on some growth product areas as a result of product changes which RMG is instigating. POL is only willing to consider changes if it can protect and increase income and re-negotiate segregation specifications with a view to guarding against potential SLA penalty payments.
- 5.5 Competitor activity in the click and collect market is increasing rapidly. If POL and RMG jointly prove unable to match this rate of activity then POL will need to consider approaching RMG over its exclusivity in this area. POL is aware that several major retailers would like to offer click and collect through the POL Network but may only do so if POL can accept items from other mails carriers. POL will make this decision based upon growth and penetration into the market achieved or otherwise within the context of the current plans with RMG.

**6. Risks and mitigation**

- 6.1 Working exclusively with RMG poses some risks which POL must be aware of:

**Risks**

- POL and RMG fail to attract clients for the click and collect solution. Ultimately prices for retail clients will determine the appetite for retailers to come on board with the solution. There is a risk that POL and RMG jointly price themselves out of the market and allow fast moving competitors to gain market share.
- POL has experienced a delay in the delivery of the click and collect solution. There is a risk that RMG will be ready on time and POL will effectively be responsible for missing out on some market opportunity.

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- RMG is delayed in its click and collect developments which cause a loss of share to competitors.
- POL is not successful in negotiating satisfactory rates for product changes that are being made at the end of the year putting the delivery of those changes at risk.

#### **Mitigation**

- POL will endeavour to agree a market rate with RMG which allows for competitive pricing. POL will also request an open book approach to the charges being applied to retail clients. POL has confidence that RMG volumes should allow for a strong market share from the outset. POL will consider renegotiating exclusivity if this cannot be achieved.
- The delay has been limited to 3 months and there is a real possibility that RMG will suffer a similar length delay.
- RMG has informed POL that it is currently on track so a delay of more than 3 months is deemed to be unlikely.
- POL will endeavour to ensure that acceptable rates are negotiated. RMGs negotiating style is likely to push agreement to the eleventh hour before acceptable rates are offered.

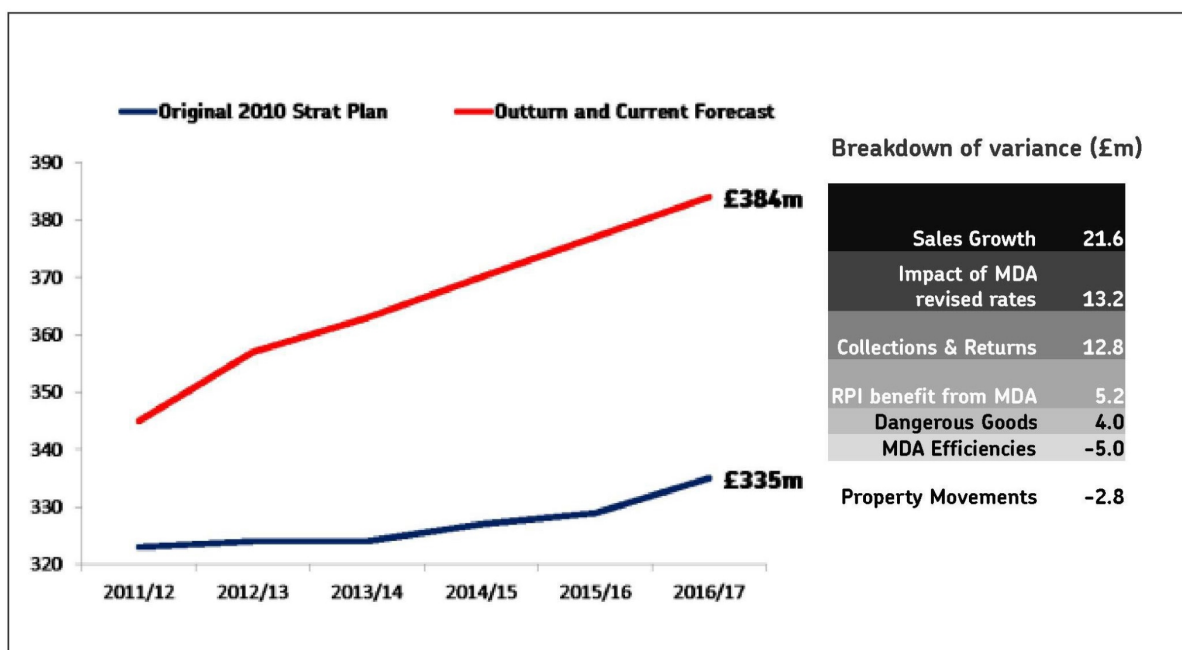
## **7. Conclusion**

- 7.1 The Board is asked to note the good progress against the overall strategy, financial performance and in the relationship with RMG.
- 7.2 The Board is also asked to note the risks and the potential for future contractual discussion with RMG if growth markets are not adequately addressed.
- 7.3 The Board is further asked to note that the POL Mails team is working on scenarios based upon the likely sale of RMG in 2013/14, possible changes to mails market regulation, and broader market developments and the potential impacts on POL.

**Martin Moran**  
**10 January 2013**

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Annex 1: Mails Financial Performance



Annex 2: Collections and returns: MDA agreed targets versus 12/13 forecast

Volume (m)		2012/13	2013/14	2014/15	2015/16	2016/17
Returns	Target	16	18	20.75	23.45	25.45
	Forecast	16.2	18.1	tbc*	tbc	tbc
Click and Collect	Target	0.8	1.3	2.5	4	5
	Forecast	1.06	1.9	tbc	tbc	tbc
Failed Delivery	Target	4.7	9	15	22.2	30
	Forecast	5.2	6.5	tbc	tbc	tbc
Total	Target	21.5	28.3	38.25	49.65	60.45
	Forecast	22.46	26.5	tbc	tbc	tbc

\*The business should have a much clearer idea of forecast numbers by Sept 2013.

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JANUARY 2013

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

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
Claim for Judicial Review	POL/HF/RW	Angela Van-Den-Bogerd	<p>A former subpostmaster (SPM) sought “judicial review” of POL’s decision to terminate his SPM contract.</p> <p>The SPM claimed that POL’s termination process was flawed and infringed his Human Rights. He asked the court to review POL’s</p>	<p>At an oral hearing on 16/11/12, the Court gave the SPM permission to proceed to a full hearing. In doing so, the Court only found the SPM’s case to be arguable, and did not make any conclusive findings on his claim.</p> <p>POL is finalising its evidence in response to</p>	DAC Beachcrofts

Significant Litigation Report

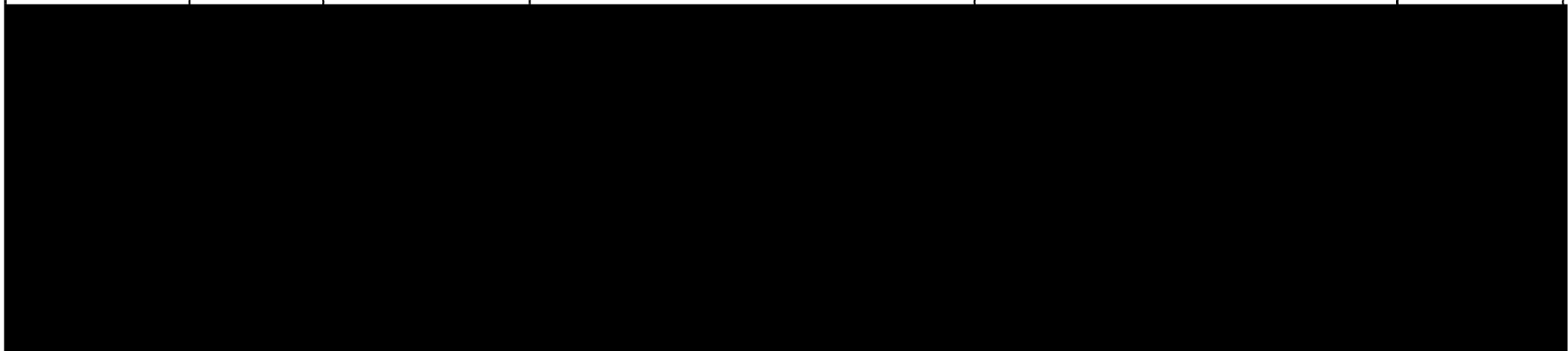
Susan Crichton  
16 January 2013

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			<p>decision and find that it was unlawful and/or an abuse of power.</p> <p>POL asked the Court to refuse to permit judicial review of the decision on the grounds that it was a commercial matter.</p> <p>On 27/09/12 the Court refused the SPM permission to pursue judicial review. The Court did this on the papers without hearing from the parties.</p>	<p>the SPM's claim. That evidence and detailed grounds of opposition will be filed by the end of January 2013.</p> <p>The matter will then be listed for a hearing during Q2 2013.</p> <p>POL has started settlement discussions with the SPM to see if a commercial resolution can be reached.</p>	
Horizon claims	POL/HF/RW	Rod Ismay	POL has received various claims from former SPMs alleging wrongful termination of contract based on alleged defects in POL's internal	Following consultation with MPs, Second Sight Support Services Ltd (an independent investigator) is reviewing up to 16 cases	Bond Pearce

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			<p>processes and alleged defects with the Horizon system.</p> <p>These allegations were initially made in 5 claims brought through the SPMs' solicitors, Shoosmiths. To date, Shoosmiths have not progressed 4 of the 5 claims, and POL successfully had the Court strike out the fifth claim.</p> <p>These allegations are also being made through SPMs' MPs, and in defences to court proceedings brought by POL to recover debts from SPMs.</p>	<p>where SPMs allege that Horizon caused them losses. That investigation is currently underway.</p> <p>Post Office Ltd has also reached an agreement with Second Sight and Justice for Subpostmasters Alliance (an organisation "established to raise awareness of the issues within the Post Office Horizon system") whereby individual subpostmasters can raise concerns with Horizon within a "no blame" framework, provided such claims are brought by 28/02/13. Those concerns would be considered as part of Second Sight's review.</p>	
					

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**PART (B) – PRINCIPAL CRIMINAL CASES BROUGHT BY POST OFFICE LIMITED**

DESCRIPTION	STATUS
Subpostmaster accused of theft of £85,872.07. Restraint order against assets is in place.	Defendant pleaded guilty to theft of £67,000 and has been sentenced to 12 months' imprisonment (suspended for 2 years) with supervision and 100 hours unpaid community work. Defendant has repaid £51,000 through the sale of property, leaving £16,000 to be recovered through confiscation proceedings. A final hearing has been set for 20/05/13.
Post Office manager accused of theft of £27,824.51.	Defendant pleaded guilty on the basis that the money was used to pay a debt as Defendant feared for his safety. The Court rejected this and on 07/12/12 sentenced him to 200 hours unpaid community work (to be completed with 12 months) and electronically monitored curfew for 2 months. POL has recovered the full sum of £27,824.51.
Subpostmaster accused of fraud of £38,284.68.	Defendant pleaded guilty and was sentenced to 6 months imprisonment (suspended for 2 years) and 250 hours unpaid community work. A timetable has been set for confiscation proceedings to determine the sum payable to POL, with a final hearing set for 11/02/13.
Two assistant sub postmasters accused of covering shortages by delaying the processing of business deposits to Santander. Case concerned 40 deposit slips being suppressed with a total value of £34,115.50.	POL has served expert reports and notice of additional evidence in preparation for trial on 21/01/13.
Sub postmaster accused of theft of £78,660.63.	Defendant pleaded guilty on 07/01/13 and will be sentenced on a date to be set by the court.
Two brothers in partnership as subpostmasters accused of theft and/or fraud of £237,240.64	On 09/10/12, the second day of trial, one Defendant pleaded guilty to theft/fraud of £99,000. This was accepted by the prosecution and no evidence was offered against the other defendant. On 20/11/12 the guilty Defendant was sentenced to 17 months imprisonment. A timetable was also set for confiscation proceedings to determine the sum payable to POL, with final hearing set for 20/05/13.

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Subpostmaster accused of theft of £77,905.02	The Court is to set a date for the first hearing of this case to determine the details of trial.
Subpostmaster accused of theft of £57,811.79	Defendant pleaded guilty and on 28/11/12 was sentenced to 9 months imprisonment (suspended for 18 months) and 180 hours unpaid community work. A timetable has been set for confiscation proceedings to determine the sum payable to POL, with a final hearing set for 25/03/13.  POL has recovered £43,988.03 to date.
Subpostmaster accused of theft of £49,245.19	Defendant pleaded guilty and on 03/12/12 received a suspended sentence of 9 months imprisonment.  POL has recovered £49,245.19 to date.
Subpostmaster accused of theft of £25,860.66	Defendant has not indicated a plea. A Crown Court hearing on 21/01/13 will give case management directions for plea and trial.

**POST OFFICE LTD BOARD**

**Sealings 15 November 2012 – 15 January 2013**

**Seal Register**

The Directors are invited to consider the seal register and approve the affixing of the Common Seal of the Company to the documents set out against items numbered 834 to 839 inclusive in the seal register.

“The Directors resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 834 to 839 inclusive in the seal register is hereby confirmed.”

**Alwen Lyons  
Company Secretary  
16 January 2013**

## POST OFFICE LIMITED REGISTER OF SEALINGS

Seal Number	Date of Sealing	Description of Document	Persons Attesting To Document	Destination of Document
834	22/11/2012	Deed of Variation relating to Ground Floor Lock Up Shop, 203 and 205 Manford Way, Hainault (Chigwell)	Helen Perkins	to Jean Reynolds
835	27/11/2012	Licence to use part of the car park at Biddulph Council Offices for a temporary portacabin Post Office	Helen Perkins	to Jean Reynolds
836	10/12/2012	Second Supplemental Agreement pursuant to Franchise Agreement re Barrow in Furness branch at 10 Duke Street, Barrow in Furness, Lancashire LA14 1XA between Post Office Ltd and J N Murray Limited (in duplicate)	Alwen Lyons	to Denise Reid, Franchise Contracts Manager, Leeds.
837	03/01/2013	Licence to occupy premises, St Helens Crown Office, 39 Bridge Street, St Helens, Merseyside	Alwen Lyons	to Jean Reynolds
838	07/01/2013	Deed of Amendment for the Royal Mail Pension Plan (tidy-ups, scheme pay and flexi-drawdowns) between Royal Mail Group Ltd, Post Office Ltd and Royal Mail Pensions Trustees Limited.	Chris Day (Executed under hand)	to Ken Potter, Pensions
839	15/01/2013	Service Licence Agreement (temporary appointment of subpostmaster) for Portacabin Post Office at Council Offices Car Park, High Street, Biddulph ST8 6AR	Helen Perkins	to Jean Reynolds