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ExCo

Update on top risks

1. Purpose

The purpose of this paper is to introduce a discussion at ExCo on the latest report of the key risks facing Post Office in the achievement of its strategic objectives by:-

- reviewing the update paper submitted to the ARC committee meeting of the 6th March;
- discussing any feedback from ARC;
- a verbal update from the Head of Risk & Compliance.

The purpose of the discussion is to establish a common view amongst ExCo of the progress in driving forward a risk management culture in Post Office.

2. Current Status

The update provided to the ARC committee is attached at Appendix A.

3 Action

The committee is asked to:-

- Note the current state of management of the risks affecting the Post Office strategy in accordance with the attached paper; and
- Discuss and commit to actions to further drive risk management culture in Post Office.

David Mason
13th March 2014

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Appendix A – risk update paper for ARC

AUDIT, RISK AND COMPLIANCE COMMITTEE

Update on EXCO risks

1. Purpose

The purpose of this paper is to update the committee on the ExCo assessment of the key risks facing Post Office in the achievement of its strategic objectives.

2. Background

Since the November meeting of the committee, ExCo has further reviewed the key risks. The original risks have been revised and refined and now number nine, including a merged data integrity and cyber-security risk. Details of each risk are included in section 3 of this paper.

There are strong interdependencies between these risks. Individually and jointly they all have the potential to prevent Post Office delivering its strategic plan. There is therefore a major commercial imperative in ensuring they are successfully managed.

The ExCo risk owners and the risk management function have been working to develop the assessment and mitigation of these risks in line with their impact on the strategic plan.

3. Key Risk Status Summary

Whilst the fierce competition for resources has meant that the current pace of progress in the management of these risks has been slower than expected, this is improving rapidly and actions have been taken to further reinforce the process.

- The ExCo sub-committee – the ‘Risk & Compliance Committee’ now focusses on these risks. To ensure this focus is maintained at the appropriate level the committee is chaired by the General Counsel and is attended by the CEO. The committee will be performing regular in depth reviews of each risk ensuring appropriate rigour is in place
- CoSec is leading a restructure of the various governance committees in the organisation which will ensure they formally consider the management of risk.
- The risk and compliance function business partners are actively assisting the risk owners in challenging and supporting the risk assessments and developing appropriate mitigating actions.

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The following sections provide a clarification of each risk's impact on the strategy, a view of its current state and mitigating actions planned or in place.

Due to the varying levels of maturity of risk management in the Post Office this view remains subjective in the majority of cases. For many of the risks, detailed plans for mitigating actions are still being developed. The business risk partners are supporting risk owners to ensure that more objective assessments can be performed and that plans for corrective action completed.

A further verbal update will be provided at the ARC committee meeting. These risks will be further discussed at the ExCo meeting of March 13th.

3.1 Allegations relating to the integrity of the Horizon system

ExCo Owner: Chris Aujard

Owner's Risk Description

Originally known as Project Sparrow, the Initial Complaint and Mediation Scheme programme currently carries a substantial level of risk which is being managed with support of colleagues across the business, including ExCo. It will be important to maintain this focus as we move into a critical delivery phase for the programme.

Risk Owner Update

It has been the subject of extensive previous discussions at Board level; a further Board discussion was held on 26 February 2014 to consider the various options for managing the risks and issues relating to the programme. A copy of the board paper is provided as Appendix a. Consequently a detailed update is not appropriate for this meeting.

For completeness, the following mitigating actions are in place:-

- CEO participation in stakeholder communications,
- Strengthening the Post Office resources available, and
- Close Board involvement.

Strictly Confidential**3.2 Failure to deliver top line growth in line with strategic plans**

ExCo Owner: Martin George & Nick Kennett

Owner's Risk Description

Lack of growth in both Financial Services (FS) and across the Commercial portfolio would have a detrimental impact on delivery of the strategic plan. Non delivery of growth targets will reduce the appeal of the franchise model impacting Network Transformation. There is an immediate threat that long term growth targets could become unachievable if we do not respond quickly to competitors.

Risk Owner Update - Financial Services

The FS business is charged with significantly growing overall income by 2020 with a step change in insurance revenue in 2016/17. FS's assessment is that the growth plan is on track albeit with risks that are being monitored, managed and controlled. The FS management team have a number of existing metrics in place to monitor these growth risks. These include:-

- Sales and marketing effectiveness measures (in place)
- Business model enhancements project measures (in place)
- Product development and launch MI (in place)
- External factors review i.e. competition, regulation and government (partly in place)
- BOI/Third party capability and strategy (partly in place)
- People and resources (in development)

The business risk partner is working with FS management to develop and present these measures in a common format aligned to the growth risk. This is planned to be in place in March.

A key risk area is the Project Titan work where the scope of the work involves significantly changing the business model and potentially FCA authorisation. This is to be delivered to challenging deadlines. Separate reporting of this business model enhancement is in place and is currently reporting 'amber'.

Risk Owner Update - Commercial

The main risks facing the Commercial product portfolio which have the potential to impact the achievement of the 2020 Growth requirements can be summarised into four main areas:

- **Mails:** The on-going commitment from Royal Mail will not be sufficient to meet our growth aspirations for Mails, inhibiting our ability to innovate and compete effectively in an increasingly competitive marketplace;

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- **Government Services:** The Government will act in line with our time expectations in developing new products and service, such as the next version of POca, and especially adopting a more digitally oriented agenda. Revenue development would be hampered in services for HMPO, Identity Assurance and Assisted Digital Services;
- **New Product Development:** The income targets from current products and services will be insufficient to achieve our strategic plan targets and new products and service development is inadequate to close the revenue shortfall;
- **Digital:** The failure to develop an effective omni-channel proposition makes Post Office vulnerable to customer's opting for other more attractive options from competitors.

The active management of these risks can be summarised as follows:

- **Mails:** On-going engagement at both an operational and directorial level with Royal Mail to include, joint targets, action plans, milestones and clear accountabilities. Work is progressing well and these should be available in 90 days;
- **Government Services:** On-going engagement with key Governmental personnel to include joint targets, actions plans, milestones and clear accountabilities. Key departments are engaged, and work is underway to deliver plans , milestones and the key accountabilities within 90 days;
- **New Product Development:** On-going Commercial team focus on current performance of existing product portfolio, detailed 3 year plans and regular updating of forecasts, in addition to work undertaken to identify possible new business opportunities consistent with our core purpose. Work is progressing well and the plans should be finalised by the end of June 2014;
- **Digital:** The Digital Group consisting of key executives from across the business that will ensure that there is a detailed digital roadmap, as a core component of creating an integrated omni-channel offer to customers. This group are accountable for the roadmap, milestones and metrics.

The current conclusion is that the 2020 growth requirement that the Commercial Directorate is tasked to achieve is attainable, but there are some sizeable challenges to overcome.

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3.3 Operating Model fails to deliver requisite cost savings

ExCo Owner: Chris Day

Owner's Risk Description

Our exposure to this risk is being explored but not yet fully understood.

A new operating model has been proposed to make the Post Office more cost effective. The most significant instrument progressing delivery of the new operating model is the Business Transformation Programme.

Risk Owner Update

A workshop will be held on 3rd March, facilitated by the business risk partner, to identify causal factors, likely consequences and mitigating controls of the Operating Model Risk. The outputs will be considered to shape the future scope and structure of the Business Transformation Programme.

The Programme's current mandate from the Board is to examine the business case to engage a transformation partner and, assuming the business case is sufficiently compelling, prepare for a partner selection exercise. The transformation partner would be contracted to help Post Office shape and deliver the new operating model. In the short term the Programme will develop the core design principles and elaborate the high level structure of the new operating model.

Key risks & issues identified for Programme:

- If the procurement is approved the Programme will require a dedicated team of post office subject matter experts and is working with ExCo to address this;
- Post Office does not have the supplier management skills to manage the commercial contracts associated with the new operating model and then manage our own people to drive full benefit from the contract. The Programme will ensure this skill set is developed as part of the retained organisation;
- The risk that industrial relations may be strained by the implications of business transformation will be addressed through Stakeholder and Communications plans which will be presented to ExCo and the Board with the partner business case in March;
- With a general election due in 2015 potentially at the same time as a transformation partner mobilises in Post Office there is a risk of political impact. The Public Affairs team will address this in Stakeholder and Communications plans.

Strictly Confidential**3.4 Inadequate people capability or capacity to deliver transformational change and the strategic plan**

ExCo Owner: Fay Healey

Owner's Risk Description

The capability of our people is critical to successful delivery of all facets of the strategy. There is a risk that we cannot retain, recruit and effectively performance manage our people to the level of capability required within the necessary timeframe.

Risk Owner Update

The current level of exposure is higher than that deemed acceptable by management. Whilst activity is underway to reduce the exposure, implementation is in the early stages and therefore there is no evidence, as yet, that capability or capacity is at the requisite level. A timeline will be produced to ascertain when the current exposure will be reduced to an acceptable level and whether interim controls to mitigate the risk are required.

Detailed analysis and assessment of key control design effectiveness has commenced and activity to close known gaps continues. The nature of several controls required to appropriately mitigate the risk are complex and broad in their design e.g. 'Management Training Programme' and as such will take time to implement. Where this is the case, interim action is taken to address the most pressing gaps e.g. targeted 'Honest Conversations Workshops' for line managers with poor performing team members.

3.5 Non-delivery of Network Transformation Programme

ExCo Owner: Kevin Gilliland

Owner's Risk Description

Failure to deliver network transformation in a timely fashion would result in a non-viable business model requiring additional subsidy from the Government or closure of branches, neither of which are sustainable options. There is an immediate risk that if we do not manage current and prospective partners and stakeholders effectively, we may find that we cannot secure the retail partners we need to secure the future of our network.

Risk Owner Update

The NT programme is currently on track to meet its 2013/14 targets for contracts and branch openings, and the launch of the revised strategy has provided additional momentum to the transformation programme. However there remains a significant residual risk of non-delivery of programme benefits due to the semi compulsory nature of the programme, the difficulty of finding replacement leavers, maintaining the attractiveness of models and the possibility of government lobbying by disaffected stakeholders. These require mitigation and recent activity has included the appointment of a General Manager to the programme with a mandate to maintain delivery momentum whilst improving governance, risk management and programme resilience as well as improving programme efficiency and value for money.

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

ExCo Owner: Kevin Gilliland

Owner's Risk Description

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

Risk Owner Update

There continues to be a long term risk of strike action in supply chain but immediate action is unlikely. No strike activity has taken place since early December, and a joint CWU/Post Office statement reporting progress in negotiations was issued on 6 February 2014. The negotiating teams have met once on supply chain pay since then. There is a common goal to try and reach a negotiated settlement but these are complex negotiations and the CWU negotiating team will also be facing difficult challenges from its own Postal Executive. Further meetings on supply chain issues will be scheduled next month.

Contingency plans remain in place to enable the distribution of cash to the network should industrial action re-occur.

3.7 Delivering poor customer outcomes through FS mis-selling

ExCo Owner: Nick Kennett

Owner's Risk Description

Financial Services has a demanding growth agenda that will require more sales to be generated through a variety of channels particularly in insurance. This includes a number of new projects, product developments and pilots. There is a risk of regulatory failure and client dissatisfaction through mis-selling by staff or agents.

Risk Owner Update

The FS mis-selling risk and controls are well defined and measures to manage the risk are in place.

The findings of the Financial Specialist video mystery shopping measure (where there has been a continuing trend of "red" mystery shops) remain a key area for control improvement. Actions required include further training as well as increased management oversight to ensure that compliance requirements 'stick' with Financial Specialists. In addition, where behaviour has not improved sales management will continue to use their powers to suspend licences and accreditation to sell.

Strictly Confidential**3.8 The security and integrity of Post Office data cannot be maintained.**

ExCo Owner Lesley Sewell

Owner's Risk Description

Any failure to protect customer or corporate data could have a disproportionate reputational impact, sufficient to prevent Post Office achieving the growth necessary to achieve its strategic objectives. The integrity and security of Post Office data is reliant on a complex network of interrelated processes and controls. The number of potential threats, particularly of external attacks through the internet, is rapidly increasing.

Risk Owner Update

Some elements of this risk are not yet managed at an appropriate level. Examples are: data ownership and classification, business continuity and incident management. However, many other controls are operating giving assurance that the risk as a whole is being managed. Further assurance is obtained through third party reviews and certification audits such as those by external and internal audits, network security penetration testing, ISO 27001 and PCI/DSS. The risk will be subject to a detailed "deep dive" review at the next Risk and Compliance Committee.

Risk mitigation is under way through projects which are reviewing the controls and putting in place active measures to monitor the risks and their mitigation. These include implementation of a new GRC tool, appointment of a Data Protection Officer and procurement of a communications and training tool covering data protection and information security. An additional five resources have been provided to augment the existing team to increase the effectiveness of existing risk measures.

3.9 Post Office cannot operate or deliver services following IT Transformation

ExCo Owner Lesley Sewell

Owner's Risk Description

The cost savings and flexibility to be delivered by the IT Transformation programme are critical to the overall strategy. The various contractual relationships, the multiple components of the programme and the pervasive nature of the changes create a complex and changing risk landscape.

Risk Owner Update

The programme risks are adequately managed. Controls, including programme oversight and contract management, have been implemented. These are supported by planned post-implementation processes and controls.

Governance and control structures for post implementation "business as usual" (BAU) are being defined. The programme management process provides multiple performance measures which are being reviewed to ensure they provide adequate measures of control effectiveness.

At the request of the Committee, Internal Audit have engaged Price Waterhouse Coopers to advise on risks, risk management best practice and assurance needs for a programme of this scope and magnitude. This work is under way and will consider both transition and BAU.

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4 Action

The committee is asked to note the progress made in the management of the risks affecting the Post Office strategy.

David Mason
6th March 2014

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Appendix a Copy of Board Paper February 2014

Initial Complaint Review and Mediation Scheme

1. Issue

1.1 This paper updates the Board on the challenges facing the Initial Complaint Review and Mediation Scheme (the Scheme) and the steps being taken to address them.

2. Summary

2.1 At the moment the Scheme faces a number of serious challenges that Post Office are working hard to manage and mitigate. This paper covers the following issues:

- Slower than expected Scheme performance
- An increasing expectation gap
- A high cost base
- An attempt by both the Working Group and Second Sight to broaden their scope
- General stakeholder management challenges
- A Second Sight generic report

3. Consideration

Scheme Performance

3.1 Out of an original 147 applications, 139 are still in the Scheme at various stages. Scheme performance is slower than expected due to a number of factors – higher than expected application numbers, more complicated legal assurance process (particularly in respect of risks around criminal prosecution) than originally envisaged, a need to reinforce the Fujitsu team providing data to the investigators and a learning curve for the new investigators around the style and approach required. Currently there are five reports with Second Sight (with four due on 27 February), 19 are undergoing legal assurance and 18 are currently under Post Office investigation. 64 applicants are still to submit their detailed case questionnaires, having had funding approved.

3.2 For Post Office there is a delicate balance to be struck in terms of the thoroughness of the quality assurance necessary to manage risk on individual cases and more broadly, learning the lessons from early cases and the speed of processing the reports. We have revised the initial QA process now that

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initial report quality has increased and learning has increased. This has reduced the steps required and will save a small amount time.

- 3.3 The Working Group has also decided to add a “draft report” circulation stage to the overall process – which adds two weeks but gives Post office a right of reply to findings in Second Sight’s reports and could add additional steps as cases move through the process.

Increasing Expectation Gap

- 3.4 Our current estimate is that we will receive claims stated to be in the region of £100M. Applying the settlement policy, Bond Dickinson has estimated the claims to be valued at £6M. This figure comes with a significant health warning, as it is calculated from a sample of 33 cases and generalised to a likely population of 130. It is also not based on the merits of a claim, but instead on the likely value of a claim should it be fully successful.
- 3.5 The programme team has had limited opportunity to engage with advisors on the substance of the claims, as the advisors limit their engagement with Post Office to administrative matters. However, we have taken every opportunity to discuss levels of claims with Second Sight and the Working Group when opportunity arises. It is, however, likely that the gap will remain large due to high claims for consequential losses and potentially negotiation positioning by advisors in terms of the level of claim.

High Resource Demands

- 3.6 Currently there are 22 Post Office staff investigating cases, a programme team is occupied full time administering the Scheme and supporting the weekly Working Group case discussions and the monthly face to face meetings. Two sets of lawyers are engaged reviewing the cases (Bond Dickinson providing civil and general advice and Cartwright King reviewing from a criminal law perspective). This has led to costs to date of £1.1M and a projected cost of around £5M, excluding settlement costs.

Working Group and Second Sight Scope

- 3.7 Efforts have been ongoing to agree an engagement letter with Second Sight and Terms of Reference with the Working Group. Currently both are being disputed in terms of scope (with JFSA and Second Sight seeking wider scope than Post Office is comfortable with) and with Second Sight seeking to water down the clause restricting their ability to act against the Post Office in the future. It also appears that the Chair is amenable to a wider scope for the Working Group.

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3.8 Both issues have been escalated to ExCo, and the Chief Executive is due to meet Second Sight and the Chair of the Working Group on Monday to discuss these issues. Post Office has alerted BIS, and are working through a number of scenarios to strengthen the resource available to the Scheme to ensure that Second Sight remain engaged in the Scheme and that the Scheme completes in a timely manner.

General Stakeholder Management

3.9 The Post Office Chairman and Chief Executive have held a positive meeting with James Arbuthnot MP. James will be holding a follow up meeting with MPs on 24 March where Post Office will brief them on progress on the Scheme. The professional advisors are also proving difficult to manage and there are signs that at least some are attempting to act as a collective to challenge the timelines and fee levels imposed by the Scheme although we do not know whether that will materialise.

3.10 The programme team are working closely with the Communications Directorate to plan for the Arbuthnot meeting, and have engaged the Chair of the Working Group to deal with issues relating to the advisors.

Second Sight Reports

3.11 The Second Sight team are due to submit the first of their individual case reports to the Working Group on 27 February. They are also working on a generic report designed to travel with the individual reports, although it is unlikely that will be ready for 27 February. Our working assumption is that the reports will be critical of Post Office (whether evidenced or not) and from the time those reports are submitted there is the potential for them to become public, and will and this likelihood increases when the reports are presented to the applicants potentially a week later. We are working with the Communications team in preparation for that.

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4. Conclusion

- 4.1 The programme currently carries a substantial level of risk which is being managed with support of colleagues across the business, including ExCo. It will be important to maintain this focus as we move into a critical delivery phase for the programme.
- 4.2 This paper is intended to inform a Board discussion of the latest developments, including an update from the Chief Executive following her meetings with the Chair of the Working Group and Second Sight, and the various options for managing the risks and issues set out above.

Belinda Crowe
20 February 2014

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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 Confirm and approve terms of reference for the Board sub-committees and for the Board itself, including a Schedule of Matters reserved for Board decision together with the Executive Committee terms of reference;
- 1.3 Consider and approve a more formal definition of the roles of the Chairman and Chief Executive; and
- 1.4 Confirm and approve the Delegated Authority limits (these are currently being reviewed by Finance).

2. Background

- 2.1 A review of the Corporate Governance arrangements in place is undertaken on an annual basis. This is to ensure that the governance structure is effective and compliant with the UK Corporate Governance Code.
- 2.2 Since the last review (January 2013) the Mutualisation Committee has been subsumed into the Board, and a new committee - Financial Services, has been set up. Each Committee has recently reviewed its terms of reference, and recommend them to the Board for approval. The Post Office Advisory Council has also been set up but is not part of the Governance Structure – its purpose is to provide a forum for Post Office stakeholders and other experts to discuss issues of interest and importance that impact on customers and stakeholders and their communities.
- 2.3 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. It should be noted that Post Office's corporate governance position is much stronger since the last review with the publication of its Annual Report in August 2013.
- 2.4 There have been a number of corporate governance developments that will need to be considered as part of the Annual Report for 2013/14 – these are detailed in the analysis referred to in 3.1 below. They include a section on diversity within the Nominations Committee report, and a report on performance evaluation of the Board.

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3. Documents

- 3.1 An analysis of Post Office's compliance with the UK Corporate Governance Code is attached to this paper.
- 3.2 The following documents can be found in the Reading Room under Corporate Governance Review:
- For information, the Board Structure
 - 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, Remuneration, Nominations, Pensions and Financial Services Committees
 - A draft "roles and responsibilities" paper which confirms the separation of powers of the Chairman and the Chief Executive
 - Matrix of Delegated Authorities for contract approvals, commitments of expenditure and implementation of change
 - Delegated Authorities for Remuneration Matters

4. Recommendations

The Board is asked to:

- 4.1 note the current level of compliance with the UK Corporate Governance Code;
- 4.2 approve the terms of reference presented for the Board, including a Schedule of Matters reserved for Board decision, Board sub-committees and the Executive Committee;
- 4.3 approve the definition of the roles of the Chairman and Chief Executive; and
- 4.4 approve the matrix of Delegated Authorities (these are currently being reviewed by Finance) and the Delegated Authorities for Remuneration Matters.

Alwen Lyons
March 2014

UK Corporate Governance Code and DTR requirements¹

Status as at March 2014

LEADERSHIP		
PRINCIPLE A1: The Role of the Board	Every company should be headed by an effective Board which is collectively responsible for the long-term success of the company. The Board should provide entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed. Directors should act in what they consider to be the best interests of the company.	
	Code provisions	Status March 2014
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 and Board dates are diarised until March 2015. A schedule of matters reserved for the Board is in place and due to be re-approved at the March meeting. An appropriate statement on decision making was made in the Annual Report 2012/13 and a similar statement is planned for the Annual Report 2013/14.
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.	The Annual Report 2012/13 met these requirements and it is planned that these requirements will be fulfilled in the Annual Report 2013/14.
A.1.3	The company should arrange appropriate insurance cover in respect of legal action against its directors.	D&O insurance is in place.
PRINCIPLE A2:	There should be a clear division of responsibilities at the head of the company between the running of the Board and the executive	

¹ DTR requirements are shown only where they extend Code provisions

Division of Responsibilities	responsibility for the running of the company's business. No one individual should have unfettered powers of decision.	
A.2.1	<p>The roles of the Chairman and Chief Executive should not be exercised by the same individual.</p> <p>The division of responsibilities between the Chairman and Chief Executive should be clearly established, set out in writing and agreed by the Board.</p>	<p>The role of the Chairman is undertaken by Alice Perkins and the role of the Chief Executive is undertaken by Paula Vennells.</p> <p>The roles are clearly separated but have not been set out in writing and approved by the Board. The delineation of responsibility is to be considered at this Board meeting.</p>
PRINCIPLE A3: The Chairman	<p>The Chairman is responsible for leadership of the Board and ensuring its effectiveness.</p> <p>The Chairman should:</p> <ul style="list-style-type: none"> • set the Board's agenda and ensure that adequate time is available for discussion of all agenda items, in particular strategic issues; • ensure that the directors receive accurate, timely and clear information and should also ensure effective communication with shareholders; and • 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. The Chief Executive of a company should not immediately go on to become the Chairman of the same company	The Chairman was independent upon appointment.
PRINCIPLE A4: Non-Executive Directors ("NEDs")	<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:</p> <ul style="list-style-type: none"> • scrutinise management's performance in meeting agreed objectives and monitor the reporting of performance; • satisfy themselves on the integrity of financial information and the quality of financial controls and systems of risk management; • determine appropriate levels of remuneration of executive directors; • have a prime role in appointing and removing executive directors and in succession planning. <p><i>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>	
	Code provisions	Status March 2014

A.4.1	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).	Neil McCausland is the current incumbent.
A.4.2	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.	The NEDs have regular breakfast meetings, the last of which was held on 21 January 2014. Neil McCausland led the process for evaluation of the Chairman last year and arrangements will be made as required this year.
A.4.3	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.	The Company Secretary will record concerns as they arise.
EFFECTIVENESS		
PRINCIPLE B1: Composition of the Board	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. 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 committees, but others may attend at the invitation of the Committee.	
	Code provisions	Status March 2014
B.1.1	The Board should identify in the annual report each NED it considers to be independent.	The NEDs' independence was reported in the Annual Report 12/13 and a similar approach is planned for the Annual Report 13/14. In line with the Code, any director who is also an employee of the

		Department of Business, Innovation and Skills is not considered to be independent.
B.1.2	At least half the Board, excluding the Chairman, should comprise independent NEDs.	At least half of the Board, excluding the Chairman, is comprised of independent NEDs.
PRINCIPLE B2: Appointments to the Board	<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>	
	Code provisions	Status March 2014
B.2.1	<p>A nominations committee should lead the process for Board appointments and make recommendations to the Board.</p> <p>A majority of its members should be independent NEDs. The Chairman or an independent NED should chair the committee.</p> <p>The Chairman should not chair the committee for the appointment of a successor Chairman.</p> <p>The committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board.</p>	<p>This is specified in the terms of reference for the Nominations Committee</p> <p>The Post Office Nominations Committee is made up of the Chairman and two independent NEDs.</p> <p>This is specified in the terms of reference.</p> <p>The terms of reference have been made available via the Post Office website.</p>
B.2.2	The nominations 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.	All appointments were based on getting a balanced Board. Criteria included a strong retail background, accounting and audit expertise, financial services experience, detailed knowledge of pensions and investments and understanding of Government.
B.2.3	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.	All NEDs, apart from the Chairman, 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>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.</p> <p>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 separate section was not included in the Annual Report 2012/13 report but an overview was provided as part of the Corporate Governance Report. It will be considered whether a separate section should be included in the Annual Report 2013/14</p> <p>This is a new requirement added to the Code for financial years beginning on or after 1 October 2012. The inclusion of this section will also be considered as part of annual report planning, although a section on talent and diversity was included in the Performance review in the Annual Report 2012/13.</p> <p>The search for directors has not previously been conducted in this way but new director searches and appointments will be controlled by the Nominations Committee and this provision will be considered. All appointments require ShEx consent.</p>
<p>PRINCIPLE B3: Commitment</p>	<p>All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.</p>	
	<p>Code provisions</p>	<p>Status March 2014</p>
<p>B.3.1</p>	<p>The nominations committee should prepare a job specification for any appointment of a Chairman, recognising the need for availability in the event of crises.</p> <p>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.</p>	<p>This is included in the Terms of Reference and should be undertaken in conjunction with ShEx.</p> <p>All directors complete a record of other commitments on their appointment. Biographies of all directors appear on the website, were included in the Annual Report 2012/13 and are planned for inclusion in the Annual Report 2013/14.</p>
<p>B.3.2</p>	<p>The terms and conditions of NED appointments should be made available for inspection. The letter of appointment should set out the expected time commitment.</p>	<p>In line with the Companies Act 2006, directors' service contracts are available for inspection at the Company's registered office. A set time commitment (number of days per week) is stated for the Chairman.</p>

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.	This provision does not currently apply to the Post Office.
PRINCIPLE B4: Development	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.	
	Code provisions	Status March 2014
B.4.1	The Chairman should ensure that new directors receive a full, formal and tailored induction on joining the Board.	An induction programme has been developed and 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 briefings. Individual needs may be addressed as part of future Board evaluations.
PRINCIPLE B5: Information and Support	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: <ul style="list-style-type: none"> • ensuring good information flows; • facilitating induction; • assisting with professional development as required; and • advising the Board, through the Chairman, on all governance matters. 	
	Code provisions	Status March 2014
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 is arranged as required. Committee terms of reference include provisions to obtain professional advice as needed.

B.5.2	<p>All directors should have access to the company secretary who is responsible to the Board for ensuring that Board procedures are complied with.</p> <p>Both the appointment and removal of the company secretary should be a matter for the Board as a whole.</p>	<p>Alwen Lyons, the current incumbent, is available to all directors.</p> <p>The appointment and removal of the Company Secretary is a matter for Board resolution.</p>
PRINCIPLE B6: Evaluation	<p>The Board should undertake a formal and rigorous evaluation of its own performance and that of committees and individual directors, in line with the Code. The Chairman should take action from this evaluation as required and individual evaluation should aim to show whether each director continues to contribute effectively.</p>	
	Code provisions	Status March 2014
B.6.1	<p>The Board should state in the annual report how performance evaluation of the Board, its committees and its individual directors has been conducted.</p>	<p>This is a new Code requirement for companies with financial years beginning on or after 1 October 2012. The inclusion of this section will be considered as part of annual report planning.</p>
B.6.2	<p>Evaluation of the Boards of FTSE 350 companies should be externally facilitated at least every 3 years.</p>	<p>The Board internally evaluated its performance in 2013. The timing of any external facilitation will be considered as part of the Board evaluation process.</p>
B.6.3	<p>The NEDs, led by the SID, should be responsible for performance evaluation of the Chairman, taking into account the views of executive directors.</p>	<p>The process of performance evaluation of the Chairman was led by Neil McCausland in 2013 and this is likely to continue.</p>
PRINCIPLE B7: Re-election	<p>Section B7 is not relevant to Post Office. It requires the annual re-election by shareholders of directors of FTSE 350 companies.</p>	
ACCOUNTABILITY		
PRINCIPLE C1: Financial and Business Reporting	<p>The Board should present a fair, balanced and understandable assessment of the company's position and prospects.</p> <p>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.</p>	

	Code provisions	Status March 2014
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 were included in the Annual Report 2012/13. Suitable wording will be considered as part of annual report planning, in light of the updates to this provision for financial years beginning on or after 1 October 2012 and as highlighted within the text.
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 was included in the Annual Report 2012/13 as part of the business review. However, under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the business review has now been replaced with a strategic report for financial years ending on or after 1 October 2013 and any inclusions in the Annual Report 2013/14 will be made in line with this legislation.
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 and is reported on at year end and half year.
PRINCIPLE C2: Risk Management and Internal Control	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.	The ARC has reviewed the top risks and reported to the Board in November 2013, when a discussion was held. Risk management is a key focus for the Board, its committees and the Executive Committee and is on the agenda in March for ARC, ExCo and the Board. There is also an internal audit programme in place.
PRINCIPLE C3: Audit Committee and Auditors	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.	
	Code provisions	Status March 2014

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 are in place, were reviewed at the November ARC and are recommended for ratification at this meeting. They include the matters set out in more detail in Code provision C.3.2 and are available on the Post Office website.
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 (i.e. the report should be fair, balanced and understandable).	This is a new Code requirement for companies with financial years beginning on or after 1 October 2012. The ARC reviews the annual report and recommends it to the Board for approval and the addition of any statement will be considered as part of the annual report process.
C.3.5	The Committee should review arrangements for staff to raise concerns and for concerns to be investigated (“whistle-blowing”)	This was reviewed by the ARC in February 2013 and a policy is in place.
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.	An internal audit department has been established, with regular reporting to the ARC in place.
C.3.7	<p>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).</p> <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</p>	The responsibility is included in the ARC’s Terms of Reference. The ARC will keep under review the independence of the external auditor.

	independence of the statutory auditor and in particular many provision of additional (ie non-audit) services.	
C.3.8	A separate section of the annual report should describe the work of the Audit Committee.	A separate section was not included in the Annual Report 2012/13 report but an overview was provided as part of the Corporate Governance Report. It will be considered whether a separate section should be included in the Annual Report 2013/14.
REMUNERATION		
PRINCIPLE D1: Levels and Components of Remuneration	<p>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.</p> <p>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 and should be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases.</p>	
	Code provisions	Status March 2014
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. Executive directors have claw back provisions in their employment contracts, short term incentive schemes and long term incentive schemes.
	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.	A Remuneration Report was included in the Annual Report 2012/13 which was fully compliant with the provisions of the Companies Act 2006 to the extent that they are required for an unlisted company and early adopted the proposed legislative requirements for disclosure of directors' pay being put forward to listed companies. Revised directors' remuneration regulations took effect for Annual Reports for financial years ending on or after 1 October 2013. The

		report for this year is to be reviewed by the RemCom in March.
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 ShEx. It is a fixed fee and not performance-related.
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.	Included in the RemCom's Terms of Reference as part of their duties and responsibilities.
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 needs to be given by a director).
PRINCIPLE D2: Procedure	<p>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.</p> <p>The RemCom should consult the Chairman and/or CEO about proposals relating to other executive directors and 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.</p>	
	Code provisions	Status March 2014
D.2.1	<p>The Board should establish a remuneration committee of at least three independent NEDs. The Chairman may be a member of, but not chair the Committee if s/he was considered independent when appointed.</p> <p>The Committee should make available its terms of reference.</p> <p>Where consultants are appointed, they should be identified in</p>	<p>RemCom has been established under the Chairmanship of Neil McCausland.</p> <p>The terms of reference are available on Post Office Limited's website.</p> <p>This is a new Code requirement for companies with financial years</p>

	the annual report and a statement made as to whether they have any other connection with the company.	beginning on or after 1 October 2012. It will be considered whether a separate section should be included in the Annual Report 2013/14.
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 specifies certain levels of responsibility for the remuneration of the executive directors, the Chairman and senior management, with reference to those aspects of remuneration that require ShEx's consent.
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 p.a. in aggregate.
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.
RELATIONS WITH SHAREHOLDERS		
Principle E1: Dialogue with Shareholders	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.	
Principle E2: Use of the AGM	This provision is not relevant to Post Office which, as a private limited company, is not required to hold General Meetings.	
FSA Disclosure and Transparency Rules (where they differ from the Code)		
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.		The Company is able to state that it complies with the principles of the Code to the extent possible and can refer to areas for development for the coming year. Post Office included a statement to this effect in the Annual Report 2012/13 and it is planned that such a statement will be included in the Corporate Governance Report for

<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>2013/14.</p> <p>Such a statement was included in the Annual Report 2012/13 and is planned for 2013/14.</p>
<p>Changes in regulation since the last corporate governance review</p>	
<p>Updates to the Code have been highlighted in the above. More generally, 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 took effect for companies reporting on financial years ending on or after 1 October 2013.</p>	<p>Updates to remuneration disclosure are being considered by the RemCom as part of the Directors' Remuneration Report.</p> <p>Updates to narrative reporting, including the strategic report and directors' report, are being considered by Finance as part of Annual Report 2013/14 planning. The ARC will receive a detailed update on governance updates from Ernst & Young and Annual Report planning at its March meeting.</p>
<p>Potential regulation changes</p>	
<p>There are likely to be changes to the Corporate Governance Code proposed as a result of Financial Reporting Council (FRC) consultations, specifically on executive remuneration, risk management and internal controls.</p> <p>Similarly, FRC Guidance is expected on risk management, internal control and going concern. Both sets of changes are anticipated to apply to reporting periods commencing on or after 1 October 2014.</p> <p>There may also be more European legislation passed on diversity.</p> <p>Updates will be monitored and action recommended as required.</p>	

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Executive Committee Governance Structure

1 Purpose

- 1.1 To share with the Executive Committee the proposed Governance Structure for ExCo and its sub-groups.

2 Background

- 2.1 The Governance Structure for ExCo and its sub-groups have been reviewed. The Business wants to:
- Push decision-making down the right level in the organisation;
 - Clarify accountability between role (i.e. day job) and governance; and
 - Reduce the number and cost of committees, in terms of time and reporting.
- 2.2 Attached is an updated structure chart, with proposed draft terms of reference for the Executive Committee, the Transformation Committee and the Risk & Compliance Committee. These are work in progress and now need ExCo consideration.

3 Next Steps

- 3.1 The Terms of Reference for the various meetings and committees within the structure to be populated and agreed.
- 3.2 To be cascaded to SLT in April.

4 Recommendation

- 4.1 The Executive Committee is asked to agree the revised Corporate Governance Structure.

Alwen Lyons
7 March 2014

Draft Version 1.1 25 February 2014

TERMS OF REFERENCE FOR THE EXECUTIVE COMMITTEE**1. Purpose**

The Executive Committee (“ExCo”) is not a sub-committee of the Board but forms the most senior leadership team which is accountable to the Board for the day to day operations of the Post Office. It is responsible for delivering performance measured against the corporate objectives set by the Board and agreed with its Shareholder, the Department for Business, Innovation & Skills, through its Shareholder Executive (“ShEx”).

2. Responsibilities

(a) ExCo, as a body is responsible to the Board for:

- Implementation of decisions made by the Board
- Producing the strategy and operating plans and budgets for approval by the Board and ShEx
- Delivering the strategic plans as agreed by the Board
- Putting into operation changes in strategy agreed by the Board and reporting back to the Board on performance against agreed objectives and targets
- Monitoring financial and operational progress against key measures set by the Board
- Establishing day to day policies designed to manage operational risks within the business
- Ensuring best use of the resources available to the Group including financial, human and technological resources
- Reviewing business development and recommending to the Board new areas of business or more effective ways of working. ExCo will review the forward agendas for Board meetings and will determine which matters should be considered in more detail by ExCo before going forward for Board approval.
- Approving contracts and expenditure within the delegated authorities set by the Board
- Producing high quality management reports to inform and guide Board decision making
- Formal evaluation of the performance of the Senior Leadership team and review of the performance analysis across the Group by operating unit on a half yearly basis and taking any action to improve performance

(b) ExCo members will be expected to:

- attend all ExCo meetings or arrange appropriate representation if absence is unavoidable
- review all material circulated to ExCo and clarify as necessary their own understanding of key issues facing the business
- work collaboratively to achieve the agreed key objectives
- highlight, discuss and resolve operational issues which threaten business success

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TERMS OF REFERENCE FOR THE EXECUTIVE COMMITTEE

- promote employee engagement
- discuss and review improvements to ways of working to ensure the best use of resources available to the Post Office
- raise matters or concern or difficulty with fellow ExCo members and seek their input with the aim of resolving difficulties at an early stage
- contribute to setting the agenda for ExCo meetings to focus on the priorities for the business as a whole
- provide constructive challenge to other members of ExCo on matters due to go forward for Board decision
- put into practice agreed values and behaviours for the Post Office as a whole
- complete actions within the timescales set by the Board
- be accountable for the actions and financial performance of their area of responsibility
- act within the delegated authorities set by the Board and by ExCo as a group
- communicate through their own reporting lines as appropriate ExCo decisions and requests
- Attend ExCo sub committees of which they are members and ensure that those sub committees deliver to the mandate agreed by the ExCo

3. Authority

The Executive Committee's authority to deal with operational matters and expenditure up to a pre-determined level is derived solely from the Board, which retains legal responsibility for the activities of the Post Office as a corporate entity.

4. Composition

- ExCo is made up of the Chief Executive, direct reports to the Chief Executive and the Company Secretary.
- The current ExCo members are the directors of the Commercial, Communications, Financial Services, Group People, Network and Sales divisions, together with the Chief Financial Officer, Company Secretary, General Counsel, Chief Information Officer and Chief of Staff.
- The Chief Executive may nominate other senior individuals to attend ExCo meetings as permanent attendees.
- The attendance of other Post Office employees for part or the whole of any ExCo meeting shall be solely at the discretion of the Chief Executive.

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TERMS OF REFERENCE FOR THE EXECUTIVE COMMITTEE

- The Company Secretary (Alwen Lyons) or a nominated deputy will attend all ExCo meetings as Secretary and will record all decisions and actions.
- Changes in the composition of the Committee and the reasons for any such changes will be notified to the Nominations Committee of the Board.
- ExCo members may be invited to present papers to the Board but shall not otherwise be entitled to attend Board meetings.
- The Chief Executive, who will provide a report to each Board meeting on the most significant matters facing the organisation in the short to medium term.
- ExCo as a body and individual ExCo members will respond promptly to any question raised by any member of the Board.
- ExCo may set working policies applicable to the Post Office Crown offices and head office operations. It may establish sub-committees and sub-boards which shall investigate or deal with particular matters and report back to ExCo on a regular basis but no such action shall constitute delegation by ExCo of its responsibility for operational performance and mitigation of operational risk.
- ExCo will undertake an annual review of its effectiveness as a senior management team. At the request of the Board, ExCo may contribute to the annual review of Board effectiveness.
- ExCo will review at least annually its own Terms of Reference and those of any sub-committee established by ExCo

5. Meetings

- ExCo will hold at least one meeting each month, unless otherwise agreed, with reserved time fortnightly to be used if required.
- In addition to regular Board meetings, separate development and strategy sessions will be held at least once a year.
- Meetings may be convened by the Secretary, at the request of the Chief Executive, or by any member of ExCo with the Chief Executive's consent.
- Notice of each meeting shall be given to all those entitled to attend and notice of the matters for discussion shall usually be given at least [3] working days before each meeting but notice need not be given in writing.

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TERMS OF REFERENCE FOR THE EXECUTIVE COMMITTEE

- ExCo meetings will be chaired by the Chief Executive. The Chief Executive may nominate one of her direct reports to chair an ExCo meeting, or part of a meeting, in her absence. In the absence of any such pre-determined delegation and where the Chief Executive is not present the members present shall decide between them who shall chair the meeting.
- The quorum for the meeting shall be two ExCo members.
- ExCo 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.
- In exceptional circumstances, written requests for approval by ExCo may be circulated by email, if agreed by the Chief Executive.

6. Reporting

- The ExCo will ensure timely and appropriate reporting to the Board .
- It will review and recommend all Board papers and all appropriate Board sub-committee papers (where appropriate).
- It will receive monthly reports from ExCo sub committees and monitor the performance against the sub-committee mandate and terms of reference.
- It will ensure timely cascade of information to the Senior Leadership team and the wider Business.

7. Risk Management

- The ExCo will ensure that all papers presented and discussed highlight the risks to delivery of the strategic plan.
- The ExCo will monitor the top Business risks on an ingoing basis and discuss the R&CC meeting report at the following ExCo

8. Members

Chief Executive Officer (Chair)	Paula Vennells
Chief Finance Officer	Chris Day
Commercial Director	Martin George
Network & Sales Director	Kevin Gilliland

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TERMS OF REFERENCE FOR THE EXECUTIVE COMMITTEE

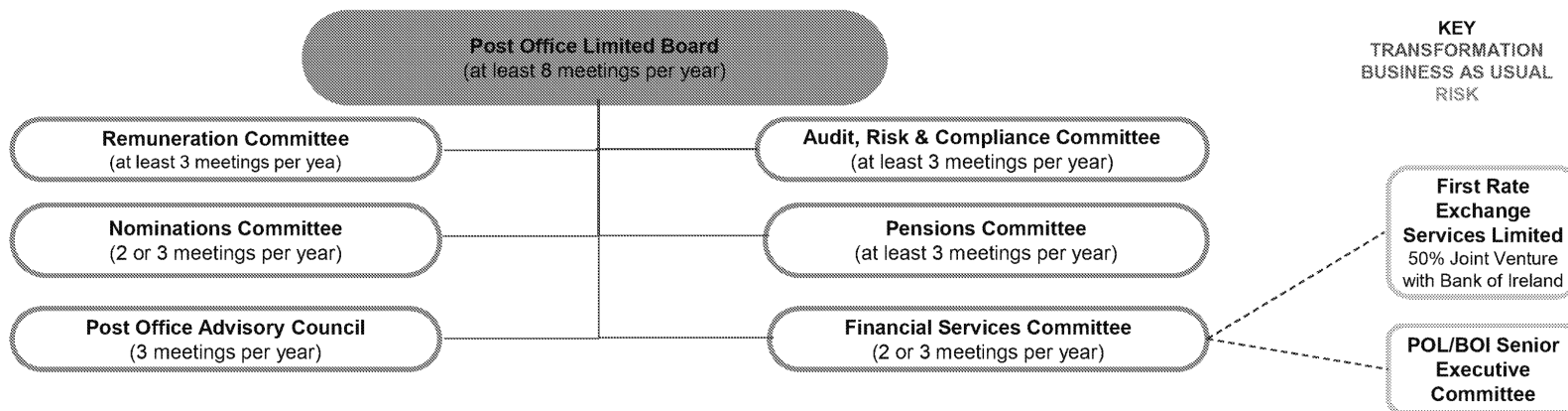
Group People Director	Neil Hayward
General Counsel	Chris Aujard
Director – Financial Services	Nick Kennett
Communications Director	Mark Davies
Chief Information Officer	Lesley Sewell
Chief of Staff	Martin Edwards
Company Secretary	Alwen Lyons

February 2014



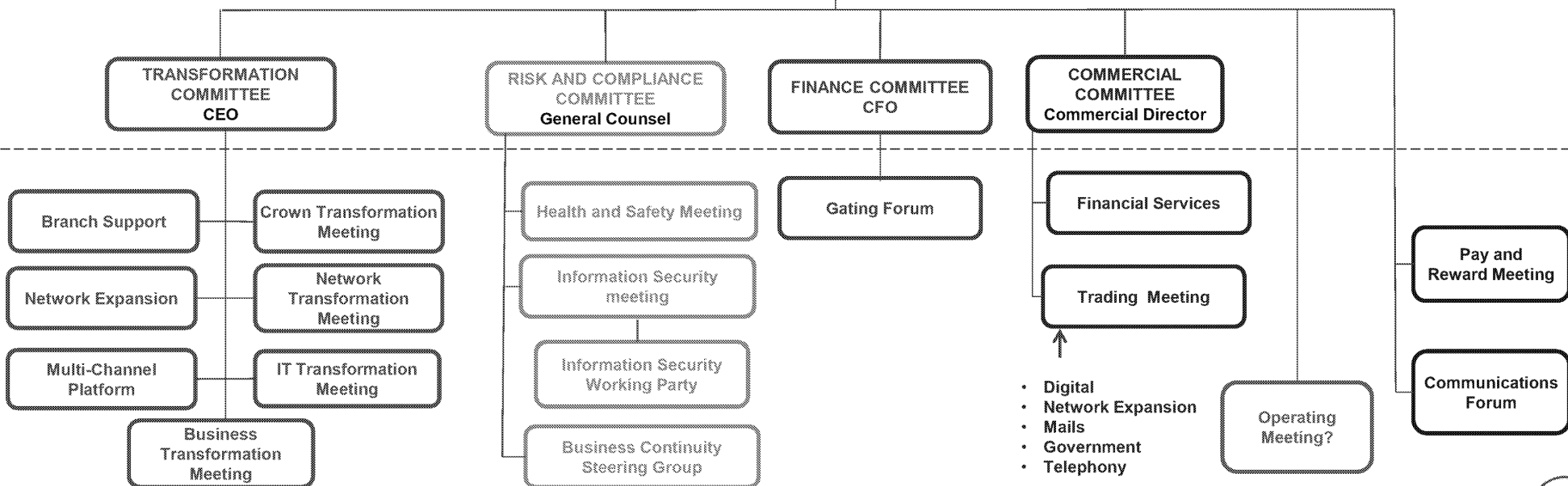
Post Office Limited Governance Structure

KEY
TRANSFORMATION
BUSINESS AS USUAL
RISK



Executive Committee

EXCO SUB COMMITTEES



Draft Version 1.7 11th February 2014

TERMS OF REFERENCE FOR THE RISK AND COMPLIANCE COMMITTEE

1. Purpose

The purpose of the Risk & Compliance Committee (R&CC) is to support the Executive Committee (ExCo) in fulfilling their effective oversight of risk management by:

- Developing and promoting a risk culture that emphasises and demonstrates the benefits of risk management throughout the business
- Focusing on the top risks in the business as defined by the Executive Committee
- Monitoring and assessing significant risk events and near misses
- Developing the stewardship of risk and policy frameworks

2. Responsibilities

The Risk & Compliance Committee responsibilities will be:

- Developing and promoting a risk culture in the business by:
 - Enhancing the profile of risk management
 - Driving the behaviours of risk management
 - Recognising good risk management
 - Promoting a risk management agenda
- Focusing on the top risks in the business by:
 - Reviewing and assessing the management of risks
 - Identifying actions required to manage risks
 - Making recommendations to ExCo
 - Reviewing key risks, controls and relevant action plans
- Monitoring and assessing significant risk events and near misses and:
 - Considering the implications of internal or external risk events and near misses including financial impact as appropriate
 - Commissioning action plans to manage risks.
- Developing the stewardship of risk and policy frameworks by:
 - Ensuring policy governance is in place
 - Reviewing and approving business policies
 - Ensuring business policies are maintained and regularly reviewed
 - Receiving and reviewing compliance reports relating to
 - Anti-Money Laundering
 - Bribery / Gifts & Hospitality
 - Whistleblowing
 - Internal Audit

Draft Version 1.7 11th February 2014

TERMS OF REFERENCE FOR THE RISK AND COMPLIANCE COMMITTEE

3. Authority

The Risk & Compliance Committee is authorised by ExCo to:

- To seek any information it requires from anyone in the organisation in order to perform its duties.
- To obtain outside legal or other professional advice on any matter within its terms of reference.
- To call anyone to be questioned at a meeting of the committee as and when required.

4. Composition

The committee is a management committee and the chair and members shall be appointed by the Chief Executive Officer:

- The committee membership shall comprise the General Counsel (Chair), Chief Executive Officer, Chief Financial Officer, Group People Director and Company Secretary. The Head of Risk & Compliance whilst not a member of the committee will be a regular attender
- The chair of the committee may require other senior managers to attend all or part of meetings as appropriate.
- The quorum shall be two members and will be deemed competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the committee.

5. Meetings

- The committee shall meet at least six times a year aligned to every second ExCo meeting and otherwise as required.
- Notice of each meeting confirming the venue, time, date and agenda of items to be discussed shall be forwarded to each member of the committee and any other person required to attend no later than five working days before the date of the meeting. Any supporting papers will also be provided
- Once approved by the Chair minutes of committee meetings shall be circulated promptly to all members of the committee.
- The committee will arrange for an annual review of its own performance to ensure it is operating effectively and recommend any changes it considers necessary to ExCo for approval.
- The committee will ensure its terms of reference and membership are reviewed on an annual basis and updated as required

Draft Version 1.7 11th February 2014

TERMS OF REFERENCE FOR THE RISK AND COMPLIANCE COMMITTEE

6. Reporting

- The committee shall report to ExCo on its proceedings after each meeting on all matters within its purpose and responsibilities highlighting significant risk and compliance matters for their attention
- The committee shall report to the Audit, Risk and Compliance Committee as requested
- The committee shall input to the Post Office annual reporting as appropriate.

7. Membership

Members

General Counsel (Chair)	Chris Aujard
Chief Executive Officer	Paula Vennells
Chief Finance Officer	Chris Day
Group People Director	Neil Hayward
Company Secretary	Alwen Lyons

Other attendees

Head of Risk & Compliance	Dave Mason
Secretariat	Rob Bolton

Draft Version 1.3 3rd March 2014

TERMS OF REFERENCE FOR THE TRANSFORMATION COMMITTEE

1. Purpose

The purpose of the Transformation Committee (TC) is to:

- (a) Oversee the transformation programmes which are fundamental to the delivery of the Post Office 2020 strategy by:
 - Providing support and challenge to ensure risks are identified and mitigated
 - Resolving issues and road blocks to delivery
- (b) Set the mandate for the delivery of each transformation programme

2. Responsibilities

The Transformation Committee responsibilities will be:

- Provide a decision making mandate (time/cost/benefit delivery) to the respective Programme Sponsor to enable them to lead their programme with pace
- Identify strategic cross-programme risks and agree mitigation plans/ownership
- Provide strategic direction and resolve significant roadblocks which impact the delivery of the transformation programmes and their outcomes
- Escalate exceptional items outside the Committee's mandate to ExCo
- Report on transformation delivery progress and outcomes to the Executive Committee and Post Office Board
- Create a high challenge/high support environment, where requests for help are encouraged and the value of learning from successes and failures is key to our future ambition

3. Authority

The Transformation Committee is authorised by ExCo to:

- Work within delegated authority from the Executive Committee
- Act as the point of escalation to the transformation programmes, where issues cannot be resolved within the programme or where the impact is wider
- Approve the Terms of Reference and governance for the transformation programmes
- Commission programme/project assurance reviews and deep dives as required

Draft Version 1.3 3rd March 2014

TERMS OF REFERENCE FOR THE TRANSFORMATION COMMITTEE

The Transformation Committee does not have authority for:

- Setting the business strategy (Executive Committee)
- Making financial investment decisions (Finance Committee)
- Overseeing other programmes/projects except where they impact on transformation programmes (Commercial Committee)

4. Composition

The committee is a management committee and the chair and members shall be appointed by the Chief Executive Officer:

- The committee membership shall comprise the Chief Executive Office (Chair), Chief Financial Officer, Commercial Director, Group People Director, General Counsel, Head of Change Management
- Programme leads (Sponsor or Programme Director/Programme Manager) shall attend all or part of the meetings as appropriate
- The Company Secretary will attend as a NED (critical friend)
- Secretariat will be provided by the Strategic Programme Management Office
- The chair of the committee may require other senior managers to attend all or part of meetings as appropriate
- The quorum shall be three members and will be deemed competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the committee

5. Meetings

- The committee shall meet monthly aligned to the week prior to the ExCo performance meeting and otherwise as required
- Notice of each meeting confirming the venue, time, date and agenda of items to be discussed shall be forwarded to each member of the committee and any other person required to attend no later than two working days before the date of the meeting. Any supporting papers will also be provided
- Once approved by the Chair minutes of committee meetings shall be circulated promptly to all members of the committee and ExCo. Any issues arising from the minutes to be raised at the Monday morning ExCo meeting.

Draft Version 1.3 3rd March 2014

TERMS OF REFERENCE FOR THE TRANSFORMATION COMMITTEE

5. Meetings (cont.)

- The committee will arrange for a bi-annual review of its terms of reference, membership and performance to ensure it is operating effectively and recommend any changes it considers necessary to ExCo for approval.

6. Reporting

- The committee shall provide a monthly performance report to ExCo on the transformation programmes within its purpose and responsibilities highlighting progress, risks and issues
- The monthly performance report shall also be included in the financial report to ExCo and Board
- The committee will receive reports from:
 - Sponsors of the transformation programmes (via the Strategic Programme Management Office)
 - Strategic Programme Management Office on cross-programme risk and issues
 - Deep dive and assurance reports as required
 - Lessons learned/post implementation reviews as appropriate

7. Risk Management

- The committee shall identify transformation risk and provide a monthly report on those risks to the Risk and Compliance Committee

8. Membership

Members

Chief Executive Officer (Chair)	Paula Vennells
Chief Finance Officer	Chris Day
Commercial Director	Martin George
Group People Director	Neil Hayward
General Counsel	Chris Aujard
Head of Change Management	Alison Thompson

Other attendees

Programme Leads	
Company Secretary	Alwen Lyons
Secretariat	Michael Brown



London Head Office Relocation Project Initiation Document -Stage 2

Project Aim: To relocate Post Office Ltd's Head Office from 148 Old Street

Version	0.04	Author	Steve Bates
Status	Draft	Classification	Internal
Date	04-03-2014	Source of Funds	Budgeted – Admin Strategy Head Office Relocation
Role	Name Title		Date Agreed
Project Sponsor	Harry Clarke		
Sponsoring Director	Chris Day		
Programme/Portfolio Manager	Tim Wells		
Project Manager	Steve Bates		
Benefit Owner	Chris Day		
Estates Manager	Bernie Graham		

Section 1. Investment Business Case

Source of Funds	Budgeted	Sponsor / Project Manager	Sponsor Harry Clarke Project Manager Steve Bates
Ultimate Authority	EXCO		

1. Request

This paper seeks approval for the move and ongoing occupation of Finsbury Dials as an alternative to renewing the lease on 148 Old St for a total cost of £8.826m. This case is for the acquisition and fit-out of three floors of the leasehold property known as Finsbury Dials on a 8.75 year lease (total lease obligation of £9.297m including 12% VAT and a rent free of 26 months). This request should be seen in conjunction with previous requests totalling £1.326m relating to:

- Detailed 'test for fit' layout designs, lease negotiations and legal reviews on the proposed new premises, alongside options for the vacation of 148 Old Street. Costs of £0.472m associated with this work were approved on 21 January and have been shown as sunk in this authority.
- The use of vacant space above Clapham Common Crown Office. A case for £0.874m was approved on 22 January to fit-out the upper floors above the Crown Office and costs associated with this project are shown as sunk in this authority.
- Total Costs including, sunk (£1.326m), new costs (£8.826m) and capitalised lease (£9.297m) are therefore £19.449m

Approval Request (£m)	Total	CapEx	OpEx	BAU	Lease Obligation	Disposal Proceeds
Sunk & approved (fees 21/01/14)	0.452	0.452				
Sunk & approved (Clapham 22/01/14)	0.874	0.874				
New 2014-15	6.071	4.708	0.168	0.501	0.694	
New 2015-16	2.755	0.523	0.844	-	1.388	0.03
Total Cost	10.152	6.557	1.012	0.501	2.082	0.03
Approved request	(1.326)	(1.326)				
New Request	8.826	5.231	1.012	0.501	2.082	0.03
Capitalised Lease	9.297m					

	NPV @ 12%	IRR	Payback	PV/I	Recurring PBITDA	Steady State - Yr
Economics	n/a	n/a	n/a	n/a	n/a	20xx/xx
	Green	Red	Green	Green		

Resource Requirement	Heads	Duration (Months)	Cost k
Project Manager (Programme)	0.5	18	
Project Manager (Moves)	0.5	12	
Programme Planner	1.0	12	
Estates Manager	0.3	6	
Primes (12 representatives 1 day per month)	0.4	12	
Legal	0.3	6	
Estates Consultants	0.3	18	
External Design Consultants	2.0	14	
External Brand consultants	1.0	12	
External Technical consultants	6.0	18	
External Churn consultants	1.0	6	
Total Request	0	0	

2. Background

Post Office Ltd (POL) holds a 10 year full repairing and insuring lease of 148 Old St which expires on 19 May 2020. POL can break the lease on 19 May 2015 by serving notice on the Landlord by the 18 November 2014.

Currently, POL occupy 73,582 sq ft of the total 97,807 sq ft within 148 Old St. Royal Mail Group occupy 13,315 sq ft by way of an under-lease and there is 10,910 sq ft of ancillary space comprising Romec , gym, coffee bar and storage.

Rents at 148 Old St are £22.19 per sq ft rising to £26.99 per sq ft from May 2015 with the total rent payable by POL amounting to £2.17m pa. Rent receivable from Royal Mail is £0.356m pa. Royal Mail are moving out of the building and as such will no longer contribute toward the rent of 148 Old St from May 2015.

Desk numbers have risen from 468 in November 2010 to in excess of 900 in January 2014 with an average occupancy rate of 80%, peaking at 90% on occasion. To accommodate the increase in desking some meeting room space has been permanently allocated to specific projects putting severe pressure on the remaining meeting room stock.

In addition the heating and ventilation systems in 148 Old St are old and whilst currently functioning do not cope well with the extremes of cold and warm weather. The age of the systems adds a risk of catastrophic failure and under the terms of the lease requires POL to replace them at a cost of c£5m accompanied by significant disruption to the office space.

In July 2013 ExCo approved the search for a new London based head office supported by utilisation of surplus office accommodation at suitable Crown offices in London.

The desk space required by headquarters staff has been calculated using an advised 10% reduction in current HQ staff numbers across FY14/15 and an average 80% occupancy. When applied to the 900 staff in Old St the above results in a requirement of c650 desks.

Following an extensive site search the project Steering Committee determined that the most cost effective and least disruptive approach to accommodating the above desking requirements was to secure a lease on a main headquarters building at Finsbury Dials, Finsbury Street, EC2Y 9AQ to accommodate c480 desks and touchdown facilities for 70 people alongside the Clapham and Camden Crown offices which would accommodate c130 desks between them.

The combination of Finsbury Dials and Clapham therefore provides 610 desks and 70 touchdown positions which, set against a requirement to accommodate 650 desks, provides a 30 position contingency.

3. Finsbury Dials

Finsbury Dials is located less than a 10 minute walk from 148 Old Street on Finsbury Street. It is close to Moorgate Underground and the mainline railway station. See Appendix F.

The property is currently leased to JPMorgan and fully occupied by them. JP Morgan begin vacating the whole building in May 2014 and Post Office Ltd will take a sub-let of 54,000 sq ft across the Ground, First and Second floors along with 2,000 sq ft of basement storage. Floors three through to six, basement and sub-basement are available to let to other occupier(s).

Post Office Ltd is taking a separate lease per floor, which gives us the flexibility in the future to sub-let to another tenant on a floor by floor basis, for the remainder of JPMorgan's term of occupation until May 2023. There are no break clauses included within the leases.

The property benefits from good open plan floor plates (as shown in Appendix C) and excellent natural light (as shown in Appendix D) from all three elevations and via the two central glazed full height atriums. Our 'test for fit' layouts will maximise the use of the natural light and suggest we can achieve a fixed desk capacity of c480, a hot desk/touchdown capacity of 70 and 52 meeting rooms. This will enable us to hit the

POL will be part of a multi-tenanted property and as such will share a central reception point. There will be a dedicated Post Office reception within our demise on the Ground floor. The landlord will be responsible for maintenance of common services such as the air conditioning, lifts, common toilets, building fabric, cleaning of the common parts, windows, etc.

As part of JPMorgan's vacation of the building they will remove all of their Category B fit-out ie furniture and moveable fittings. They will also upgrade the air-conditioning, lifts, toilets and common areas and leave all the services under the raised floor including structured cabling and floor outlets for both power and data.

4. Financial highlights

The on-going costs/savings associated with the relocation to Finsbury dials amount to £1.9m in annualised savings when compared to 148 Old St. Reduction in space required through utilisation of vacant space at Clapham, and a reduction of rent from £26.99 to £22.57 per square foot, inclusive of a 26 month rent free period enable a substantial reduction of £0.77m annual saving in rents. The full breakdown of costs and savings are detailed in Appendix E .

We also benefit from avoiding in excess of £5m costs to replace/repair the heating/cooling system plus the potential disruption likely from carrying out such intrusive works within a live building.

There is a one-off capex requirement for fit-out of Finsbury Dials totalling £5.2m and is included in Appendix E.

The Capex and Opex spend for the entire move including Finsbury Dials and Clapham is £10.15m plus the capitalised lease value of £9.297m giving a total of £19.447m

5. Timescales

The plan is to obtain authority to proceed and exchange contracts on Finsbury Dials at the end of March 2014. We have already provided the landlord with outline design and implementation plans in order to signify the type of works that we may undertake in order to obtain landlord's consent. These will be run in conjunction with negotiations with our existing landlord at 148 Old Street regarding the physical works required to return the property on the break date of 19 May 2015. A dilapidations schedule has been drawn up by a Post Office appointed surveyor and his worst case estimate of the dilapidations liability are included in the costs.

6. Options

- a) Do Nothing until lease expiry in 2020 – This option is viable if POL is prepared to invest c£5m to bring the building up to acceptable accommodation standards. We will also have to either sub-let the floors that we will not occupy or incur the full uplifted rent from May 2015. There is a variant of this option which involves using space above existing Crowns. Neither variant of this option is recommended.
- b) Vacate 148 Old Street and relocate the Headquarters to Finsbury Dials and use existing space above Crown Offices and the vacant space above Clapham Common Crown Office.- **Preferred**
- c) Relocate all staff above Crown offices in the London area. There is insufficient space to accommodate the reduced number of staff in Crown offices without including space in Croydon, Dartford, Ferndale Road, Stockwell, Kennington Park, Sutton and Poplar. This would involve the dispersal of small teams across greater London into premises carrying retail rather than office rents and with significant planning consent issues and capex costs to render them suitable for office accommodation. This option is not recommended.
- d) Relocate POL's Head Office operation outside of central London – This was discounted following the original EXCO review of Project Activity Plan due to the high staff relocation costs and the potential to lose key members of staff due to the new geographic location.

7. Benefits of the preferred option

The preferred option:

- Avoids replacing heating and ventilation equipment in 148 at a cost of circa £5m and the resultant disruption to the POL staff working within the building;
- Avoids potential for Royal mail Group space to be vacant and un-lettable at a cost to POL of £0.4m per annum if Royal Mail serve their break notice as expected;
- Relocates the Headquarters building within a 10 minute walk will remove any staff relocation/ETE costs;
- Utilises surplus office accommodation above Crown Offices, thereby reducing size and cost of new headquarters;
- Improves the workplace to reflect POL's core values, rather than simply replacing the heating and ventilation systems;
- Delivers competitive rents of £22.57 per sq ft compared with Old St (£26.99 psf from May 2015) and the new RM offices in Broadgate (c£40 per sq ft).
- Meets our proposed time scale
- Removes the maintenance liability for 148 Old Street
- Provides a flexible space with the ability to change internal desk configurations via the use of the raised computer floor.
- Benefits from great natural daylight.

8. Key Risks And Dependencies

To secure Finsbury Dials at the current rental level Post Office Ltd have to enter into an agreement for lease before 31 March 2014. JPMorgan have already gained Board Approval for the letting to Post Office Ltd and the deal will fall away if we don't meet the agreed date.

RISKS

1. Failure to serve the break notice by the 18th November 2014. This date is fixed and although we can serve notice before this date, we cannot serve notice afterwards.
2. Failure to secure the lease on the new premises, which would leave insufficient time to find another suitable property before having to serve the break notice.
3. Failure of the business to deliver the necessary headcount reduction which has been factored into the space being provided by the new properties
4. Failure to serve the pre-emptive notice on Royal Mail by the 17th July 2014. This date is fixed and although we can serve notice before this date, we cannot serve notice afterwards.

DEPENDENCIES

1. Information on proposed staffing numbers and structures to be accommodated in the London Headquarters.
2. Sign off of the design concepts produced by the technical design teams to agreed timescales.
3. Availability of the necessary BT connectivity into the new premises.
4. Resource within the appointed consultancies.

9. Summary Financials

Financials presented exclude the two already CFO approved projects dated 21/1/14 and 22/1/14.

Incremental Profit & Loss (£m)	14/15	15/16	16/17	17/18	18/19	19/20 +
Recurring Income [Describe]						
Recurring Cost Savings - Staff [Describe]	-	-	-	-	-	-
Recurring Cost Savings - Non Staff [Describe]	-	-	-	-	-	-
Recurring Costs - Lease savings/(cost) ¹	(0.694)	0.405	0.763	0.763	0.763	0.763
Recurring Costs - Ongoing (costs)/savings ²	(0.501)	0.947	1.164	1.164	1.164	1.164
One-off costs (Opex) - Operating	(0.168)	(0.844)	-	-	-	-
Depreciation	(4.708)	(0.523)	-	-	-	-
Gains/(losses) on disposal (tables/chairs etc)	-	0.030	-	-	-	-
One-off costs (Opex) - Exceptional	-	-	-	-	-	-
Total Incremental PBIT	(6.071)	(0.015)	1.927	1.927	1.927	1.927
Variance from Plan	(0.221)			0.00	0.00	0.00

Incremental Cashflow (£m) ³	14/15	15/16	16/17	17/18	18/19	19/20 +
Lease payment savings	-	1.792	1.536	0.306	0.306	0.306
Ongoing (costs)/savings	(0.501)	0.947	1.164	1.164	1.164	1.164
Non VR	(0.168)	(0.844)				
Capital Expenditure (Capex)	(4.708)	(0.523)	-	-	-	-
Cash Proceeds from Assets Disposed	-	0.030	-	-	-	-
Total Incremental Cashflow	(5.377)	1.402	2.700	1.470	1.470	1.470
Variance from Plan				0.00	0.00	0.00

¹ Incremental impact of lease obligation based on assumption of steady state BAU lease cost £2.150m (incl 12% VAT). Benefit of 26 month rent free period spread across life of lease (8.75 years)

² Incremental impact of ongoing costs based on assumption of steady state BAU costs of £3.248m (incl 12% VAT)

³ Cash flow based on assumption of steady state BAU for rent of £2.150m and ongoing costs of £3.248m (incl 12% VAT)

10. Key Performance Indicators

KPI	Current	End-State	Achieving the End-state

11. Sensitivities/Tolerances

	Sensitivity rate	Sensitivity	NPV (£m)	IRR (%)	Payback (yrs)

12. Investment Appraisal (IA) Commentary

Project is the relocation of the POL's Head Office to Finsbury Dials. With the requirement to restore the current premises to original condition and fit-out of the new office, there is an overlap of rent and ongoing costs. POL has also managed to obtain a 26 month rent free period.

Key considerations include:

- Figures presented include the worse case scenario for the dilapidation liability, general contingency excluded and presumption staff relocation is not transitioned over an extended period (which would otherwise result in duplication of some ongoing costs).
- Timing of the Head Office relocation with the IT Towers project may incur additional costs to ensure IT service continuity. Where possible a one hop approach should be utilised to avoid duplication of cost.
- Lease is for only 8.75 years with no extension option. There is potential POL's Head Office may have to relocate or the lease costs substantially rise.

FY14/15 capex requested is consistent FY14/15 budget submission however the total POOC opex/BAU (lease & ongoing costs) requested for next year was £350k, which means it is underfunded by £1.013m. Therefore approval is recommended conditional upon the project finding the additional required POOC opex/BAU budget.

Jean San
Commercial Finance
March 2014

13. Business Case Annexes

ANNEX 1. Alternative Options Considered

Option A -	
Do Nothing	This is not a viable option as 148 Old Street requires substantial expenditure to bring the building up to meet acceptable accommodation standards.
Option B -	
Stay in Old St until lease expiry in 2020	This would require replacement of the heating and vent equipment at a cost estimated to be in the region of £5m. The accommodation within the building is highly inflexible with no raised computer floor and split over up to four separate wings over the floors. It also has a large basement which has been used as a dumping ground over many years and a large car park
Option C -	
Vacate 148 Old Street and relocate the Headquarters to Finsbury Dials and use existing space above Crown Offices and the vacant space above Clapham Common Crown Office	Preferred Option
Option D	
Relocate POL's Head Office operation outside of central London	This was discounted following the original EXCO review of Project Activity Plan due to the high staff relocation costs and the potential to lose key members of staff due to the new geographic location.

ANNEX 2. Key Risks and Mitigations

Risk Factor	Impact	Mitigation	Mitigated Impact	Financial Impact
Lack of decision making	4	Timely decisions taken via	3	2

		Steering committee and Primes Board		
Timescale to deliver	4	Dedicated team created including consultants who know and have worked with Post Office Ltd in the past	3	3
Staff numbers increase	5	Close link between HR and Property to ensure no surprises	3	4
Delay in getting accommodation fit for purpose	4	Fit out Clapham Common to give some churn space	3	4
Failure to serve break notice	5	Ensure Project Plan adhered to	3	5

ANNEX 3. Project Milestones

Milestone	Date
EXCO approval of business case	10-03-2014
POL Board noting paper	26-03-2014
Exchange of contracts on Finsbury Dials	31-03-2014
Serve pre-emptive break on 4 th Floor tenants in 148 Old Street	17-07-2014
Serve break notice on 148 Old Street landlord	17-11-2014
Fit-out of Clapham Common Admin	May - July 2014
JPMorgan Vacate Finsbury Dials	May 2014
Post Office Ltd take occupation of Finsbury Dials	August 2014
Fit-out of Finsbury Dials	Sept '14 - Jan '15
Relocation of staff from 148 to new Head Office and outstations	Feb '15 - Mar '15
Decommissioning work to 148 Old Street	Mar '15 - May '15
Hand back of 148 to Landlord	19-05-2015

ANNEX 4. Benefits Management Plan

Benefit / Trigger	Owner	Position	Budget	Conditions / Precedents / Interdependencies

ANNEX 5. Concurrences

Directorate/Area of Responsibility	Name, Title	Version Reviewed	Date Agreed
Project Sponsor	Harry Clarke		
Sponsoring Director	Chris Day		
Programme/Portfolio Manager	Tim Wells		
Benefit Owner	Chris Day		
Role - Concurrence			
Project Manager	Steve Bates		
Estates Manager	Berie Graham		
Business Continuity			

Commercial Security			
Data Protection Compliance			
Finance	Colin Stuart		
Financial Services Centre (FSC)			
Financial Services			
HR	Fay Healey		
IT & Change			
Information Security			
Information Services Team			
Internal Comms	Mark Davies		
Legal & Compliance			
Marketing			
Network			
Network - Agents Policy & Contracts			
Strategic Programme Management Office (SPMO)			
Testing Team Manager			

ANNEX 6. Financial Detail**Summary of one-off costs – OpEx (£k)**

Costs (£k)	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	P12	2014 /15 total	2015 /16 total
2014-15											80.0	88.0	168.0	
2015-16			844.0											844.0
Total													168.0	844.0

Summary of one-off costs – CapEx (£k)

Costs (£k)	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	P12	2014/15 total	2015 /16 total
Skills group 2014-15	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	5.3	
2014-15			50.0	50.0	50.0	700.0	1100	1100	1000	500.0	75.0	77.6	4702.6	
2015-16	228.3	128.3	166.0											522.5
Total													4707.9	522.5

Section 2: Project Description

14. Change Description

14.1. Scope and Exclusions

This authority will enable the completion of the lease on Finsbury Dials along with the monies to fit-out the building as Post Office Ltd new Headquarters building.

No Financial allowance has been made in this authority for changes to Headcount, other than the reduction in desk numbers and space.

14.2. Constraints

The design teams will work to numbers as agreed by the Steering Committee.

14.3. Acceptance Criteria

Via the Steering Committee

14.4. Impact Analysis

N/A

14.5. Resource Profile

Skills Group Resource

Job Title	Blended Day Rate	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10	M11	M12	Full Year
Business Analyst	472													0.00
Business Change	424													0.00
Programme Manager	640													0.00
Project Manager	480													0.00
PMO	440	1	1	1	1	1	1	1	1	1	1	1	1	5,280.00
Project Architect	720													0.00
Tester	440													0.00
Total		1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	5,280

The only Post Office Ltd dedicated resource will be a Planning Manager.

15. High Level Plan.

Timeline -	Data Gathering	January 2014
	Concept design	February – March 2014
	Outline budget	March 2014
	POL Authority	March 2014
	Full design	March – May 2014
	Tender	June – July 2014
	Building available	September 2014
	Fit-out	September 2014 – January 2015
	Staff moves	February – March 2015
	Decommissioning	March – May 2015

15.1. Planning Assumptions

Total admin staff numbers to be confirmed but c600 will need to be accommodated in the London area

15.2. Test Requirements

N/A

15.3. Implementation Requirements

N/A

15.4. Lessons Learned.

When Post Office Ltd moved into 148 Old Street the project was very well managed, delivering the move to time and with minimum disruption to POL's day to day operation. Therefore the organisation and approach used on that project will be replicated on this project.

16. Project Management Strategy

16.1. Project Organisation

16.1.1. Project Management Team Structure



148 Old St relocation
Programme Boards V2

16.1.2. Role Descriptions

This authority will provide the following external resource:

17. All the following resource is external to Post Office Ltd:

18. Legal – Review of the proposed new lease and supplier contracts to be entered into by Post Office Ltd and to approve the vacation terms for 148 Old Street
19. Estates – Fees associated with the acquisition of the lease on the new premises and to negotiate the vacation terms for 148 Old Street
20. Design Consultants – Space planning, ways of working, design options and comparisons with industry standards
21. Technical Consultants – Detailed mechanical & electrical design, Health & Safety, tendering of fit-out works, building regulations compliance, IT design and technical project management of the project delivery
22. Churn Consultants – Move planning from building to building

23. All the following resource is internal to Post Office Ltd and are existing resource:

24. Steering Committee – To oversee the project, interface between the project delivery team and EXCO and act as a focal point for decision making on all project issues.
25. Project Manager (Programme) – To oversee the complete project, including the build of the new sites, the staff transition and the decommissioning of 148 Old Street
26. Project manager (Moves) – To ensure that all Head Offices functions requirements are met and that the changeover is undertaken with the minimum disruption to POL operations.
27. Programme Planner – To undertake co-ordination and detailed programme planning
28. “Primes” – Representatives from each Head Office function to champion their teams and act as a focus point for their team during the relocation process.

28.1. Quality Management Strategy

This project will be subject to a full SKA Rating assessment.

SKA is the Environmental Impact Assessment led and managed by the Royal Institute of Chartered Surveyors specifically tailored to office fit-out projects.

The project will be assessed against measures covering energy, CO² emissions, waste, water, materials, pollution, transport and staff wellbeing.

The ratings are in the form of Bronze, Silver and Gold awards. An initial award is made on completion of the project, with a review 12 months post project completion.

28.2. Configuration Management Strategy

N/A

28.3. Risk Management Strategy

TBA

28.4. Communication Strategy

Currently being developed by the Steering Committee along with Post Office Ltd Communications Team

28.5. Project Controls

Steering Committee

29. Document Control

29.1. Version History

Text below shows revision history of the PID Template. Please remove this and replace with history of your PID.

Version	Date	Change Details	Author
0.01	17/02/2014	Initial draft	Steve Bates
0.02	25/02/2014	Updated draft with Appendix E figures revised	Steve Bates
0.03	28/02/2014	Fit-out costs added	Steve Bates
0.04	04/03/2014	Full financials added and HC amends	Steve Bates

29.2. Change Control

Changes to this Project Initiation Document shall be requested in writing to the Project Sponsor. Any significant change will require this document to be modified by the Project Sponsor, re-reviewed/concurred, and if the change causes the project to exceed the approved tolerances, re-approved by the appropriate financial authority.

All changes will need to be escalated to the Steering Committee for validation.

A rigorous change control process will be adopted once the final layout is agreed and frozen

29.3. Referenced Documents

Nr.	Title	Version	Date	Document Ref.	Location
1	Your text here				
2					

30. Appendix A – Utilised space above Crown Offices

Space above London Crown Offices currently in use

Branch Name	County	Postcode	Lease	Desk No.	Comments
Camden High Street	Greater London	NW1 0RR	LH	45	First and second floors current utilised by Network Transformation Team.
St Peters Street	Hertfordshire	AL1 3AA	FH	18	First and second floors currently utilised by National Consultation Team
Wealdstone	Middlesex	HA3 5QL	FH	10	First and second floors current utilised by Network Consultation Team

Additional space above London Crown Office planned to be utilised

Branch Name	County	Postcode	Lease	Desk No.	Comments
Clapham Common	Greater London	SW4 7ST	FH	94	In detailed planning due to go-live late Summer 2014

Space above London Crown Office not currently planned to be utilised

Branch Name	County	Postcode	Lease	Desk No.	Comments
Ashford	Kent	TN23 1AA	FH/LLH	28	Good opportunity with separate access but too far outside of London
Dartford	Kent	DA1 1AB	FH/LLH	60	Shell admin block exists, but would need complete fit-out @ £900. Too far outside of Central London
Ferndale Road 250	Greater London	SW9 8BQ	FH	20	Poor space and no separate access
Great Portland Street	Greater London	W1W 7NE	FH/LLH	15	Has been evaluated and large costs to upgrade with poor access
Guildford Town	Surrey	GU1 3AJ	LH	10	Access via Crown Office only. Counter Training Office would need relocating
Hampstead	Greater London	NW3 1QL	FH	12	Access via Crown Office only.
High Street (10)	Surrey	CR9 1HT	LH	20	Separate access. Lots of small rooms
The City of London	Greater London	EC3M 1AJ	LH	10	Basement space with poor access. Currently used for Area meetings

31. Appendix B – Space Planning (test for fit only) @ Finsbury Dials

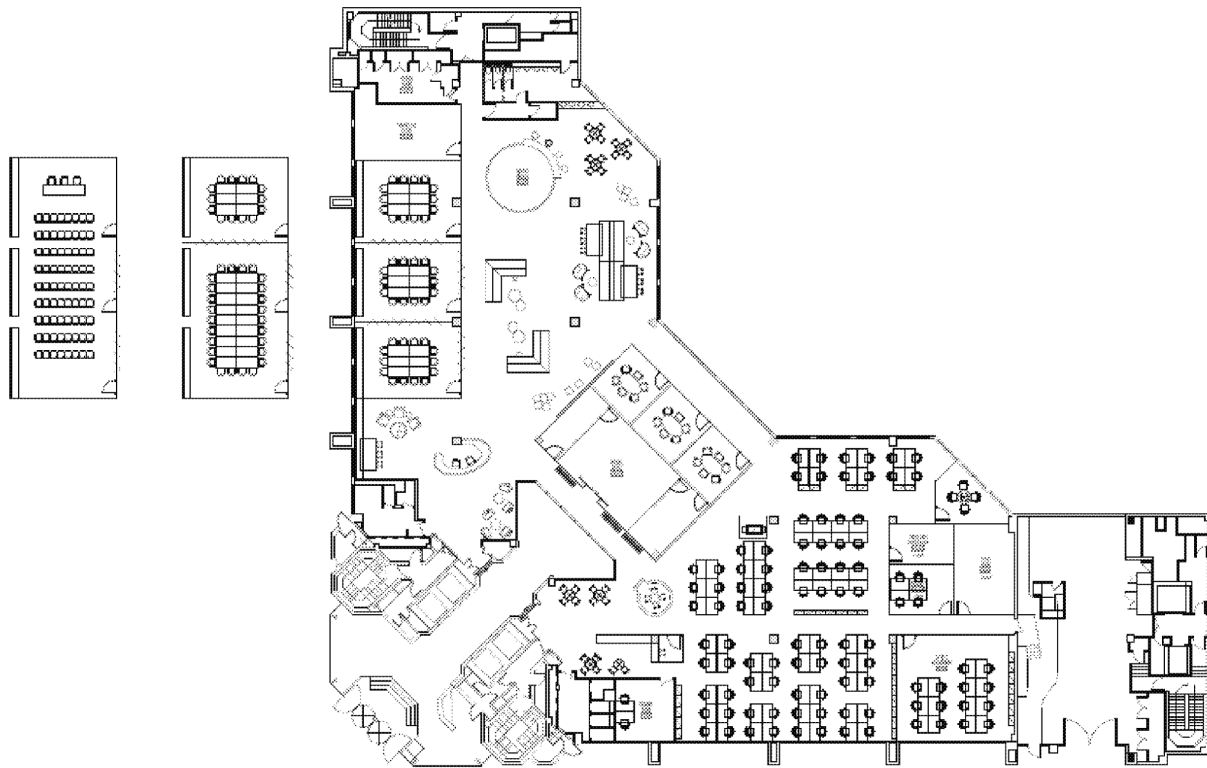
2nd Floor	Work stations	200
	Fixed desks	180
	Touchdown/hot desks	20
	Meeting room	23
	Meeting room seats	167
1st Floor	Work stations	222
	Fixed desks	201
	Touchdown/hot desks	20
	Fixed office (Chairman)	1
	Meeting room	20
	Meeting room seats	148
	Facilities	
TV studio		
Ground Floor	Work stations	128
	Fixed desks	98
	Touchdown/hot desks	30
	Meeting room	9
	Meeting room seats	123
	Facilities	
	Reception	
	Catering facility	
	Model Branch	
	Post Room	
iT room		
Offices services room		

Average space per desk = 9.4sq m

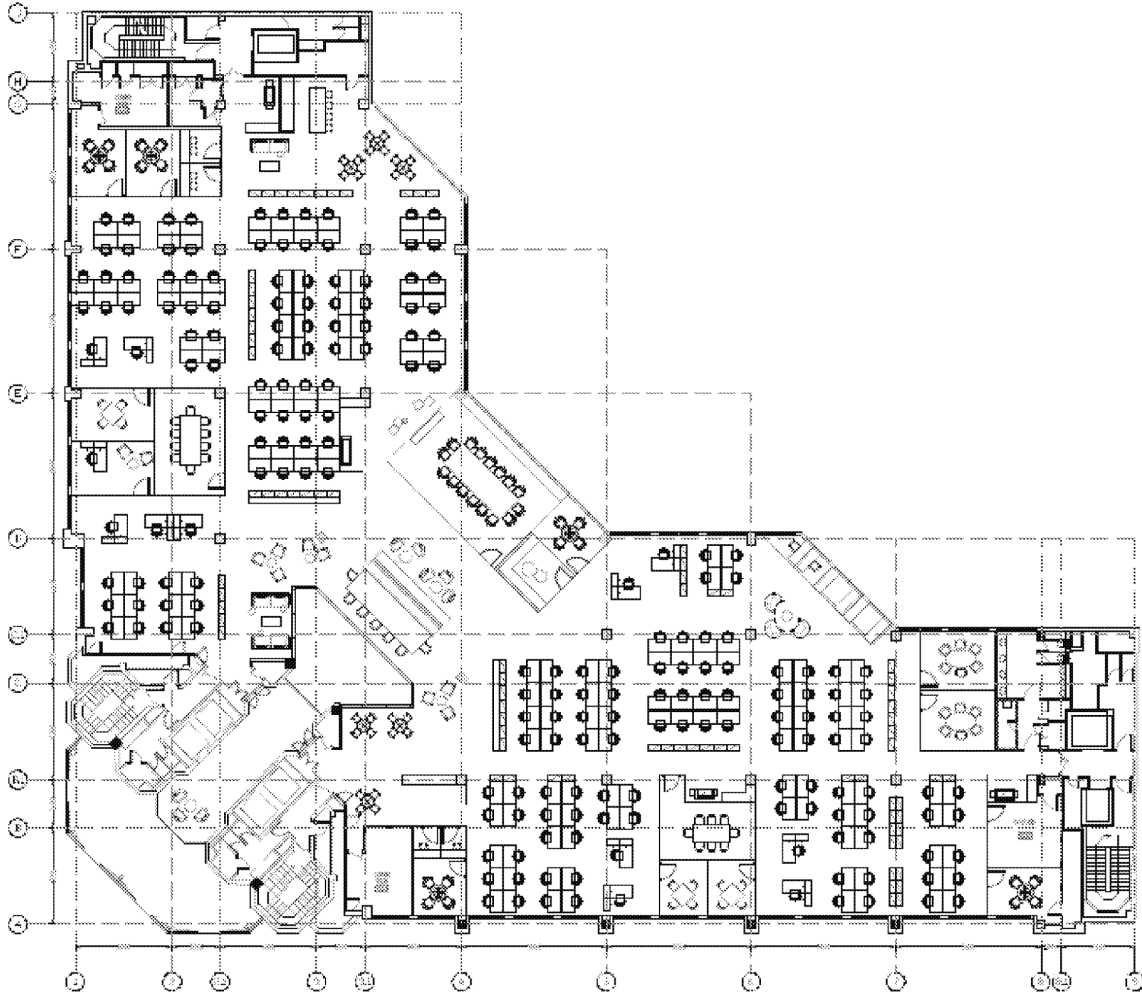
All floors have toilet facilities for both sexes within the core common areas. There will also be fully accessible unisex toilets on the ground and first floors.

There are no car parking facilities, but there are spaces for bicycles and motor bikes.

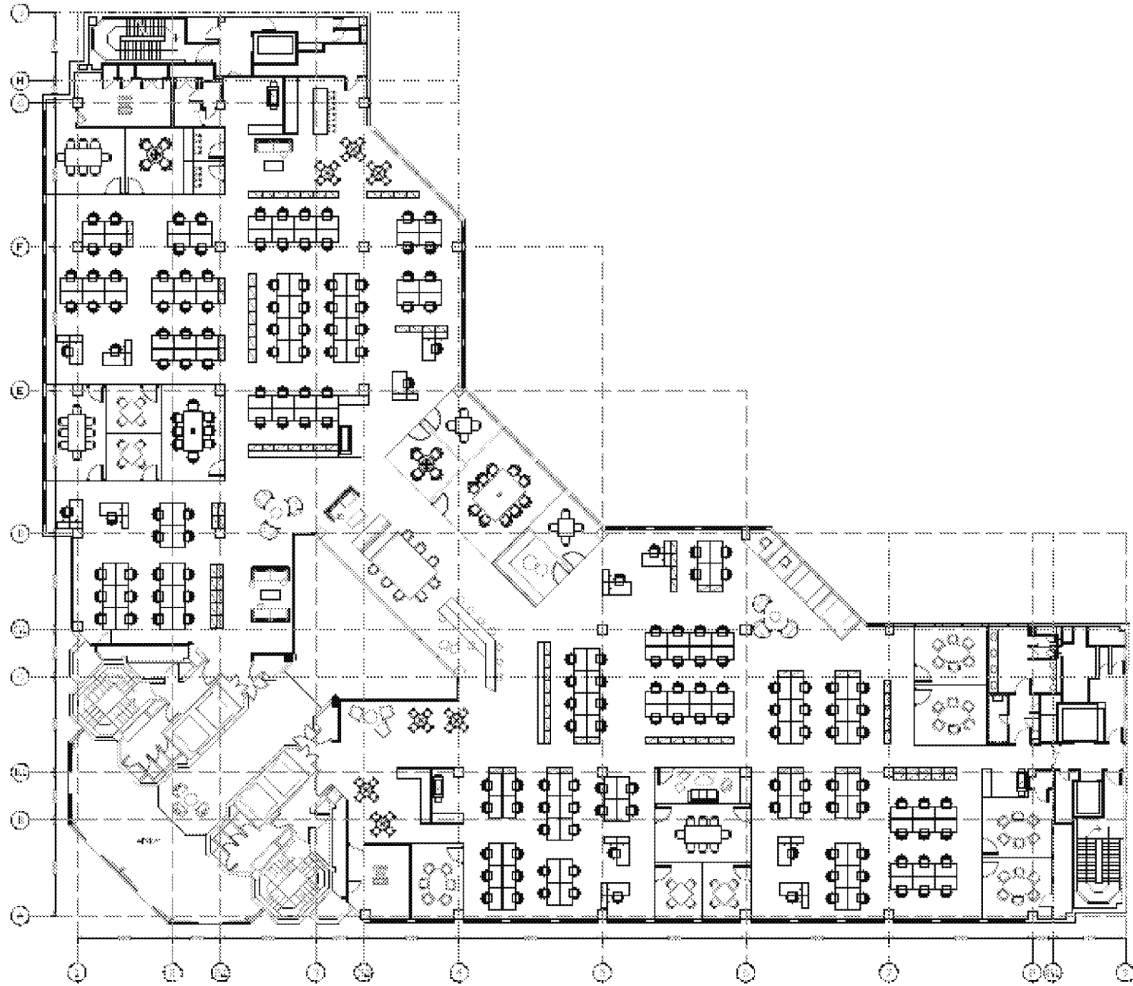
32. Appendix C - Indicative test of fit floor plans @ Finsbury Dials



Ground Floor



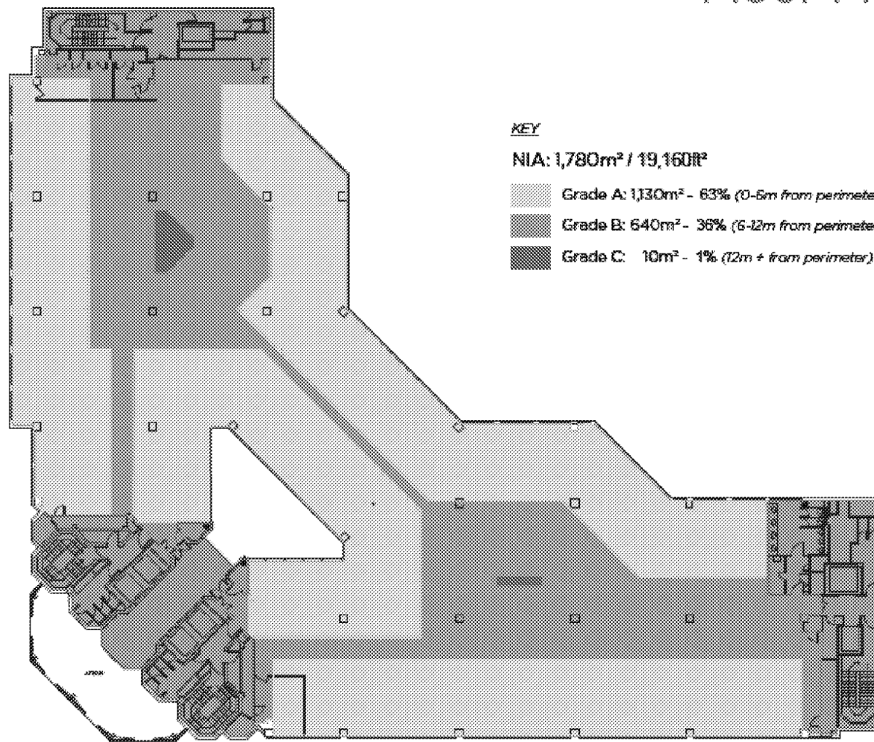
First Floor



Second Floor

33. Appendix D – Natural daylight levels @ Finsbury Dials

Floor Plate Analysis DAYLIGHT STUDY



34. Appendix E – Financial Impact of the relocation

FINSBURY DIALS Financials

One-Off Costs	CAPEX (£k)		OPEX (£k)		Total
	Basic	Total	Basic	Total	Total
Fit-Out (see below)	£4,119.60	£4,613.95	£0.00	£0.00	£4,613.95
iT (including fees)	£247.50	£277.20	£0.00	£0.00	£277.20
PM Fees (inc. SKA)	£314.00	£351.68	£0.00	£0.00	£351.68
Architect Fees	£140.00	£156.80	£0.00	£0.00	£156.80
Legal Fees	£50.00	£56.00	£0.00	£0.00	£56.00
Estates Fees	£96.50	£108.08	£0.00	£0.00	£108.08
Stamp Duty	£87.00	£87.00	£0.00	£0.00	£87.00
Staff churn moves	£0.00	£0.00	£150.00	£168.00	£168.00
Horizon	£20.00	£22.40	£0.00	£0.00	£22.40
TOTAL	£5,074.60	£5,673.11	£150.00	£168.00	£5,841.11
Less SUNK	£400.00	£448.00	£0.00	£0.00	£448.00
TOTAL	£4,674.60	£5,225.11	£150.00	£168.00	£5,393.11

Fit-Out Breakdown	CAPEX (£k)		OPEX (£k)		Total
	Basic	Total	Basic	Total	Total
Construction	£2,724.60	£3,051.55	£0.00	£0.00	£3,051.55
Furniture	£475.00	£532.00	£0.00	£0.00	£532.00
Mechanical	£160.00	£179.20	£0.00	£0.00	£179.20
Electrical	£265.00	£296.80	£0.00	£0.00	£296.80
Flooring	£111.00	£124.32	£0.00	£0.00	£124.32
Security	£30.00	£33.60	£0.00	£0.00	£33.60
Branding	£80.00	£89.60	£0.00	£0.00	£89.60
Model Branch	£100.00	£112.00	£0.00	£0.00	£112.00
Media	£214.00	£239.68	£0.00	£0.00	£239.68
TOTAL	£4,159.60	£4,658.75	£0.00	£0.00	£4,658.75

VACTATION OF 148 FINANCIALS (2015-2016 FY)

One-Off Costs	CAPEX (£k)		OPEX (£k)		Total
	Basic	Total	Basic	Total	Total
Dilaps @ 148	£0.00	£0.00	£760.00	£760.00	£760.00
Strip-out @ 148	£0.00	£0.00	£75.00	£84.00	£84.00
Sale of 148 Furniture	£0.00	£0.00	£0.00	£0.00	£0.00
TOTAL	£0.00	£0.00	£835.00	£844.00	£844.00

Ongoing costs including VAT @12% per annum

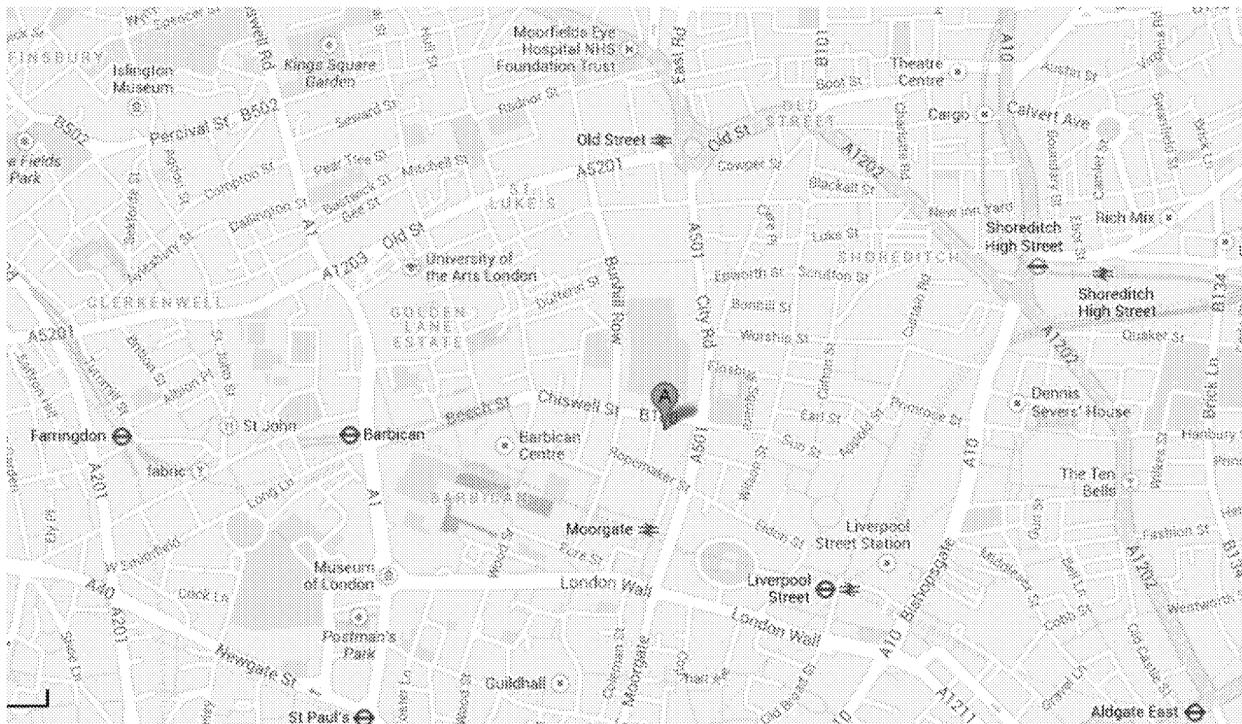
	148 Old Street	Finsbury Dials	(£k) Variation
Rent	£2,150.85	£1,387.68	£763.17
Rates	£963.58	£635.13	£328.45
Utilities	£338.33	£49.56	£288.77
Cleaning	£154.06	£74.34	£79.73
Maintenance	£522.23	£99.12	£423.11
Service Charge	£0.00	£749.95	-£749.95
Office Services	£1,061.97	£396.46	£665.51
Catering	£172.70	£59.47	£113.23
Misc	£34.69	£19.82	£14.87
TOTAL	£5,398.40	£3,471.52	£1,926.88

NOTES:

The Service Charge in Finsbury Dials covers elements of cleaning, office services and maintenance currently shown under separate headings in 148 Old Street.

The breakdown of costs per year is based on the programme included in this business case and allows for 10% of the one-off costs to flow into 2015/16.

35. Appendix F – Finsbury Dials photograph & location plan



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FEBRUARY 2014

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

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
Horizon claims	POL/HF/RW	Belinda Crowe / Angela van den Bogerd	<p>The Mediation Scheme, Business Improvement Programme and approach to prosecutions referred to in this update are the subject of separate reports to the Board this month.</p> <p>POL has received various claims from subpostmasters (SPMs) alleging defects in the Horizon system and POL's internal processes.</p> <p>These allegations were initially made in 5 claims brought through solicitors Shoosmiths. Similar allegations have been made through:</p> <ul style="list-style-type: none"> - SPMs' MPs; - the "Justice for Subpostmasters Alliance" (JFSA); - defences to court proceedings brought by POL to recover debts from SPMs; and - direct contact with POL. <p>Following discussions with James Arbuthnot MP and JFSA, in July 2012 independent investigator Second Sight Support Services Ltd (Second Sight) was appointed to carry out a review into these allegations.</p> <p>On 08.07.13, Second Sight published a Report finding shortcomings in POL's internal training</p>	<p>Following the Second Sight Report, on 27.08.13 POL launched a Mediation Scheme aimed at resolving individual complaints made about Horizon. POL has also been developing and implementing a Business Improvement Program to improve the way POL supports SPMs run their branches.</p> <p>The Scheme received 147 applications before applications closed on 18.11.13. The applications are now being progressed through the Scheme under the direction of a Working Group chaired by retired Court of Appeal Judge Sir Anthony Hooper, and comprising representatives from POL, Second Sight, and JFSA.</p> <p>To ensure POL continues to comply with the evidential, public interest, and disclosure standards required for prosecutions, POL has also completed a review of criminal prosecutions brought against SPMs which used Horizon data. POL has also reviewed its approach to prosecutions generally.</p> <p>To date, no claim has been made against POL in the civil courts, and no appeal has been made against any conviction in the</p>	Bond Dickinson

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			and support to SPMs on the Horizon system, but no systemic problems with Horizon itself.	criminal courts, following Second Sight's Report. POL is not currently issuing any new criminal summons, although it did continue those cases already underway before Second Sight's Report was published. There are currently only 5 live criminal cases before the courts (of which 3 concern post-conviction financial recovery only).	
Employment	POL/HF/RW	Colin Stretch	<p>Five claims against POL are currently proceeding before the Employment Tribunals.</p> <p>Claims allege constructive dismissal, unfair dismissal for conduct, unfair dismissal for disability, victimisation, and race discrimination.</p> <p>Potential financial exposure to POL on three claims is c.£136,000, with two cases yet to be valued.</p> <p>Claims could require policy changes if upheld (e.g. with respect to race or disability discrimination).</p>	<p>Significant claims continue to be monitored (both internally and with external counsel) and risk assessed as they progress.</p> <p>POL's Communications team is engaged where the claim has the potential to be of interest to the media.</p>	Weightmans

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

DESCRIPTION	STATUS
Sub postmaster accused of theft of £78,660.63.	Defendant pleaded guilty on 05/02/13 and was sentenced to 2 years' imprisonment.

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DESCRIPTION	STATUS
	On 12/07/13 a Confiscation Order was made in the sum of £59,500. The Defendant had 6 months to pay that sum or receive a further 19 months' imprisonment. Payment was not made within that time, and the matter is now with the Court's Confiscation Unit to progress.
Subpostmaster accused of two offences of theft of £175,260 and £9,999.43, and two offences of false accounting regarding the same sums.	On 11/10/13 the Defendant was convicted of theft of c.£175k and sentenced to 2 years' imprisonment. As a consequence of this conviction, no evidence was offered with respect to the theft or false accounting of the c.£10k. Confiscation proceedings have been initiated by POL and are proceeding to a timetable set by the Crown Court. The next hearing of this matter will be on 04/04/2014.
Subpostmaster accused of fraud of £115,172.11.	Defendant pleaded guilty and on 03/05/13 was sentenced to 16 months' imprisonment. POL has recovered £61,000 to date, and is looking to deal with the outstanding sum under a Consent Order. POL may withdraw its Confiscation proceedings if a Consent Order can be agreed.

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POST OFFICE LTD BOARD

Health & Safety Report

1. Purpose

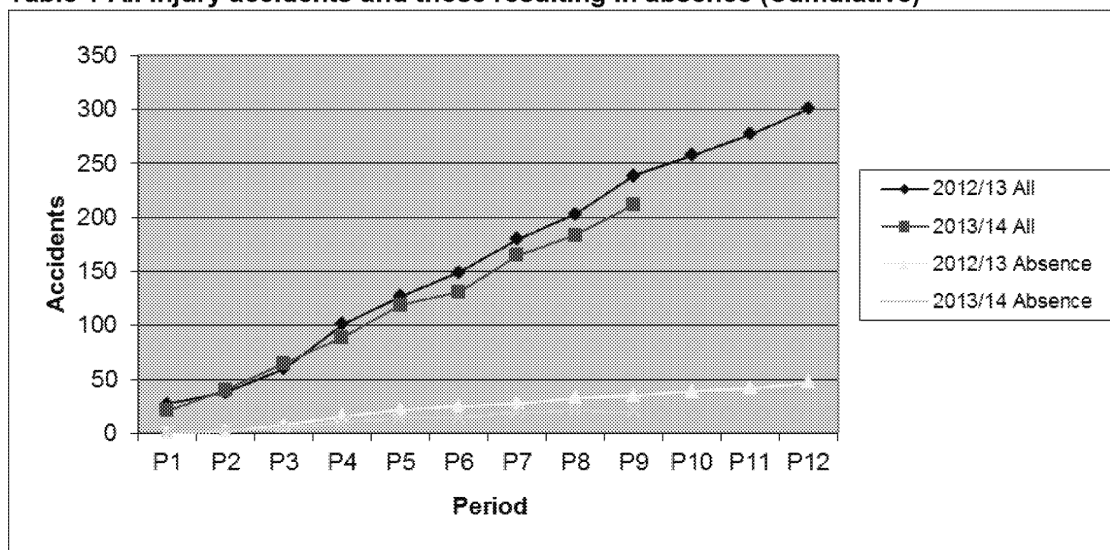
The purpose of this paper is to:

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

2. Current Situation

- 2.1 Injury accidents, up to period 9, are showing a favourable trend against last year, and against the target reduction of 5%. Accidents involving absence have decreased from 35 to 20 compared to the same period last year. The “per 1000 staff in post” comparison indicator, which takes account of head count fluctuation year on year, is showing a favourable trend for both ‘all accidents’ and ‘absence’ accidents. (Table 1)

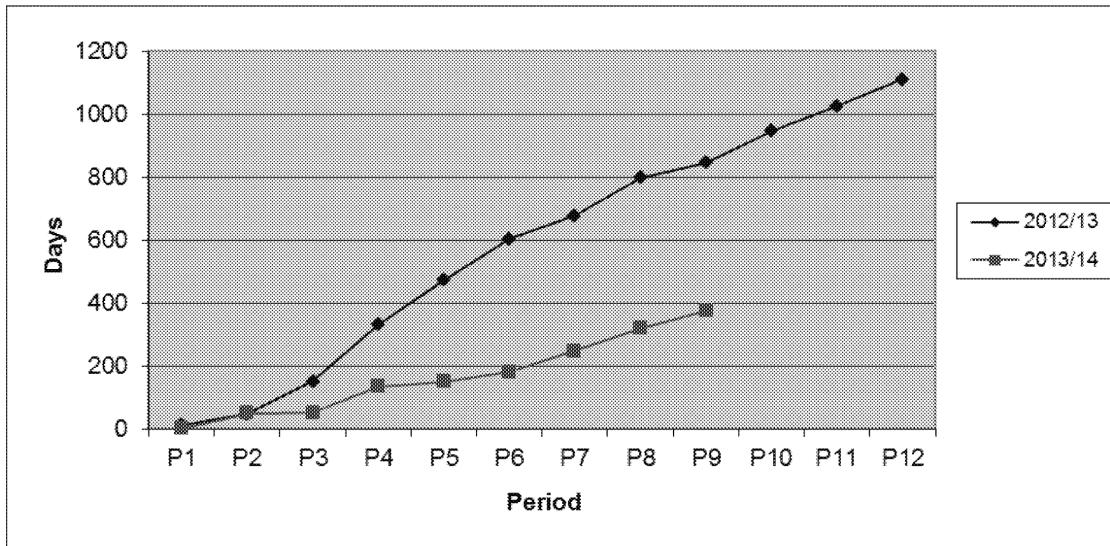
Table 1 All Injury accidents and those resulting in absence (Cumulative)



- 2.2 The number of days lost due to accidents is showing a significant reduction compared to the same period last year and against a target reduction of 5%. This reduction is predominantly due to the absence of major injuries and indicates that not only is there a favourable trend in the frequency of accidents there is also a favourable trend in a reduction of the severity of those accidents. (Table 2 below refers)
- 2.3 Claims for personal injury as a result of an accident at work are showing an improving trend on past years in terms of both volume and value.

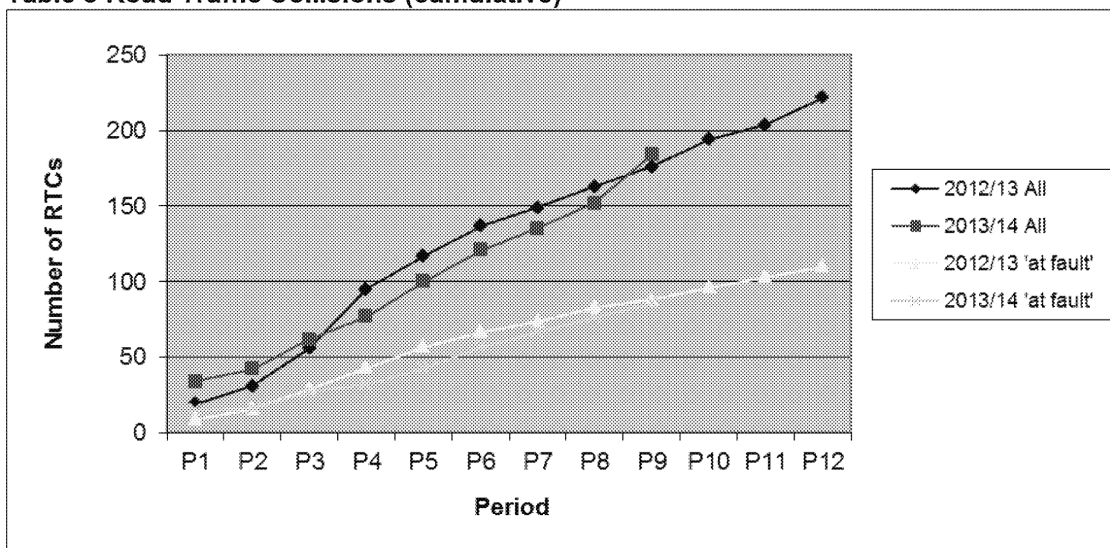
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Table 2 Days lost resulting from injury accidents (Cumulative)



2.4 The total number of road traffic collisions (RTCs) up to and including period 9 is up 4.5% on last year. The number of incidents where the Post Office driver is 'at fault' is 2.3% down against the same year to date period as last year. (Table 3) Road risk reduction opportunities continue to be the subject of analysis at the Road Risk Forum with a view to identifying improvement activities in addition to those already in place. (3.1 below) Reversing incidents are currently becoming a cause for concern and will be the subject of additional attention. Injuries as a result of road traffic collisions are infrequent. Road traffic collisions account for less than 3% of the overall number of injury accidents, however they have the potential for high impact in terms of injury and loss.

Table 3 Road Traffic Collisions (cumulative)



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- 2.5 The majority of accidents currently fall into three main categories: lifting and handling, stepping and striking and outdoor falls. These are high frequency events with, in the majority, relatively low severity. The lower frequency types of incident can carry the potential for very high impact, for example, assaults and road traffic collisions. .
- 2.6 Robberies on Post Office Cash and Valuables in Transit (CVIT) crews are down from 42 to 32 cumulative for the past 9 months. Physical injuries during robberies, of which there have been 8, a reduction of 5 on last year, remain relatively minor in severity. Five of the 32 robberies were enabled by the presence and/or threat of use of fire arms however on no occasions were the firearms discharged. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)
- 2.7 Robberies and attempted robberies on the Post Office network, cumulative to period 9, are lower than last year – 78 compared to 83 – 39 of the 78 were successful. Injuries sustained during robberies are down from 21 to 15. Robberies take place predominantly at sub post offices. Supporting activities have been introduced to continue to mitigate this risk and are identified at 3.2. (Appendix 1 – Significant Incidents refers).
- 2.8 Burglaries and attempted burglaries (which do not involve personal attack) have decreased slightly from 66 to 65 compared to the same 9 month period last year – 15 of the 65 incidents were successful..

3. Activities

3.1 Road Risk

Current activities to mitigate road risk are:

- Road risk forum in place to scope and develop road risk reduction initiatives and activities
- Analysis of effectiveness of face to face training given to top 50 high risk drivers has indicated that accidents amongst this community have reduced significantly following the refresher training
- Analysis of and interventions for reversing incidents
- Eye sight checks for operational drivers are in place
- Technical accident reduction interventions on new vehicles e.g. Reversing aids
- Analysis and evaluation of data (e.g. risk profiles) to determine further accident reduction interventions
- Introduction of coloured 'high visibility' seat belts on new vehicles
- Safety team input and concurrence for vehicle specification and changes
- Safe driver of the year award
- Weekly case conferences to ensure consistent approach to accident investigation, follow up activity and sharing of best practice

3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

- Active liaison activities with the police and increased police support activity
- Liaison with Met. Police on the increase in gun enabled robberies
- Introduction of new deterrent technologies e.g. Smartwater – a solution that contains a unique identifier that is released automatically in the event of a

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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
- 'Darker nights' security awareness campaign
- Increased use of crime alert communication techniques to Post Offices
- Trialling new point of transfer arrangements to reduce exposure
- Increased use of surveillance vehicles
- A three month 'Crime stopper' campaign in the West Midlands has commenced, aimed at reducing cash in transit robberies

3.3 Health and Wellbeing

Current activities to enhance wellbeing

- Programme of visits to all Post Office sites to offer and encourage the use of health check equipment that provides a wide range of indicators on physical wellbeing
- Plans in place to re-visit all Post Office Crown Branches and Supply Chain sites within 18 months
- Health and wellbeing 'Team Talk' modules
- Health and wellbeing poster themed campaigns
- Online wellbeing monitoring tool to support health check initiative
- Roll out of mental health awareness programme

3.4 Safety

The Post Office occupational health and safety management system (OHSMS) is certified by external auditors to the standards required by British Standard OHSAS 18001.

4. Residual Risks

- 4.1 Driving activities have the potential for high impact/loss and therefore remain as a significant residual risk. However, the actions identified 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.

Neil Hayward
February 2014

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Appendix 1

Significant Incidents (Period 9)				
Crowns and Network				
Location	Loss	Circumstances	Physical Injuries	Any further details
GRO	£66k	GRO	Nil	
	£7k		Nil	
	£27.5k		Nil	
Supply Chain (Cash, delivery and collection)				
Nil				

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Post Office Ltd ExCo Board

Cyber Security and Information Assurance

1. Purpose

The purpose of this paper is to:

- 1.1 Update the Executive Committee (ExCo) on UK Cyber Security industry initiatives;
- 1.2 Update the ExCo on key Information Security and Assurance Group (ISAG) activities;
- 1.3 Outline risk reduction activities being implemented at Post Office in Cyber Security.

2. Industry Initiatives

- 2.1 This month ISAG participated in the Senior Information Risk Owner (SIRO) Knowledge Exchange on Cyber Security run by the National Archives on behalf of Public Services. This event was attended by:
 - Cabinet Office.
 - Communication and Electronic Security Group (CESG), part of Government Communication Headquarters (GCHQ).
 - Centre for the Protection of the Nation Infrastructure (CPNI – a Partner of MI5).
 - National Savings and Investment.
 - UK Export and Finance Department.
 - NHS Wales.
- 2.2 The Cabinet Office noted that the 'Threat Landscape' was changing enormously; whilst in 2009 the biggest perceived threat was to Privacy and Personal Sensitive Data leaks, in 2014 the biggest threat was to Corporate Information.
- 2.3 The group agreed that much of this was due to the changing way of running businesses, i.e. remote, agile and part-time working coupled with the wide usage of the internet commercially. In line with this trend, Government are reducing their 100 London buildings to 30 by 2015, encouraging staff to work remotely, even though their IT systems are not aligned in many cases.
- 2.4 CESG Business Partner has attended Post Office to meet with members of ISAG. CESG have invited Post Office to attend industry Cyber Security Forums, and reiterated CPNI's view that Post Office might play a role should UK PLC undergo a significant disaster. ISAG have engaged with CPNI and a further meeting is to be arranged to discuss how they can provide on-going Cyber Threat information, working with other Government Agencies to make Post Office aware of 'Cyber Trends of Attack'.

Strictly Confidential**3. Activities/Current Situation****3.1 Incident Summary**

There are currently 11 active incidents or breaches that ISAG are managing. One incident is assessed as 'High' and has been managed by the Business Protection Team (BPT). This incident involved historic personal data that was left in a skip outside Southport Post Office. Post Office Communications have been actively engaged. While this is a Data Protection incident, it is not significant enough to warrant Information Commissions Office involvement at this time. It is assessed as being 'High Risk' due to journalistic involvement (risk to reputation).

7 previously reported incidents have been formally closed by the information Security Committee, which met on 3rd March 2014.

The Information Security Committee numbers have been reducing of late with only half of the invited SLT members attending, with deputies sent in some cases (not all with the necessary delegated authority). This is a decision making committee for information security issues and initiatives across Post Office. As such, it is important that all parts of the business are represented by individuals who are senior enough to be able to make decisions on behalf of the business. The Committee is fundamental to the businesses Information Security certifications. The CIO has written to the ExCo to ask for their support to improve SLT attendance.

3.2 Programme/Project Governance

The Self-Service Kiosk programme has been subject to Risk Acceptance Notification, i.e. referred to responsible ExCo members for understanding and acceptance of risk on behalf of the business, due to non-acceptance by ISAG. This is being reviewed currently, with risk mitigation activities by suppliers being carried out to resolve issues.

A further Programme – Mortgage Brain is currently under review and remediation, again for failing Gating for non-acceptance by ISAG.

3.3 Marketing Due Diligence

Regular engagement continues with Marketing due to the high level of reliance on processing personal information. This is proving to be successful and helps promote Post Office to our suppliers as an Information Security focussed company. All known Marketing suppliers are subject to Information Security Review and Remediation plans where applicable, this is an on-going activity.

3.4 IT Supply Chain Transition to ATOS

Regular meetings continue with the Atos team across many disciplines and service categories, key areas include but are not limited to:

- Governance and Risk.
- Incident response and management.
- Help Desk location.
- Segregation of responsibilities.
- Audit and Information Security Assessments including Penetration Testing and Forensic analysis (in case of any breaches/incidents)
- Identity and Access Management

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- Security Incident and Event Management.

ISAG are participating in the PWC review of the Service Integrator Transition Programme.

3.5 Governance Risk and Compliance Tool

The Governance Risk and Compliance Tool is being procured. The procurement will be completed by mid-April, at which point we will begin work on establishing a delivery roadmap.

3.6 Reporting Risk

All Information Security and Assurance unmitigated risks continue to be logged locally and escalated to the Risk and Compliance Committee (R&CC) as appropriate. Data Security is to be subject to an R&CC 'Deep Dive' later this month.

3.7 Assessing the Cyber Security Threat Landscape

ISAG continues to participate in industry events, providing valuable peer interaction and demonstrating Post Offices commitment to protecting its organisation.

3.8 Business Impact Assessment

A key activity in assessing risk is in understanding where Information Assets (critical services, systems, information, people) are located. ISAG are planning to engage with all Directorates and ExCo members to understand the Information landscape. This will provide a whole host of essential information that will be used to prioritise ISAG activity and resources accurately and undertake more meaningful risk assessments. It will also provide ExCo and the Board with a view of where the Post Offices key Information reside.

3.9 Training and Awareness

Information Security and Data Protection training are being combined; key training and communication activities remain on schedule for April and July 2014.

ISAG are engaged with HR representatives to ensure ISAG Policies are reflected in colleague communications and HR policies.

This will be reviewed on an on-going basis and longer term may need a full time resource. Currently this resource is shared informally with Security.

4. Request

- 4.1 The ExCo is asked to note the update and support the actions set out above.
- 4.2 The ExCo is asked to approve this paper for onward submission to the Board.

Julie George/Lesley Sewell
6 March 2014

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POST OFFICE LTD EXECUTIVE COMMITTEE

POca Update

1. Purpose

The purpose of this paper is to:

- 1.1 Update the ExCo on Project Maypole (Future of POca) and in particular the emerging possibility that NS&I might not be our service provider.
- 1.2 Advise of the need to commence planning for supplier procurement.

2. Background

- 2.1 In response to DWP's request for an outline proposition around a future POca replacement service, Post Office proposed a solution that used NS&I as the service provider (to replace the incumbents HP/JPM). The proposal was based on NS&I's estimate of being able to generate up to 1.5% return on the £2bn held overnight in POcas. Current returns are based on overnight LIBOR less 12bp, equivalent to 0.38%. We received feedback on this at a meeting with DWP/Treasury/BIS officials in mid-January: doubts were raised by Treasury officials as to whether NS&I represented the best value option. DWP asked Post Office to develop a more detailed, costed proposal based on what we deemed to be the best value for money approach.
- 2.2 In order to develop the proposal for presentation to DWP on 20th March, we started more detailed market testing with HP & NS&I. HP has since refused to co-operate in this unless we can guarantee them the business beyond 2017 (something we cannot do, not least because the state aid approval process has just commenced and this will put all commercial arrangements around POca under intense scrutiny). They will however share their initial market soundings, which support the view that more benefit can be realised from the overnight balances.
- 2.3 NS&I is continuing to develop detailed, costed proposals but discussions with Treasury on 20th February raised further doubts as to whether NS&I could make the investment returns on the overnight balances they originally claimed. Treasury has explained that NS&I is a 'front' for the Government Banking Service and so the most they can return on balances would be 0.25% below base rate (currently 0.25% return would be possible). This seriously undermines the NS&I solution (without the high levels of interest income that were promised, the overall cost of the successor service will be unacceptably high to DWP).
- 2.4 The meeting with Treasury arose from their Minister (Chief Secretary to the Treasury, Danny Alexander) taking a keen interest in discussions around POca. We understand that the minister has raised concerns with Iain Duncan Smith around the lack of options being offered up by DWP. It was clear from the meeting that Treasury is aligned to DWP thinking, i.e. a longer term arrangement with the Post Office for a replacement product aimed primarily at pensioners. This is encouraging and Treasury has agreed to a continued informal dialogue with Post Office Ltd. This will help us to ensure that the proposal we do put forward to DWP is workable and supported by Treasury.

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- 2.5 Given the emerging issue with NS&I as a solution, Post Office Ltd now needs to plan for running a procurement to source a new supplier for Card Account. (It should be noted that NS&I continue to discuss their ability to generate interest income with Treasury and appear to be getting greater traction. Treasury has agreed to give us a definitive answer on this issue). The client contract for the new service with DWP can be arranged via DVLA FOCS (target for call-off is June 2014). This will provide DWP with the basis for briefing politicians and Ministers have said they would like to make an announcement before the autumn. Once we have this commitment, we can commence the actual procurement activity (not before the ministerial announcement because the OJEU will be in the public domain and so effectively pre-empt any public commitment from DWP Ministers to a POca replacement service).

3. Proposed Approach

- 3.1 DWP has confirmed that the DVLA FOCS agreement is suitable for their procurement of the replacement Card Account service. Therefore, a call-off can be awarded to Post Office Ltd directly without the need for DWP to run a public procurement. The focus of this paper is on the sourcing of a service provider by Post Office Ltd.
- 3.2 So that we are able to fulfil our commitment to DWP to provide a proposal by 20th March, we will conclude market sounding involving HP and NS&I as planned. We will continue discussions with Treasury and obtain confirmation of the position with respect to NS&I. We will also engage with Treasury before we submit our proposal and check they are supportive of the solution we are developing, especially how we propose to use interest income from overnight balances.
- 3.3 At the same time, starting immediately, we will prepare for the eventuality of having to run a public procurement. This is not the same as commencing a formal procurement: we will only do this once we have commitment from DWP to the replacement service and subsequent to any ministerial announcement. The cost of procurement will be confirmed by the planning process but current estimates are £1m over 18 months.
- 3.4 We will continue commercial discussions with DWP around using the DVLA FOCS agreement as the contracting route for the Department to procure a replacement service. Our recommendation to DWP is for the FOCS call-off to be used instead of extension of the existing contract. This allows DWP to go through the contracting process once only, is in line with current political guidance and gives Post Office long term certainty. We are also impressing upon DWP that the sooner they can put in place the call-off the better because this allows Post Office Ltd to commence its own supplier procurement.

4. Key Milestones

- 4.1 Initial planning has identified the following major milestones over the next year:
- 20th March 2014 – Proposal presented to DWP.
 - June 2014 – Agreement to move POca service into FOCS contract.
 - June – September 2014 – Ministerial announcement.

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- June – September 2014 – If OJEU is required, notice is issued to the market.
- April – June 2015 – New supplier appointed.
- June 2015 – April/June 2016 – New service build.
- April/June 2016 – New service live.

4.2 It should be noted that these timescales are challenging and will be affected by the outcome of the procurement.

4.3 On the assumption that contracts with DWP are confirmed in June 2014 and that a public procurement is needed to appoint new suppliers to Post Office Ltd, we would seek to extend the existing agreement with HP pending the outcome of the procurement process.

5. Key Risks

5.1 At this stage, as we are only advising of the need to start planning for a procurement: a full risk assessment will be part of the detailed planning process should we need to proceed with a public procurement.

6. Recommendations

The Executive Committee is asked to:

- 6.1 Note progress made to date on Project Maypole (Future of POca) and in particular the possibility that NS&I might not be our service provider
- 6.2 Note the commencement of planning for a supplier procurement.

Martin George
26 February 2014