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Post Office Limited – Strictly Confidential

POST OFFICE LTD BOARD MEETING (Company Number 2154540)

Meeting to be held at 09.00 on 19 September 2012 at 148 Old Street, London, EC1V 9HQ in the Board Room

1	Appointment of Director	Alice Perkins
2	Strategic Cost Reduction	Chris Day/OC&C
3	Financial Services update: putting Eagle into effect and current account proposals	Nick Kennett
4	**Break**	
5	Report of Pensions Committee and Pensions Strategy "Project Robin"	Virginia Holmes/ Chris Day and Susan Crichton
6	**Break for working lunch**	
7	Minutes of Previous Meeting and Matters Arising	Alice Perkins
8	Chief Executive's Report including NT and Crown Update and Health and Safety Report	Paula Vennells
9	Finance and Performance Report	Chris Day
10	Insurance Programme	Chris Day/ Charles Colquhoun
11	British Postal Museum and Archive Funding	Chris Day
12	Any Other Business	Alice Perkins
13	Items for Noting	
	– Update on IT&C Transformation	Lesley Sewell
	– Risk/Resilience Review	Lesley Sewell
	– Horizon Evolution	Lesley Sewell
	– Significant Litigation Report	Susan Crichton
	– Register of Sealings	Alwen Lyons
	– Communications Action Group Meeting Minutes	Alana Renner
	– Health and Safety Committee Minutes	Susan Crichton
14	CLOSE	

MUTUALISATION SUB-COMMITTEE MEETING

Attendees:	In Attendance:
Alice Perkins (Chairman)	Nick Kennett (item 3)
Neil McCausland (SID)	Ken Potter (item 5)
Alasdair Marnoch (NED)	Charles Colquhoun (items 10 and 11)
Virginia Holmes (NED)	
Susannah Storey (NED)	
Tim Franklin (NED designate)	
Paula Vennells (Chief Executive)	
Chris Day (CFO)	
Alwen Lyons (Company Secretary)	

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POST OFFICE LTD BOARD

Appointment of Non-Executive Director

The Board is asked to approve the appointment of Tim Franklin as a Director of the Company and to authorise the Company Secretary to make all necessary filings with Companies House.

Alwen Lyons
September 2012

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POST OFFICE LTD BOARD

Strategic Cost Reduction

1. Purpose

1.1 The purpose of this paper is to describe the approach that POL is taking to Strategic Cost Reduction.

2. Background

2.1 The recent paper on Value for Money and Efficiency described how POL is driving efficient operations through tactical improvements to the cost base. Whilst this approach will produce incremental savings it will not deliver the large-scale cost reduction that POL believes is required for long-term commercial and financial sustainability. Therefore, POL is instigating a Strategic Cost Reduction initiative, as part of the Strategy Review that is about to commence.

2.2 Ensuring operations and resources are fully aligned to deliver the strategy is integral to the Strategy Review. An initial diagnostic of the cost base and the value potential of alternative operating approaches will be a vital input. Ultimately, the Strategy Review will deliver the blueprint for an effective operating model and associated cost base.

2.3 In anticipation of the fact that a Strategic Cost Reduction exercise will require significant business process re-engineering, POL has undertaken initial discussions with external experts to understand how to approach incorporating a Strategic Cost Reduction programme within the overall business strategy. The approach is described in this paper.

3. The current cost base

3.1 With income of £1,076m in 11/12, of which £180m was Network Subsidy Payment, POL's current £1.1bn cost base is not affordable, and is out of line with potential competitors. As a result, it puts at risk POL's ability to bid for and win new business profitably and represents a significant challenge to POL's long term growth strategy.

3.2 The cost base is also predominantly fixed, so intervention is needed if it is to be reduced. This needs to be achieved in a manner that makes the cost base more flexible so that future fluctuations in income levels can be mirrored in the costs without the need for further significant action.

3.3 Whilst POL continues to take tactical steps to reduce the cost base, these alone will not deliver the significant reduction in POL's costs that is required. Similarly, POL's current portfolio of transformation activity is not expected to go far enough to achieve the necessary cost base reduction or flexibility; in particular, POL is still likely to struggle to put up competitively priced bids (if input costs are accurately incorporated) even following completion of these programmes.

3.4 As a result, POL Finance is proposing to initiate a sustainable cost management initiative.

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4. Scale of the programme

4.1 **Strategic** cost reduction is a structured and targeted approach to cost reduction. It is an integral part of the company's strategy and examines the resources and capabilities needed to deliver the strategy, looking at alternative means for delivery to achieve the most cost effective approach.

4.2 In contrast to tactical cost reduction, strategic cost reduction is not about reducing current costs but about changing the way things are done in a way that changes and reduces the cost base. It may involve large-scale and radical shifts in the company's operations.

4.3 In practice, this means considering anew how POL could operate in order to achieve its strategic aims, initially unconstrained by the current operating model. It will include consideration of whether POL should deliver activities in-house or outsource them, so could result in POL's operations encompassing more or less than is currently the case. Key activities will also be examined by type, such as retail operations, supply chain, head office, property and alternative ways to deliver them explored; for example supplier partnerships could be considered for third party costs.

4.4 The Executive Committee will need to consider what level of change can be delivered, alongside the initiatives currently planned, and how fundamental the changes will need to be. At one end of the spectrum POL could look to optimise its existing operating model, or at the other end to completely re-design the model.

4.5 With the Strategy Review just underway, the timing for a strategic cost review is ideal. Therefore, it is in this context that POL Finance has sought initial input into POL's suitability for a strategic cost reduction programme from two external companies.

4.6 Both stress that to be successful this type of change cannot be run as an independent programme but needs to be integral to the business's strategy and activities, and fully advocated and driven by the Executive Team.

4.7 This will be an important first step to instil a cost-focused culture throughout the business, by embarking on a programme that results in an embedded set of behavioural, policy and process changes that will ensure cost management is sustained in all future strategic decision making and transformation activity, as well as in business-as-usual operations.

4.8 The ambition is to create a sustainable cost management strategy which is fully aligned with the overall POL Strategy. It is therefore recommended that the strategic cost reduction programme should be run as part of the Strategy Review, and also that this should not be a one-off exercise, but part of an overall framework, which was described in the recent paper on Efficiency and VFM.

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5. Programme Approach and Scope

5.1 The proposed approach comprises 4 main stages:

1. Initial Scoping – This will involve gaining a detailed understanding of the current cost base, assessing the indicative value potential of the exercise and forming a preliminary view of the costs, timescales and resource requirements of the programme. This will provide a valuable input to the strategy review.
2. Diagnostic & prioritisation – Includes identification of cost reduction initiatives, prioritisation and developing the terms of reference for the individual initiatives.
3. Planning/mobilisation – Setting up Governance, detailed implementation planning, communication to the wider business.
4. Full scale programme execution to deliver the initiatives.

5.2 **All** areas of POL will be included in the initial stages to allow POL to develop an ideal model for its cost base, and develop target costs across all areas.

5.3 However, it is recognised that given all the current pressures on POL it may not be appropriate to subject every area and cost line to potential cost restructuring immediately. Therefore, the prioritisation phase will involve defining what is in and out of scope, and giving careful consideration to the timing of the activities, particularly alongside current programmes.

5.4 Stages 2 and 3 will rely heavily on the senior managers in the relevant areas and will be a business wide involved exercise. This will build buy-in to the approach and improve on delivery. Clearly, the more radical the level of change, the more difficult this and especially the subsequent delivery of the changes will be.

5.5 The timetable for this exercise is aligned with our strategic plan, with stages 1 and 2 being completed by the end of December 2012 and stage 3 producing the plans necessary for inclusion in our Strategic Plan submission for Government.

Susan Barton and Chris Day
September 2012

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POST OFFICE LTD

Eagle Update

1. Purpose

1.1 This paper provides an update to the Board on Project Eagle.

2. Contract & Financials

2.1 The Project Eagle contract was signed by Post Office and the Bank of Ireland (BoI) on Friday 3rd August and completed on 31st August 2012:

a) Post Office's shares in Midasgrange (known as "POFS") have been transferred to BoI and Post Office has received the agreed consideration of £2.0 million;

b) Post Office has invoiced BoI for £18 million, for the Gamma settlement, and this should be settled shortly;

c) In September Post Office will invoice BoI for the additional and enhanced commissions of £6.08 million, and will invoice under the new commission rates.

3. People

3.1 The TUPE consultation process with Midasgrange employees has concluded with 24 staff transferring to a Post Office contract (nine into sales development and training, six as agency area sales managers, seven into financial services marketing and two into financial service product management[1]). All these new staff will be based in Post Office premises.

3.2 The Financial Services senior-lead team is in place, except for the Head of FS Sales Strategy. A market search is continuing for this critical role.

4. Governance

4.1 The initial governance meeting of the Senior Executive Committee (SEC, the highest formal governance body between the Parties) will be constituted on 12th September. This will set the governance parameters between the Parties and establish the authorities of the subsidiary committees[2].

4.2 The follow-up tri-partite meeting with the Bank of England and HM Treasury is being arranged for the autumn.

5. Recommendations

5.1 The Board is asked to note this paper.

Nicholas Kennett
Director, Financial Services
September 2012

1 18 of those who have transferred were already seconded into our business.

2 A wider paper on the governance process between the Post Office and BoI will be tabled to the Post Office Audit, Risk and Compliance Committee in November 2012.

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POST OFFICE LTD BOARD

Launching a Post Office Bank Account (Project Polo)

1. Purpose

1.1 The financial services vision is that the Post Office will be a leading player and a credible alternative to the banks. A key enabler for delivering this vision is to offer a current account (BCA). Establishing the primary banking relationship through a transactional account would enable the Post Office to expand the customer relationship by utilising enhanced customer data to build additional cross-sales opportunities.

1.2 This paper provides the Board with an update on progress to deliver a BCA (Project Polo[1]) and identifies the key risks that have been identified and outstanding matters to be resolved. It is tabled for noting.

2. Market Opportunity

2.1 BCAs are the key entry point into financial services with over 95 percent of the UK population having such an account[2]. The stock of UK accounts is c.66 million with an annual flow of new account openings of c6.6 million[3].

2.2 The big five banks dominate the market accounting for approximately 84 percent of the stock and flow of UK BCAs. Notwithstanding the dominance of the big banks Post Office research suggests that there is a good level of demand for a BCA from Post Office[4].

2.3 The launch of a BCA will help position Post Office as a credible alternative to the banks. Importantly, it will also provide new income opportunities through the proactive use of the data and contact opportunities to drive cross sales[5]. A BCA can also assist the Post Office deliver a solution for Universal Credit, providing a replacement to the Post Office Card Account (POCA).

3. Product and Customer Proposition

3.1 Project Polo market research confirmed that customers' key requirements are that BCAs are "simple and straight forward, fair and transparent, providing good value for money, with "no catches"". This led to a BCA customer proposition that **'Post Office makes it easy to manage your money'**.

3.2 This positioning sort to address two challenges identified in the research:

a) The need for Post Office to establish its credibility by demonstrating product expertise, confirming an understanding of the category and an ability to create an attractive product;

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1 Project Polo is a tri-lateral project of Post Office, Bank of Ireland and Midasgrange, led by Midasgrange.

2 Source: GfK NOP research

3 New flow is broken down as: 35 percent 'second or more' accounts; 28 percent switchers; 17 percent first ever; 16 percent internal transfers; and 4 percent re-entrants (source GfK NOP).

4 Stated consideration is 25 percent for non POCA customers (focus in "old school traditionalists", "work hard, play hard" and "independent thinkers" segments). Very strong consideration from POCA customers - unbanked 68 percent, banked 49 percent. Source: Midasgrange market research.

5 While Post Office is unlikely to match market cross-sell ratios, internal measures confirm that Post Office financial services customers currently hold barely an average of 1.0 financial services products.

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b) The need for Post Office to exemplify good money management - the idea that Post Office will make it easy for customers to manage their money.

3.3 The Post Office proposes to launch a range of three BCAs[6]:

a) Basic account with a monthly fee of £5, no overdraft and no other fees;

b) Standard account with a simple overdraft (on application), transparent fees of £15 per unpaid item and no other charges;

c) Packaged account with strong benefits[7] at a competitive £8 monthly fee.

3.4 These products will be supported by marketing messages reiterating that Post Office will make it "easy to manage your money", "all charges are clearly explained, so no nasty surprises" and that the service is supported by "the biggest branch network in the UK".

3.5 In building these propositions the Post Office is seeking to leverage and reinforce wider brand features, including:

a) Simple, straight forward and value products;

b) Simple, and transparent approach to overdrafts and charges, with no "hidden" charges;

c) A market differentiation (appendix 2 provides competitor comparisons);

d) A simple pricing structure that will enable the Post Office to offer accounts to customers who would otherwise may be declined by other banks[8], enhancing the socially inclusive mandate;

e) An easy switching process to facilitate moving from another provider.

f) Flexibility to adapt the portfolio should the market shift to a fee-based approach.

4. Proof of Concept (PoC)

4.1 To test the market demand and ensure that Post Office and Bank of Ireland processes are effective, a PoC will be launched across 39 Crown and Agency branches in East Anglia. The aim of the PoC is to confirm customer demand, the type of customer attracted, their behaviour and to validate and subsequently refine the sales and servicing operating models and business case. The PoC will be supported by a local media campaign and direct marketing and has a sales target of 3,000 accounts over six months.

4.2 The test market will be extended in April/October 2013 to encompass a small trial in Manchester by DWP to test the new Universal Credit benefit payment system with local authorities, employers and claimants.

4.3 Following a successful PoC and subject to separate approval, national rollout will commence from October 2013[9]. If the program does not proceed all signed up customers will have the option to revert to a Bank of Ireland (UK) plc (BoI) BCA, with service access at Post Office branches.

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6 Summary of the three accounts' benefits and fees are in Appendix 1.

7 The account conforms to FSA guideline CP11/20. Post Office does not provide advice (the features are explained with the customer self-selecting), confirms that the customer is eligible to claim under each policy, and the customer will receive an annual eligibility statement with the option to switch to an alternative product.

8 All UK residents will be eligible to open a Basic account irrespective of credit status, as long as the customer can prove their identity and place of residence.

9 The full rollout proposition will likely have additional features such as mobile access and budgeting.

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5. Business Case

5.1 Project Polo has developed an 'enterprise' business case covering the costs and revenues of Post Office, BoI and Midasgrange[10] from PoC, through rollout to 2023.

5.2 The key assumptions include:

a) Steady state of 185,000 new accounts sales per annum will be reached in year 6[11], equating to 2.8 percent of new accounts opened;

b) Stock of accounts will increase to 1.19 million accounts by year 10;

c) Standard accounts will account for 66 percent of sales with Packaged and Basic accounts each accounting for 16-18 percent of sales;

d) Aggregate investment costs from rollout to Year 5 are:

- BoI - £137 million[12]
- Post Office - £25 million covering agents' fees, marketing and investment in Horizon;
- Fee and credit interest income amounts to £123 million.

e) The enterprise business case does not include any cross-sale benefits.

5.3 The business case generates heavy losses in the early years primarily due to customer acquisition, account opening and fulfilment costs (which are all accounted for in-year), not being matched by revenue growth (particularly the deposit growth[13]). These initial costs are particularly heavy for BoI.

5.4 Overall the enterprise business trades profitably from year 5 and cumulative trading breakeven is achieved in Year 6, with cumulative profit reaching £208 million in Year 10.

5.5 Whilst the enterprise business case demonstrates that a BCA will create a profitable new income line, a significant 'J- Curve' is created - the more successful the launch, the higher the initial trading loss, compensated by higher value in later years.

5.6 While Post Office has built its own business case[14], it is dependent on the commissions and other benefits derived from BoI.

5.7 The Parties have commenced negotiations on the Post Office fee structure[15]:

a) In line with Eagle principles, Post Office has proposed a commission structure aligned to the matters to which it can influence or for which costs are incurred. This reflects the long term value created and costs incurred in delivering the customer proposition, particularly:

- Sales and branch transactions[16];

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10 Midasgrange has driven the project; following Eagle only Post Office and BoI will be involved.

11 Split - Crown 81,000; managed agency 41,000; non-managed agency (lead to contact centre) 17,000; direct 46,000.

12 Comprising depreciation of £25 million investment; account opening (£21.5 million) and on-going account servicing (£85.9 million); credit provisions and other costs £4.1 million;

13 Average balances rise from £750 to £3,404 by year 6 (Packaged); £500 to £2,436 (Standard); £180 to £509 (Basic).

14 The provisional Post Office business case is based on the enterprise case assumptions and overlays cross-sales and the income to Post Office from sales and service activities.

15 The Parties agreed that the remuneration structure for Polo would not be included in Eagle as the enterprise business model had not been completed, but that it would utilise the principles agreed within it.

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- Credit and overdraft balances;
- Fee Income (unpaid item fees; account fees; overdraft fees);
- Debit Card activity (interchange; overseas transactions; forex).

b) Due to the financial risks associated with their 'J-Curve' BoI's negotiating position is that the Parties should enter into a profit share structure (ie that Post Office should share the early year losses). Such a structure would, however, create additional complexity (which Eagle sort to eliminate), expose Post Office to an unacceptable income[17] and cash flow risk, create additional complexity to the Eagle termination value and would require BoI to cede some control over areas such as credit risk.

5.8 Post Office's commission proposal based on 5.7 (a) would deliver a break-even position to the Post Office after two years.

5.9 While negotiations with BoI are underway, the PoC will not commence until agreement is reached and the impact on the remuneration structure is inputted into Post Office's business case[18].

5.10 Post Office management is also developing a contingency plan to ensure that there is a credible offering to support DWP universal credit strategies.

6. Key Challenges and Risks

6.1 Launching a BCA will add strategic and financial risks to the Post Office.

6.2 *ATM Interchange*: Post Office and BoI operate a fleet of over 2,200 ATM's[19] which generate interchange income[20] of c.£55 million per annum; of this amount Post Office receives c.£32 million.

6.3 The level of interchange received at Post Office/BoI ATMs is governed by the rules established by the LINK network[21]:

a) Post Office/BoI ATMs currently are classified as 'non-branch'[22] generating interchange of 25.7p per transaction;

b) If Post Office ATMs are designated as being under a 'branch'[23] status the interchange rate would fall to 16.5p per transaction;

6.4 While Post Office and BoI are confident that the 'non branch' status will be maintained, there is a risk that, following the launch of a BCA, a LINK member may challenge Post Office's status and potentially seek to create a new classification.

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16 Post Office will need to pay agents for sales and over-the-counter transactions.

17 With implications *inter alia* on bringing Crown branches into profitability.

18 Include confirming commissions payable to sub-postmasters for sales and transaction services.

19 Post Office has a long term agreement with BoI for ATMs services that is separate from the main agreement.

20 ATM interchange is the payment received by the provider of the ATM from the cardholder's bank for providing cash withdrawal and balance enquiry services.

21 The LINK Scheme (part of VocaLink) sets the rules for ATM operators who want their cash machines to be part of, or card issuers who want their cardholders to be able to use, the UK ATM network.

22 The ATM is located at premises (Post Office branch) different from those at which staff employed by the Network Member (BoI) is responsible for managing the ATM.

23 The ATM is located in premises at which staff employed by the LINK Member is responsible for the ATM business. A third classification ('common ownership') applies where there is an ownership connection between the site operator and a Network Member (interchange of 23.8p per transaction applies).

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6.5 To assess and mitigate the risk, the Post Office has engaged Edgar Dunn & Company (EDC), a specialist payments consultancy, to provide advice on an approach in discussions with the Payments Council and LINK. Their recommendations will be made in early September and will likely emphasise:

a) Separate contractual arrangements between Post Office and BoI and between Post Office and sub-postmasters (reinforcing clear 'non-branch' characteristics);

b) Post Office ATMs provide financial inclusion access in deprived areas (and therefore to engage appropriate political pressure to ensure that there is no change to the ATM status);

c) Account opening process will focus on Crowns, which account for less than 20 percent of the ATM estate.

6.6 Whilst there are a wide range of scenarios, the most likely impact if a change were to occur will be under £1 million per annum. EDC will provide an opinion in their recommendations.

6.7 *Partner Banks*: Post Office provides over-the-counter transaction services to over 80 percent[24] of other-bank's BCA accounts[25], generating annual income of £25 million[26]. The introduction of a Post Office BCA may cause a partner bank to cancel the service as it might be seen as providing a competitor offering with a strategic advantage.

6.8 Post Office's strategy to reduce this risk is to:

a) Position the launch as supporting a wider financial inclusion strategy, with the product range providing a BCA to any UK adult;

b) Communicate with senior bank executives that Post Office does not intend to proactively target customers of partner banks when they are completing a banking transaction at a Post Office counter;

c) Seek support from the Department of Business, Innovation & Skills to communicate to the relevant bank CEOs to maintain arrangements[27].

7. Conclusions

7.1 The BCA represents a significant opportunity for Post Office to develop its position as a credible financial services provider. A PoC will not be initiated, however, without appropriate agreement with BoI on commission structures (and hence the business case is completed) and that the risk to ATM interchange and partner bank revenue is confirmed and ameliorating strategies finalised.

8. Recommendations

8.1 The Board is asked to note this paper. A final paper will be presented once matters set out in paragraph 7.1 are concluded.

Nicholas Kennett
September 2012

24 The significant remaining banks are HSBC and Santander's ex-Abbey portfolio.

25 Predominately cash deposits and withdrawals.

26 Post Office is in advanced discussions with HSBC, which would generate an estimated additional £3 million income.

27 BIS contacts have informally indicated that such an approach would likely be supported.

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Appendix 1: Product Proposition Summary

	Packaged	Standard	Basic
Core Concepts	A package of benefits that the customer truly values in return for a monthly fee.	A straightforward and fair bank account from a trusted brand that offers free everyday banking with no hidden charges, coupled with convenient access for transactions.	A no frills bank account from a trusted brand that offers everyday banking with a single monthly fee and no other charges.
Features	• Debit Card • Overdraft at 14.9% • Cheque Book • Package of benefits: • Family travel insurance (EU) from Post Office Travel Insurance • Car breakdown insurance (UK recovery plus home start) from Greenflag • Credit management tools and identity theft protection. • Discounted Post Office branded travel booking service	• Debit Card • Overdraft at 14.9% • Cheque Book	• Cash Card • No credit facility • Monthly fee – no other charges
Fees & Charges	• £8 monthly fee to cover benefits • £15 unpaid item fee	• Free in credit use • £15 unpaid item fee	• £5 month fee • No unpaid item fee

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Appendix 2: Comparison of the main UK banks' BCAs

Source: company websites

Bank	Credit	Paid	Unpaid	Unarranged Fee	Interest Arranged	Interest Unarranged	Comment
Santander 123	1% from £1K 2% from £2K 3% from £3-25K	£5/item	£10/item	-	£1/day (capped at 20 days)	£5/day	£2 monthly fee (regardless of use) £500 pcm credit required for 123 benefits, e.g. cashback £1000 pcm credit required to receive credit interest Overdraft fee cap at £95/month
Santander Everyday	0%	£25/item	£25/item	-	£1/day (capped at 20 days)	£5/day (capped at 20 days)	Overdraft fee cap at £150/month
NatWest RBS	0%	£6 /item max £60 per month	£6/item max £60 per month	£6/day	19.89%	19.89%	£100 interest free OVD on all accounts (£250 for top AVA). Theoretical unarranged OVD max is £126/month not including interest
Nationwide	0%	£15/item	£15/item	£20/month	18.90%	18.90%	Max charges per month limited to £95
HSBC	0%	-	< £10 no charge < £25, £10/item > £25, £25/item	Free if not used in last 6-months £25	19.90%	19.90%	Need to pay in £500/month or may close account Arrangement Fees charged will never be higher than the overdraft requested
LloydsTSB	Tiered rates up to 3% with Vantage	-	£10/item max of 3/day	<£10 = £0 > £10 < £25 £5/day > £25 £10/day	£5/month usage fee and 19.3%	£5/month and 19.3%	Arranged fee does not apply within £10 overdraft buffer, or on AVA accounts Interest free OVD on AVA (£100/£250/£500) Unarranged fee a maximum of 8/month
Halifax/BoS	£5 per month	-	-	-	£1/day	£5/day	Reward £6.25/month gross if pay in £1K/month Arranged OVD > £2.5K = £2/day
Barclays	0%	£8/item	£8/item	£22 per 5 day period	19.30%	0%	Use 'Reserve' concept £300 Interest free OVD on AVA
Co-op	0%	£20/item	£15/item	£20/month	15.9%	15.9%	Max £150 charges per quarter No charges if in credit for a year and then go OVD <6days £200 fee free OVD if credit £800/month
Post Office (standard/ package)	**0%**	**n/a**	**£15/item**	**£0**	**14.9%**	**n/a**	Simple charging structure with no shadow limits, unarranged overdraft and paid item fees. Low arranged interest rate

PC 12/1-6

POST OFFICE LTD

PENSIONS SUB-COMMITTEE

Minutes of a meeting of the Pensions Sub-Committee held at 148 Old Street, London EC1V 9HQ on Thursday 2 August 2012

Present:	Virginia Holmes (VH) Chris Day (CMD)	
Apologies:	Susannah Storey	
In Attendance:	Ken Potter (KP)	POL Pensions
	Martin Lacey (ML)	POL Pensions
	Pauline Holroyd (PH)	POL HR Director
	Sarah Hall	POL Finance
	Robert Copeland	POL Procurement (items 1-4)
Presenting:	AON Hewitt: Andy Cox, Tim Giles, Zoe Taylor Lane Clark & Peacock (LCP): Stuart McKinnon, Gavin Orpin Towers Watson: Laun Middleton, Oliver Rowlands, Mihir Shah	

PC12/1 CONSTITUTION OF COMMITTEE AND TERMS OF REFERENCE

It was noted that the Committee had been duly constituted as a sub-committee of the Board and would be chaired by VH.

A quorum of two directors being present, VH opened the meeting.

ACTION: Company Secretary

The Terms of Reference were agreed, subject to the Head of Finance and Compliance (SH) being added to the list of attendees.

PC 12/2 REVIEW OF CONSULTANCY SPEND

Consultancy fees paid to Towers Watson were noted. Further fees of £25,500 incurred for work between mid-March and July 2012 were also noted and approved. A budget of between £15,000 and £30,000 was proposed at this stage for Project Robin and this was agreed.

It was noted that it was difficult to estimate, at this stage, what level of fees would become payable to the new investment advisers, ahead of scoping out more fully the work to be undertaken by them. It was therefore agreed that a figure of up to £100,000 should be budgeted

ACTION: SH

PC 12/3 INVESTMENT ADVISER PRESENTATIONS

The Committee received three competing presentations in response to Post Office's invitation to tender for the appointment of a pensions investment adviser:

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a) AON Hewitt

It was noted that AON Hewitt had had experience of the Royal Mail Pension Plan (RMPP) in the past which might be useful, but that they were not conflicted in this respect.

Their presentation showed understanding of the tight timescales and of the need to control pensionable pay, given the sensitivity to increases and impact on funding.

The diagrammatic representation of risk on pages 8 to 12 of the presentation brochure was considered potentially useful for the Board and both the presentation and supporting documentation were agreed to be strong.

Clarification was requested on the liability cap in AON Hewitt's terms and conditions. AON Hewitt would revert to RC.

b) LCP

LCP's presentation was received. The approach to educating the Board was not felt to be particularly clear and there was a greater concentration on hedging strategy which was considered by the Committee to be less relevant at this stage.

c) Towers Watson

The document circulated by Towers Watson was technical and very detailed in style. Their approach to director education on pensions could potentially cost more and take longer than other advisers' suggestions.

Although stronger than the LCP bid, it was felt that the presentation had not demonstrated a proactive and logical "flow" or highlighted sufficiently clearly Towers Watson's understanding of Post Office pensions issues.

The Committee and attendees completed a scoring process using previously agreed measures. On the basis of such scoring, it was agreed unanimously that AON Hewitt should be recommended for appointment.

ACTION: RC RC would arrange for reference details to be sent to VH so she could make contact at the appropriate level. As mentioned above, RC would also obtain details on the liability cap for AON Hewitt to ensure it would be compliant with Post Office policy.

ACTION: VH VH would circulate the recommendation to the Board by email for approval, pending formal ratification of the appointment at the next Board meeting. This would allow the new investment adviser to begin work, in order to meet the tight timetable for making recommendations to the full Board.

RC left the meeting.

PC 12/4 PROJECT ROBIN

Representatives from Towers Watson rejoined the meeting to discuss the analysis undertaken to date on Project Robin.

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KP summarised the paper, which had been provided to

(i) inform the Committee on how Post Office might manage pensions costs; and
(ii) consider the impact on future pension costs of lower pensionable salary increases, or of closure to full accrual (potentially offering the Royal Mail Defined Contribution Plan as a future pension offering).

He noted that the timescale was largely driven by RMG, who wanted a member consultation to take place in late October/November, with a view to changes becoming effective in April 2013.

The approach understood to be favoured by RMG would be to limit increases to pensionable salary in respect of pre-2008 salary linked pension to a maximum of RPI, up to 5%. It was explained that the financial impact of a Rule amendment and change to pensionable salary being held in line with RPI, up to a maximum of 5%, was substantial and could give rise to the current company contribution levels remaining in place (by "amortising" the surplus) for a number of years, assuming the assumptions underlying the calculations remained true.

It was agreed that this approach should be recommended to the Board at its meeting in September. KP agreed to update the paper to reflect comments received. The paper would not include full closure as a viable option at this stage. The paper should, however, also include :

- Information about the potential impact for HR and industrial relations, including Union consultation;
- The position of ShEx, including their likely views on use of the Government asset allocation;
- Information on, and approaches to, RMG's proposed 6 year period of no pension change for members and what break clauses may be applicable, such as the POL Government Funding Agreement ending in 2015;
- A note that RMG's proposed changes to the defined contribution rate and waiting period were not required for POL until 2017, so would be a concession if given early. As a larger employer, RMG was required under the Workplace Reform provisions to make these changes now. It should be made clear that these changes were not directly linked to Project Robin.

ACTION: KP The paper would be circulated to the Committee in draft form for comment. It was noted that any final alterations could still be made at the next Pensions Committee meeting on 11th September.

POLPSC 12/5 ANY OTHER BUSINESS

ML updated the Committee on RMSEPP's consultation with members in connection with closing the scheme to future accrual, which closed on 31 July.

It was reported that the previous proposal by RMG to make a special employer contribution to RMSEPP had nearly been finalised. The contribution was expected to be £20 million in cash and £20 million in escrow. Details were being worked on by RMG, prior to formal agreement with the Trustees. Post Office would make a contribution of 7% of these amounts via an inter-company re-charge, in due course.

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POLPSC 12/6 **DATE OF NEXT MEETING**

The next meeting would be held on Tuesday 11 September 2012 at 11.30am, at 148 Old Street, London EC1V 9HQ.

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

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Not for circulation

POST OFFICE LTD BOARD

Proposed RMPP and RMDCP design amendments (Project "Robin")

1. Purpose

1.1 The purpose of this paper is to request approval for changes which have the support of the Pensions Committee in relation to the Royal Mail Pension Plan ("RMPP").

1.2 Post Office Limited is a participating employer in the RMPP with its own assets and liabilities, following the Pensions Solution as at April 1st, 2012. The Pensions Committee has carried out its own analysis in conjunction with Towers Watson and is in agreement with the proposal approved within RMG to amend the design of the salary-related service pension accrual, following appropriate consultation. The Board is requested to approve the approach for Post Office Ltd as below.

1.3 A further proposal relates to a change to the Royal Mail Defined Contribution Plan ("RMDCP"), which is part of the Post Office pension approach "package" being discussed in this paper. The Board is also requested to approve this change.

2. Introduction and summary

2.1 RMG has been working on a proposed change to the salary-linked part of pension within RMPP for pensions accrual, relating to the pre-2008 service which is still linked to pensionable salary. Post Office has been involved in this process from the outset as the issues of pension costs and the sustainability of RMPP are very similar. Post Office has also taken its own advice in connection with the Project.

2.2 The drivers behind the proposal are to reduce the long-term costs and maintain the sustainability of RMPP, as well as to decrease volatility and uncertainty both in funding and in the effect which this has on financial accounting for the employer. It is consistent with the Post Office Funding arrangements which encourage keeping costs as low as possible. If the proposal is not effected, given market conditions, it is anticipated by Towers Watson that the Post Office employer contribution rate may rise from 17.1% to around 30% of pensionable payroll as part of the valuation process underway and it will be effective as at 1 April, 2012.

2.3 As at 1 April, 2012, the Pensions Solution transferred assets and liabilities for pensionable service up to that date to the HMG-backed Royal Mail Statutory Pension Scheme. However, the liability for increases to pensionable pay above RPI in the future rests with RMG and Post Office, even in respect of past service. Both the RMG and Post Office sections of the revised RMPP were left with sufficient assets as an "opening balance" to allow for future salary growth of 1% above RPI. In the case of Post Office, this is approximately £144 million (plus an allowance for expenses and provision for added year AVCs).

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2.4 Post Office and RMG have each looked at a number of strategies for final salary pensions and have focused on one preferred design option. This has already been approved in principle within RMG and is now presented for the Post Office Board's consideration.

3. Recommended change and other related issues

3.1 The principal change discussed by the Pensions Committee, and recommended to the Post Office Board, is to limit increases to pensionable salary in respect of pre-2008 salary-linked pension to a maximum of RPI, up to a cap of 5%, rather than the full increase to base pay.

So, for example, were an employee's salary to rise by 5% when inflation is running at 3%, then 3% would be applied to defined benefit pensionable pay. Conversely, if salary increases were 1.5%, then the increase to pensionable pay would be 3%. It is proposed to give effect to this change by amending the scheme rules.

The proposal is also to impose such a cap on the career-average part of pension for post-2008 service for employees; however this is subject to negotiation (see 3.4 below).

3.2 The approach of awarding pensionable increases at RPI up to 5% has the following advantages:

- The change would potentially create a surplus in the Post Office Section of RMPP for a period of time. In point 2.2 above, the pre-funding in the Post Office Section allowed for salary growth of 1% above RPI and so the opening balance would become surplus. This could be worth up to £144 million for the Post Office Section. The buffer created by this margin will help in negotiations with the Trustee over the amount of the fund invested in return-seeking assets and the appropriate discount rate(s) used to value the liabilities in the forthcoming valuation, as well as investment strategy.

- Attached is a financial summary prepared for Post Office by Towers Watson, showing the potential impact of the change based upon different scenarios. This demonstrates that the surplus in the Post Office Section is likely to be sufficient for Post Office to be able to maintain the current level of employer contributions (ie 17.1% of Pensionable Pay) to RMPP for a number of years – potentially between 13 and 19 years depending on the investment and other experience of the scheme.

- Each level of indicative employer contribution rates has some sensitivity analysis. These are different withdrawal rates (DB scheme leavers) of 5% and 10% and also two assumed rates of investment return - gilts plus 1.5% and gilts plus 0.75%. For the purpose of this paper, the projections assuming 10% pa withdrawal rates have been ignored since this is not understood to be a realistic scenario.

- The retained asset basis was used to determine the initial asset share for Post Office following the Pensions Solution and may be considered to be a normal "funding" basis for calculating employer contribution rates. However, the proposed funding basis for the current valuation will be subject to negotiation with the trustees.

- The solvency basis is effectively a "worst-case" scenario and assumes that the liabilities are taken on by an insurer – this basis also has to be disclosed to members of all schemes each year.

- From an employee perspective, there is still an RPI link to pre-2008 pensionable salary even if actual salary rises are less than RPI. This would be seen as advantageous for some employees and distinctly preferable to full closure of the plan to future accrual.

- It provides more certainty for Post Office in terms of growth in pensionable pay.

- It should be relatively easy to implement from an administrative platform viewpoint whereas many of the other alternatives considered would be difficult.

3.3 From an HR and IR perspective, it is anticipated that, to align with the RMG approach, joint consultation would take place with the Unions about the change in late September/October. Post Office would then issue its own consultation documents for employees (but similar to the RMG wording) in late November/December. Assuming the proposal is effected, this would give time for the necessary changes to systems and legal work to be completed in time for an effective date of change in April, 2013.

3.4 It should be noted that the parameters of the proposal are not yet fully finalised – the process of informal discussion with the Unions about the plans is only just underway (not within Post Office yet). To date, the discussions have been facilitated by Jon Millidge in RMG but Post Office will be involved shortly to represent its views. It is possible that some parameters may change as the discussions evolve if necessary and it is possible that Post Office will have differing approaches on some areas. For example, one approach would be to consider increasing the RPI parameter to RPI + 0.5% for a given period as part of negotiations. This has not yet been agreed and will become clearer as the discussions progress. Any changes will be costed by Post Office and the Board informed of any material changes.

3.5 It is proposed that, as part of the consultation process, there would be an assurance that there would be no further substantive changes to pensions for a period of 6 years from the change (which is 2 valuation periods for RMPP), with an exception for "force majeure", for example some significant change to pension funding regulations or the employer pension contribution rates requested by the Trustee. This is still being evaluated.

3.6 ShEx have indicated in general terms to RMG that they would be supportive of the proposal. Subject to Post Office Board approval of the proposal, Post Office will approach ShEx to ensure that the proposals for change (particularly use of any surplus) are aligned with the Shareholder's thinking.

3.7 Recognising that the financial and risk issues are the drivers to the change, the Board is being asked for approval but this will be subject to the creation of a full implementation plan. This will cover the HR issues such as consultation with Unions and colleagues, legal issues, liaison with the Trustee of RMPTL and other technical and administrative details.

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3.8 The proposed change is seen by RMG as an integrated approach to pensions and so, as part of the consultation, they propose that the DC Plan employer contribution rates are increased by 1%. If this were to be implemented for Post Office Limited members, the impact would be to increase Post Office DC costs by an estimated initial £200,000 per year (based on current membership). This cost is justified by the use of the surplus to reduce DB pensions costs. It is recommended that Post Office Limited follows the same approach for the DC Scheme as within RMG. The date of implementation of any changes to the DC Scheme will be confirmed.

4. Recommendation

The Post Office Board is requested to:

4.1 approve in principle the approach as detailed above, subject to the creation of a detailed implementation plan;

4.2 delegate authority to the Pensions Committee to implement the strategy in line with the timings set out above and to agree with RMG, on behalf of the Board, any changes to parameters as part of the on-going negotiations.

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Period until RMPP funding level reduces to 100%

- The table below shows the estimated period (in years) for which the RMPP would be in surplus, under the assumptions adopted, if pensionable salary increases were in line with increases in the Retail Prices Index (RPI), capped at 5% per annum. We show the analysis for:
  - different investment returns. The higher the return on assets, the longer the surplus lasts
  - RMPP employee turnover (5% or 10% per annum). The higher turnover is, the longer the surplus lasts
  - Fixed POL contribution levels (held below the cost of funding RMPP benefits as they build up to POL employees). The higher these fixed contribution rates, the longer the surplus lasts

	Period (years from 2012) until RMPP funding level reduces to 100%							
	Investment return = gilts plus 1.5% pa				Investment return = gilts plus 0.75% pa			
RMPP contribution scenario	Retained Asset basis		Solvency		Retained Asset basis		Solvency	
Turnover scenario	5%	10%	5%	10%	5%	10%	5%	10%
17.1% flat	19	Forever	7	11	13	28	7	8
18.3% flat	Forever	Forever	8	Forever	15	Forever	7	9
20% flat	Forever	Forever	9	Forever	17	Forever	8	11
22% flat	Forever	Forever	12	Forever	22	Forever	9	Forever

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POLB(12)7th
POLB12/71-79

Post Office Limited
(company no. 2154540)

Minutes of the meeting of the Board of Directors held on 4th July 2012 at the Gatwick Mail Centre, James Watt Way, Crawley, West Sussex RH10 9AA

Present:

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

In attendance:

Alwen Lyons	Company Secretary
Kevin Gilliland	Sales and Network Director
Martin Moran	Commercial Director

POLB12/71 **NETWORK TRANSFORMATION (NT) UPDATE**

Agency Network Transformation

(a) Kevin Gilliland presented an update on NT progress. He reported that 217 new model branches were now live and the business was seeing a good response to the model from the market and from the Post Office's multiple partners. He was confident that the target of 1,200 branch conversions would be achieved this year but there was an ongoing risk if the programme lost stakeholder support from the NFSP or Consumer Focus. Kevin Gilliland explained that successful agents from Phase 1 of the programme were now working with the business as advocates, presenting at road shows and offering one to one visits with prospective branches.

(b) The Board asked at what point the business would be confident about hitting the 3 year target. Kevin Gilliland explained this would probably be in 2013/14 (after the next funding discussions); however, the results for this year should give some confidence.

(c) The Board requested a quarterly report to understand the transformation pipeline, showing the number of Postmasters interviewed; number accepted; number in progress and the number completed against quarterly targets.

Paula Vennells assured the Board that the Executive Team already monitored the programme at this level and would provide this information for the Board.

ACTION:
Kevin Gilliland/Chris Day

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ACTION: Kevin Gilliland/Chris Day

(d) Alasdair Marnoch asked that a separate value for money NT scorecard be produced to show the number of branches converted; the investment made in their transformation and the benefits flowing from that investment.

Crown Transformation

(e) Kevin Gilliland presented the update on Crown Transformation and assured the Board that he was now more confident the business would achieve the breakeven target for Crowns. A new team was in place and the Birmingham trial continued to be successful - delivering mail automation rates of 78%; a reduction of staff; average queuing times of 95% served within 5 minutes and a reduction in the loss of over £200k per annum, which should see the office back to profit by 2014. Paula Vennells stressed that the big city centre branches were the biggest challenge for the business, so the results at Birmingham were particularly encouraging.

(f) Susannah Storey explained that the Crown Programme would be a focus for the Government, especially as the business had moved away from the original plan to buy down staff salaries. Paula Vennells confirmed that the strategy had changed since the funding agreement but it had the same target of breakeven by 2015.

(g) Chris Day explained the changes to the 2010/11 Crown P&L to align with the overall business approach to depreciation and to take account of the renewals and retention income generated by the Crown Branches.

He explained the changes in the 2011-12 targets driven by the Mails Distribution Agreement move from fixed to variable income. The Board agreed to the changes in the Crown P&L and the target of a deficit of £40m for 2012-13, although they were concerned that this would leave an additional improvement of £20 million to be made both in 2013-14 and 2014-15.

Kevin Gilliland explained that the plan focused on four areas: income; staff; property and central costs and included critical activities for each area with milestones which would trigger changes if they were missed, eg winning the DVLA contract.

ACTION: Kevin Gilliland/ Chris Day

(h) Neil McCausland asked for the original P&L in the Strategic Plan to be re-cut and a forecast P&L for the 5 years of the plan to be produced including the effect of the new initiatives.

(i) The Chairman asked for a Board quarterly update on Crown Transformation to monitor against the revised P&L. Susannah Storey stressed the importance of having a clear direction and results to share with Government, to show the Post Office's confidence in its ability to deliver on Crowns as part of the context of the next round of future funding discussions.

ACTION: Kevin Gilliland/Chris Day

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Queuing

(j) Kevin Gilliland summarised for the Board the recent results of feedback on the queuing experience of Post Office customers and the improvement in waiting times. The Board acknowledged the improvement but agreed this was not the public perception, especially at peak times and at Christmas. Kevin Gilliland explained that his benchmarking with other leading retailers showed varying times for changes in perception after improvements in queuing times, with 18 months to 2 years being the norm.

POLB12/72 **DRIVING EFFICIENCES AND VALUE FOR MONEY**

(a) Chris Day presented the Driving Efficiencies paper and explained the information about how to increase efficiencies in the current funding period without prejudicing the transformation programmes already under way.

He explained the approach of tightening up existing business processes, such as investment and appraisal, whilst strengthening the commercial financial capability in the business to introduce more rigour and challenge through the quarterly performance review process.

(b) The Board asked if Chris Day had the right resource to deliver the efficiencies work required. Alasdair Marnoch offered some possible resource solutions which he would discuss with Chris Day.

ACTION: Chris Day/ Alasdair Marnoch

(c) A paper detailing the approach to wider changes to the cost base would be presented at the September Board.

ACTION: Chris Day

POLB12/73 **FRONT OFFICE OF GOVERNMENT ("FOoG") UPDATE**

Universal Credit

(a) Martin Moran explained the work underway with the DWP to introduce Universal Credit ("UC") from the Spring of 2015. The Post Office would take part in a pilot in late Spring 2013.

The migration to UC requires identity verification provision, for which the DWP has recently issued a tender. The Post Office is working with DWP to help define the process and has put in a response to supply all three parts of the tender: face to face; call centre and online solutions. (The face to face part of the bid is worth £20 million).

The Board recognised that the most significant likely competitor for the face to face solution would be Paypoint. Martin Moran expected 3 or 4 competitors to bid for the work and explained that the decision date was currently September 2012.

Universal Credit could also have an impact on the development of the Post Office's current account business.

The Board recognised the importance of UC to the Post Office's future Front Office of Government role and asked for reassurance that the

Post Office was building good enough relationships to be part of the solution. Martin Moran confirmed this to be the case.

DVLA Tender

(b) The Board discussed the DVLA Tender and debated the pricing in the bid. Martin Moran explained that 60% of the DVLA decision would be based on technical capability and 40% on price. The Board asked Martin Moran to update them before the final contract pricing decision was taken. Alasdair Marnoch offered to meet Martin Moran and Chris Day to ensure that all angles had been explored.

ACTION: Martin Moran/Chris Day

A decision on the DVLA tender was expected in August. It was explained that, if the Post Office were to be awarded the DVLA business, contractual agreements would need to be drawn up and signed quickly. It was therefore proposed that the Board should establish a Sub-Committee of any two directors, to be able to act on behalf of the Board to agree and sign any contract documentation required by DVLA if the bid were successful. All Board members would receive the same information but final decisions would be delegated to the Sub-Committee.

It was resolved that a Sub-Committee of any two directors, to include at least one Executive Director, be authorised to approve and sign any documents necessary to formalise a contract with DVLA.

ACTION: Company Secretary

FOoG Sales Pipeline

(c) Martin Moran updated the Board on the sales pipeline and explained that he was comfortable with the plan for 2012 through to 2014 but year 3 opportunities were less clear. He now had a new sales team in place, targeting three areas; central government departments; government agencies and local authorities. The proposition was to offer a network spread, world class identity technology and cost savings for local authorities.

The Board understood the challenges of resource and the difficulty of pinning down precise opportunities but asked that Martin Moran update the sales pipeline as a more focused work plan, concentrating on the areas of biggest opportunity.

ACTION: Martin Moran

POLB12/74 **MINUTES OF THE PREVIOUS MEETING AND MATTERS ARISING**

(a) The minutes of the Board meeting held on 23 May 2012 were agreed and approved for signature by the Chairman subject to the following changes:

POLB12/65:
The Board agreed that the normal period 1 Performance Report would not be suspended but be replaced by a "light" report. It was also noted that specific timescales should be met when reports were requested.

ACTION: Chris Day

(b) The status report was noted.

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POLB12/42:
The Horizon risk and timeline review including the use of "hot and cold" back up systems would return to the Board as part of the Horizon update in September.

ACTION: Lesley Sewell

POLB12/75 **MINUTES FOR NOTING**

(a) The Board noted:

(i) the minutes of a meeting of the Audit, Risk and Compliance Sub-Committee held on 23 May 2012

(ii) a record of the formal approval of the annual accounts by two directors on 27 June 2012.

POLB12/76 **CHIEF EXECUTIVE'S REPORT**

Project Eagle

(a) Paula Vennells explained that the negotiations were progressing with one final issue to resolve, that being the level of capital the Bank would need to fulfil the contract requirement and not trigger termination.

This was clear for the years until 2016 but, as regulatory requirements will change after that date and details remain as yet undefined, it is difficult to reach agreement on the level of capital required post 2016. Therefore, the Post Office has suggested the improved base through to 2016 be carried forward, with a review point at 2016 as an added protection.

(b) Alasdair Marnoch asked the business to check that the governance arrangements for monitoring performance were agreed and written into the contract.

ACTION: Nick Kennett / Chris Day

(c) The actions from the Board Eagle Update would be circulated to the Board.

ACTION: Company Secretary

(d) The Board accepted the update and asked for a briefing note confirming the details, once the wording for the review date had been drafted.

ACTION: Nick Kennett

Segregation

(e) Paula Vennells explained that the Business was not achieving the segregation targets set out in the Mails Distribution Agreement; however, there were some issues with the testing which were being discussed with Royal Mail. The risk of missing all the targets in 2013-14 was £6 million and this would be built into the Risk Register if necessary.

(f) The Board noted the latest Health and Safety report and the Appendix showing the most significant recent incidents.

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James Arbuthnot

(g) The Chairman updated the Board on the meeting taking place on 4 July between James Arbuthnot and 2nd Sight, Forensic Accountants. She promised to keep them informed.

POLB12/77 **FINANCE/PERFORMANCE REVIEW**

(a) The Board noted the Period 2 finance and performance update.

(b) Chris Day presented the "flash results" for period 3 which showed net income £6.1 million favourable to budget and cash flow of £39 million.

(c) The Board discussed the investment expenditure which at period 3 was £6.5 million above budget. Chris Day assured the Board that this would be reviewed with each function at their quarterly performance review but that he did not expect any additional action to have to be taken.

(d) He provided some insight into P3's results which would be explained in more detail at the next Board meeting.

ACTION: Chris Day

(e) Chris Day recognised the need to report on the Strategic Programmes and on Business as Usual together, to give the Board a clear view of the current year's position and its effect on the strategic plan.

A suggested report would be circulated to the Board for feedback.

ACTION: Chris Day

POLB12/78 **ANY OTHER BUSINESS**

Update on Strategy Away Day

(a) The Board agreed the strategy away day actions and the rolling agenda. with the inclusion of the digital strategy. The Chairman suggested that quarterly business updates, eg on NT or FOoG, could be covered by the Chief Executive's Report at future meetings. The Board agreed the need for effective reporting on the programmes, as discussed during the Network Transformation, Crowns, and Finance and Performance Updates.

ACTION: Company Secretary

Mutualisation Sub-Committee

(b) A proposal was received for establishment of a formal Sub-Committee of the Board to oversee the progress of workstreams within the Post Office looking at Mutualisation. Draft Terms of Reference for the Committee were discussed. It was proposed that the Sub-Committee should meet for the first time following the Board meeting.

Regular updates would also be provided by Paula Vennells, as Chair of the Stakeholder Forum which would be established following the Government's recommendations.

After discussion, it was resolved that a Mutualisation Sub-Committee be established, to be chaired by Alice Perkins under the Terms of Reference

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presented to the Board, except that the Committee would consist of all the Board Members.

Pensions Sub-Committee

(c) A proposal was also received for establishment of a Pensions Sub-Committee. There would be important decisions to be made over the coming six months about the future of pension provision for Post Office employees. It was noted that Virginia Holmes had relevant experience of pension investment matters.

It was resolved that a Pensions Sub-Committee be established, to be chaired by Virginia Holmes and with the Terms of Reference presented to the Board. The other members of the Committee would be Susannah Storey and Chris Day.

Board calendar

(d) The Board then discussed the draft Board calendar and formation of other Sub-Committees to consider senior level remuneration and future senior level appointments. The Chairman would discuss membership of these committees further with the Company Secretary and with the directors. A simpler form of calendar would be produced, as well as an overall Executive Business calendar.

ACTION: Company Secretary

It was agreed that the Company Secretary would communicate Committee memberships and set a calendar of dates for each relevant Committee, before the next Board meeting.

ACTION: Company Secretary

POLB12/79 **NOTING PAPERS**

The Significant Litigation Report (POLB(12)96) was noted.

The Register of Sealings (POLB(12)97) was noted. The Board resolved that the affixing of the Common Seal of the Company to the documents set out under numbers 797 to 801 inclusive in the Register of Sealings is hereby confirmed.

The minutes of the Communication Action Group (POLB(12)98) were noted.

The latest employee engagement scores (POLB(12)99) were noted.

The amended Crown Loss measure to be included in the Bonus Scorecard for 2012/13 (POLB(12)100) was noted.

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

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POST OFFICE LIMITED BOARD
Status Report

No.	REFERENCE	ACTION	BY WHOM	STATUS
		1. Actions Appertaining to Network Transformation and Crown Offices		
1a	July 2012 POLB12/71(c)	The Board requested a quarterly report to understand the transformation pipeline, showing the number of Postmasters interviewed; number accepted; number in progress and the number completed against quarterly targets. The Chairman also asked for a Board quarterly update on Crown Transformation to monitor against the revised P&L	**Kevin Gilliland**	Sample "pipeline" report included as Appendix A to Chief Executive's report.
1b	July 2012 POLB12/71(d)	Alasdair Marnoch asked that a separate value for money NT scorecard be produced to show the number of branches converted; the investment made in their transformation and the benefits flowing from that investment.	**Kevin Gilliland/ Chris Day**	Will be developed in Q4 2012 and implemented in Q1 2013, as the outcomes from converted branches begin to flow through.
1c	July 2012 POLB12/71(h)	Neil McCausland asked for the original P&L in the Strategic Plan to be re-cut and a forecast P&L for the 5 years of the plan to be produced including the effect of new initiatives.	**Kevin Gilliland/ Chris Day**	3-year Crown P&L will be included in Finance and Performance update for October Board meeting.
1d	July 2012 POLB12/71(i)	Susannah Storey stressed the importance of having a clear direction and results to share with Government, to show the Post Office's confidence in its ability to deliver on Crowns as part of the context of the next round of future funding discussions.	**Kevin Gilliland/ Chris Day**	Funding discussion being planned for November, to include 2012/13 half year Crown results.
1e	June 2012 (Strategy Day)	The business was asked to undertake further thinking on how it would ideally expand the Network (through "locals" or "basics") and return to the Board with options for future network size and shape, noting what are the opportunities, the costs and any possible political implications.	**Martin Moran/ Kevin Gilliland**	Paper to come to Board in November.
		2. Actions Appertaining to Efficiencies		
2a	July 2012 POLB12/72(b)	The Board asked if Chris Day had the right resource to deliver the efficiencies work required. Alasdair Marnoch offered some possible resource solutions which he would discuss with Chris Day.	**Chris Day/ Alasdair Marnoch**	Finance Business Manager has been appointed to co-ordinate current year efficiency monitoring and the approach to strategic cost reductions; external consultancy partners have been engaged.

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		3. Actions Appertaining to Financial Services		
3a	June 2012 (Strategy Day)	The Audit, Risk and Compliance Committee was asked to consider how best to mitigate risk in regard to the relationship with the Bank of Ireland.	**Nick Kennett/ Alasdair Marnoch**	To be reviewed by ARC in November.
		4. Actions Appertaining to Board Reports		
4a	July 2012 POLB12/78(d)	The Board asked to be given more notice of forthcoming meetings and events. It was agreed that the Company Secretary would communicate Committee memberships and set a calendar of dates for each relevant Committee, before the next Board meeting. A simple form of calendar would be produced, as well as an overall Executive Business calendar.	**Alwen Lyons**	A calendar of Board dates has been drafted and will be finalised shortly. Mark Davies is working on a more detailed Executive Calendar.
4b 4c	May 2012 POLB 12/65(d) July 2012 POLB12/77(d)	Virginia Holmes asked for a more detailed briefing on the data behind the scorecard. Paula Vennells agreed that, for the next meeting, both the scorecard and a transformation programme RAG report should be provided. P3's results to be explained in more detail at the September Board meeting	**Chris Day**	A transformation scorecard and explanation are included in the performance report.
4d	July 2012 POLB12/77(e)	Chris Day recognised the need to report on the Strategic Programmes and on Business as Usual together, to give the Board a clear view of the current year's position and its effect on the strategic plan. A suggested report would be circulated to the Board for feedback.	**Chris Day**	Performance pack now includes Strategic Performance reporting, Crown P&L and network conversions.
		5. Actions Appertaining to Strategy		
5a	June 2012 (Strategy Day)	The business was asked to consider what we mean by "financial sustainability" including the working capital requirements.	**Chris Day**	Work is ongoing within the mutualisation finance workstream. An update is provided in a paper to the Mutualisation Sub-Committee.
5b	June 2012 (Strategy Day)	The business was asked to scope POL's future offer to SMEs including the self-employed and to consider whether the structure within the business supports the new focus on this customer segment.	**Sue Barton**	To be included in the papers for the November meeting.
5c	June 2012 (Strategy Day)	The Business was asked to develop a customer strategy including the use of customer data.	**Sue Barton**	To be included in the papers for the November meeting.
5d	June 2012 (Strategy Day)	Chris Day to lead on updating and prioritising the funding obligations showing clearly what, if anything, was not on track. The Board asked that future performance reporting should include updates on priority funding obligations, including narrowing the dependency on NSP, and cashflow.	**Chris Day/ Alwen Lyons**	Noted for Performance Report. Board discussion on funding to be arranged for November.

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5e	June 2012 (Strategy Day)	It was agreed that the work on the next Funding Proposition should be starting now. The business was asked to consider alternative scenarios, including the counter factual if no funding is received. A proposition should come to the Board highlighting how the Board will be involved in the process and where it can add support.	**Chris Day**	Included in paper for Mutualisation Sub-Committee. Board discussion on funding to be arranged for November.
5f	June 2012 (Strategy Day)	The business was asked to evaluate RMG's commitment to C& R developments and put in place internal milestones and trigger points to monitor progress. POL should also consider a "Plan B" if C&R developments were delayed	**Martin Moran**	Martin Moran to report back to Board following discussions with RMG in November.
5g	June 2012 (Strategy Day)	POL should consider possible strategies to combat the Paypoint threat, including possible partnerships with a 3rd party (eg Camelot).	**Sue Barton**	Will be considered as part of strategy discussions in November.
5h	June 2012 (Strategy Day)	The business was asked to consider how it would develop its digital plan and whether it needed new internal or external resource to scope out its E-commerce plan.	**Sue Barton**	Digital strategy included on Board agenda for November.
5i	July 2012 POLB12/78 (a)	The Board agreed the strategy away day actions and the rolling agenda, with the inclusion of the digital strategy. The Chairman suggested that quarterly business updates, eg on NT or FOoG, could be covered by the Chief Executive's Report at future meetings. The Board agreed the need for effective reporting on the programmes, as discussed during the Network Transformation, Crowns, and Finance and Performance Updates.	**Alwen Lyons**	Noted for Chief Executive's Report and Finance and Performance Update. Digital strategy included on agenda for November 2012.
		6. Actions Appertaining to People and Remuneration		
6a	May 2012 POLB12/59(b)	Final matrix plotting performance and potential of the SLT to be circulated, once the assessment exercise has been completed.	**Susan Crichton**	Final matrix awaiting completion of assessment process.
6b	May 2012 POLB12/59(d)	Reward principles to be discussed at first Remuneration Committee meeting. (See also 4g below)	**Alwen Lyons**	Meeting proposed for 4 October.
6c	May 2012 POLB12/59(e)	The Chairman asked the business to ensure that its recruitment and promotion processes produced a more diverse population.The Chairman's hope would be a very different feel to the SLT in the next couple of years.	**Susan Crichton**	Diversity update will be discussed by Nominations Committee at its first meeting in November.
6d	May 2012 POLB12/59(g)	The HR Director would come back to the Board with a note setting out timelines and milestones for implementation of the above changes.	**Susan Crichton**	Progress will be discussed by the Nominations Committee and reported to the Board in November.
6e	May 2012 POLB12/59(l)	Bonus payments for POL senior employees in future would be determined by the Remuneration Committee. The Company Secretary was asked to set up a meeting of the Remuneration Committee for this purpose.	**Alwen Lyons**	Remuneration Committee meeting proposed for 4 October.

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		7. Actions Appertaining to IT & Procurement		
7a	April 2012 POLB 12/28(e)	The Board to convene a meeting to take stock of the position on IT procurement and strategy.	**Alwen Lyons**	An IT workshop is being planned for November 2012.
		8. Actions Appertaining to Front Office of Government		
8a	July 2012 POLB12/73(b)	Alasdair Marnoch offered to meet Martin Moran and Chris Day to ensure that all angles had been explored re the DVLA tender	**Martin Moran/ Chris Day**	Timetable has moved. A meeting will be arranged in September, before a pricing proposal is submitted to DVLA.
8b	July 2012 POLB12/73(c)	The Board understood the challenges of resource and the difficulty of pinning down precise opportunities but asked that Martin Moran update the sales pipeline as a more focused work plan, concentrating on the areas of biggest opportunity.	**Martin Moran**	The sales pipeline is being updated. A summary of the latest position and the top opportunities by value is attached to the Actions Log.
		9. Actions Appertaining to Personal Injury Referral Fees		
9a	Feb 2012 March 2012 POLB 12/32	Nick Kennett to investigate the flow of fees to ensure there is no inducement of wrong behaviours, after which Paula Vennells would review to enable her to give comfort to the Board. Neil McCausland to take ownership of this issue going forward to ensure the business was getting the required information and challenging Junction to ensure that the Post Office was beyond criticism.	**Nick Kennett** **Neil McCausland/ Nick Kennett**	A request for some further confirmations was made to Junction and Rob Clarkson produced a brief for discussion with Neil McCausland in July 2012. Nick Kennett will discuss with Neil.
		10. Actions Appertaining to Pensions – Next Steps		
10a	March 2012 POLB 12/39	Work in respect of risk appetite and the financial impact of various pensions options to be deferred, after input from Virginia Holmes.	**Susan Crichton**	A paper on investment risk will come to the Board in October 2012
10b	March 2012 POLB 12/39	Proposal to be circulated concerning RM making a lump sum contribution to the RMSEPP Trustees.	**Chris Day**	A contribution of £20 million with a further £20 million in escrow was agreed by RMG and has been noted by the Pensions Committee. A 7% re-charge will be made to Post Office in due course.

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Front Office of Government Update on Priority Opportunities

- DVLA Front Office Services (£420m). There have been further delays but nothing out of the ordinary. The pricing remains the critical element.

- IPS online passport applications (AEI)(£136m) - This opportunity has been delayed by the updates to their back office system which are the responsibility of their current supplier. IPS have issued a one year extension to the current paper check and send solution whilst the current supplier updates their systems and they work out their strategy to deliver the online service.

- DWP Universal Credit Identity Assurance (£100m). The client has held a series of sessions with the eight bidders. The final sessions focused on affordability which is thought to be a serious issue for the programme. We have received assurance that the framework will be awarded on the 28th of September with the call off for Universal Credit issued after more detailed discussion amongst the selected bidders to ensure the scheme works.

- DVLA Assisted Digital (Print on Demand) (£100m). This procurement is effectively on hold whilst the Front Office Services competition is run. The procurement will also need to be coordinated by the Cabinet Office. It is not clear that whether DVLA will lead on this for Government or another Government department or agency.

- HMRC Identity Assurance one click (£27m). We have submitted a paper to the HMRC team as part of their market sounding. HMRC are keeping a watching brief on the DWP and Cabinet Office activities in this area before they commit to a strategy. We are currently focusing our investment on DWP, as the result of that procurement will inform the investment for the HMRC response.

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POST OFFICE LTD BOARD

Chief Executive's Report

Strategic Programmes:

1. Network Transformation

- We have now engaged with enough agents to give us confidence that we can deliver our target numbers for 2012/2013. A potential risk to delivery does exist with agents not completing and returning their financial assessments as quickly as we require. Remedial actions are in place and progress is being monitored.
- Two outstanding obstacles to implementation are now resolved: the new code of practice and the approach to customer engagement for onsite local conversions have been agreed with Consumer Focus; and the final versions of the new main and local contracts have been agreed with the NFSP.
- Board Quarterly Update: See Appendix A.

2. Crown

- **Transformation:**
  - The programme is in the design and pilot phase. The blueprint design for branches has been agreed and will be used in the Nottingham and Peterborough pilots to go live in early November. The pilots will test how the new operating model and branch design will impact on customer experience, operating costs, and sales.
  - Five Post and Go pilots are live, testing whether we can 'migrate' 40% of all mails transactions from the counter to the new kiosks. Automation should allow for a total reduction of 420 FTE over the course of the programme. The pilots will be evaluated in October.
  - Phase 1 of the VR exercise is progressing to plan with 115 FTE exiting the business by the end of October. This is a key part of our work to reduce the staffing requirement by the equivalent of 230 FTE roles by end October 2012. Furthermore, we are reviewing duty schedules in collaboration with the CWU, to match the working hours to customer demand, including promotion of flexible working arrangements.
  - Phase 2 of the VR exercise (including branch managers) is underway with a planned exit of 144 staff in January 2013. We are working with unions to maximise numbers and are looking to release more branch managers than previously planned. This will result in a greater than projected full year saving for 2012/13.
  - The Systems Thinking pilot commenced at Camden Crown Office in July 2012 for 8 weeks, focussed on redesigning current processes to deliver improvements in Service, Efficiency, Revenue, and Morale.

- **Union Partnership:**
  - As outlined above, both unions are working collaboratively on various store pilots. The fact that neither have lodged a formal pay offer is helpful. However, the CWU is beginning to apply more pressure – an update will be given at the Board meeting.

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  - The CWU maintains its requirement for a 3.5% consolidated pay increase for 2012/13 with non-consolidated payments in each of the subsequent two years. The CMA prefers a 1 year deal.
  - Further meetings are in place with the CWU and CMA to share the impact that increased costs will have both on the P&L and the shape of the Crown network in the future.

3. IT Landscape

Agenda item – noting papers.

Following a period of planning between RMG and Post Office, we are now in a position to serve notice on the IT services that RMG currently provide to Post Office. The estimated cost of separating the IT services is in line with what has previously been reported to Board, around £21m. This estimate is based on the information currently available and could change as more information becomes available. We will formally issue notice at the MSA board scheduled for 3rd October and this will initiate a 6 month detailed planning phase.

4. Business Efficiencies

Agenda item

5. Mutualisation

Sub-Committee item

Business Report:

1. Mails

- **Joint RMB/POL Board Update:**
The joint Royal Mail Board/POL Board update, to review the progress that has been made with regard to the joint developments in the Returns and Collections market (Returns, Click and Collect and Failed Deliveries), will now take place in November, not September as previously planned. It is likely that the delay has been partially caused as a result of the Royal Mail Chief Executive not being satisfied with the speed of progress within Royal Mail, particularly in the Failed Deliveries (see below) area.

- **Collections and Returns:**
  - Developments around online shopping: Returns are on track and progressing well, the intelligent returns proposition is on target to launch in January. The launch appears well timed as Returns volume is 4% up versus last year.

  - The Click and Collect developments are progressing well. RMG are progressing the development of their API (the software build that allows different web platforms to communicate – this will allow Retailers Web platforms to offer Post Offices as a collection point) these appear to be on track for launch early next year.

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However, there is some concern from within the Post Office team that Royal Mail may regard customer collection from a Post Office as being an added cost to their business unless consumers or a retailer cover the addition charge that Post Office would levy for the service.

- Failed deliveries planning is still in the feasibility stage, although some good progress has been made over the last week or so. There will need to be a negotiation over price which might prove difficult. Strategic conversations are due to take place in the next week to scope requirements from both parties.

- **Small Business:**
  - 'Drop and Go' has rolled out to a total of 2k branches giving the branches the option to offer small businesses a much enhanced customer experience service.

  - In-depth customer research into small business loyalty activity is due back imminently to support the launch of loyalty activity later this year. We are scoping a solution which will remove the dependency on Project Penguin (the delivery of a Financial Services Pre Paid Card platform) and allow us to press ahead within the planned timescales.

- **Segregation In branch**
  Although there was some improvement, overall performance on 1st and 2nd class remains disappointing. Period 5 actual performance was 56% against a target of 95%. Network teams are progressing with plans to address this including the Horizon solution to flag to the counter colleague the correct bag to be used at the point of sale.

2. Financial Services

Agenda item

3. Front Office of Government (FOoG)

- The DVLA Competitive Dialogue phase completed on 30 August and the Invitation to Submit a Final Tender (ISFT) was issued on 14 September. The completed Submission is due by 28 September and the Contract award is expected around 12 October 2012.

- The DWP Identity Procurement has slipped because the DWP appear to have a number of bids that would exceed the money they have available to pay for the solution; consequently they are talking to all bidders about lower cost solutions. The Team are now engaged in detailed dialogue looking at volumes, cost drivers and the Terms and Conditions in the proposed contract.

Paula Vennells
September 2012

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Network Transformation Programme Update

The Board requested a quarterly report to highlight the transformation pipeline, showing the number of postmasters interviewed; number accepted; number in progress and the number completed against quarterly target

This update has two sections:

- **Section one shows a snapshot of where branches are throughout the end to end implementation process and provides an explanation of the process' component parts**
- **Section two provides an overview of the three year delivery plan, with supporting commentary**

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Status Report as at 05/09/2012: The Programme remains on target with sufficient volunteers. Work continues to deliver the year one target but there is a bottleneck caused by Agent delays in returning their completed financial assessments. A number of activities are in place to reduce the bottlenecks and ensure sufficient future volunteers

5067 The population of branches that wish to convert to a new model or leave the business as at period 6. This includes multiple partner branches and service issues

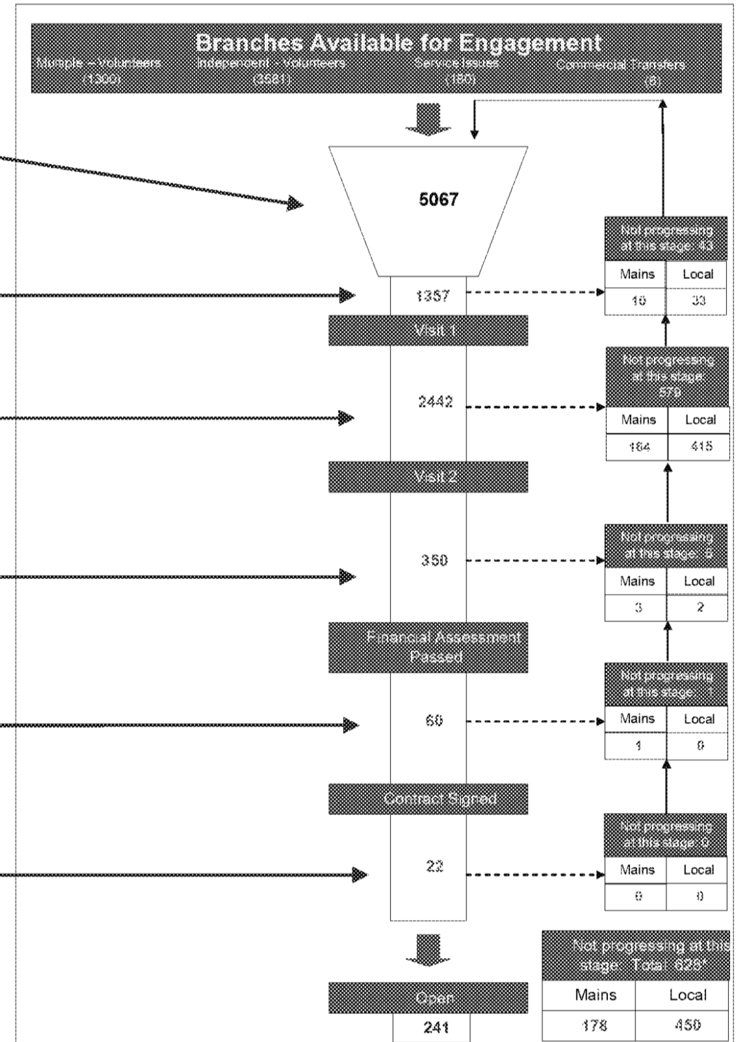
1357 Branches awaiting their first visit. These include branches that want to change later in the programme, high security branches, some very small branches and those currently on a final written warning

2442 Branches awaiting their second visit. Includes branches currently with the property team, those agents who are undecided and those multiple branches in the plan for years 2 & 3. It also includes potential leavers whose branches are advertised

350 Branches have had their property visits and POL are awaiting completed financial assessments to be returned

60 Branches that have passed the financial assessment stage and have been sent contracts

22 Contracts signed and awaiting implementation



* Percentage of branches currently not progressing currently stands at 12.4%, versus a target position of 33%

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A number of actions are in place to streamline the current process and ensure delivery in year one. There are also a number of activities planned to generate sufficient agent interest for years two and three:

Actions being taken to remove barriers to Implementation in year one

- Field Change Advisors are visiting agents who have not yet completed their financial assessments in order to assist them with this step of the process and ensure quick returns of documentation
- We have also assigned a dedicated FCA to each branch who will 'hand hold' the agents through all stages of the process
- Our property consultants (RLB) are now visiting all branches to discuss the physical implementation works required on a more detailed basis and assist agents in their understanding of their roles and responsibilities

Activities to generate additional volunteers

- Subpostmasters will be able to find out more about the benefits of the new models by attending events hosted by existing main and local operators. The first event took place at Twickenham branch in early August where the operator spoke about his experiences answered questions from subpostmasters. Feedback was extremely positive and more events are planned
- Further Agent road shows will be held in November, providing agents with updates on the programme and wider business initiatives. Agents that have not yet completed the estate survey will be targeted to attend
- Proactive engagement with agents who have not completed the estate survey will shortly begin. All available field resources including the agency sales team will be utilised to prompt agents to express their interest via the survey
- The branch advertising pages on our website are being refreshed with the aim of attracting more potential operators. The website is due to go live in November
- POL will have a presence at the Independent Retail show in October – existing agents and potential new operators will have the opportunity to learn more about our new models and the programme
- POL will also have a presence at various Multiple Partner trade shows throughout the year in order to generate additional interest

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The Network Transformation Programme is being managed in a way that fully integrates with the wider network strategy and funding agreement:

Over the three year plan period the Network Transformation Programme will deliver 7039 activities, as follows:

- Delivery of 4000 Main branches
- Delivery of 2000 Local branches
- Delivery of 750 new outreaches, and
- Delivery of 300 Crown transformations to Premier

Whilst Network Transformation is a voluntary programme and is largely dependent on independent Agents and Multiple Partners expressing an interest in change, activities will arise from alternative sources:

- We estimate that around 900 changes to new models will arise through the commercial transfer process
- Around 1500 activities will be delivered as a result of network service issues such as force majeure closures, conversion of temporary managed branches to a new model type, and contract termination cases
- There is also an opportunity to convert WH Smith franchise branches to the main model on expiry of their existing contracts

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Three year delivery plan by conversion type:

		Year 1 (12/13)						Year 2 (13/14)								Year 3 (14/15)								
		Qtr 2		Qtr 3		Qtr 4		Qtr 1		Qtr 2		Qtr 3		Qtr 4		Qtr 1		Qtr 2		Qtr 3		Qtr 4		Total
		Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	
Volunteer Independent agents	Mains	20	83		260		613		900		1200		1300		1550		1800		1850		2050		2222	
	Locals	124	141		150		181		380		500		550		700		800		900		955		1055	3277
Multiple Partners	Mains	2	1		20		100		150		200		220		270		320		370		390		450	
	Locals	61	61		90		170		200		250		270		320		370		420		440		495	945
Commercial Transfers	Mains		0		0		5		55		125		175		300		400		500		575		700	
	Locals		0		0		5		20		50		70		100		125		150		175		200	900
BAU Service Issues	Mains	10	10		33		81		120		170		200		250		310		370		410		500	
	Locals	24	26		35		45		95		120		135		160		190		220		230		250	
	Outreach	33	25		61		71		141		211		241		341		421		511		571		750	1500
WHS	Mains	0	0		0		0		0		0		6		6		6		18		39		58	58
Crowns conversions to Premier/Main	Premier	2	2		2		5		10		50		90		150		210		270		300		300	
	Mains	0	0		0		0		0		10		25		55		70		70		70		70	370
TOTALS	Mains	32	94	0	313	0	799	0	1225	0	1705	0	1926	0	2431	0	2906	0	3178	0	3534	0	4000	
	Locals	209	228	0	275	0	401	0	695	0	920	0	1025	0	1280	0	1485	0	1690	0	1800	0	2000	6000
	Outreach	33	25		61	0	71	0	141	0	211	0	241	0	341	0	421	0	511	0	571	0	750	
	Premier	2	2	0	2	0	5	0	10	0	50	0	90	0	150	0	210	0	270	0	300	0	300	
	Total	276	349	0	651	0	1276	0	2071	0	2886	0	3282	0	4202	0	5022	0	5649	0	6205	0	7050	7050

* Conversions of WH Smith branches to the Main model will align to contract expiry dates. Only 58 of the 70 WH Smith branches have contract expiry dates over the plan period

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POST OFFICE LTD BOARD

Health & Safety Report

1. Purpose

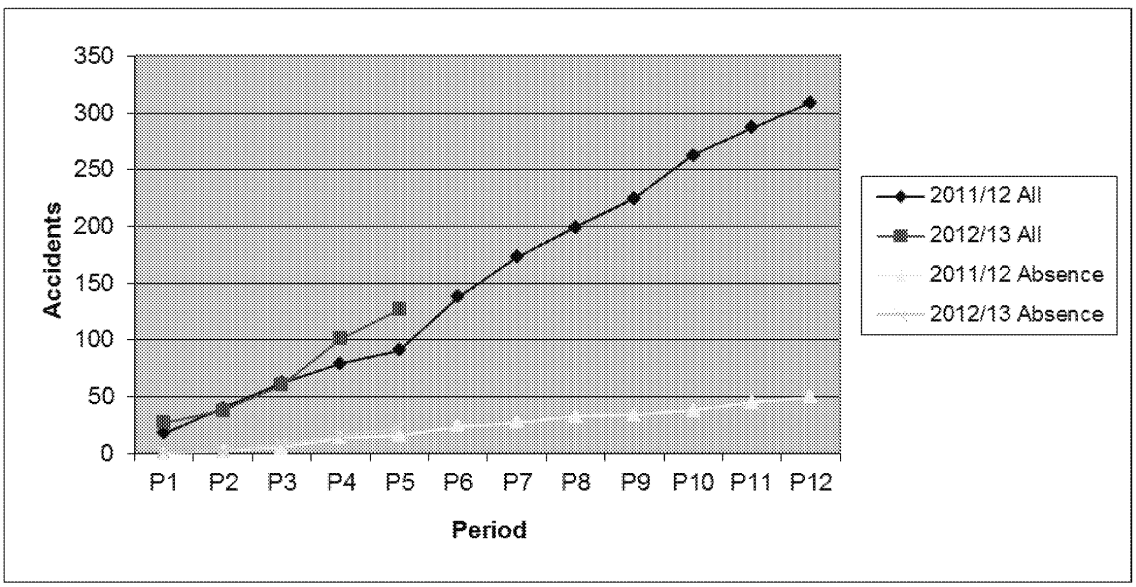
The purpose of this paper is to:

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

2. Current Situation

2.1 Injury accidents, up to and including period 5, are showing an increase against last year and therefore unfavourable against the target reduction of 5% on last year. Accidents involving absence have also increased against last year. This is primarily due to a significant increase in slips and falls due to the adverse weather and an increase in manual handling incidents. A manual handling work time listen and learn has been scheduled to mitigate the increase in numbers. The “per 1000 staff in post” comparison indicator, which takes account of head count fluctuation year on year, is showing a slightly less unfavourable increase for all accidents.

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



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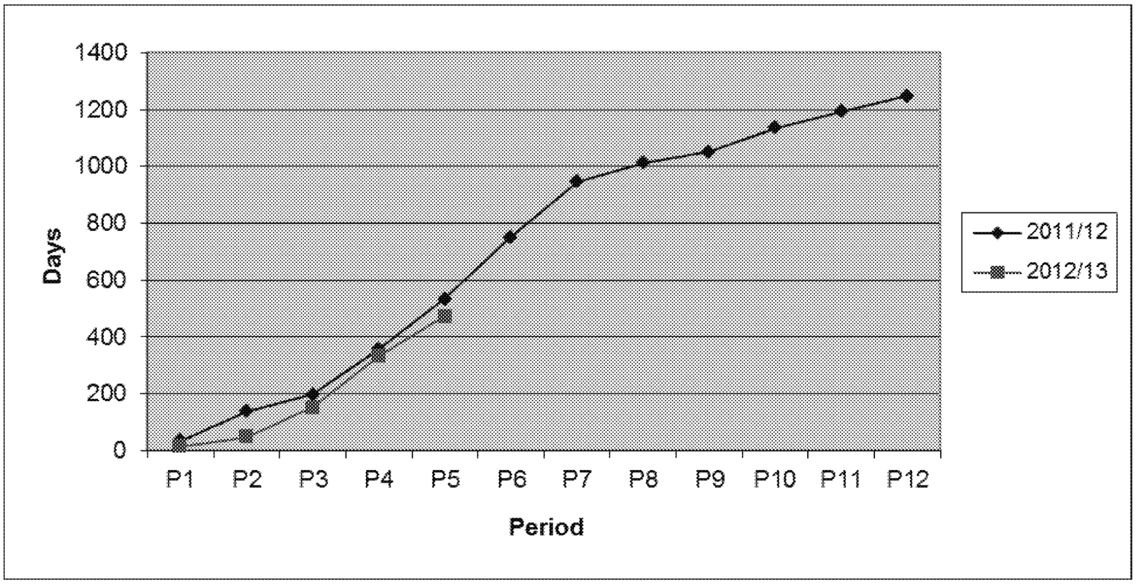
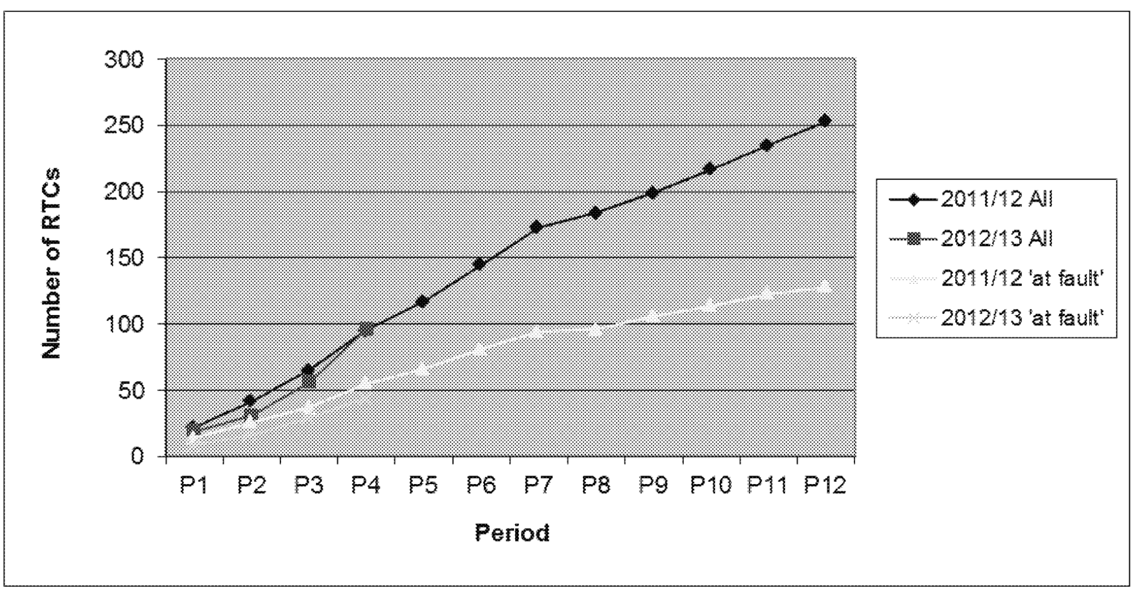
2.2 The number of days lost due to accidents is ahead of target showing an 11% reduction against a target reduction of 5% (Table 2), indicating that while the frequency of accidents has increased the severity has decreased.

Table 2 Days lost resulting from injury accidents (Cumulative)



2.3 The number of road traffic collisions (RTCs) cumulative to period 5 is trending similarly to last year however ‘at fault’ collisions, where the Post Office driver is deemed to be at fault, are showing a significant improvement on last year, down from 55 to 44. 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. The activities that are contributing to the improved performance are identified in 3.1 below.

Table 3 Road Traffic Collisions (cumulative)



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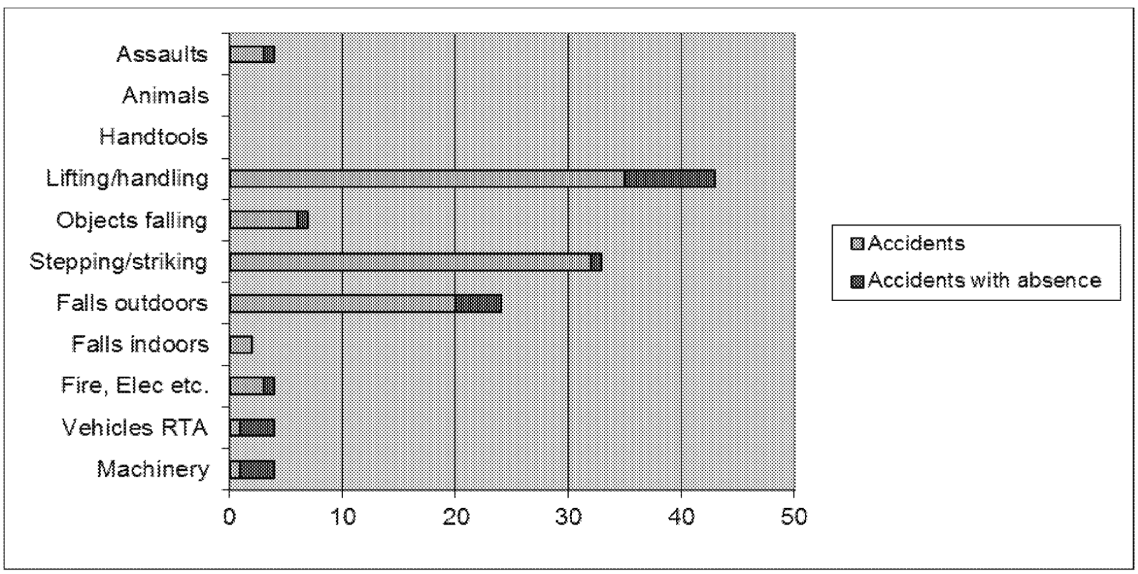
2.4 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are significantly up on the same year to date period as last year, from 8 to19. This is in line with industry trends. Physical injuries during robberies, of which there have been 6 compared to 4 last year, remain relatively minor in severity. Fire arms continue to not play a significant part in CViT robberies with two of the 19 robberies being enabled by the presence and/or threat of use of fire arms. On neither occasion were the guns discharged. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)

2.5 Robberies and attempted robberies on the Post Office network so far this year are up from 32 to 42 compared to last year. Supporting activities have been introduced to mitigate this increased risk. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)

Burglaries and attempted burglaries (which do not involve personal attack) are down from 67 to 28 compared to the same year to date period.

2.6 The majority of accidents currently fall into three main categories: lifting and handling, stepping and striking and outdoor falls. These are high frequency events with, in the majority, relatively low impact. The lower frequency types of incident carry the potential for very high impact, for example, assaults and road traffic collisions.

Table 4. Types of accident



3. Activities

3.1 Road Risk

Current activities to mitigate road risk are:

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

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

3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

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

3.3 Health and Wellbeing

Current activities to enhance wellbeing

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

4. Residual Risks

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

5. Recommendation

The Post Office Ltd Board is asked to:

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

Simon Eldridge
September 2012

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Appendix 1

Significant Incidents (Period 5)				
Crowns and Network				
Location	**Loss**	**Circumstances**	**Injuries**	**Any further details**
Hamstead, B42	Nil	Male not masked or carrying a weapon gave staff a note demanding money and claiming he had a bomb. The sub postmaster activated the alarm and hid behind the counter, when she looked up he had left the office.	Nil	
Trent Boulevard, NG2	£68k	Two masked males armed with a handgun smashed the secure area door and stole recently delivered rem. No injuries reported.	Nil	Police have since made seven arrests for this and other non-Post Office related crimes. Three people have now been charged and one person is on bail.
Supply Chain (Cash, delivery and collection)				
Lozells SPSO, B19	Nil	At point of transfer, one male wearing traditional robes with face covered demanded the i box, when the delivery officer refused hit the delivery officer on the arm with a bar forcing him to let go of the case. He fled on waiting motorbike which stopped nearby. An attempt was made to open the i box, however it activated and discarded with full recovery (£25k.)	Bruising	

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POST OFFICE LIMITED

Performance Report

August 2012

Produced By : Central Reporting Finance Team

For Queries & Comments Contact : Sarah Hall or Kam Bassra

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Contents

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Headlines
August 2012

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POST OFFICE

Financials - YTD

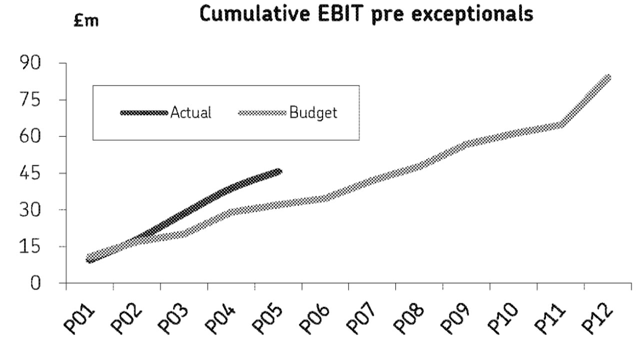
Profit
Period 5 YTD operating profit was £45.2m against the budget of £43.0m, giving a favourable variance of £2.2m.
- Net Income was £373.8m which was £6.7m favourable to budget and £13.0m favourable to prior year - this was driven primarily by stamp sales ahead of the May price increase. Underlying Mails pillar performance is strong as Special Delivery, Parcelforce. Lottery and retail sales are all ahead of budget.
- YTD staff costs were £7.0m favourable to budget and £3.8m adverse to prior year. Strong YTD performance with majority of efficiencies identified and reduced strengthening requirements. There also remain a number of vacancies, specifically in the Network. The variance against prior year is due to pay awards.
- Agents' cost were marginally favourable - £0.2m YTD and hence as a proportion of the increased revenue equate to a good performance.
- YTD non people costs were £2.2m favourable to budget, but £3.3m adverse to prior year. The YTD underspend is driven by the reduced costs for Mails Dangerous Goods and this masks the underlying adverse variance, which is as a result of fewer efficiency savings.
- Interbusiness expenditure was on budget and £1.2m favourable to prior year due to property contract renegotiations.
- At period 5, project costs were £13.5m over spent against the original budget. The ExCo has agreed a series of mitigating actions which will be included in the Q2 reforecast.

Cashflow
The YTD cashflow was an inflow of £236m which was £8m adverse to the budget of £244m (period 4 - £52m favourable).
The relatively small variance was due to high levels of branch remittances into cash centres including, difficult to plan for, deposits relating to the Olympics.

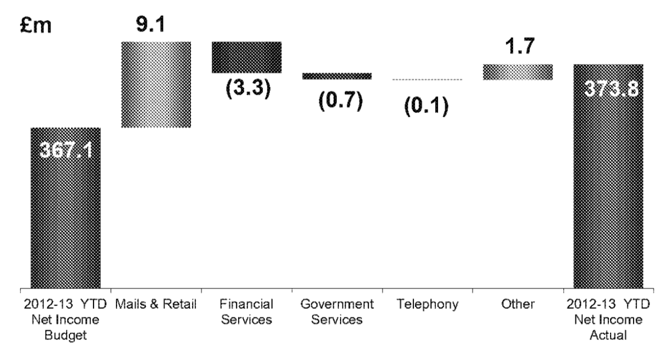
Crown Profit - YTD
The Crown profit is £2.2m ahead of plan at period 5, with income on target and staff and property related costs below budget. Both of these variance are expected to reverse when the staff duty and property maintenance requirement reviews are completed. The Q2 reforecast is therefore likely to be in line with the full year budget.

Non financials - YTD
- Queue time in branches (less than 5 minutes) is marginally above target.
- Network conversions are also close to plan.

Cumulative EBIT pre exceptionals



Total Net Income - Budget to Actual Bridge



	Year to Date		
Financials	**Act**	**Target**	**Var**
Total Revenue (excluding NSP) £m (Bonus)	423.3	416.1	7.3
Operating profit £m (Bonus)	45.2	43.0	2.2
Free cashflow £m	235.7	243.5	(7.8)
Crown Profit (Loss) £m (Bonus)	(14.7)	(16.9)	2.2
Non Financials			
Queue time % < 5 minutes - Top 1k branches (Bonus)	77.9%	77.5%	0.4%
Network Conversions (Mains & Locals) (Bonus)	243	250	-7

Profit & Loss Statement

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August 2012

£m	Current Month Actual	Current Month Budget	Current Month Variance	Prior Year Period Actual	Prior Year Period Variance	Year to Date Actual	Year to Date Budget	Year to Date Variance	Prior Year YTD Actual	Prior Year YTD Variance	Full Year Forecast	Full Year Budget	Full Year Variance	Prior Year Outturn
External Income	52.4	50.2	2.2	48.1	4.3	276.6	280.5	(3.9)	264.9	11.7	673.4	668.6	4.8	621.1
Interbusiness Income	24.8	25.4	(0.5)	25.5	(0.6)	146.7	135.6	11.1	143.2	3.5	350.0	347.2	2.8	358.6
TOTAL GROSS INCOME	**77.2**	**75.5**	**1.7**	**73.6**	**3.7**	**423.3**	**416.1**	**7.3**	**408.1**	**15.2**	**1,023.4**	**1,015.8**	**7.6**	**979.7**
Cost of Sales	(9.5)	(9.3)	(0.3)	(7.7)	(1.9)	(49.5)	(49.0)	(0.5)	(47.3)	(2.2)	(119.6)	(117.9)	(1.7)	(114.4)
TOTAL NET INCOME	**67.7**	**66.3**	**1.4**	**65.9**	**1.8**	**373.8**	**367.1**	**6.7**	**360.8**	**13.0**	**903.8**	**897.9**	5.9	**865.3**
Staff Costs	(20.4)	(21.4)	1.0	(19.0)	(1.4)	(106.5)	(113.5)	7.0	(102.7)	(3.8)	(269.5)	(268.9)	(0.6)	(251.3)
Agents Costs	(34.7)	(36.4)	1.7	(36.7)	1.9	(199.9)	(200.1)	0.2	(204.3)	4.4	(484.9)	(482.8)	(2.1)	(482.9)
Non-Staff Costs	(13.4)	(12.8)	(0.6)	(11.0)	(2.4)	(62.8)	(65.0)	2.2	(59.5)	(3.3)	(169.8)	(166.2)	(3.6)	(149.2)
Interbusiness Expenditure	(7.0)	(6.5)	(0.5)	(6.9)	(0.1)	(34.8)	(34.8)	(0.0)	(36.0)	1.2	(83.1)	(83.3)	0.2	(84.9)
Depreciation	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	(0.4)	(0.3)	(0.1)	(0.2)	(0.2)	(0.8)	(0.8)	0.0	(0.4)
Total Expenditure (pre POOC)	**(75.6)**	**(77.1)**	**1.5**	**(73.5)**	**(2.1)**	**(404.5)**	**(413.7)**	**9.2**	**(402.7)**	**(1.8)**	**(1,008.0)**	**(1,002.0)**	**(6.0)**	**(968.7)**
POFS - Share Of Operating Profits	(0.1)	0.0	(0.1)	0.0	(0.1)	(0.4)	0.0	(0.4)	(0.6)	0.2	0.0	0.0	0.0	(0.6)
FRES - Share Of Operating Profits	4.8	5.2	(0.4)	4.0	0.8	18.5	19.4	(0.9)	17.5	1.1	32.6	32.6	0.0	31.4
EBIT Pre Overhead Allocations	(3.1)	(5.6)	2.5	(3.6)	0.5	(12.5)	(27.2)	14.7	(25.1)	12.5	(71.6)	(71.5)	(0.1)	(72.6)
Group Overhead allocations	(1.2)	(1.4)	0.2	(1.7)	0.4	(6.2)	(7.2)	1.0	(8.5)	2.2	(14.6)	(16.8)	2.2	(19.6)
EBIT - BAU	**(4.4)**	**(7.1)**	**2.7**	**(5.3)**	**0.9**	**(18.8)**	**(34.5)**	**15.7**	**(33.5)**	**14.8**	**(86.2)**	**(88.3)**	**2.1**	**(92.2)**
One off Project costs (POOC)	(4.6)	(2.3)	(2.3)	(1.2)	(3.3)	(23.2)	(9.7)	(13.5)	(4.2)	(19.0)	(39.8)	(37.7)	(2.1)	(26.5)
EBIT - Post Project Costs	**(8.9)**	**(9.4)**	**0.4**	**(6.5)**	**(2.4)**	**(41.9)**	**(44.1)**	**2.2**	**(37.7)**	**(4.2)**	**(126.0)**	**(126.0)**	**(0.0)**	**(118.7)**
Network Payment	15.8	15.8	0.0	13.8	2.0	87.2	87.2	0.0	76.2	11.0	210.0	210.0	0.0	180.0
EBIT pre exceptionals items	**6.9**	**6.5**	**0.4**	**7.4**	**(0.4)**	**45.2**	**43.0**	**2.2**	**38.4**	**6.8**	**84.0**	**84.0**	**(0.0)**	**61.3**
Interest	0.0	(0.8)	0.8	(0.1)	0.1	(0.3)	(2.7)	2.4	(3.1)	2.7	(8.0)	(8.0)	0.0	(4.4)
Impairment	(2.3)	(8.7)	6.4	(1.9)	(0.5)	(28.8)	(26.8)	(2.0)	(6.6)	(22.2)	(113.5)	(132.7)	19.2	(36.2)
Exceptionals & Redundancy & Severance Costs	2.4	5.0	(2.6)	(0.5)	2.9	17.6	16.2	1.4	(0.5)	18.1	55.1	91.6	(36.5)	0.3
Profit/(Loss) On Asset Sale	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	1.3
Colleague Share/ Business Transformation Payments	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	(2.8)
Total Profit/(Loss) Before Tax	**7.0**	**2.0**	**5.0**	**4.9**	**2.1**	**33.7**	**29.7**	**4.0**	**28.3**	**5.4**	**17.6**	**34.9**	**(17.3)**	**19.5**

Period 5 vs. Budget

EBIT pre exceptionals of £6.9m was £0.4m favourable to budget.

The main variances were;
- Higher net income of £1.4m driven by higher Lottery and retail income and part of the delayed Eagle contract related income which will be shown in full at the half year.
- Lower staff cost of £1.0m due to efficiency savings and the number of vacancies, and
- Lower agents costs of £1.7m due to timing, but YTD is now on budget.

Offset by;
- Higher non staff costs of £0.6m due to small timing variances including ROMEC charges,
- Higher IB expenditure of £0.5m due to catch up of previous months charges. YTD now on target,
- Lower JV income of £0.5m, and
- Higher than budgeted project costs (£2.3m adverse).

Period 5 vs. Prior Year

EBIT pre exceptionals of £6.9m was £0.4m adverse to prior year despite £2.0m of increased Network Subsidy Payment.

Like for like variance of £0.9m favourable was mainly due to;
- Higher net income of £1.8m driven by Financial Services (Eagle and savings products) and Mails (Lottery) offset by Government Services (Card Account and ID) and Telephony,
- Lower agents cost of £1.9m, due to the in period adjustment this year,
- Higher JV income of £0.7m driven by FRES, and
- Lower group overheads of £0.4m due to Separation.

Offset by;
- Higher staff costs of £1.4m due to pay awards and separation related recruitment,
- Higher non staff costs of £2.4m due to a cost catch up of activities now completed by POL and not Royal Mail post separation and separation related legal and consultancy costs - YTD is £3.3m adverse, and
- Higher IB of £0.1m due to catch up in current month actuals.

Non like for like variance of £1.3m adverse was due to:
- Higher project costs of £3.3m,

Offset by;

Cashflow Analysis & Balance Sheet Summary

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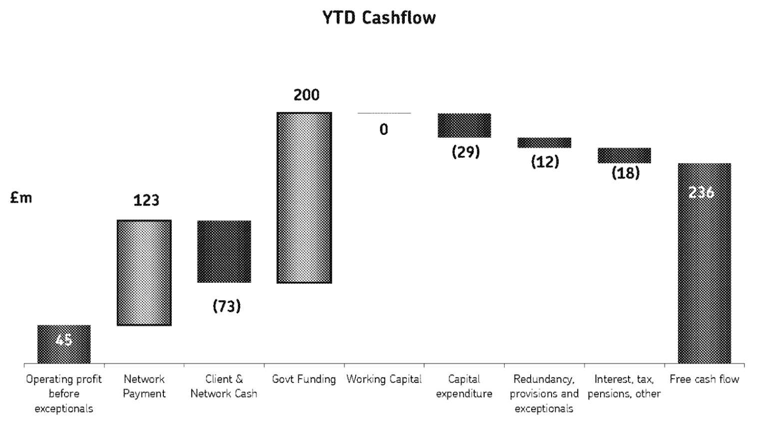
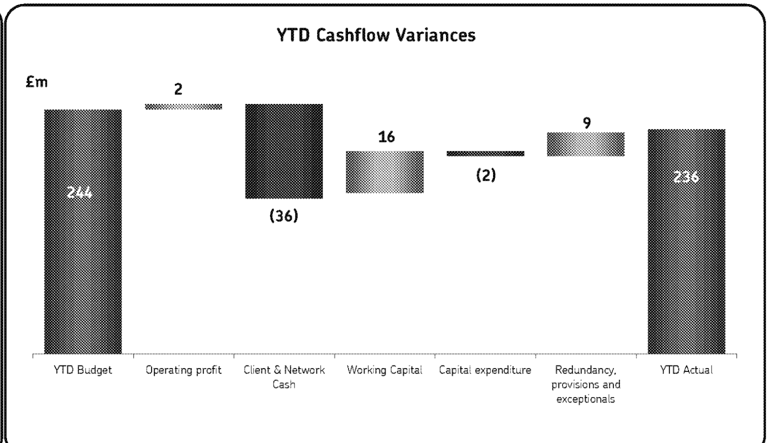
Period 5 YTD cashflow was £8m adverse to budget due to the increased impact relating to the Olympic and Paralympic games.





Balance Sheet £m	Mar-12	P5 Actual	P5 Budget	P5 Variance
Fixed Assets	101	142	131	11
Debtors	89	84	74	10
Cash	759	825	765	60
Client Balances	(194)	(187)	(163)	(24)
Trade Creditors	(245)	(536)	(500)	(36)
Pension deficit *	(206)	(205)	(199)	(6)
Provisions	(15)	(14)	(14)	0
Investments, Funding	48	87	43	44
Loan	(377)	(180)	(129)	(51)
Net Assets	**(40)**	**16**	**8**	**8**

Reserves	Mar-12	Actual	Budget	Variance
Capital and Reserves	40	(16)	(8)	(8)
	40	**(16)**	**(8)**	**(8)**

Cashflow

The YTD cashflow was an inflow of £236m which was £8m adverse to the budget of £244m (period 4 - £52m favourable).

The £8m variance to budget was mainly due to:

• Client balances and Network Cash combined - £36m adverse. Separately, client balances were £24m favourable driven by a decreasing IPS balance arising from their system difficulties and under-invoicing to POL. Network Cash was overall £60m over budget due to very high cash centre holdings, which were £86m adverse due to high levels of remittances from branches which included deposits relating to the Olympics.

Offset by;

• Working Capital was £16m favourable to budget. This included business creditors which were £28m favourable reflecting the ongoing project activity in the business and which is significantly higher than the prior year. Offset by trade debtors which were £10m adverse and include the first payment to Fujitsu for setting up work in advance of the new telephony contract.

• Capital expenditure includes the unbudgeted £11m investment in Midasgrange (POFS associate) offset by £9m lower than budgeted other capital expenditure.

• Exceptionals are £9m favourable primarily due to lower than planned Network Transformation Expenditure.

Cash Management Table

£m	Prior Year Aug-11	Mar-12 Opening	P5 Actual	P5 Budget	P5 var
Retail, Cash Centres	546	614	620	553	(67)
Bureau	92	54	103	92	(11)
Cheques, debit cards	132	91	102	120	18
Network Cash	**770**	**759**	**825**	**765**	**(60)**

	Opening	P5
Headroom (£m)	**509**	**680**

Cash Management

• Retail and Cash Centre cash (manageable cost) - £67m adverse to budget, and £74m adverse to prior year. Of this variance, Cash Centres were £86m adverse and branches were £19m favourable. Cash levels are high-currently being distorted by the impact of the Olympics.

• Bureau (manageable cost) - £11m adverse to budget and prior year.

• Cheques and debit cards (customer driven) - £18m favourable to budget and £30m favourable to prior year. P4 was a "tax receipts month", but as the period end was 2 days before the month end, some of the receipts have fallen into P5.

* The balance sheet does not yet reflect the impact of the pension solution as numbers are being finalised before the entries are made by Group finance.

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Net Income By Pillar

August 2012

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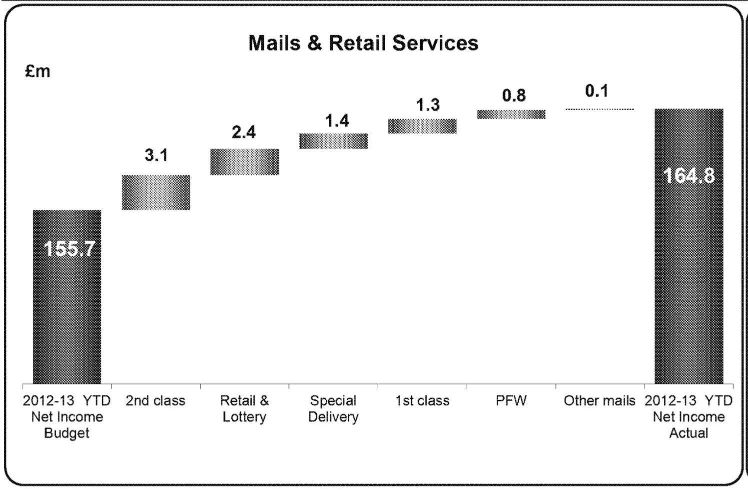
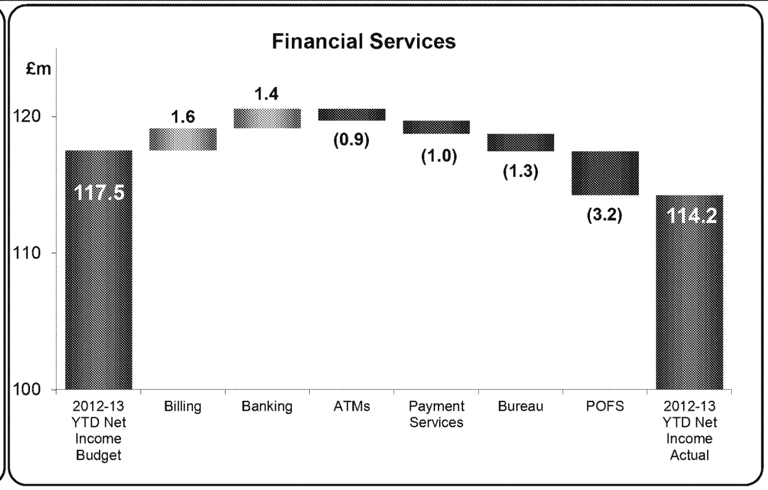
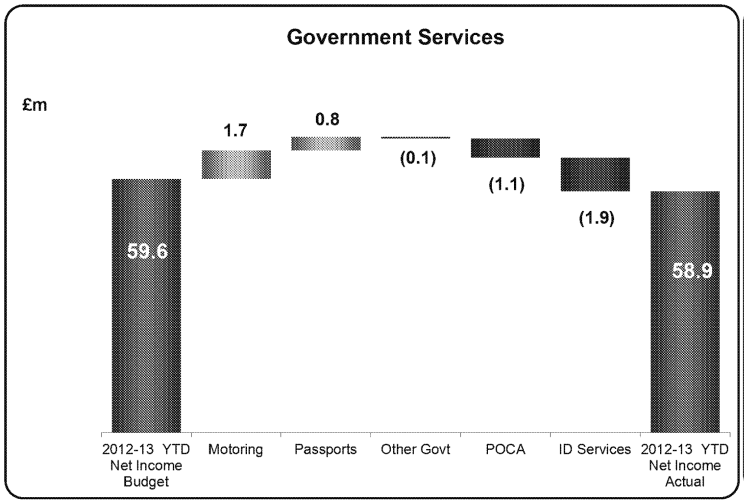
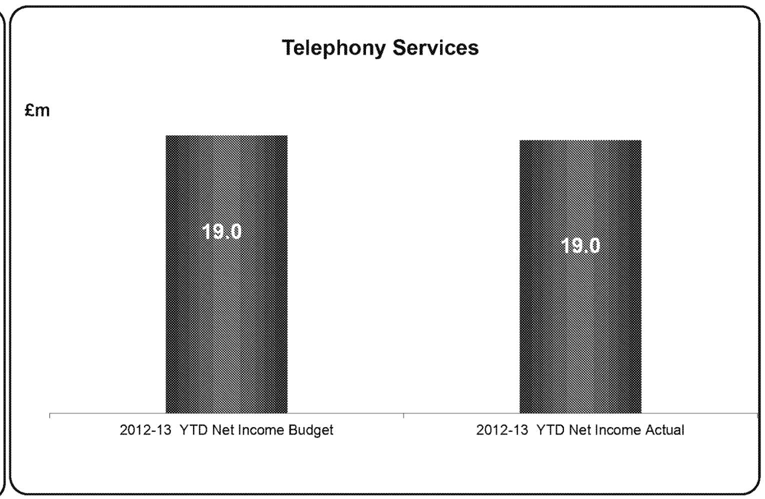
POST OFFICE

Net Income (£m)	Period			Prior Year Period		Year to Date			Prior Year YTD		Full Year			Prior Year	
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	FYF	Budget	Variance	Outturn	Variance
Mails & Retail	28.5	27.7	0.8	27.4	1.1	164.8	155.7	9.1	155.7	9.2	407.2	403.8	3.4	387.5	19.7
Financial Services	23.2	22.2	1.0	20.9	2.3	114.2	117.5	(3.3)	110.5	3.7	276.9	274.7	2.2	261.5	15.4
Government Services	9.4	10.3	(0.9)	10.4	(1.0)	58.9	59.6	(0.7)	60.7	(1.8)	140.2	139.9	0.3	135.7	4.5
Telephony	3.5	3.5	(0.0)	4.3	(0.8)	19.0	19.0	(0.1)	18.6	0.4	45.7	45.7	(0.0)	41.4	4.3
Other	3.2	2.6	0.7	2.9	0.3	16.9	15.2	1.7	15.3	1.6	33.8	33.8	0.0	39.3	(5.5)
TOTAL NET INCOME	67.7	66.3	1.4	65.9	1.8	373.8	367.1	6.7	360.8	13.0	903.8	897.9	5.9	865.3	38.4









Pillar Performance vs YTD Budget

Mails & Retail Services – £9.1m Fav
1st and 2nd Class Stamps £3.3m fav due to the buy forward experienced in period 1 prior to the price increase. This favourable variance is expected to decrease over the coming months.
2nd Class Labels £1.8m fav driven by higher volumes than planned.
Special Delivery £1.4m fav driven by 3.6% higher volumes than plan and 0.8% higher than prior year.
Lottery & Retail £2.4m fav. Lottery £1.4m fav due to recent rollovers and Retail £1.0m fav due to Jubilee and Olympic collectibles as well as new lines.

Financial Services – (£3.3) Adv
POFS Products (£3.2m) adv due to the delay in implementing Eagle. Once implemented (half year) the variances will reduce by circa £2m.
Billing £1.6m fav driven by higher volumes and delay to lower pricing.
Banking Services £1.4m fav driven by prior year adjustments and some volume increases (RBS).
Bureau (£1.3m) adv due to primarily to the travel market.

Government Services (£0.7m) Adv
Motoring £1.7m fav primarily due to price increase.
Passports £0.8m fav due to increased volumes of 8% and price increase.
POCA (£1.1m) adv due primarily to LIBOR impact and partially to the fall in number of accounts and increased ATM usage (higher cost).
ID Services (£1.9m) adv due to lower DVLA volumes. UKBA rollout of 104 units now complete.

Telephony Services – on budget
Homephone on budget – higher customer numbers than budget but offset by lower revenue per customer due to competitive inclusive call packages. Current customer numbers stand at 486k (period 4 485k)

Staff Cost by Directorate
August 2012

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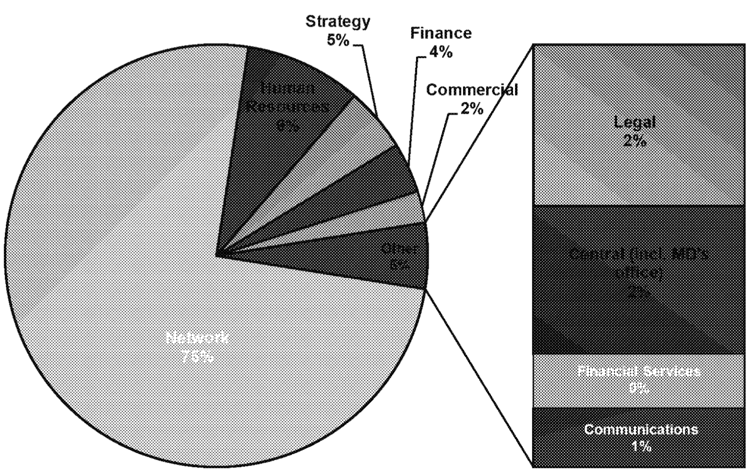
£m	Year to Date			Prior Year YTD		Full Year			YTD Headcount			
Staff Cost by Directorate	**Actual**	**Budget**	**Variance**	**Actual**	**Variance**	**Forecast**	**Budget**	**Variance**	**Actual**	**Budget**	**Variance**	
Central (incl. MD's office)	(1.9)	(6.2)	4.3	(1.7)	(0.1)	(17.3)	(14.5)	(2.8)	11	28	17	**
Commercial	(2.6)	(2.7)	0.1	(2.1)	(0.5)	(6.7)	(6.5)	(0.2)	94	104	10	
Communications	(0.7)	(0.8)	0.0	(0.2)	(0.5)	(1.9)	(1.9)	(0.0)	24	25	1	
Human Resources	(2.0)	(2.2)	0.1	(2.0)	(0.1)	(5.2)	(5.2)	(0.0)	119	124	5	
HR - Centrally Held Bonus Payments	(7.4)	(7.4)	(0.1)	(6.7)	(0.7)	(17.7)	(17.7)	0.0	-	-	-	
Financial Services	(0.7)	(2.0)	1.3	(0.6)	(0.1)	(3.5)	(4.7)	1.2	23	41	18	
Finance	(4.1)	(4.1)	0.1	(3.9)	(0.2)	(9.9)	(10.0)	0.1	224	228	4	
Network	(79.7)	(80.3)	0.6	(79.0)	(0.8)	(189.2)	(189.3)	0.2	7,097	7,165	68	
Supply Chain	*(23.3)*	*(23.3)*	*0.0*	*(21.8)*	*(1.5)*	*(54.9)*	*(55.8)*	*0.9*	*1,581*	*1,566*	*(15)*	
Crowns	*(48.4)*	*(49.6)*	*1.3*	*(48.9)*	*0.6*	*(115.0)*	*(115.9)*	*0.9*	*4,767*	*4,759*	*(8)*	
Other Network	*(8.1)*	*(7.4)*	*(0.7)*	*(8.2)*	*0.2*	*(19.3)*	*(17.7)*	*(1.6)*	*749*	*840*	*91*	*
Legal	(2.0)	(2.3)	0.3	(1.7)	(0.3)	(5.38)	(5.62)	0.2	81	89	8	
Programme costs	(0.1)	0.0	(0.1)	(0.0)	(0.0)	0.0	0.0	0.0	-	-	-	
Strategy	(5.2)	(5.6)	0.3	(4.8)	(0.4)	(12.8)	(13.6)	0.7	220	215	(5)	
C&IS / Managed Services	*(5.0)*	*(5.1)*	*0.1*	*(4.5)*	*(0.5)*	*(12.1)*	*(12.4)*	*0.3*	*216*	*211*	*(5)*	
Strategy / Programme office	*(0.2)*	*(0.5)*	*0.2*	*(0.3)*	*0.0*	*(0.7)*	*(1.1)*	*0.4*	*4*	*4*	*0*	
Total Staff Costs	**(106.5)**	**(113.5)**	**7.0**	**(102.7)**	**(3.8)**	**(269.5)**	**(268.9)**	**(0.6)**	**7,893**	**8,019**	**126**	

* Includes CTP and NTP Heads

** Budget includes 20 heads for strengthening

Staff Cost by Directorate



YTD Staff Costs were £7.0m favourable to budget due to efficiencies identified and reduced strengthening requirements (Central) as well as the high level of vacancies in the business. Against prior year the staff costs are £3.8m adverse, due to the increases from the pay awards and increased headcount post Independence from Royal Mail.

Headcount of 7,893 is 126 below Plan due primarily to Network vacancies, of which the majority relate to the Network Transformation Programme.

Non Staff Cost by Directorate & Type
August 2012

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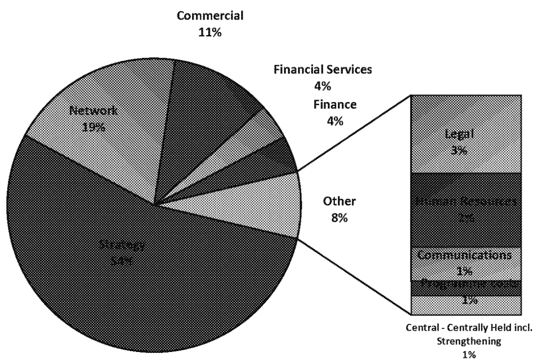
£m	Year to Date			Prior Year YTD		Full Year		
Non- Staff Cost by Directorate	**Actual**	**Budget**	**Variance**	**Actual**	**Variance**	**Forecast**	**Budget**	**Variance**
Central - Centrally Held incl. Strengthening	(0.4)	2.6	(3.0)	0.5	(0.9)	(4.5)	0.2	(4.7)
Commercial	(7.0)	(11.3)	4.3	(4.3)	(2.7)	(21.3)	(21.9)	0.5
Communications	(0.7)	(0.7)	(0.0)	(0.4)	(0.3)	(1.6)	(1.6)	0.0
Finance	(2.6)	(2.3)	(0.2)	(1.8)	(0.8)	(8.5)	(8.2)	(0.3)
Financial Services	(2.5)	(3.1)	0.6	(2.6)	0.1	(7.2)	(7.6)	0.4
Human Resources	(1.6)	(1.6)	0.1	(1.9)	0.3	(3.7)	(3.7)	(0.0)
Network	(12.3)	(13.6)	1.3	(11.5)	(0.8)	(32.6)	(32.4)	(0.2)
Supply Chain	*(6.5)*	*(7.4)*	*0.9*	*(6.8)*	*0.3*	*(16.8)*	*(16.8)*	*0.0*
Crowns	*(1.6)*	*(1.9)*	*0.3*	*(1.8)*	*0.2*	*(4.2)*	*(4.5)*	*0.3*
Other Network	*(4.3)*	*(4.4)*	*0.1*	*(3.0)*	*(1.3)*	*(11.6)*	*(11.1)*	*(0.5)*
Legal	(1.7)	(2.24)	0.6	(1.8)	0.1	(5.77)	(5.53)	(0.2)
Programme costs	0.3	0	0.3	(0.2)	0.5	0	0	0
Strategy	(34.4)	(32.7)	(1.7)	(35.5)	1.1	(84.6)	(85.5)	0.9
C&IS / Managed Services	*(34.1)*	*(32.7)*	*(1.4)*	*(35.5)*	*1.4*	*(84.5)*	*(85.3)*	0.9
Strategy/Programme office	*(0.3)*	*(0.0)*	*(0.3)*	*(0.0)*	*(0.3)*	*(0.1)*	*(0.1)*	(0.0)
Total Non Staff Costs	**(62.8)**	**(65.0)**	**2.2**	**(59.5)**	**(3.3)**	**(169.8)**	**(166.2)**	**(3.6)**

£m	Year to Date			Prior Year YTD		Full Year		
Non- Staff Cost by Type	**Actual**	**Budget**	**Variance**	**Actual**	**Variance**	**Forecast**	**Budget**	**Variance**
Computers & Telephones	(30.2)	(32.2)	2.0	(31.5)	1.3	(84.1)	(84.1)	0.0
Other Operating Costs	(7.9)	(7.2)	(0.7)	(8.3)	0.4	(20.7)	(17.4)	(3.3)
Consultancy, Marketing & Legal Fees	(10.5)	(7.6)	(2.9)	(4.1)	(6.4)	(18.4)	(18.5)	0.1
** Skills Group external contractors*	*(4.9)*	*(0.7)*	*(4.3)*	*(0.0)*	*(4.9)*	*(1.4)*	*(1.4)*	*(0.0)*
Remainder	*(5.6)*	*(6.9)*	*1.3*	*(4.1)*	*(1.5)*	*(17.0)*	*(17.0)*	*0.1*
Finance	(7.1)	(5.7)	(1.4)	(6.6)	(0.5)	(16.7)	(16.3)	(0.4)
Property Facilities	(2.7)	(2.7)	0.0	(1.7)	(1.0)	(7.2)	(7.3)	0.1
Property Maintenance	(2.6)	(2.3)	(0.3)	(1.8)	(0.7)	(5.5)	(5.2)	(0.3)
Vehicles	(1.0)	(1.0)	(0.0)	(0.9)	(0.1)	(2.3)	(2.3)	(0.0)
Compensation	(0.6)	(0.4)	(0.2)	0.1	(0.7)	(1.0)	(1.0)	(0.0)
Collection, Delivery & Conveyance Charges	(0.5)	(0.4)	(0.1)	(0.4)	(0.2)	(0.9)	(0.6)	(0.3)
Staff & Agent Related Costs & Consumables	0.2	(5.6)	5.8	(4.3)	4.5	(12.9)	(13.4)	0.5
** Skills Group off-charges to projects*	*6.6*	*1.7*	*4.9*	*2.1*	*4.5*	*4.7*	*4.4*	*0.3*
Remainder	*(6.4)*	*(7.3)*	*0.9*	*(6.4)*	*0.0*	*(17.6)*	*(17.8)*	*0.2*
Total Non Staff Costs	**(62.8)**	**(65.0)**	**2.2**	**(59.5)**	**(3.3)**	**(169.8)**	**(166.2)**	**(3.6)**

Non Staff by Directorate



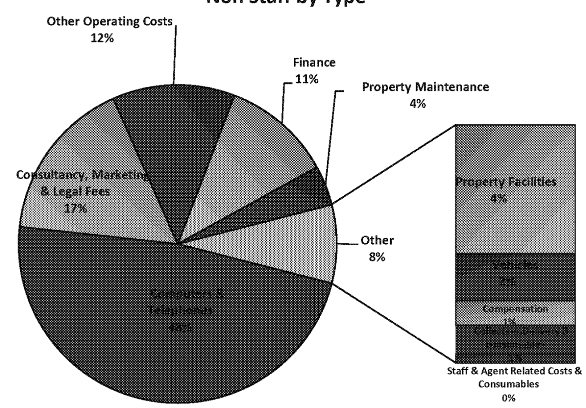
The Central directorate has a positive budget which incorporates central provisions and budgets, including elements of the savings task.

Variance
YTD non people costs were £2.2m favourable to budget and £3.3m adverse to prior year.

By Directorate
Vs. Budget
The Commercial directorate was £4.3m favourable due primarily to by the reduced Mails Dangerous Goods costs and this masks the underlying adverse variance, which is as a result of fewer efficiency savings. The Strategy (IT&C) directorate was £1.7m adverse due primarily to their share of the £10m business wide efficiency savings challenge yet to be identified.
Vs Prior Year
The £3.3m adverse variance is driven primarily by the Commercial directorate with increased consulatncy, marketing and legal costs.

By Type
Vs. Budget
The YTD variances was driven by lower IT, legal and printing cost.
Vs Prior Year
The YTD variance was driven by increased legal fees relating to seperation and costs for BAU services no longer provided by Royal Mail.

Non Staff by Type



* Skills group is the internal 'consultancy' providing project resource made up of a mixture of employees and some contractors. If demand is high the contractor spend increases but is offset by the higher off-charge to projects within staff and agent related costs line.

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Business Scorecard

August 2012

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Key Performance Indicators	Current Month Act	Current Month Target	Current Month Var	Year to Date Act	Year to Date Target	Year to Date Var	Prior Year	Full Year F'cast	Full Year Target	Full Year Var	2011-12 Outturn
Growth											
Total Revenue (excluding NSP) £m (Bonus)	77.2	75.5	1.7	423.3	416.1	7.3	408.1	1,023.4	1,015.8	7.6	979.7
Total Net Income (excl NSP) £m	67.7	66.3	1.4	373.8	367.1	6.7	360.8	903.8	897.9	5.9	865.3
Operating profit £m (Bonus)	6.9	6.5	0.4	45.2	43.0	2.2	38.4	84.0	84.0	0.0	61.3
Free cashflow £m	(32.0)	27.8	(59.7)	235.7	243.5	(7.8)	35.8	(85.3)	(85.3)	0.0	(15.0)
Collections & Returns ability to serve RM (Milestones)	1	0	1	1	2	(1)	N/A	8	8	0	N/A
FOoG bid wins (value won) (Rev £m)	0.5	1.0	(0.5)	2.5	4.9	(2.4)	N/A	10.7	11.7	(1.0)	N/A
Customer											
Customer Satisfaction	86.0%	88.0%	(2.0)%	86.2%	88.0%	(1.8)%	86.6%	88.0%	88.0%	0.0%	86.9%
Queue time % < 5 minutes - Top 1k branches (Bonus)	81.8%	80.7%	1.1%	77.9%	77.5%	0.4%	76.3%	78.9%	78.9%	0.0%	77.8%
Welcome & Farewell - (mystery shopped) - Top 1k branches	82.4%	85.9%	(3.5)%	83.4%	85.9%	(2.5)%	80.2%	85.9%	85.9%	0.0%	81.5%
Call Centres 3D (Bonus)	107.6%	100.0%	7.6%	106.0%	100.0%	6.0%	103.1%	100.0%	100.0%	0.0%	105.5%
Retail Standards (actual) - Top 1k branches	84.6%	84.9%	(0.3)%	85.3%	84.9%	0.4%	83.4%	84.9%	84.9%	0.0%	84.1%
Horizon availability	99.7%	99.6%	0.1%	99.8%	99.6%	0.2%	99.9%	99.6%	99.6%	0.0%	99.5%
Branch - Compliance (new basket)	98.8%	95.0%	3.8%	97.8%	95.0%	2.8%	N/A	95.0%	95.0%	0.0%	N/A
Modernisation											
Crown Profit (Loss) £m (Bonus)	(2.2)	(3.0)	0.8	(14.7)	(16.9)	2.2	N/A	(40.3)	(40.3)	0.0	(46.4)
Engagement Index % (Once a year)	64%	65%	(1)%	64%	65%	(1)%	58%	65%	65%	0%	64%
Network Conversions (Mains & Locals) (Bonus)	18	20	(2)	243	250	(7)	N/A	1200	1200	0	184
IT Transformation (Milestones)	1	0	1	8	8	0	N/A	12	12	0	N/A

Bonus worthy metrics

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Crown Profit & Loss Statement

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August 2012

£m	Year To Date Actual	Year To Date Budget	Year To Date Variance	Prior Year YTD Actual	Prior Year YTD Variance	Full Year Forecast	Full Year Budget	Full Year Variance	Prior Year Outturn
Income and Distributions									
Variable income									
- Mails	18.7	16.0	2.7	14.7	4.0	40.1	40.1	0.0	37.6
- Financial Services	13.4	13.6	(0.2)	14.1	(0.7)	30.2	30.2	0.0	31.9
- Government Services	10.7	11.2	(0.5)	9.0	1.6	26.6	26.6	0.0	20.3
- Telephony	0.6	0.7	(0.1)	0.5	0.1	1.6	1.6	0.0	1.6
Fixed income	12.3	11.2	1.1	16.4	(4.1)	30.0	30.0	0.0	40.2
Gamma/ Other	4.0	4.8	(0.8)	4.0	0.0	12.2	12.2	0.0	11.4
Renewals and Retentions	2.9	5.1	(2.2)	1.8	1.2	11.2	11.2	0.0	4.1
Total Income including Gamma/other	**62.6**	**62.6**	**0.0**	**60.5**	**2.2**	**152.0**	**152.0**	**0.0**	**147.2**
Direct Product Costs	(3.2)	(4.0)	0.8	(2.2)	(1.0)	(7.4)	(7.4)	0.0	(5.9)
Branch costs									
- Staff	(49.2)	(50.3)	1.1	(49.8)	0.6	(117.5)	(117.5)	0.0	(119.2)
- Property	(14.5)	(15.9)	1.4	(16.1)	1.6	(39.0)	(39.0)	0.0	(41.8)
- Other branch costs	(2.6)	(2.9)	0.3	(2.8)	0.2	(6.8)	(6.8)	0.0	(6.3)
Infrastructure costs	(9.2)	(9.3)	0.1	(9.8)	0.7	(24.4)	(24.4)	0.0	(23.1)
Allocated central costs	(3.3)	(2.1)	(1.2)	(2.5)	(0.8)	(7.0)	(7.0)	0.0	(6.5)
Total Expenditure	**(82.0)**	**(84.6)**	**2.5**	**(83.3)**	**1.3**	**(202.1)**	**(202.1)**	**0.0**	**(202.7)**
JV Share of Profits	4.7	5.0	(0.3)	5.0	(0.3)	9.8	9.8	0.0	9.2
Statutory PBIT	**(14.7)**	**(16.9)**	**2.2**	**(17.8)**	**3.1**	**(40.3)**	**(40.3)**	**0.0**	**(46.4)**

Summary

- Income is on target:
  - The £1.9m favourable Pillar income position is driven by Mails (Stamps) sales earlier in the year ahead of the price increase and a much stronger performance on Special Delivery and Olympic philatelic items.
  - Fixed and Retention income is £1.9m adverse and both are impacted by project Eagle, the overall financial impact of which will be evident in P6 once the one-off payments have been received and accounted for.
- Costs are lower than plan:
  - Crown Staff costs are £1.1m favourable due to savings being generated earlier than planned and in advance of the full duty reviews. This variance will reduce over the year as the budget and actuals are expected to align.
  - Property costs are £1.4m favourable. This variance was due to the delay in expenditure pending the full review of maintenance requirements in branch, which has now been completed. Maintenance spend has now recommenced and is expected to be in line with the full year budget.
  - Allocated central costs are £1.2m adverse, mainly due to the overspend on programme costs.

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Transformation

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Transformation Summary

August 2012

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Summary

Continued progress across the transformation agenda, with some delivery risk which is being proactively managed.

Detailed SPMO and Transformation Board challenge on key programmes to increase levels of confidence in spend forecasts for the current financial year.

Key Achievements

Crown layout design for pilot sites agreed.

Drop and Go functionality deployed to Horizon.

First phase of salesforce solution launched to all Financial Specialists in branch.

Key challenges

Delay to Finance Transformation systems procurement to allow confirmation of IT platform strategy decision and completion of ExCo separation approach discussion.

Delay to serving of notice to RM for IT services to allow ExCo discussion on separation approach.

Progression of Network Transformation rollout at required pace continues to require management focus.

Impact

Potential delay to overall delivery of Finance Transformation.

Delay to provision of notice against current plan.

Key changes to plans

Potential change to Finance Transformation plan.

Delay to separation plan.

Penguin replanning underway in line with development of revised procurement approach.

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Transformation Delivery - Full Year

August 2012

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Will miss	At risk	On target

Programme / Project	Plan	Spend	Benefits	Headlines
FOoG Implementation				UKBA P2 completion delayed by dependency on UKBA IT supplier. Replanning under way to fit with Christmas freeze. Current UKBA revenue at 65% of plan although growing. Delay in DVLA licensing CR from Q3 to Q4 will reduce FY12-13 benefits by £0.5m.
FOoG Sales Pipeline				DVLA competitive dialogue process progressing with decision expected 2nd week of October. IDA team continue to respond to clarification questions. Award now likely early October.
Network Transformation				Agreement reached with Consumer Focus on "Locals" model engagement. Contracts for full rollout now cleared with NFSP. Continued focus on speeding up completion of financial assessments to enable rollout to ramp up. Overall risk against FY12-13 rollout target being assessed by NT Board. Significant likely exceptional underspend being confirmed by programme this month.
Crown Transformation				Blueprint for the future Crown branch design agreed for piloting in Nottingham. VR preference exercise for Branch Managers and 2nd phase of staff commenced. Issue of Post and Go automation tender delayed to mid September to allow finalisation of requirements and procurement approach.
IT&C Transformation				IT Solution Delivery framework launched on 13th August, in good time to be used in September by Crown and Finance roadmap programmes. Revised plan now baselined.
IT Delivery				Channel Integration: Discussions continue on how to meet the challenge of Crown's aspirational testing dates: baselined plan not yet in place. POMS: plan on schedule. Salesforce: Core solution live with FSs trained and using tool. Small delays to rollout of additional email / Brands extract functionality.
FS: Eagle				Contract became effective on 3rd September, with staff transfer complete from POFS to BoI and POL. First joint governance forum scheduled for 17th Sep. Post Office programme governance to follow.
FS: Polo			N/A 12/13	BoI and PO working towards proof of concept launch in w/c 5th November with plan remaining very challenging. Negotiations have begun on remuneration for both proof of concept and rollout. Initial thinking under way from Bank on the plan to full rollout.
FS: Penguin				Decision made to progress with a general spend card-only proposition, subject to market validation and proposition development to confirm assumptions. New approach - with PO as an agent to distribute products on behalf of provider being assessed & should allow launch by Jul-13 and earlier benefits realisation. Plan to be rebaselined on agreement of approach.
Mails Collections & Returns				Overall, project remains high risk. Delivery plan, incorporating Ingenico / Fujitsu feasibility assessments, will be re-baselined at September Mails board . Significant uncertainty remains over interface with retailers with discussions with RMG escalated to define approach.
Mails: Drop & Go				Technical solution deployed on 20th August, with small fixes being put in place. Information packs issued to 1630 agency branches and programme of branch engagement initiated.
Mails : Small Bus Club			N/A 12/13	Feasibility study extended to include discovery phase with incorporation of supplier ROM costs. New plan and costs were baselined at the September steering board.
Independence & Separation			N/A 12/13	MSA board not held this week to allow more time for ExCo to discuss strategic approach to separation activity and associated multi year costs. MSA board to be held late September / early Oct.
Finance Transformation			N/A 12/13	Procurement process delayed by programme board to allow both related ExCo discussion on separation and IT platform strategy discussions to take place.
Telephony			N/A 12/13	PID & baseline plan delayed to end September to accommodate BT/ Fujitsu date misalignment, but no impact on overall plan. Governance established: monthly project board & quarterly Exec steering group. Offer made to full time Project Manager.
Brand			N/A 12/13	Stronger programme management now in place. Advertising and internal communications on schedule. Key issue around capacity of the BoI compliance team to agree all brand content. Issue being escalated and resolved.
Digital			N/A 12/13	Good progress made with web re-design development: on schedule for completion by 11th October but with little contingency. Bank of Ireland compliance approval of web page content is on the critical path and at risk but receiving escalation to resolve.

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Appendices

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Cashflow Statement

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August 2012

	YTD			Full Year		
	Actual	**Budget**	**Variance**	**Forecast**	**Budget**	**Variance**
Operating Profit	**45.3**	**43.1**	**2.2**	**84.1**	**84.1**	**0.0**
Depreciation	0.4	0.3	0.1	0.8	0.8	0.0
Working Capital	(10.7)	(26.0)	15.3	(60.2)	(47.4)	(12.8)
Client Balances	(6.9)	(30.9)	24.0	73.2	73.2	0.0
Network Cash	(66.1)	(5.8)	(60.3)	(147.5)	(147.5)	0.0
Dividends	(18.1)	(19.4)	1.3	(7.6)	(7.6)	0.0
Capital Expenditure	(28.8)	(26.8)	(2.0)	(113.5)	(132.7)	19.2
Government funding	200.0	200.0	0.0	200.0	200.0	0.0
NSP in advance	122.8	122.8	0.0	0.0	0.0	0.0
Exceptional Items	(12.2)	(21.3)	5.6	(131.4)	(112.4)	(19.0)
Pensions	0.4	0.8	(0.4)	1.8	1.8	0.0
Free cashflow before interest, tax	**226.1**	**236.8**	**(10.7)**	**(100.3)**	**(87.7)**	**(12.6)**
Interest	(1.6)	(2.7)	1.1	(5.0)	(8.0)	3.0
Tax	11.2	9.4	1.8	20.0	10.4	9.6
Free Cashflow	**235.7**	**243.5**	**(7.8)**	**(85.3)**	**(85.3)**	**0.0**

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Income By Product Groups & Pillar

August 2012

All pillars are performing adverse to budget, bar Mails which is £9.1m favourable.
Financial Services is the most adverse (£3.3m) due to the delay to Eagle.

Net Income £m	Current Month Actuals	Current Month Budget	Current Month Variance	Prior Year Period Actual	Prior Year Month (Yr On Yr)	Year to date Actuals	Year to date Budget	Year to date Variance	Prior Year YTD Actual	Prior Year YTD (Yr On Yr)	Full Year Forecast	Full Year Budget	Full Year Variance	Prior Year 2011/12 Outturn
Parcelforce	1.3	1.2	0.1	1.3	0.0	7.5	6.6	0.8	7.1	0.4	18.1	17.2	0.9	18.3
Special Delivery	3.8	3.6	0.2	3.8	(0.0)	21.9	20.5	1.4	21.7	0.2	51.4	50.5	0.9	53.3
International Priority & Standard	2.21	2.4	(0.2)	2.00	0.21	13.53	13.9	(0.4)	11.45	2.09	36.85	36.6	0.3	29.9
Stamps (1st & 2nd Class)	1.6	2.1	(0.5)	1.9	(0.3)	15.3	12.3	3.0	11.2	4.1	35.4	35.4	0	31.8
Labels (1st & 2nd Class)	6.40	6.9	(0.5)	5.88	0.52	40.76	39.6	1.2	33.36	7.39	100.44	100.4	0	83.9
RM Mail Fixed	4.4	4.4	0.0	6.8	(2.4)	24.0	24.0	0.0	37.3	(13.2)	63.6	63.6	0	88.1
Retail & Lottery	3.8	3.1	0.7	2.9	0.9	19.1	16.7	2.4	17.8	1.3	43.1	42.5	0.6	42.2
Mails Other	5.0	4.0	1.0	2.9	2.2	22.8	22.0	0.8	15.8	7.0	58.4	57.6	0.8	39.9
Total Mail Services	**28.5**	**27.7**	**0.8**	**27.4**	**1.1**	**164.8**	**155.7**	**9.1**	**155.7**	**9.2**	**407.2**	**403.8**	**3.4**	**387.5**
Total Telephony Services	**3.5**	**3.5**	**(0.0)**	**4.3**	**(0.8)**	**19.0**	**19.0**	**(0.1)**	**18.6**	**0.4**	**45.7**	**45.7**	**(0.0)**	**41.4**
Motoring Services	2.3	2.0	0.3	2.1	0.2	14.3	12.7	1.7	14.5	(0.1)	31.6	29.6	2.0	32.3
Card Account	5.5	5.7	(0.3)	5.8	(0.4)	28.4	29.5	(1.1)	29.8	(1.4)	68.4	69.3	(0.9)	70.2
Passport	1.3	1.2	0.1	1.2	0.1	10.6	9.8	0.8	9.7	0.8	19.5	19.0	0.5	18.8
AEI (DVLA & UKBA)	0.2	1.1	(1.0)	0.9	(0.7)	4.4	6.2	(1.8)	4.5	(0.2)	17.2	17.2	0	11.0
Other Government Services	0.1	0.2	(0.1)	0.3	(0.2)	1.2	1.5	(0.2)	2.2	(0.9)	3.6	4.9	(1.4)	3.4
Total Government Services	**9.4**	**10.3**	**(0.9)**	**10.4**	**(1.0)**	**58.9**	**59.6**	**(0.7)**	**60.7**	**(1.8)**	**140.2**	**139.9**	**0.3**	**135.7**
Bill Payment (incl Ticket & Travel)	2.9	2.7	0.2	3.1	(0.2)	16.9	15.3	1.6	17.4	(0.5)	39.6	37.7	1.9	40.5
Payout	0.1	0.0	0.1	(0.0)	0.1	(0.0)	0.2	(0.2)	(0.0)	0.0	0.9	0.4	0.5	(0.1)
Postal Orders	1.7	1.8	(0.1)	2.0	(0.3)	9.6	10.1	(0.5)	10.4	(0.8)	23.8	23.8	0	25.6
Fin Servs opportunities and projects	0	0.0	(0.0)	0.0	0.0	0	0.1	(0.1)	0.0	0.0	1.2	0.2	1.0	0
MoneyGram	0.9	1.1	(0.2)	1.0	(0.0)	5.6	5.8	(0.2)	7.0	(1.3)	15.6	9.8	5.8	10.9
Gift Voucher	0.1	0.1	(0.0)	0.1	0.0	0.6	0.6	(0.1)	0.4	0.2	2.9	2.9	0	0.9
Banking Services	2.1	2.0	0.1	2.1	(0.0)	11.9	10.8	1.1	10.6	1.3	28.2	25.9	2.4	25.3
DWP	0.3	0.3	0.0	0.7	(0.4)	1.8	1.5	0.3	3.3	(1.5)	4.0	2.7	1.3	7.9
NS&I	1.0	1.0	0	1.4	(0.4)	5.6	5.4	0.1	7.0	(1.4)	13.3	13.2	0.1	16.6
A&L Business Banking	2.6	2.6	0.0	2.7	(0.1)	14.4	14.4	(0.0)	14.6	(0.2)	34.3	34.3	0	34.2
ATM	2.3	2.4	(0.1)	2.1	0.1	12.6	13.4	(0.9)	12.3	0.3	31.7	32.4	(0.7)	29.3
Bureau (excl profit share)	2.4	2.7	(0.3)	2.6	(0.1)	11.4	12.1	(0.7)	11.6	(0.2)	23.5	23.7	(0.2)	24.1
Travel Insurance	0.9	1.0	(0.1)	0.8	0.1	5.4	5.3	0.1	5.8	(0.4)	8.7	8.5	0.2	8.9
POFS - Savings	3.2	3.1	0.1	1.7	1.5	9.5	15.0	(5.5)	6.8	2.7	31.9	37.2	(5.3)	15.7
POFS - Insurance	0.3	0.3	(0.0)	0.2	0.1	1.8	1.5	0.3	1.9	(0.1)	4.9	4.2	0.7	4.6
POFS - Lending	0.3	0.3	(0.1)	0.2	0.1	1.2	1.8	(0.6)	0.9	0.3	4.4	3.7	0.7	1.8
POFS Other	1.4	0.2	1.2	0.2	1.17	3.6	1.0	2.6	1.0	2.58	4.0	2.5	1.5	0.0
Miscellaneous (A&L - CLS, Debit Card, Bureau kiosks)	0.7	0.5	0.2	0.2	0.5	2.4	3.0	(0.7)	(0.5)	2.9	4.0	11.6	(7.6)	15.2
Total Financial Services	**23.2**	**22.2**	**1.0**	**20.9**	**2.3**	**114.2**	**117.5**	**(3.3)**	**110.5**	**1.0**	**276.9**	**274.7**	**2.2**	**261.5**
Other Income	0.7	0.2	0.5	0.6	0.1	4.2	3.5	0.7	3.7	0.4	3.5	3.5	0	10.9
Supply Chain	2.5	2.3	0.2	2.3	0.2	12.7	11.7	1.0	11.6	1.1	30.3	30.3	0	28.4
Net Income	**67.7**	**66.3**	**1.4**	**65.9**	**1.8**	**373.8**	**367.1**	**6.7**	**360.8**	**10.3**	**903.8**	**897.9**	**5.9**	**865.3**

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POST OFFICE LIMITED BOARD

Post Office Limited's insurance programme

1. Purpose

The purpose of this paper is to:

1.1 Seek approval for Post Office Limited to put in place its own insurance programme

1.2 Confirm Post Office's annual insurance requirements, for the period from October 1st 2012 to September 30th 2013.

2. Background

2.1 Post Office has historically been part of the RMG Insurance Programme. The current policies within the programme expire on September 30th 2012. Royal Mail (RMG) have historically led the strategy and approach for risk financing for these programmes. On most lines of business there has been a £1m self-insured retention with RMG's captive insurance company (PostCap) providing an additional £4m. External insurance companies have provided insurance cover, in excess of the total £5m retention, with the cover limits varying according to the type of policy.

2.2 Post Office has been charged an allocation of the total insurance cost, based on metrics which are not driven by typical Insurance market formulas. This creates complications in terms of showing 'like for like' pricing comparisons going forward.

For the 2011/12 insurance period, the allocation for Post Office for all external risk transfer premiums totalled £488,473, and the allocation for PostCap premiums was £182,452, giving a total premiums cost for insurance of £670,925. In addition, Post Office remains responsible for all claims below £1m, with an average retained claims cost of circa £1.88m per annum.

2.3 The current RMG/ Post Office allocation formula model will expire on 30 September 2012, at the end of the current 2011/12 insurance period. This formula has clearly been financially beneficial to Post Office (particularly in respect of the PostCap allocation and the Crime programme premium). We understand that, if Post Office chose to retain shared insurance programmes with RMG in 2012/13, the allocation model would change to an 'Insurance Market Rate' split, which would result in a greatly increased share of the costs for Post Office. Later in this paper we show the costs to Post Office if the current 2011/12 programmes had been at a market rate allocation, rather than the existing allocation. This should be viewed as the cost benchmark when making 2012/13 programme decisions.

2.4 As part of separation, Post Office appointed its own insurance broker – Miller – on July 1st 2012, following a competitive tender process. Miller have worked with Post Office to review the various covers and renewal options.

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3. Options

3.1 Continue to share RM's insurance policy

Given the favourable allocation from RMG (circa 7% of the total insurance costs) there is an argument to continue with the current arrangements within the RMG programme.

However, whilst in theory Post Office could carry on sharing RMG's insurance policy because the two companies are part of the same group, it is now known that the favourable allocation would not continue into the new policy period. The MSA would allow RMG to charge the "Insurance Market Rate" going forward, which would see considerable increases against the expiring premiums.

Notwithstanding this, the ownership, control and strategy of the insurance programme would all remain within RMG, which may well not compliment or support Post Office's desired approach. As the two companies diverge in business approach and strategy, the nature and level of risks will also differ.

It is our understanding that RMG will continue with the strategy of using PostCap, but there is considerable uncertainty over whether RMG would agree to continue to include Post Office exposures in PostCap.

If they would not, in order to maintain the current position, Post Office would be forced to add another £4m to its own self-insured retention or provide that £4m of cover though the external insurance market. Either way, this approach creates significant complication and dislocation.

For all the above reasons, this option is not recommended. In any case, the corporate strategy of RMG would only allow sharing of insurances for 2012/13 and no longer. A break from RMG is therefore inevitable.

3.2 POL to have its own insurance programme

The view of Miller is that insurance market conditions will be more favourable in 2012 than in to institute a stand-alone programme. The general commercial insurance market is currently at its most competitive level for over 10 years but the market is expected to harden, and premiums are likely to increase, from 2013. Establishing an independent insurance programme would give us control of coverage and costs and allow us to develop a risk management strategy which aligns with our longer term commercial strategy.

The Board is therefore asked to endorse the proposal for Post Office to establish its own insurance programme with effect from 1 October 2012.

4. Fundamental decisions

4.1 There are a number of fundamental decisions to be made in setting up an independent insurance programme, namely

- the level of risk we are prepared to take (excess), against the cost of purchasing external insurance coverage
- whether Post Office should set up its own insurance Captive to provide better balance between self-retention and external premium costs
- the type of business insurances we buy (Directors' and Officers' liability insurance is being considered separately).

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5. Structure, Costs and benefits

The structure and costs of the various options are shown in **Appendix 1**.

5.1 The levels of excess considered for a stand-alone programme were £10k for all business policies (except Crime for which the market norm is at £1m), or the existing level of £1m for all policies. D&O cover is considered in a separate paper.

5.2 Option A shows the historic position and option B the likely position if we continued to share with RM. Option C shows indicative costs on the basis of a deductible of £1 million; option D shows the comparison for lower levels of deductible. The deductible is what is typically classed as the "excess" - i.e. the amount of the claim which the company would have to fund itself.

5.3 There is likely to be good competition in the market for Post Office business, and the option will remain to reduce premium costs in future by accepting a higher deductible and demonstrating strong risk management and a good claims record.

5.4 For this initial period, while the level of claims becomes clearer, the Board is asked to agree that Miller should be instructed to go out to the market on the basis of option C. This is estimated to be £0.1m pa cheaper than sharing with RM and £0.4m pa cheaper than having a lower deductible.

5.5 The insurance policy will cover as follows:

Property - £250m
Business Interruption - £10m
Employers Liability - £25m
Public Liability - £50m
Motor - Comprehensive Full Cover
Crime - £400m
Kidnap and Ransom - £20m
Directors' and Officers' Liability - £20 million

6. Setting up a Post Office Captive Insurance Company

6.1 There are short and long term advantages for Post Office in setting up its own offshore captive insurance company to self-insure. These include:

(a) The captive can operate as a vehicle to smooth the impact of different self-insurance levels that may be required by the external Insurance market (this is particularly true in respect of the Crime programme which will require a higher self-insurance level than other lines of business).

(b) The captive can be used to help mitigate the impact of premium increases which may result from the expected 'Hard Market Cycle' which will lead to general insurance rates increasing from 2013.

(c) The captive could potentially be used as a profit generator in the future by utilising it in respect of the affinity insurance products sold by Post Office or to develop products for franchise/agent Post Office operations.

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6.2 There are different types of captive insurance company. Post Office could establish its own insurance subsidiary or set up a Cell Captive which is a more cost-effective means of providing self-insurance, by keeping separate legal "cells" which can only be used for one entity.

6.3 Depending upon which type of captive vehicle is chosen there will be set up and administration costs. Miller estimates that the costs for set up and first year running and administration of a Cell Captive (including their own project management fee of £25k) would be in the region of £60k, increasing to £125k for a wholly owned new captive. The set-up of a Cell Captive is favoured as this mitigates initial set up costs, but can be transitioned into a wholly owned captive in the future, if needed.

7. Appendices

See appendix 1 for options available to Post Office

8. Recommendations

The Board is asked:

8.1 To agree that Post Office Limited should establish its own insurance programme with effect from 1 October 2012;

8.2 To instruct Miller to obtain quotes in the market on the basis of option C (estimated cost to the business £3.3m p.a.) for the insurance period to 30 September 2013; and

8.3 To approve the setting up of a Post Office captive Insurance Company at a cost of £60k.

Chris Day
September 2012

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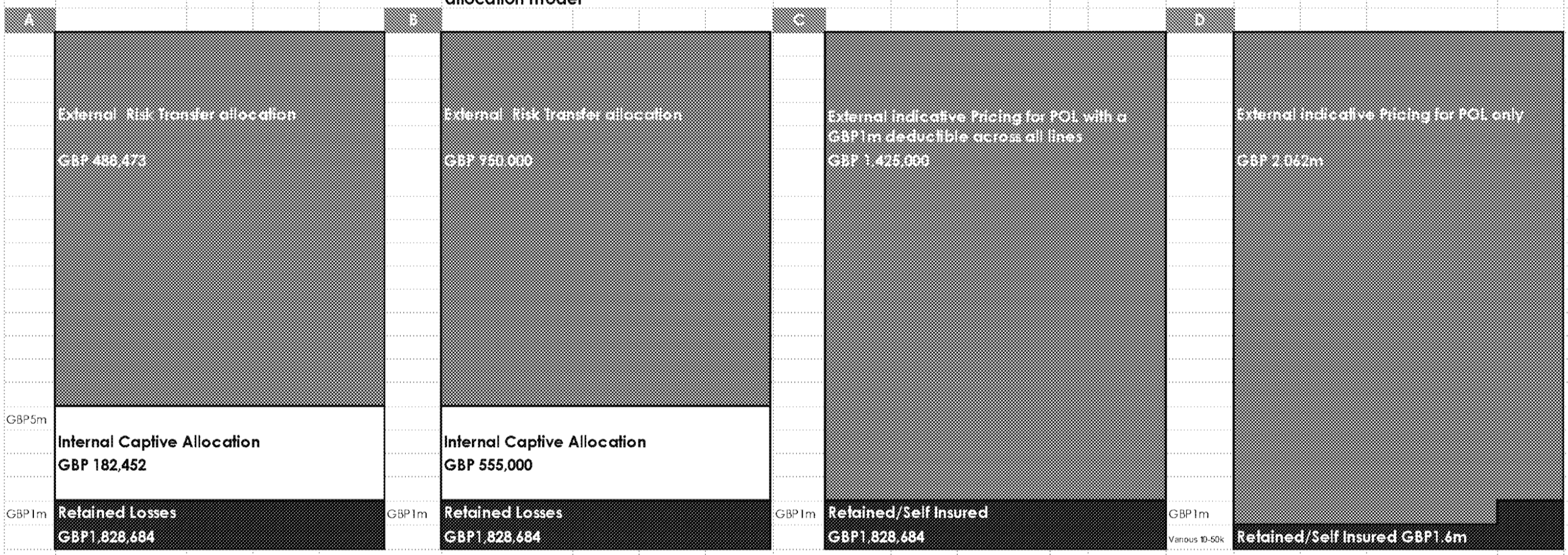
Appendix 1

POST OFFICE PREMIUM COMPARISON 2011 - 2013

2011/2012 ACTUAL | **2011/2012 Rebased for "market priced" £4m xs £1m and removing beneficial allocation model** | **2012/13 External Indicative £1m dedctible** | **2012/13 External Indicative £10k/£50k dedctibles**



Total cost of risk - GBP 2,499,609 | Total cost of risk - GBP 3,333,000 | Total cost of risk - GBP3,253,684 | Total cost of risk - GBP3,662,000

Notes

1. The 2012/13 structure is for POL stand alone policies only
2. 2012/13 inidcative pricing is acheivable
3. The 2011/12 RMG allocation would NOT be replicated going forward - this will increase substantially
4. Whilst the total cost of risk for (D) above is higher than (C) it must be noted that there is substantially increased volatility for retained claims in (C). The retained/self insured amounts shown are based on historic amounts and act as a

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POST OFFICE LTD BOARD

Directors' and Officers' Liability Insurance

1. Purpose

The purpose of this paper is to:

1.1 Set out the options for continuing directors' and officers' liability insurance cover ("D&O") after 30 September 2012;

1.2 Agree the policy on obtaining D&O cover for the year to 30 September 2013.

2. Background

2.1 D&O cover has, to date, been available to Post Office Limited directors and senior managers through a Royal Mail Group policy, with aggregate cover of £60 million for a premium of £144k. Post Office was recharged c£12k of the premium cost by Royal Mail, meaning that the cost to the Company of the cover was much lower than if Post Office had held its own D&O insurance.

2.2 Separation means that Post Office will have to take responsibility for its own insurance programme. A separate paper discusses proposals for the wider insurance programme.

2.3 At the allocation rate previously charged by RMG, the cost of cover to Post Office was very low and all administration, in terms of renewal, notification of any relevant changes in business activity and any claims handling, was undertaken by the RMG insurance team. RMG have indicated that they would now wish to recover costs "at market rate" and their insurers will certainly advise them to establish a clear and independent claims profile if a sale or market listing becomes imminent.

2.4 It is therefore sensible to look at the option of entering into a D&O policy for Post Office as a stand-alone entity. While the cost would inevitably be higher than the current arrangement, Post Office would be able to take control of its own policy, set its own cover limit and deal with any potential claims on its own account. Post Office's strong brand reputation and zero claims history is expected to generate a good level of competition among "A" rated insurers in the D&O market. There are also market indications that costs are likely to be higher for new entrants in 2013/14 than in 2012/13.

3. Company Indemnities

3.1 Many companies provide an indemnity for directors, by way of a Deed between the individual and the Company, whereby the company will reimburse a director for costs incurred in defending a claim brought by a third party. This arrangement is personal to the individual.

3.2 Post Office does not have such Deeds in place but the Articles of Association allow for indemnification and this will be considered further with external lawyers.

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3.3 However, insurance provides much wider cover: there may be cases where the costs would be so great as to exceed the company's own resources – an indemnity would be worthless if the company giving it were to become insolvent. An indemnity may not cover the costs of travel and subsistence for family members in the case of a court case away from home. Finally, there may be instances where a company cannot or will not pay. A D&O policy is the only option available where legal action is brought against a director by the company itself (as happened in the notable Equitable Life Assurance Society action).

4. Features of a D&O policy

4.1 A D&O policy is intended to protect directors and officers, both executive and non–executive, against allegations of wrongful conduct when they are acting as company executives.

4.2 A D&O policy will generally either pay directly, or reimburse to the company, the costs associated with the defence, investigation, negotiation and settlement (whether by a court judgment or otherwise) of a covered claim. This includes lawyers' fees, court awards and costs. "Side A" cover means individual cover for directors; "side B", which has been growing in importance over recent years, gives protection for the Company for reimbursement of amounts it may be obliged to cover for directors and senior employees, where legal action is brought against them because of their position in the Company.

4.3 As well as "statutory" directors and officers (such as the Company Secretary), a D&O policy typically also includes senior management levels and other employees who are deemed to be acting in a managerial or supervisory capacity. The policy may also include spouses of insured persons and all other employees as co-defendants if they are joined into an action.

4.4 The codification of directors' duties in the Companies Act 2006, the first prosecutions for Corporate Manslaughter, the individual penalties which could result from breach of the Bribery Act 2010 and the increasing willingness of regulatory bodies, such as the FSA, to pursue individuals personally have all increased directors' calls for adequate insurance cover.

4.5 The UK Corporate Governance Code now requires listed companies to arrange insurance cover for their directors, recognising the potential otherwise for companies and their shareholders to be damaged by the costs of defending claims.

4.6 While there are many companies which never face a D& O claim, a recent survey revealed that 20% of its respondents had already had experience of a claim or investigation involving a director of their company, with regulatory investigations and enquiries being the area of greatest concern.

5. Options Considered

5.1 Option 1 would be to continue with a shared joint policy for Royal Mail Holdings plc and all its subsidiaries. As is the case for other insurance policies, there is no guarantee that the existing low allocation rate would continue to apply. This option has been discounted because RM would control the cover which could possibly leave Post Office exposed – e.g. RM may be concerned that the cover could be insufficient to meet actions against them.

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5.2 Option 2 would give joint cover, with a separate layer allocated only to Post Office; option 3 similarly would give a separate initial cover, with an additional layer accessible to both Post Office and Royal Mail. Neither of these options would provide true separation and Royal Mail would still retain control of the policy as in Option 1 so these options have been discounted for the same reason.

5.3 Option 4 would be to set up a new policy, including an "outside board" extension to provide cover for the Chairman in her role as a director of Royal Mail Holdings plc. However, directors and senior management would want to be sure that claims relating to events which took place while they were still part of the Royal Mail Group were adequately covered. For this reason this option has been discounted.

5.4 Option 5 therefore recommends that a new policy be established for Post Office, but the existing Group policy continues as a run-off policy, to cover a 6 year period. It might be argued that the c 7% allocation rate should still apply to premiums for this policy as it would relate to activities which happened when the companies were joined. The estimated one-off cost for a run-off policy of this type would be about £290k (shared with RM) so it is not the cheapest alternative but it would provide protection for past actions and cover the Chairman in respect of Royal Mail Holdings plc Board responsibilities.

However, Royal Mail have indicated that this would not be acceptable, which may mean that sharing this policy would become uneconomic for Post Office.

5.5 The nature of risk for Post Office is different from Royal Mail, in that there are very few subsidiaries and there is currently no business outside the UK, so cover of £60 million is felt to be excessive. Therefore cover of £20m is recommended by Miller.

6. Comparative Costs

6.1 Indicative costs are £20k pa plus a share of the one-off premium of £290k

7. Recommendations

The Board is asked to:

7.1 Approve the proposal for entry into a new D&O policy in the name of Post Office Limited with cover up to £20m at a cost of c£20k pa

7.2 Agree to conversion of the existing policy into run-off, providing continued cover for a period of 6 years for actions arising from events during the period of ownership by Royal Mail, with Post Office paying a share of the one-off total cost of £290k. If the allocation determined by Royal Mail would make this option uneconomic for Post Office, a stand-alone run-off policy would need to be purchased.

Chris Day
September 2012

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POST OFFICE LTD BOARD

BRITISH POSTAL MUSEUM AND ARCHIVE (BPMA) ONGOING FUNDING

1. Purpose

The purpose of this paper is to:

1.1 Request that the Board approves an increase of £0.26m in Post Office's annual funding of the BPMA, bringing Post Office's total annual funding commitment to £1.26m a year for 25 years. A similar request for an equal commitment from RMG was submitted to the RMG board for approval on Sept 12th.

2. Background

2.1 In December 2011 the Board noted proposals for long-term funding, including an amount by way of loan to the BPMA, to fund a new site for the archive (paper POLB(11)69). The £6m loan was split equally between POL and RMG and will be repaid from revenues from the new museum.

2.2 In February 2012 Post Office provided the Trustees of the BPMA with a letter of comfort confirming that we intended to fund the BPMA into the future with payments founded on a commercial basis for services related to the discharge of obligations under the Public Records Act and the Postal Services Act.

2.2 In January 2012 the Board approved an annual payment to the BPMA of £1m, for a term of 20 years, to provide the archive services which we are bound to provide under the Postal Services Act and the Public Records Act. RMG committed to pay the same amount, as the total cost of supporting the BPMA is split evenly between the two companies.

2.3 Public Records Act 1958 (PRA) – Archive Obligation

- We are bound by the PRA to retain and manage our records in a particular way because some of them must be made public after 20 years.
- BPMA co-ordinates the initial receipt of records to be considered for permanent preservation and carries out a series of reviews, to the standard defined by National Archives to identify those that will be selected for publication after 20 years.
- The material that is published is used by BPMA at their exhibitions, is available on the internet and can be viewed by members of the public at Freeling House.

2.4 Postal Services Act 2011 (PSA) - Heritage Obligation

- There is a reporting "heritage obligation" set out in section 12 of the PSA, to report to the Secretary of State on the British Postal Museum and the Royal Mail Archive. Both are cared for by the BPMA. The Secretary of State will then present the report on the collection to Parliament.
- This provision was included in the PSA 2011 to continue public visibility and accountability for the heritage of RMG and POL after privatisation. These different functions have been outsourced to BPMA, but the statutory obligations cannot be transferred to a third party and continue to sit with the organisation.
- Early repayment of the outstanding loans provides a means of recovery in the event BPMA becomes over-funded.

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2.5 The BMPA provides a specialist, dedicated service which allows Post Office to discharge its obligations. Failure to support the BPMA could put Post Office at risk of non-compliance with the Public Records Act and the heritage obligations of the Postal Services Act.

3. Proposal

3.1 The annual payment required from Post Office has increased by £0.26m to £1.26m over a term of 25 years. RMG is required to pay the same increase, as the costs are split evenly between both businesses. The change is because:

- The term of the long term loan is 25 years and the annual payment is required to support the loan. The loan period was not confirmed in January 2012 when the Board approved the 20 year term for the annual payment.
- The business plan of the BPMA demonstrates that the increased amount is necessary in order to make the archive services contract commercial for services related to the discharge of obligations under the Public Records Act and the Postal Services Act.
- Early repayment of the outstanding loans from POL and RM provides a means of recovery in the event BPMA becomes over-funded

4. Recommendations

The Board is asked to:

4.1 Note the substantial increase requested by BPMA.

4.2. Approve an increase of £0.26m in Post Office's annual funding of the BMPA, bringing the total annual funding commitment to £1.26m a year for 25 years.

4.3 Request that the Chief Financial Officer nominates a member of his Senior Leadership Team to monitor BPMA's financial performance on a regular basis to minimise the likelihood of there being further requests for increased funding.

Chris Day
12 September 2012

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POST OFFICE LTD BOARD

Information Technology and Change Transformation Programme Update

1 Purpose

The purpose of this paper is to:

1.1 Provide an update on the progress of the Information Technology and Change (IT&C) Transformation Programme.

2 Background

2.1 The IT&C Transformation Programme provides the foundation to deliver the significant business and technological transformation which underpins the strategic priorities of Post Office for the next three years.

2.2 On completion of the IT&C Transformation Programme the Post Office will have:

- A more capable, efficient organisation and mechanism to increase capacity within IT&C
- Invested in our people to ensure we have the skills and tools to deliver future business capabilities
- Strategically re-procured our key IT contracts through establishing a reconfigured supplier chain
- Reshaped our supplier relationships to ensure that we effectively support the business going forward
- Created supplier frameworks that enable faster procurement of IT solutions, increasing speed to market, enabling us to be more responsive, and ensure effective competition across our supplier base
- Driven efficiency, innovation and a reduced cost of operation.

2.3 £13.37m was approved for the IT&C Transformation Programme at the Board meeting in March 2012. The programme is on course to deliver within budget. The Programme is governed by the Transformation Board with its own Programme Board and Delivery Working Group.

3 Progress Update

3.1 IT Frameworks Procurement

The IT Frameworks project was established in July 2011 to enable Post Office to deliver against the 5 year plan, given the constraints of Public Procurement Law (PPL) and our impending separation from RMG (Royal Mail Group). The key objectives for Frameworks are to provide:

- Speed to market, without having to undertake a lengthy public procurement process

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- Supply chain flexibility, providing choice and reducing reliance on a single supplier
- Increased competition to drive innovation and value for money.

The three frameworks have been launched and are ready for use by Post Office. We are currently embedding the processes to ensure the frameworks are exploited and used across Post Office. The IT Solutions Delivery framework is now being used by other programmes including Crown Transformation for Self Service and Finance Transformation.

3.1.1 **IT Consultancy**
The framework was launched July 2012 and will deliver a wide range of IT related Consultancy services including IT Strategy, Business Case Development, Enterprise Architecture and Business Process Design amongst others. The chosen suppliers are:

- Qedis
- HP
- CSC
- Deloitte
- Cognizant
- Axon
- Atos
- PA Consulting

3.1.2 **IT Products**
The framework was launched July 2012 and will be used to source commodity IT products and related services as required by Post Office. These include the supply of hardware, software, logistics and after sales support. The chosen suppliers are:

- Fujitsu
- NCR

The initial intent was to establish a framework with a minimum of 6 suppliers. Both of the chosen suppliers are able to competitively provide the range of services needed. Where necessary we are also able to leverage the IT Solutions' Delivery framework and Workplace Tower[1] should these suit our purposes better.

3.1.3 **IT Solutions Delivery**
The framework was launched in August 2012 and will be used to provide a range of services linked to solutions delivery, including but not limited to, project management, bespoke development, implementation and rollout. The chosen suppliers are:

- Logica
- Fujitsu
- Steria
- Cognizant
- Atos

[1] ***Tower:*** An element of our new IT supply chain which will provide and run operational IT services for the business. These currently include Towers for: a) Data Centres, b) Network, c) Workplace, d) Applications and Infrastructure.

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- Accenture

3.1.4 Delivery of the Frameworks was delayed by 5 weeks, without any impact on the wider programme, budget or benefits. The key reasons for the delay were:

- Some constraints in the availability of BAU resources. For future IT&C Transformation projects we have now agreed our resource profile with business area leads, which has provided an early view of our requirement

- Lengthy governance process for approvals. We have subsequently streamlined our governance process and identified a clear set of reviewers and approvers for each deliverable.

3.2 IT Supplier Procurement

Our key IT contracts are due to expire during 2012-15. Our strategy is to contract with a number of prime suppliers' who will sub-contract services as necessary to meet demand. This will provide Post Office with an appropriate and simplified supplier model.

3.2.1 SI/SD (Service Integrator and Service Desk) Procurement

The SISD OJEU[2] and Pre-Qualification Questionnaire (PQQ) were issued mid-April. A total of 12 responses were received of which 6 suppliers were shortlisted. Fujitsu have since withdrawn from this procurement process to concentrate upon the Towers. An Invitation to Participate in Dialogue (ITPD) has been issued to the shortlisted suppliers:

- Atos
- Capgemini
- Capita
- HP
- Logica

We are now entering the first phase of competitive dialogue (negotiation) due to complete October when a firm ISOS (Invitation to Submit Outline Solution) will be issued. Following evaluation of ISOS responses, we plan to reduce our shortlist to three by the end of November 2012.

Post November 2012 we will enter a further competitive dialogue phase with the remaining three and receive final tenders. The SISD contract award to our preferred supplier is planned for the end April 2013.

3.2.2 Towers Procurement

The OJEU and PQQ notices for the Workplace, Applications/Infrastructure and Data Centre towers were issued in August 2012. The release of the Networks Tower OJEU and PQQ is on hold until further assessment is complete on the potential extension of the existing BT contract and the use of the cross-Government Public Sector Network (PSN) framework.

Whilst it was initially thought that we would have a single AID (Applications, Infrastructure and Data Centre) Tower, following feedback from the Market

[2] ***OJEU:*** Official Journal of European Union: the means by which contracts governed by Public Procurement Law are offered to the market.

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Engagement Day and independent advice we have decided to separate Applications & Infrastructure from the Data Centre creating two towers. The key benefits of this separation are:

- *Simpler procurement:* Data Centre contract award can now be brought forward to Q1 FY13
- *Increase in competition:* Specialist Data Centre providers can now participate in the procurement process
- *Reduction in the cost of delivery during 2013:* earlier delivery of Data Centres will enable projects being delivered through frameworks to be hosted in our strategic data centre.

The key activities going forward are[3]:

- Review the Networks proposition in advance of the planned OJEU and PQQ (circa September 2012)
- Evaluate PQQ responses from the participating bidders and shortlist 4-6 suppliers for each of the Towers
- Prepare and issue the ISOS (Invitation to Submit Outline Solution) to the shortlisted suppliers and enter the first phase of competitive dialogues to shortlist 3 suppliers for each Tower
- Prepare and issue the ISDS (Invitation to Submit Detailed Solution) to the 3 shortlisted bidders and enter the second round of dialogues for each of the Towers
- Prepare and issue the ISFT (Invitation to Submit Final Tender), select the preferred supplier for each of the Towers and award contracts.
- Planned dates for each phase of the Tower procurements are given in Appendix A.

3.3 IT&C Operating Model

To support the delivery of Post Office business objectives it was identified that the capabilities' of the current IT&C operating model would need improvement. In particular, two key areas were identified:

- Management of third party supplier base to deliver IT services
- Existing gaps in internal Post Office Service Management capability.

The project is divided into the following three work streams:

[3] Dates are indicative subject to re-planning currently in progress to factor in the split of the AID tower into AI and D. Plan to be confirmed during September 2012.

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3.3.1 Organisation Structure and IT&C Governance

- The top level IT&C organisation structure has been designed and implemented. Two key roles are currently being recruited for; a Technology Officer and a Head of Business Change Delivery
- The IT&C governance boards have been designed at strategic, operational and programme/project levels to complement the target structure
- The full structure will be communicated by the end of September 2012
- Further changes to leverage the full benefits of our strategy will occur once we have appointed and engaged the Services Integrator.

3.3.2 Process Design and Ways of Working

- The current state has been reviewed and we have improved the key IT&C processes including change management
- We are continuing to refine our change process following feedback from Post Office business units, prior to full implementation as part of our transition planning
- Our plan includes a range of activities focussed on enhancing and motivating our people. These include focussing on improving career paths, leadership development, performance management and cultural change.

3.3.3 Incumbent IT Supplier Management

- The purpose of this work stream is to understand the current contractual obligations with our incumbent suppliers and plan our exit strategy to enable a smooth transition.
- Legal review of 21 key supplier contracts was completed by our legal advisors, DAC Beachcroft, in June 2012.
- Initial engagement with all suppliers is complete. We have communicated our strategy, planned timescales and the support we need from our suppliers.
- Extensive engagement with Fujitsu has been undertaken to ensure we continue to work effectively to deliver change across the Post Office.

3.3.4 We are in the process of defining supplier specific negotiation strategies.

3.4 Transition Planning

We have brought forward transition planning to better understand the approach, plan and costs in order to effectively manage the risk of moving to new suppliers.

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The work has focused on producing:

3.4.1 A draft, integrated plan covering transition of our IT services and the IT elements of our Separation from Royal Mail. This plan will continue to evolve as we gather more detailed information of the in-scope services;

3.4.2 Detailed, granular cost estimates, to understand the likely cost of transition and IT separation.

Transition will be subject to the approval of future programme activities.

4 Risks/Mitigation

Top programme risks and mitigating actions are summarised below:

4.1 Increased re-tendering of IT contracts in the marketplace could result in fewer than expected responses from suppliers and/or the suppliers with the "best capability" bidding for other contracts.

Mitigation: there will be close engagement with all suppliers, including timely communication of our procurement process and timelines. The procurement process is already streamlined to provide suppliers sufficient time to respond.

4.2 There is a significant volume of transformation across Post Office that will require support from our internal Subject Matter Experts (SME). The required level of SME support may not be available due to the need to support several change initiatives simultaneously

Mitigation: Detailed planning of resource requirements has been completed and agreed across all business areas. Where necessary we may backfill resources using external resources.

The early procurement of the Service Integrator will help us to mitigate capability and capacity constraints.

5 Recommendations

The Board is asked to note the progress to date and that we continue to deliver against plan and budget.

Lesley Sewell
September 2012

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6 Appendix A: Key Milestones

The following table outlines the expected key milestones for the procurement and award of our IT contracts.

	Services Integrator	Workplace	Network	Applications & Infrastructure	Data Centre
PQQ[1]	April 2012	Aug 2012	On Hold	Aug 2012	Aug 2012
ISOS[2]	Oct 2012	Oct 2012	On Hold	Oct 2012	Circa Oct 2012
ISFT[3]	Dec 2012	April 2013	On Hold	July 2013	Circa Apr 2013
Award	April 2013	July 2013	On Hold	Oct 2013	Q1 2013-14 FY
Term	4+1+1	4+1+1	4+1+1	5+1+1	4+1+1
Comments	Down selected to the following suppliers: • ATOS, • Capgemini, • Capita, • HP, • Logica		On hold until further assessment is made of any potential extension of the existing BT contract and the suitability of the cross-Government PSN (Public Sector Network).	Longer expected contractual term due to: • Greater and longer term investment • More difficult and complex to transition.	• Simpler procurement allows earlier award. • Increase in competition through participation of Specialist Data Centre providers. • Enables projects delivered through frameworks to be hosted in our strategic data centre.

[1] *PQQ:* (Pre Qualification Questionnaire) [2] *ISOS:* (Invitation to Submit Outline Solution) [3] *ISFT:* (Invitation to Submit Final Tender)

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POST OFFICE LTD BOARD

Post Office Technology
Risk and Resilience Review

1. Purpose

The purpose of this paper is to update the Board on the findings and activities being taken in response to the recently commissioned KPMG Risk and Resilience report.

2. Background/Key Findings

2.1 Over the past 12 months our counter capability has experienced five major incidents. As part of the response Post Office commissioned KPMG to investigate our overall IT service landscape with a review of the current risk and resiliency of our services.

2.2 The review was wide and covered all Post Office services; however the assignment focused primarily on those with the potential for greatest impact on business and reputation.

2.3 Horizon received the greatest focus due to the critical nature of the service and its high public profile. Availability of Horizon Data Centre is critical as when unavailable the branch counter is unable to transact business.

2.4 The investigation was time boxed to one month to provide greatest benefit and responsiveness.

2.5 We have reviewed our IT roadmap and propose that as part of IT Transformation programme we will establish the business requirements, appetite for risk and associated costs to enhance our service availability. Implementation of any changes to our service availability would form part of our new IT Supply Chain and through the procurement of our IT Towers and Service Integrator.

2.6 Re-confirming with Post Office business stakeholders their expected business service levels over the 12-15 strategic period is being undertaken as part of our Towers procurement. This drives requirements and planning for:

2.6.1 Future Disaster Recovery and Systems Resilience capabilities which are being integrated into our IT procurement and refresh activities

2.6.2 Articulating the acceptable level of risk for the business

2.6.3 Accommodating essential improvements, with strong cost benefit cases, into the roadmaps for our legacy systems.

2.7 In the future, our chosen Services Integrator will as part of its BAU activities:

2.7.1 Undertake an annual Risk & Resilience review focussing on changes made and new areas of interest.

2.7.2 Ensure and maintain the readiness of our disaster recovery capabilities through amongst other activities scheduled testing.

3. Resilience Terminology

The terminology commonly used in considering the level of resilience of systems are detailed in the attached Annex.

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4. Horizon Review Findings

4.1 Horizon's centralised Data Centre has resilience similarities with major UK organisations.

4.1.1 Retail

Retailers are focussed on the ability to continue trading even when their central Data Centre is unavailable. Retail POS systems are designed to continue to trade irrespective of Data Centre availability.

4.1.2 Banking

The Horizon Data Centre offers a lower level of resilience than those commonly found in the Banking sector.

4.2 The original Horizon system prior to HNG-x being implemented could transact non-banking functions without the Data Centre being available, similar to current retail systems.

4.3 Post & Go and ATM's will continue to offer customer service irrespective of Horizon Data Centre availability.

4.4 Whilst Post & Go can continue to trade end of day reconciliation would be affected as these transactions are reconciled via systems operated from the Horizon Data Centre.

4.5 Branches additionally have manual business continuity procedures for mails service (e.g. manual sale of stamps).

4.6 Horizon operates out of two physically separate data centres (Primary and Secondary) both located in Northern Ireland.

4.7 The Horizon Data Centre hosts multiple systems; the Horizon Counter Application, POLSAP[1], Credence[2], Post Office Data Gateway[3] and others.

4.8 As part of the renegotiation of Horizon in 2006 Fujitsu were contracted to manually recover the system to the secondary Data Centre in the event of a ("disaster") catastrophic event.

4.9 When not being used for a disaster situation the facilities of the secondary Data Centre are used to support testing of business changes requested by Post Office Ltd. This ensures we maximise value from our contracted assets.

4.10 Data Centre Failover

4.10.1 Any data centre failover event is operationally disruptive.

4.10.2 The Horizon business continuity plan identifies circa 70 events which will effect a failover.

4.10.3 Failover is an "all or nothing" activity.

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[1] ***POLSAP:*** Provides support for finance.
[2] ***CREDENCE:*** Data Warehouse which is also used in the settlement of 3rd party Client and Agent remuneration.
[3] ***Post Office Data Gateway:*** Used to securely transfer settlement and other information between Post Office and 3rd Party clients (e.g. EON, AXA, Aviva, etc).

4.10.4 Currently all business services provided by the Data Centre must be failed over at the same time. (i.e. Horizon, POLSAP, Credence, Post Office Data Gateway, etc would all need to failed over together should any one require failover).

4.11 From the point of the decision to invoke disaster recovery (not the start of the incident) Fujitsu have to meet the following service level targets as agreed in the contract:

4.11.1 Restore counter banking services on Horizon within 2 hours

4.11.2 Restore all other Horizon services e.g. remainder of the counter services, web and Automated Payment Out-payment (APOP[4]) within 5 hours

4.11.3 Restore all other non-Horizon services e.g. POLSAP and Credence within 48 hours.

4.12 The currently contracted Horizon service availability target of 99.56% accepts that an average of two or three major service failures or 12 hours lost service time may occur per year.

4.13 Two out of the five Horizon service outages over the past twelve months were related to process rather than technical resilience.

Date	Incident	Cause
27/07/2011	PIN Pad transactions were unavailable between 08:00 and 14:30.	Reference Data delivery
12/12/2011	Banking Transactions were unavailable between 12:54 and 14:30.	Hardware failure
01/02/2012	Post Office Card Account (POca) transactions were unable to complete. In some branches Automated Payments (e.g. utility bill payments), E Top Up and a small number of Banking transactions were also affected. The service was impacted between 08:00 and 11:15.	Release Management process failure
01/03/2012	95% of transactions were unable to complete between 11:00 and 14:30.	Hardware failure
16/07/2012	Full service failure for 11 minutes, followed by a partial service for the next 35 minutes as the network restored itself. This was a result of a hardware failure within a network router switch.	Hardware failure

4.14 Only the incident on 12/12/2011 may have been preventable through additional investment in technology, or the move to an automatic failover.

4.15 While the architecture is generally designed for resilience, cost/risk trade-offs were agreed in the move from the original Horizon system to the new HNG-x one which mean that the service is not truly high availability.

[4] *APOP (Automated Payment Out-Payment):* a service provided by Horizon to enable various products to be sold and paid out from Post Office counters, on the instruction of our commercial clients (e.g. Postal Orders, NS&I, Payout, Stock Order, Bureau Pre-Order, Camelot Cheques, etc.).

4.16 Following the tactical review during April/May a programme of activities was undertaken to address improvements in infrastructure resilience, process robustness and service monitoring. All key actions have been completed, the remainder either require major release windows and have been scheduled, or are in the process of being prioritised with Post Office. On-going actions are being monitored through the joint Service Improvement Plan.

4.17 The latest incident has benefitted from the tactical changes made in response to previous outages, with Fujitsu being able to find and respond more quickly to the network incident on 16th July 2012 therefore reducing the overall business impact.

4.18 Moving to banking service levels within the current Data Centre capability (99.99% equating to circa 50 minutes service loss per year), was estimated by KPMG to require investment in excess of £50-70m[5] with a subsequent increased on going operational costs.

4.19 Channel Integration challenges the current risk/resilience profile as it increases the number of business services dependent on the Horizon architecture. The proposed architecture is currently being reviewed to ensure no degradation of the overall risk/resilience profile.

5. Web Findings

5.1 Post Office current web capability is provided through services contracted by Royal Mail Group with Capgemini and provided under the MSA agreed this year.

5.2 In the allotted time our consultants were unable to directly engage with Capgemini due to Royal Mail Group operational priorities.

5.3 The currently contracted service availability target of 98% accepts up to 170 hours of lost service time per year.

5.4 Although the Post Office Website does have a disaster recovery service in place, it is believed that this has limited capacity. In the event of a failover to the disaster recovery site it is not understood whether this would be adequate for POL's business requirements.

5.5 Any downtime is visible and also costly due to the number of high value financial services which are transacted though this channel.

5.6 We are continuing to engage with Royal Mail Group to understand the full capabilities of the Capgemini solution and expect to be able to provide an updated report at the beginning of October 2012.

5.7 As part of our separation activities we are working to determine the current and future business availability requirements which will be included in our future IT Supply Chain procurements.

The Board is asked to note the contents of the paper.

Lesley Sewell
September 2012

[5] Estimate by KPMG using industry standard Data Centre cost measures. These include Kw (kilowatt) power consumption, unit storage costs (per Terabyte), based on their experience of similar industry Data Centres. These figures do not include upgrade costs for hardware which might become end of life before the end of March 2015.

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Appendix

Terminology:

Terminology	Description
Active / Standby	• Describes a model where the primary data centre runs the service and a second data centre is available to manually move the service to in the event of a disaster. • The Post Office system provided by Fujitsu Services Ltd currently adopts this model.
Active / Active	• Describes a model where both data centres are active at the same time. Whilst normally the business transactions run on the primary Data centre the second data centre is kept up to date (typically a few minutes). • Should the primary data centre fail the business load would be automatically switch (no manual intervention) to the second data centre. This would occur immediately with minimal or no perceived loss of service.
Disaster Recovery (DR):	• Typically occurs following a catastrophic event at the primary Data Centre and it is deemed necessary to fallback to a second site. Examples typically include flood, civil disturbance or other "acts of God". • This is a major event and our currently contracted levels for Horizon are typical in the industry. See below for contracted service levels.
Systems Resilience	• Redundancy built into systems to ensure that the system continues to run in the event of hardware or software failures. • Whilst these are significant events in their own right the system would be expected to continue to run at the primary Data Centre. Examples may be single server or disk failures.

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POST OFFICE LTD BOARD

Noting Paper

Horizon Evolution Update

1. Purpose

The purpose of this paper is to update the Board on:

1.1 the current state of the Horizon Counter system and underlying Fujitsu HNG-x[1] contract;

1.2 the review that was conducted with Fujitsu earlier this year and the work we are continuing to undertake to ensure we minimise risk and cost to the business through transition planning;

1.3 the approach being taken to identify the options for the provision of Post Office counter's services for 2015 and beyond.

2. Background

2.1 The Fujitsu HNG-X contract terminates at 31st March 2015.

2.2 The current Horizon system has fundamentally changed little since it was originally designed in 1995.

2.3 Many of the components of the current HNG-x service will have reached end of life by March 2015.

2.4 Fujitsu have estimated the cost of extending the service life to 2020 would be circa £70m of investment during 2012-15, with on-going operational costs similar to today's charges.

2.5 The Post Office business requires moving to a more flexible counter service than can currently be provided through the current or proposed Horizon counter application. Currently adding new facilities and changing existing ones is slow and expensive when compared with industry norms.

2.6 To compete successfully in the commercial marketplace, our future business strategy recognised the need for improved speed to market and cost efficiencies.

2.7 Under Public Procurement Law, Post Office is required to competitively tender the full scope of the existing HNG-x contract.

2.8 In May 2012 Fujitsu approached Post Office requesting the opportunity to engage and bring to the table a compelling proposition for the future provision of counter services through to 2020.

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[1] ***HNG-x:*** The contractual means through which Fujitsu provide the Horizon counter system and other IT services (e.g. finance and management information systems, etc.) to Post Office.

2.9 Through June and July 2012, Fujitsu and Post Office Information Technology and Change (IT&C) worked together on an in-depth study into the opportunities for renewing and extending the current HNG-x contract for up to five years. The outcome of this investigation was reported to the Executive Committee of Post Office Limited during July, fully explored and declined based on a number of criteria including:

2.9.1 legal advice based on Public Procurement Law

2.9.2 insufficient value for money over the strategic term

2.9.3 lacking the flexibility required by our business

2.9.4 it did not provide a compelling future vision of how to satisfy the business need, focussing largely on a significant technology refresh during 2012-15.

2.10 Post Office are moving to a new IT Supply Chain model providing increased flexibility, speed to market and improved cost savings.

2.11 Under the new IT Supply Chain the capabilities provided through the current monolithic HNG-x contract will be provided through our Tower[2] suppliers.

2.12 Fujitsu have the opportunity to competitively win work under the new IT Supply chain model.

3 Strategic Landscape

3.1 There will never be a good time to migrate to a new counter solution.

3.2 All solutions will require significant business activity and investment.

3.3 Any future counter capability will be likely to have a minimum expected lifetime of ten operational years following its introduction, equating to an end of life circa 2025. This is based on industry norms for e-POS[3] longevity.

3.4 Post Office will need to negotiate an extension to the existing Fujitsu HNG-x contract of circa 12 and 18 months to ensure we continue to provide the stable business platform demanded by:

3.4.1 Successful completion of the current Network and Crown Transformation plans over the 2012-15 period.

3.4.2 Separation: with many supporting systems provided under the RMG CSC contract with the majority of transition activities taking place in 2013-15

3.4.3 Embarking on the 2015-2020 strategic period with clarity on our strategic intent through to 2020, ensuring alignment with the business.

3.5 Post Office will migrate services from HNG-x to our new contractual environment as early as it is prudent to do so, enabling us to reduce the overall scope, risks and costs of any extension period.

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[2] ***Towers:*** Elements of our new IT supply chain which will provide and run operational IT services for the business. These currently include Towers for: a) Data Centres, b) Network, c) Workplace, d) Applications and Infrastructure.
[3] ***e-POS:*** Electronic Point of Service, a system able to provide sales and service capabilities to meet customer needs.

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3.6 We are currently working to establish the precise nature of the terms and scope of the extension required including the scale of the overall costing.

4. Activities/Current Situation

4.1 To reduce the risk to the business transformation programme we are working with Fujitsu to package a programme of work to manage all of the activities' and changes required to the Horizon counter application over the 2012-15 term.

4.2 Included within this programme of work, for the existing Horizon application, are the following update activities:

4.2.1 ***Extended Hours:*** providing support for extended branch opening hours, with the added benefit of improving our operational capabilities through reducing the duration of the overnight batch run.

4.2.2 ***Channel Integration:*** enabling other suppliers to access the capabilities of the Horizon counter system, providing industry standard interfaces for a range of key capabilities. This will enhance flexibility, speed to market and start to reduce the bespoke nature of the current Horizon system.

4.2.3 ***Improved IPR[4] Position:*** By undertaking new developments we reduce the IPR vested in Fujitsu, as under the terms and conditions of the HNG-x contract new capabilities belong to Post Office.

4.3 We are continuing to shape this package of work to ensure where possible the activities ease any future transition away from the HNG-x contract. An example is Channel Integration which makes the current system more open and flexible.

4.4 A risk and resilience review has been undertaken giving rise to a programme of planned improvement activities. This is the subject of a separate paper made to this Board.

4.5 The findings from the risk and resilience review are being input to the procurement activities being undertaken to secure our Frameworks and Towers. This will ensure that we procure (subject to cost benefit analysis) solutions which are able to deliver availability in line with our future business needs.

5. Options

5.1 Over this financial year we have explored the full range of potential options within the Post Office and with our suppliers.

5.2 In response to the procurement activities Information Technology & Change (IT&C) are continuing to consider a number of options for progressing the evolution of the Horizon counter application.

5.3 There is no ideal option which satisfactorily meets all of the aspirations of Post Office in terms of time, cost and business capabilities for the 2012-15 strategic period and beyond.

[4] ***IPR:*** Intellectual Property Rights.

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5.4 We continue to assess available options as part of our strategic planning for activities for 2012-15 and 2015-20. As we progress our thinking we will consider new options which might become apparent to ensure we select the most best available solution.

6. Progress Update

6.1 We are adopting a phased approach to providing the capabilities required by the business over the strategic term and beyond.

6.2 Our approach will enable Post Office:

6.2.1 to secure the 2012-15 network and business transformation

6.2.2 to transition the counter and other “front line” services safely to a new capability beyond 2015.

6.2.3 to minimise the duration of an extension to HNG-x for the provision of Horizon counter services, reducing risk and cost.

6.3 We are adopting an incremental plan based on clear manageable steps which will intimately engage and involve all areas of the business. Our intent is to ensure:

6.3.1 our process and decisions are clearly demonstrable to business owners

6.3.2 we can be guided by the knowledge, skill and understanding of our Directorate’s key personnel

6.3.3 our plans are independently reviewed by industry specialists

6.3.3 our plans are consistent with and take account of our strategic plans for the 2012-15 and 2015-20 terms.

7. Recommendation

The Board is asked to note:

7.1 The actions being taken to secure continued and successful counter service provision:

7.1.1 over the 2012-15 business transformation, through a package of agreed work with Fujitsu and the Post Office business

7.1.2 as a flexible and responsive platform for the next strategic term 2015-2020.

7.2 We are working with Fujitsu to establish the details of an extension beyond March 2015 for a period of circa 12-18 months. This is in advance of the formal contract termination notification date of October 2013. We will formally update the Board on progress during Q4 of the 2012-13 financial year.

7.3 We expect to understand more fully the details and structure of the proposed extension by the end of 2012.

Lesley Sewell
September 2012

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POST OFFICE LIMITED – SIGNIFICANT LITIGATION CLAIMS

PRIVILEGED AND CONFIDENTIAL

PART (A) – CIVIL CLAIMS

CLAIMS OVER £500K OR THOSE OF A SENSITIVE NATURE

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	EXTERNAL LEGAL ADVISERS
Claim for Judicial Review	POL/HF/RW	Angela Van-Den-Bogerd	A former subpostmaster (**SPM**) is seeking a judicial review of POL's decision to terminate his contract. This decision was reviewed through the appeal process in the SPM Contract and upheld by the Appeals Manager. The SPM alleges: - the Appeal Manager's decision was flawed; and - - the appeal process in the SPM Contract is unfair and breaches his right to a fair trial as guaranteed by the European Convention on Human Rights, including that the appeal process does not allow for legal representation at the appeal hearing.	The SPM has filed Court proceedings seeking the Court's permission to bring his claim. POL has asked the Court to refuse permission on the grounds that the decision is a commercial one which is not amenable to judicial review. The Court will now decide whether or not to grant permission. No further steps are required pending that determination.	DAC Beachcrofts

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			If the Court agrees to judicially review the decision to terminate *and* finds that the appeal process is unfair, this is likely to impact on the appeal process and how it is operated generally. If the Court refuses to judicially review the decision, the SPM may still seek to bring a separate claim for wrongful termination of his contract and damages.		
Customer Complaint – Age and Disability Discrimination	POL/HF/RW	Angela Van-Den-Bogerd	An individual has started court proceedings under the Equality Act and Human Rights Act alleging disability and age discrimination against Shieldex Limited (the franchisee of the branch) and POL. The complaint arises out of issues with customer access at the branch and with customer service. Damages are claimed, but not quantified. The estimated potential exposure (if the claim succeeds) is likely to be in the region of £6,000 to £18,000, plus legal costs. If POL is found to be a service provider under the Equality Act, and therefore liable to make reasonable adjustments to premises, this is likely to have implications across the Network.	POL and Shieldex have filed Defences to the claim. POL has also made a claim against Shieldex under the indemnity set out in the franchise agreement governing the operation of the branch. This gives POL the option of recovering from Shieldex any damages which the Court may ultimately order POL to pay to the claimant as a result of Shieldex's actions. Bond Pearce is currently seeking to arrange a "without prejudice" meeting with the claimant and Shieldex at the branch this month with a view to negotiating a settlement of the claim.	Bond Pearce

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Horizon claims	POL/HF/RW	Rod Ismay	POL has received notification of a total of five (5) claims from former SPMs. Each SPM has alleged wrongful termination of contract based on: - (1) alleged defects in POL's internal processes; and - (2) alleged defects with the Horizon system. Each SPM is seeking damages of c.£150,000. Despite reports in the media that Shoosmiths solicitors have consulted on a further 85 cases, POL has not been notified of any additional claims. A third party fraud investigator has been appointed (following consultation with various MPs) to review up to 10 cases where Horizon is alleged to have caused the losses. It is anticipated that no further court action will be taken pending the outcome of that investigation.	In respect of four of the five claims, Shoosmiths have not taken any further action to date to progress the claim. There is no litigation before the Courts in progress in respect of these four claims. POL has successfully had the Court strike out the fifth claim and has recovered costs from the claimant.	Bond Pearce

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Employment Claims	POL/HF.RW	Colin Stretch	Eight claims against POL are currently proceeding before the Employment Tribunals. Claims allege unfair dismissal for conduct, unfair dismissal for capability, sex and race discrimination, and victimisation. Potential exposure to POL over three cases is c.£200k, with five cases yet to be valued. Claims could require policy changes if upheld (e.g. with respect to race or sex discrimination).	Significant claims continue to be monitored (both internally and with external counsel) and risk assessed as they progress.	Weightmans

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

DESCRIPTION	STATUS
Subpostmaster accused of theft (£85,872.07) plus fraud. Restraint order applied for.	Committal hearing 13/09/12.
Officer in charge at Crown office found guilty on 2 counts of theft (total £46500).	On 23/08/12 the court ordered payment of £46500 to Post Office within 28 days from pension pot ie **Full Recovery.**
Manager employed at post office accused of theft (£27,824.51).	Plea case management hearing due to take place at Reading crown court.
Subpostmaster accused of fraud (£38,284.68).	Committal hearing held at Stevenage magistrates' court 24/08/12 (adjourned).

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Subpostmaster pleaded guilty to theft/fraud	Defendant sentenced to 2 years imprisonment concurrent with award of £10,750 payable to Post Office by 1/12/12. 9 month imprisonment if in default. **Case completed.**
Subpostmaster pleaded guilty to theft	Hearing 6/07/12. Confiscation compensation order for £273,367.64 payable to Post Office within 6 months.2 years' imprisonment in default. **Case completed.**
Nominated subpostmaster pleaded guilty to theft (£114,095)	Sentenced to 20 months' imprisonment, Confiscation time table set to recover £114,095 with a further court hearing due on 5/09/12.
Subpostmaster pleaded guilty to fraud (£9,425.90)	Following committal for sentence 24/08/12, full amount was repaid **ie Full Recovery of £9425.90** Individual sentenced to 26 weeks' imprisonment suspended for 2 years plus 120 hours' unpaid work and costs of £500 payable within 28 days.
Two sub post office assistants admitted covering shortages by delaying the processing of 40 business deposits to Santander (total value of £34,115.50).	Hearing at Liverpool crown court 13/09/12.
Two brothers in partnership as subpostmasters accused of theft/fraud (£237,240.64)	Trial at Wood Green crown court on 8/10/12.
Subpostmaster accused of theft (£79,440)	Individual pleaded guilty and offered to repay £79,440 plus £17,500 investigation and legal costs. Full amount of £96,940 must be paid within 4 weeks. **Full Recovery.**

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POST OFFICE LTD BOARD

Sealings 26 June – 12 September 2012

Seal Register

The Directors are invited to consider the seal register and approve the affixing of the Common Seal of the Company to the documents set out against items numbered 802 to 817 inclusive in the seal register.

"The Directors resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 802 to 817 inclusive in the seal register is hereby confirmed."

Alwen Lyons
Company Secretary
12 September 2012

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POST OFFICE LIMITED REGISTER OF SEALINGS

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
802	29/06/2012	29/06/2012	Deed of Covenant re Property at 42-48 High Street, Ramsgate, Kent CT11 9AA	Helen Perkins	to Jean Reynolds
803	29/06/2012	29/06/2012	Deed of Variation relating to 42-48 High Street, Ramsgate, Kent CT11 9AA	Helen Perkins	to Jean Reynolds
804	02/07/2012	02/07/2012	Deed of Variation in respect of lease of premises at ground floor and part first floor, 47 Upper Parliament Street, Nottingham.	Helen Perkins	to Jean Reynolds
805	26/07/2012	26/07/2012	Deed of Novation between The Governor and Company of the Bank of Ireland (Transferor), Bank of Ireland (UK) PLC (Transferee) and Post Office Limited concerning the change of authority to issue bank notes in Northern Ireland from the Transferor to the Transferee under the Bank of Ireland (UK) plc Act 2012.	Helen Perkins	to Keith Rann
806	26/07/2012	26/07/2012	Licence to Alter (in triplicate) re part of premises at 340 Park Road, Dingle, Liverpool L8 between Maidstill Limited, Somerfield Stores Limited and Post Office Limited.	Helen Perkins	to Jean Reynolds
807	26/07/2012	26/07/2012	Counterpart Lease relating to Lease of Units 22 and 23 Westgate Shopping Centre, Stevenage, Hertfordshire.	Helen Perkins	to Jean Reynolds
808	23/08/2012	23/08/2012	Lease of premises relating to part of the forecourt at 92a Balham High Road, London SW12 9AF to Greene King Brewing and Retailing Limited.	Helen Perkins	to Jean Reynolds
809	24/08/2012	24/08/2012	Transfer of property at 99 High Street and 37 and 39 Lugley Street, Newport, Isle of Wight from Post Office Limited to Primeco Limited, 19 The Terrace, Torquay, Devon TQ1 1BN	Helen Perkins	to Jean Reynolds
810	24/08/2012	24/08/2012	Licence for Alterations re 1-7 South Mall, Edmonton Green Shopping Centre, London N9, granted to Post Office Limited by St Modwen Developments (Edmonton) Limited	Helen Perkins	to Jean Reynolds
811	24/08/2012	24/08/2012	Transfer of property at 89 Sidcup High Street, Sidcup, Kent DA14 6DJ from Post Office Limited to Stringer Communication Services Limited.	Helen Perkins	to Jean Reynolds

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Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
812	24/08/2012	24/08/2012	Counterpart Lease relating to Ground Floor Premises at 14 College Road, Harrow between O&H Q1 Limited and Post Office Limited	Helen Perkins	to Jean Reynolds
813	24/08/2012	24/08/2012	Short Term Tenancy Agreement relating to 354-356 Edgware Road, London W2 1BG, between Post Office Limited and Shieldex Limited	Helen Perkins	to Jean Reynolds
814	29/08/2012	29/08/2012	Power of Attorney in favour of Bank of Ireland (UK) plc to effect the completion of the sale of shares in Midasgrange Limited by Post Office Limited to Bank of Ireland (UK) plc with effect from 31 August 2012.	P Vennells, C Day	to Linklaters for transmission to Bank of Ireland
815	06/09/2012	06/09/2012	Lease of premises at 14 High Street, Eastleigh SO50 5TA between Post Office Limited and Eastleigh Borough Council	Helen Perkins	to Jean Reynolds
816	11/09/2012	11/09/2012	Short Term Commercial Lease between The Prudential Assurance Company Limited and the Post Office Limited re Part Ground Floor of Unit 35C The Galleries, Washington, Tyne and Wear.	Alwen Lyons	to Jean Reynolds
817	12/09/2012	12/09/2012	Transfer of registered title number SY205138 (Post Office, Market Square, Woking GU21 6DG) to Bandstand Square Developments Limited.	Helen Perkins	to Martyn Needham, Olswang (in absence of Jean Reynolds)

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POLCAG0612

Post Office Limited
(company no: 2154540)

Notes of the Post Office Communications Action Group Meeting held at 148 Old Street, London on 21 June 2012

Present:

Alana Renner	(AR)	Communications Director (Chair)
Kevin Gilliland	(KG)	Network & Sales Director
Mike Granville	(MG)	Head of Stakeholder Relations
Ronan Kelleher	(RK)	Head of PR & Media
Stuart Taylor	(ST)	Head of External Relations, Wales

Apologies:

Paula Vennells	(PV)	Chief Executive
Nick Kennett	(NK)	Director of Financial Services
Kevin Seller	(KS)	Head of Government Services
Sue Huggins	(SH)	GM Network Services & Transformation
Martin Moran	(MM)	Commercial Director
Shane O'Riordain	(SOR)	Communications Director RMG

Guests:

Paul Swanton	(PS)	Senior Communications Specialist
David Gold	(DG)	RM Communications (Dial-in)
Mish Tullar	(MT)	RM Communications (Dial-in)

POLCAG01/06	**Previous Meeting Notes**
	The notes from the previous meeting were agreed.
POLCAG02/06	**Previous Action Points**
	Please refer to the CAG Meeting Action Point Log to note the Action Point status.
POLCAG03/06	**Post Office Integrated Comms Plan** The CAG **noted** and **reviewed** the Integrated Communications Plan (June – November 2012). The meeting discussed the following; **AR** advised that a survey of MPs is underway. This is aimed at providing a baseline for key stakeholders' perception of the Post Office. The CAG will be updated once results are available. **AR** provided an update on the media coverage resulting from the Contactless Pinpad story. The story generated excellent coverage across print and broadcast media outlets, and provided another reminder of the power of the Post Office brand, whilst underpinning the Post Office is changing story. **MG** reminded the meeting that the business has been at the forefront in terms of UK roll-out of new technology across our network, with chip and pin being a relatively recent example.

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	RK advised that a story to recognise one million AEI transactions is being prepared for issue in the near future. **KG** provided a brief resume of the recent Consumer Focus meeting in which the Network Transformation Programme was a key agenda item. There was some mounting pressure from CF to identify a start of 'go-live' date. We have not confirmed an actual date, but referred to go-live from Summer 2012, as we build upon ongoing learning from the pilots. **KG** advised the CAG that there was good synergy between the Post Office Board and SHeX on the key ticket issues for the business over the next three years, namely; - Crown Office to break even - Deliver on NT Programme - Hit strapline financial numbers **AR** – reminded the CAG that there is a need to meet early to develop a communications strategy around the future Crown Transformation Plan 1. **Action – AR to invite the relevant colleagues to a comms' strategy scoping meeting** **KG –** shared that the view of BIS is that the Minister should be briefed on the wider Post Office strategy. KG shared that the Minister feels more should be done around providing reassurance amongst customers and stakeholders around our service in rural areas. 2. **Action – MG to build contact into the wider external stakeholder engagement programme.**
POLCAG05/06	**Projects Eagle and Polo (Verbal Update)** Neither NK nor JW could attend the CAG on this occasion. An update will be provided at the July meeting.
POLCAG06/06	**Vision Launch Event Feedback** **AR shared** with the CAG the key findings from the post Vision Launch event feedback exercise. AR highlighted the pre and post event results. The CAG were pleased to note a high level of satisfaction amongst delegates, with all measures for 'strongly agree' having increased in the post survey period. The CAG noted the results and asked AR to circulate the results as an AOB item for the next Ex Co meeting and to provide a next steps update to the July meeting. • **3a. Action – AR to provide the Vision Launch feedback results to all Ex Co members.** • **3b. Action – AR to prepare a Vision 'next steps' paper for the July meeting.**
POLCAG07/06	**Stakeholder Engagement Approach – Central Gov't** **MG** took the CAG through his paper which looks at the approach to be taken to engage with BIS, Westminster and other central gov't departments. **The CAG endorsed the approach.**

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POLCAG08/06	**July Meeting Agenda**
	The following items will be added to the CAG meeting standing agenda for July; • Vision – 'next steps' update - **AR** • An update on the Handle with Care PR Approach, including comms' risks - **Ronan Kelleher** • An update on the plans for Subpostmaster events – **Richard Weaver** • An update on the Olympics PR approach – **Ruth Barker**
POLCAG9/06	**Agenda Standing Items**
	The CAG **agreed** that the following should be standing items on future meeting agendas: - Integrated Communication Plan Update (Alana Renner) - FS Update on Financial Services Projects (Nick Kennett) - RMG Communications Update (Shane O'Riordain)
POLCAG10/06	**AOB** No items of AOB were raised at the meeting.
POLCAG11/06	**DONM:** The next meeting will be held at 12 noon on Wednesday 18 July in Room 107.

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POLCAG0712

Post Office Limited
(company no: 2154540)

Notes of the Post Office Communications Action Group Meeting
held at 148 Old Street, London
on 18 July 2012

Present:		
Alana Renner	(AR)	(Chair)
Mark Davies	(MD)	Communications Director
Kevin Gilliland	(KG)	Network & Sales Director (dial–in)
Nick Kennett	(NK)	Director of Financial Services
Martin Moran	(MM)	Commercial Director
Mike Granville	(MG)	Head of Stakeholder Relations
Ronan Kelleher	(RK)	Head of PR & Media
Stuart Taylor	(ST)	Head of External Relations, Wales
Leigh Parks	(LP)	Communications Planning Manager
Apologies:		
Paula Vennells	(PV)	Chief Executive
Kevin Seller	(KS)	Head of Government Services
Sue Huggins	(SH)	GM Network Services & Transformation
Shane O'Riordain	(SOR)	Communications Director RMG
Guests:		
Neil Ennis	(NE)	NT Programme Director
Richard Weaver	(RW)	Senior Communications Manager
Ruth Barker	(RB)	Senior Media Relations Manager
Tim Cowen	(TC)	RM Communications

POLCAG01/07 **Previous Meeting Notes**

The notes from the previous meeting were agreed.

POLCAG02/07 **Previous Action Points**

ST summarised the position with actions outstanding. Please refer to the CAG Meeting Action Point Log to note the Action Point status.

POLCAG03/07 **Post Office Integrated Comms Plan**

The CAG **noted** and **reviewed** the Integrated Communications Plan (July – December 2012). The meeting discussed the following;

AR advised that there had been a good response from colleagues to the 'Make Christmas Special' campaign.

MM raised the challenge of how we would handle a situation whereby Post Office did not make the changes necessary for them to be noticed by our customers. **AR** agreed that this potential situation should be factored into our campaign planning.

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MM asked for confirmation of who from Post Office will be attending the Credit Union APPG meeting in September?

Action - **MG** to check and get back to **MM**.

AR advised that a press statement had been issued to support the production of the recently published Network Report. **RK** added that the media pick-up of the story at the time of the meeting had been quiet.

AR confirmed that an update paper on our approach to the Party Political Conferences would be provided for the August meeting. **Action – AR to arrange**.

ST raised the issue of the need for an external statement to be made about the move from pilot to roll-out phase of the NT Programme. Mindful of the assurances we have previously provided on capturing the learnings from the pilot branches, then there will be an expectation from Gov't, Consumer Focus and others of some external positioning. **NE** said that a pilot learning report is being prepared and this will provide the key messages for any statement. **KG** said that is important that both the CAG and the NT Programme Board sign-off the learnings log. **KG** raised the issue of the need for a reactive statement to be prepared as soon as possible to handle media / stakeholder interest.
Action – RK to draft and agree with KG.
Action – NE to circulate the learning report to CAG members

KG informed the CAG that in order to support the Christmas operation in Crown branches then a decision has been taken to only trigger 50% of VR applications under the Crown Transformation Programme in the run-up to the Christmas period.

POLCAG04/07 **RMG Comms Update (Verbal Update)**
TC joined the meeting to provide a brief update on key Royal Mail communication matters.

Olympic Gold Medal Stamps PR Campaign – a detailed communication plan has been prepared for the Olympic Stamp campaign, which will see next day stamps for each Team GB winner available at a designated group of 500 Post Office branches nationwide. In addition, the closest post box to the winner's home town will be painted gold to recognise their success. The expectation is that the national media is likely to pick-up the initial clutch of winners, with the story securing ongoing traction in regional / local media for subsequent winners. A wide range of communication channels are being used to raise awareness of the special stamps and gold post boxes, with greater emphasis on social media platforms. TC confirmed that six stamp printers from across the UK are supporting the campaign.

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NE suggested that if RM would like to make the stamps available at the small branches that are the closest to where the winners live, then this could be arranged using the RMSD service. **TC** – took this away to consider.

OFCOM Market Report – OFCOM are scheduled to produce a market report in mid July. A reactive statement is being prepared and this will be sent to the Post Office Communications team, for information.

POLCAG05/07 **Post Office Olympic Stamps Campaign – Ruth Barker**
RB talked the CAG through her update paper on how Post Office branches are contributing to the RM Olympic Gold Media Winners Stamps campaign. She highlighted the pr opportunities for branches and confirmed that the RM and PO media teams have been working very closely in planning the initiative.
The CAG noted and endorsed the approach.

POLCAG06/07 **Projects Eagle and Polo (Verbal Update)**
NK provided a verbal update on the two key FS projects.

Eagle – the plan is to have a contract to review by the end of July. There is still no firm date agreed for communicating the key messages, but the expectation is that this will happen in August, supported by a comprehensive internal / external communications plan.

Polo – we are working to an end of October date for the launch of the proof of pilot stage. This will be a ‘soft’ launch aimed at colleagues, friends and families. Detailed planning and systems testing continues.

POLCAG07/07 **Autumn Subpostmaster Events - Richard Weaver**
RW took the CAG through his paper which looks at the autumn programme of subpostmaster events. The aim of the events is to target those Spmrs who have not completed the NT survey. The content of the sessions will include, in addition to key NT Programme messages, a section on the new Vision and the business’s FOoG ambitions / current successes. Given the timing, then we are planning to include some visuals from the brand advertising campaign.

NE – stated that it is crucial that the sessions are again co-hosted by the NFSP. This worked well in last year’s roadshow events and their absence this time would send a negative signal to agents who attend the sessions.

KG – said that whilst he welcomed the inclusion of the wider Post Office story content (Vision, FS, FOoG), he said it was imperative that the communication messages are adapted to reflect the audience.

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KG – stated that work should be done to identify those Spmrs who have been through the process and to ask them to play a role in the autumn events. He felt that the sharing of a positive experience from existing Spmrs would add greatly to the impactfulness of the sessions. He felt that the aim should be to get a relevant Spmr along to each session held.

NE – added that the sessions will be used to capture and process warm leads on the day from attendees. He also informed the CAG that to date the NT Helpline has responded to over 4000 inquiries, since inception.

The CAG noted and endorsed the approach.

POLCAG08/07 **August Meeting Agenda**
The following items will be added to the CAG meeting standing agenda for August;

- A paper and agenda item on the Communication Strategy to support the Crown Transformation Programme – **Alana Renner**
- An update on the Handle with Care PR Approach, including comms' risks - **Ronan Kelleher**
- An update and agenda item on the plans for the Post Office presence at the autumn Party Political Conferences – **Alana Renner**
- A paper and agenda item on the Post Office Christmas PR Campaign – **Alana Renner**

POLCAG9/07 **Agenda Standing Items**
The CAG **agreed** that the following should be standing items on future meeting agendas:

- Integrated Communication Plan Update (Alana Renner)
- FS Update on Financial Services Projects (Nick Kennett)
- RMG Communications Update (Shane O'Riordain)

POLCAG10/07 **AOB**
No items of AOB were raised at the meeting.

POLCAG11/07 **DONM:** The next meeting will be held at 9.30am on Thursday, 16 August in Room 107.

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POLBSC-HS(12) 3rd

Post Office Limited
(company no: 2154540)

Minutes of the meeting of the Health and Safety Sub-Committee
held at 148 Old Street, London
on 9th July 2012

Present:

Susan Crichton	(SC)	Legal and Compliance Director (Chair)
Kevin Gilliland	(KG)	Network and Sales Director
Keith Rann	(KR)	for Lesley Sewell – It and Change
Simon Eldridge	(SE)	National Safety, Environment and Wellbeing Manager

Apologies:

Pauline Holroyd	(PH)	HR Director

POLHS12/21 **Previous meeting minutes**

The minutes from the previous meeting were agreed.

POLHS12/22 **Previous Action Points**

A presentation was delivered by Rob Leslie – Fleet Contracts Manager – on the requirements of Fleet legislation and the processes and controls that Post Office had in place to meet those requirements. The committee agreed that the presentation was both informative and reassuring and that business risks like fleet management, particularly in the context of Corporate Manslaughter, should be given a wider audience to ExCo/Board members.

The committee noted the current position on the management of personal injury claims and that further action on identifying a solution was included in the broader separation from RMG arrangements project plan.

The committee noted that the safety management system included a risk assessment for non-operational driving and agreed that a communication should go to ExCo members to ensure that application of the risk assessments, in particular, for higher mileage drivers (>10k miles) were robust.

Action: Note to be sent to ExCo members.

The committee noted that further activity was underway to firm up the management and control of Mobile Post Offices and that a further update would be provided at the next meeting.

Action: SE to provide update at next meeting

POLHS12/23 **Safety Performance**

The Committee noted the current safety performance and that some indicators were showing amber against last year but that the year end forecast remained on target. The poor weather had contributed to the adverse performance against last year. A reduction in 'major' injuries as defined by RIDDOR has contributed to the reduction in days year on year.

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POLHS12/24 **Road Risk**
The Committee noted the current positive performance and the improvement activities that were being developed and deployed to mitigate the risk associated with operating a fleet of vehicles.

POLHS 12/25 **Personal Injury (PI) Claims**
The committee noted the current estimated liability of personal injury claims and noted that the majority of claims are relatively low value.

POLHS12/26 **CViT Robbery and Injury**
The Committee noted the adverse trend in robbery performance and KR confirmed that it was not out of line with industry trends. The committee also noted the very low incidence of gun enabled events and that injuries during robberies remain relatively minor. The committee requested an industry comparator to be included in future reports.
The committee discussed the content and outcome of the robbery risk assessment and agreed that the assessment indicated that the approach to the current provision of personal protective equipment was appropriate.SE confirmed that the robbery risk assessment was formerly reviewed annually and that additional reviews were undertaken more frequently. The committee also discussed the risk profile associated with ATM servicing in relation to the current risk assessment outcomes and future reviews.

POLHS12/27 **Wellbeing**
The committee noted the current continued improving trend in sick absence rates and the positive performance to date. SE reaffirmed the strategy of robust application of existing policies and standards, in particular in relation to long term sickness, coupled with active wellbeing interventions e.g. health checks. SE confirmed that the schedule of health check visits which commenced in Crown Branches in June has, so far, received very positive feedback.

POLHS12/28 **Environment**
The committee noted the continuing improving trend in recycling performance and agreed that corporate membership of Woodland Trust should be considered as recognition if the stretch target is achieved.

POLHS12/29 **Residual Risks**
The Committee noted the residual risks and the activities in place to mitigate them.

Close

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GLOSSARY OF TERMS

AEI	Application, Enrolment and Identity
ARC	Audit, Risk and Compliance Committee
ATMs	Cash machines
BAU	Business As Usual
BIS	Department for Business, Innovation and Skills (formerly DTI)
BoI	Bank of Ireland (joint venture partner)
CAG	Communications Action Group
CMA	Communication Managers Association
CWU	Communication Workers' Union
DVLA	Driver and Vehicle Licensing Agency
DWP	Department for Work and Pensions
Eagle	BoI contract negotiations
EBIT	Earnings Before Interest and Tax
ExCo	Executive Committee
FOoG	Front Office of Government
FRES	First Rate Exchange Services
FRESH	First Rate Exchange Services Holdings
IDA	Identity Assurance (Services)
IPS	Identity and Passport Services (Passport "Check and Send")
Junction	Call centre for Travel Insurance product
LDF	Leadership Development Forum
MDA	Master Distribution Agreement
MSA	Master Services Agreement
Mulberry	Crown Offices' Profitability Project
NFSP	National Federation of Sub-Postmasters
NSP	Network Subsidy Payment
NT	Network Transformation
NTP	Network Transformation Programme
Penguin	Proposal for pre-paid card platform
PID	Project Initiation Document
PO	Purchase Order
POCa	Post Office Card Account (designed for receiving benefit, state pensions and tax credit payments)
POFS	Post Office Financial Services
POL	Post Office Limited
POL IC	Post Office Investment Committee
Polo	Proposal for Post Office Current Accounts
Remco	Directors and senior managers with pay terms previously set by the RMG Remuneration Committee
RMG	Royal Mail Group
RMHB	Royal Mail Holdings Board
ShEx	Shareholder Executive
SIA	Security Investment Authority
SLP	Senior Leadership Population - senior managers at the grade below Remco
SLT	Senior Leadership Team - top managers within POL (may include Remco, SLP and other grades)
SPMO	Strategic Project Management Office
UKBA	UK Border Agency

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POL Board Contact List

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