



GROUP EXECUTIVE AGENDA

for the meeting to be held on 12th February 2015 in Boardroom

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

In attendance: Gavin Lambert, Joe Connor, Brett Davies, Mark Davies, Angela Van-Den-Bogerd and Belinda Crowe

Start time : 09.30hrs

End time : 15.00hrs

Time	Item	Sponsor/ Presenter
09.30 - 10.15	Resourcing update, Christmas paid work experience and Leaving the business with dignity projects. What's on the books for 2015	Neil Hayward / Joe Connor & Brett Davies
10.15 - 11.00	SLT Events	Mark Davies
11.00 - 11.15	BREAK	
11.15 - 12.15	POMS strategy and its relationship with POL	Nick Kennett
12.15 - 13.00	LUNCH	
13.00 - 13.45	Branch Improvements	Angela Van-Den-Bogerd
13.45 - 14.15	Responses to the Second Sight Theme Report	Angela Van-Den-Bogerd / Belinda Crowe
14.15 - 14.30	GE Action Log	
14.30 - 14.45	Noting paper: <ul style="list-style-type: none"> • Health & Safety Report 	
14.45 - 15.00	AOB	
15.00	CLOSE	



Talent Attraction – Resourcing Update

Brett Davies & Joe Connor

12th February 2015

Agenda

- Overview of 2014
- Our new model
- Highlights
- Challenges
- State of play in 2015

Our Recruitment Vision



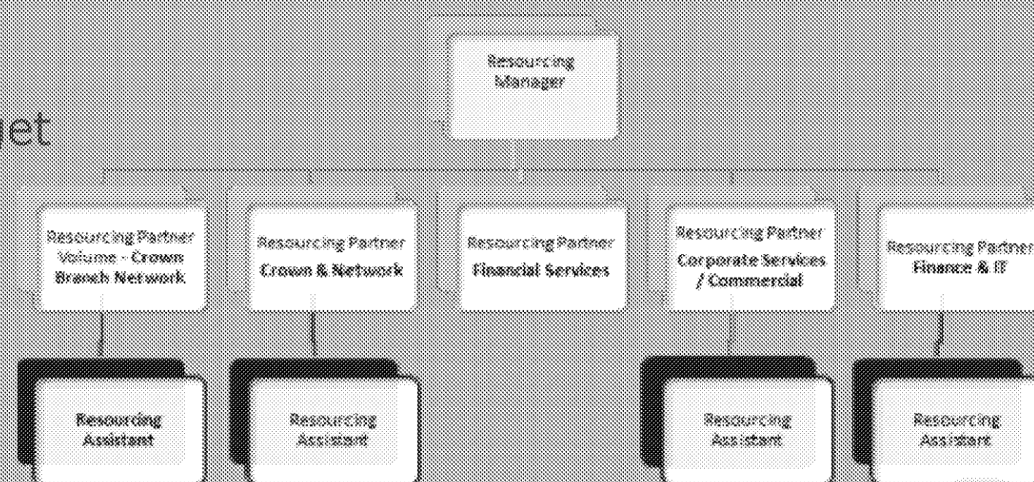
Overview of 2014

- Direct sourcing model
- Graduate Scheme
- Reviewed the PSL (78 agencies to 33) and standardised fee structure
- Created eLearning videos for hiring managers
- Increased LinkedIn followers from 1,000 to 10,500
- Christmas PWE – 83 hires and 20,000 applications

Direct Sourcing Model

- Functional management recruiters
- Frontline recruiters
- 900 vacancies per year
- £441 avg cost per hire vs budget

- 13/14 Time to hire = 43 days
- 14/15 Time to hire = 41 days
- 15/16 Time to hire = 35 days
- Staff budget = £120k saving
- Cost avoidance YTD = £150,000



Graduate Recruitment

GRO

Tom

Shamil

Karen

Andy

Lauren

Dilraj

BRIGHT
NETWORK

September 2015



Added 4 weeks ago

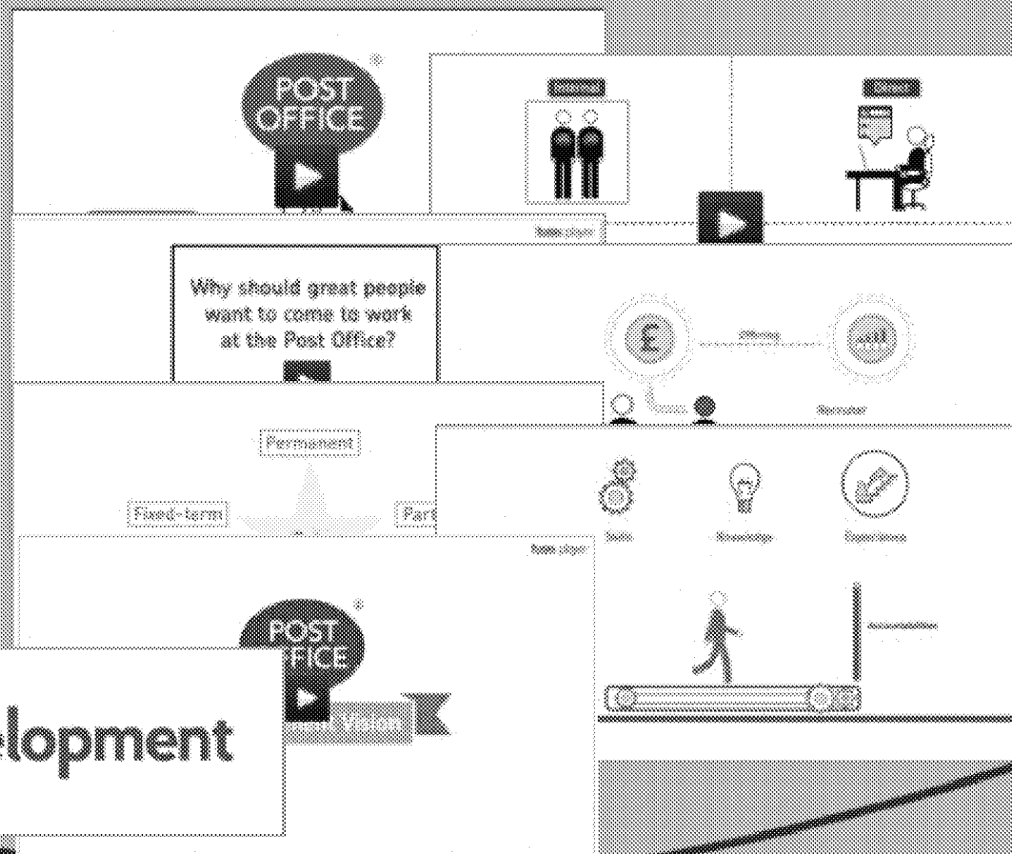
POST OFFICE, LONDON  £27,000  Graduate Placement

 *Deadline: 3rd April 2015*

**POST
OFFICE**

eLearning Videos

- 7 videos for hiring managers
- The Recruitment Vision
- Getting Started
- The Campaign Brief
- Attracting & Selecting Candidates
- Interviewing
- Making the offer
- Ready for Your New Starter



Video Interview Technology



- Pilot
- PWE, Crown, FS, Management
- Very positive feedback
- Digital
- Flexible
- Cost effective
- £50,000 saved during PWE recruitment = 30% saving
- Franchisee recruitment



Christmas Paid Work Experience

- Several changes from previous PWE:



The screenshot shows the GRO application portal interface. At the top, there's a navigation bar with 'Home', 'My Applications', 'My Profile', 'My Settings', and 'My Account'. Below this, a banner displays the GRO logo and the text 'GRO Christmas Paid Work Experience'. The main content area is divided into three sections:

- 1. CV and Application Form**: This section features icons for a CV and an application form. The application form icon shows a bar chart.
- 2. Video Interview**: This section displays a video interview interface with the GRO logo prominently in the center. Below the logo, there are several questions and a 'Next Question' button.
- 3. Face to face Interview**: This section shows an illustration of two people sitting at a table, representing a face-to-face interview. A speech bubble above them says 'Please give a real example...'.

Changing the Crown Profile

- 340 new joiners (80% Part Time)
- Four waves of recruitment (Jan – April 2015)
- Built on the success of the Christmas PWE attraction channels and selection methodology
- Wave 1 adverts went live w/c 5th Jan
- 2,710 applications for 88 vacancies
- Recruiting our recent PWE individuals into vacancies
- Forecast to be 30% under the budget of £300,000
- Opportunity to change culture and Crown demographic

Challenges

- Direct sourcing capability
- We need to build on last year and improve our in-house ability
- Retention
- Some areas of Post Office have significant retention issues which means we re-recruit the same role
- Employer Branding
- We want to be seen as an employer of choice for Digital, FS, Retail

2015...

- Employer Branding
- Rollout Video Interview technology
- Embed direct sourcing model across all functions
- Workforce planning
- Diversity
- Crown restructure

What more can we be doing for you?

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POST OFFICE LTD GROUP EXECUTIVE
Communications Calendar 2015/2016

1. Purpose

The purpose of this paper is to:

- 1.1. seek agreement from the Group Executive on the proposed Communications Calendar 2015/2016.

2. Background

- 2.1. We are refreshing and stepping up the Teamtalk suite of internal communications as well as moving more of our regular publications on to digital formats.
- 2.2. The aim of this initiative is to further ensure that every employee and branch has access to a regular flow of information, focused on sales, performance and insight, with weekly contact as the baseline.
- 2.3. In making these changes we can build on a solid base of regular, direct communication and increase its pace.
- 2.4. There are two broad target audiences, which in turn split into categories. However, as well as focusing on audiences by format (Crown, agencies etc) we propose to do so now also by content: customer and sales, strategy and leadership.
- 2.5. Our key audiences are:
 - Employees, which split into front line sales roles, support functions, senior leaders and central teams
 - Non-staff, which split into agents, multiples and staff in these branches
- 2.6. These groups are currently served by a range of communications channels:

Employees

- **Teamtalk briefings:** conducted by managers based on content provided by relevant teams to communications team and held weekly and monthly
- **Wow magazine:** provided to Crown branches in printed form, a bi-monthly magazine which is moving to digital only from the new financial year
- **Weekly email** to supply chain colleagues
- **Crown vision events:** face to face every six months
- **Crown focus:** weekly email to Crown branch managers
- **Teamtalk Live:** aimed at all in central teams, extended to wider audience in July and now proposed as an annual event rather than quarterly
- **FS Focus, which reaches the financial services community**

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Non-staff

- **Subspace News** is sent weekly to 6,000 postmasters (private email addresses)
- All postmasters can access **Subspaceonline** – the main site is on general view and all have log-in details for the protected pages. This receives around 1,200 unique visitors a week
- We produce a **postmaster version of Teamtalk** each month on Subspaceonline – delivery is optional
- **Subspace magazine** is sent to all postmasters every two months (due to end next FY and move to digital channels)
- **Branch Focus:** operational sales and marketing guidance currently fortnightly, but fully digital from April
- a range of **sales-focused events** led by the network team

- 2.7. In Crowns colleagues also benefit from the weekly WTL sessions led by branch managers.
- 2.8. Our communications channels are measured through the engagement and pulse surveys and page views.
- 2.9. As indicated above, and partly in response to the business' cost challenge, we are engaged in work with IT and our suppliers to move to a single digital communications platform in the new financial year. This will provide greater flexibility and the potential for colleagues and agents and others to access communications channels via PC, mobile and tablets. We are thinking digital in all that we do by seeking to offer communications solutions which remove paper from branches and enhance the effectiveness of our communications channels.
- 2.10. This move has enabled in year savings in 2014/15 of £400k and recurring savings of £1.4m p.a. Transition is being managed through engagement with key teams.
- 2.11. This development will also offer the opportunity to create a single Post Office Teamtalk digital bulletin which could reach all employees and agents on a regular basis.

3. Proposal

- 3.1. In order to refresh this suite of materials, we have stepped back to consider them from a content as well as an audience perspective. The aims of our communications with counter colleagues, for instance, should be the same whether we are communicating with a Crown colleague or an agent: to drive sales, give them a two-way information flow and deliver superb customer service. While segmenting audiences is the right thing for some audiences, there is also a case for building on the existing suite of communications around core content. We also believe we can reach more colleagues - whether directly employed or in the wider network – through this development.
- 3.2. To this end, we are currently reviewing the methods (ie media) we use to communicate and engage with our people. This research is helping us determine what information audiences are seeking together with a clearer view on how they like to receive it. We are also looking into defining our audience into segments based on their intent type (what are their emotional/commercial drivers) as well as where they work. This will help inform our channel and content strategy going forward as we move towards digitisation.

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3.3. On content channelling, **in addition to existing channels**, the digital approach will allow us to tailor the content to an individual based on their requirements as well as what we perceive to be relevant. For example a story could be created with different variable paragraphs relevant to a particular branch type and this would surface the appropriate content based on the reader. We will also be able to create bespoke and targeted e-channels very quickly and very specifically.

3.4. We have identified this core content around three themes:

- Customer service and sales along with an effective feedback mechanism
- Strategy
- Leadership

3.5. Some of the existing communications activity which takes place across the business is being increasingly refocused around these themes. But there is a case for building it further as follows:

SALES AND CUSTOMERS

Monthly:

- Teamtalk with a sales and performance focus, but distributed across the entire business. Managers mandated to deliver, with Q&A capability. Q&As to feature on intranet (with name of branch/team).
- In addition make a concerted effort to promote delivery of this process in our mains branches as well as Crowns.
- We are also examining breaking channels down further to provide tailored content by branch type and using digital preference tools.
- This would mean removing weekly Teamtalk cascade briefings to central teams in order to focus content for these teams on monthly sessions, but retaining and refreshing capacity for regular bulletins via digital channels.

Quarterly:

Sales focused events with key sales and product teams aimed at setting out sales, product and marketing plans by quarter and reflecting on performance and building momentum (in addition to current initiatives on coaching/driving sales effectiveness). I am currently exploring options for these events with colleagues from commercial, FS and network teams. There is potential for (low cost) regular meetings in Finsbury Dials with key leaders (up to 150). We are exploring options for events on a larger scale with our core suppliers, through the procurement team.

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STRATEGY AND INSIGHT

Fortnightly:

- Update e-channel for central teams to provide a regular beat rate of business news.

Monthly:

- SLT teleconference/town hall with key business leaders from Group Executive and Executive Team, held after monthly Board meeting with Q&A. Strategy, performance and insight focus. [New Finsbury Dials site will provide opportunity for more face to face gatherings]. These events would intend to include as standard updates from CEO, CFO and Transformation Director, with other colleagues contributing by theme/content as agreed in advance by Group Executive.

Quarterly:

- Ask the Exec – virtual Q&A sessions with leadership team. This would include evening sessions to allow agents and counter staff to take part.

LEADERSHIP

Quarterly:

- Development focus sessions for senior leadership team led by Sarah Malone's team

ALL (sales, performance, strategy, insight, leadership)

Annually:

- Teamtalk Live: building on the success of the July 2014 event and turning it into an annual event held remotely across the country with evening sessions to allow agents to attend, with more regional venues. The London event would be filmed to allow online access. Open to all central teams, key network colleagues, agents, branch managers, counter colleagues [subject to agreement we would agree a final, strategic target audience].

4. Other

4.1. We will measure impact of these initiatives through our existing metrics but also through mandated requirement to carry out monthly Teamtalk and report back. The move to a digital platform will allow further metrics to be analysed in real time.

4.2. In relation to existing Teamtalk sessions for central teams, we are able to measure downloads of briefing material (average 200 per week) and we request feedback through delivery logs. This is, however, voluntary and response rates are patchy (ranging from 20-40 per week). We would like to drive this higher by reducing the number of detailed briefings but mandating a response.

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5. Timing

- 5.1. Many of the proposals above are either in train or in implementation. We propose to move to this approach in full from April, through the launch of our new vision statement.
- 5.2. Time has been set aside in Group Executive agendas to consider themes and messaging for monthly SLT updates. Content will be driven by business performance, Board updates (where appropriate) and key developments.
- 5.3. A timetable for the move to a new digital platform is at Annex A.

6. Resource

- 6.1. There is a significant cost related to Teamtalk Live (on this scale) and to sales events where we seek attendance in excess of 150 people.
- 6.2. We are discussing resource for the proposals in this paper through the Transformation Management Group and relevant budget holders. The enhanced framework as set out above – much of which comes at no cost other than colleagues devoting time and energy – will make a material difference, alongside the renewed vision work which we are working on with the marketing team, in terms of promoting motivation and understanding about business performance and its transformation. It is critical work for the engagement agenda and the development of our vision.
- 6.3. In relation to sales conference events, we are exploring options – as set out above – with our suppliers, via the Procurement team and with relevant colleagues in commercial and network and sales teams. I will update colleagues on this work in due course.

7. Risks

- 7.1. There are risks around moving to a fully digital approach. The team is putting a transition plan in place and will be discussing in detail with key stakeholders. This is a bold step change for the organisation and we should also be prepared for resistance in some areas.
- 7.2. There is a further risk that we are unable to reach the hardest to reach groups. We will look to address by balancing “push” communications through face to face briefings with the new platform.

8. Recommendation

The Group Executive is asked to:

- 8.1. note and agree the update and actions set out above.

Mark Davies
5 February 2015

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Annex A

Digital Platform for Internal Communications

1. Branch migration/influencing plan and campaign – Feb:March
2. Communication channels research/segmentation report – mid Feb
3. Operational publications fully online (web and Horizon based platform) – 1 April
4. Commons comms platform developed – Feb:July
5. One common communications platform campaign – April:July
6. Launch of communications platform (consolidation of all existing web platforms) – July
7. Ongoing review and usage metrics – July onwards
8. Further development – Sept:Nov

2015

	w/c	Governance	SLT Communications	Team Talk Plus	Other	SLT Development	
JANUARY	5						
	12	GE (15)	Team Talk Extra (Statistics Society) (13)				
	19						
	26	Board (28)				Leadership event	
FEBRUARY	2						
	9	GE (12)					
	16	ET (17)	Team Talk Extra - (19)				
	23			Team Talk Plus (23)			
MARCH	2						
	9	GE (12)					
	16	ET (17)	Team Talk Extra (19)		POAC (19)		
	23	Board (25)		Team Talk Plus (23)	Sales conference (3)		
	30		New financial year CEO message	New financial year CEO message			
APRIL	6				Ask the Exec [date TBC]		
	13	GE (16)					
	20	ET (21)	Team Talk Extra (23)			Leadership event	
	27			Team Talk Plus (28)			
MAY	4						
	11	GE (7)					
	18	ET (12)					
	25	Board (21)	Team Talk Extra - SLT (22)				
JUNE	1						
	8	GE (4)					
	15	ET (9)					
	18	Board (away day 17/18)	Team Talk Extra - SLT (18)		Network Sales Awards (20)		
	22			Team Talk Plus (23)			
JULY	29	GE(2)	SLT Development Event (3 July)		Sales conference (Q1/2) POAC (1)	Leadership event (3)	
	5						
	13	ET (7)					
	20	Board (15)	Team Talk Extra - SLT (16)		Annual report?		
AUGUST	27			[Team Talk Plus (21)]	Team Talk Live (possible date)		
	3						
	10						
	17	GE (20)					
	24	ET (25)	Team Talk Extra - (27)				
SEPTEMBER	31			Team Talk Plus (1)			
	7						
	14	GE (10)			Ask the Exec [date TBC]		
	21	ET (15)					
OCTOBER	28	Board (22)	Team Talk Extra - (24)		Sales conference (Q2/3)		
	5			Team Talk Plus (29)		Leadership event ((2)	
	12						
	19	GE (14)					
NOVEMBER	26	ET (20)					
	3	Board (28)	Team Talk Extra (29)				
	10						
	17			Team Talk Plus (3)	Interim results/POAC (4)		
	24	GE (12)			Ask the Exec [date TBC]		
DECEMBER	1	ET (17)					
	8	Board 25	Team Talk Extra - SLT (26)				
	15			Team Talk Plus (1)			
	22						

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POST OFFICE LIMITED GROUP EXECUTIVE**POMS - Transforming the Insurance Operating Model**
Managing Governance and Risk**1. Purpose**

- 1.1. This paper updates the Group Executive on the insurance transformation programme and sets out the governance relating to the management of POMS, in particular:
 - 1.1.1. How the relationship, controls and oversights between POMS, its Board, Post Office and the Post Office Board operate;
 - 1.1.2. The implications for Post Office from operating POMS; and
 - 1.1.3. Overview of the POMS' regulatory obligations and their impact on the operating relationship with Post Office.

2. Background

- 2.1. The insurance transformation programme is targeted to increase Post Office's gross income from insurance to £138 million in 2020 and net income to £86 million.
- 2.2. The first phase of the programme is to establish a specialist, wholly-owned insurance broking subsidiary, Post Office Management Services Ltd ("POMS") and the migration of the travel insurance business from the Aon/Axa to POMS. POMS was established in 2014 and the travel insurance transition occurred in January 2015.
 - 2.2.1. The strategic plan assumes that travel insurance migration alone will generate an NPV of £27.3 million by 2017/18;
- 2.3. POMS provides the platform, capacity and capability to enable subsequent phases of the insurance strategy, viz acquiring the insurance businesses from Bank of Ireland (Project Hawk) and the subsequent migration of other insurance businesses into POMS as contracts expire.
- 2.4. POMS launched on 1st January; it is fully operational for travel insurance and initial results suggest that the benefits will exceed the business case forecasts.

3. The business model

- 3.1. The current insurance business model has a significant number of participants, each extracting value. The underlying premise of the value of POMS is derived from removing participants and taking the value that they receive, while launching new products (predominately on-line and via the contact centre).
- 3.2. POMS will be the broker of Post Office's travel insurance business, contracting directly with underwriters for the provision of insurance capacity. Previously Aon provided broker services and Axa provided underwriting services. POMS has assumed all the broker activities that Axa was providing.
- 3.3. The net effect of establishing POMS is to increase the operating margin (overall amount paid to Post Office Group) from 28 percent to c35 percent of Gross Written Premium.
- 3.4. For general insurance products there are also several participants with Junction/BGL, as broker, taking c60 percent of the £37 million income. Of the remainder Bank of Ireland (BoI) takes 35 percent despite playing a minimal role in the provision of the products; Project Hawk, assuming it is successfully concluded, will remove BoI's involvement.
- 3.5. Subsequently, the plan targets that POMS would take over/replace the role of BGL.
- 3.6. Overall, the real value in the POMS operating model comes as economies of scale are generated through reducing the number of parties taking a margin from the business,

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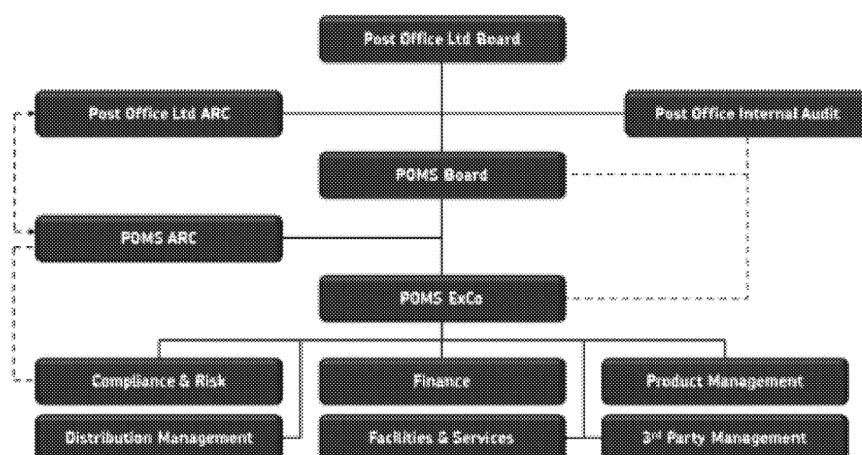
offering additional product lines, consolidation of call centres into one environment and enhanced cross sell through a single customer view with enhanced upsell capability.

- 3.7. Putting all current and additional new products through this model and operating the customer-centric sales model is expected to create a business with gross revenues of c£138 million and an associated cost base of c£52 million by 2020.

4. Governing the new model

- 4.1. POMS is in the process of being established as an FCA regulated company, authorised to act as an insurance broker, in which it will:
- 4.1.1. Design insurance products, source underwriting capacity, manage underwriter relationships and ensure products are managed in accordance with regulatory review frameworks;
 - 4.1.2. Administer products, through an outsourced contact centre, claims management (up to First Notice of Loss) and quote and sales processes; and
 - 4.1.3. Perform regulatory and financial management, as required.
- 4.2. While POMS is a wholly-owned subsidiary of Post Office Limited and subject to the governance and controls of its Board, as an FCA authorised company, it will need to demonstrate that it has robust governance and control arrangements. As an unregulated parent, the Post Office must not exert undue control over the regulated entity (e.g., by Post Office executives/directors acting as, or being seen to act as "shadow directors").
- 4.3. Diagram 1 shows the high level governance structure of POMS and how it reports within the Post Office group. The roles for each part of the governance structure are set out below, including how POMS is subject to Post Office control and how this works alongside the FCA's regulatory requirements of POMS.

Diagram 1 – POMS Governance structure



4.4. Post Office Board

- 4.4.1. As POMS' parent and sole shareholder (and thus POMS' Controller¹), Post Office is responsible for:

¹ A "controller", as defined by the FCA, is an entity that holds a % of shares in the regulated company. As Post Office will hold 100 percent of POMS' shares it will be the controller.

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- Establishing its Articles of Association, including the powers of directors, officers and shareholders; the mode and form in which business is to be carried out. These were ratified in October 2014;
 - Setting the business remit and risk parameters of POMS;
 - Ensuring POMS is adequately capitalised for regulatory and operational purposes; and
 - Appointments to the POMS Board.
- 4.4.2. Post Office Board will also exercise general oversight functions as shareholder:
- POMS and its management will be expected to meet the behaviours, standards and brand values of Post Office;
 - The removal of POMS Directors and executives will need to be notified to the FCA, with replacements requiring FCA approval.
- 4.4.3. As the overall controller of the Post Office Group, the Post Office Board is responsible for setting and enforcing group policies on matters ranging from HR to general risk management. It is a matter for the Post Office Board as to how these apply to POMS. POMS will be required to ensure that such policies do not give rise to a conflict with its statutory duties and regulatory obligations.
- 4.4.4. To ensure that it operates within clear guidelines, Post Office will/has:
- Require POMS to submit an annual business plan to Post Office Board for approval (due March 2015). This will ensure that POMS is aligned to the strategy and plans of Post Office (please see section 4.6 below);
 - Require POMS to operate within defined limits (its Articles and the Plan);
 - Establish reserved matters which require the formal approval of the Post Office Board (for example material capital expenditure and risk appetite); such delegated limits have been set; and
 - Establish the regulatory risk appetite; this will be presented to the Post Office in March 2015.
- 4.4.5. POMS will report regularly to Post Office on the performance of the business and any material issues. There will be a comprehensive exchange of relevant MI to ensure that both Post Office and POMS can operate effectively.
- 4.4.6. Post Office will be able to bring POMS within its overall group policy relating to, for example, data security without this being regarded as exercising undue control. However, as FCA requirements for regulated firms may exceed Post Office's standard requirements, POMS would need to retain the ability to augment group policies to the extent necessary to meet regulatory obligations.
- 4.4.7. POMS will be required, by the FCA, to demonstrate that it understands customers' needs and has designed products to meet these, ensuring that they are for the customers' benefit. This includes monitoring and reporting on performance and how POMS is meeting these standards. Post Office can require POMS to demonstrate how it is meeting the Post Office brand values through the distribution agreement (signed in December 2014).

4.5. POMS Board and Management

- 4.5.1. POMS currently has two directors, NK and Chris Aujard. The January 2015 Post Office Board meeting approved that Al Cameron and Jane Macleod could be appointed as directors. This will occur once POMS has received the FCA's Mandate to Approve for POMS to act as its own principal (due in February).

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- 4.5.2. An independent Chair of POMS has been identified; his appointment is awaiting confirmation that Hawk will be executed.
- 4.5.3. All POMS directors need to be FCA “approved persons”².
- As part of the process candidates applying to undertake a Significant Influence Function ('SIF') may need to undergo a 'SIF Interview', in which the FCA will assess their fitness and propriety. This would involve the FCA assessing a candidate's ability to ensure POMS would be organised, controlled and monitored effectively. It would also include questions to test candidate's understanding of POMS' business model and strategy, the relevant market, financial analysis, risk management, governance/controls and the regulatory framework and FCA requirements and expectations.
- 4.5.4. POMS is currently staffed by secondees from Post Office and interims/contractors. Following the completion of Hawk, staff from Post Office Insurance will move to POMS and secondees will be transferred.

4.6. Commercial Management

- 4.6.1. The relationship between POMS and Post Office for the sales of insurance products is governed by a Distribution Agreement signed in December 2014. This sets out the roles of the management teams of Post Office and POMS³.
- 4.6.2. To ensure alignment of the strategy and plans of the businesses, the Plan must be signed-off by Post Office as shareholder and that POMS and POL will consult with each other regarding the plan at the quarterly Senior Business Review Meeting. This creates a process for the POMS senior product team and the Post Office Financial Services team (and thence the Post Office Executive) to discuss and agree the plan and business strategy for financial services products as a whole, prior to it going to the Post Office Board.
- 4.6.3. Separately, there is also an annual marketing plan which will need to be agreed between Post Office and POMS.
- 4.6.4. These processes ensure that the POMS and Post Office sales and marketing plans are aligned.
- 4.6.5. Post Office has a right to suspend sales (after consultation through the dispute resolution process) in the event Post Office reasonably believes POMS is acting materially outside the annual business strategy plan or marketing plan.

4.7. Post Office and POMS Audit & Risk Committees

- 4.7.1. POMS is responsible to ensure that it complies with its regulatory obligations.
- 4.7.2. POMS has its own Audit and Risk Committee (“POMS ARC”), reporting to the POMS Board to oversee regulatory and other risks and report to the POMS Board on issues or concerns.
- 4.7.3. The POMS ARC has a dotted line to the Post Office ARC, identifying compliance and risk issues which might be material at a group level.
- 4.7.4. POMS and Post Office ARCs operate a “two-way” risk identification and mitigation process, including POMS ARC needing to ensure that Post Office is able to deliver its services to POMS.
- 4.7.5. The Post Office ARC has the authority to monitor and audit POMS:

² An approved person is an individual, approved by the FCA, to perform one or more controlled functions on behalf of an authorised firm.

³ Appendix C sets out the governance structure as defined in Schedule 5 of the Distribution Agreement.

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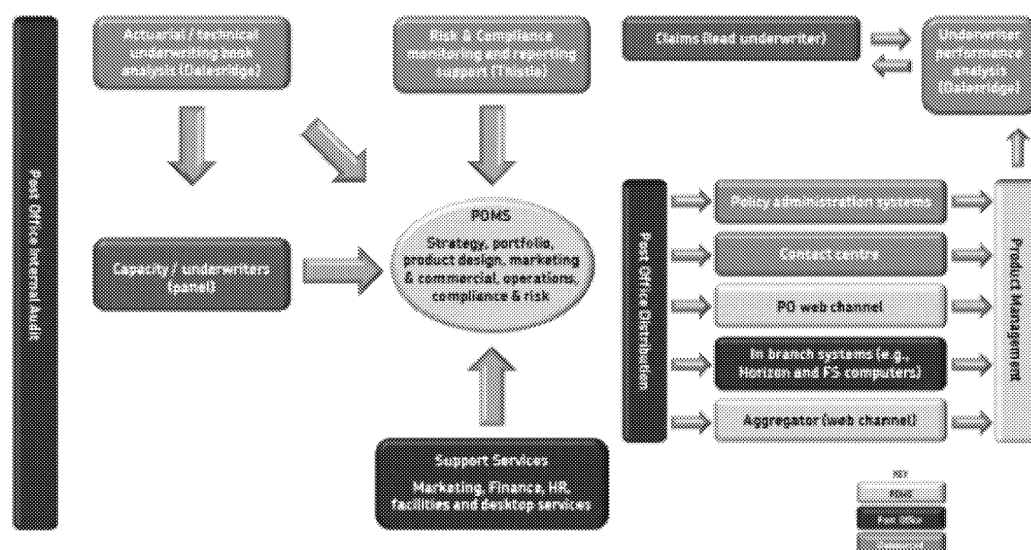
- Post Office's monitoring of POMS is anticipated to be undertaken by Post Office Risk but can be sub-contracted to external auditors.
- The internal audit function will be carried out by Post Office Group Audit, likely using a specialist external firm.

4.8. Facilities and services provided by Post Office to POMS

- 4.8.1. POMS is expected to draw on Post Office for a number of services such as HR, cash management, payroll, office space and desktop services. These arrangements will be established through a commercial contract due to be finalised shortly.
- 4.8.2. Although provision of services by Post Office is the preferred option, POMS could source externally; this would remove the need for the FCA to have comfort as to Post Office's capability to supply services to a regulated business.

- 4.9. Diagram 2 below set out the structure of relationships and participants that will support POMS deliver the insurance solution.

Diagram 2 – POMS functional design



4.10. Regulatory Oversight

- 4.10.1. Post Office is already familiar with the FCA's requirements in its capacity as the Appointed Representative (AR) of BoI⁴. This allows the FCA to request access to Post Offices' premises (including through "dawn raids") demand sight of documents and require that directors and offices answer questions. The enforcement of this right by the FCA can be seen in the recent mortgage deep dive. However, under the current arrangements regulatory responsibility for Post Office's acts and omissions as the AR falls to BoI and not the Post Office.
- 4.10.2. Despite travel insurance being outside the BoI relationship, BoI is the principal regulated entity for Post Office for this product. There is a specific AR agreement for which BoI is paid c£450,000 per annum.
- 4.10.3. Following the completion of Hawk, BoI will no longer continue to be the principal for branch sales.

⁴ For travel insurance as well as other insurance and banking products manufactured by BoI.

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- 4.10.4. On-line and contact centres sales already operate with POMS acting as the AR to Thistle/Resolution, POMS' specialist advisor and a principally regulated entity in its own right.
- 4.10.5. Once FCA authorisation has been granted and POMS has assumed its full permissions, POMS will become its own principal. At that stage it is anticipated that Post Office will be the AR of POMS. The decision for POMS to take over full permissions will be tabled to the March Post Office Board.

4.11. Regulatory limits on Post Office's governance of POMS

- 4.11.1. The parent/subsidiary relationship between Post Office and POMS will be under regulatory scrutiny, including under POMS' regular supervisory cycle.
 - 4.11.2. It is critical that POMS is managed as an independent business with clear contractual relationships between the parties. The FCA will seek to test the validity and veracity of these relationships and the robustness of the oversight, governance and control frameworks that support them. This will include seeking assurances and evidence that Post Office is able to meet its contractual obligations, where these apply.
 - 4.11.3. No Post Office employee or board member should exercise "significant influence" over the board or management of POMS in the carrying out of its duties as a regulated entity. If this were to occur the member might be regarded by the FCA as, in effect, acting as a "shadow director" of POMS.
 - 4.11.4. Post Office will not be able to require POMS to act in a way that would put it in breach of its regulatory obligations.
 - 4.11.5. There are limits on what Post Office will be able to do to POMS, or require POMS to do. In practice, these are not significantly different from the requirements that would operate between two group companies, reflecting the fact that directors owe their duties to the company of which they are a director, rather than to the wider group.
 - 4.11.6. A number of corporate steps which Post Office, as parent to POMS, might ordinarily expect to be able to do will be restricted because POMS will be regulated; for example, all appointments to the Board of POMS will be subject to FCA approval.
- 4.12. In conclusion, whilst POMS must be run in-line with FCA requirements and expectations in relation to parental undertakings, the Post Office Board can, through the articles of association and on-going oversight processes as shareholder, ensure that POMS operates within business and risk parameters set by Post Office insofar as these do not conflict with POMS' regulatory obligations.

5. Managing risk**5.1. Governance and controls**

- 5.1.1. POMS will operate to a business plan and risk appetite statement (both requirements of the FCA) and agreed by Post Office Board. This will set out the objectives of POMS and how it should operate and within what parameters. These will be tabled to Post Office Board in March.
- 5.1.2. It is expected that the POMS Board will report to the Post Office Board, at least quarterly, showing how it is meeting its objectives.
- 5.1.3. POMS will:
 - Be required to monitor and ensure compliance with all relevant sanctions regimes (e.g., Office of Foreign Assets Control "OFAC");

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- Be required to operate its own risk register which will assess the key risks to the business. All risks will be assessed by the POMS Exco and reported to the POMS Board to ensure effective supervision and monitoring; and
 - Potentially be subject to “super complaints” relating to Travel Insurance. This will be managed through the Risk & Compliance Team, supported by Thistle and working with our underwriting partners.
- 5.1.4. In addition, once Post Office is the AR of POMS, POMS will be required to provide regulatory 2nd line supervision of Post Office’s sales and marketing processes. This will include approving sales activities, incentives of Post Office sales staff/supervisors and carrying out financial promotions oversight and sign-off.
- It is not proposed that POMS takes on this responsibility until Project Hawk has been concluded.
- 5.1.5. POMS will be directly regulated by the FCA and as such will have to meet the duties and obligations set out in the FCA Handbook, legislated through *inter alia* FSMA.
- 5.1.6. Establishing POMS as a regulated business will, however, not result in Post Office becoming directly regulated by the FCA.
- 5.2. Conflicts of interest of Directors and Executives
- 5.2.1. Robust governance, systems and controls will need to be in place to identify and manage potential conflicts of interest between Post Office and POMS, at both an individual (for example, for persons on the Boards of both Post Office and POMS) and corporate level (for example where an executive is employed by Post Office but operating within POMS).
- 5.2.2. The fact that such conflicts may arise from time to time is not necessarily a problem, provided that they can be identified and appropriately managed. Problems arise when the conflict inhibits effective decision-making or puts individuals in a position where they cannot discharge their legal/regulatory function adequately or are unclear as to whom they owe their duty.
- 5.2.3. The FCA expects all regulated firms to take appropriate steps to identify and manage conflicts of interest to ensure that the regulated firm can meet its regulatory obligations and that the interests of customers are not put at risk.
- 6. Summary and Recommendation**
- 6.1. POMS generates significant long term income and capital value to Post Office.
- 6.2. The establishment of POMS will however require POMS to undertake a number of new activities and will require some new processes and responsibilities to be implemented by Post Office.
- 6.3. This paper has set out the various operating business model that has been established to run commercial, contractual and risk implications of POMS.
- 6.4. The Group Executive is asked to note the paper.

Nicholas Kennett
Director, Financial Services
February 2015

Confidential**Appendix A - POMS Governance****Role of FCA approved persons, directors and non-executive directors**

An approved person is an individual who has been approved by the FCA to perform one or more controlled functions on behalf of an authorised firm.

Under the Financial Services and Markets Act 2000, the FCA may approve an individual only where it is satisfied that the candidate is fit and proper to perform the controlled function(s) applied for.

When considering a candidate's fitness and propriety, the FCA considers:

1. honesty, integrity and reputation;
2. competence and capability; and
3. financial soundness.

Approval must be obtained before a person can perform a controlled function.

Responsibilities as an approved person (AP)

Being an AP brings with it a number of key responsibilities, including a duty to be aware of and comply with FCA regulatory requirements and expectations and, understand how they apply to the day to day exercise of controlled functions. Specifically, APs must:

- meet and comply with the FCA's Fit and Proper test for Approved Persons;
- comply with the Statements of Principle and the Code of Practice for Approved Persons set out in the APER. These Statements of Principle describe the conduct that the FCA requires and expects of the individuals it approves;
- report to the authorised firm and to the FCA any matter that may impact on their ongoing fitness and propriety
- Non-compliance with these regulatory requirements may result in the FCA taking enforcement action against the approved person.

Directors

The rules regarding the roles of Directors and Senior Management are embedded in the FCA's Senior Management Arrangements, Systems and Controls (SYSC) chapter of the Handbook.

In summary directors and senior management are required to:

- take appropriate practical responsibility for the firms' arrangements on matters likely to be of interest to the regulator;
- take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems;
- vest responsibility for effective and responsible organisation of the firm's affairs; and
- create a common platform of organisational and systems and controls requirements for the business.

Non-Executive Directors

Non-executive directors have responsibilities in the following areas:

- Strategy: Non-executive directors should constructively challenge and contribute to the development of strategy giving regard for the regulatory requirements of the firm.

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- Performance: Non-executive directors should scrutinise the performance of management in meeting-agreed goals and objectives and monitoring and, where necessary, removing senior management, and in succession planning.
- Risk: Non-executive directors should satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible.
- People: Non-executive directors are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and where necessary removing senior management, and in succession planning.

NEDs should also provide independent views on:

- Regulation
- Resources
- Appointments
- Standards of conduct

Non-executive directors are the custodians of the governance process and require approval by the FCA to perform this function.

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Appendix B - POMS Governance

FCA requirements for material outsourcing contracts

Based on SYSC 8, which forms part of the FCA's Handbook of Rules and Guidance, the FCA would expect to see evidence of the following, as a minimum, in relation to any material outsourcing arrangement entered into by POMS, including appropriate terms in the contract:

- (1) the service provider must have the ability, capacity, and any authorisation required by law to perform the outsourced functions, services or activities reliably and professionally (so, for example, there should be evidence of the due diligence done by POMS to satisfy itself on these points);
- (2) the service provider must carry out the outsourced services effectively, and to this end POMS must establish methods for assessing the standard of performance of the service provider;
- (3) the service provider must properly supervise the carrying out of the outsourced functions, and adequately manage the risks associated with the outsourcing;
- (4) appropriate action must be taken by POMS if it appears that the service provider may not be carrying out the functions effectively and in compliance with applicable laws and regulatory requirements;
- (5) POMS must retain the necessary expertise to supervise the outsourced functions effectively and to manage the risks associated with the outsourcing, and must supervise those functions and manage those risks;
- (6) the service provider must disclose to POMS any development that may have a material impact on its ability to carry out the outsourced functions effectively and in compliance with applicable laws and regulatory requirements;
- (7) POMS must be able to terminate the arrangement for the outsourcing where necessary without detriment to the continuity and quality of its provision of services to clients;
- (8) the service provider must co-operate with the appropriate regulator and any other relevant competent authority in connection with the outsourced activities;
- (9) POMS, its auditors, the appropriate regulator and any other relevant competent authority must have effective access to data related to the outsourced activities, as well as to the business premises of the service provider; and the appropriate regulator and any other relevant competent authority must be able to exercise those rights of access;
- (10) the service provider must protect any confidential information relating to POMS and its clients;
- (11) POMS and the service provider must establish, implement and maintain a contingency plan for disaster recovery and periodic testing of backup facilities where that is necessary having regard to the function, service or activity that has been outsourced.

In addition, POMS should ensure that the respective rights and obligations of POMS and of the service provider are clearly allocated and set out in a written agreement (SYSC 8.1.9R.).

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Appendix C – Schedule 5 of the Distribution Agreement – POL/POMS Governance

Meeting	Attendees	Frequency	Purpose
Business Review	A quorum will consist of a business manager from each of the Parties. Additional attendees may be invited as determined by the agenda of the individual meeting.	Monthly	Review and assess current business performance: <ul style="list-style-type: none"> • sales performance; • marketing update; • competitor insight; • service/operational performance; • change management; • risk and compliance management; • issue management; • changes to persons or contact details for notification or escalation purposes; • AOB – items to be tabled at discretion of either Party.
Senior Business Review	A quorum will consist of two senior managers from each of POMS and Post Office. Initial attendees will be the Head of Products, Commercial Manager, Head of Compliance, General Manager and CEO of POMS and for Post Office the Head of Financial Services Products, Head of Financial Services Risk and Compliance, Head of Financial Services Sales and Head of Post Office Managed Services. Additional attendees may be invited as determined by the agenda of the individual meeting. All decisions of the Senior Business Review meeting shall be made by simple majority provided always that at least one member of this meeting appointed by	Quarterly	To discuss the Annual Business Strategy Plan in accordance with clause 8.1. Review and assess current business performance: <ul style="list-style-type: none"> • sales performance; • marketing update; • competitor insight; • market insight; • change/development programme

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Meeting	Attendees	Frequency	Purpose
	POMS and at least one member of this meeting appointed by Post Office shall be required to vote in favour of a decision for it to be approved.		<p>review and priorities;</p> <ul style="list-style-type: none"> • service/operational performance; • issue management; • risk and compliance management; • changes to persons or contact details for notification or escalation purposes; • planned restocking policy; • AOB – items to be tabled at discretion of either Party. <p>Evaluate previous Financial Year's performance and carry out business planning for subsequent Financial Year</p>
Sales and Marketing	<p>A quorum will consist of a senior manager from each of POMS and Post Office Additional marketing attendees shall be invited as determined by the agenda of the individual meeting. Initial attendees will be the Head of Financial Services Products and the Head of Financial Services Sales for Post Office and for POMS the General Manager and Head of Products.</p> <p>All decisions of the Sales and Marketing meeting shall be made by simple majority provided always that at least one member of this meeting appointed by POMS and at least one member of this meeting appointed by Post Office shall be required to vote in favour of a decision for it to be approved.</p>	Quarterly	<ul style="list-style-type: none"> • Agree the Marketing Plan in accordance with clause 8.2. • Pricing Strategy • Targets • Business Performance against the current Marketing Plan and agreed targets. • Sales and Marketing calendar review sales • Review sales compliance, sales improvements (cross/up sell), customer experience and guidelines, PR and external media.

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POST OFFICE GROUP EXECUTIVE

Branch Support Programme Improvements Update

1. Purpose

The purpose of this paper is to:

- 1.1 update the Post Office Executive Committee on the improvements made to the support offered to postmasters as a result of the Branch Support Programme.

2. Improvements to Training

- 2.1. The content of the classroom training provided to new postmasters has been refreshed with more focus on:
 - balancing and how to look for discrepancies when they occur within branch.
 - contractual obligation regarding discrepancies that do occur and how to process discrepancies correctly
 - explanation of False Accounting and the potential consequences i.e. criminal offence
- 2.2. A revised balancing guide has been introduced to help new postmasters balance their accounts correctly; this is a hand-out from the initial training provided to new postmasters and assistants where appropriate. A further best practice guide to identify discrepancies in branch has been introduced. This is a hand-out at on-site training for new postmasters and follow-up visits where branches are experiencing balancing difficulties.
- 2.3. A revised training offer that replaces approximately two thirds of the classroom training for new operators with online training to be completed prior to attending classroom training has been designed. Partnering with Capita Digital Learning, we have created multi-media online learning, including video, games and quizzes to ensure to appeal to the broad range of end users that will consume content. The on-line training for Postmasters, and their assistants went live on 5th February 2015.
 - The learning material wraps in messaging around customer service and sales conversations, and has been developed with a cross-Post Office team including Crown, Network and Commercial teams. The first classroom training for the blended training offer takes place w/c 23rd February.
 - To ensure that each postmaster has a smooth onboarding journey, access to compliance training and to the product training is available via SubSpace Online. Options to extend the availability of the on-line training are being scoped with a view to delivering in Q2 15/16.

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- 2.4. Compliance testing is a precursor to new postmaster training and is an annual regulatory requirement for all branch staff. This is now being provided on-line to the branch network replacing the traditional paper workbooks.

3. Balancing/Accounting Support Improvements

- 3.1. A refreshed approach to supporting branches with discrepancy issues was introduced in 2013. Where NBSC is unable to resolve a caller's query/issue this caller is referred to the Branch Support Team who can provide more in depth telephone support to the branch. This team also assesses whether on-site additional support or further training is required and will organise if appropriate. The learning from the Mediation Scheme investigations is that the recording of the support given needs to be consistently documented. A revised approach will be introduced in Q1 15/16.

4. NBSC Improvements

- 4.1. The volume of calls from branches is now assessed by the Network Business Support Centre (NBSC) with the branches that have a higher than average call volume being proactively contacted by the Branch Support team to understand the reason for the high level of calls; establish what extra support can be offered and whether any changes need to be made to training etc.
- 4.2. A new approach has been developed to analyse the calls received by NBSC to identify the root cause of the issue; to identify the solution for the branch in the first instance and implement wider business changes if appropriate eg content of and method of delivering new product training.

5. Managing Postmaster Material Contract Breaches

- 5.1. The suspended termination approach was launched in April 2014 to deal with postmasters where mitigating circumstances are such that it is inappropriate to terminate the contract. The Postmaster remains in post on the condition that if a further material breach of contract occurs in an agreed period (set by the nature of the first breach and typically a year) then the contract termination may be triggered. Postmaster suspensions are running at 33 at period 10. 112 postmasters have been kept in post that would probably have been suspended pre policy change. A condition of remaining in post is that the postmaster makes good the audit deficient. This has resulted in £552k being made good by period 10 which pre approach change would have transferred to agent debt.

6. Horizon System Transaction Improvements

- 6.1. The transaction for customers paying by debit or credit card for bureau transactions was changed in Sept 2014. The transaction now includes an automatic re-print of the receipt which includes the card and identification details (last 4 digits only) of the customer, which needs to be presented in case of fraudulent use of the card. Previously, the branch would have to remember to request a reprint and would be liable for the loss if they failed to provide it to Finance Service Centre. Postmasters were held liable for £65k in 13/14 (average per branch £2.5k). Since introduction no chargebacks to Postmasters have been made.
- 6.2. The end of day cheque remittance process has been reviewed and a new solution to drive out errors has been identified. This is scheduled for the next

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software release in May 2015 reducing calls into NBSC (650 per month) and the Transaction Corrections (c.570 pm periods 1-5 2014) issued by Finance Service Centre. Efficiencies in resource realised as a result are £86k pa

7. HORIce

7.1. The HORIce information tool was commissioned from Fujitsu for £100k (as opposed to the £1.7m Detica alternative) in 2014 and has been in pilot for the last 4 months. The pilot has proved that HORIce is an effective and an efficient tool – and an improvement on anything we have had to date - for focusing on any one particular branch and extracting the information for a number of purposes including those below. Comprehensive list of benefits is at Appendix 1.

- investigating accounting anomalies whilst considering whether to precautionary suspend a postmaster.
- NBSC accessing branch data when assisting a branch with an accounting problem so that they establish exactly what the branch has done rather than relying on what they say they have done. This results in the branch being provided with the correct advice rather than advice based on the information from the branch.
- HORIce reports raising flags to support branches and identify branches for further checks by Grapevine team. This results in telephone calls being made to branch to establish whether there are any training needs. If fraud is expected an audit will be arranged.

7.2 We are currently working with Fujitsu to refine the outputs of HORIce so that it highlights anomalies in branch performance across the whole network with a view to moving to risk based audits only which is a more targeted and efficient model.

8. Recommendations

The Group Executive is asked to:

- 8.1. note the update on improvements as a result of Branch Support Programme.

Kevin Gilliland
12th February 2015

Confidential**Appendix 1****HORIce Benefits**

1	Reduction in Audit/Special Audits (Grapevine to supply numbers) as Contract Advisors and Grapevine team can monitor branches remotely and/or verify transaction balancing information
2	Contract Advisors able to verify information given at time of audit from HORIce to improve decision making if loss identified.
3	Improved quality of support to branches-Enables queries to be answered at first point of contact (NBSC) where previously some enquiries would have been escalated to other teams or for intervention. (Examples answered to date include alleged rogue stock unit being set up, ATM balancing verified, duplicate Horizon transaction entries and phantom cheque entries explained.
4	Visibility of data not previously available- For example internal stock unit transfer information, Cash declaration, Branch Trading Statement, Mails despatch, TC information now available.
5	6 months data available on most HORIce reports previously only 3 months data available in Credence.
6	Near real time transaction data available, (Credence data available next day).
7	HORIce reports are now raising flags to support branches and identify branches for further checks by Grapevine team. (In last week since new reports made available 5 branches allocated for audit, 17 offices telephoned and supported with training on cash declarations, 7 branches flagged to National Multiple Partners for support or action).
8	Coin safe saving - £1310 saving per office 4 requests already avoided. (Total saved £5240).
9	Assisted Rollovers for Horizon, avoided cost (£1500 per branch £16,500 to date).
10	FSC-Less Fujitsu support needed to investigate enquiries.
11	Reduction in time spent sending ARQ requests to Fujitsu.
12	Assists with Police/Security manager requests for info.
13	Ability to identify branch users onsite prior to contact. Branch Standards Team to track contact information for time saved on aborted calls. (For example -Regulatory Compliance chase up/Failed mystery shopper/Dangerous Goods scanning performance/Sales capability Branch Standards to supply numbers.
14	Ability to check automated bill payment enquiries. Customer Care Unit able to speed up customer enquiries and avoid the need to escalate certain enquiries to Finance Service Centre.

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POST OFFICE GROUP EXECUTIVE

Post Office Response to Second Sight's "Thematic Issues"

1. Purpose

The purpose of this paper is to:

- 1.1 update the Post Office Group Executive on Second Sight's "Thematic Issues" and what Post Office has done to address these.

2. Background

- 2.1. In recent years a small number of postmasters have through the Justice for Subpostmasters Alliance (JFSA) alleged that Horizon was responsible for discrepancies in their Post Office branch accounts causing them detriment including the loss of their business and in some cases imprisonment.
- 2.2. To address these concerns, in June 2012, and in collaboration with the JFSA and a group of MPs led by the Rt Hon James Arbuthnot MP, Post Office appointed independent forensic accountants, Second Sight Support Services Limited (Second Sight), to investigate.
- 2.3. As Second Sight (SS) discussed with the former postmasters their concerns, they concluded that there were common issues being raised by the former postmasters; SS started to document what they called "Thematic Issues". Following a year's work with a number of postmasters, Second Sight published an Interim Report on 13 July 2013 in which they referred to these "Thematic Issues"
- 2.4. In August 2013 Post Office established the Initial Complaint and Mediation Scheme (The Scheme) in order to provide an avenue for any postmasters with concerns to raise them directly with Post Office. SS has maintained their "Thematic Issues" report and further populated with the issues of the 150 Applications that were accepted into the Scheme. Second Sight's "Thematic Issues" report details 17 "Thematic Issues"

3. Current Situation

- 3.1. As Post Office has investigated each of the 150 Applications to The Scheme, the findings and potential improvement opportunities have been cross referenced with SS "Thematic Issues" report.
- 3.2. Of the 17 "Thematic Issues" documented Post Office conclusion is that:
 - 9 were due to user error;
 - 2 were due to fraud;
 - 4 were due to lack of awareness of the postmaster and/or their staff;

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- there was no evidence to support the issue raised for 1 of the “Thematic Issues” raised.
- training and support issues were claimed by 130 Applicants to have been an issue and whilst our investigations have found that in the main training was adequate and was provided to the business standard at the time, we could have done better in some cases and in areas such as ATM and Lottery.

4. Improvements to Date

- 4.1. As a result of our investigation process and in conjunction with the Branch Support Programme we have already introduced improvements to address the “Thematic Issues” and/or have identified further improvement opportunities. These are set out fully at Appendix 1.
 - **User error** – to mitigate the risk of user error within branch we have for 6 of the “Thematic Issues” already introduced improvements. For 7 of the “Thematic Issues”, further improvement opportunities have been identified.
 - **Fraud** – the 2 “Thematic Issues” detailed are False Accounting and Pension & Allowance reintroduction fraud. Improvements have already been introduced to raise awareness of False Accounting and to offer support to postmasters at the earliest opportunity. Pension and Allowances were replaced by POCA.
 - **Lack of awareness** – in 3 of the 4 “Thematic Issues” improvements have already been made to raise awareness with and improve the understanding of the postmaster. Further improvement opportunities have been identified for all issues raised.
 - **No evidence to support** – this is where postmasters have claimed they were not aware of the terms of the Spmr contract they entered into and/or had never received a copy of that contract. Although there is no evidence to support this claim, improvements to raise awareness of the terms of the contract have been implemented.
 - **Training and Support** – improvements to the training offer have been introduced in recent years to reflect the new Mains and Local operating models. Further improvements have been made to classroom training content with online training going live 5th February.

5. Key Risks

- 5.1. Whilst through the investigation of the 150 Scheme Applications Post Office has demonstrated that Second Sight’s “Thematic Issues” are not thematic but in the main simply a collection of the errors the Applicants have made, there is a risk that Second Sight will draw different conclusions and be damning towards Post Office in the publication of their final Part 2 which is scheduled for April 2015.
- 5.2. In order to mitigate this risk, the Sparrow team is working very closely with Second Sight to try to inform the content of the report by providing factual information to Second Sight on the topics they have identified. Furthermore a robust and well-articulated communication strategy is wrapped around The Scheme.

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6. Conclusion

- 6.1. Through the work of the Branch Support Programme and the outputs of the Mediation Scheme Investigation team the “Thematic Issues” raised have all been addressed by Post Office. Second Sight has as evidenced by the Select Committee evidence session on 3rd February chosen to ignore or not believe Post Office investigation findings or the formal responses Post Office has made to Second Sight's questions.
- 6.2. Given 6.1, the Sparrow team need to continue to engage Second Sight in the content of their final Part 2 report with a view to ensuring its factual accuracy.

7. Recommendations

The Group Executive is asked to:

- 7.1. note the update on Second Sight's “Thematic Issues” and what Post Office has done to address these.
- 7.2. receive a further update ahead of the publication of Second Sight's final Part 2 report scheduled for end April 2015.

Kevin Gilliland
12th February 2015

Confidential**Appendix 1****Post Office Response to Second Sight's Thematic Issues**

Issues identified by Second Sight	Number of Cases that cite this issue	Post Office Findings	Improvements to date	Further improvements
Transactions or transaction corrections not entered by the postmaster or staff	51	No evidence of remote access. All claims of 'ghost' transactions have been explained in POIRs: enforced log out from Horizon; Operator error supported by receipts and recovery screens.	Horizon change request in train for auto-reversal as part of recovery process to be stated as such on the transactional log, rather than the User ID. This will remove any confusion for the user/postmaster.	Once Horizon change request is completed, this change and horizon recovery process refresh communication to be published in Subspace online and Branch Focus to ensure awareness.
Transaction anomalies associated with CASH or STOCK Remittances	39	PO investigation has identified user error in all cases. Given that there is no reconciliation between Swindon and branches this could mean that discrepancies in remittances have gone unnoticed resulted in a loss or gain at branch.		Simpler advice notes are required to ensure alignment between the information on the advice note and the Horizon system i.e. value or volumes the same as Horizon requirements. Scope the cost and benefits of introducing: (1) 100% check for new branches/operators for a fixed period. (b) 100% check for all remittances into Swindon.
Transaction anomalies associated with Pensions and Allowances	15	Scheme cases investigated have shown branch fraudulent activity.	None as P&As were replaced by POCA several years ago.	NA

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Transaction anomalies following telecommunication or power failures	59	A loss of telecommunications or power in branch will not directly cause discrepancies. This is dependent on the postmaster correctly following the Horizon recovery process on the screen. A lack of understanding of the recovery process was found in the earlier cases in particular.	The Horizon recovery process has been re-communicated to branches in Branch Focus.	A network wide communication is required to ensure that postmasters understand that power failures and loss of connectivity in themselves cannot cause discrepancies.
Transaction anomalies associated with ATMs. Stock user management.	34	POIRs detail a number of postmasters did not follow PO procedures correctly. Not having individual ATM stock units exasperated the in-branch issues.	New operator guide was issued to ATM branches in Feb 2013. Introduced Post Office delivered on site training for all new ATM's installed. TC's issued more timely.	(1)Post Office to monitor via HORIce that all ATMs have separate stock units and that they are called the same to enable filtering by HORIce. (2)ATM on line training to be developed; go-live Q1 15/16. (3)Scope whether on-line link to horizon (PING) is possible. (4)More user friendly issue resolution process between POL and postmaster to be introduced. (5) Easy to understand reports from BOI. (6)Ensure knowledge base at NBSC is up to date and regularly reviewed.
Transaction anomalies associated with Lottery Terminal or Scratch Cards	39	POIRs show that scratchcards activation and rem in process caused problems for branches. Branches would probably have benefitted from face to face training.	PING 2012 addressed lottery sales and Scratchcard activations TCs. Post Office introduced policy of face to face training to be provided with lottery and scratchcard network extensions.	Mandatory stock unit for Lottery. Clearer instructions regarding scratchcard TC's to cover both parts of the transaction Auto rem in/activation. Ensure knowledge base at NBSC is up to date and regularly reviewed. On line training module for Camelot products to be developed; go-live Q1 15/16.
Transaction anomalies associated with	14	Time expired as MVL discs no longer used.		

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MVL				
Transaction anomalies associated with Foreign Currency	21	Other than for one case in the Scheme that involved postmaster selling at unauthorised exchange rates, POIRs evidence user error.	Bureau de change 2nd receipt introduced 19/09/2014 since which point no charge backs have been to postmasters.	
Transaction anomalies associated with Bank/GIRO/ Cheques	53	Problems with Rem out cheque process were due to user error. Giro deposit errors were due to mis-key errors by users.	Horizon change request in train for automation of cheque rem out process. Go-live May 2015.	Further work required to scope ways in which the risk of mis-keys can be mitigated.
Transaction anomalies associated with Stamps, Postage Labels, Phone cards or Premium Bonds	41	Stamps Philatelic/definitive move from one to other. Postage labels - rejects/spoilt lack of understanding difference. Phonecards not an issue isolated user error.		Rem in initiative barcode sheets of stamps. Labels - better instructions to be communicated to network.
Hardware issues e.g. printer problems, PIN pads, touchscreens and Pay Station	75	Lack of understanding of what hardware functionality/capability.		Need communication to explain functionality of hardware and that hardware problems in themselves cannot cause discrepancies.
Failure to follow correct procedures or mis-advice by POL'S Helpline	81	Whilst some Applicants have claimed wrong advice from the NBSC there is no evidence of this in the call logs. That said the Operator can only respond to the caller's explanation of the problem and where the explanation offered by postmaster is poor this could lead to inaccurate advice being given by NBSC.	HORIce tool has been trialled with tier 2 and the results are favourable in being able to look at branch data to establish what the branch has actually done rather than rely on the branch relaying this information to NBSC operator.	Customer satisfaction metrics to be introduced by NBSC and hardwired into performance scorecard for NBSC. More information on the call log is required especially when recording the advice given to the branch. HORIce user licences to be extended so that more operators are equipped with the tool.

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Training and Support issues including Helpline and Audit	130	Claims of lack of training at various stages. PO investigations have found little evidence of lack of training across the 150 cases rather that Applicants were adequately trained at appointment but that some chose not to be hands on choosing instead to rely on their staff.	Work aids reviewed and refreshed for new entrants. Escalation approach for balancing related issues has been refreshed to ensure the flow of appropriate referrals from NBSC to Branch Support team and the field team where necessary.	On-line training for new entrants goes live Feb 2015 with a network wide roll out in Q2 15/16. New HORIce led support approach to be formally introduced Q1 15/16.
Limitations in the Transaction Audit Trail available to Subpostmasters	73	Postmasters claim of lack of paper trail however since the introduction of Horizon postmasters have had access to in-branch reports for up to 42 days after the transaction. This was extended to 60 days on the introduction of Horizon on-line.	HORICE - 6 months data	More emphasis on balancing and the use of in-branch reports included in new training package - go-live Feb 2015. Self-help via on-line training modules and 'how to' videos. Network wide communication required to raise awareness of the reports that are available in branch and how to use them to best effect.
Process issues at the end of each Trading Period	78	Applicant's claim of having to falsify account in order to trade the next day is incorrect. Some Applicants appear to have been or claim to have been not aware of the in-branch reports available to them to search for discrepancies. PO investigations have evidenced that some Applicants chose not to seek help from NBSC or any other PO facility.	NBSC now have access to HORIce that enables them to look at branch data and see what the branch has done. This results in the correct advice being given to the branch rather than the NBSC relying on what the branch tells them they've done.	More emphasis on balancing and Branch Trading included in new training package - go-live Feb 2015. Access to HORIce to be embedded into NBSC BAU.

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The contract between the Post Office and postmasters	63	Scheme applicants claim they didn't realise the terms of the contract. PO investigations conclude that applicants did receive contract and in all probability understood the terms as they had worked within those terms for a considerable time before claiming lack of awareness.	The extracts of the contract regarding responsibility for cash and stock and misuse of PO funds is explained during interview process and PTV visits	Contractual obligations regarding misuse of Post Office cash and false accounting will be included in new entrant training - go-live Feb 2015. Refresh of contractual responsibilities throughout PTV
The lack of an outreach investigations function	97	SS claim that some Applicants had an expectation beyond Post Office contractual obligation in that they expected someone to go to branch and find their discrepancy or tell them where the money had gone.	Introduced a refreshed escalation process from NBSC to Branch Support for large or unexplained losses or where branches request support. If NBSC or Branch Support is unable to resolve an onsite visit is arranged.	To introduce a Mediation Scheme type investigation process into BAU. Need to formalise FSA report visits etc. and offer the opportunity to postmasters for a face to face meeting to share the findings and improvement opportunities. HORIce to be an integral part of this process.

Current Actions and Decisions LogExCo meeting 8 May – Actions and DecisionsStrategic Risk – Contingency Risk

08/05/16	Action 15	Chris Day to share the finance stress testing of the plan with the ExCo, to ensure contingencies are identified for the big programmes.	CD	In progress – due Nov/Dec
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ExCo Meeting 3 July – Actions and DecisionsSignificant Litigation

03/07/05	Action 1	Schedule an ExCo discussion on losses and prosecution policy	CA/AL	31 st Aug
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ExCo Meeting 16th October – Actions and DecisionsProject Titan

16/10/2014	Action 6	Overlay the Risk Appetite framework and operational risk for POMS. Update 09/12 – Preparing the risk appetite for POMS in the context of the risk appetite for Post Office. Update : 12/01/15 – POL Risk Appetite Approach being submitted to POL ARC on 12 th January.2015. POMS will develop its Risk Appetite Statement aligned to POL.	NK / CA	
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ExCo meeting 21st October – Actions and DecisionsCrown P & L

21/10/2014	Action 1	Report to the ExCo on the DWP mediation for compensation for the over payment, to understand the possible timeline and its effect on this year. Update 03/12/14 – We have sent a list of three mediators to DWP and they have agreed to confirm their view asap, we expect them to reply next week. We are targeting completing mediation by the end of February 2015.	MG	End February 2015
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		Update 26/01/15 – DWP have stated that they do not wish to go through mediation. We are now taking QC advice on the strength of our claim and next steps. BIS have been advised of the position and BIS officials have said they would support us if we believe we have a strong case. We understand that BIS are to brief our Minister.		
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ExCo meeting 20th November 2014 – Actions and DecisionsSparrow

20/11/2014	Action 1	Ensure that enough budget has been set aside next year for the mediation.	CD/CA	January 2015
20/11/2014	Action 2	Sparrow to come to the January ExCo or Transformation Committee with a paper covering the responses to the Second Sight themes and the improvements into the Business.	Angela Van Den Bogerd/Belinda Crowe	12 th February ExCo & 25 th March Board

Telecoms

20/11/2014	Action 3	Commercial Committee, including LS, to work up the possible options for the future of the telecoms strategy.	Geoff Smyth / MG/ComCom	February 2015
20/11/2014	Action 4	Present the options and a recommendation to the ExCo in early February for discussion and recommendation to the March Board.	Geoff Smyth	February 2015

ExCo meeting 16th December 2014 – Actions and DecisionsReview of Budget 2015-16

16/12/2014	Action 2	Scenario plan for lower revenue numbers to understand what actions we would take if the revenue moved away from the plan	AC	January
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Period 8 Performance

16/12/2014	Action 1	Paper to ExCo to cover working capital cash management, and the actions to be put in place to ensure tighter control on cashflow.	Martin Edwards	February/March and May Board
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OD Wave 2

16/12/2014	Action 3	Provide a "staff cost: income" ratio measure for consideration and possible inclusion in the 2015/16 scorecard	Nick Sambridge	February
16/12/2014	Action 4	Review the delegated authority levels and any changes needed to align with Waves 1&2	AL/ CD/ CA	March
16/12/2014	Action 7	Narrative for Business Transformation to be circulated to ExCo Updated 09/01/15: Vision project in progress – scoping exercise underway	MD/Pete Markey	End January

POca Call off agreement

16/12/2014	Action 1	Undertake a lessons learned review with the ShEx team	GL	January
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Business Transformation

16/12/2014	Action 3	Paper to explain the gainshare agreement with McKinsey and the use of professional consultants eg. McKinsey, PWC, Deloitte. <i>Update: In progress as part of the 'Transition Plan' and will be completed for review by ExCo in line with the deadlines indicated</i>	DR	February
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Corporate Governance Training

16/12/2014	Action 2	Organise a seminar session to look at case studies for good and bad corporate governance, including conflicts of interest	CA	March
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Risk Framework & Risk Data

16/12/2014	Action 1	Provide a risk scorecard with metrics to measure the risk appetite statements	Dave Mason	February
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Christmas Network Support

16/12/2014	Action 1	Provide a list of people who have not turned up for Network Support, all to follow up and find out why. Update 7 th Jan: Work in progress, data available end Jan.	KG / All	End January
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ExCo meeting 15th January 2015 – Actions and DecisionsTechnology Strategy & Transition plan including Fujitsu

15/01/2015	Action 6	Consider the feasibility and impact of bringing the Fujitsu contract forward instead of extending	AC/LS	End January
15/01/2015	Action 7	Agenda a slot for GE to discuss 'Capability and Retention of critical employees' Paper on Retaining Talent will be submitted to April GE meeting	NH/AL	April GE

Financial Performance

15/01/2015	Action 1	Circulate the dates of the weekly Win in Mails meeting, Exco are invited to attend	MG	End January
15/01/2015	Action 5	Decide who is leading the negotiation with Fujitsu on the £7.6m in year claim	AC/MG	End January
15/01/2015	Action 8	Provide the CFO with investment cases for spend this year which would support next year's revenue, especially in FS awareness, and defence of Mails.	NK/MG	End January
15/01/2015	Action 9	Use time at the Monday morning GE meeting to track the big out turn items, e.g. DWP signature, Hawk signature, Fujitsu settlement, Mails settlement, and also the effect on the Crown P&L	AC	On-going
15/01/2015	Action 10	Provide a paper on State Aid including worst case scenario for discussion at Monday GE	CA	26 January

Mails

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

15/01/2015	Action 2	Bring approach to NFSP to a future GE meeting for discussion	NH	March GE
15/01/2015	Action 3	Consider recognition bonus for the NT and CTP teams Meeting Friday 6 th Feb to discuss with KM and KG	NH/KG	End March

Digital

15/01/2015	Action 1	Commercial group to discuss who is responsible for digital sales and bring back for GE discussion	MG	End January
15/01/2015	Action 2	Giles, Henk and David to visit Bol in Dublin to see their work on digital improvements and decide how they could use to drive POL growth Dates being discussed with all parties.	GD/HVH/DR	End Feb
15/01/2015	Action 3	Giles to work with Martin Edwards to produce a Business case and options on how to prioritise and drive opportunities in digital, with an ambitious challenge to increase on-line sales by 4 times	MG/GD/ME	End March

SME

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

15/01/2015	Action 1	Feedback to the Health & Safety committee that the GE would like a wider focus in the paper including wellbeing measures Item will be on Agenda for 6 th March H&S Committee	NH	Next committee
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SLT Events

15/01/2015	Action 1	Circulate the SLT events calendar and ensure enough time on GE agendas to agree content well in advance of the events	MD/AL	End January
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ExCo meeting 20th January 2015 – Actions and DecisionsBudget, Operating Plan and Proposed Scorecard

20/01/2015	Action 4	Agenda item for May GE to look at the forward plan for future funding.	ME / AC	GE on 7 th May
20/01/2015	Action 7	Include scorecard in February ET Performance Meeting for discussion before circulation to the Board and tabling at the RemCo meeting.	AC / NH	17 th February

		On Agenda for 17 th Feb ET		
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SLT Event

20/01/2015	Action 1	Timetable and agenda for SLT Events for the next year to be discussed at GE On Agenda for 12 th Feb GE	NH	GE on 12 th Feb
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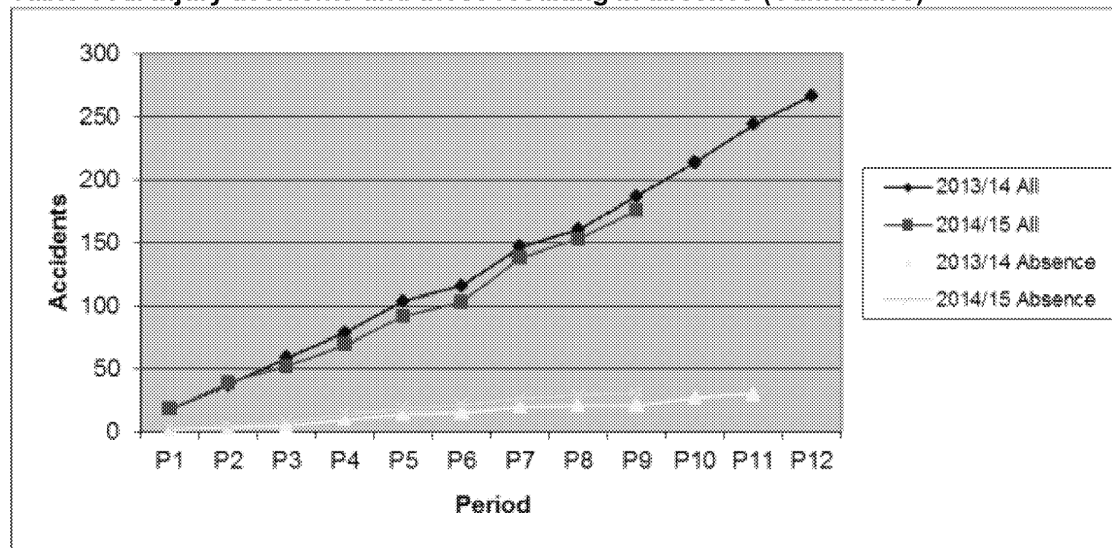
POST OFFICE LTD GROUP EXECUTIVE**Health & Safety Report****1. Purpose**

The purpose of this paper is to:

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

2. Current Situation

- 2.1 The majority of accidents fall into three main categories lifting and handling, stepping and striking and outdoor falls. These are higher frequency events with, in the majority, relatively low severity. The lower frequency types of incident can carry the potential for very high impact, for example, assaults and road traffic collisions.
- 2.2 Performance up to and including P9 for 2014/15 indicates that 'all accidents' are tracking on target and are forecast to outturn on the 5% reduction target. Absence accidents are tracking adverse to target and as a result of two relatively weak periods are now unlikely to achieve target reduction at year end. However severity of the accidents, measured by 'days lost', is currently well ahead of target and forecast to outturn ahead of the 5% reduction target.

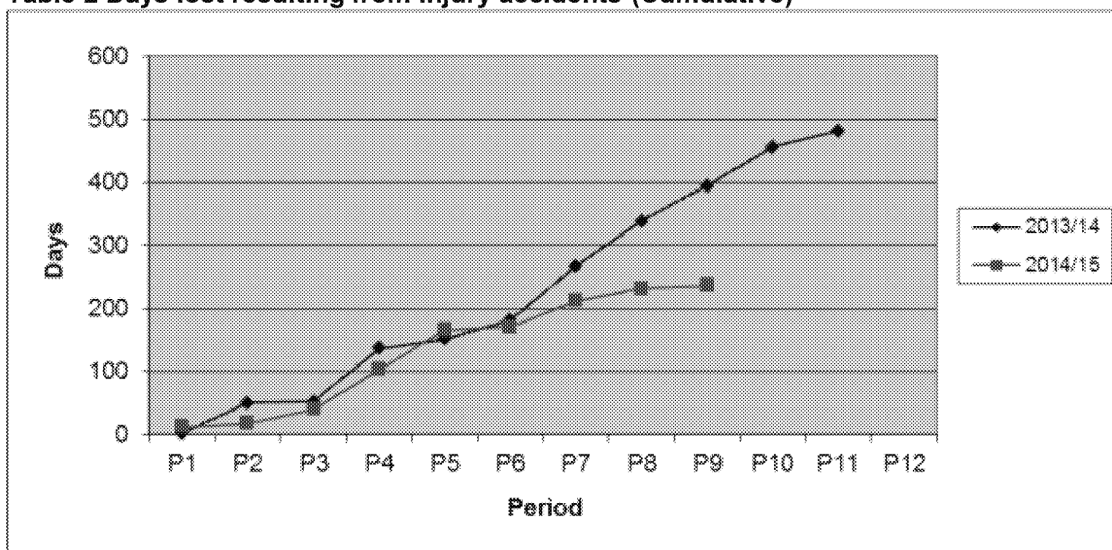
Table 1 All Injury accidents and those resulting in absence (Cumulative)

- 2.3 Personal injury compensation claims remain at a low level having reduced significantly from previous years and in line with the low number of accidents that result in sick absence. Claims involving members of the public have also reduced. Comparison with a similar retail organisation indicates that the Post Office claim rate is significantly lower in both public and employer's liability and of those claims the 'denial' or 'defence' rate is significantly more successful. The insurance year runs from October to September.

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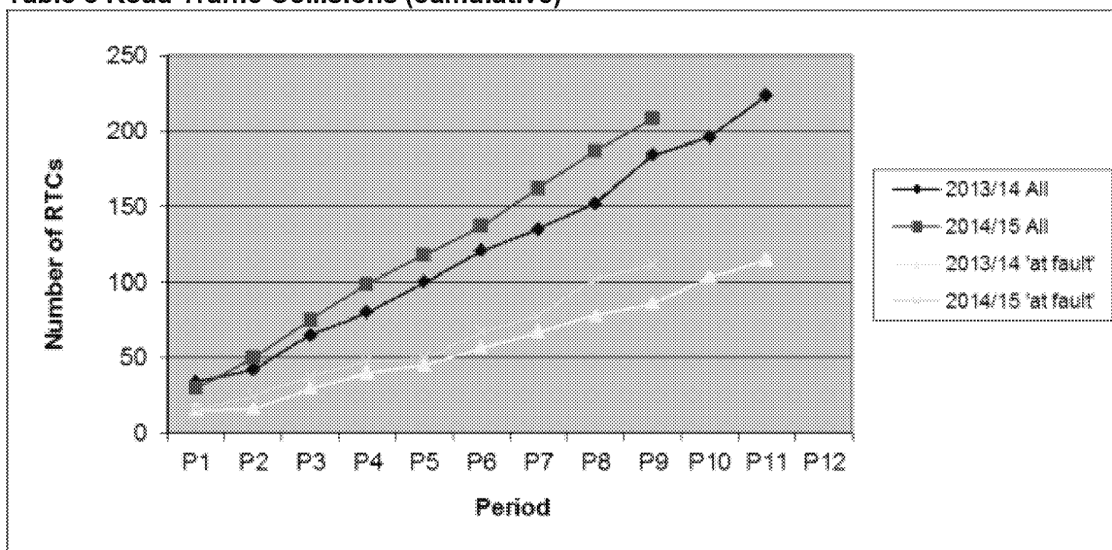
- 2.4 The number of days lost due to accidents is currently well ahead of target and forecast to outturn ahead of the 5% reduction target. (Table 2 below refers)

Table 2 Days lost resulting from injury accidents (Cumulative)



- 2.5 The total number of road traffic collisions (RTCs) up to and including P9 is 208, up 24 on last year. The number of incidents where the Post Office driver is 'at fault' is showing an increase of 26 compared to last year and accounts for 53.8% of incidents. (Table 3 refers) Road risk reduction opportunities continue to be the subject of analysis at the Road Risk Forum with a view to identifying improvement activities in addition to those already in place. (3.1 below) Reversing incidents remain a cause for concern and have been the subject of specific improvement interventions. Injuries as a result of road traffic collisions are extremely infrequent. Road traffic collisions account for less than 3% of the overall number of injury accidents, however they have the potential for high impact in terms of injury and loss. Currently the majority of incidents involve low speed – less than 25mph – and relatively low levels of damage.

Table 3 Road Traffic Collisions (cumulative)



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- 2.6 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are down five on last year from 32 to 27 for the past 9 months, 8 of which were unsuccessful. Physical injuries during robberies - of which there have been 8, 1 less than last year for the same year to date period - remain relatively minor in severity. The level of use of firearms is similar to last year with 5 of the 27 robberies enabled by the presence and/or threat of use of fire arms. On one occasion the firearm was discharged (into the ceiling). Support for those affected by robberies is provided by trained trauma supporters and professional support resources available through the occupational health service provision. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)
- 2.7 Robberies and attempted robberies on the Post Office network, up to and including P9, are up 6 on last year to 85 of which 58% were successful. Injuries sustained during robberies are down from 15 to 11. Robberies take place predominantly at sub post offices leaving Crown branches largely unaffected. Supporting activities have been introduced to continue to mitigate the robbery risk and are identified at 3.2. (Appendix 1 – Significant Incidents refers).

3. Activities

3.1 Road Risk

Current longer term activities to mitigate road risk are:

- Road risk forum in place to scope and develop road risk reduction initiatives and activities supported by the risk management division of our insurers
- Analysis and deployment of interventions for reversing incidents to mitigate the increased incidence rates, including yard assessments and technical accident reduction interventions on new vehicles e.g. Reversing aids to reduce accidents
- Analysis and evaluation of data including risk profiling to identify drivers who need additional support and to determine further generic accident reduction interventions
- Safe driver of the year award to encourage and reward responsible driving
- Weekly case conferences to ensure consistent approach to accident investigation, follow up activity and sharing of good practice
- Programme of driving and road risk communications to raise awareness of current and emerging risks
- On site coaching to improve slow manoeuvring skills e.g. reversing

3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

- Active liaison activities with the police to understand 'at risk' areas and to deploy surveillance teams
- Increased use of 'advertising' on vehicles of new deterrent technologies e.g. DNA taggant – a solution that contains a unique identifier that is released automatically in the event of a robbery, spraying those involved and enabling identification of the individuals involved in the robberies
- Trialling new point of transfer arrangements to reduce exposure at Post Office counters - the majority of robberies take place at the point of transfer which in Post Office's is the counter where there is ready public access. The new arrangements allow for the cross pavement protection box to be emptied / filled in a secure location.
- Significant reduction in opportunities for duress type robberies linked to the introduction of single person vehicles – single person vehicles eliminate the

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opportunities for Supply Chain employee duress type incidents which historically have been the most violent and likely to involve injury.

3.3 Health and Wellbeing

Healthcare interventions:

- Second programme of visits to Crown branches, Supply Chain units and Admin offices to offer health checks using equipment that provides a wide range of indicators on physical wellbeing. The anonymised data is used to develop future health and wellbeing campaigns and target interventions.
- The programme of visits is supported by an online 'Wellbeing Zone' health check tool as a 'self- help' option
- Ongoing campaign of communications to promote a range of different wellbeing issues
- Wellbeing events to promote general health, exercise and dietary initiatives
- Mental health awareness workshops – absence occurrences related to mental health conditions as a percentage of all absence occurrences at P9 are down from a high in P5 of 18.62% to 13.18% in P9. Mental health conditions remain as the single most common cause of sick absence days as a percentage of all sick absence days at 30.65%.
- Attendance levels are at 96.5% which compares very favourably with the public sector and relatively favourably with the private sector

3.4 Safety

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

Corporate Manslaughter

On 13 November 2014, the Sentencing Council opened its 14 week public consultation on draft guidelines for corporate manslaughter and health and safety offences. If implemented, the guidelines will mean that large organisations convicted of corporate manslaughter may face increased fines of up to £20 million with those convicted of fatal health and safety offences facing fines of up to £10 million. Updates will follow in due course.

4. Residual Risks

- 4.1 Driving activities have the potential for high impact/loss and therefore remain as a significant residual risk. However, the actions identified in 3.1 above are aimed at mitigating that risk and improving performance.

5. Recommendation

The Group Executive is asked to:

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

Neil Hayward
February 2015

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Appendix 1

Significant Incidents (Period 9)				
Crowns and Network				
Location	Loss	Circumstances	Physical Injuries	Any further details
Elton SPSO, Ince Lane, Elton, CH2 4LX.	£120,000	Wed 3/1/2014 Staff opened the door to a male dressed as a Postman. SPMR was hit in the face and her head was hit against the safe door. The male demanded that staff empty contents of the ATM into a mail sack.	GRO	Previous incidents Burglary July 2010. Four attempted burglaries Oct 2007, Mar 2009, Apr 2009, May 2013.
South Norwood CFPO.243-245 Selhurst Road, London. SE25 6XR	£90,000	Sat 06/12/2014. One male armed with a handgun confronted staff; he forced the staff into the safe, cash and stamps taken. He locked the staff in the safe and left. Police were contacted and forced entrance and opened the safe.		Previous robbery June 2014
Brabazon Road SPSO, 146, Brabazon Road, Hounslow. TW5 9LP.	£80,000	Mon 08/12/2014 Two males entered the branch, both were carrying knives. The Spmr's GRO was grabbed and a knife was held to GRO throat in the struggle GRO They gained access to the secure area and took cash from the safe.		Two previous incidents robberies Jan 2011, October 2013.
Supply Chain				
Location	Loss	Circumstances	Physical Injuries	Any further details
Bulwell SPSO, 36 - 48 Main Street, Nottingham, NG6 8EW.	£26,000	Tues 16/12/2014 at 11:30, Crew member was returning from the Post Office he was punched in the back and the i-Box was taken.	GRO	
13:34 Rectory Road, SPSO, Pitsea, Basildon, Essex, SS13 2AJ.	£16,000 (Recovered)	Wed 17/12/2014, Crew member went into the PO and was attacked from behind by unknown male offender, who was carrying a gun. The PO staff had just picked up the box and the offender demanded box and the fobs, staff refused. The offender fired a shot into the ceiling, before exiting the PO.		Box tracked by Grapevine, males in Police custody.