



April 2015 Group Executive Agenda

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Date	Present	In Attendance	Apologies				
Thursday 16 th April 2015	<ul style="list-style-type: none"> Paula Vennells (Chair) Neil Hayward Martin George Kevin Gilliland Nick Kennett Jane MacLeod David Ryan 	<ul style="list-style-type: none"> Gavin Lambert Steve Miller Mark Davies Sarah Malone / Aidan Alston <i>(plus visitors from Smith & Henderson and Hay Group)</i> Simon Eldridge Harry Clarke 	<ul style="list-style-type: none"> Alisdair Cameron Alwen Lyons 				
<table border="1"> <thead> <tr> <th>Start Time</th> <th>Finish Time</th> </tr> </thead> <tbody> <tr> <td>09.30hrs</td> <td>17.00hrs</td> </tr> </tbody> </table>	Start Time	Finish Time	09.30hrs	17.00hrs			
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<table border="1"> <thead> <tr> <th>Comments</th> </tr> </thead> <tbody> <tr> <td>Papers are due 8th April 2015</td> </tr> </tbody> </table>	Comments	Papers are due 8 th April 2015					
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Agenda Item	Action Needed	Purpose	Lead	Timing
1. Talent - Capability Development	To gain commitment to the direction of travel and activities; and sponsorship for the Post Office Learning Academy	This is the third and final topic on Talent – having previously discussed how we attract and how we retain Talent. This paper presents the actions required to create a robust business-led capability plan and the mechanisms to develop or source the capabilities required to deliver the business strategy	Neil & Sarah Malone	09.30 – 10.15
2. IDA	To request investment and resource to develop an Identity Services strategy for Post Office	To understand how Post Office can win in identity. We are in a great position as the leading brand in an emerging market. We need to invest now to understand how we can maximise the capability we have and ensure we stay ahead our competitors	Martin	10.15 – 10.45
BREAK				10.45 – 10.55
3. POL Top Risks	Review top risks for annual report / Board	GE to review the tops risks and be content that this represents the risk profile of POL	Jane	10.55 – 11.55
4. POMS	POL Board Sign off	Sign off POMS to set up as a principal for Insurance broking.	Nick & Jane	11.55 – 12.35



Agenda Item	Action Needed	Purpose	Lead	Timing
5. Election	To review risks and opportunities presented by potential change of government	To ensure GE is sighted on general election and new government influencing strategy and tactics	Mark	12.35 – 12.55
6. Health & Safety	Update and detailed debate	12 monthly detailed debate on Health & Safety – previously GE Action	Neil & Simon Eldridge	12.55 – 13.15
LUNCH				13.15 – 13.45
7. Agent Engagement and Results of the Employee Survey Feedback	To discuss with GE the headline from the 2015 postmaster survey and advise on next steps to drive postmaster engagement throughout the year	To agree business priorities and actions in response to the survey. In advance of this each Director will have had a 1:1 session to immerse themselves in the results and so the purpose of this session is to agree the business activity (that will be collectively owned by GE) that will drive employee engagement across the business throughout the year.	Sarah Malone & Aidan Alston	13.45 – 15.15
BREAK				15.15 – 15.25
8. Crown Transformation Paper and Projected Year End P&L	The GE is asked to note the strategy, endorse a three year budget envelope for CTP2 against which individual business cases will subsequently be developed, and make decisions on the business appetite for the more radical options available to accelerate the breakeven point.	To present and seek commitment from the GE on the proposed future strategy for the Crown Network. In advance of this all directors will have had 1:1 meetings with the team involved. Decisions from the GE are needed now in order to establish the scope and scale of the CTP2 programme and begin delivery this financial year. Inherent within the strategy are choices about breakeven, our pace of reaching a commercial rate of return, and political and delivery risk appetites	Kevin & Harry Clarke	15.25 – 16.25
9. GE Action Log			All	16.25 – 16.35



Agenda Item	Action Needed	Purpose	Lead	Timing
10. Noting Paper(s) :- • Significant Litigation Report				16.35 – 16.50
11. AOB				16.50 – 17.00
CLOSE				17.00

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MEMORANDUM FOR: The Group Executive of Post Office Limited
FROM: Sarah Malone, Head of Learning, Resourcing and Talent
SUBJECT: Talent – Developing Capability and Capacity
DATE: 16 April 2016

Executive Summary

1. Assuring capability and capacity to deliver POLs business transformation has been identified as a high priority issue on the overall principle risk register, and there are a number of things that we need to do to ensure this risk is properly mitigated.
2. There is an opportunity to be bolder at this year-end such that we properly differentiate and then recognize/reward for performance. The tone for this must be set from the Group Executive (GE) downwards.
3. The quality of the leaders – their ability to nurture and reward talent is critical, and we must ensure that we have the right leaders in place. We will identify ‘gaps’ and hire to close those gaps where necessary at the most senior levels. We will also continue to invest in training to ensure that leaders at all levels know how to create engaged and motivated teams, who deliver more for them and us.
4. The Post Office Learning Academy will be the vehicle that enables us to offer development aligned to progression, in a more cost-effective and digital way pan POL. It will be created during the next year.
5. Sustainable change will be achieved through improvements to our talent and performance processes longer term. We will build new processes this year ready for implementation in the following financial year.

Recommendation

There are a number of short term and longer term initiatives that the business will need to undertake, supported by the People & Engagement function. These are set out below;

6. Ensure that the year-end performance ratings for 14/15 and subsequent bonus allocations reward the highest performers we have and take into account retention risks, i.e. we properly **differentiate and recognise/reward for performance**.
7. At the most senior levels (GE -1/GE-2) complete an in depth **review of the leadership pipeline** during 15/16, to ensure that succession plans are in place – on a contingency basis, and a longer term, planned for basis. We anticipate that the gaps we identify will continue to necessitate senior hires from the market in a number of areas to close specific critical capability and knowledge gaps.
8. **Design and create the Post Office Learning Academy**, during 15/16, to improve the efficiency and effectiveness of training delivery across POL.
9. Put in place a revised, **integrated performance and talent cycle** ready for the next financial year 16/17 that better enables the surfacing of talent within POL, to ensure we both retain individuals with scarce skills in the market, and better support higher performing individuals, with longer term potential.
10. Whilst these four strands of activity will build capability and capacity across POL over the longer term, in the next year we see two clear immediate priorities contained within them. They are to complete the identification of capacity and capability gaps at the most senior levels (and then hire to close those gaps); and run the year end

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performance process such that we do understand who our best performers are, and that we actively retain them, to ensure business outcomes.

Financial Metrics

11. Budget for development work (development of processes, for example) is included in BAU budgets or has been accounted for in the “Ways of Working” Transformation budget, and will be drawn down through the Clearing House process.

Previous Approvals

12. The proposals in this paper have been discussed with:
Nick Kennett
Alasdair Cameron
Neil Hayward
13. We have previously agreed to create the Post Office Academy covering learning and training activities across POL. The detailed design work for this organisation will complete over the next 8-10 weeks.

Background

14. Workforce trends¹ data reminds us that POL is fighting for talent in an ageing population, with a growing skills and qualifications gap. Highly skilled individuals and those with scarce skills are able to charge a premium for them, and, as a nation, our requirements from work are changing - as are general career patterns. The market for talent is more competitive than it ever has been, and UK employment is at its highest since records began in 1971.²
15. We are reorganizing our business against this backdrop. Good people have choices in the market, and attracting and retaining new hires remains challenging. For these reasons, we have to be certain that we retain scarce skills as we evolve, and manage those we identify as having the highest performance and potential levels more carefully. The way we do this needs to become an embedded part of how we run our organisation, not an afterthought. This is something to keep in mind immediately since Wave 2 OD goes to consultation on 13 April 2015, and affects a further 94 roles across the Post Office. The HRBPs are tasked with helping you ensure we implement Wave 2 in such a way that we achieve our cost outcomes, whilst keeping relevant skills and knowledge inside the business.
16. We are already making significant workforce changes. Leaving the Business with Dignity (LBD) across the Crown Network is refreshing capability at the frontline – and we have planned for and are meeting the recruitment challenge this creates. Currently only 10% of POLs workforce are under 30, compared to the UK working population of approx. 21% for that age demographic³. LBD will start to address this imbalance.
17. Our current talent processes are patchy. In the last talent identification exercise that we undertook in 13/14 we identified 20 high potential candidates from a pool of approx. 460 senior managers (4%). Of the 20 candidates identified, 18 joined the Senior Management Talent programme, and 5 of those have since left the business. Our approach to the identification and management of talent needs upgrading.
18. Some areas of the workforce are more critical than others. With significant growth planned from Post Office Money and FS products, it is imperative that we immediately address both the capability and capacity issues for FS – getting up to capacity through a fast track recruitment campaign, and identifying both capability and process issues to

¹ Hay Group, Strategic Workforce Planning 2014

² <http://www.bbc.co.uk/news/business-27406457>

³ National Office of Statistics, 2015

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improve performance levels. Sean Leahy, who recently joined POL as Head of HR for FS and Commercial, is already working on this. Having a stronger employer brand and a pipeline for this particular part of our business will be critical for future growth.

ProposalDifferentiate and recognise/reward for performance

19. Our performance curves at mid-year (2014/15) showed that differentiation across the whole performance rating spectrum was limited with 1 (0.8%) and 5 (0.1%) ratings significantly below the normal distribution percentage expected (5%). At year end (2013/14), only 1% of employees were awarded a 5 rating. This suggests that we struggle to differentiate performance well enough.
20. A bonus multiplier approach was put in place in 2014/15 in order to allow for higher levels of bonus to be awarded to higher performers – ensuring that those who contributed the most were rewarded appropriately. This doesn't work unless the range of performance ratings is used in full. Correspondingly, those not delivering performance should receive less than their higher performing peers.
21. Past experience/data would suggest that we struggle to differentiate, and therefore call out both exceptional or under performance. Our engagement data tells us that only 50% of people agree that poor performance is dealt with effectively. Ensuring that we allocate bonuses according to performance contribution is an essential part of this. We have the opportunity to recognise our best performers through the 14/15 year end performance cycle.
22. Whilst the business will not achieve all of its targets for 14/15, we have individuals who contributed significantly to business performance and who should therefore be recognised and rewarded accordingly.

Action:

- GE to ensure under-performance and high performance is identified through the year end processes. Aligned to the separate review of talent retention risks already underway. The GE will be reviewing year end performance ratings/distribution on 7th May.

Review of the Leadership Pipeline

23. We have made changes in the GE over the last year. The addition of our new Business Transformation Director completes the permanent team. We are also considering evolving the monthly Executive Team meeting (Performance and Transformation) into a broader Management Board, with additional senior level invitees.
24. The next task is to be critically objective when assessing levels of capability just below the GE (GE -1 and GE-2 layers). This work started as part of the Wave 2 OD, and each GE member is now having 1:1 conversations with Neil Hayward/Fay Healey to build the capability map, risks and resourcing requirements for their own functions. This review will be completed by the end of April to finalise the hiring challenges, and some potential exits.
25. When looking at the SLT data from a succession perspective, there are some weaknesses and gaps in most teams. The design of our organisation is not yet stable, and there may be further SLT changes in a potential Wave 3 OD (across Sales, Back Office Support, Learning & Development). This will be, however, another opportunity to ensure that we are placing internal talent into suitably stretching roles, whilst attracting additional 'big hitters' to our organisation if needed.
26. The McKinsey OD work highlighted some specific critical capability and knowledge gaps we are exploring via the 1:1 conversations:

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- Digital
 - Account management
 - Sales Capability (FS and Network)
 - In life contract management
 - Assurance and risk management
 - Commercial and analytics
27. We have successfully launched a number of Leadership development programmes to support the development of our most senior leaders (GE, SLT), and front line leaders (e.g. Crown Leadership Excellence programme), and have plans to address other leadership audiences through 2015-16.
28. These leadership programmes will ensure that we message what is required to be a senior business leader in POL more clearly, and start to shift the focus and culture (towards performance) from the top down.
29. In the short term, we will also agree critical roles across the GE-1 and GE-2 for succession planning purposes, and through the OD work, agree which roles require formal talent pools (critical skills).

Actions

- In the short term, work with GE to have succession plans in place (GE, GE-1, GE-2 levels) by end of the calendar year.
- Review (as a GE on a regular basis) the progress made in strengthening the GE -1 and GE -2 populations, openly discussing Performance, Talent and Potential, gaps and risks, stretch moves and relevant plans to address identified risks.
- Continue to roll out the Leadership development programmes and framework to ensure that we change the culture of POL.

Design and create the Post Office Learning Academy

30. The GE has already agreed to centralise learning resources to build the Post Office Learning Academy as part of the Wave 2 OD commitments.
31. The detailed design of the Post Office Academy will be completed over the next 8-10 weeks, and it will need GE endorsement before its formal implementation. The outline of what the Academy will do, and how, was contained in the work presented as part of Wave 2 OD.
32. Some of the key capabilities that the Post Office Learning Academy will likely address first are Digital skills (leadership and across the Network, including FS), customer experience skills and selling skills. These will be looked at through an organisational lens, rather than by channel or audience.

Action:

- GE to support the short term diagnostic and design activity to create the Post Office Learning Academy, and formally endorse this prior to its launch during 15/16.

Integrated performance and talent cycle

33. The diagram below explains how related performance and talent processes can be integrated into an annual cycle, and driven by a singular view of the organisation's needs (a Strategic Workforce plan). Alignment and improvement of these processes together is necessary to create sustainable change (thereby enabling the surfacing of talent in POL).
34. During 15/16 we will review these core business processes, seeking to create those that are missing, and integrate those that already exist, but separately. At least at the most senior levels within POL, we will need to create a clear view of performance,

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- talent and succession planning, in order to ensure that we are investing in higher performing individuals with longer term potential.
35. We will build a business case for the technology investment needed to give us a single view of performance, talent and succession for the organisation. We are working from a legacy of antiquated technology that is not user friendly, or fit for purpose. This will need to align with thinking on Back Office IT procurement.



36. Some of the key actions to create a more sustainable set of people processes are listed below:

Action	Planned Dates
Review of Performance Management Cycle and integration of Talent Identification processes	April – Sept 2015
Sales capability diagnostic review – and subsequent plan of action to be agreed by GE	May 2015
Develop Employer Brand and Employee Value proposition. Working with the Brand team to ensure join up with Post Office brand and customer experience	June 2015
Define strategic workforce planning strategy and process	April 2016
Re design and launch new on boarding/induction processes	November 2015

Risks

37. One of POLs principle risks is that we do not have adequate people capability or capacity to deliver transformational change and the strategic plan
38. Due to the scale of the risk, there are a number of other areas within the People & Engagement strategy that are designed as mitigation to this but have not been included

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in this paper. Without the mitigating actions specified in this paper, the likelihood of this risk occurring will increase.

39. A summary of the breakdown of this risk as it relates to talent has been included in Appendix 1.

Conclusion

40. The GE is asked to support the recommendations contained within this paper, and the specific actions listed.

Sarah Malone
Head of Learning, Resourcing and Talent

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Appendix 1: Talent Risk Assessment

- We are unable to recruit the right people resulting in business objectives not being met (I = 3; L = 3)
Mitigation:
 - Build a strong Employer Brand
 - Ensure adequate reward structure to be competitive and attract right people
 - Ensure strong strategic narrative to attract
 - Develop better ways to attract the right people to Post Office
- We are unable to retain the right people (I = 3; L = 3)
 - Implement retention strategy
 - Ensure strong strategic narrative that outlines “reasons to believe”
 - Focus on engagement
- We are unable to develop the right capability (I = 4; L = 3)
 - Build a centralised L&D team and run a stronger training offer
 - Develop strategic workforce planning capability within Post Office and associated systems
 - Ensure adequate investment for skills
- Under performance is tolerated and the organisation runs at a sub-optimal level of effectiveness (I = 3; L = 4)
 - Increase focus on performance management as a key management skill
 - Review performance management tools and techniques for effectiveness

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MEMORANDUM FOR: Post Office Limited Group Executive
FROM: Martin George, Commercial Director
SUBJECT: Identity Assurance (Verify)
DATE: 16th April 2015

Recommendation

- 1.1 The Group Executive are asked to note progress made to date with the Verify service and the scale of the opportunity:
- At a conservative estimate of the service volumes, Post Office have assumed in the three year plan c £20m net revenue with a direct contribution of over 90%.
 - At a more optimistic estimate of the services volumes, Post Office will generate c £100m net revenue over three years with a direct contribution of over 95%.
- 1.2 The Group Executive are asked to note the initiation of a project, and an intent to request a budget of up to £500K, to :
- Rapidly exploit the opportunity within Government.
 - Develop a wider strategy for identity assurance within Post Office.

Executive Summary

- 2.1 Post Office has recently signed the latest Verify framework contract with Cabinet Office, allowing it to supply identity assurance services for the next three years. In order to capitalise on this opportunity, it now needs to:
- Create a product roadmap and go-to-market strategy that will maximise the number of identities registered with Post Office.
 - Determine how Post Office can take advantage of Verify to market other products and services to individuals.
 - Scope the wider identity assurance market and how Post Office can exploit it.
 - Recommend a supplier strategy for the Verify solution.
- 2.2 Government Digital Service (Cabinet Office) has an identified pipeline of 21.5m Verify identities (11.5m in 15/16). Using a conservative estimate of between 10% and 20% of the volumes that GDS predict, the Government market is estimated to be worth c £20m over three years to the Post Office. Using a more optimistic estimate of 75% of the volumes that GDS predict, the market would be worth c £100m over three years. Direct contribution from both scenarios is over 90%.

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- 2.3 Post Office is one of only three suppliers with a working solution and currently holds a 60% market share of the identities being registered. Government has indicated that the Post Office currently has the best product and this, along with the Post Office brand and its reputation as a trusted Government intermediary, gives it an advantage in this market.
- 2.4 New suppliers will join the market in May, including Royal Mail, PayPal and Barclays. We believe that it will take them several months to set up accredited systems, so we need to act now to maximise our market share in the face of increasing competition.
- 2.5 Post Office owns those identities registered with it and is able to make use of them commercially outside the government sector.
- 2.6 Currently only 26% of people who start a Verify journey using the Post Office service complete it successfully and urgent work on the customer journey is underway to improve this.

Financial Metrics

- 3.1 At the conservative estimate of volumes, the following net revenue and direct contribution will be generated.

	2015/16	2016/17	2017/18
Net Revenue	£2,116,000	£7,029,000	£10,871,000
Direct Contribution	90%	96%	98%

Previous Approvals

- 4.1 Not used.
- 5.1 Not used.

ProposalBackground

- 6.1 In order to deliver the forecast savings of £1.7b from its Digital by Default programme, HMG must provide users with a way of accessing online services that will not cause an increase in fraud as physical identity checks are removed.
- 6.2 HMG has established GOV.UK Verify; a new on-line service that gives UK citizens the ability to securely set up and manage assured identities. A brief description of the early stages of Verify can be found in Appendix A. Post Office launched its service on 5th March 2015.
- 6.3 The contract term for Framework (1) is due to end in April 2015 and accordingly GDS ran a new procurement for Framework (2), on which Post Office has been

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awarded a place. The new framework will come into effect in May 2015. It will run for three years with the option of a one year extension.

- 6.4 Nine suppliers have been awarded a place on Framework (2). Five of these are new suppliers; the strongest brands of which are Barclays, PayPal and Royal Mail. A full list of providers can be found in Appendix B.
- 6.5 All of the main political parties support the Digital by Default programme and the Verify service; no change in direction is expected post-election.
- 6.6 A short description of how Verify works can be found in Appendix C.

Post Office's Verify Opportunity in Government

- 6.7 HMG's Digital by Default model is predicated on the ability to provide citizens with secure, assured online identities that are relatively easy to acquire. For the past 15 years any large-scale on-line Government services have used the Government Gateway for this functionality and the Gateway hosts 10m+ identities as a result (e.g. 4m identities for those people who use HMRC's Self-Assessment online to file their tax returns). However, the Government Gateway is now end-of-life and will be removed by 2017 at the latest. GDS has confirmed that Verify will be the replacement solution.
- 6.8 GDS' near-term volumes pipeline (Appendix D) suggests that 11.6m of GOV.UK Verify identities will be required in 15/16. GDS anticipate c 650k identities by the end of June 2015, with that number rising steeply over the following 9 months.
- 6.9 GDS have consistently overstated the volume of applications through the system and up to April 2015 only 5% (c 30k) of their forecast volumes to June 2015 have been completed.
- 6.10 Post Office have assumed income on the basis that between 10% and 20% of the volumes that GDS have predicted will come through the Verify service over the next three years.
- 6.11 Five services have connected to Verify (the most significant of which is HMRC's Self Assessment online) and a further five services will have connected by July. However, these are all still in trial or pilot phases. Now GDS are more confident of Verify's ability to manage identities successfully they are working with government departments to make Verify the default identity provider for online services by.
- 6.12 It is estimated that only 40 – 50% of people will have enough data available online (e.g. via a credit check) to successfully register an identity with Verify. (This is only 25% on the Post Office service, although this is likely to be because people are dropping out before they get to the credit check). Whilst this will be improved, there remains a significant additional opportunity for Post Office revenue, by providing an in-branch verification journey for those individuals who will not pass an online credit check. This will be of particular interest to DWP's Universal Credit Programme, in which a significant proportion of claimants will not be able to successfully pass online credit checks.
- 6.13 Approximately 50% of people who begin to register an identity using the Post Office service are dropping out before they complete it. We believe that the number of people who drop out will reduce as Verify moves out of the trial phase for Government services, and becomes the default option, motivating people to complete the registration. However, we are also working with Digidentity to identify where the customer journey can be improved to reduce the drop-out rate, e.g. the

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introduction of a mobile app targeted at younger people with limited or no financial record.

Leveraging Verify Elsewhere within Post Office

- 6.14 Post Office can leverage the Verify identities we own to make our services more accessible and increase our ability to cross-sell services to customers by:
- Saving the individual from entering the same information more than once, making it more convenient for them to apply for new products.
 - Saving the individual from having to prove their identity or creditworthiness as part of a new product application, or pass the Know Your Customer or Anti-Money Laundering requirements of FS products (and save the Post Office the associated processing costs).
- 6.15 In addition to the above, Post Office can increase its ability to up-sell products via direct marketing (with customer consent) to the identities that it owns.

Wider Market

- 6.16 The total costs of the effort required to assure identity in the UK are estimated to currently exceed £3.3bn (industry white paper the *Economics of Identity*).
- 6.17 Additionally, the cost of fraud and identity theft is now estimated to be £52b annually (NAO *National Fraud Indicator* Annual Report).
- 6.18 Given this, Post Office will explore a number of possible opportunities for re-using Verify identities in the wider market, including:
- Selling data, anonymous or otherwise, to other organisations.
 - Providing customer identity management services to other companies, either directly or white-labelled.
 - Providing assurance of identities, or their attributes, to other companies.
 - Providing identity services to highly regulated organisations that need to assure themselves of the integrity of their workforce.

Our Verify Supplier Arrangements

- 6.19 Post Office has a contract with Digidentity until October 2015 for the supply of a white-labelled identity solution. There is the possibility of a one year extension, but procurement have flagged a risk that the extension could be challenged if we flow down the terms of the new framework contract. In any case, we will need to complete a procurement for a new supplier before October 2016. There is a risk of having to accept worse commercial terms under a new supplier contract, reducing our profit margin for the Verify service.
- 6.20 Post Office needs to determine what its supplier strategy will be in the future, likely choosing between:
- Continuing to use a white-label solution via procurement.
 - Building our own solution in-house.
 - Buying the provider of a solution.

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- Using a subsidiary to control our solution/service.

Next Steps

- 6.21 Approval will be sought through the Post Office governance processes for a budget of up to £500k to resource a project team that will:
- Work with Digidentity to identify and implement improvements to the Verify solution to increase the number of people successfully registering an identity.
 - Develop and begin to implement a go-to-market plan which will maximise the number of people who choose Post Office as their Verify identity provider, in particular enabling us to take advantage of our position as the leading brand with a live service.
 - Scope both the wider identity market and Post Office's internal market for Verify/Identity assurance, and create a strategy to exploit both these markets.
 - Determine the correct long-term supplier strategy for Verify.
- 6.22 A project team resource plan has been drawn up and we are working to identify internal and external candidates for the roles before finalising our budget.

Risks

Risk	Mitigation
We fail to capitalise on our position as the major brand with a live Verify solution, limiting the number of identities we capture and reducing our long-term source of profit.	We are working to create a go-to-market strategy and believe we have at least four months to begin implementation before Verify volumes increase significantly.
We do not agree and implement product improvements with Digidentity, resulting in a high number of people failing to finish the identity registration process.	We are working with Digidentity to identify those improvements, and will be able to link product improvements with any contract extension.
Government withdraws support for Verify after the election.	Government has publicly endorsed Verify as the identity service of the future and the service has cross-party support. Senior figures within Cabinet Office are extremely confident that this will not change. Additionally, Verify has attracted international attention and it would be very embarrassing for Government to change direction now.
Our Verify competitors come to market with a service more quickly than planned, or have a superior solution to ours.	We are working at pace to improve our solution and create a go-to-market strategy.
Government fails to deliver the predicted pipeline of volumes through the system.	We are working with GDS to understand the triggers that will release volumes into the

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	system so that we can plan accordingly.
The system is seen by the public as being unnecessarily difficult to complete successfully, resulting in it being unpopular and negatively affecting Post Office's brand.	Both GDS and suppliers are motivated to make the solution as easy to use and inclusive as possible. Additionally, we have the opportunity to provide an in-branch solution for customers who find it difficult to complete the Verify journey.
That we are unable to flow down all of the new framework's provisions to Digidentity under the current contract, exposing us to additional liabilities.	We are working with the legal and procurement teams to flow down as much as possible to Digidentity while minimising the risk of an extension to Digidentity's contract being challenged by another potential supplier.
That we are unable to secure the same commercial terms from a procurement to find a new supplier of a white-labelled identity solution from October 2016.	We are looking at alternative supplier strategies for a Verify solution.

Conclusion

- 8.1 The Post Office's Verify service represents an opportunity to generate a significant, stable long-term revenue stream with an attractive profit margin.
- 8.2 Work is underway to maximise our market-share in the face of new competitors entering the market and to ensure that we capitalise on the wider Verify opportunities.

Martin George

RESTRICTED**Appendix A – A brief history of the early stages of Verify**

After the failure of the unpopular Citizen ID Cards programme in 2011, Cabinet Office devised Verify, which uses private sector organisations as providers of identity services to Government. Under Verify, private sector organisations will assert and manage individual identities, charging Government for their use. They can also use those identities for their commercial benefit outside of Government, reducing the cost of the service to Government over time.

Accordingly, Cabinet Office (more specifically, Government Digital Services or GDS) ran a procurement for a framework of suppliers in 2012, with the original Government customer being DWP (for the Universal Credit programme). Post Office was successfully awarded a place on the framework along with Experian, Digidentity, Verizon and Mydex.

The growth of Verify has not proceeded according to GDS' original timescale, which was to achieve millions of identities using the Verify service within two years. This is largely because DWP's Universal Credit programme has been significantly delayed. Additionally, Cabinet Office has continuously evolved its requirements for the new system, making it difficult for suppliers to achieve the necessary standards required to launch their live service. Three suppliers (Digidentity, Experian and Post Office) are now live.

Appendix B – Suppliers on the Verify Framework

Identity Provider
Barclays
Digidentity
Experian
GB Group
Morpho
PayPal
Post Office
Royal Mail
Verizon

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When a user seeks access to a Government service that is using Verify, they will be asked to register an identity with one of the Verify suppliers. They will choose between the suppliers from a Government controlled page. There is a limited ability for each supplier to differentiate their service at this point. There is no other reason for a user to wish to register an identity than to access a Government Service.

Once they have chosen, the user is transferred to the web application of their chosen supplier. There they enter various details about themselves, with the Verify solution scoring them across three categories: 1) Citizen, 2) Money and 3) Living. A credit check is also performed to further assure the individual's identity. If the individual fails the credit check they will not be allowed to register an identity.

On successful registration the user returns to the Government service they wished to use to continue their transaction. This triggers the registration payment of £25 to Post Office from Government.

Subject to user consent, the identity data can be used by Post Office for other commercial purposes, including cross-selling, up-selling and targeted marketing.

Each year that the identity is reused for a Government transaction, Post Office is paid a 're-registration' fee of £12.50. The user does not have to reassert that they wish Post Office to manage their identity at any point.

Appendix D – Pipeline of Volumes

Department	Service	GDS Predicted volumes	Predicted volumes by June 2015	Status
Defra	Rural Payments	200,000	100,000	Connected July 2014; in beta
HMRC	PAYE (Change Company Car Details)	700,000	20,000	Connected February 2014; in beta
HMRC	Self-assessment (trial)	3,000,000	50,000	Connected December 2014, in trial (limited numbers of people can choose to use GOV.UK Verify to access the self-assessment service)
BIS	Redundancy Payments	100,000	15,000	Connected December 2014; in private beta
DWP	Change of address	tbc		

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HMRC	Claim an over payment of tax (if forms trial)	95,000	30,000	Due to connect by April 2015
HMRC	Tax credit renewals	2,000,000	300,000	Due to connect by April 2015
DWP	Universal Credit	tbc		Due to connect by April 2015
HMRC	PAYE self-service	2,000,000	80,000	Connected February 2015; in private beta
HMRC	Transferable tax allowance	3,000,000	50,000	Due to connect by May 2015
DfT/DVLA	View Driving Licence	500,000	50,000	Due to connect by May 2015

Annex 1: Principal Risks - I

	Risk Title	Risk Description	Actions	Underlying risks
A	Risks to underperformance in income	<p>Threats to market share, sales, profitability, and cost base rely for mitigation on managing a number of variables with critical dependencies.</p> <ul style="list-style-type: none"> • FS growth targets are ambitious and entail additional risk. • Forecast sales / profitability may be inaccurate or unachievable due to poor financial data used in assessment • Mis-aligned strategy with key partners; RMG, BOI • Loss of market share in Mails; customer propositions and experience fails to meet market expectations. • Network changes do not deliver expected increases in profitability 	<ul style="list-style-type: none"> • Full life cycle review of FS / MS. Review Dialogue with BOI • Project to develop short term financial MI solution • Build RM negotiation strategy and modelling • Rollout CRM in agency • Improve customer experience proposition • Guiding coalition of agency mails specialists to be deployed to increase mails sales • Common digital platform 	<p>8, 9, 11, 13, 14, 16, 17</p> <p>PR2, PR4, PR7</p>
B	Transformation not delivered in full	<p>Cost savings may be delayed or not achieved, or overall service compromised.</p> <ul style="list-style-type: none"> • IT replacements and upgrades not timely leading to increased costs or infrastructure failure • Inaccurate investment assessments lead to costly errors in new product / customer solutions or structural changes • People capability / capacity inadequate to deliver plan or compromised by industrial action 	<ul style="list-style-type: none"> • Embed risk management in programme. Transformation assurance plan. • Create design framework for FO application • Review reward structure and develop PO vision and change narrative • Re-invest in systems • Communicate change requirements and implement IR strategy • Project to develop short term financial MI solution • Roll out improved proposition across branch network 	<p>1, 2, 3, 4, 7, 9, 14, 17</p> <p>PR1, PR2, PR3, PR4, PR5, PR6, PR7, PR9, PR11, PR14</p>

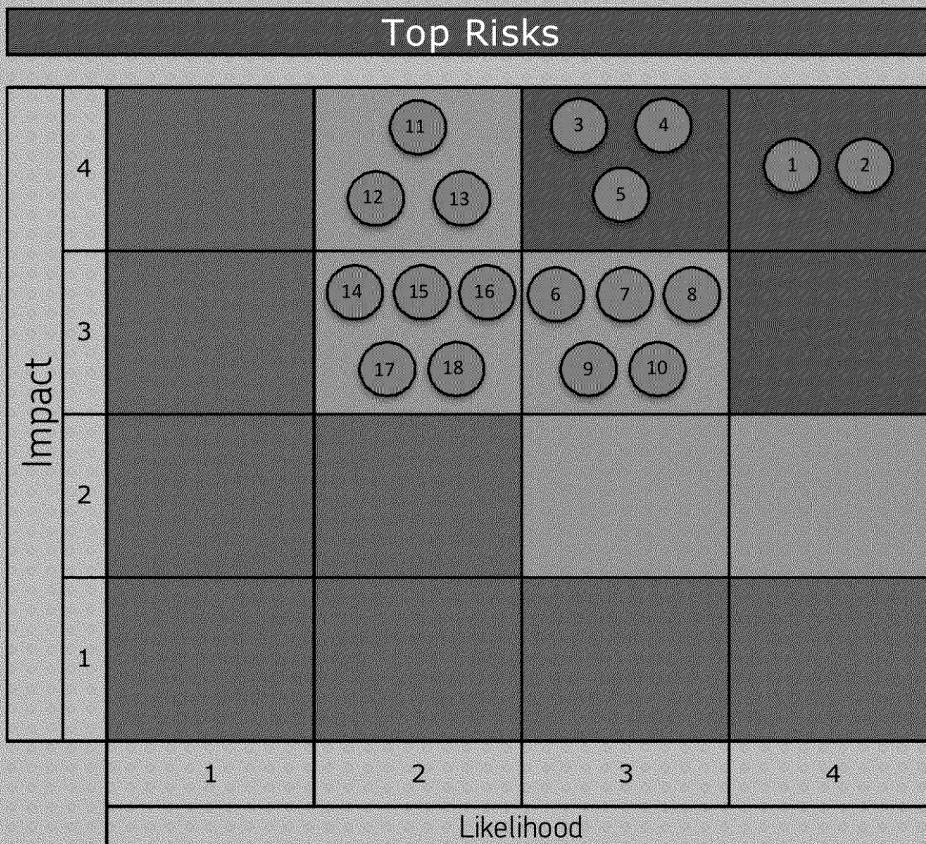
Annex 1: Principal Risks - II

	Risk Title	Risk Description	Actions	Underlying risks
C	Political uncertainty	<p>A change in political administration may change the shareholder's view of POL.</p> <ul style="list-style-type: none"> • Uncertainty over the availability of funding beyond 2017/18 • Support required for changes in network transformation ('Cliff') may risk industrial action 	<ul style="list-style-type: none"> • Include solvency requirements for identified critical risk exposures • Communicate change requirement to stakeholders • Implement IR strategy; secure Unite agreement • Planning for new government with investment case 	<p>5, 7</p> <p>PR5, PR6</p>
D	Operational / Legal / Regulatory risks	<p>Regulatory / legal breaches or failures in the operational control framework lead to financial and / or reputational loss.</p> <ul style="list-style-type: none"> • Risk of aggressive FCA enforcement; potential for disaffected 'whistle-blower' in high change environment triggers FCA investigation. • High change environment may compromise manually based control framework. 	<ul style="list-style-type: none"> • Upload historic contractual information into new system and review • Clarify approach to policy setting and strengthen central compliance management • Review ISAG policy set and plan compliance programme • Improved contract management 	<p>6, 10, 12, 15</p>
E	Market, macro-economic and environmental risks	<p>Strategy may be mis-directed or mis-aligned with market developments, competitors response and changing consumer needs.</p> <ul style="list-style-type: none"> • Response to market (product design and delivery) may not be adequate or timely enough to prevent loss of market share • BOI financial position may change and restrict support of POL group • Unable to attract quality partners due to market environment and consumer behaviour. 	<ul style="list-style-type: none"> • Work with BOI to minimise any limitations on growth • Build negotiation strategy and modelling • Roll out CRM and develop improved customer experience • Guiding coalition of agency mails specialists to be deployed to increase mails sales • Roll out improved proposition across branch network. 	<p>11, 13, 14, 16, 17</p>

Highest rated risks from business area risk registers

	Risk	Category	Score	Owner	Principal Risk
1	Delivery of new Front Office application delayed	Operational	16	Lesley Sewell	B
2	People capability and capacity are inadequate to deliver the strategic plan	Strategic	16	Neil Hayward	B
3	Business transformation doesn't deliver objectives	Strategic	12	Transformation Cttee	B
4	Failure of infrastructure and application environments	Operational	12	Lesley Sewell	B
5	Unintentional breach of contractual terms	Legal	12	Jane MacLeod	D
6	Government funding is insufficient to enable POL to operate until 2018	Financial	9	Al Cameron	C
7	Risk of strike action	Operational	9	Neil Hayward	B, C
8	Failure to deliver on FS growth targets and the risk of doing too much in a competitive field	Strategic	9	Nick Kennett	A
9	Poor quality financial data and inadequate evaluation processes results in suboptimal investment decisions	Financial	9	Al Cameron	A, B
10	Non-compliance with law and regulation	Legal	9	Jane MacLeod	D
11	BoI financial situation will not provide capability to support POL or willingness to support POMS	Strategic	8	Nick Kennett	A, E
12	Inadequate controls around the management of information result in a breach of company data	Legal	8	Jane MacLeod	D
13	Ineffective relations and agreement with Royal Mail	External	6	Martin George	A, E
14	Parts of the network become non-viable	Operational	6	Kevin Gilliland	A, B, E
15	FS mis-selling risk: non-compliant product distribution, design or marketing or tougher regulation	Legal	6	Nick Kennett	D
16	Loss of market share in mails due to inability to respond quickly to market developments leading to loss of revenue	Strategic	6	Martin George	A, E
17	Delivering customer experience and propositions that customers want	Operational	6	Martin George	A, B, E

Highest rated risks from business area risk registers: Heat Map

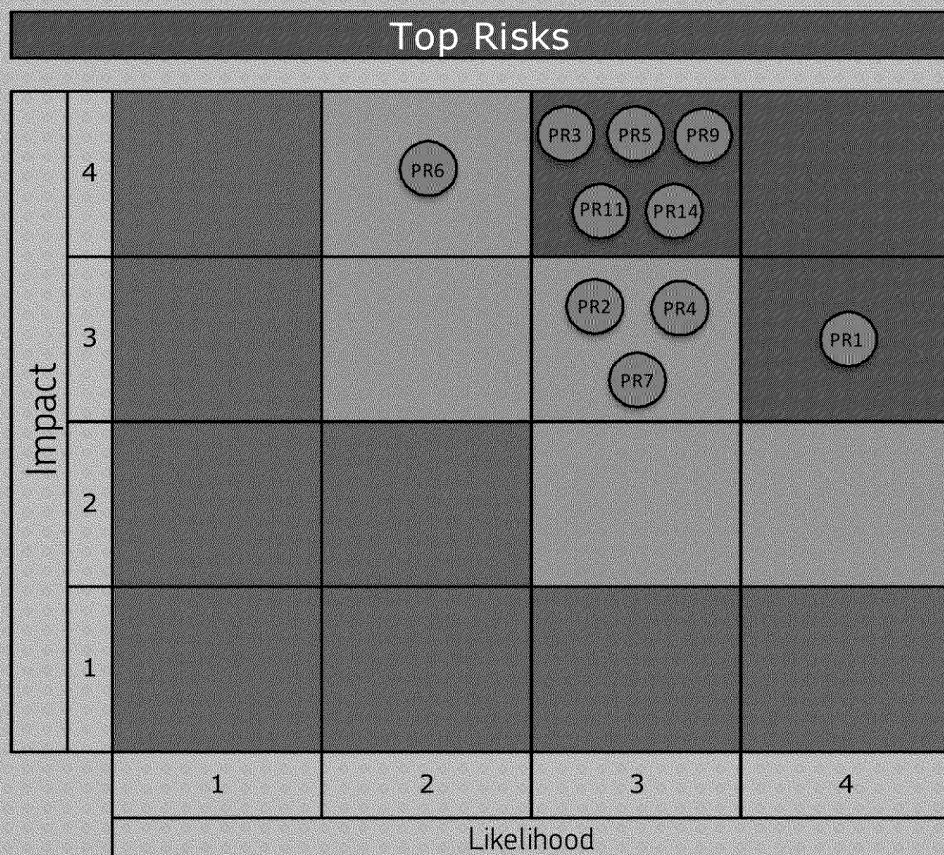


Risk	Impact	Likelihood	Score
1 Delivery of new Front Office application delayed	4	4	16
2 People capability and capacity inadequate to deliver plans	4	4	16
3 Business transformation doesn't deliver objectives	4	3	12
4 Failure of infrastructure and application environments	4	3	12
5 Unintentional breach of contract terms	4	3	12
6 Gov't funding not sufficient to continue operations	3	3	9
7 Risk of strike action	3	3	9
8 Failure to deliver FS growth targets	3	3	9
9 Financial data and evaluation gives sub-optimal investments	3	3	9
10 Non compliance with law or regulation	3	3	9
11 BoI financial situation not capable of supporting POL	4	2	8
12 Business continuity not fit for purpose	4	2	8
13 Inadequate control of information	4	2	8
14 Ineffective relations and agreement with RMG	3	2	6
15 Parts of network become non-viable	3	2	6
16 FS miss-selling	3	2	6
17 Loss of market share in Mails	3	2	6
18 Delivery of marketable customer propositions	3	2	6

Highest rated risks from the Transformation Portfolio risk register

ID	Risk	Category	Score	Owner	Principal Risk
PR1	Transition Legacy IT Landscape	Operational	12	Lesley Sewell	B
PR3	Manage complexity of change (capability)	Operational	12	Neil Hayward	B
PR5	CWU/Unite don't buy in to organisational change	Stakeholder	12	Neil Hayward	B, C
PR9	Strategic Objectives misalignment	Strategic	12	David Ryan	B
PR11	Transformation function not designed and operating effectively	Strategic	12	David Ryan	B
PR14	Benefit realisation (including Success Criteria)	Strategic	12	David Ryan	B
PR2	Manage volume of change (capacity)	Operational	9	Neil Hayward	A, B
PR7	Competitive threat	Strategic	9	Martin George	A, B
PR4	Shareholder Agreement (Misalignment between programme and shareholder objectives)	Strategic	9	David Ryan	A, B
PR6	National Federation Sub Postmaster (NFSP) disrupts service	Stakeholder	8	Neil Hayward	B, C

Highest rated risks from the Transformation Portfolio risk register



Risk	Impact	Likelihood	Score	
PR1	Transition Legacy IT Landscape	3	4	12
PR3	Manage complexity of change (capability)	4	3	12
PR5	CWU/Unite don't buy in to organisational change	4	3	12
PR9	Strategic Objectives misalignment	4	3	12
PR11	Transformation function not designed and operating effectively	4	3	12
PR14	Benefit realisation (including Success Criteria)	4	3	12
PR2	Manage volume of change (capacity)	3	3	9
PR7	Competitive threat	3	3	9
PR4	Shareholder Agreement (Misalignment between programme shareholder objectives)	3	3	9
PR6	National Federation Sub Postmaster (NFSP) disrupts service	4	2	8

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MEMORANDUM FOR: Group Executive

FROM: Jane MacLeod, Group Counsel

SUBJECT: Principal risks assessment

DATE: 16 April 2015

Recommendation

1. The committee is requested to review the list of draft principal risks and be content that they represent current Post Office risk profile. The committee is also asked to review the actions and their adequacy in mitigating the exposures as shown in annex 1.

Executive Summary

2. A series of risk assessments have been conducted across all business areas using a common format and rating mechanism. A portfolio risk register has been developed and is being reviewed with theme leads/executives. Analysis of the highest rated risks drew out a series of common themes to be used in the Annual Report. These are summarized below:

	Risk Title	Risk Description
A	Risks to underperformance in income	Threats to market share, sales, profitability, and cost base rely for mitigation on managing a number of variables with critical dependencies.
B	Transformation not delivered in full	Cost savings may be delayed or not achieved, or overall service compromised.
C	Political uncertainty	A change in political administration may change the shareholder's view of POL.
D	Operational / Legal / Regulatory risks	Regulatory / legal breaches or failures in the operational control framework lead to financial and / or reputational loss.
E	Market, macro-economic and environmental risks	Strategy may be mis-directed or mis-aligned with market developments, competitors' response and changing consumer needs.

3. Annex 1 provides a more detailed risk description and the main action plans to mitigate the risks. It includes reference to linked business area risks and transformation portfolio risk registers.

Previous Approvals

4. An initial draft of this paper was presented to Risk and Compliance Committee on 16 March. Feedback from the committee has been incorporated in the new draft of principal risks.

Jane MacLeod
Group Counsel

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POST OFFICE LTD BOARD

Post Office Management Services (POMS) Accepting FCA Authorisation

1. Purpose

- 1.1. This paper seeks authority from the Board for POMS to operate under its own authorisation with the FCA.

2. Background

- 2.1. Prior to the Board granting POMS authority to commence trading from January 2015, it sought assurance from Grant Thornton (GT) that appropriate processes and controls were in place¹. The GT report tabled at the November 2014 meeting confirmed that, while the necessary controls were in place for POMS to operate as an AR, it advised that further actions needed to be completed ahead of POMS acting as a principal. The Board required that these matters needed to be resolved ahead of it approving POMS being authorisation as a principal.
- 2.2. As a result, since January 2015 POMS has been trading as an appointed representative (AR) of Resolution Compliance Services (RCS) (for the sale of travel insurance products via the website and the customer contact centre) and via Bank of Ireland (UK) plc for branch-based sales.
- 2.3. At the November meeting the Board also required that POMS should have an independent chair in place ahead of operating as a principal.
- 2.4. In March 2015, POMS received a 'minded to approve' notification from the FCA. This confirmed that the FCA will approve POMS's application to act as principal at a date set by POMS and subject to POMS confirming certain matters.

3. POMS Operating as a Directly Authorised Firm

- 3.1. Upon accepting the FCA's minded to approve and initiating activities under its own Part V Permission, the regulatory licence to trade, POMS will be a directly regulated firm.
- 3.2. As a directly regulated entity POMS will be subject to direct oversight and supervision by the FCA for all its regulated activities with those individuals performing controlled functions under the FCA's Approved Persons regime directly accountable².
- 3.3. POMS will be required to demonstrate that it has and will continue to have an appropriate framework of governance, resources and internal systems and controls in place that reflect the size, nature and complexity of the business. This includes an effective risk management framework, and a suite of appropriate policies, processes and procedures to ensure it complies at all times with the FCA's principles for business and detailed handbook rules. The above requirements are to ensure that POMS is appropriately governed, resourced and structured to deliver fair customer outcomes from senior management decision making through to customer service delivery.
- 3.4. POMS has developed and implemented a Risk Management and Reporting Framework to cover its main operational areas - Customer Contact Centre, The Dalesridge platform and Collinsons Assistance and Claims Handling. In addition, POMS has formulated a structure of internal governance, management reporting is directed to the various governance forums.

¹ The final GT report is available in the Board reading room.

² Individuals that will be performing FCA Controlled Function within POMS will be: Nick Kennett, CEO (CF3); Al Cameron and Jane McLeod, Directors (CF1)

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- 3.5. POMS has developed a suite of MI to report upon its performance in delivering against its commercial and regulatory obligations and is developing a Conduct Risk Outcome framework to provide further granular detail on performance. In addition, POMS, in conjunction with Group Risk is developing a Risk Appetite Framework to further inform on and understand management of risks within the business.
- 3.6. As a directly regulated entity, POMS will be required to ensure that it complies at all times with the FCA's financial resources requirements.
- POMS will continually track the performance of the business against the FCA's requirements and report on on-going compliance to senior management.
- 3.7. In operating as a directly regulated firm POMS will be responsible for adherence to the FCA's regulatory reporting requirements which include both the financial performance of the business and key operational and customer aspects such as complaints experience.
- POMS will initially use Thistle Initiatives, a sister company of RCS, to support POMS's regulatory reporting and ad hoc requests from the FCA as well as specialist support while POMS embeds the necessary processes in place

4. Update on the GT Review

- 4.1. An in-flight review of the Titan programme was commissioned, with the resulting report highlighting a number of recommendations for the programme team resolve prior to seeking full regulatory authorisation. The appendix provides a paper from Group Risk, with the key highlights being:

Governance arrangements – POMS being able to demonstrate it has effective governance arrangements in place.

- Governance arrangements are established and convening to include Risk and Compliance, Executive Committee and POMS Board meetings. In addition, regulatory approved person training and briefing sessions planned for new directors.

Financial and regulatory reporting – Formulation of appropriate financial accounting systems and mechanisms to support regulatory reporting.

- POMS has utilised the Post Office SAP system to support its finance processes and through a process of intercompany transfers is using the Post Office company system to pay invoices and track expenditure. A trial run of the regulatory reporting format is currently underway.

Outsourced Arrangements – Formalisation of the agreement between Post Office and POMS for the provision of services.

- Work has progressed on the Master Services Agreement which will be finalised and signed shortly

Management information – POMS to have in place an effective suit of management information and supporting framework to provide senior management insight on business operational performance and the effectiveness of risk management.

- Operational and Conduct and Compliance Management information packs have been developed and reviewed by the POMS Risk and Compliance Committee

Policies and Procedures – POMS has in place a suite of policies and procedures in order to satisfy regulatory requirements

- All policies now drafted. Approvals being sought at the next Risk & Compliance Committee.

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- 4.2. The conclusion from the Post Office Group Risk Report is that upon confirmation of the completion of the outstanding actions from the GT Report that POMS is in a position to act as its principal.

5. Update on other matters raised by the FCA

- 5.1. The FCA's minded to approve was contingent upon POMS self-certifying and be able to satisfy the FCA on four key areas, viz:
- Evidence of capitalisation of POMS; POMS has advised FCA that as at 6th March 2015, it had liquid reserves of £464,627.84, which exceeded requirements.
 - Appropriate Professional Indemnity insurance cover for POMS; POMS has advised FCA that it has cover placed by Miller (Post Office's insurance broker) with Lloyd's for £5,000,000 for any one claim. This meets FCA's requirements.
 - Confirmation that risk transfer agreements in place and that they cover all claims monies and refunded premiums. POMS has advised FCA that in December 2014 POMS signed risk transfer agreements with Collinsons Group, covering these issues.
- 5.2. As a result of these responses, FCA would be of the view that POMS is in a fit state to commence as a principal.

6. Update on POMS independent Chair

- 6.1. It is proposed that Steve Ashton will be appointed as from 1st May.
- 6.2. Unfortunately it has not been possible to appoint Julie Hopes as a non-executive director as she has accepted an alternative, and competing, position.
- 6.3. POMS management will work with the Chair to assess options for an additional NED.

7. Timing to stand up POMS as a principal

- 7.1. It was originally proposed that POMS would seek authorisation to assume direct regulatory authorisation with effect from 1st May 2015.
- 7.2. While this is still achievable, due to the six week time taken to print and distribute branch material it would risk some customer material in branches stating the wrong principal (ie it would still refer to RCS and BoI rather than POMS). While the FCA would accept some overlap of material, POMS management is concerned that this period of overlap might be four weeks.
- 7.3. As a result POMS is recommending that the Company does not stand-up as a principal until mid-June. This would provide sufficient time for all material to be updated.
- 7.4. This deferment would not impact the financial business case (except for an additional fee of £10,000 to RCS to continue as principal), or have any impact on Hawk.

8. Key Risks/Mitigation to POMS

- 8.1. As a new enterprise and directly regulated firm POMS is subject to a number of key risks. While operating as an Appointed Representatives many of these risks existed though were borne by RCS and BoI. The table below highlights the key risks and the steps being taken by POMS to mitigate and manage them:

Key Risks/Issues	Mitigating Controls
Direct Regulatory censure of POMS and or its Approved Persons	POMS has implemented a framework of internal control to identify and respond to

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	<p>the range of wider risks, including:</p> <ul style="list-style-type: none"> • Expert Compliance and external support employed • Suite of Compliance MI • Risk Management Framework • Conduct Risk Policy in place • Financial Promotions approval framework
Key Person Risk – the agile and virtual nature of the business means there are a small number of experts delivering the proposition. Some position are held by contractors and consultants	Throughout the delivery the project team have worked closely sharing information around all aspect of the programmes performance. Senior management reporting on all activities. Resources will be augmented on completion of Hawk.
FCA Financial Resources Requirements	Finance will monitoring the performance of the business and report to senior management on POMS ability to meet the financial resources requirements.
Financial Systems in place but longer terms solution(s) required	The current arrangements satisfy regulatory requirements for finance and accounting processes. Work will continue on looking at a longer term solution.
Outsource Risk – risks associated with the organisational structure of the business	POMS has in place a risk management framework which requires suppliers to report on risks within each operational area on a monthly basis. The results from this are aggregated and reported to the POMS R&CC monthly. SLAs are in place which are reported and monitored.
Contagion Risk – FCA could consider issues identified within POMS as a reason to probe wider Group activities impacting the brand and key relationships e.g. Bank of Ireland	A framework of governance exists within POMS and between POMS and Post Office in order to ensure parental understanding of risks and issues across the brand. Both POMS and Post Office have agreed mechanisms in place for communicating and reporting to the Bank on risk and issues facing the Group.
Operational and Compliance responsibilities – the nature of operating model means that there are a number of stakeholders for delivery against regulatory requirements – eg Financial Promotions approval	Arrangements are in place for key processes where collective input and approval is needed. POMS maintains a Financial Promotions Register to track the development, review and appropriate approval by all relevant parties.

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Financial Crime	The nature of the product offering and operational structure and customer base means that financial crime from customers is a low risk. Sanctions checks are performed for all policies sold and the book is reviewed when new lists are published. Contractual agreements with suppliers have included the provision of clauses around financial crime awareness and responsibilities.
Systems Resilience	System stability is under constant review, tracked and reported to management. Steps have been taken by both Webhelp (contact centre) and Dalesridge (Insurance system) to secure additional resources to further aid monitoring and management of this.
Internal Controls and Resources	The risk that as the business expands and the control environment does not maintain sufficient pace are real and will be a key consideration for the FCA in a growing business. Work is on-going with senior management to ensure the Customer Contact Centre has the necessary first line resources to meet the demands of the growing business. Additional resource has been secured to support POMS Compliance function and this will remain under constant review with additional resources added when necessary.
Customer Conduct Risk – The risk associated with the sales and service via the distribution model e.g. Branch sales process	Quality assurance is performed within the contact centre to identify and respond to process failures that may lead to customer conduct risk. The resourcing challenges of the growing business are being addressed as above. Challenges exist with the branch process which falls under the responsibility of the bank of Ireland, though where other channels i.e. the contact centre may be impacted.

9. Conclusion

- 9.1. POMS is well progressed to resolve the final outstanding matters from the GT report, with Group Risk confirming that, subject to their final closure POMS is positioned to stand up as a principal.
- 9.2. POMS and Group Risk will monitor this progress, with an intention that POMS Board will confirm its position ahead of it agreeing to act as principal.

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9.3. Other matters relating to POMS's readiness by FCA and the appointment of the Chair have, or are being resolved.

10. Recommendation

10.1. It is recommended that this paper is noted and that Post Office Board approves POMS to operate under its own regulatory licence from June 2015, subject to confirmation from the POMS Board that the outstanding matters in the GT report have been resolved.

Nicholas Kennett
CEO POMS Ltd.,

April 2015

DRAFT CONTENT

Strictly Confidential**Appendix****POST OFFICE LTD****Post Office Management Services (POMS) review of outstanding actions from the Grant Thornton review****1. Purpose**

The purpose of this paper is to provide an update ahead of POMS's plan to proceed as an FCA authorised firm. This paper is not an assessment of preparedness for Hawk, where it is proposed that separate assurance will be required.

2. Background

At the November 2014 Board meeting, Chris Aujard General Counsel presented a paper on the review and Grant Thornton presented their findings.

The review assessed POMS's preparedness to operate in an FCA regulated environment. Grant Thornton concluded that the critical factors required to 'go live' as an Appointed Representative of Resolution Compliance Services on 1 January were in place based on detail provided by the Titan project team. The report signposted some areas that required further work post launch. The final report was placed into the Board reading room in January 2015.

3. Risk Review of Progress on the Grant Thornton recommendations

Following launch, the risk team has worked with POMS to review progress. The summary below reports, on an exception basis only, those items that require further action prior to authorisation. With the exception of the interim financial systems item, which will be an on-going item for development, the POMS team have confirmed that all of these items will be completed prior to authorisation.

Category	GT assessment as at Dec 2014	Current assessment and impact for authorisation
Governance	In place	Two new Board members have recently been appointed; they will require a detailed business and governance briefing and Approved Persons training.
Financial and Regulatory Reporting	In place	Interim financial systems in place but a longer term solution required (see below) To report satisfactory regulatory reporting test run to prove regulatory reporting capability prior to authorisation

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		Balance Sheet/Solvency summary now in place.
Outsourced arrangements	Not completely in place as Master Service Agreement with Post Office not agreed	This is still outstanding but currently expected to be in place within the next two weeks.
Management Information	Not in place and required development	Business performance suite in place and Conduct and Compliance MI pack has been developed with supporting commentary. This was reviewed by the POMS RCC and will be tabled at the POMS Board prior to authorisation.
Policies and Procedures	Grant Thornton gave a 'green' rating on the basis of POMS's assessment that these would be completed by December.	All policies now drafted. Approvals being sought at 17/4/2015 POMS Risk & Compliance Committee. POMS Board will need to be engaged in approval and oversight.

Financial Systems and Regulatory Reporting

Grant Thornton noted that financial systems were 'in place' for launch but the project team recognises that what is currently in place is a short term, interim solution.

POMS are currently using the POL SAP system to support its finance processes and through a process of intercompany transfers is using the POL company system to pay invoices and track expenditure. POMS are defining its full financial requirements for Post Office which it has agreed to meet.

4. Next Steps

The risks of operating in an FCA environment have been previously discussed at Financial Services Committee and Board. But it is worth re-iterating that proceeding under our own FCA authorisation requires a high degree of vigilance from the Board of POMS to ensure that systems and controls are in place to ensure compliance. The FCA has little tolerance for breaches, particularly where they impact on customers or relate to poor financial controls and will be quick to hold companies and individuals (particularly FCA approved persons) to account for failures.

The risk team will follow up on the issues raised above and report to the POMS Board its assessment on progress prior to authorisation 'go live'.

At the March Risk and Compliance Committee the key responsibilities for Corporate Risk and Internal Audit for POMS post FCA authorisation were outlined. These were to enable Post Office to gain comfort, where required, on a proportionate basis, regarding the control framework in POMS. These include;

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- Developing POMS Internal Audit Charter
- Work together on developing POMS risk appetite statements to be agreed by POMS and POL Board.
- Staying close to POMS management team/1st line to understand risks, developments and progress
- Reporting to POL ARC on risk and compliance issues and developments
- Internal Audit to report to POMS management and POMS ARC on its plans and findings

5. Conclusion

Upon confirmation of the completion of the outstanding actions from the GT Report POMS Board will report to PO Board to allow PO Board to grant POMS permission to assume direct regulatory authorisation.

Paul Beaumont
Post Office Group Risk
April 2015

DRAFT CONTENT

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MEMORANDUM FOR: Group Executive

FROM: Mark Davies,
Communications and Corporate Affairs Director

SUBJECT: Influencing the new Government

DATE: 16 April 2015

Recommendation

1. The Group Executive is invited to approve the approach for using the post-election period to engage with a new Government with a view to ensuring a favourable policy environment for current strategy implementation and to start framing the way in which our relationship with Government might evolve over the next 5 years.

Executive Summary

2. Following the general election a new Government will be formed. This is a critical period in the life of a new parliament, where ministers are both at their most powerful and seeking to develop and shape new policy positions. This therefore presents the Post Office with a window of opportunity within which to set out our position and to influence ministers.

Our objective will be to use the opportunity of building links with the new government to ensure our minister is fully sighted on the opportunities and challenges in relation to our business. We should also see the post-election period as an opportunity to actively shape the agenda with Government. This will necessitate a clear exposition of some of the difficult issues ahead, as well as setting out the opportunities the new minister's portfolio presents.

This paper and sets out in further detail:

- The context for post-election engagement – particularly the position as to the potential constitution of a new Government and the time it will take to be formed
- Considerations for setting out our position with a new Government – covering the issues that need to be raised
- Opportunities to present to Government – the propositions that help underpin Post Office future strategy which are attractive to a future Government policy
- The suggested narrative to be used – building on our existing strategy – with the approach to be taken, and the risks that need to be assessed, through this period.

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Financial Metrics

3. Engagement and influencing a new Government will be undertaken by existing resource within the Business and no additional finances are required. The approach being taken is designed to assist the achievement of current financial strategy and plans, and to create the most positive environment for future plans.

Previous Approvals

4. The approach presented in this paper is consistent with the work of the cross-business Government Relations Steering Group attended by representatives from People and Engagement, CEO office, Commercial, Financial Services and Strategy teams.

Proposal

5. *Background – the General Election*

- We are on the cusp of the most uncertain election for a generation with no one confidently predicting the governmental outcome.
- An uncertain, volatile and potentially prolonged policy-shaping environment may ensue.
- Current polling suggests that a two-party coalition will not be sufficient to achieve a majority. Therefore a formal coalition could comprise three parties.
- Any coalition agreement could be more detailed and lengthier than in 2010. Assuming that any coalition partners are aiming to deliver another five year government – and the Fixed Term Parliament Act will make another election before 2020 unlikely – parties (particularly the Lib Dems if they are at the table) may be conscious of the pitfalls of running out of policy half way through.
- Therefore it could take several weeks for coalition partners to reach an agreement, delaying the formation of a new Government and the appointment of ministers.
- Alternatively, the next administration could be a minority Government, with a supply and confidence agreement, rather than a formal coalition.
- Such a minority Government with less formal 'issue based' support from other parties could lead to a less structured and more flexible forward agenda. Again this could result in a relatively prolonged period of policy uncertainty.
- A single party succeeding in achieving an overall majority seems unlikely: where pollsters and other commentators see this as a possibility they point to a Conservative majority being the most likely outcome.

6. *Background – Manifestos and Policy*

We expect the main parties to publish their manifestos the week commencing 13th April. The manifestos will represent an opening gambit for any coalition negotiations.

Our positioning to date with the policy teams from the main parties has sought to reinforce a general consensus of support for current Post Office strategy. We have attempted through our lobbying to strike a balance between engaging with

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policymakers to ensure any manifesto commitments align with our strategy, while at the same time not fuelling interest in a way that would result in anything unhelpful. Our specific asks to date are summarised at Appendix 1. While we cannot directly influence manifesto content, we can seek to shape it by raising issues and challenges, and have engaged with key figures in the three main parties

There are a number of relevant policy areas that may feature. These include:

- ownership/mutualisation (and potentially governance related to executive pay)
- the Post Office agreement with the Royal Mail (a Labour priority driven by CWU agenda)
- the move to digital government
- financial services and financial inclusion

Further detail of what we might expect with parties' stated policy positions is at Appendix 2.

7. *Context - Government Spending Review and potential funding negotiations - process and timescale*

The priority for a new administration will be to continue to reduce the deficit (while protecting key departments such as Health).

- There are a number of possible permutations for the next spending review (SR), both in terms of its timing and the period it covers. By Autumn 2015 the new Government will need to set spending plans at the departmental level for the year 2016/17, given that Whitehall departments currently only have their budgets set up to the end of 2015/16.
- However, SRs in the UK typically cover longer time periods so it remains to be seen whether the new Government is in a strong enough position (both politically and economically) to conduct a longer-term review.
- Given that we have agreed our funding with BIS (and the European Commission) up to end 2017/18, there are two broad scenarios in which we could be pulled into the next SR process:
 - a) the new government conducts an SR which extends beyond 2017/18, in which case we would need to be ready to engage with Shex on updated projections and options (and the underpinning evidence) to support their negotiations with BIS Finance and HMT; and/or
 - b) there is pressure to reopen our existing funding agreement in 2016/17 or 2017/18. While the likelihood of a concerted effort to reduce this funding is considered to be relatively low, pressure could come to bear on BIS from Treasury officials. We are working with the Shex team to ensure they have the arguments and evidence to explain the substantial legal, financial and operational issues it would create.
- In both scenarios it is critical that we set out a strong account of our commercial performance and future plans to provide reassurance that we are doing everything within our control to reduce the requirement for subsidy. Appendix 5 provides an outline draft of the narrative intended to meet these objectives.

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8. *Using the window after the election*

There will be a period immediately after a new Government is formed where ministers' ability to instigate a change of direction or drive the formation of new policy is at its peak. Even if there is a protracted period of inter-party discussions around Government and policy formation, this essential dynamic remains – once senior politicians commit to a path, the room for manoeuvre for change is limited. We will brief ministers in this early window of opportunity with a view to protecting the current funding envelope as the route towards commercial sustainability and lower subsidy in the future, to prepare ministers to make the case to take tough future decisions and to demonstrate the ways in which Post Office can help government deliver its agenda and objectives.

9. *Key Considerations within post-election influencing*

We should set out issues and potential difficulties early on, thereby reducing surprises, and any resulting political challenge, further down the line. Providing ministers with an early and comprehensive picture of the commercial and stakeholder context in which we operate will be key. We should assume limited prior knowledge.

Key issues upon which we will focus (or could be drawn into) include market conditions, commercial performance, network development, mails and the RMG relationship, mutualisation, Sparrow, the NFSP agenda (linked to the cliff and extension) and the union agenda (most relevant should Labour come to power).

Detail on these considerations is provided at Appendix 3.

10. *Key opportunities in the post-election influencing process*

We will also use the post-election period to emphasise opportunities that promote Post Office strategy through helping Government realise policy goals. Key areas discussed by the Government Relations Steering Group include our role providing a national infrastructure, as the default provider of over the counter services, as enablers of the 'digital by default' strategy, financial services and partner banking and support for SMEs.

Detail on these opportunities is provided at Appendix 4

11. *POL narrative within influencing discussions*

A draft narrative, drawn up through the Public Affairs, Policy and Strategy teams (and work in progress requiring additional detail), is provided at Appendix 5. This is primarily focused on the key requirement to protect our existing funding agreement to end 2017/18. Information on the mechanics of the influencing process are provided at Appendix 6.

Risks

12. There are a series of potential risks inherent in the post-election environment which will have to be assessed in handling influencing of Government within this period.

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Notably:

- The post-election period of Government formation may be lengthier and more uncertain than currently envisaged - carrying the risk of potential paralysis in Government policy formation. Whilst the 'business as usual' of current Post Office strategy implementation would continue in such an environment, opportunity to influence may be more constrained in this immediate post-election environment.
- Other stakeholders may pursue an aggressive counter-narrative depending on circumstances (e.g. NFSP, Unions, Paypoint). Whilst this will not deflect the influencing approach outlined above, it will require more communication focus and increase the requirement for more extensive public and media positioning.
- Network Transformation will be entering a potentially more controversial phase with the Cliff as more reluctant postmasters are drawn into the Programme. The handling of NT in these circumstances will need to be carefully co-ordinated with the Government influencing strategy to avoid negative impacts.

Whilst these are real risks, the handling of them within the overall influencing strategy is considered to be within the company's current risk appetite profile. In the immediate post-election environment there will be further evaluation of these risks, their materiality and impact on the influencing strategy.

Conclusion

13. The post-election period is likely to produce an unprecedented political/stakeholder environment – but it is one which Post Office Ltd must use to promote its corporate position and to create an environment to facilitate current strategy implementation and future strategy formulation. The analysis and approach outlined in this paper, implemented flexibly in the context of ongoing monitoring of the political and governmental environment, represents a structured route to achieving the best outcomes for the company.

Mark Davies – Communication and Corporate Affairs Director

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Appendices

Appendix 1 - Our 'asks' to date in pre-election party political influencing

Appendix 2 - Manifestos: Potential areas of policy interest

Appendix 3 - Detail on the key considerations within the post-election influencing approach

Appendix 4 - Opportunities in post-election influencing

Appendix 5 - Outline narrative with supportive detail for use with new Government

Appendix 6 - Mechanics of Influencing in the post-election environment

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Appendix 1

Our 'asks' to date in pre-election party political influencing

1. Provide the freedom and flexibility for the Post Office to compete in a fast-changing marketplace, and to pursue its commercial strategy to 2020
2. Commit to the current Government's funding for the Post Office to 2018.
3. Leverage the branch network: use the Post Office as a Digital Front Office for Government
4. Support POL mission to become a challenger brand in financial services through its partnership with the Bank of Ireland, and to provide partner banking services
5. No binding commitment to a particular ownership model

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Appendix 2

Manifestos: Potential areas of policy interest (2015 Manifestos due mid-April)

Conservatives

The Post Office is unlikely to feature in the Conservative manifesto and we have not argued against this state of affairs.

On **mutualisation**, the Conservatives are likely to offer warm words in support of a range of ownership models “occupying the space between the public and private sectors” - an agenda close to Francis Maude’s heart. However, the Post Office is not on Conservatives’ radar in this regard.

A Conservative government is more likely to stick to the current government’s spending commitments. However all policy areas outside the protected departments of health, education and international development are vulnerable to further cuts.

Lib Dems

We understand that the current draft of the Lib Dem manifesto contains few (if any) references to the Post Office, apart from a list of achievements in Government. A general commitment to mutual ownership models may well remain a key pillar of Lib Dem policy. So it is not inconceivable that the final version of their manifesto reaffirms a commitment to take forward ‘examination of the mutualisation of the Post Office.’

If Liberal Democrats form part of the next Government, they are likely to fight to ensure that the current government’s spending commitments are adhered to.

Labour

Labour has intimated they need to give something to the CWU that stops short of a commitment to re-nationalise the Royal Mail. So far they have focused on the future of the USO in the face of competition and support RMG’s request to Ofcom to bring forward a market review. It is also possible that Labour will pledge to secure the future of the link between the Post Office and the Royal Mail. Although in private they admit they don’t know how they would enforce this. Mutualisation is not a priority.

On spending, Labour policy teams have been told they will have to justify every pound of every spending commitment. This includes the shadow BIS team who will have to make the case with their Treasury colleagues for keeping to the current Government’s spending commitment for the Post Office to 2018. A 40% cut to the BIS budget under a Labour Government has been mooted.

We have made the case with Ian Murray (Jo Swinson’s shadow) that current spending is helping put the Post Office on a path to commercial sustainability, paving the way to a reduction in subsidy.

Last year Chuka Umunna MP (Vince Cable’s shadow) raised with us the idea of a Post Bank. We reminded him of our relationship with the Bank of Ireland, and that this is the best way for the Post Office to become a challenger brand in FS, without the huge capitalization requirements setting up a Post Bank would entail.

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Appendix 3 – Detail on the key considerations within the post-election influencing approach

These considerations are ranked in order of importance in an assessment by the Government Relations Steering Group. They cover those issues on which we will need to influence Government proactively to support our position, and those which we will wish to seek to shape Government policy into supportive positions [e.g. Sparrow].

3.1.1 Market conditions and commercial performance

We will need to highlight the tough and fast-changing market conditions in which we operate. We should assume no prior knowledge of either the increased competition in the mails, home shopping returns and bill payments markets, nor the impact that this has on our business.

We should also highlight the negative impact on revenue from the drive to move more government services online.

3.1.2 Future relationship with government

Beyond the end of 2017/18 there may be attractions to moving the relationship with Government onto a more commercially-focused basis, including potentially exploring the scope for a longer-term funding contract which would effectively take us out of the whims of the departmental spending review process. However, given the uncertainty around our long-term market and financial projections, there are dangers with this approach, particularly at the current point in time. We will be assessing these options with the GE in more detail as part of the work leading to the June Board, with a view to reaching an agreed hierarchy of preferences.

In the meantime our early engagement with ministers should focus on: a) building confidence in our progress towards commercial sustainability; b) highlighting the importance of maintaining the existing funding to end 2017/18, explaining that there are no credible options to reduce the subsidy more rapidly; and c) setting out in high level terms the potential attractions for both sides of moving to a more contractual relationship in the future. In parallel we will engage Shex officials on the emerging options during May on a 'without prejudice' basis, to test and socialise our thinking before any more formal engagement.

3.1.3 Network Issues (Cliff and Extension)

There is likely to be increased local "noise" as we enter the remaining stages of the Network Transformation programme. We will continue to mitigate this noise as far as possible. However this could result in pressure on ministers to intervene and we should not regard the election in isolation from current discussions with the NFSP.

We should stress the importance of sticking to our plans, and seek Government support for this. The implications of a change in direction (on future funding and in terms of Government detailed involvement) should be made clear.

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At the same time, we should seek to dissuade a new minister from a renewed focus on network extension from a political viewpoint– our priority has to be investing in the existing network and pursuing extension for commercial purposes

3.1.4 Mails/RMG relationship

In a fast-moving market, flexibility will be key to commercial success and, subject to the conclusions of the mails strategy review underway, we should move to dissuade any future (Labour) administration from attempting to bind us more closely to the Royal Mail, or for a longer period.

3.1.5. Mutualisation

While it won't be a high priority, it is likely that mutualisation of the Post Office will remain on the policy agenda.

We should continue to stress that commercial sustainability comes first, while providing examples of ways in which we are working more mutually (new IR framework, Post Office Advisory Council, Business User Forums, engagement activity). We want to avoid any knee-jerk political commitments, or extended dialogue over ownership structures on the grounds that they simply divert attention and resource from the task in hand – commercial and financial sustainability.

3.1.6 Sparrow

There is likely to be continued, though limited, interest in Sparrow. The recent Select Committee Inquiry concluded with a letter to the Secretary of State, and the response was as helpful as we could have hoped for, drawing a line under that particular angle of interest. Any continued interest will be driven by a small group of MPs with constituents in the Scheme. The leaking of Second Sight's Part Two report could act as a catalyst for continued media and political interest.

So while we have had some success in removing Sparrow from spotlight, there is no guarantee that a new minister won't seek to win some early political points by re-visiting the issue and he or she will undoubtedly come under pressure to do so. We should warn about the risks of this course of action.

3.1.7 NFSP agenda

The NFSP will be seeking to influence a new government as early as possible so we should be aware how their agendas will play to ours. Their influence is likely to be greater with Labour ministers.

The NFSP will argue for continued subsidy post 2018, for community branches at the very least. They will highlight the risk of closures if this is not forthcoming or if agents pay does not increase. It is likely to highlight competitive pressures faced by sub-postmasters and can be expected to voice continued opposition to Network Extension.

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They may highlight the partner banking work undertaken by the current Government and the BBA, using this to make the case for the banks pay more for partner banking services, and for sub-postmasters to retain a greater share.

The NFSP will make it clear that, as far as they are concerned, the last Government failed to meet its objective to make the Post Office network the “front office” for its services, pursuing its agenda of placing services online instead. In the case of contracts the Post Office did win, the NFSP are critical of the fact that many of these services were only available in a limited number of branches, and are low-volume, one-off or in one or two local authority areas. They will make clear the detrimental impact this has had on sub-postmaster income.

They will argue that sub-postmasters urgently need new revenue sources, without which “we leave POL unable to operate as an independent business; and the UK with a hefty bill for the smartest, emptiest post office network in Europe” (NFSP Annual Review 2014).

The NFSP position in a post-election environment will be strongly related to the outcome position from the Grant agreement discussions. The NFSP has its annual conference on 11 May and is likely to use this platform to commence its own attempt to influence a new administration. Our aim is that it has positions aligned to our strategy, but we will prepare contingency lines should we face a more negative position.

3.1.8 Union agenda

The unions will also seek to influence a new government and will be campaigning for Labour (and preparing to put significant pressure on a Labour administration). On the broader strategic issues affecting the Post Office, the CWU and Unite share similar public policy priorities. Both unions are more interested in the future of the Royal Mail than the Post Office.

However, we can expect the CWU to push for: a continuing government subsidy to the Post Office as a ‘public service’, more government services contracts to be channelled through the Crown network; and a commitment to retaining the present Crown network (i.e. no further franchising).

Unite takes a similar position, although it is less strident on the public subsidy and, privately, more realistic on the long-term viability of the Crown network given increasing digitisation across government as well as the retail and postal sectors.

Neither Unite nor the CWU have any influence or links with the Conservatives or Liberal Democrats. The same is true, in Scotland, for the SNP. Unite is, however, the largest single donor to the Labour party and will expect to see its agenda implemented in large part if Labour forms the next administration. The CWU is not as close to the Labour Party and may become even less so if the current internal election for a CWU General Secretary results, as expected, in a new leader.

We will have delivered the first phase of our new IR approach by the time a new government is formed. We know that the Conservatives will enthusiastically back this, as well as further moves to re-frame our union relationship: Labour less so but the party will also be reluctant to be seen to be overtly supporting union agendas.

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Appendix 4 – Opportunities in post-election influencing

We should also set out some of the opportunities provided by the Post Office, both as political wins that the minister can claim (saving Premium Bonds in Post Offices) as well as ways in which the Post Office can help the Government deliver its wider agenda (e.g. enabling digital government). The following are opportunities perceived by the Government Relations Steering Group as those which meet Post Office objectives and could have political and policy attraction to a new Government.

4.1 A national infrastructure

The post-election environment provides the opportunity to remind politicians and parties of the value that a commercially successful and financially sound Post Office has as a key part of national infrastructure which can enable desirable policy outcomes (economic growth through SME's, efficient links between Government and citizens, financial and banking reform, welfare reform, local retailing).

4.2 Post Office is the default provider of over the counter services.

Post Office has successfully provided in-branch services to government (Defra, DVLA, DWP and the Home Office) for several years via DVLA's Front Office Counter (FOCS) frameworks.

Cabinet Office and BIS has previously promoted the FOCS framework to government departments as the default contract for counter services, and we would like this to continue and be strengthened in a policy sense.

4.3 Post Office as a Digital 'Safety Net'

The Post Office can enable the Government to go Digital by Default by:

- Providing 'step-out services' to verify evidence, take photographs and other biometrics allowing individuals to transact with Government digitally.
- Provide in-branch services for those who are unwilling or unable to transact digitally. These could be self-service or face-to-face. For those unwilling the service could be chargeable, for those unable it could be paid for by government. Either way, government would still receive digital applications, allowing it to realise the savings that accrue from moving to digital.

Post Office can enable government to move to universally digital services, by providing a safety net for those who would otherwise be excluded from accessing digital government services.

The FOCS framework could be used as a procurement vehicle for these services, and Post Office would like the FOCS framework to be the default option for these services for Departments.

4.4 Post Office can become the default Verify Identity Provider, particularly for 'Difficult to Verify (DTV)' customers.

The Post Office is well placed to become the default provider for Verify.

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- The reach of and trust in the Post Office brand means that Post Office is uniquely placed to manage the public's electronic identity.
- Post Office is alone amongst Verify suppliers in being able to reach out to those individuals who may not have enough of an electronic 'footprint' ('DTV customers) to be able to get and maintain an electronic identity by assuring identity's in branch.

We should ask Government to:

- Promote Post Office as the default partner for handling thin-file customers, either through the Verify framework or FOCS.
- Work with us to ensure that we are closely associated with the use of identities across Government. .

4.5 Providing Multi-Channel Services

Government should recognise that Post Office is a digital organisation, able to provide fully digital services in addition to those provided in-branch. This allows us to offer complete multi-channel services, in addition to or instead of Government, in a way that is cost-effective.

4.6 Partner Banking

We would want to continue Government recognition of the Post Office as a fully-fledged 'challenger bank' which is a significant player in the reform of the UK banking system – as well as the parallel position of the Post Office network as a part of the universal 'UK banking infrastructure' enabling access to accounts with partner banks (at commercial contract rates paid by the banks so that they can meet their infrastructure requirements).

4.7 Premium Bonds

Our current contract with NS&I ends in September 2015 and NS&I are looking to get a view from HMT regarding the extension of the contract (as it was a year ago). The purdah period means the decision (by HMT) cannot be taken until a new Government is in place. Therefore NS&I are preparing their case for extension so that a decision can be made as soon as possible thereafter.

Post Office will need a decision from HMT/BIS in May/June since Post Office cannot continue to sell premium bonds without being remunerated (from August 2015).

We should therefore stress to BIS ministers the importance of an early, favourable decision.

4.9 SME support

All parties are committed to support SME growth, which in turn is recognised as a key motive force in the development of the economy over the next five years. The positioning of the Post Office as an essential infrastructure to help SME's develop is attractive across the political spectrum (all the smallest SME needs to grow is access to the internet and a nearby Post Office and it can trade with a vastly enhanced customer base). Promoting Post Offices as infrastructure that accelerates economic activity and opportunity is a critical part of a growth narrative – necessary to counter perceptions amongst politicians of the Post Office as a legacy outfit catering for a diminishing non-digital base.

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Appendix 5 – outline narrative for use with new government**KEY MESSAGES:**

1. We are making steady progress towards commercial sustainability, managing the commercial challenges while safeguarding our trusted brand, social purpose and network of over 11,500 branches
2. The Government can have confidence that we are a credible commercial entity that is delivering against its plans, taking a strong line on costs and succeeding in a tough competitive environment.
3. As a result, the financial support required from Government will continue to fall, delivering strong value for money in policy terms
4. Beyond 2017/18 the Government has clear choices between moving towards a purely commercial service with no government support versus protecting our social role in return for a limited annual payment. We will deliver an approach which best serves our customers and recognises the pressure on the public purse – our key requirement is to have clarity and the commercial flexibility required to survive in tough competitive markets.
5. These choices are not cheap and cannot sensibly be accelerated without incurring disproportionate costs and substantial legal complexity.

ADDITIONAL DETAIL:

1. **We are making steady progress towards commercial sustainability, managing the commercial challenges while safeguarding our trusted brand, social purpose and network of over 11,500 branches**
 - Post Office has agreed a strategy with Government designed to tackle the underlying economic challenges facing the network while safeguarding the essential role we play in communities.
 - The primary objective is to achieve commercial sustainability and the most significant target is to break-even before network support ('EBITDAS').
 - To support the execution of this transformation the Government has provided £360m in investment funding over the three years to March 2018, in addition to £280m over the three years to support the non-commercial branches maintaining a network of over 11,500 locations.
 - Four key planks to the transformation programme, set out below.
 - Firstly, modernising our network of over 11,500 branches in order to:
 - move agents onto new contracts which: a) pay them on a variable basis to incentivise stronger sales performance and make the business more resilient to

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market downturns, saving at least [£45m] pa; and b) remove the right to exit compensation to ensure that future investment is focused on strengthening the network rather than on those leaving the business;

- deliver a better experience for customers through longer opening hours (over 100,000 additional hours per week already) and brighter, more modern store environments.
- Secondly, overhauling our IT infrastructure, both in-branch and in the back office. Existing system is over 20 years old, and is crippling our ability to compete because of high operating costs and inflexibility. More importantly, without it, the PO will simply stop functioning – out of support software, Fujitsu data centre etc. New infrastructure will save c£27m pa and enable us to respond more rapidly to new requirements, supporting our ability to compete in dynamic markets.
- Thirdly, reducing costs through a more streamlined operating model. Staff numbers in central teams have reduced by 25 per cent; reduced central costs by £60m in 2014/15 and will increase this to £100m annualised savings by the end of 2015/16. *[Add more detail on what we've done and show the evidence]*
- Fourthly, re-establishing profitable revenue growth in the face of structural declines in traditional areas such as mails (especially letters), government services and payments. In particular we're:
 - establishing the Post Office as a major challenger brand in financial services, delivering significant topline growth as well as building genuine asset value particularly in insurance; *[add more detail]*
 - ensuring we're positioned to benefit from the growth of parcels and e-commerce *[add further detail in light of mails strategy]*; and
 - supporting the government's shift to digital by default, including as one of the approved providers of identity assurance – providing citizens with a reassuring and trusted name to help them navigate the shift to online interactions with government.

[Add further detail if required to recognise that some revenue streams have not materialised as expected – highlight structural declines vs new growth separately to show the headwinds we're facing.]

- The transformation programme is already delivering remarkable results, despite challenging market conditions:
 - In the financial year just ended we reduced our pre-subsidy losses to [£64m], down from £115m in 2012/13. *[Hit our profit target in each of the three years since separation]*;
 - Crown network is on track to reach breakeven in the year ahead, having suffered annual losses of around £40m just a couple of years ago;
 - and by 2017/18 we expect to achieve the historic milestone of generating a profit before subsidy for the business as a whole. (NB although this doesn't mean subsidy can therefore just be removed because we won't be sufficiently cash generative to cover ongoing needs such as investment).

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- Sustained improvements in profitability is enabling us to reduce the network subsidy payment rapidly, from £210m in 2012/13 to £70m in 2017/18 – equivalent to an annual real terms decrease of over 20%.
- Show that EBITDAS has been delivered on plan to date in spite of income challenges
- This has been achieved while maintaining over 11,500 branches and continuing to meet our network access criteria, avoiding the closures that were required in previous restructuring programs.

2. The Government can have confidence that we are a credible commercial entity that is delivering against its plans, taking a strong line on costs and succeeding in a tough competitive environment.

- Market challenges (particularly in mails and government services) mean that we are now on track to achieve breakeven around a year later than envisage in the Strategic Plan – but we are making steady progress and delivering against the factors within our control
- While we have already made significant progress in transforming the business, there is more to be done over the next 3 years to complete the job. We need the Government's ongoing support in this regard – both in terms of backing the difficult decisions we have to take (NT, workforce reform etc.) and maintaining the existing agreed funding.
- *[Add further detail to build on the proof points in the actual delivery to date, to explain why the Government should be confident that that our plans will be delivered:*
 - *Where are the next three years of cost savings coming from?*
 - *Where is the new income coming from?]*

3. As a result, the financial support required from government will continue to fall, delivering strong value for money in policy terms

- Including investment funding, total payment from government is reducing from £410m in 2012/13 to £140m in 2017/18.
- Provided we maintain this strong progress towards commercial sustainability, would expect to be able to maintain the existing size of network with an annual subsidy payment in the region of £50-70m pa, far lower than the historical run rate.
- *[NB will need defensive lines to respond to the potential suggestion that the RoI has declined relative to Strategic Plan expectations.]*
- Because the Post Office is primarily funded by commercial activities, the Government gets a lot in return for this annual payment – we're a key part of the national infrastructure:
 - a. a cornerstone for communities in rural and urban deprived areas, supporting social and economic inclusion in localities where services would otherwise be

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- absent. 99.7% of UK population live within 3 miles of a Post Office;
 - b. this role encompasses both the direct services we provide (access to cash/banking, mails and government services) and also the intangible but crucial role we play in communities – social value estimated at £2.3-£10.2bn pa according to 2009 NERA study; 85% of postmasters say they look out for vulnerable customers on a regular basis;
 - c. supporting competition in the banking sector as one of the faster growing challenger banks in our own right, with £3m customers and over £16bn in savings – providing a trusted alternative to the high street banks;
 - d. playing a key role in supporting small businesses – around a third of SMEs visit us each week to conduct banking, access the benefits of e-commerce or interact with government. Also a network of local businesses in our own right, with over 97% of the network run on a franchise basis;
 - e. we're the third largest distributor of cash in the UK – with c430 vehicles shifting £33bn across the country each year, including in the remote areas not serviced by our competitors. One of four members of the Bank of England's Note Circulation Scheme. We're also growing our cash services to other retailers, providing much needed competition in a market that would otherwise be dominated by just two nationwide players;
 - f. a key partner in the delivery of government services - including for DWP (POCA), Home Office (passports & biometric residence permits) and the DVLA (driving licences). And we're ready to support the shift to digital by default both as one of the approved providers of identity assurance and also as the only credible nationwide institution capable of providing assisted digital services for those who need it.
- Besides these policy outcomes, this spending is arguably good value for money in political terms, avoiding the need for another noisy and painful programme of branch closures (last programme was met with substantial public opposition, including a petition to No.10 signed by 4 million people).

4. Beyond 2017/18 the Government has clear choices between moving towards a purely commercial service with no government support versus protecting our social role in return for a limited annual payment. We will deliver an approach which best serves customers and recognises the pressure on the public purse – our key requirement is to have clarity and the commercial flexibility required to survive in tough competitive markets.

- If we were running a purely commercial network, it would have around xxxx full branches and xxx parcel points.
- Outlying communities would need to be serviced through lower cost operating models, such as outreach vans.
- The run rate savings would be in the regions of £xm, which would enable us to maintain a profitable business free of government support
- *[Set out further detail on social and political impacts – numbers of branches*

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closed, how many constituencies, service impacts etc]

- In addition to the social and political impacts, the restructuring costs to move to this shape of network would be in the region of £xm. [*add further detail on comparative RoI vs 'Plan A'*]
- There would also be a point at which the Government would need to consider the ownership choices if the business were to move to a fully commercial basis.

5. These choices are not cheap and cannot sensibly be accelerated without incurring disproportionate costs and substantial legal complexity.

- There are no credible quick wins to unpick the existing funding to 2017/18 that wouldn't jeopardise our ability to achieve commercial sustainability and therefore represent worse value for money for taxpayers in the long term.
- Pursuing an accelerated restructuring to get to a fully commercial network would cost an additional £xm in transitional costs, worsening the RoI, and would raise a number of significant legal and stakeholder issues [*add details*]. Even then we couldn't feasibly execute such a plan in less than x years.
- Also need to take into account the fact that existing contractual funding agreement has been approved by the European Commission and is taken into account by our auditors and independent Board of Directors in assessing our going concern status. If there were perceived to be a material threat that this agreement would be reopened then it would raise serious issues for our directors and commercial partners.
- If the government could do more to commercially underpin POL in the interim period through profitable new revenue streams then our subsidy requirement might reduce.

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Appendix 6 – Mechanics of Influencing in the post-election environment*How?*

- Briefing meeting with the new minister as soon as possible after this is announced.
- The new minister is also due to attend the Board Away Day on 17th June
- Briefing meetings with other key ministers (HMT, Cabinet Office).
- Fix visits to Kennington Park flagship (digital) and constituency branches for ministers.
- Parallel engagement strategy with MPs in new Parliament. To include: early briefing for all MPs, offer introductory meetings with all new MPs, Westminster drop-in session for all MPs in June, briefing meetings with key MPs (shadow ministers, BIS select committee, All Party Group)
- Build relationships with other channels across Government (Special Advisers, key officials, Parliamentary Private Secretaries)
- The Public Affairs team and other colleagues already have good links with key contacts likely to feature in the new parliament and government. We will seek to exploit these.

Who?

Assuming current departmental responsibilities:

- Minister for Employment Relations and Consumer Affairs (BIS) and advisers/allies
- Secretary of State (BIS) and key officials
- Chief Secretary to the Treasury and key advisers/officials
- Minister for the Cabinet Office and key advisers/officials
- Permanent Secretary, BIS and key advisers/officials
- Key MPs (opinion formers, select committee members, opposition spokespeople)
- Special Advisers across Govt including key departments (DWP, Home Office) and including No 10
- Key political commentators (media, thinktanks etc.)

When?

- Immediate post-election window in which to influence, before Ministers are asked to make departmental funding decisions in the summer.
- General Election: Thursday 7th May. The next parliament will meet for the first time on Monday 18th May to elect the Speaker and swear-in members. The state opening of Parliament, which will feature the first Queen's Speech for the new Government, has been confirmed as due to take place on Wednesday 27th May.

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MEMORANDUM FOR: Post Office Ltd Group Executive
FROM: Neil Hayward
SUBJECT: Health and Safety Update
DATE: 16th April 2015

Recommendation

1. The Group Executive is asked to:
 - 1.1. Note the overall safety performance
 - 1.2. Note the risk reduction activities
 - 1.3. Note the residual risks

Executive Summary

2. 2014/15 Health & Safety performance built on improvements seen over the past 5 years in support of a rolling 3 year plan to drive health and safety compliance, and risk reduction, through better understanding and application of the health and safety policy and associated processes. The focus has been on increasing capability through awareness, training/coaching, and identification of weaknesses through measurement of performance through risk profiling and audit. This is supported by creating clarity around everyone's health and safety roles and responsibilities, and measured against the health and safety standard OHSAS 18001.

The Health & Safety Committee has looked at the performance and trends for POL in recent years (not specifically discussed in this paper), and has requested that external benchmarking is also built into the reporting of POL Health and Safety performance in the next financial year.

Financial Metrics

3. The impact of stronger Health & Safety performance does bring the business financial and reduction of reputational risk benefits, and again these will be discussed at the Health & Safety Committee during the next year. No further investment in the team or processes is envisaged at this stage to improve Health & Safety performance pan POL. BAU resources are judged fit for purpose, including trade union facility time.

Previous Approvals

4. The Health and Safety performance indicators set out in this paper have previously been presented to, discussed and endorsed by the Group Executive Health and Safety Committee.
5. The Health and Safety performance indicators set out in this paper have been discussed with the Post Office Health and Safety Consultative Committee with unions (required by the Safety Representatives and Safety Committees Regulations).

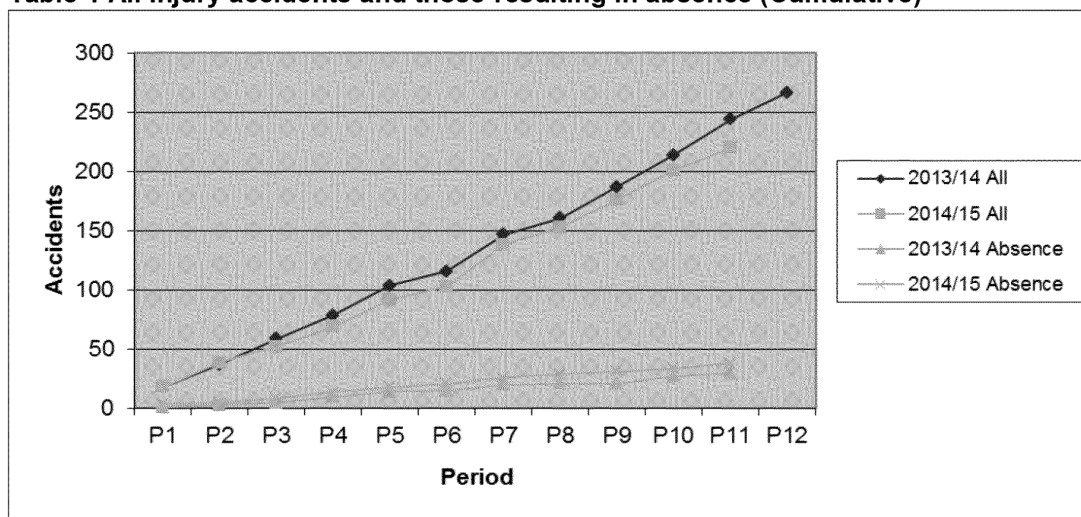
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Proposal

- Accidents** - 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 of cases, relatively low severity. The lower frequency types of incident can carry the potential for very high impact, for example, assaults and road traffic collisions.

Performance during the past 11 months of 2014/15 indicates that the 5% continuous improvement target for reducing all injury accidents will be met although the reduction in absence accidents will not be achieved. (Table 1) The absence accident performance should be considered in the context of the overall low number of absence accidents and the adverse impact that an additional one or two absence accidents per month has on the overall performance. The severity of those accidents, measured by the related number of days lost, indicates that while volume has increased, severity has significantly decreased with days lost from accidents well ahead of the target reduction of 5% (Table 2).

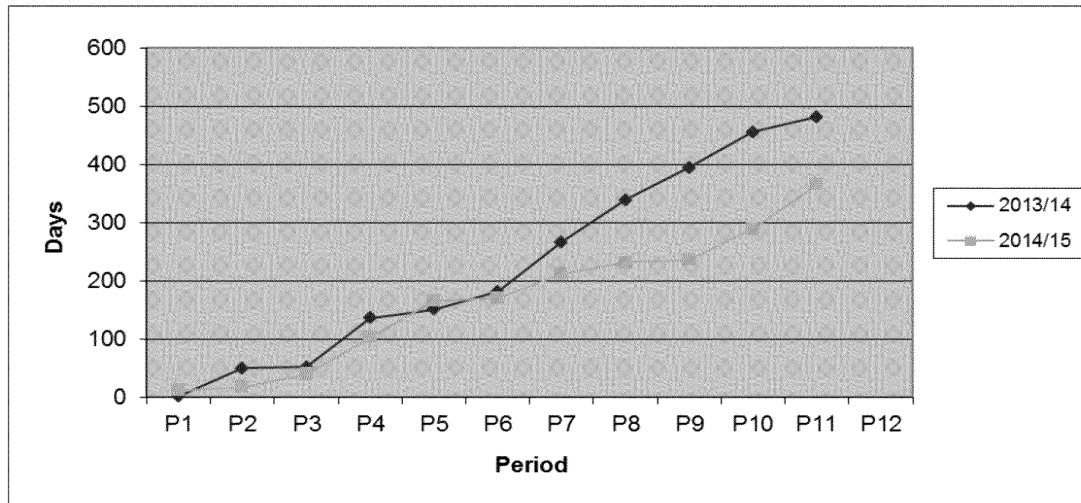
Table 1 All Injury accidents and those resulting in absence (Cumulative)



The number of days lost due to accidents is currently 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)

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Injury claims - Personal injury compensation claims have fallen significantly in line with the reduction in accidents that result in sick absence. Comparison with a similar retail organisation indicates that the Post Office claim rate is significantly lower in both public and employer's liability and of those claims the 'denial' or 'defence' rate is significantly higher. The general level of claims is recognised by the insurers as extremely low both in volume and value. This is reflected in the provision for 'live' claims reducing from £2,050,344 to £1,174,907 compared to year end 2013/14. There has however been a recent spike of relatively low value injury claims related to dust inhalation during the Crown uplift programme. This is currently being investigated by Post Office insurers.

Insurance Year	Policy Class	Claim Count	Total Paid	Recoveries	Open Reserves	Gross Incurred	Net Incurred
Oct 12 - Sept 13	Employers' Liability	7	£25,482	£0	£19,710	£45,192	£45,192
	General Liability	17	£43,176	£0	£81,425	£124,601	£124,601
	Total	24	£68,659	£0	£101,135	£169,794	£169,794
Oct 13 - Sept 14	Employers' Liability	7	£16,489	£0	£88,939	£105,428	£105,428
	General Liability	19	£18,401	£0	£98,615	£117,016	£117,016
	Total	26	£34,890	£0	£187,554	£222,444	£222,444
Oct 14 - to date	Employers' Liability	13	£0	£0	£129,560	£129,560	£129,560
	General Liability	2	£0	£0	£0	£0	£0
	Total	15	£0	£0	£129,560	£129,560	£129,560
Total	Total	65	£103,549	£0	£418,249	£521,798	£521,798

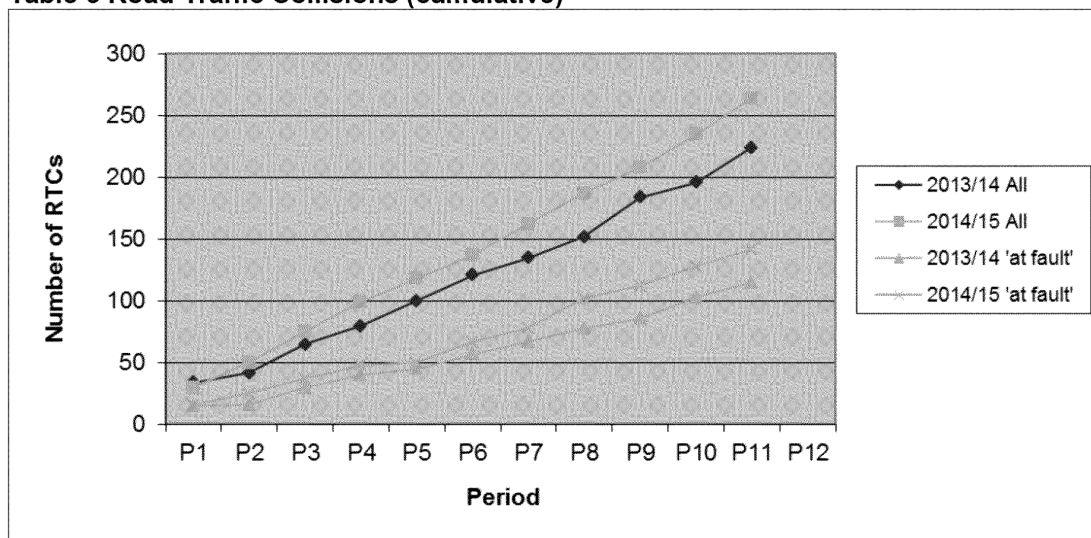
Road traffic incidents - The total number of road traffic collisions (RTCs) for the past 11 months is up 40 on last year. While this is of concern it is believed that there continues to be a more robust approach to the reporting of incidents, irrespective of severity, and what appears to be an increase in minor damage incidents e.g. broken mirrors and minor scrapes. The number of incidents where the Post Office driver is 'at fault' is also up compared to last year and accounts for 53.8% of the incidents. (Table 3 refers) Road risk reduction opportunities continue to be the subject of analysis at the Road Risk Forum with a view to identifying improvement activities in addition to those already in place. Reversing incidents remain a cause for concern and will be the subject of additional attention. Injuries as a result of road traffic collisions are extremely infrequent and road traffic collisions account for less than 3% of the overall number of injury accidents, however they have the potential for high impact in terms

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of injury and loss. Currently the majority of incidents involve low speed manoeuvres – less than 25mph.

There have been no further developments following the serious road traffic incident involving a Post Office vehicle on 6th February as a result of which the driver of the other vehicle involved was fatally injured. The Post Office driver, who received non-life threatening injuries which required hospital treatment, continues to receive support via line management and occupational health interventions.

Table 3 Road Traffic Collisions (cumulative)



Robbery - Robberies involving Post Office Cash and Valuables in Transit (CViT) crews are down 11 on last year from 40 to 29 for the past 11 months with 8 of the robberies involving no loss. Physical injuries during robberies, of which there have been 9, 2 less than last year for the same period, remain relatively minor in severity. The level of use of firearms remains consistent with last year with 5 of the 29 robberies (17.2%) enabled by the presence and/or threat of use of fire arms. There has been one occasion where the fire arms were discharged (into the ceiling). Support for those affected by robberies is provided by trained trauma supporters and professional support resources available through the occupational health service provision. Risk reduction activities are identified at 6 below. Following discussions at the Group Executive H&S sub-committee the robbery risk assessment and the business' approach to body armour is now the subject of a formal 3 monthly review.

Robberies and attempted robberies on the Post Office network, up to and including P11, are down 1 on last year to 102 of which 54.9% were successful. Injuries sustained during robberies are down from 20 to 14. Robberies take place predominantly at sub post offices leaving Crown branches largely unaffected. Supporting activities have been introduced to continue to mitigate the robbery risk and are identified at 6 below. Significant incidents are listed at appendix 1.

Overall the total number of robbery incidents at Post Office branches is 156 (including retail and ATM) of which 38 involved open plan branches and 118 'other' branches/targets. There were a total of 21 injuries (all minor) of which 4 involved open plan branches. 10.5% of open plan incidents have resulted in injury and 14.4% of other branch incidents resulted in injury. Open plan branches (all types) make up 47% of the total branch network.

Health and Wellbeing - Healthcare interventions:

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- 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, badged as Post Office 'Lifestyle online'.
- Ongoing campaign of communications to promote a range of different wellbeing issues
- Wellbeing events to promote general health, exercise and dietary initiatives
- Attendance levels are at 96.5% which compares very favourably with the public sector and relatively favourably with the private sector
- Mental health – A structured programme of activity has been running for the past 11 months to raise awareness of mental health conditions and the support available to those affected and those supporting them through face to face workshops and team talks. Mental health conditions remain the single most common cause of longer term absence, however the trend is positive with related monthly absence (days lost) down from a peak of 2274 in P5 to 1695 in P11 and occurrences (individuals affected) down from 121 in P5 to 94 in P11.

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.

Risks

7. **Road Risk** - Driving activities have the potential for high impact/loss and therefore remain as a significant residual risk. However, the actions listed below are aimed at mitigating that risk and improving performance.

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
- Revised approach to incident management to be introduced in April including:
 - Driver welfare discussion
 - In depth incident analysis with driver and risk profiling
 - Training needs analysis and provision
- Governance of all three areas of vehicle use – commercial, business car and private vehicle – is being tightened to mitigate the associated risks.

Robbery Risk - Robberies have the potential for high impact/loss and therefore remain as a significant residual risk. However the actions listed below are aimed at mitigating that risk.

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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
- Piloting new point of transfer arrangements to reduce exposure at Post Office counters - the majority of robberies take place at the point of transfer which in Post Office's is the counter where there is ready public access. The new arrangements allow for the cross pavement protection box to be emptied / filled in a secure location.
- Significant reduction in opportunities for duress type robberies linked to the introduction of single person vehicles – single person vehicles eliminate the opportunities for Supply Chain employee duress type incidents which historically have been the most violent and likely to involve significant injury.
- Reduced access to ATM cassettes to mitigate the 'high prize' risk.

Conclusion

8. All indicators are that health and safety performance remains generally strong with robust mitigating activities where significant residual risks exist.

Neil Hayward
Group People Director

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Appendix 1.

Significant Incidents (Period 11)				
Crowns and Network				
Location	Loss	Circumstances	Physical Injuries	Any further details
Hempshaw Lane SPSO 470 Hempshaw Lane, Stockport, SK2 5SU	£95,210	GRO	Nil	
Fiskerton, Outreach, Village Hall, Fiskerton, Lincoln, LN3 4HW	£3000		Nil	
Firs Lane, LM Leigh WN7 5AG	£1,055		Nil	
Shaftesbury Square Crown 1-5 Botanic Avenue Belfast, BT7 1JG	£Nil		Nil	2 previous incidents, attempted robberies both in Dec 2008
Supply Chain				
Location	Loss	Circumstances	Physical Injuries	Any further details
Cromwell Bridge SPSO 135 Gerald Road, Salford, M6 6BL	£26,000	GRO	Minor injury to neck and leg.	



Health and Safety Update

Simon Eldridge
April 2015

Performance summary

Safety

- Key indicators
 - Accidents down on last year
 - Absence accidents up on last year but from a very low base
 - Severity – measured by days lost – down on last year
 - Robberies and associated injuries down on last year
 - Employee and customer injury claims remain extremely low in volume and value
 - Reflected in the claims exposure provision down from £2m to £1.2m
 - Defensibility of claims is high due to solid processes and documentation
 - Risk profile reflected in insurance premium reduction and insurer confidence



Residual Risks and mitigation

Road and Robbery risk

- Risks associated with running an operational fleet
 - no notice fleet audits
 - improved incident reporting process
 - driver profiling
 - on site coaching for low speed manoeuvring operations
- Risks associated with business car and private car use
 - Greater visibility of incidents
 - Incident reporting process aligned with operational fleet process
 - Revised policy aligning checks with operational fleet process
 - Greater awareness of costs
- Robbery risk has greater unpredictable factors



Performance summary

Health and wellbeing

- Health and wellbeing
 - Attendance levels have remained robust (96.4%) despite a year of significant challenges (Average for employers with 5000+ is 95.6%)
 - Trauma days lost from robbery incidents down (32.6%)
 - Occupational health service partner – OH Assist – customer satisfaction survey overall satisfaction at 90.1%
 - Programme of mental health awareness events
 - Mental health monthly incidents and absences down 22.3% and 12.3% respectively
 - Programme of health checks
 - Trialing a self serve digital health check facility
 - Free on-line wellbeing zone for self serve monitoring of health and wellbeing








Postmaster Opinion Survey 2015

Executive Summary

April 2015



-  steven.frost@postoffice.co.uk **GRO**
-  **GRO**
-  **GRO**

Contents

- 1 Background and Response Rates
- 2 Results Summary
- 3 Postmaster Support
- 4 Product Advocacy
- 5 Growing Sales + Profitability
- 6 Key Recommendations and Next Steps

1. Background and Response Rate

Background

- Smith & Henderson provide surveys for 90+ franchise / business partner networks
- Clients include McDonald's, Domino's Pizza, O2, British Gas and Stanley Black & Decker

1. Health Check

- Key trends since 2013 survey
- 21/45 questions consistent with 2013

2. Better Prioritise

- Identify the biggest barriers to improving performance
- Actionable feedback for support functions and ASMs

3. Continuous Improvement

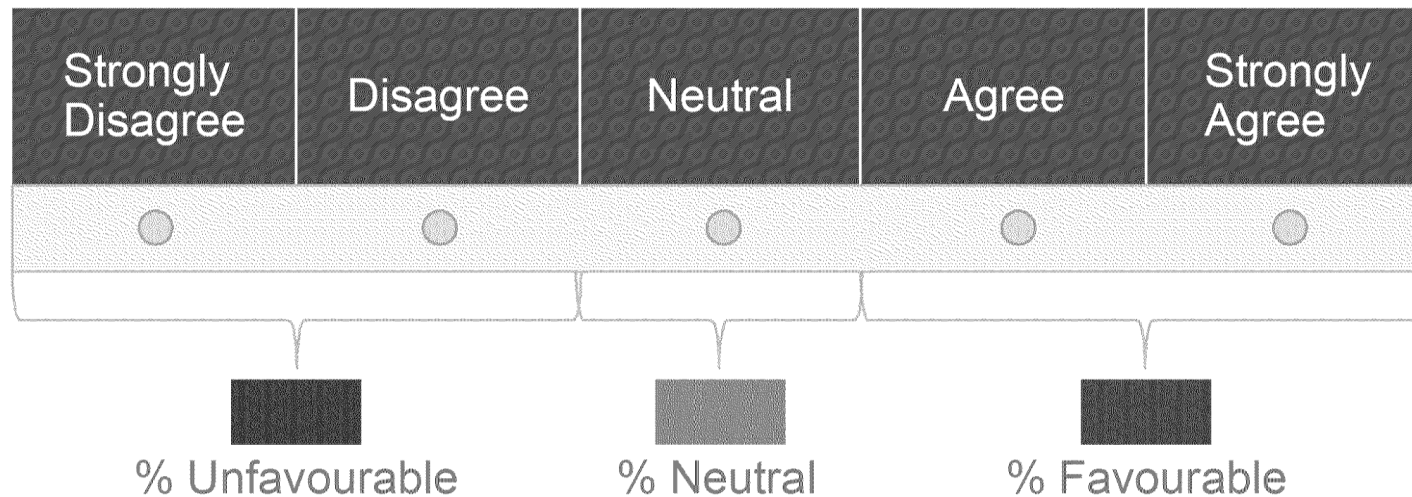
- Ownership of the survey results
- Review performance and hold accountable

Executive Summary

- Engagement has improved by 1% since 2013 survey
- However, below sector benchmark on 9 / 10 like-for-like questions
- Relatively low response rate – survey still largely paper based
- Postmasters gone through NT significantly more engaged
- Series of action planning workshops planned with key stakeholder groups (e.g. Agency Sales, NT, NBSC). These workshops designed to establish an overall Postmaster Action Plan that will be communicated back to GE by the end of May; and then progressed throughout the year.

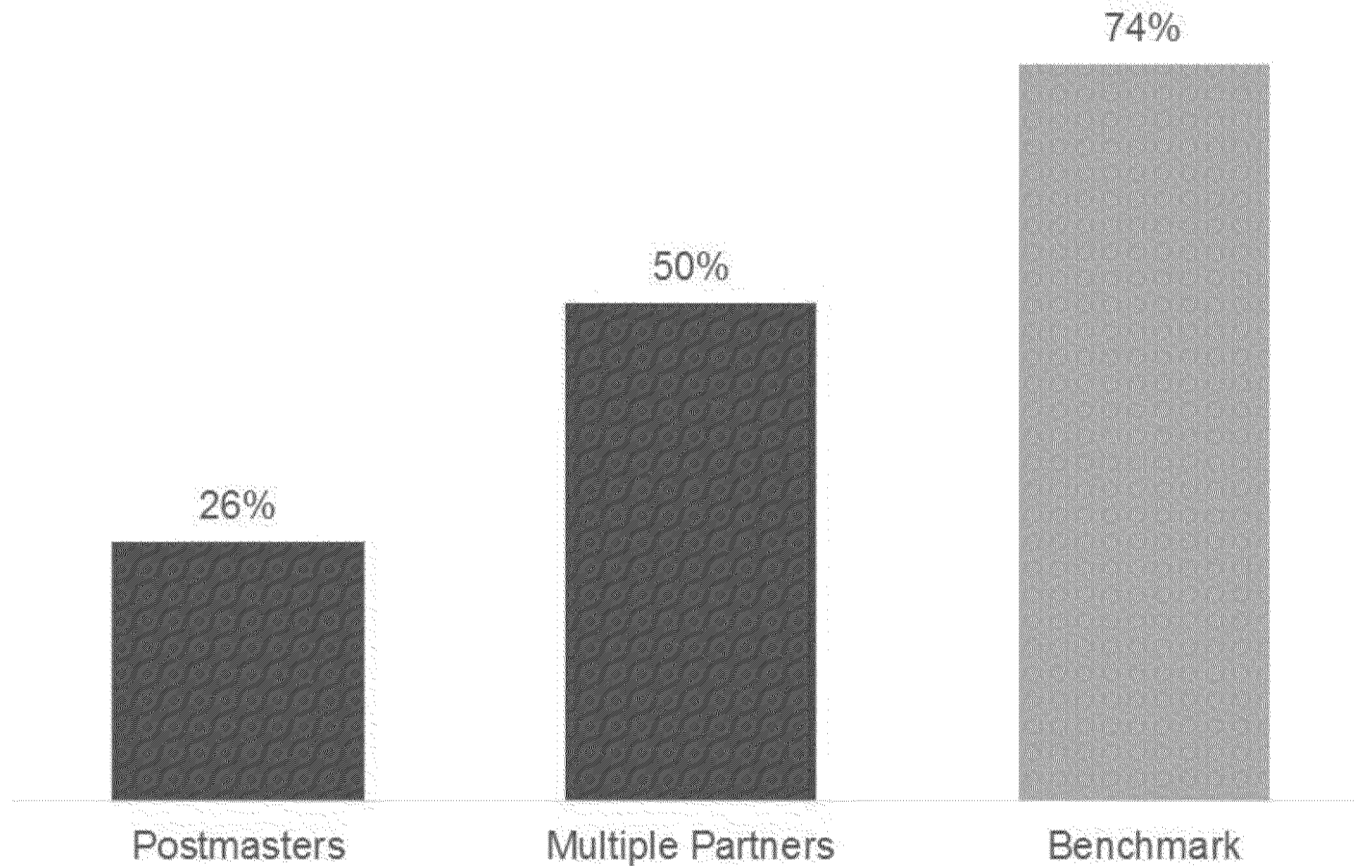
Methodology

- Survey open 26 January - 20 February 2015
- Most questions were on a five point scale e.g. The Post Office has a clear vision for the future



- 10/45 questions benchmarked against peer group of 8 franchise / partner companies – all corporate or national retailers
- Shorter survey for Multiple Partners

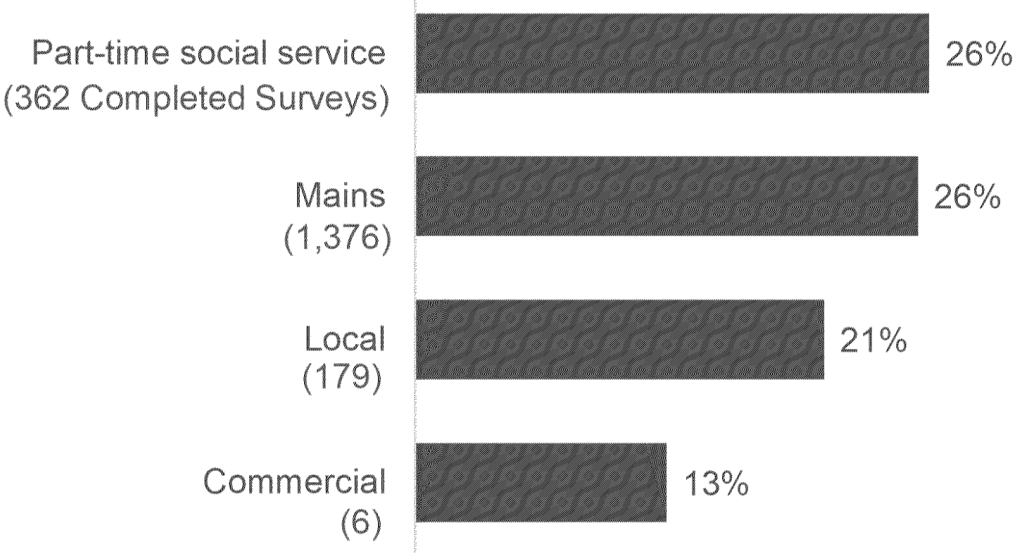
Response rate – significantly lower than external benchmark



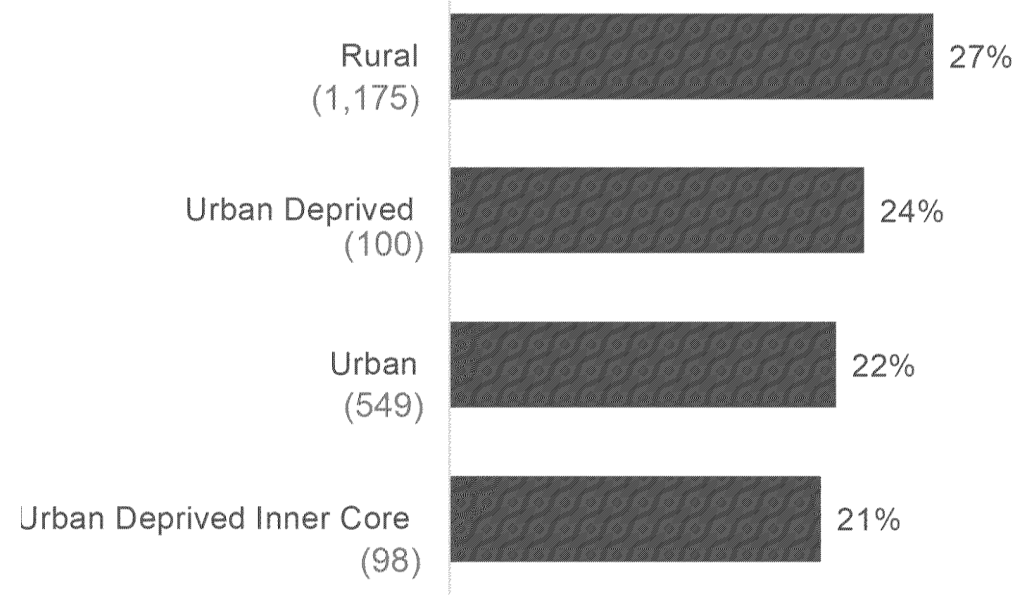
Postmasters survey statistically significant at a 99% confidence interval (N = 1,968)

However, feedback is less robust for when broken down for smaller groups

Response rate by Contract Name:



Response rate by Location Type:



Why the response rate is relatively low

1. Survey more demanding (11,000 comments received vs c.2,000 in 2013)
2. Only 31% of Postmasters believe the Post Office will act on the survey feedback (benchmark is 59%)
3. Communication channels – could not email survey links / reminders to Postmasters (only 79 out of 1,968 (4%) completed the survey online)

Postmaster email addresses currently exist in range of formats (i.e. provided as part of NT or membership to SubspaceOnline). Going forwards we will establish a robust database of postmaster email addresses that can be utilised for future survey, and wider business, communication.

Series of action planning workshops being held April – May
to generate meaningful actions

2. Results Summary

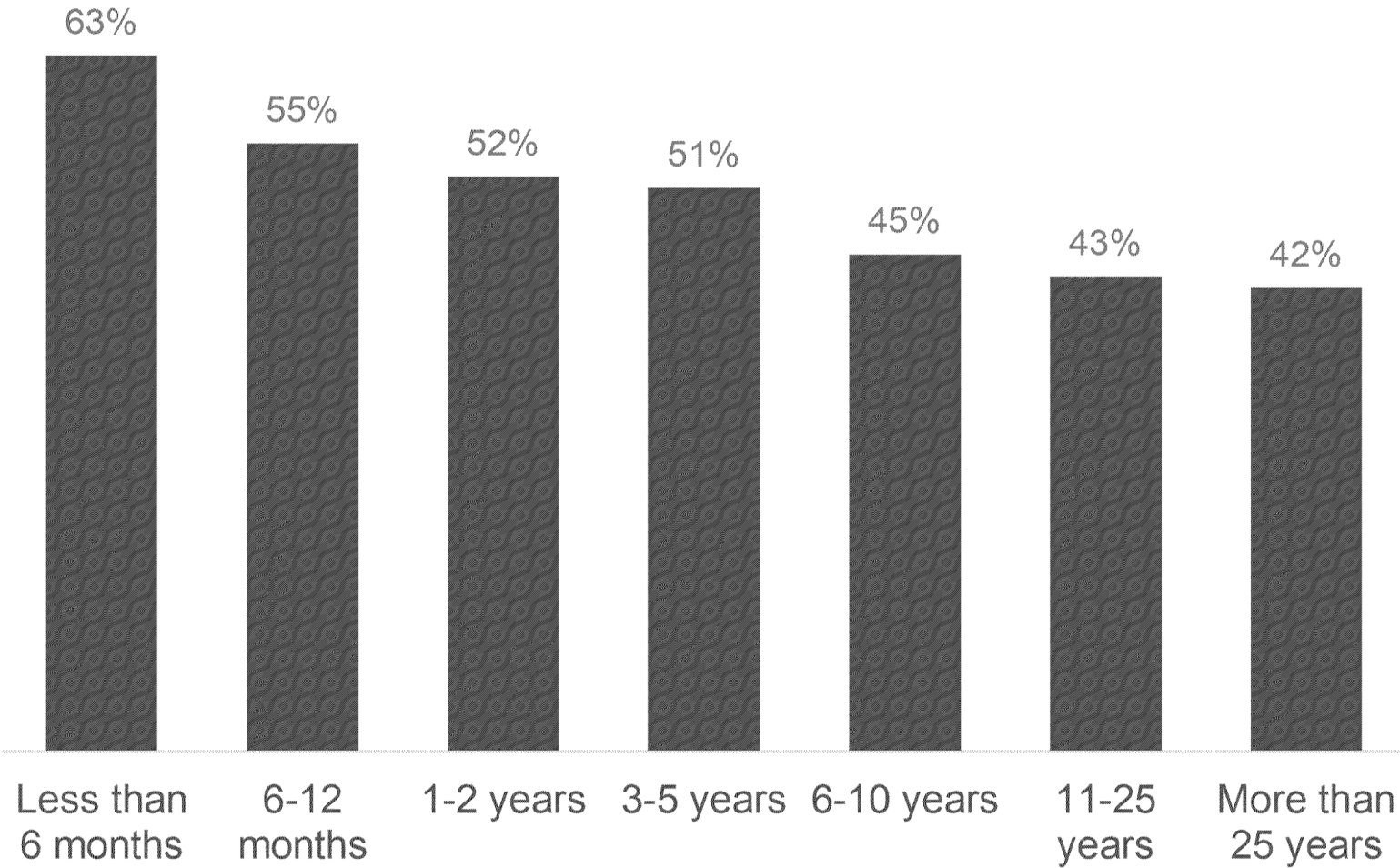
The Engagement Index has improved by 1% since 2013

Theme	% Favourable	% Neutral	% Unfavourable	Favourable Responses	Vs 2013	Vs Benchmark
Leadership & Direction	33%	30%	37%	33%	8%	-31%
Initial Training & Support	38%	34%	28%	38%	-	-
Support	47%	32%	21%	47%	-10%	-21%
Sales Support	55%	23%	22%	55%	-	-6%
Communication	58%	10%	32%	58%	10%	-42%
Products & Services	59%	30%	12%	59%	-7%	-
My Business	48%	21%	30%	48%	3%	-38%
Engagement Index	46%	26%	28%	46%	1%	-29%

The Engagement Index

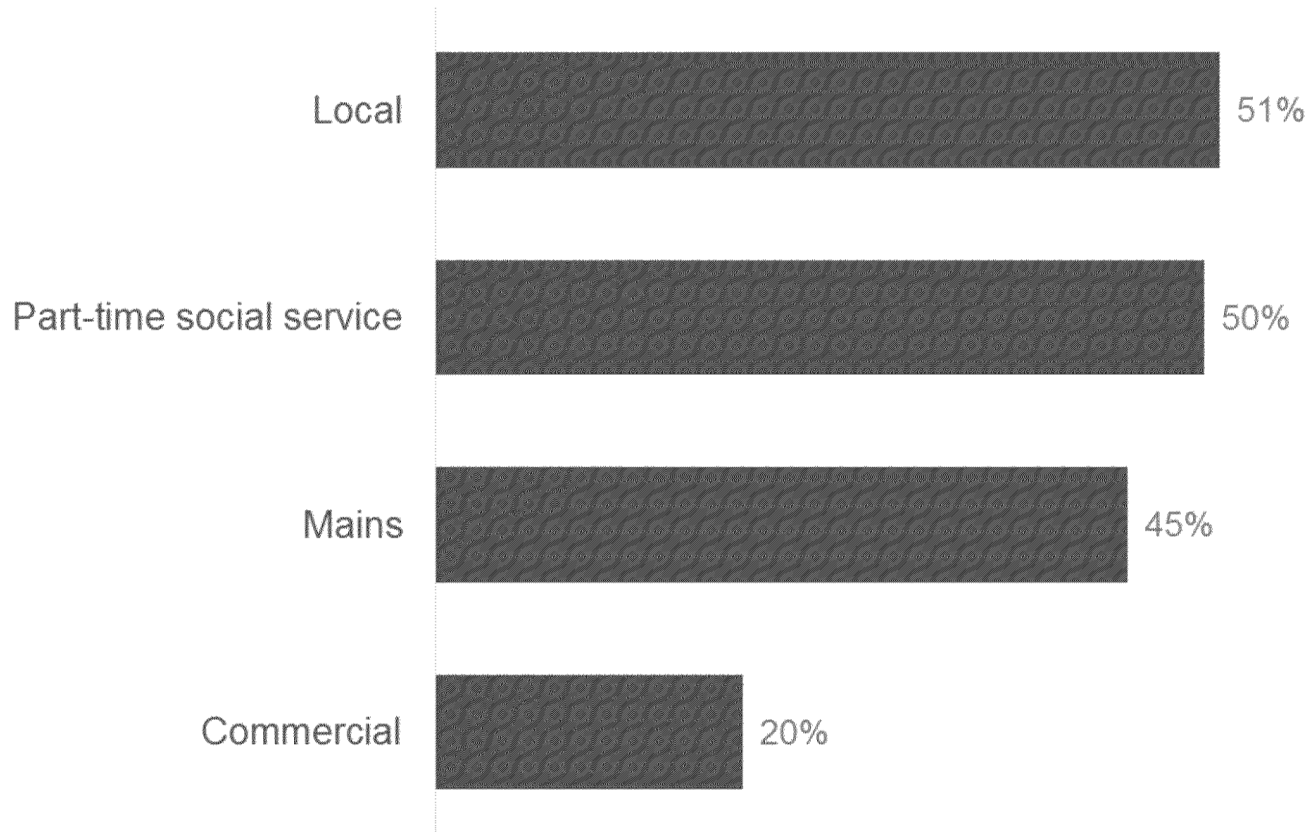
ID	Question	%Favourable	%Neutral	%Unfavourable	Favourable Responses	Vs 2013	Vs Benchmark
2	I understand the Post Office's future strategy	35%	33%	32%	35%	9%	-
8	On the whole, how satisfied are you with the support that is available to you from the Post Office	38%	32%	30%	38%	-2%	-23%
20	Overall, I would recommend the Post Office's products and services to a friend or family member	69%	22%	9%	69%	-7%	-
23	I would recommend operating a Post Office business to a prospective postmaster	38%	24%	38%	38%	4%	-36%
26	I intend to continue running my business with a Post Office in 5 years' time	49%	22%	29%	49%	1%	-

Engagement falls with length of service



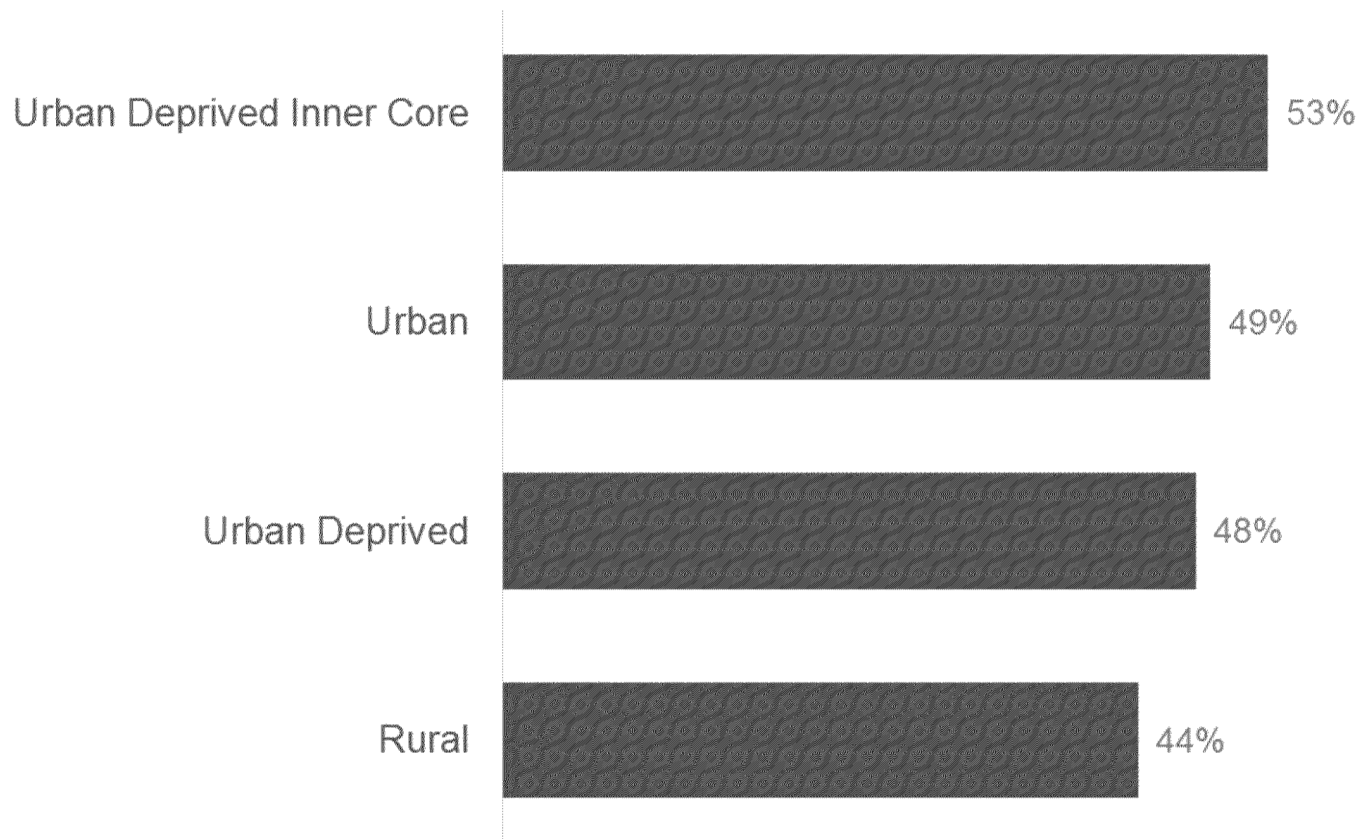
Locals tend to be more engaged

Engagement Index - Contract Name:

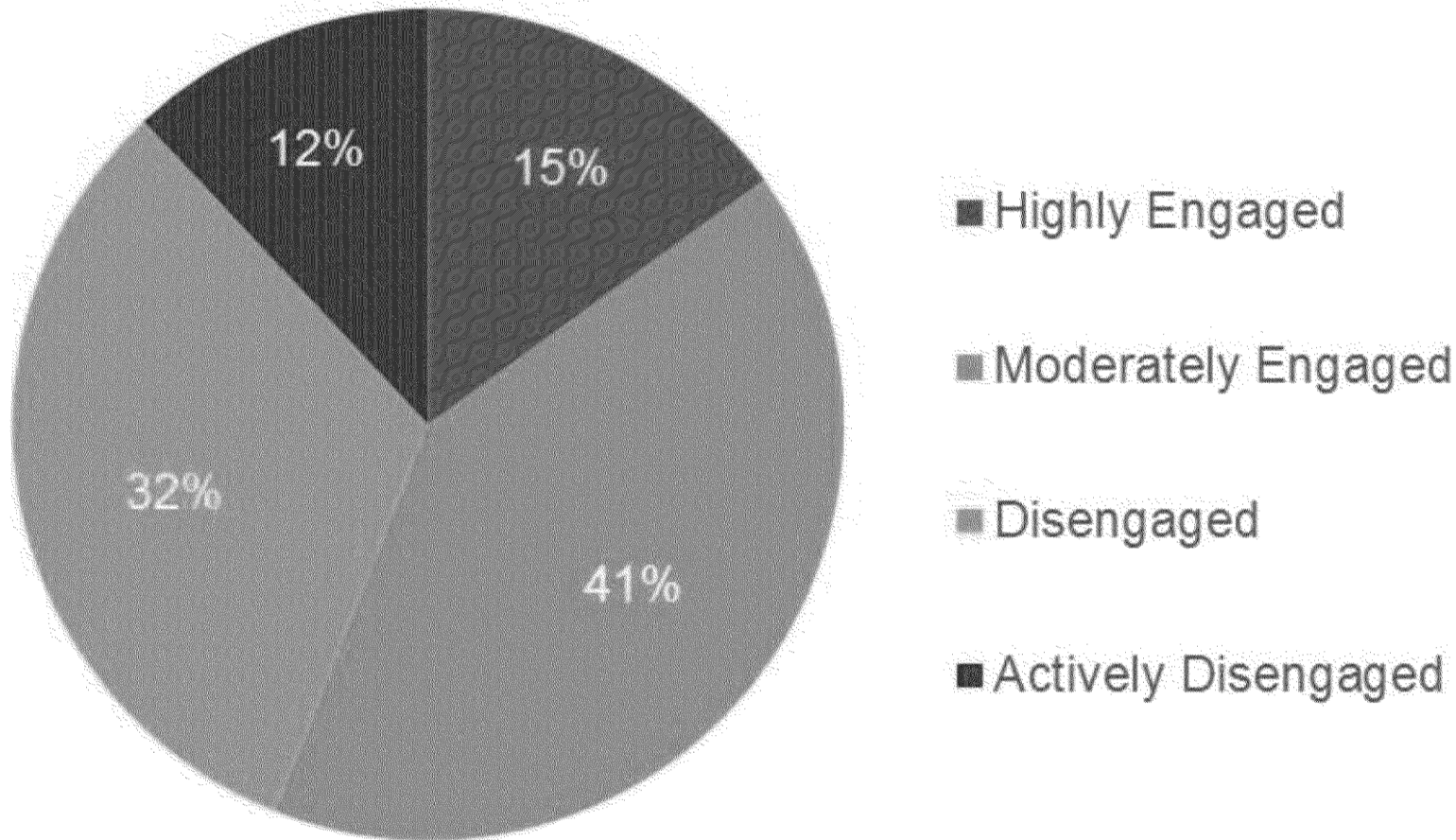


Rural locations are least engaged

Engagement Index – Location Type:



56% of Postmasters are Highly or Moderately Engaged



Based on Engagement Index: Highly Engaged mean answer > 4.0 (Agree); Moderately Engaged mean answer > 3.0 (Neutral), Disengaged mean answer > 2.0 (Disagree); and Actively Disengaged mean answer < 2.0 (Disagree)

10/21 questions improved since 2013

5 most improved questions:

ID	Question	%Favourable	%Neutral	%Unfavourable	Favourable Responses	Vs 2013
16d	In terms of providing useful information, how effective is subspaceonline.co.uk as a communication tool	57%		43%	57%	25%
16c	In terms of providing useful information, how effective is Subspace News email as a communication tool	51%		49%	51%	21%
30	How would you rate the long term prospects for your Post Office business	35%	28%	38%	35%	14%
2	I understand the Post Office's future strategy	35%	33%	32%	35%	9%
1	The Post Office has a clear vision for the future	37%	32%	31%	37%	6%

5 most declined questions:

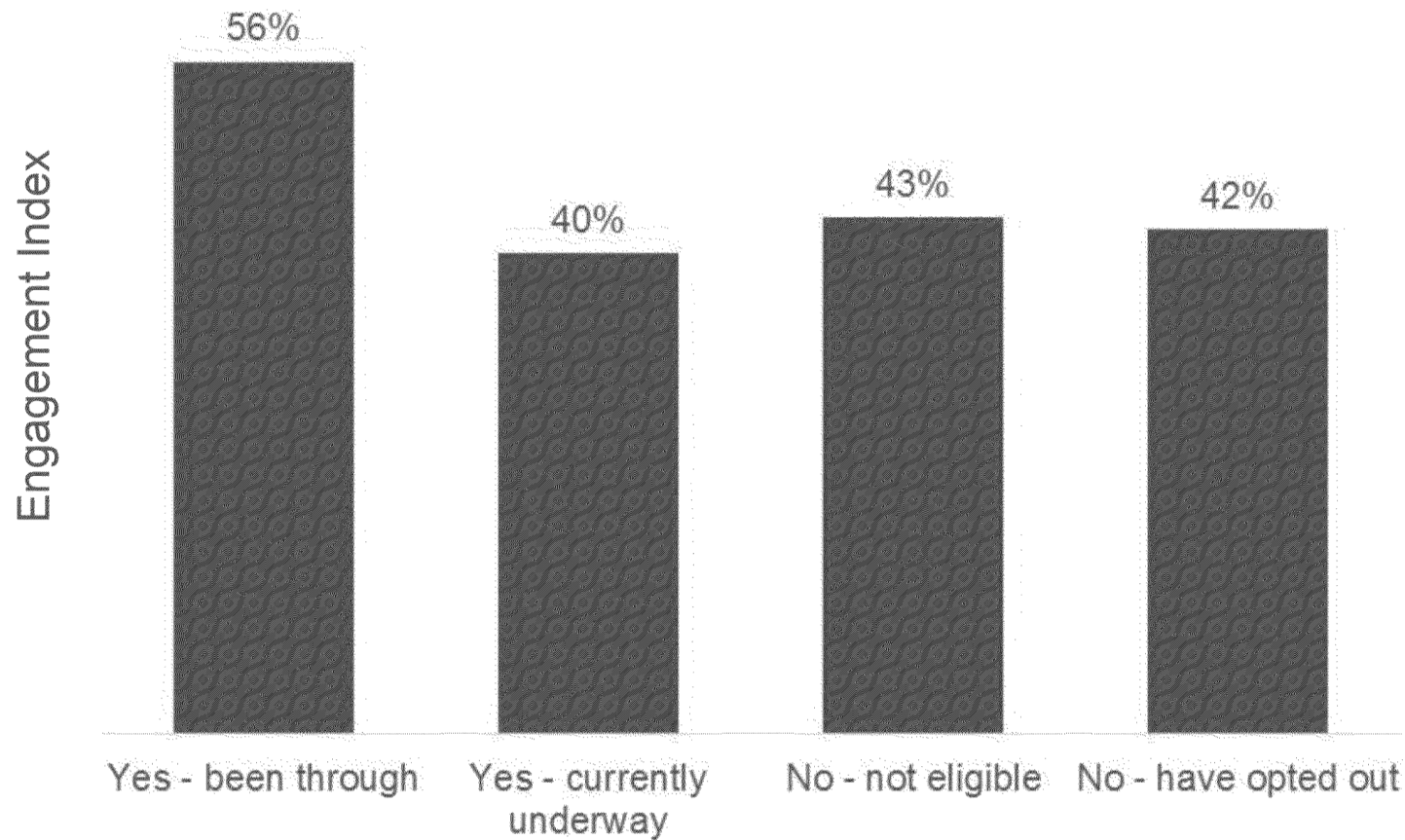
ID	Question	%Favourable	%Neutral	%Unfavourable	Favourable Responses	Vs 2013
9a	How satisfied are you with the support provided by the Network Business Support Centre (NBSC)	62%	23%	15%	62%	-21%
12a	Please rate the following support services - Campaign Guides	42%	44%	13%	42%	-20%
12d	Please rate the following support services - Training DVDs/links	34%	45%	21%	34%	-17%
12b	Please rate the following support services - Distance Learning Packs	46%	42%	11%	46%	-11%
27	How important is the Post Office to the future growth of your wider business	76%		24%	76%	-9%

9 out of 10 questions below benchmark

ID	Question	%Favourable	%Neutral	%Unfavourable	Favourable Responses	Vs Benchmark
14a	My Area Sales Manager - Helps me to grow my sales	53%	22%	24%	53%	4%
14b	My Area Sales Manager - Responds to me in a timely manner	57%	21%	22%	57%	-17%
10	The support of other postmasters is strong and we regularly communicate and share best practice	38%	33%	29%	38%	-18%
8	On the whole, how satisfied are you with the support that is available to you from the Post Office	38%	32%	30%	38%	-23%
1	The Post Office has a clear vision for the future	37%	32%	31%	37%	-24%
5	I feel valued by the Post Office as a business partner	21%	26%	53%	21%	-32%
23	I would recommend operating a Post Office business to a prospective postmaster	38%	24%	38%	38%	-36%
4	I trust the Post Office's leadership team	25%	36%	39%	25%	-38%
30	How would you rate the long term prospects for your Post Office business	35%	28%	38%	35%	-40%
18	I am encouraged to share ideas with the Post Office	22%	33%	45%	22%	-42%

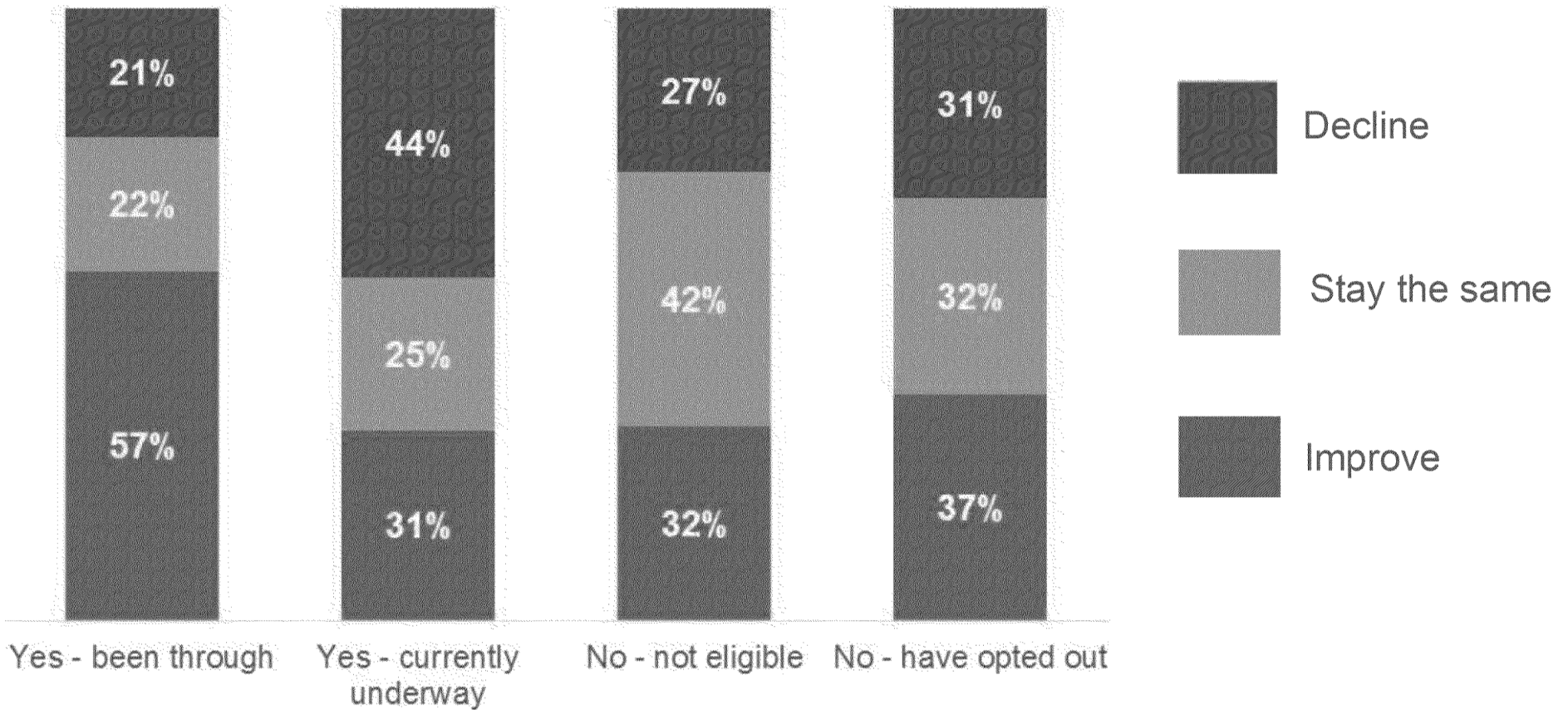
Postmasters gone through Network Transformation significantly more engaged higher on 42 out of 45 questions

Have you been through Network Transformation:



Postmasters gone through Network Transformation - 3 in 5 believe profitability will improve in next year

During the next 12 months, I expect the profitability of my business to:



On the flip side... risk that those not eligible become disenfranchised?

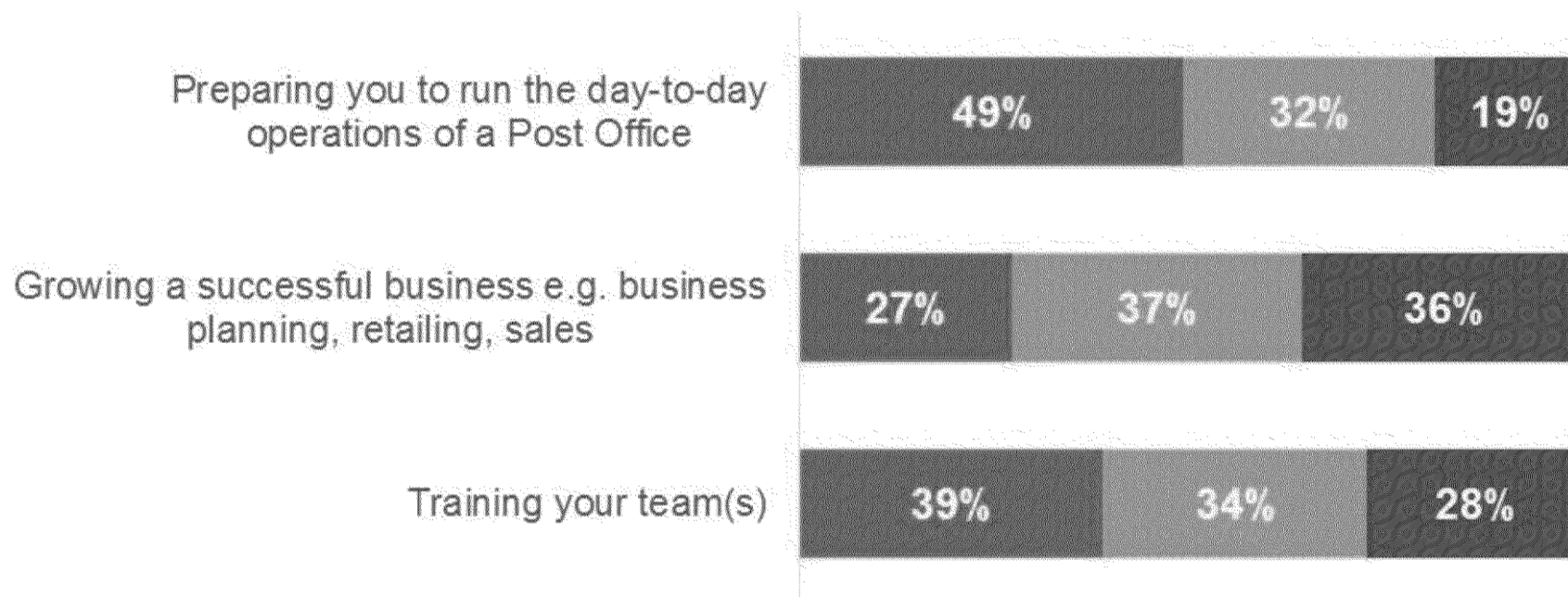
- 3 in 10 understand Post Office's strategy (NT = 41%)
- 1 in 5 feel valued (NT = 28%)
- 2 in 5 have plan to grow their business (NT = 67%)
- 3 in 10 rate their long term prospects of their business positively (NT = 47%)

Compounded if no ASM and cannot sell full product range

3. Postmaster Support

Initial training and support for new Postmasters focused on technical processes, not growing a successful business

How would you rate the initial training and support in terms of:



“Training good (day-to-day operations) but no input given what so ever (for growing a successful business)”

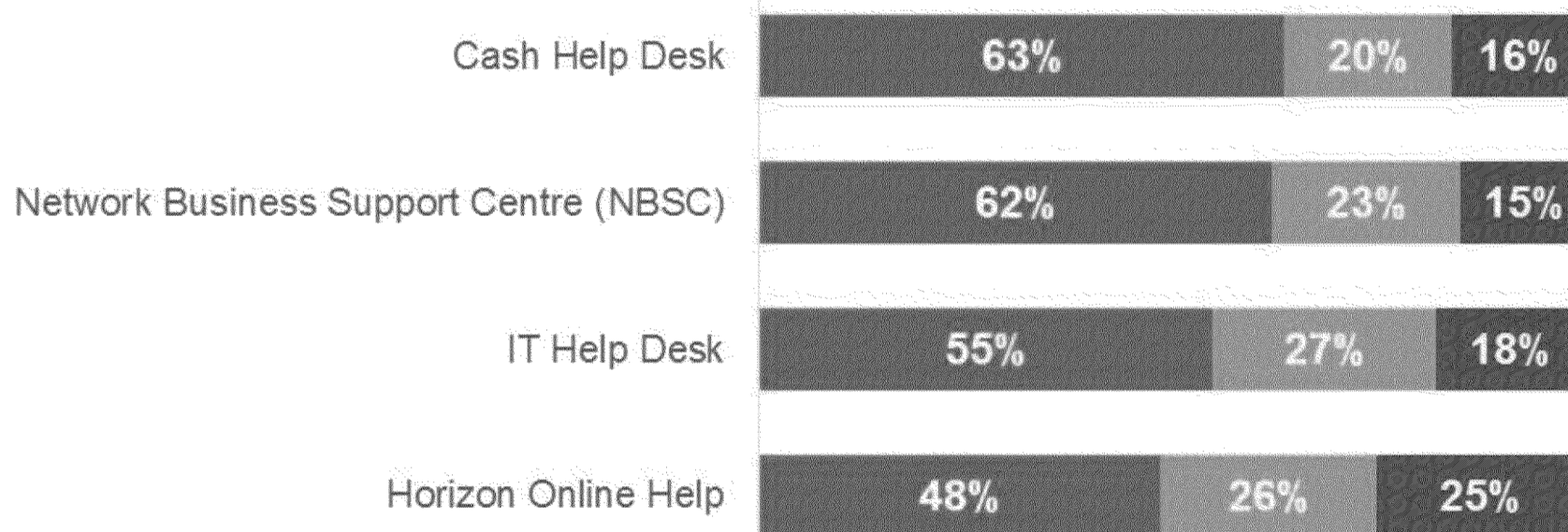
Half of Postmasters want additional marketing training to help them grow their business

If the Post Office was to offer me additional training/development opportunities, I would select the following:



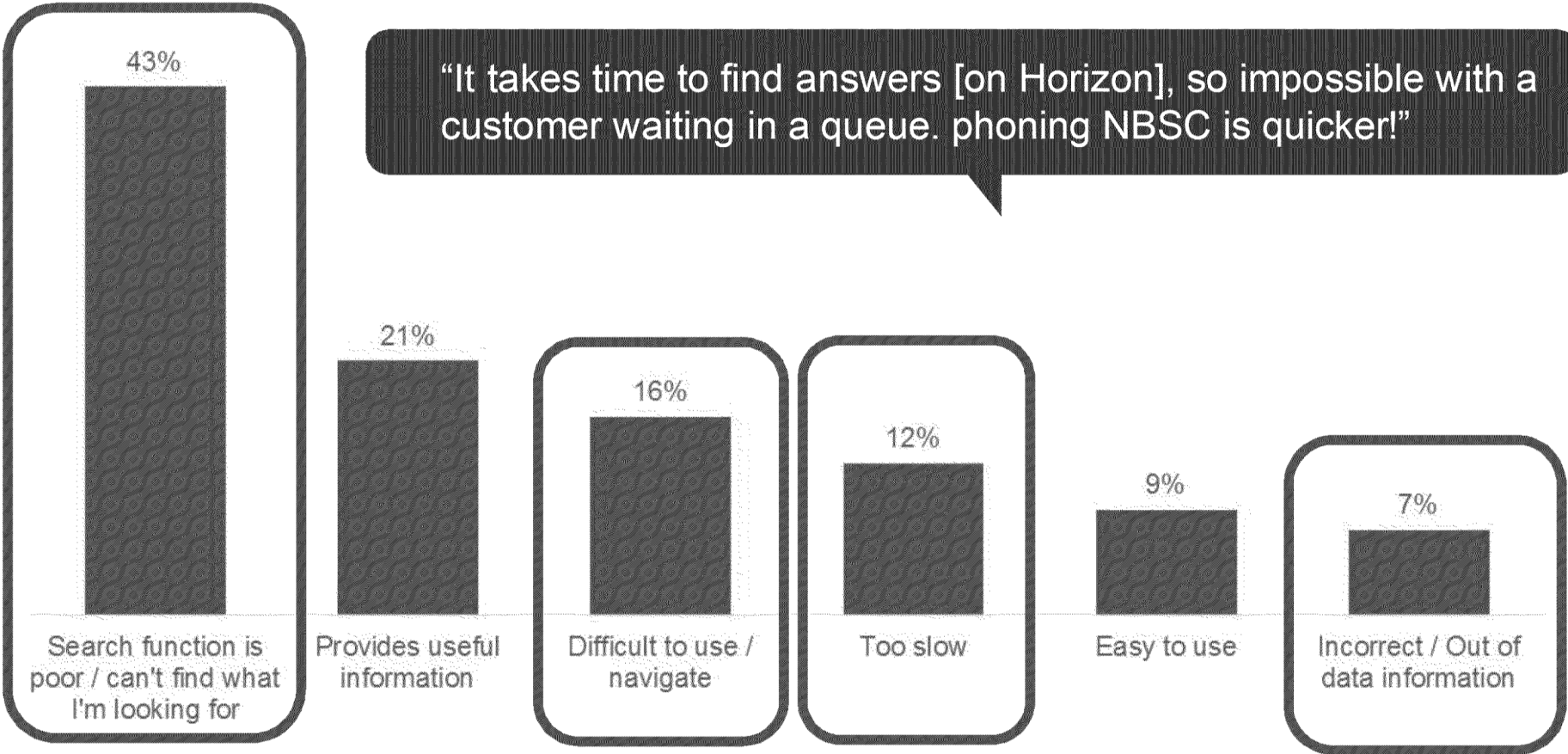
Head office support

How satisfied are you with the support provided by:



Multiple Partners more critical of head office support – called “Strategic Partners” but feel support doesn’t reflect this

Horizon Online Help - comments



Note. General or unrelated comments not included

Sales support

ID	Question	%Favourable	%Neutral	%Unfavourable	Favourable Responses	Vs Benchmark
14a	My Area Sales Manager - Helps me to grow my sales	53%	22%	24%	53%	4%
14b	My Area Sales Manager - Responds to me in a timely manner	57%	21%	22%	57%	-17%
14c	My Area Sales Manager - Motivates me to give my best	52%	22%	26%	52%	-
15	Guiding Coalition - The coaching helped me improve Mails income	58%	26%	16%	58%	-

“[The Guiding Coalition] helped me to understand how to make more money by selling the same product by using a different approach”

Multiple Partners – satisfied with support from dedicated team but not the wider business

ID	Question	%Favourable	%Neutral	%Unfavourable	Favourable Responses
7	The Post Office as a whole	36%	50%	14%	36%
8	Your Relationship Manager	79%	7%	14%	79%
9	Your Network Transformation Planning & Implementation Manager	93%	7%		93%
10	The Network Business Support Centre (NBSC)	36%	57%	7%	36%
11	IT Help Desk	21%	64%	14%	21%
12	Cash Help Desk	14%	71%	14%	14%
13	Property Projects/RLB	14%	29%	57%	14%

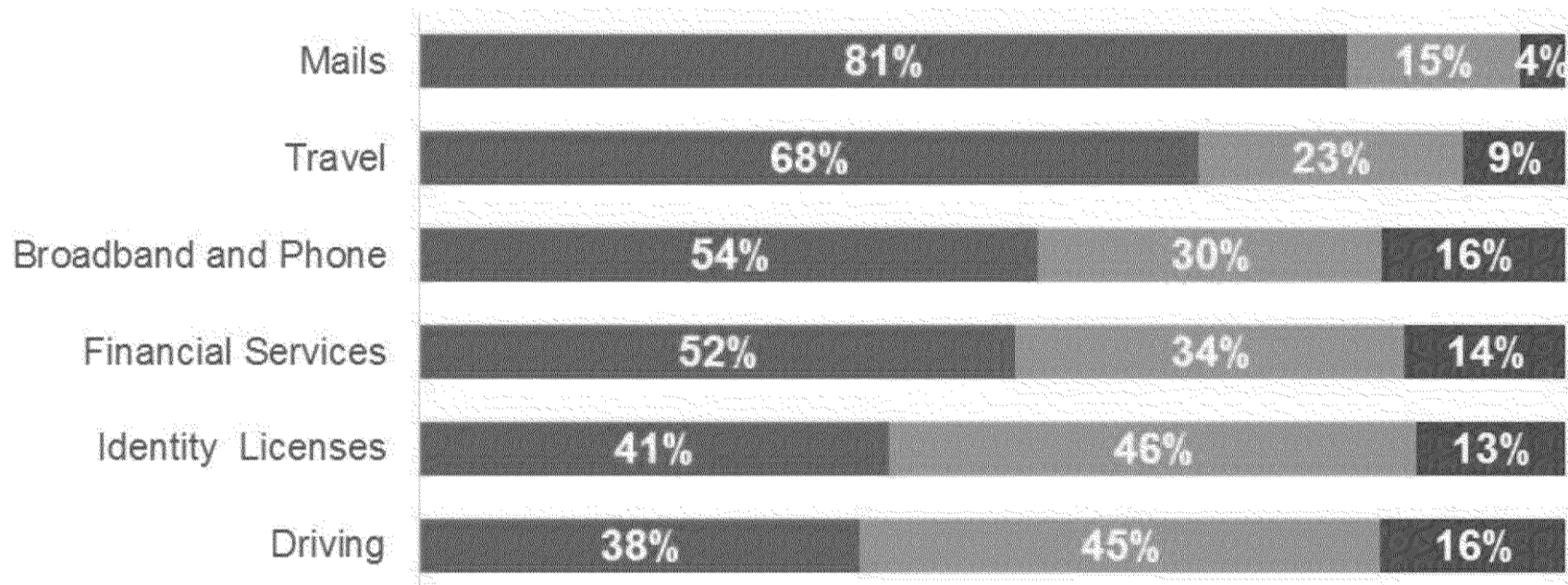
“RLB are a complete waste of money and in the main, rely on Multiple Partners Area Managers to oversee the bulk of works completed on site. POL could save a great deal of time and money by bringing this work in-house”

“EVERY letter that comes from POL, regardless of department, should come with a direct line telephone number. Too often you get passed from pillar to post when you have enquiries. Incredibly frustrating”

4. Product Advocacy

Product advocacy

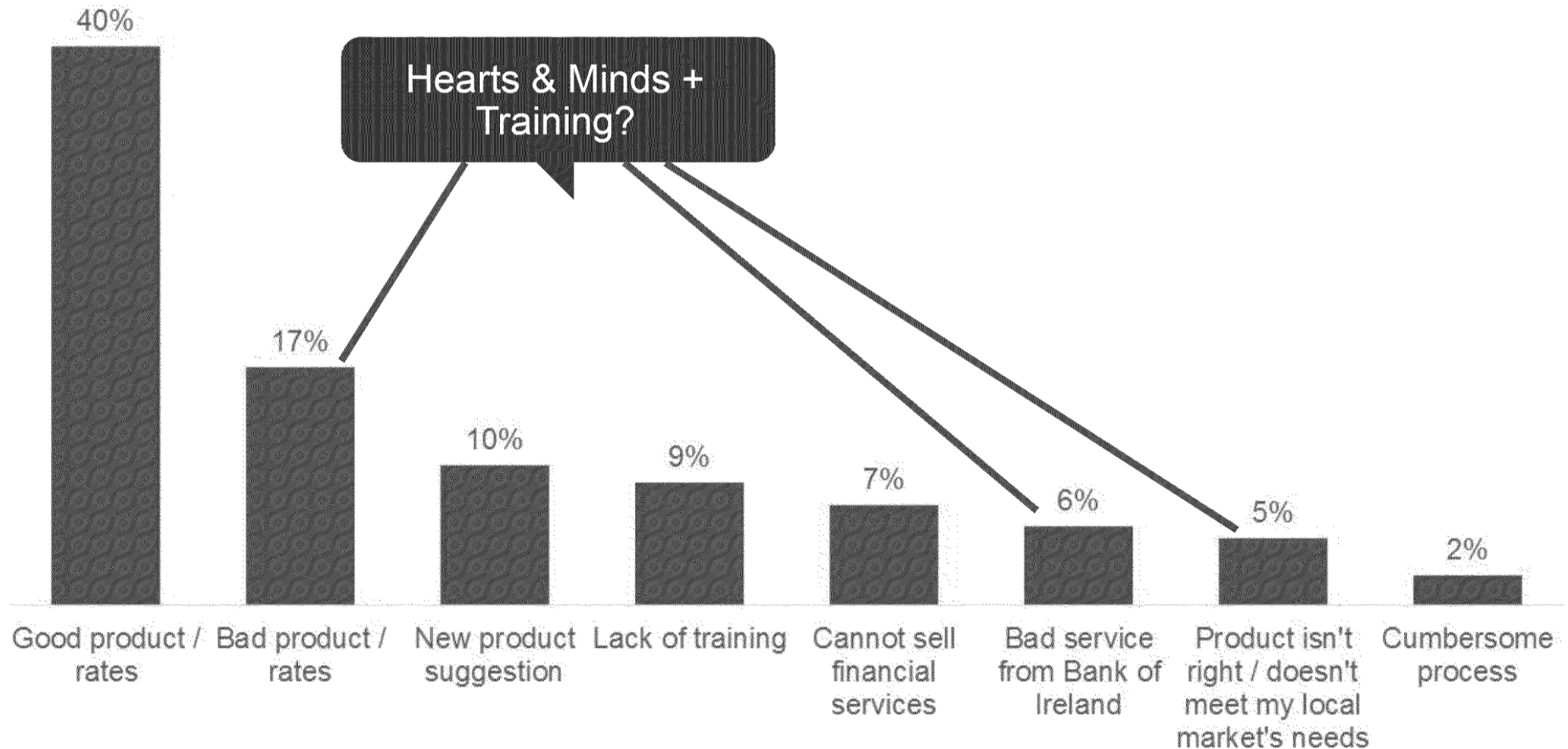
I would recommend the following products:



3,700 comments for product teams

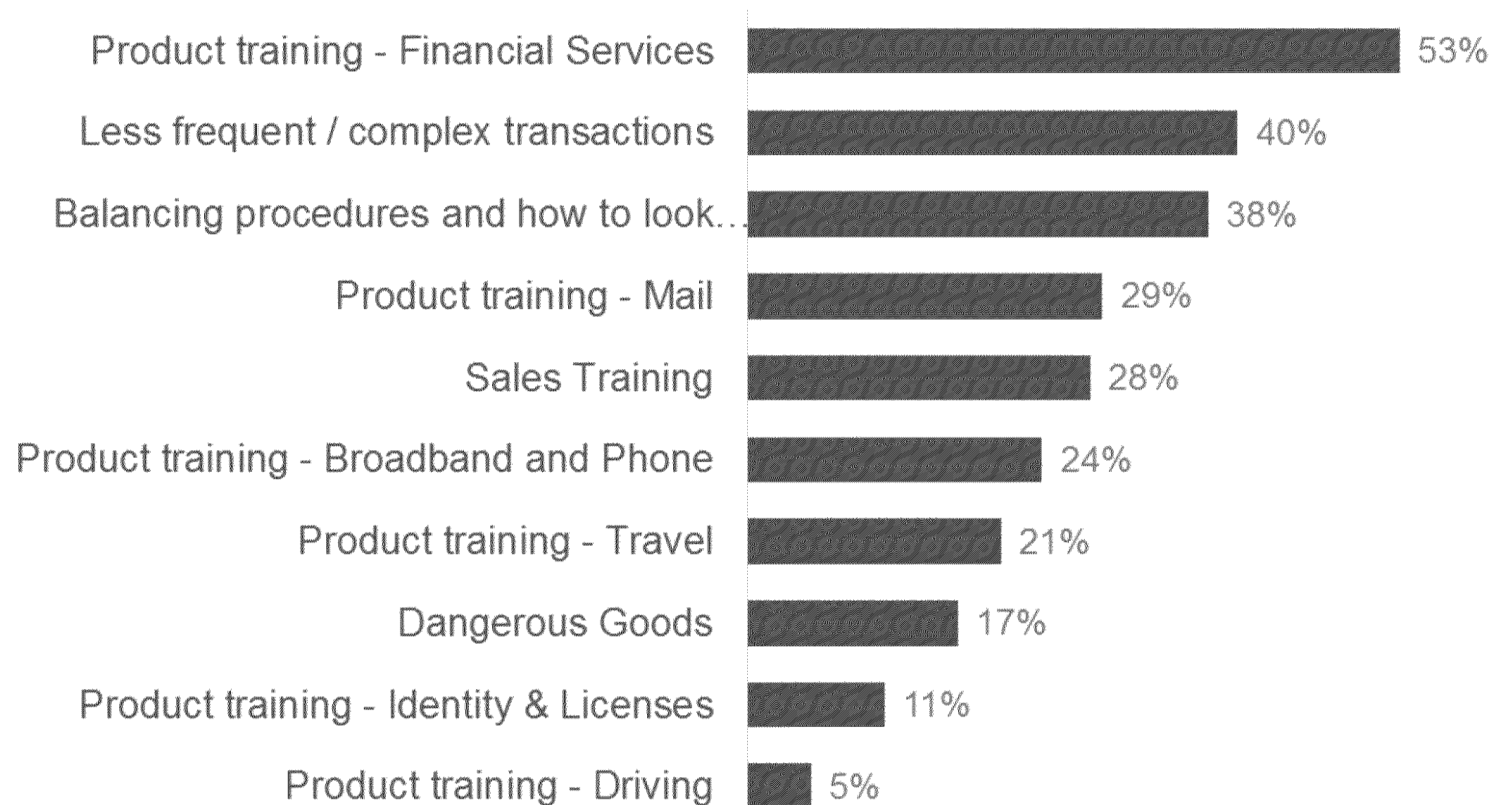
Financial services - comments

Please explain why you would / would not recommend Post Office FS products:



Financial Services is the top online training priority

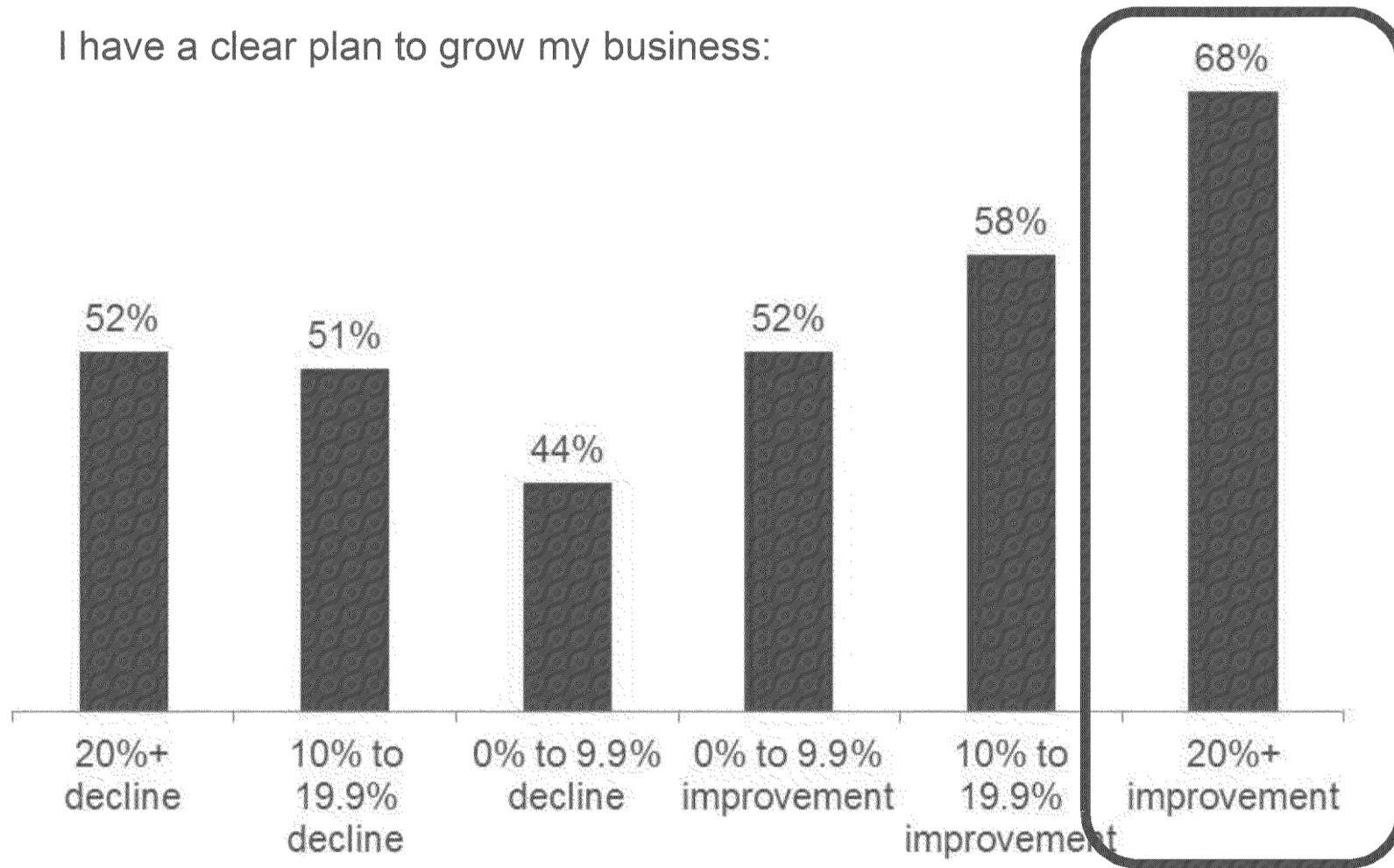
The Post Office plans to invest in online learning/training. What areas would you like us to prioritise:



5. Growing Sales + Profitability

Postmasters with a business plan perform better

I have a clear plan to grow my business:

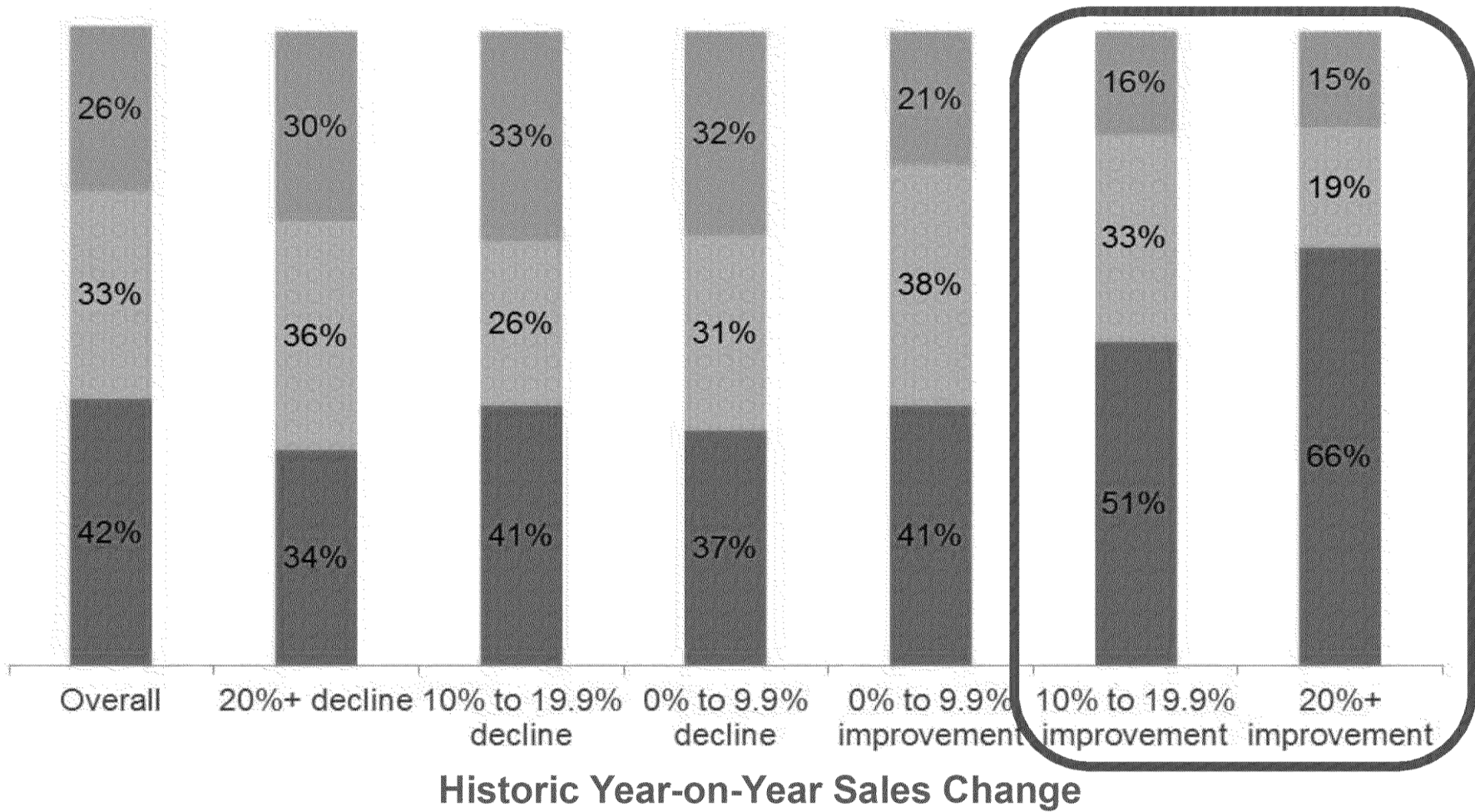


Historic Year-on-Year Sales Change

Top performing Postmasters have more ambitious growth targets

During the next 12 months, my target for the Post Office sales is to:

■ Stay the same ■ Grow 1-5% ■ Grow 6%+



Opportunity to change network make-up?

1. Actively Disengaged (12% of network)
 - Affecting morale?
 - Looking to leave but often cannot find buyer for business – feel “trapped”
2. Top Performers
 - 15% highly engaged
 - 39% of those that have grown sales more than 20% in last year, would consider opening another Post Office

Should we be promoting opportunities to become multi-location Postmasters?

Could this help leverage limited field support (ASM) resources?

6. Key Recommendations and Next Steps

Summary and Next Steps

1. Align support with driving sales

- Training for new Postmasters – focus more on growing business
- Build on Guiding Coalition work and NT
- Online training for financial services
- Ensure all Postmasters have a business plan with written goals

2. Head office support

- Improve Horizon Online Help to reduce NBSC call volumes and free up resource
- Treat “Strategic Partners” as strategic partners
- Treat Postmasters as internal customers

3. Re-engaged or exit

- 32% disengaged – how can we build better relationships, especially if no ASM?
- 12% actively disengaged – how can we help these exit?
- 39% of top performers (20% year-on-year growth) want to expand

Next steps

Workshops with:

- Multiple Partners
- NBSC
- Sales
- Network Transformation
- Branch Support

Action and Communications Plan

- Postmaster Action Plan to be shared with GE by end of May
- Postmaster Action Plan communicated to business in April

Review Progress (Annual Survey)

- Worthy metric in 2016/17 bonus
- Link to performance agreements / appraisals of senior managers



Postmaster Opinion Survey 2015

Executive Summary

April 2015



Thank you

Post Office – Your Views Count Results Presentation

APRIL 2015 | CONFIDENTIAL



Purpose of this session

- In advance of the GE on April 16, each Director has had a 1:1 to take them through the employee survey results in detail. The focus of the GE session will therefore be on action planning rather than discussion of results.
- As part of their 1:1 briefings, each Director has been asked to consider the 2-3 big ticket items that could be included as part of an overall business action plan (collectively owned by GE) in response to the survey
- The aim of the GE session will therefore be to discuss and agree the priorities / potential actions that will form the overall GE Action Plan
- The GE session on April 16 will be followed by two additional sessions in:
 - ✓ **24 April SLT Session** to engage the SLT with engagement priorities and highlight external best practice
 - ✓ **7 May GE Session** to finalise overall GE Action Plan

Key Messages

Post Office has achieved great improvement in the last year. However, there is still work to do as scores remain low in some areas, with big gaps against industry benchmarks. This level of annual improvement will not be sustainable without addressing core performance drivers which are impacting employee effectiveness at Post Office.

Challenges to address in 2015:

Strategic challenges

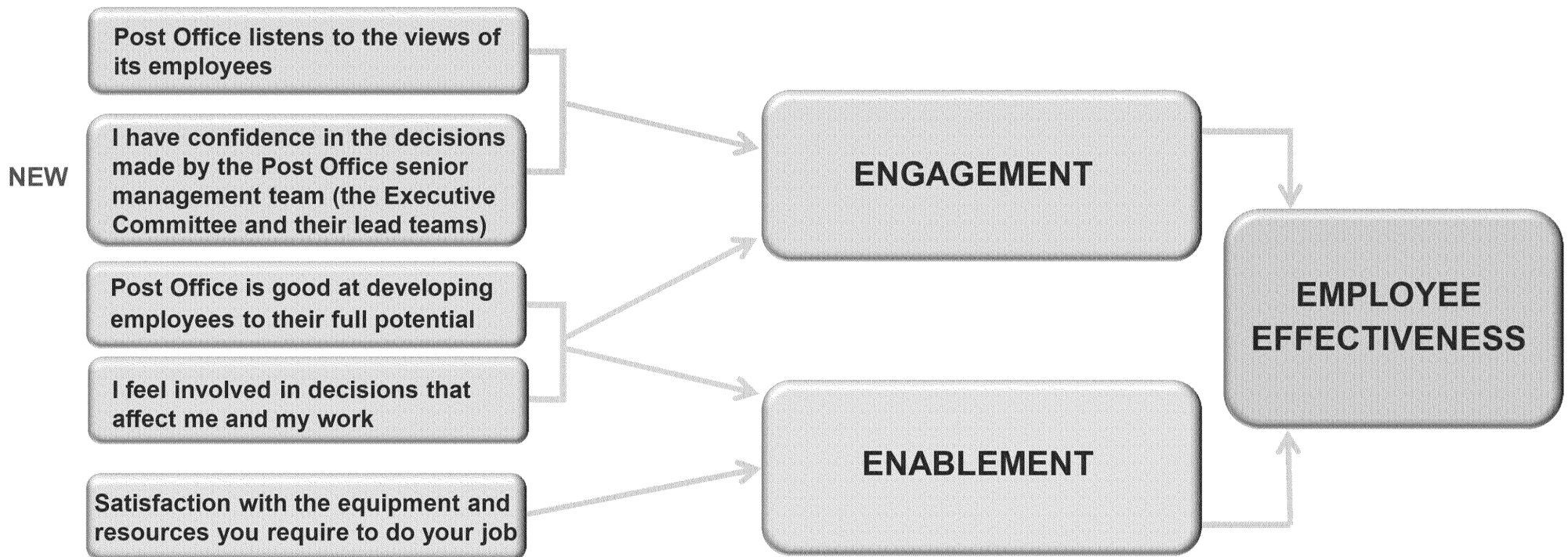
1. Buy-In / Engagement of Senior Managers
2. Create greater clarity around the strategy and direction

Operational challenges

3. More efficient decision making processes
4. Improved performance management and more development opportunities

Key Drivers of Engagement and Enablement have remained consistent this year

The only change is confidence in decisions made by senior management – this has become a more important driver of engagement in the last year.





The Crown Network Strategy 2015-2018

Version 1.3
10 April 2015



Background to this presentation

As part of the 2010 funding agreement with Government, the Post Office committed to invest in the Crown branch network and bring it to a breakeven position by March 2015. To achieve this required one of our biggest change programmes in recent years. The Crown Transformation Programme (CTP) has been a £130m programme with a wide-ranging scope covering; physical property works in over 300 branches; development of the new estate of 500 self-service kiosks; redundancy projects covering 1300 staff (c30% of the workforce); 15 branch relocations, mergers and closures; and the franchising of 50 of the most loss-making branches to new agency-network operators. Colleague engagement has been a major part of the change journey and this has been achieved through vision events; span of control changes; and the re-training of 3200 staff. All CTP change has been done whilst growing income in the transformed branches as well as maintaining their customer and wait time satisfaction scores.

Against the originally planned scope, a significant amount has already been achieved. At the start of CTP, the Crown network comprised 373 branches which were losing c. £50m a year. Enormous progress has been made, however the residual Crown network of 314 branches is not yet at break-even, hitting a run-rate of £6-7m losses at the end of FY14/15.

As we move towards the scheduled completion of CTP, there is a natural question of “what next” for the retained Crown network. An initial set of proposals for the post-CTP Crown network were established in November 2014 as part of Business Transformation. These proposed franchising c80 further Crowns, however these proposals were subsequently rejected by the Board due to their poor ROI, delivery risk profile, and the need for a more comprehensive and compelling vision for the remainder of the Crown network. As well as defining a long-term strategic direction and making choices about how this is implemented, it is also important for the business to consider how to achieve the breakeven point in the residual network as soon as possible, balancing this as part of the overall risk profile of the post-CTP Crown’s strategy.

The Crown network and Crown transformation management teams were set the task of setting out a vision and proposed three year strategy for the Crown network, which is described in this presentation.

Decisions required of April Group Executive meeting

The Group Executive is asked to note:

- 1) The three-year Crown network strategy as set out in this paper.
 - 2) That this strategy is consistent with the work being undertaken to assess a potential WHS strategic partnership.
 - 3) The incorporation of up to 7 branch merger (closure) projects within the base 15/16 scope in order to expedite breakeven, and that detailed assessment of each will be conducted by CTP Meeting before moving into implementation.
 - 4) The Transformation Management Group has approved an initial £1.1m of 15/16 funding to deliver a small portfolio of quick-win initiatives to further improve Crown network profitability; as well as seed-fund the development of further CTP2 feasibility assessments and business cases.
-

The Group Executive is asked to endorse that:

- 5) Further work is mobilised under CTP2 to develop full business cases and project plans for; POCA automation via SSK; proposals for a new workforce management system; a programme of up to 7 branch closure/merger projects for 15/16; and proposals to further monetise available space in the network including a new Crown retail offer. Funding would be released via business case approval at Transformation Committee during Q1. Initial forecasts are that these initiatives will require a total three year budget envelope of £24m, and each will offer a payback period of under three years.
 - 6) Further work is mobilised under CTP2 to report to Transformation Committee during Q1 with a full business case on the forward view of investment levels required for POL to respond to “forced” network change. Similar “BAU” changes were absorbed under the CTP1 programme (e.g. relocations forced upon the Crown network by evictions and other landlord acts outside of POL control). Funding would be released via the Transformation Committee, with the CTP Meeting also working to ensure alignment to the CTP2 strategy. Initial forecasts are that this will require a total three year budget envelope of a further £13m.
-

The Group Executive is asked to decide if:

- 7) Further work is required of CTP2 to fully feasibility assess the proposals for up to 26 reduced service offer branches and up to 59 further franchise, merger and closure projects. If so, the CTP2 team will mobilise work to complete this and report back to Transformation Committee with full business cases during Q1. Initial forecasts are that these initiatives will require a total budget envelope of a further £24m, and will offer a payback period of under three years.
 - 8) Further work is required of CTP2 to complete a full assessment and develop a strategy to better align Crown labour costs to market rates over the term of the strategy. Options would be developed as part of the CTP2 programme during Q1 of 15/16 in conjunction with the P&E team and IR Steering Group, and then presented back to GE.
-



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Our vision of the Crown network

We want a flagship network where the customer comes first. It will comprise:

- **Busy, strongly branded, branches in great retail locations**
 - at the heart of our large towns, boroughs and cities;
 - with high footfall; and
 - an increased proportion of customer spending on discretionary products, particularly in FS.
- **Profitable, and easy, ways for our customers to do business with us**
 - through a simplified product set, sold by motivated, knowledgeable staff;
 - with great customer service;
 - more technology-enabled customer journeys;
 - and product ranges that better match the needs of the local customer base.
- **Our largest scale branches**
 - where we can drive benefits of scale;
 - with space to create professional-looking, always staffed, FS environments;
 - with high quality retail, complimentary to our core products;
 - and technology enablers such as self-service kiosks, which allow efficient staffing;
 - but without underutilised or vacant space that could otherwise generate better returns.



Our vision of the Crown network

The Crown network will benefit the wider Post Office business strategy. This is by:

- Delivering a commercial rate of return for the Post Office P&L.
- Providing a strong, positive, brand presence on the high street.
- Supporting the business' strategies to be the leading challenger bank in the UK and win in the mails market. Particularly by creating the environments needed for highly professional Financial Services sales and support, and by making us easy to do business with in terms of mails customer journeys.
- Enabling the business to take new products, changes to branch formats, and new technology to market quickly, proving them in Crowns before rolling out to the wider network .
- Helping the business easily demonstrate the control environment needed for products where compliance is crucial (e.g. FCA compliance in Financial Services, Home Office compliance for UKVI).

To deliver this vision will require further, programmatic, change. This will include:

- Putting the customer at the centre of our change programme.
- Changes to the Crown network's size, locations and branch formats.
- Further automation of high-workload customer journeys.
- Increased monetisation of the physical space we have.
- Ongoing discipline on staff and property cost.
- Continued investment in our people to grow a workforce with the specialism and professionalism required for our flagship branches.



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Lessons learned from CTP

Relevant experiences from CTP have helped us shape the future Crown strategy.

Under CTP we have:

- Made major changes to branch formats and customer journeys, taking colleagues and customers on the journey with us.
- Retained and up-skilled the staff that want to stay with the Post Office while allowing those to exit that either don't want to stay or that we no longer want to retain.
- Taken £20m of staff cost out of the retained branches, with the support of technology-enabled change.
- Taken £7m of property cost out of the same branches through tight management of leases and supplier contracts.
- Re-shaped the Crown network through more than 60 mergers, closures, franchises and re-locations, working together with colleagues in the agency network to maintain or improve service provision in the local areas.

However we also know that:

- Over-reliance on income growth as the basis of a strategy for improved profitability is too high risk. Over the three years of CTP, over £15m of additional cost cutting scope had to be introduced to plug the gaps which emerged when successive commercial re-plans showed the originally planned £18m of income growth would not materialise.
- Staff cost savings, and the associated duty revisions, are very difficult to achieve without taking our people along with us. There is a risk that any future headcount savings sought are likely to be bargained for in a wider collective agreement. POL will have to take a strong line on pay control.
- Externally presenting Crown network changes as a major, high-profile, change programme, invites us to make inflexible commitments up front to stakeholders and staff, and adds scrutiny from other public bodies. Internally managing change in a programmatic way is essential, but avoiding external, high-profile, labels has advantages.
- Franchising poorly performing Crown branches onto Mains contracts is unattractive to partner organisations, who dislike the diseconomies of scale; large footprints required; low income generated; TUPE risk; and public / political pressure against franchising.



Challenges still to be faced

To move from breakeven to a commercial return, three major hurdles remain

Staff costs

- When benchmarked to other retailers who staff large branches, for example WHSmith, Crown counter staff are paid >20% (£5 - £8k p.a.) more. Re-setting pay in line with other retailers, such as WHSmith, would theoretically see staff costs reduce by £15m- £20m (depending on the approach taken to bonus and pension). If this could be effected without otherwise impacting income or other aspects of the network, it would generate an operating profit margin for the Crowns of >10%. However this cannot be achieved in the short term as forced buy-downs are not viable based on legal and IR advice, and the impact on employee engagement and IR would be severe.
- Thus for the Crown model to reach a commercial rate of return, we must do more to assess and then implement appropriate levers on staff cost such as; further automation and product simplification; regional pay bargaining; a lower starting salary for counter staff, with slower and more graduated pay progression; and the creation of a lower paid support role. These need assessment and will be likely to rely on churn and enforcement of the new performance management framework to deliver. In addition to this, consideration should be given to joint-venture / managed service arrangements with other organisations supplying labour (which would have more drastic IR/ER implications).
- Changing the pay structure of our Crown staff would face opposition, and likely industrial action, from employees and their unions. CTP was unable to achieve this change. Strong, viable, alternative solutions to staffing would need to be feasibility assessed and ruled in or out – whilst also dovetailing with wider POL work on IR and reward. This is not a short term task, but is an important one.

Customer offer and income growth

- Our offer must be more relevant to the local markets each branch serves, backed up by strong local and national marketing and continual improvement in branch service levels.
- Based on commercial projections in the 3-year operating plan, year-on-year income growth in Crowns is anticipated to be 1.5% to 3% p.a. over the three years from 15/16 to 17/18. Without other mitigating action, this rate of growth would only offset rent and wage inflation.
- Considering the likelihood of modest growth from our core product set, it is clear that the Crown network must seek to drive additional revenue, outside of the core Post Office product set, from the unique asset POL has here when compared to the agency network- ownership of our own retail space. Increased monetisation of this square footage will be essential.

Network shape

- The Crown network has evolved over a number of years and in many cases it is a network of default rather than by design. Earlier franchising programmes (prior to CTP) let agency partners take on some major town and city centre branches that fitted our “flagship” criteria, whilst leaving the Crown network with a tail of heavily loss-making branches in urban deprived communities. These are branches which are commercially unattractive both to POL and to potential franchise partners. Unless these could draw new subsidy as part of our settlement with Government (which is going to be hard to change before March 2018) then reductions in service are likely to be required. 9



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Scoring the Crown network against our vision

We have assessed every branch in the current Crown network against the vision we set out earlier in this presentation. To measure a branch's fit against vision we have used a 100 point scale, taking into account the quality of the branch's customer base, its location and physical environment, and income potential. The make-up of the scale is shown below:

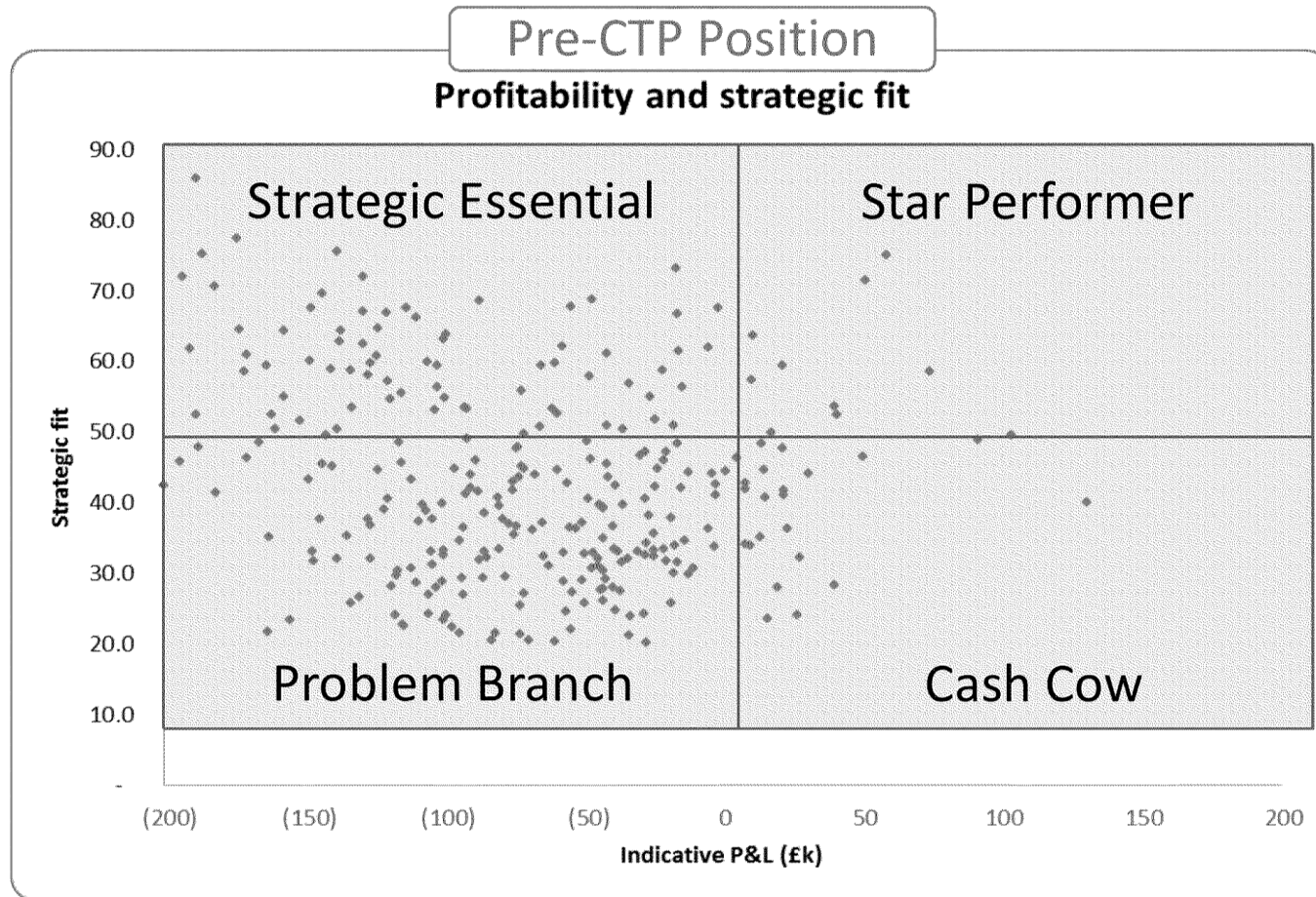
Strategic fit score (max 100 points)																			
Customer factors (max 40 points)	Physical factors (max 30 points)		Income factors (max 30 points)																
<p>Demographics (max 20 points)</p> <p>Relative wealth of population within 1km of the branch. Expressed as % of people above average affluence, as determined by factors such as; house size, price and ownership levels, car ownership, qualifications, employment and industry type, and leisure interests.</p>	<p>Branch capacity (max 20 points)</p> <p>Physical space available in the branch, taking into account front of house space (including the counter). This ranges from a maximum available space of 307 sq m to a minimum of 23 sq m.</p> <table border="1"> <thead> <tr> <th>Square metres</th> <th>Points</th> <th>Square metres</th> <th>Points</th> </tr> </thead> <tbody> <tr> <td>>125</td> <td>20</td> <td>65-85</td> <td>8</td> </tr> <tr> <td>105-125</td> <td>16</td> <td>45-65</td> <td>4</td> </tr> <tr> <td>85-105</td> <td>12</td> <td><45</td> <td>0</td> </tr> </tbody> </table>		Square metres	Points	Square metres	Points	>125	20	65-85	8	105-125	16	45-65	4	85-105	12	<45	0	<p>Income per customer session trajectory (max 20 points)</p> <p>This is the year-on-year trajectory of income per customer session, excluding UKVI income. (UKVI transactions are low volume but high value and can skew a branch's performance). The highest scoring branch is +46% and the lowest scoring is -12%.</p>
Square metres	Points	Square metres	Points																
>125	20	65-85	8																
105-125	16	45-65	4																
85-105	12	<45	0																
<p>Current footfall (max 20 points)</p> <p>Number of customer sessions per branch per week, with highest footfall scoring maximum points. The current range of footfall in the Crown network is 8600 customer sessions per week in the busiest branch down to 1600 in the quietest.</p>	<p>Retail Vitality (max 10 points)</p> <p>Strength of the retail offer in the local retail centre. This is based on the number and draw of other retailers there (e.g. a John Lewis indexes 40, Debenhams 20, Mobile phone store 10, Takeaway restaurant 1). The sum of these is taken.</p> <table border="1"> <thead> <tr> <th>Vitality Score</th> <th>Points</th> <th>Vitality Score</th> <th>Points</th> </tr> </thead> <tbody> <tr> <td>>1350</td> <td>10</td> <td>>300</td> <td>4</td> </tr> <tr> <td>>820</td> <td>8</td> <td>>150</td> <td>2</td> </tr> <tr> <td>>510</td> <td>6</td> <td><150</td> <td>0</td> </tr> </tbody> </table>		Vitality Score	Points	Vitality Score	Points	>1350	10	>300	4	>820	8	>150	2	>510	6	<150	0	<p>Income per customer session (max 10 points)</p> <p>Average income for each customer session in the branch today, net of UKVI. Highest scoring is £2.32 and the lowest scoring is £0.76.</p>
Vitality Score	Points	Vitality Score	Points																
>1350	10	>300	4																
>820	8	>150	2																
>510	6	<150	0																



Fit of the FY12/13 Crown network against our vision

We can plot each Crown branch on a scatter graph, comparing its profitability (x axis) with a score for its strategic fit according to the 100 point scale we set out on the preceding slide (y axis). This allows us to segment the network into four, summary, quadrants.

The FY12/13 Crown network and the post-CTP branch network are plotted on the same axes over this and the following slide. The below graph shows the distribution of the Crown network based on its **FY12/13** profitability and strategic fit.



Star Performers fit the future vision of the Crown network well, and generate a profit.

Cash Cows are a worse fit against our future vision of the Crown network, but are nonetheless profitable.

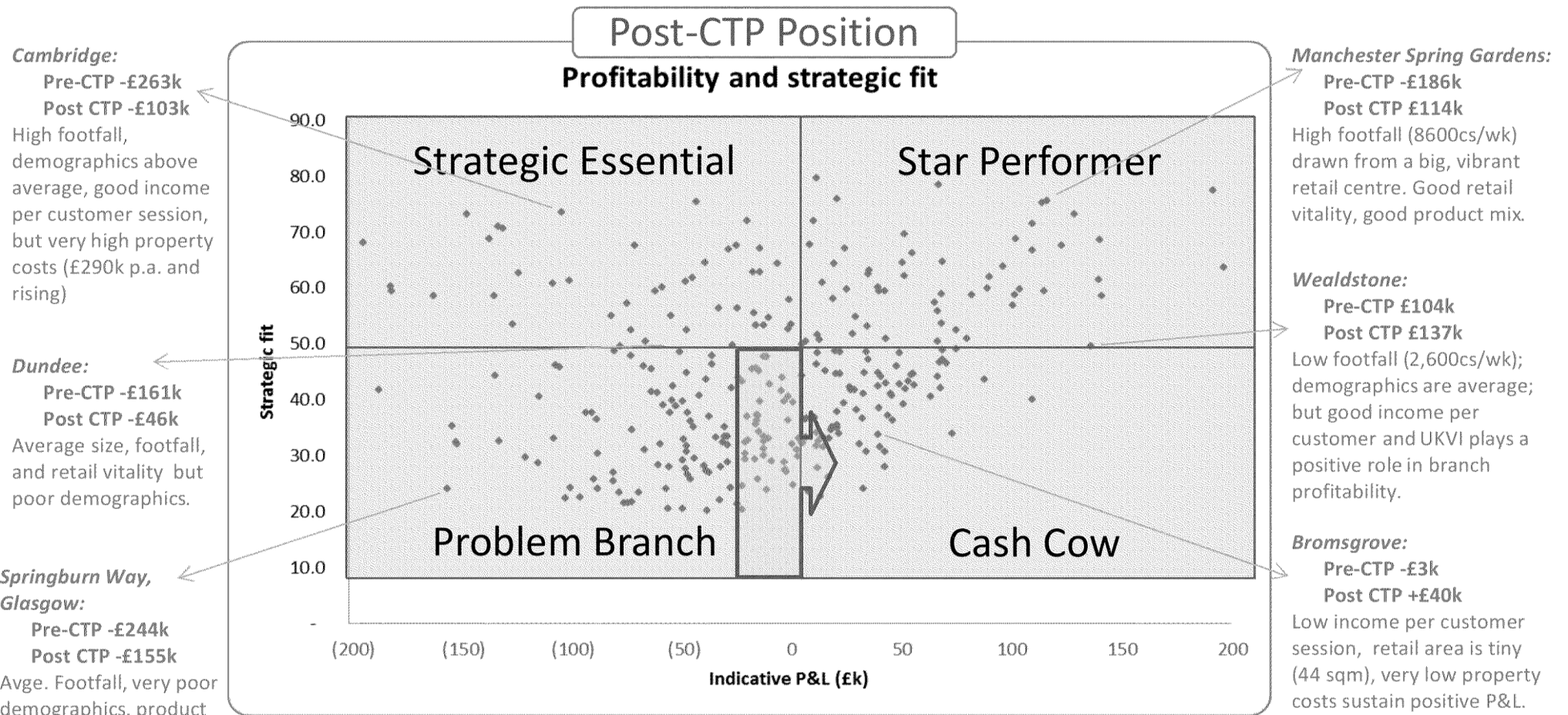
Strategic Essential branches fit our future vision of the Crown network well, but are generally loss making, most often due to high local property costs.

Problem Branches are both a poor strategic fit and unprofitable. The vast majority of the FY12/13 Crown network were Problem Branches.



Fit of today's Crown network against our vision

Today's Crown network is one of much reduced losses, following the network-wide cost savings made under CTP, as well as removal of a number of problem branches through CTP's franchising and merger projects. Whilst it is clear there is still a sizeable population of Crown branches that are both unprofitable and a poor strategic fit, significant progress has been made over the last three years. Some individual branch examples that are typical of each group are shown.





Common characteristics and profitability of each group of branches

It is possible to calculate a post-CTP P&L both for the overall network and also for each of the four quadrants, to understand their relative contribution to the overall Crown P&L.

Overall network

- 314 branches
- Average P&L -£11k
- Typically 3,500 weekly footfall
- Average branch size 91 SqM
- Staff cost to income ratio 60%
- Property cost to income ratio 20%

	Total	Avg.
Income	131,700	419
Staff	-79,500	-253
Property	-26,500	-84
Allocations	-29,100	-93
P&L (£k)	-£3,400k	-£11k

	Total	Avg.
Income	25,800	586
Staff	-15,900	-361
Property	-8,200	-186
Allocations	-5,400	-123
P&L (£k)	-£3,700k	-£84k

Strategic Essentials

- 44 branches
- Average P&L -£84k
- Typically 4,600 weekly footfall
- Average demographics
- Average size 150 SqM
- Staff cost to income ratio 62%
- Property cost to income ratio 32%

Star Performers

- 56 branches
- Average P&L +£71k
- Typically 5,000 weekly footfall
- Average demographics
- Average size 141 SqM
- Staff cost to income ratio 53%
- Property cost to income ratio 15%

Income	38,400	686
Staff	-20,300	-363
Property	-5,800	-104
Allocations	-8,300	-148
P&L (£k)	£4,000k	£71k

Income	36,900	291
Staff	-25,700	-202
Property	-9,100	-72
Allocations	-8,900	-70
P&L (£k)	-£6,800k	-£54k

Problem Branches

- 127 branches
- Average P&L -£54k
- Typically 2,800 weekly footfall
- Poor demographics
- Average size 63 SqM
- Staff cost to income ratio 70%
- Property cost:income ratio 25%
- 35 of 127 have losses £0 - £25k
- These 35 have the potential to move to breakeven.

Cash Cows

- 87 branches
- Average P&L +£36k
- Typically 3,100 weekly footfall
- Below average demographics
- Average size 70 SqM
- Staff cost to income ratio 57%
- Property cost to income ratio 11%

Income	30,500	351
Staff	-17,500	-201
Property	-3,400	-39
Allocations	-6,500	-75
P&L (£k)	£3,100k	£36k

Income	10,200	291
Staff	-6,600	-189
Property	-1,800	-51
Allocations	-2,200	-63
P&L (£k)	-£400k	-£11k

Note :The above figures are exclusive of the full allocation of cost which will arise from the unwind of the variable distribution methodology for FS resource cost between Crown P&L and the wider business' P&L. Although this unwind will worsen the Crown P&L by c£3m, the effects of FS specialists' cost distribution are not being considered in decisions as to whether to retain branches or not and are as such excluded.



Common characteristics and profitability of each group of branches

<table border="1"> <tr> <td>SE</td> <td>SP</td> </tr> <tr> <td>PB</td> <td>CC</td> </tr> </table>	SE	SP	PB	CC	<table border="1"> <tr> <td>Income</td> <td>131,700</td> <td>419</td> </tr> <tr> <td>Staff</td> <td>-79,500</td> <td>-253</td> </tr> <tr> <td>Property</td> <td>-26,500</td> <td>-84</td> </tr> <tr> <td>Allocations</td> <td>-29,100</td> <td>-93</td> </tr> <tr> <td>P&L (£k)</td> <td>-£3,400k</td> <td>-£11k</td> </tr> </table>	Income	131,700	419	Staff	-79,500	-253	Property	-26,500	-84	Allocations	-29,100	-93	P&L (£k)	-£3,400k	-£11k	<p>Whole network post-CTP</p> <ul style="list-style-type: none"> • 314 branches • Direct branch costs of £106m and allocated costs of £29.1m on income of £131.7m • Current loss of £3.4m • Margin of -3%
SE	SP																				
PB	CC																				
Income	131,700	419																			
Staff	-79,500	-253																			
Property	-26,500	-84																			
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<table border="1"> <tr> <td>SE</td> <td>SP</td> </tr> </table>	SE	SP	<table border="1"> <tr> <td>Income</td> <td>64,200</td> <td>642</td> </tr> <tr> <td>Staff</td> <td>-36,200</td> <td>-362</td> </tr> <tr> <td>Property</td> <td>-14,000</td> <td>-140</td> </tr> <tr> <td>Allocations</td> <td>-13,700</td> <td>-137</td> </tr> <tr> <td>P&L (£k)</td> <td>£300k</td> <td>£3k</td> </tr> </table>	Income	64,200	642	Staff	-36,200	-362	Property	-14,000	-140	Allocations	-13,700	-137	P&L (£k)	£300k	£3k	<p>“Strategic Essentials” and “Star Performers” only</p> <ul style="list-style-type: none"> • 100 branches • Direct branch costs of £50.2m and allocated costs of £13.7m on income of £64.2m • Current profit of £0.3m • Margin of 0.5% 		
SE	SP																				
Income	64,200	642																			
Staff	-36,200	-362																			
Property	-14,000	-140																			
Allocations	-13,700	-137																			
P&L (£k)	£300k	£3k																			
<table border="1"> <tr> <td>SP</td> </tr> <tr> <td>CC</td> </tr> </table>	SP	CC	<table border="1"> <tr> <td>Income</td> <td>68,900</td> <td>482</td> </tr> <tr> <td>Staff</td> <td>-37,800</td> <td>-264</td> </tr> <tr> <td>Property</td> <td>-9,200</td> <td>-64</td> </tr> <tr> <td>Allocations</td> <td>-14,800</td> <td>-103</td> </tr> <tr> <td>P&L (£k)</td> <td>£7,100k</td> <td>£50k</td> </tr> </table>	Income	68,900	482	Staff	-37,800	-264	Property	-9,200	-64	Allocations	-14,800	-103	P&L (£k)	£7,100k	£50k	<p>“Star Performers” and “Cash Cows” only</p> <ul style="list-style-type: none"> • 143 branches • Direct branch costs of £47m and allocated costs of £14.8m on income of £68.9m • Current profit of £7.1m • Margin of 10% 		
SP																					
CC																					
Income	68,900	482																			
Staff	-37,800	-264																			
Property	-9,200	-64																			
Allocations	-14,800	-103																			
P&L (£k)	£7,100k	£50k																			
<table border="1"> <tr> <td>SE</td> <td>SP</td> </tr> <tr> <td></td> <td>CC</td> </tr> </table>	SE	SP		CC	<table border="1"> <tr> <td>Income</td> <td>94,700</td> <td>506</td> </tr> <tr> <td>Staff</td> <td>-53,700</td> <td>-287</td> </tr> <tr> <td>Property</td> <td>-17,400</td> <td>-93</td> </tr> <tr> <td>Allocations</td> <td>-20,200</td> <td>-108</td> </tr> <tr> <td>P&L (£k)</td> <td>£3,400k</td> <td>£18k</td> </tr> </table>	Income	94,700	506	Staff	-53,700	-287	Property	-17,400	-93	Allocations	-20,200	-108	P&L (£k)	£3,400k	£18k	<p>Branches where our recommendation is to retain as Crowns over the next three years</p> <p>“Strategic Essentials”, “Star Performers” and “Cash Cows”</p> <ul style="list-style-type: none"> • 187 branches • Direct branch costs of £71.1m and allocated costs of £20.2m on income of £94.7m • Current profit of £3.4m • Margin of 4%
SE	SP																				
	CC																				
Income	94,700	506																			
Staff	-53,700	-287																			
Property	-17,400	-93																			
Allocations	-20,200	-108																			
P&L (£k)	£3,400k	£18k																			

Note :The above figures are exclusive of the full allocation of cost which will arise from the unwind of the variable distribution methodology for FS resource cost between Crown P&L and the wider business' P&L. Although this unwind will worsen the Crown P&L by c£3m, the effects of FS specialists' cost distribution are not being considered in decisions as to whether to retain branches or not and are as such excluded.



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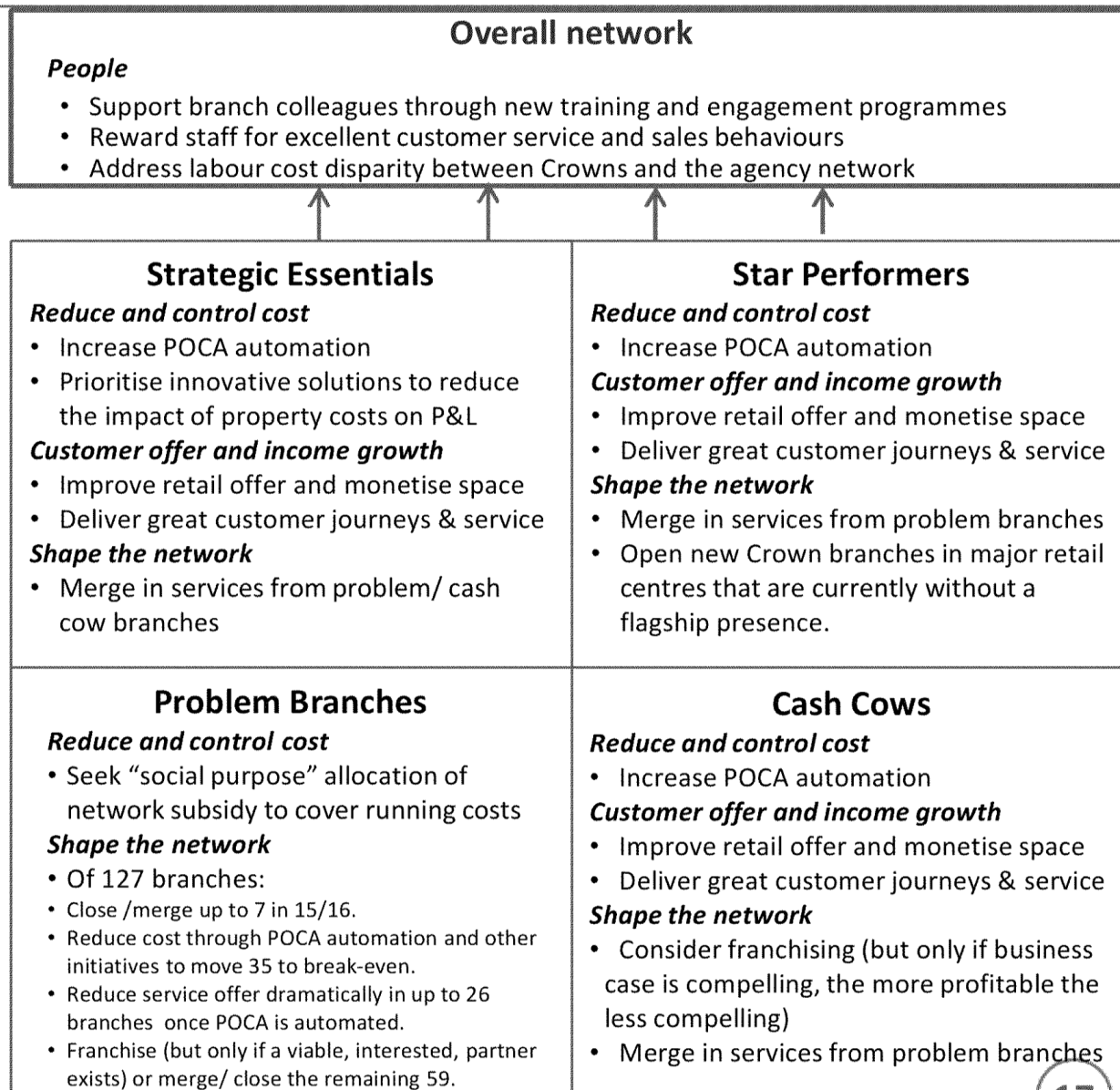
Summary of initiatives to further improve the network

Levers available by quadrant

There are a number of different levers we will need to use, branch-by-branch, to both increase the profitability of the Crown network and to increase the proportion of the network that is a good strategic fit.

These initiatives can be delivered either by Post Office working alone, or in a strategic partnership between Post Office and a major retail partner. Whilst wholesale franchising of “problem branches” is very unlikely to be a win-win deal for both parties under current franchising terms, potential deal shapes will be explored.

On initial analysis, it is expected that a strategic partnership could offer many other opportunities, with better payback periods than franchising, such as co-location of sites to share property and staff costs and improved retail offers operating within the sites of existing Crowns.





Summary of initiatives to further improve the network

Reducing and controlling cost

- a) **Near term cost out (pre-September 2015)** – e.g. onerous contract provision for onerous leases based on future plans to exit problem branches, adjusted facilities management contracts, transferring union representatives off the Crown P&L before a wider restructure, further overtime budget reductions, innovative property initiatives to allow lease regears.
- b) **Post Office Card Account (POCA) automation** – efficiencies through technology for a high effort (19%), low revenue (8%) workload.
- c) **Workforce management system** – improving staff scheduling and supporting proactive manpower planning.
- d) **Pay & rewards** – longer term strategy to modernise the overall reward package, moving us closer to the high street average.

Customer offer and income growth – create new income growth beyond the current product pillars by monetising our network asset.

Three year income forecast across product pillars

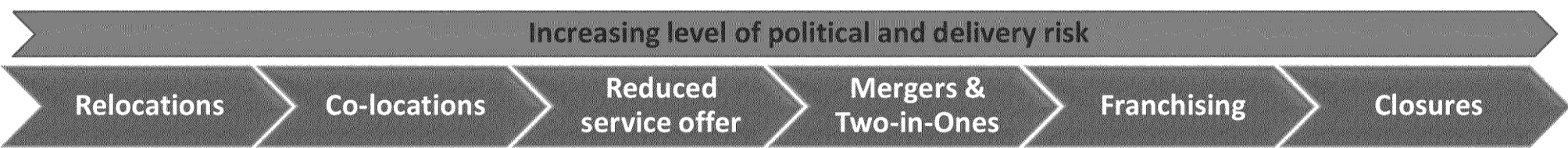
Opportunities to monetise our network

	14/15 FYF for Crowns	Estimated budgets per year (£m)		
		15/16	16/17	17/18
In-branch Crown income*	88	90	93	97
Growth vs FY14/15		+£2m	+£5m	+£9m

Improve retail offer	• Options include a concession style arrangement; hosting other retailers in Crowns; sourcing specific product lines
Photo booths	• Proven source of revenue, with partner appetite to upgrade estate and expand existing footprint
In-branch adverts	• Opportunity to replace Post Office TV with AMScreens & sell complimentary adverts.

*in-branch Mails, Retail, Government Services, FS, & Telephony, excludes renewals and retentions, fixed income and other Crown income beyond that generated annually by new sales in branch..

Network shape – There are a number tools available to us to further shape our network, in line with our vision





Summary of initiatives to further improve the network

Motivated, engaged, knowledgeable staff: Controlling our cost base, monetising our physical asset and shaping our network provide the platform for a successful Crown network. However only our people in branch can deliver this success. We must engage them with the vision for the Crown network, and support them in delivering the best for our customers every day.

Engage

Branch teams will be engaged on the following themes:

Vision - of a Crown network moving from good to great over the next three years. We will gain buy in for new concepts through communication events, reinforced in branch with weekly themed Team Talk sessions and Area Manager Blogs, helping managers engage the team.

Customer – bring to life the refreshed standards and measures linked to the POL scorecard through ongoing training and engagement activities.

Performance and capability– Embed the new Performance Management Process as agreed with CWU. Continue to embed the Crown Leadership Excellence programme, extending this to Assistant BMs and our managers of the future.

Support

The **Sales Capability Programme** (currently in diagnostic phase) will provide the structure to grow sales in a professional and focused way with the right incentives in place in support of great sales behaviours.

FS, FRES, BOI and Royal Mail field teams are engaged in a **quarterly sales planning process** to ensure that support is directed to the areas with most opportunity or risk.

Training on how to effectively deliver change in a unionised environment to be rolled out to all Area and Branch Managers.

We wish to **add new energy and grow new talent** in our branches via an apprenticeship scheme and a ‘step into management’ initiative for existing talent.

We will use the new Crown structure to build Area P&L plans , optimising **sales capability and efficiency**.

Reward

Develop bonus schemes that incentivise **excellent sales behaviours** within an affordable cost envelope for the business.

Introduce increasingly variable, **performance related pay** to incentivise our top performing branches and individuals.

Create a sense of excitement, recognising and rewarding the achievement of our best performers through the **closer working relationships** available through the new cluster manager structure, building towards the Network Sales Awards annually.



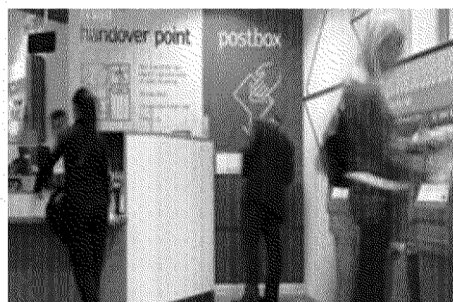
Summary of initiatives to further improve the network

Clear and coordinated communications: A full communications and stakeholder management strategy will be developed as part of the mobilisation and delivery of the Crown strategy. While looking at communications across the programme, there will be four main themes covering Colleagues, Customers, Unions and Stakeholders.



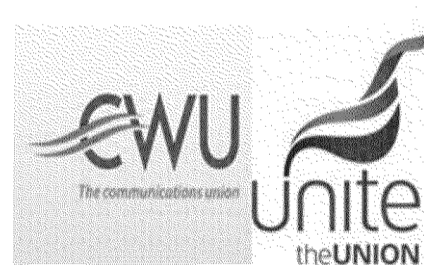
Colleagues

Recognising their contributions to-date and going forwards
Engaging and motivating colleagues with our vision for a successful network – ‘Good to Great’
Focussing on our strengths – leading in technology, customer service and FS
 Giving staff a **voice**
 Maintaining **leadership led communication** that has been such a successful part of CTP



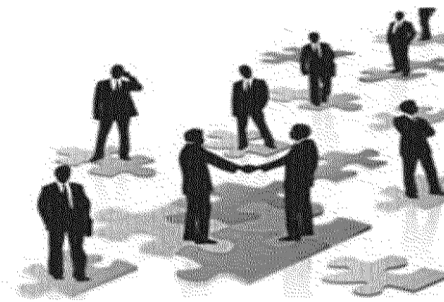
Customers

Highlighting successes and **investments** to date
 Recognising **customer satisfaction** as a key driver for change
 Clear communication where branch services will be impacted, **smoothing the transition** from present to future state
 Framing Crown change as part of our **wider network strategy**



Unions

Providing reassurance on **job security** and network shape, wherever possible
 Focussing on ensuring branches have the **right resources** to serve our customers (people and technology)
Mitigating the impact of future technology implementations, closures/mergers and initiatives that impact the labour model through pro-active engagement



Stakeholders

As with CTP1, there will be a wide spectrum of internal and external stakeholders to manage
Clear and consistent communications are essential for these groups
 Stakeholder groups will include:

- ShEx
- Local MP's
- Citizens Advice
- Internal Post Office teams



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Proposed implementation and benefit phasing

There are a number of different approaches to implementing the future Crown strategy, dependent on the risk profile the business wishes to accept. This risk profile must balance;

- Financial risk
- Political risk
- People engagement risk
- Industrial relations risk; and
- Delivery risk

We have taken on board these considerations in order to develop what we believe is a programme of change which balances the below considerations;

- **Breakeven:** CTP targeted March 2015 to get to break even, this has not happened and we need to reach breakeven as soon as possible.
- **People impact:** Having been through a large change programme over the last three years it is vital that we maintain engagement from our Crown staff.
- **Industrial relations:** The impact of any changes to network shape, pay, or job roles will inevitably bring with it union negotiations and the potential for unrest.
- **Cost to implement:** The way in which the approach and ordering of activities impacts the cost of implementation.
- **Benefits and return on investment:** The sequence and pace at which we implement the strategy will bring with it different benefits and returns on investment, but we target a 3 year payback on each element of optional investment spend.

Our proposed implementation phasing is shown overleaf, followed by higher risk, higher benefit options to accelerate P&L improvement.

Proposed implementation and benefit phasing

The below table is a forward projection of **Crown P&L run rate**, incorporating the scope options proposed and all other known income and cost upsides or downsides over the next three years. All values are £m. The higher risk, higher benefit options at the bottom of the page are not included in the run rate estimate, but instead represent opportunities available to accelerate benefits delivery (see subsequent slide).

Key	
Feasibility assessment	
Enabling project work	
Benefits delivery (and value in £m)	1.1
Cost headwind (and value in £m)	-0.5

Activity	FY14/15		FY15/16 run-rate				FY16/17 run-rate				FY17/18 run-rate				Total run-rate improvement	Choices / notes
	FY out-turn	Run-rate	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Committed from 14/15	Complete CTP1 franchising, mergers, relocations and transformations	5	n/a	n/a											n/a	Delivers CTP1's forward commitments on run rate (e.g. franchise contracts signed in 14/15 and in run rate but branches not going live until 15/16).
	Leaving the Business with Dignity (LBD)			0.3	0.3										0.6	Delivers business commitments on managing under-performance that were made with CwU under 14/15 pay deal and to secure end of 13/14 dispute.
Recommended base scope of CTP2	Quick-wins		1.0	0.7	0.8										2.5	Includes assumed £1m in Q1 for onerous contract provision for properties which will be exited over the life of CTP2, as well as lease regears, Photo booths, union rep off-charges, FM and other budget savings.
	POCA automation						2.5				1.5				4.0	Assumed enabled through VR, tied with 16/17 pay deal.
	Workforce management system						0.5								0.5	Assumed enabled through overtime reduction.
	Up to 7 closures and mergers			0.1	0.2	0.2									0.5	Branches where wider network can absorb closure with minimal improvement required to existing branches.
	Third party retail/ retail offer improvements					0.4			1.1				1.0		2.5	New lines, WHS partnering, concession style arrangements
	Forced network change					0.3		0.2							0.5	Branches where landlord actions force relocation
Benefits by quarter			1.0	1.1	2.0	0.2	3.2	1.1	0.0	0.0	2.5	0.0	0.0	0.0		
Cumulative base-scope benefits			1.0	2.1	4.1	4.3	7.5	8.6	8.6	8.6	11.1	11.1	11.1	11.1		
BAU upsides & downsides	Budgeted income growth from commercial teams, with sales management from Crown team			0.5	0.5	0.5	0.5	0.5	0.5	1.0	1.0	1.0	1.0	1.0	9.0	As per 3 year operating plan. However if income growth does not materialise for 16/17 and 17/18 then more radical actions will need to be considered on network size and labour cost, thus reducing the impact of the below costs of pay awards and FS staff cost.
	CMA pay awards			-0.5				-0.5				-0.5			-1.5	Assumes continual pay awards comparable to those under consideration for 15/16 in the Crown network.
	CwU pay awards			-1.0				-1.0				-1.0			-3.0	
	Full allocation of FS staff costs to Crowns		-3.0												-3.0	Proposed unwind of the variable distribution of FS resource cost between Crown and the wider business' P&L. Originally introduced during CTP to cushion Crown P&L from the period of FS specialists completing their training and then taking time to establish and grow towards their target sales performance as required in line with FS strategy.
Upsides & downsides by quarter			-1.0	0.5	0.5	0.5	-1.0	0.5	1.0	1.0	-0.5	1.0	1.0	1.0		
Cumulative upsides & downsides			-1.0	-0.5	0.0	0.5	-0.5	0.0	1.0	2.0	1.5	2.5	3.5	4.5		
Est. Crown P&L run-rate (£m)			-11.6	-6.4	-6.4	-4.8	-2.3	-1.6	0.6	2.2	3.2	4.2	6.2	7.2	8.2	9.2
Higher risk, higher benefit scope options	Up to 26 reduced service offer branches								0.4		0.4	0.8			1.6	Assumed could be enabled through POCA automation, settlement agreements, and 16/17 pay deal
	Up to 59 Franchises / Mergers / Closures									1.0	1.0	1.0	1.3		4.3	Could be accelerated (with poorer payback period due to increased property holdover costs, and increased IR risk). One alternative is to avoid and to seek an ongoing government subsidy for running costs of "problem" branches which exist only for their social purpose and have no franchise partner interest- but the first opportunity for this is likely to be March 2018.
	Changes to Crown pay structure and/or labour model														tbc	No benefit yet assigned. Would require further HR strategy work and feasibility assessment during 15/16.

Levers available to accelerate benefits delivery

Under the base scope scenario, a breakeven point would now not be reached until the end of Q1 16/17, and this itself would be dependent on all budgeted income growth being achieved in 15/16. Cumulatively, £9m of the £9.2m estimated run rate at the end of 17/18 is delivered through income growth. Taking the lessons of CTP on board at this early stage, we recommend establishing strategies now which have the potential to deliver much further benefit and offset the risk of flat or declining income jeopardising the plan. These levers are shown below.

Activity	FY14/15		FY15/16 run-rate				FY16/17 run-rate				FY17/18 run-rate				Total run-rate improvement
	FY out-turn	Run-rate	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Committed from 14/15	Complete CTP1 franchising, mergers, relocations and transformations	5	n/a	n/a											n/a
	Leaving the Business with Dignity (LBD)			0.3	0.3										0.6
Recommended base scope of CTP2	Quick-wins		1.0	0.7	0.8										2.5
	POCA automation						2.5				1.5				4.0
	Workforce management system						0.5								0.5
	Up to 7 closures and mergers			0.1	0.2	0.2									0.5
	Third party retail/ retail offer improvements					0.4		1.1				1.0			2.5
Forced network change					0.3		0.2							0.5	
Benefits by quarter				1.0	1.1	2.0	0.2	3.2	1.1	0.0	0.0	2.5	0.0	0.0	0.0
Cumulative base-scope benefits				1.0	2.1	4.1	4.3	7.5	8.6	8.6	8.6	11.1	11.1	11.1	11.1
BAU upsides & downsides	Budgeted income growth from commercial teams, with sales management from Crown team			0.5	0.5	0.5	0.5	0.5	0.5	1.0	1.0	1.0	1.0	1.0	9.0
	CMA pay awards			-0.5				-0.5				-0.5			-1.5
	CWU pay awards			-1.0				-1.0				-1.0			-3.0
Full allocation of FS staff costs to Crowns		-3.0													-3.0
Upsides & downsides by quarter				-1.0	0.5	0.5	0.5	-1.0	0.5	1.0	1.0	-0.5	1.0	1.0	1.0
Cumulative upsides & downsides				-1.0	-0.5	0.0	0.5	-0.5	0.0	1.0	2.0	1.5	2.5	3.5	4.5
Est. Crown P&L run-rate (£m)		-11.6	-6.4	-6.4	-4.8	-2.3	-1.6	0.6	2.2	3.2	4.2	6.2	7.2	8.2	9.2
Higher risk, higher benefit scope options	Up to 26 reduced service offer branches							0.4	0.4	0.8					1.6
	Up to 59 Franchises / Mergers / Closures								1.0	1.0	1.0	1.3			4.3
	Changes to Crown pay structure and/or labour model														tbc

Commit to a “basic public service only” branch model wherever the branch is a Problem Branch with >60% of services automatable.

- 26 candidate branches to automate mails, cash withdrawal, POCA and bill pay only. No counter service available in branch. All other services migrate to other nearby branches.
- Dependent on POCA automation.

Commence work immediately via CTP2 to complete full impact assessments on a further 59 merger/ closures of Problem Branches, whilst concurrently seeking to secure franchise deals on as many as possible

- Would be above 7 merger/ closures proposed in base scope.
- Franchising is troublesome, but initial WHS interest in up to 15 would suggest there are at least some realistic prospects.
- Keep option to accelerate branch closures to mid 15/16 if required income growth is not on track, or if GE want faster delivery of benefit.
- Closures would create service, I.R. and political impacts.

Commence work immediately via CTP2 to define the strategy and approach to reducing total Crown labour cost from 16/17

- Likely too soon to introduce change in 15/16 pay deal, but will accelerate introduction of change if at all possible.
- Needs fully costed, credible alternatives to the as-is before entering negotiation, otherwise we risk failure.
- IR/HR impact and high risk of industrial action

Reduce near term staff cost in response to worse than expected run-rate position.

- Consider increased conditionality and variability in 15/16 CWU pay deal if GE have appetite.
- Introduce increased in-year performance management of FS specialists if 15/16 FS growth does not materialise in-year.



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Scope packages, with associated costs and benefits

- The below table is a summary of forward spend and benefits for all individual projects proposed.
- All values are £m. Benefits are full POL EBITDAS benefit, and the five year costs and benefits of proposed scope items are shown.
- Each individual project has a payback period within 3 years, with the exception of the “forced network change” projects.
- The table excludes already budgeted 15/16 costs for any delayed, non-optional, expense that will be incurred under pre-existing commitments made by the CTP1 and Leaving the Business with Dignity programmes. Budget is already in place for 15/16 to complete on these commitments under previous business cases. The below table therefore covers the costs and benefits of newly proposed scope only.

All values are £m

Package	What is included	One off exceptional costs					POL EBITDAS improvement vs 14/15						
		15/16	16/17	17/18	18/19	19/20	Total	15/16	16/17	17/18	18/19	19/20	5 year cumulative
Quick wins package	Includes further lease re-gears; establishing an onerous contract provision for branches where rents are outside of market rates; increasing branch income via the rollout of a new, expanded, Photo Me offer; and pursuing additional property cost savings. Funding already approved.	0.5					0.5	1.1	1.3	1.3	1.3	1.3	6
Base scope package	Assessment, business case development and initial estimates of full costs to deliver: -POCA automation -Workforce management staff scheduling system -Improved retail offer -Up to 7 closures/mergers Costs will be refined at full business case stage	16	7	0.5			23.5	1.1	5.9	8	8	8	31
Higher risk, higher benefits scope package	Assessment, business case development and initial estimates of full costs to deliver: -59 additional closures, mergers and franchises over 16/17 and 17/18 to tackle “Problem” branches - 26 “problem” branches moved onto a fully automated, reduced service offer EBITDAS benefits include value of migrated income to agency network.	2.5	12	9			23.5	7.8	10	10	10	38	
Forced Network change	Assessment, business case development and initial estimates of costs to deliver change in branches where the actions of our landlords will force POL into making choices on retention, relocation, or franchising of the branch. This “forced hand” comes from eviction notices, redevelopments and excessive rent increases. This type of work was absorbed under CTP1 and similarly needs a home under CTP2. Payback periods are poorer than optional relocations, and as such each case will need assessment against the CTP2 strategy such that only those branches with a good strategic fit and profitability are relocated under a forced hand scenario.	4.3	4.3	4.3			13	0.3	0.9	1.5	1.7	1.7	6
Totals		23	23	14	0	0	60	2.5	16	21	21	21	81



Next steps

1. CTP Meeting Terms of Reference and membership to be refreshed to reflect the nature of CTP2 scope. CTP governance to be combined with the required business governance regarding feasibility assessment of an increased strategic partnership with WHS.
2. CTP2 team to continue with delivery of “quick wins” scope package (funding already approved by Transformation Management Group in March 2015).
3. CTP2 team to assign additional resource to develop full feasibility assessments, business cases and detailed project plans for; POCA automation; the workforce management system; 7 branch closure/merger projects for 15/16; proposals to further monetise available space in the network including a new Crown retail offer; and the portfolio of 15/16 forced network change projects. Full business cases will be shared during May and June with TMG and Transformation Committee.
4. Dependent on GE approval, the CTP2 team will also assign further resources to develop full feasibility assessments and business cases for; up to 26 reduced service offer branches; and up to 59 closures/mergers and franchises. These will be shared during June with Transformation Committee.
5. Dependent on GE approval, the CTP2 team will also assign further resource, working in conjunction with the HR, IR and Reward teams, to further develop the strategy to reduce / better variabilise the cost of the Crowns labour model and report back to GE.
6. The agreed (and quantified) outputs of 2 to 5 above will inform the updated draft of the 3 year plan to be signed off with the Board in July, and will also be reflected in the network strategy session at the June Board Away Day (with both products shared in advance with the GE).



Appendix

Additional detail on proposed initiatives and governance



1) Reducing and controlling cost within the current Crown estate

Beyond those staff cost savings delivered by CTP, there are other cost opportunities to exploit. This is in part enabled by a closer focus on costs possible as a result of the new Area / Cluster Manager structure. However, all staff savings have an Industrial Relations risk profile.

A) Quick wins

- **Union representatives.** Transferring the cost of Crown union representatives from the Crown P&L to the IR budget will realise an immediate benefit ahead of the current plans, being led by IR, to review and reduce the total cost of union facility time across the business. Est. benefit £0.5m
- **Budget savings.** BMs will be set an additional stretch target to reduce the overtime and casual labour spending, with controls put in place as a result of the new Crown structure. Est benefit £0.2m.
- **Facilities management.** Adjusting SLAs and further re-negotiation of supplier contracts. Est benefit £0.4m.
- **Photo booths.** Roll out of a larger estate and higher retained share of income for POL. Est benefit £0.4m.
- **Onerous contract provision.** For branches where we have a clear strategy to exit our current site, and where property costs are above market rates, an onerous contract provision will be established. Est. benefit up to £1m.

Crown P&L
Benefit:
£2.5m

Timescale:
Q1/Q2 15/16

Risk profile:
Low

B) Post Office Card Account (POCA) automation

- As demonstrated by CTP's Self Service Kiosk project, it is possible to **improve profitability via automation**, without damaging customer satisfaction or wait times.
- **POCA and bill pay transactions are closely linked**, labour intensive and low revenue.
- They require **19% of branch effort for 8% of revenue**.
- The pure POCA transaction has a **simple customer journey** (balance check, cash withdrawal) but is most commonly coupled with bill payment and some mails products.
- Through **software and hardware development**, then a **larger estate of self-service machines** (c.300 new machines), we would automate the POCA customer journey, offering cash withdrawal (incl. coins), bill payment, mails and retail.
- Automating POCA will also move some existing non-SSK branches beyond the "tipping point" of counter hours removal that is required for net staff benefits to be unlocked through introduction of self-service.

Crown P&L
Benefit:
£3-4m

Timescale:
15/16-16/17

Risk profile:
Low-Med



1) Reducing and controlling cost within the current Crown estate

C) Workforce management system

- New **software tools are currently being assessed** which would **improve staff scheduling** and support **more proactive manpower planning**, in both the Crown network and Supply Chain.
- This would result in an ability to **reduce costs quicker when changing staff rotas**, and **reduce overtime costs**.
- Staff would declare shift preferences themselves in advance of duties changing, including any particular days/ times when they are available or unavailable for overtime. This will **reduce timesheet inaccuracies** and drive further savings.
- With such a system, the **Crown Office Staffing Agreement (COSA)**, which guarantees fixed duties and max 6 weeks notice of any change, would be anachronistic as staff could – in theory – be engaged weekly on availability. To realise the full benefits of this, we would need to secure union agreement to the removal or significant amendment of COSA, which would be unlikely, so unilateral removal would have to be an option.
- Branch Managers could automatically draw from a pool of counter staff available within the local area if overtime is required, selecting the cheapest way of filling the hours, other than just from those resources currently assigned to that branch. Again, this would be a fundamental change to current staffing arrangements and would likely be opposed by colleagues and unions.

Benefit:
£0.5m+

Timescale:
Q1 16/17

Risk profile:
Med

D) Pay and reward

- Moves to **normalise pay closer to the high street average** would be undertaken. This could include;
 - **setting pay at regional levels** to reflect the differing market rates across the country;
 - **creation of entry-level and intermediate-level roles** with lower pay and more challenging progression between;
 - presentation to staff of **voluntary pay variablisation** options as an alternative to the franchise or closure of a branch;
 - **creation of an apprenticeship scheme**, running on lower rates of pay; and
 - **increased variablisation of pay in line with income performance**.
- CTP initially attempted to, and was unable to, secure CWU agreement to a new entry-level role with a lower pay rate. Any of the above options will meet with **strong union opposition and probable industrial action, but there is not a “do nothing” option** if our objective is to reach a commercially sustainable Crown network.
- To achieve a strong enough negotiating position before commencing negotiations, the business will need credible alternative models in terms of staffing. **We recommend investing the necessary time and resources during 15/16 in a joint Crown-Finance-IR/Reward team taking time to build up alternatives** such as;
 - options to staff **fully automated branches via a managed service / Joint Venture** with a technology partner;
 - a range of sizes for a potential **franchise deal or other strategic partnership** with one or more retail partners;
 - a range of options for potential **shared-staff stores** with a Crown site hosting a separate retailer or vice-versa; and
 - a mature set of proposals for an apprenticeship scheme and other alternatives as described above.

Benefit:
up to £8m

Timescale:
16/17

Risk profile:
High



2) Generating income growth

- How to accelerate income growth through an improved and more profitable customer offer is a business-wide challenge and one that the Crowns team will work on together with and in support of our Commercial colleagues.
- Financial services growth will be essential to achieving commercial sustainability in the Crown network. An ambitious, positive, go-getting FS growth plan for the Crowns is essential for them to be the challenger banks in their communities. A major joined up, local advertising, prospecting, leafleting, hub and spoke campaign with local agency branches as well as a complete focus on maintaining the complement and competence of FS and MS staff is essential.
- However, considering the likelihood of only modest growth from our core product set, it is clear that the Crown network must seek to drive additional revenue, on top of this, from the unique asset POL has here when compared to the Agency network- ownership of our own retail space. Increased monetisation of this square footage will be essential.

Latest 3-year view from product teams

Pillar	YoY growth *	14/15 FYF for Crowns	Estimated budgets per year (£m)		
			15/16	16/17	17/18
Mails	-1%	36	36	35	35
Government	-8%	20	18	17	16
Telephony	0%	1	1	1	1
Financial Services	+14%	31	35	40	46
Renewals &retentions	0%	16	16	16	16
Fixed Income	0%	21	21	21	21
Other	0%	7	7	7	7
Total		£132m	£134m	£137m	£141m
Income growth vs FY14/15			+£2m	+£5m	+£9m

*channel view taken from 3 year operating plan

Network monetisation opportunities

Improve retail offer	<ul style="list-style-type: none"> •Options include a concession style arrangement, perhaps hosting other retailers in Crowns, as well as sourcing specific product lines for Crowns. •Improvements to allocation and replenishment processes can reduce out-of stock periods. 	<p>Est £2-3m 16/17 Low risk</p>
Photo booths	<ul style="list-style-type: none"> •Proven source of revenue, with partner appetite to upgrade estate and expand existing footprint •Would see a larger estate and higher retained share of income for POL 	<p>Est £0.4m 15/16 Low risk</p>
In-branch adverts	<ul style="list-style-type: none"> •Current estate of Post Office TV screens are due for replacement. There is an opportunity to replace them with AMScreens, which gather customer data. •This opens opportunity to sell POL or other partner advertising in branch and/ or in branch windows. 	<p>tbc 15/16 Med risk</p>
Other options	<ul style="list-style-type: none"> •e.g. Safety Deposit – In the right locations, returns can be generated from offering safety deposit box services, exploiting the existing high-security characteristics of our branches. 	<p>31</p>



3) Available tools to re-shape the network

Increasing level of political and delivery risk

Relocations

- Relocation to better pitch sites but only as and when leases expire or breaks arise
- Relocation into council premises if/where available and unsustainable at commercial rents (e.g. Mount St, Manchester, Lower Edmonton)
- Consider off-P&L onerous contract provisions for branches with unsustainable rents until such time they can relocate

Co-locations

- Share space with another retailer, maybe extending as far as co-branding
- Branch would remain as a Crown, but either another retailer would move in to Crown site, or vice-versa (e.g. WHS appetite for co-location and shared SSK units, Coffee unit at Trafalgar Square, Sainsburys at Lupus St)

Reduced service offer

- To use if a "Problem" branch is unsustainable, unfranchisable, and the wider local network cannot cope with a closure.
- Strip branch service offer back to an automated mails, bill pay, ATM, and POCA offer, with no counter service and very limited staffing.
- Will face opposition on job losses / outsourcing and on reduction in service range in branch.

Mergers and Two-into-Ones

- Politically challenging, with accusations of "closure by another name"
- Opportunity to consolidate services & improve profitability of combined branch through staff efficiencies and reduced property costs (e.g. Derby, Islington, Sutton under CTP)
- If a nearby Main has sufficient space, there is the option to develop a variant to relocate staff out of the Crown and merge service into a nearby main (e.g. Rye Lane)

Franchising

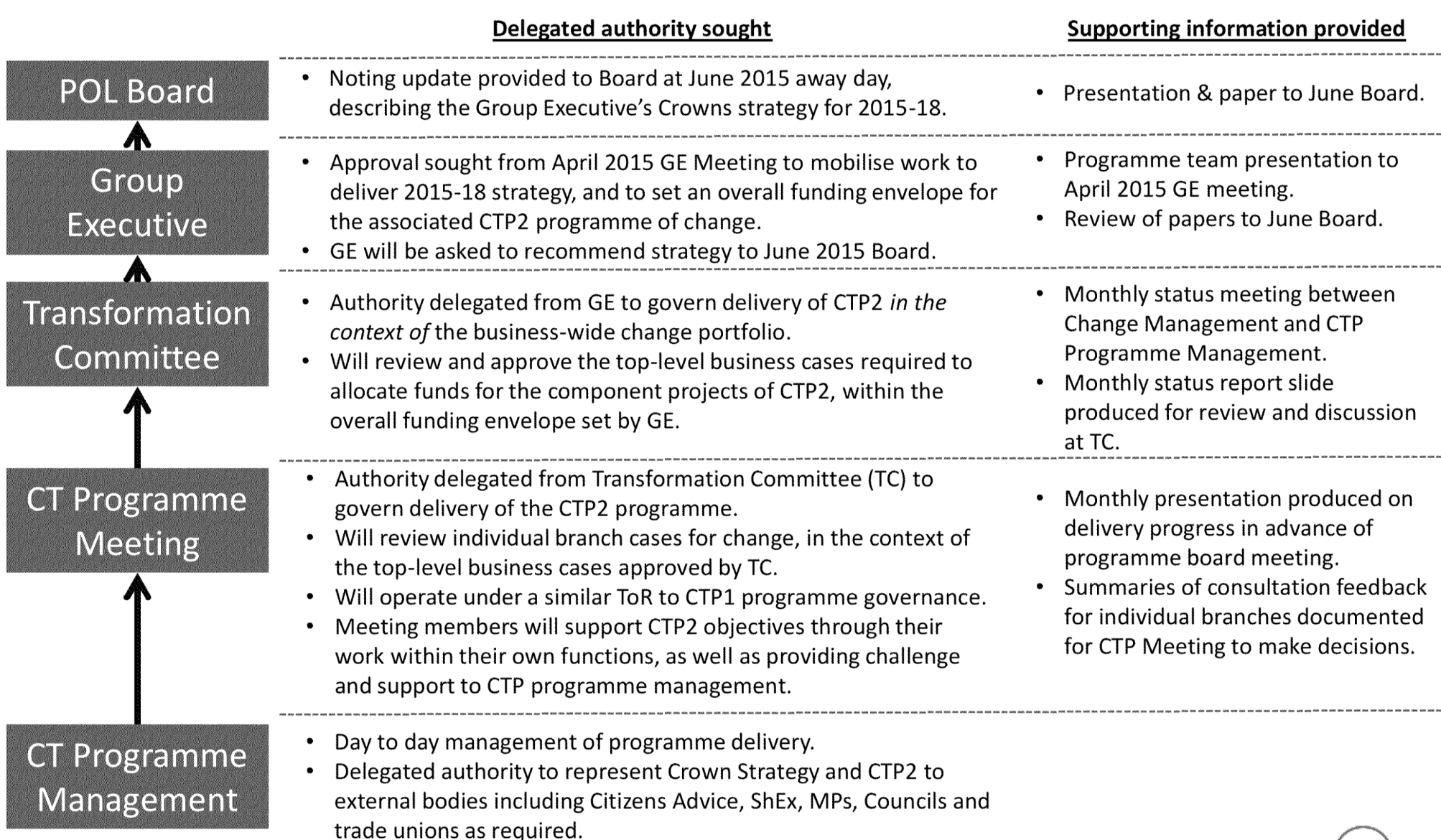
- Politically challenging, and limited appetite from any multiple partners (other than WHS) to take on large ex-Crowns as Mains. Partners more interested in taking strategic Crowns than our "Problem" branches.
- Very high cost of transition means long payback period on franchising projects (> 3yrs).

Closures

- Politically challenging, with union and local campaigning very likely
- Only viable without compromising service if wider network can already cope with migrated traffic, or if it can be modified to do so with simple improvements to existing sites.



Recommended Governance Model from April 2015 onwards



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MEMORANDUM FOR: The Group Executive Meeting

FROM: Kevin Gilliland, Network & Sales Director

SUBJECT: The Crown Network Strategy 2015-2018

DATE: 16th April 2015

Recommendation

- The Group Executive are asked to:
 - Note** the three-year Crown network strategy set out in this paper.
 - Note** that this strategy is consistent with the work being undertaken to assess a potential strategic partnership with WHS.
 - Note** that the strategy calls for up to 7 branch merger (closure) projects within the base FY15/16 scope in order to expedite breakeven, and that detailed assessment of each will be conducted by the CTP Meeting before moving into implementation.
 - Endorse** the mobilisation of further work under CTP2 to develop full business cases and project plans for the core programme scope. Funding would only be released via business case approval at Transformation Committee during Q1. Initial forecasts are that these initiatives will require a total three year budget envelope of £24m, and each will offer a payback period of under three years.
 - Endorse** the mobilisation of work to develop business cases for all “forced” network change. Similar “BAU” changes were absorbed under the CTP1 programme (e.g. relocations forced upon the Crown network by evictions and other landlord acts outside of POL control). Funding would be released via the Transformation Committee, with the CTP Meeting also working to ensure alignment to the CTP2 strategy. Initial forecasts are that this will require a total three year budget envelope of a further £13m.
 - Decide** if further work is required of CTP2 to fully feasibility assess the proposals for up to 26 reduced service offer branches and up to 59 further franchise, merger and closure projects. If so, the CTP2 team will mobilise work to complete this and report back to Transformation Committee with full business cases during Q1. Initial forecasts are that these initiatives will require a total budget envelope of a further £24m, and will offer a payback period of under three years.
 - Decide** if further work is required of CTP2 to assess and develop an approach to better align Crown labour costs to market rates over the term of the strategy. Options would be developed as part of the CTP2 programme during Q1 of 15/16 in conjunction with the P&E team and IR Steering Group, and then presented back to GE.

Financial Metrics

- The estimated financial impact of the “base scope” of the proposed Crown network strategy is set out below. There remains optionality in scope, and the costs and benefits of taking on the more significant scope options are shown in section 5.15.

Financial metric	IMPACT				
	2015/16	2016/17	2017/18	2018/19	2019/20
EBITDAS impact	£2.2m	£7.2m	£9.3m	£9.3m	£9.3m
Investment (capex + exceptionals)	£16.5m	£7m	£0.5m	£0m	£0m

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Payback period (months)	27
NPV (at 12% discount rate)	£5m

Previous Approvals

3. The proposals set out in this paper have previously been presented to and endorsed by the CTP Meeting and Transformation Management Group (TMG). The TMG has approved an initial £1.1m of 15/16 funding to deliver a small portfolio of quick-win initiatives to further improve Crown network profitability as part of a “base scope”; as well as seed-fund the development of further CTP2 feasibility assessments and business cases.
4. The proposals in this paper have been discussed and developed over the last two months in conjunction with the leadership of the following business functions: Commercial, Financial Services, Human Resources, Industrial Relations, Communications, Finance, Change Management, Information Technology and Legal. As the strategy has evolved the key themes have been discussed with each member of the Group Executive in 1:1 sessions, with their feedback sought and incorporated.

Proposal

5.1 The Crown network and Crown transformation management teams were set the task of developing a vision and proposed three year strategy for the Crown network. Our vision is one of a **flagship** network where the customer comes first. It will comprise:

- **Busy, strongly branded, branches in great retail locations**
 - at the heart of our large towns, boroughs and cities;
 - with high footfall;
 - and an increased proportion of customer spending on discretionary products, particularly in Financial Services.
- **Profitable, and easy, ways for our customers to do business with us**
 - through a simplified product set, sold by motivated, knowledgeable staff;
 - with great customer service;
 - more technology-enabled customer journeys;
 - and product ranges that better match the needs of the local customer base.
- **Our largest scale branches**
 - where we can drive benefits of scale;
 - with space to create professional-looking, always staffed, FS environments;
 - with high quality retail, complimentary to our core products;
 - and technology enablers such as self-service kiosks, which allow efficient staffing;
 - but without underutilised or vacant space that could otherwise generate better returns.

5.2 The Crown network will benefit the wider Post Office business strategy. This is by:

- Delivering a commercial rate of return for the Post Office P&L.
- Providing a strong, positive, brand presence on the high street.
- Supporting the business’ strategies to be the leading challenger bank in the UK and win in the mails market. Particularly by creating the environments needed for highly professional Financial Services sales and support, and by making us easy to do business with in terms of mails customer journeys.
- Enabling the business to take new products, changes to branch formats, and new technology to market quickly, proving them in Crowns before rolling out to the wider network

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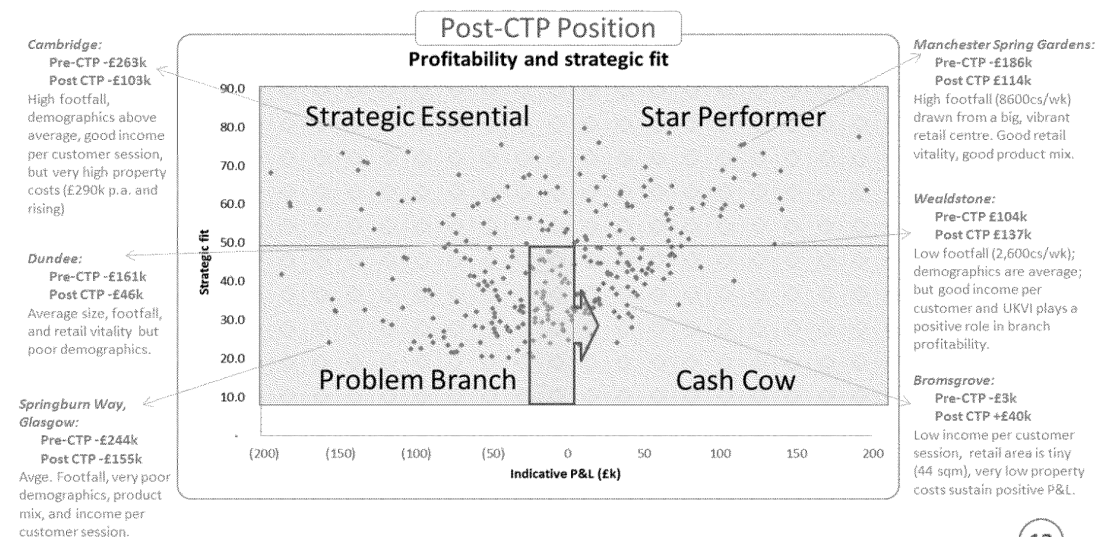
- Helping the business easily demonstrate the control environment needed for products where compliance is crucial (e.g. FCA compliance in Financial Services, Home Office compliance for UKVI).

5.3 To deliver this vision will require further, programmatic, change. This will include:

- Putting the customer at the centre of our branch offer.
- Changes to the Crown network’s size, locations and branch formats.
- Further automation of high-workload customer journeys.
- Increased monetisation of the physical space we have.
- On-going discipline on staff and property cost.
- Continued investment in our people to grow a workforce with the specialism and professionalism required for our flagship branches.

5.4 Today’s Crown network is one of much reduced losses, following the network-wide cost savings made under CTP, as well as the removal of a number of problem branches through CTP’s franchising and merger projects. Whilst it is clear there is still a sizeable population of Crown branches that are both unprofitable and a poor strategic fit, significant progress has been made over the last three years. Although the 14/15 Crown P&L run-rate is currently being finalised as part of year-end process, we anticipate this to be a c£6.4m loss. This is a worse position than anticipated earlier in the year, as the run-rate now takes into account an additional £3m cost to be incurred on the Crown P&L. This follows the recent reversal of cost distribution changes that were introduced for FS specialist resources working from Crown branches.

5.5 We have assessed every branch in the current Crown network against the vision we set out. To measure a branch’s fit against vision we have used a numerical scale, taking into account the quality of the branch’s customer base, its location and physical environment, and income potential. The below scatter graph summarises the results, plotting branch profitability (x-axis) vs strategic fit (y-axis).



Post Office® Note: Five outlier branches have been removed from the scatter graph in the interests of scale. These include Birmingham (Star Performer, +£400k P&L); Cammidge Town (Cash Cow, +£300k P&L); City of London (Strategic Essential -£340k P&L); Trafalgar Square (Strategic Essential, -£400k P&L) and Worlds End (Problem Branch -£230k)

5.6 We have summarised the post-CTP network into four categories, defined by their strategic fit (high or low) and their profitability (profitable or not). We recommended an overall strategy of retention of 187 “star performer”, “strategic essential” and “cash cow” branches over the next three years. This is our ideal Crown network size. Post-CTP, these groups of branches generate £3.4m of profit on an income of £94.7m, a margin, after

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allocations, of 4%. In terms of the direct contribution delivered, these branches are already comparable with the new mains models.

5.7 Of the remaining 127 “problem branches” branches in the post-CTP network:

- 35 can be moved to a breakeven position through proposed initiatives under CTP2.
- 26 could be reconfigured, during 16/17, to provide a profitable, counterless, assisted-automated branch model, with a reduced service offer concentrating on mails, POCA, cash withdrawal, limited retail and bill payment.
- 7 can be closed during 15/16, with capacity available in nearby branches to accommodate the displaced demand.
- 59 should be considered for merger/ closure or alternatively franchise (but only if a viable, interested, partner exists). Franchising has proven challenging under CTP, and the dynamics of a large number of these branches mean they are unlikely to be attractive to agency operators. In the event of closures, we can still maintain a network size of over 11,500 by introducing new locals, mains or even Crowns in more viable locations elsewhere.
- Initial interest in franchising has been shown from WHSmith in up to 45 of these 127 branches (including up to 19 of those we might otherwise consider closing) but this is at a very early stage of negotiation and previous experience would suggest a lower number will prove to be viable deals for both parties after due diligence completes.

The first two points above form part of the “base scope” proposed for CTP2, with optionality on the latter two, dependent on GE appetite.

In terms of how many Crowns we recommend remain at the end of FY17/18, it will therefore be up to 248. These are the 187 “star performer”, “strategic essential” and “cash cow” branches, plus up to 61 of the “problem branches” (35+26 from above) that we believe can be moved to a breakeven position with a better return on investment, and lower service impact, than closure or franchising. Franchising will not be ruled out on “problem” branches, or even those “strategic essential” branches that are borderline cases, but these would need to be under deal terms that offer an acceptable payback period to POL (which we are setting at 3 years).

5.8 Changes to network shape are not the only initiative proposed under CTP2, the recommended “base scope” of CTP2 also includes mobilising projects to:

- Automate POCA transactions, which, following the efficiencies made on mails processing with self-service under CTP, account for 19% of the remaining counter effort for just 8% of revenue generated.
- Introduce changes to workforce management tools, allowing staff to better declare shift preferences, reducing time inaccuracies and simplifying the process of allocating additional hours to most cost effective resources.
- Improve the retail offer in Crowns, better taking into account the needs of the local customer base. This will range from improved management and control of the as-is retail range, taking on new lines and re-invigorating the Photo-Me estate; through to allowing a separate, complimentary, concession (for example WHSmith local) to operate in available space within a Crown branch.

5.9 Under the proposals set out, the Crown network would not reach a breakeven run-rate until the end of Q1 16/17. This is later than previously forecast. The base scope proposed for CTP2, coupled with inflationary pay rises over the three years of the programme, and budgeted income growth of £9m over three years (in line with the three year operating plan) would see the Crown network reach a £9.2m profit run rate by the end of 17/18, a margin of 6-7%. The Crown network receives no subsidy and bears a full share of central allocations, so this would be quite an achievement in comparison to where we have come from and with the wider agency network.

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5.10 We appreciate the Group Executive may either wish to expedite the breakeven point, or mitigate further against the risk of flat or declining income by taking on a greater risk appetite for CTP2. The levers available to do this are shown in the schematic below.

Activity	FY16				FY16 narrative				FY17 narrative				FY18 narrative				Total net cost improvement	
	FF	Run	rate		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Committed from 14/15																		
Complete CTP1 franchising mergers, relocations and transformations																		
Leaving the Business with Dignity (LBD)																		
Recommended base scope of CTP2																		
Quick-wins																		
POCA automation																		
Workforce management system																		
Up to 7 closures and mergers																		
Third party retail retail offer engagements																		
Fixed network charges																		
Benefits by quarter																		
Cumulative base-scope benefits																		
BAU upsiders & downsides																		
Budgeted income growth from commercial teams, with sales management from Crown teams																		
CMA pay awards																		
CWU pay awards																		
Full allocation of FS staff costs to Crown																		
Upsides & downsides by quarter																		
Cumulative upsides & downsides																		
Est. Crown P&L run-rate (£m)																		
Higher risk, higher benefit scope options																		
Up to 26 reduced service offer branches																		
Up to 59 Franchises / Mergers / Closures																		
Changes to Crown pay structure and/or labour model																		

Commit to a "basic public service only" branch model wherever the branch is a Problem Branch with >60% of services automatable.

- 26 candidate branches to automate mails, cash withdrawal, POCA and bill pay only. No counter service available in branch. All other services migrate to other nearby branches.
- Dependent on POCA automation.

Commence work immediately via CTP2 to complete full impact assessments on a further 59 merger/ closures of Problem Branches, whilst concurrently seeking to secure franchise deals on as many as possible

- Would be above 7 merger/ closures proposed in base scope.
- Franchising is troublesome, but initial WHS interest in up to 15 would suggest there are at least some realistic prospects.
- Keep option to accelerate branch closures to mid-15/16 if required income growth is not on track, or if GE want faster delivery of benefit.
- Closures would create service, I.R. and political impacts.

Commence work immediately via CTP2 to define the strategy and approach to reducing total Crown labour cost from 16/17

- Likely too soon to introduce change in 15/16 pay deal, but will accelerate introduction of change if at all possible.
- Needs fully costed, credible alternatives to the as-is before entering negotiation, otherwise we risk failure.
- IR/HR impact and high risk of industrial action

Reduce near term staff cost in response to worse than expected run-rate position.

- Consider increased conditionality and variability in 15/16 CWU pay deal if GE have appetite.
- Introduce increased in-year performance management of FS specialists if 15/16 FS growth does not materialise in-year.

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5.11 We also recommend that under CTP2, a full feasibility assessment is undertaken and strategy developed to move total Crown labour cost closer to the high street average. This would consider;

- setting pay at regional levels to reflect the differing market rates across the country;
- creation of entry-level and intermediate-level roles with lower pay and more challenging progression between them;
- presentation to staff of voluntary pay variabilisation options as an alternative to the franchise or closure of a branch;
- creation of an apprenticeship scheme, running on lower rates of pay;
- increased variabilisation of pay in line with income performance;
- options to staff fully automated branches via a managed service / joint venture with a technology partner; and
- a range of options for potential shared-staff stores with a Crown site hosting a separate retailer or vice-versa.

5.12 CTP initially attempted, and was unable, to secure CWU agreement to a new entry-level role with a lower pay rate. Any of the above options will meet with strong union opposition and probable industrial action, but there is not a "do nothing" option if our objective is to reach a commercially sustainable Crown network. To achieve a strong enough negotiating position before commencing negotiations, the business will need credible alternative models in terms of staffing. We recommend investing the necessary time and resources during 15/16 in a joint Crown-Finance-IR/Reward team taking time to build up alternatives.

5.13 Controlling our cost base, monetising our physical asset and shaping our network provide the platform for a successful Crown network. Only our people in branch can deliver this success. Although we have challenges on sustainability of labour cost, we must engage

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colleagues with the vision for the Crown network, and support them in delivering the best for our customers every day. The new cluster manager structure supports this and CTP2 will also encompass a comprehensive range of initiatives to

- engage our staff in our vision, drive standards and set clear performance expectations
- support our staff to improve sales capability, with top-class training and planning programmes building on the good work undertaken during the life of CTP
- reward our staff through greater incentivisation in pay and greater focus on recognition.

5.14 The alternative option of franchising the entire estate has been considered and rejected. The improved profitability of the network under CTP, and the high costs of franchising, mean that there would be no financial benefit in franchising any “star performer” or “cash cow” Crown branches, particularly when considering the very high costs incurred for franchising and the payback periods required. Whilst there could be financial benefit in franchising selected “strategic essential” branches, to do so would undermine the vision set out for the Crown network, and franchising would be less attractive to agency partners considering the physical scale of such branches.

5.15 Dependent on the level of scope taken on, we forecast a need for up to £60m of new investment over the next three years. This is split out into four separate scope packages as per the table below:

All values are £m

Package	What is included	One off exceptional costs					POL EBITDAS improvement vs 14/15						
		15/16	16/17	17/18	18/19	19/20	Total	15/16	16/17	17/18	18/19	19/20	5 year cumulative
Quick wins package	Includes further lease re-gears; establishing an onerous contract provision for branches where rents are outside of market rates; increasing branch income via the rollout of a new, expanded, Photo Me offer; and pursuing additional property cost savings. Funding already approved.	0.5					0.5	1.1	1.3	1.3	1.3	1.3	6
Base scope package	Assessment, business case development and initial estimates of full costs to deliver: -POCA automation -Workforce management staff scheduling system -Improved retail offer -Up to 7 closures/mergers Costs will be refined at full business case stage	16	7	0.5			23.5	1.1	5.9	8	8	8	31
Higher risk, higher benefits scope package	Assessment, business case development and initial estimates of full costs to deliver: -53 additional closures, mergers and franchises over 16/17 and 17/18 to tackle “Problem” branches - 26 “problem” branches moved onto a fully automated, reduced service offer EBITDAS benefits include value of migrated income to agency network.	2.5	12	9			23.5	7.8	10	10	10	10	38
Forced Network change	Assessment, business case development and initial estimates of costs to deliver change in branches where the actions of our landlords will force POL into making choices on retention, relocation, or franchising of the branch. This “forced hand” comes from eviction notices, redevelopments and excessive rent increases. This type of work was absorbed under CTP1 and similarly needs a home under CTP2. Payback periods are poorer than optional relocations, and as such each case will need assessment against the CTP2 strategy such that only those branches with a good strategic fit and profitability are relocated under a forced hand scenario.	4.3	4.3	4.3			13	0.3	0.9	1.5	1.7	1.7	6
Totals		23	23	14	0	0	60	2.5	16	21	21	21	81

Benefits shown above are POL-wide EBITDAS benefit, and the five year costs and benefits of proposed scope items are shown. Each individual project has a payback period within 3 years, with the exception of the “forced network change” projects. The table excludes already budgeted 15/16 costs for any delayed, non-optional, expense that will be incurred under pre-existing commitments made by the CTP1 and Leaving the Business with Dignity programmes. Budget is already in place for 15/16 to complete on these commitments under previous business cases. The above table therefore covers the costs and benefits of newly proposed scope only.

5.16 As next steps, it is proposed that;

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1. The CTP Meeting Terms of Reference and membership is refreshed to reflect the nature of CTP2 scope.
2. The CTP2 team will continue with delivery of the “quick wins” CTP2 scope package.
3. The CTP2 team will assign additional resource to develop full feasibility assessments, business cases and detailed project plans for; POCA automation; the workforce management system; 7 branch closure/merger projects for 15/16; proposals to further monetise available space in the network including a new Crown retail offer; and the portfolio of 15/16 forced network change projects. Full business cases will be shared during May and June with TMG and Transformation Committee.
4. Dependent on GE approval, the CTP2 team will also assign further resources to develop full feasibility assessments and business cases for; up to 26 reduced service offer branches; and up to 59 closures/ mergers and franchises. These will be shared during June with Transformation Committee.
5. Dependent on GE approval, the CTP2 team will also assign further resource, working in conjunction with the HR, IR and Reward teams, to further develop the strategy to reduce / better variabilise the cost of the Crowns labour model and report back to GE.
6. The agreed (and quantified) outputs of 2 to 5 above will inform the updated draft of the 3 year plan to be signed off with the Board in July, and will also be reflected in the network strategy session at the June Board Away Day (with both products shared in advance with the GE).

Further detail on all aspects of the proposed strategy and associated CTP2 programme of change can be found in the accompanying slide pack.

Risks

6.1 There are a number of different approaches to implementing the future Crown strategy, dependent on the risk profile the business wishes to accept. This risk profile must effectively balance financial, political, people engagement, industrial relations and delivery risk. We have taken on board these considerations in order to develop what we believe is a base programme of change shown in 5.9 above which balances the below considerations;

- **Breakeven:** CTP targeted March 2015 to get to break even, this has not happened and we need to reach breakeven as soon as possible.
- **People impact:** Having been through a large change programme over the last three years it is vital that we maintain engagement from our Crown staff.
- **Industrial relations:** The impact of any changes to network shape, pay, or job roles will inevitably bring with it union negotiations and the potential for unrest.
- **Cost to implement:** The way in which the approach and ordering of activities impacts the cost of implementation.
- **Benefits and return on investment:** The sequence and pace at which we implement the strategy will bring with it different benefits and returns on investment, but we target a 3 year payback on each element of optional investment spend.

6.2 However the risk of over-dependence on income growth for the Crown network to reach a position of commercial sustainability is a material one, and as such we have presented alternative levers in section 5.10. Whilst these scope options will deliver significant financial benefits, they represent a more significant risk to Industrial Relations, Employee Engagement and external stakeholder perceptions of the Post Office.

Kevin Gilliland
Network and Sales Director

GE & ExCo - Current Actions and Decisions Log

ExCo Meeting 3 July - Actions and Decisions

Significant Litigation

03/07/05	Action 1	Schedule an ExCo discussion on prosecution policy	JM/AL	31 st March
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ExCo meeting 16th December 2014 - Actions and Decisions

OD Wave 2

16/12/2014	Action 4	Review the delegated authority levels and any changes needed to align with Waves 1&2 and circulate.	AL/ AC	After Wave 2
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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	JM	30 th April
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ExCo meeting 20th January 2015 - Actions and Decisions

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	16 th April
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New Group Executive (GE) Current Actions and Decisions

GE on 12th February 2015

Resourcing update – Talent Attraction

12/02/2015	Action 2	Include frontline retention (especially FS) and any geographical issues (e.g. London) in the GE slot on retention. Update: in progress on track for 16 th April	NH	16 th April
12/02/2015	Action 3	Consider graduate proposition, and how we build relationships with universities; the timing of the graduate recruitment. To include in the Board paper.	NH	7 th May

SLT Events – Communications Calendar

12/02/2015	Action 1	Mark Davies to review the Teamtalk proposal to consider: <ul style="list-style-type: none"> • messages for different audiences; • the different purpose and outcomes required; • how they align with the channels which already exist in network and supply chain; how they align with SLT briefings; • how they could be supported by visibility (GE & SLT?); • the metrics by which we would measure. <p>As part of the analysis go out to SLT to ask if Teamtalk is working for them, if they use it to update their teams, and if not why not. To return to GE for further debate. MD update: review in progress and to return to GE for further debate</p>	Mark Davies / NH	GE on 16 th April
12/02/2015	Action 2	MD to discuss proposed changes to operational comms with Angela VDB, to ensure they align with the Branch Improvements planned. MD update: in discussions with Angela	Mark Davies / Angela Van Den Bogerd	31 st March
12/02/2015	Action 3	SLT Events – produce a paper for GE on the purpose and expected outcomes from SLT events. And the planned themes and agenda items for the year ahead. MD update: in discussions with Gabriella Driver who is producing a paper focussing on development days	Mark Davies / Gabriella Driver	GE on 16 th April

POMS

12/02/2015	Action 2	Ensure the POMS process and meetings are included in the POL business planning. Update 03/03/15: Will be included once finalised.	AC	On-going
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12/02/2015	Action 5	POMS MDA included an commercial agreement on services provided by POL to be charged at a margin. Report back to GE when the margin is agreed. Update 03/03/15: In hand – the likely structure will be a mark-up on costs.	AC	On-going
12/02/2015	Action 6	Circulate POMS Articles and Board TOR to GE for information Update 23.03.15 : POMS Board ToR still under discussion	AL	31 st March
12/02/2015	Action 7	Provide a document explaining the timelines for establishing POMS including Board sign off. Update 4/3/15: POMS established FCA Authorisation ‘minded to approve’. Implementation target date 1 May. Update 9/4/15: Paper being submitted to special April Board for authorisation to act as a principal.	NK	20 th March 22 nd April

Second Sight Thematic Report

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

GE on 12th March 2015

2015/16 Scorecard

12/03/2015	Action2	Circulate a paper to the GE to explain the FS acceleration activity and its incremental effect on the plan Update 9/4/15: Paper being taken to the June Strategy Board Away Day	Henk Van Hulle	June Board AwayDay
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Telco Strategy

12/03/2015	Action 1	Clarify whether the mobile proposition requires a Consumer Credit Licence	Geoff Smyth/JM	20 th March
12/03/2015	Action 3	If the trial does go ahead ensure there are clear metrics in place to enable a final decision on roll-out after the first 3 months.	Geoff Smyth/AC	Before trial starts

HAWK

12/03/2015	Action 1	Check whether the decision to situate Hawk within POMS has been agreed by the Board – Options discussed at Board on 25 th March	AL	18 th March
12/03/2015	Action 2	POMS to advice FCA of the changes to POMS to include Hawk asap Update 9/4/15: Awaiting submission of JM & AC Long Form.	JM/NK	20 th March

12/03/2015	Action 3	Include as an appendix to the Board paper the assurance which POMS will undertake before it can incorporate the Hawk work into POMs Update 9/4/15: To be included in April special Board meeting.	NK/JM	18 th March 22 nd April
12/03/2015	Action 4	Circulate a note to the GE to explain the BoI exclusivity clause and how this effects investments and the Hawk recommendation to the Board	NK	18 th March

Banking Services

12/03/2015	Action 1	Alan Smith to discuss the proposal and scope with Kevin & Jane to get their input before the commercial discussions	Alan Smith/KG/JM	20 th March
12/03/2015	Action 2	Circulate to the GE a paper setting out the strategic questions which need to be considered and the approach being taken to reach commercials which make the proposition attractive	Alan Smith	20 th March

Digital

12/03/2015	Action 3	Work up the business case for phase two of the digital plan, to own the customer relationship. Martin and Al to decide when it is ready to come back to the GE	MG/AC	April 30th
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NFSP

12/03/2015	Action 1	Document what the £25m might be used for and agree with Al & Jane how it might be drawn down and signed off if specific criteria were reached Update: In progress, dependency with continuing discussion with NFSP	Nick Beal/AC/JM	31 st March
12/03/2015	Action 2	Circulate a list to the GE of specific issues for the next 2-3 years which we would schedule and expect NFSP to support for the additional payment Update: In progress, dependency with continuing discussion with NFSP	Nick Beal	31 st March

Talent Retention

12/03/2015	Action 1	Gabriella to circulate to the GE the next plan for SLT development	NH	30 th April
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Drop & Go

12/03/2015	Action 1	Drop & Go risk to be discussed at the R&CC	JM/MG	30 th April
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April 2015

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

PART (A) – CIVIL LITIGATION

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
Horizon claims (aka "Project Sparrow")	Rodric Williams	Patrick Bourke/ Angela van den Bogerd	<p>Post Office has received various claims from subpostmasters (SPMs) alleging defects in the Horizon system and POL's internal processes.</p> <p>These allegations were initially made in 5 claims brought through solicitors Shoosmiths. Similar allegations have been made by the "Justice for Subpostmasters Alliance" (JFSA) and advanced through SPMs' MPs.</p> <p>Following discussions with James Arbuthnot MP and JFSA, independent investigator Second Sight Support Services Ltd (Second Sight) was appointed in July 2012 to carry out a review into these allegations.</p> <p>On 08.07.13, Second Sight published a Report finding shortcomings in Post Office's internal training and support to SPMs on the Horizon system, but no systemic problems with Horizon itself.</p> <p>Following the Second Sight Report, on 27.08.13 Post Office launched a Mediation Scheme (Scheme) aimed at resolving individual complaints made about Horizon.</p>	<p>This matter is the subject of separate updates to senior management and the Board.</p> <p>The Scheme received 150 applications, which have been progressed under the direction of a Working Group comprising retired Court of Appeal Judge Sir Anthony Hooper (as Chair), Post Office, Second Sight, and JFSA. 80 cases are still being progressed through the Scheme.</p> <p>On 03.03.15 the Board approved a course of action by which Post Office would presume to mediate all non-criminal cases within the Scheme, the Working Group would be closed, and the current engagement with Second Sight would be terminated. Post Office's project team is acting in accordance with the Board's direction.</p> <p>To date, no claim has been made against Post Office in the civil courts, and no appeal has been made against any conviction in the criminal courts, following Second Sight's</p>	Bond Dickinson

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				<p>Report. However, Post Office is now in discussion with the Criminal Cases Review Commission about its past prosecution practices and in relation to 14 applications it has received, though not yet accepted, from Applicants to the Scheme for a review of their convictions. A 15th application from a convicted former subpostmaster has also been raised with us, though he is not an Applicant to the Scheme.</p> <p>There has also been significant media and political activity concerning the Scheme, which is likely to continue in the immediate future. Post Office's Communications team is fully engaged on this activity.</p>	
Employment	Nisha Marwaha	Colin Stretch	The Employment Tribunal has held a former SPM to be an 'employee' at a Preliminary Hearing.	<p>A former SPM has brought a whistleblowing and unfair dismissal claim against Post Office in the Employment Tribunal.</p> <p>On 17.06.14, the Tribunal held that the SPM was an employee of Post Office between 24.08.12 and 12.07.13, even though she had signed a Temporary Sub-Postmaster (T-SPM) Contract.</p> <p>The Tribunal's finding can be confined to the specific facts of this case, in particular to specific pre-contract oral negotiations, without which the Tribunal acknowledges there would be no employment relationship.</p> <p>As an "employee", the SPM can continue with her claim that Post Office dismissed her</p>	Eversheds

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				<p>for whistleblowing. The Tribunal has not yet determined whether or not the SPM was in fact unfairly dismissed. Post Office's position is that her T-SPM Contract was properly terminated because of substantial rent arrears.</p> <p>Eversheds has been instructed to try to settle the matter. However, Post Office's financial offers (the latest being £15,000) have so far been rejected. The Tribunal Hearing has been listed for 7 days, provisionally at the start of September 2015.</p> <p>The SPM is active on social media and has been making comments about the litigation. This is being monitored and Post Office's Communications team is engaged.</p>	
Employment	POL/NM	Colin Stretch	<p>In addition to the claim noted above, there are three claims against POL proceeding before the Employment Tribunals. The Claims allege unfair dismissal, race discrimination and unlawful deduction of wages.</p> <p>Potential exposure to Post Office in respect of two claims is approx. £18,000 with one claim yet to be valued.</p>	<p>Significant claims continue to be monitored (both internally and with external counsel) and risk assessed as they progress.</p> <p>Post Office's Communications team is engaged in the event these claims are of interest to the media.</p>	Weightmans and Ashfords

PART (B) – CRIMINAL LITIGATION

PROSECUTION POLICY

Post Office is in the process of finalising a new prosecution policy drafted by former First Senior Treasury Counsel Brian Altman QC.

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PROSECUTION CASES

Post Office is not currently pursuing any live prosecutions in England and Wales, although there are 5 cases being dealt with by the national prosecutors in each of Scotland and Northern Ireland. A number of security investigations are being reviewed as to whether a prosecution could be commenced (supported by an independent expert report on the Horizon branch accounting system if appropriate - see below).

EXPERT REPORT

Steps continue to be taken to determine the basis on which Imperial College London may be able to provide expert evidence to support prosecutions which involve data obtained from the Horizon system.