

Induction briefing

1.	Purpose, Strategy and Growth (PSG)
	Nick Read, Group CEO, joined Post Office on 16 September 2019 and initiated work on shaping the Purpose, Strategy and Growth (PSG) of Post Office. The outputs of this work are due to be considered by the Board at its meeting on 28 January 2020. The work is being led by the Group Executive, with input from the wider organisation and supported by McKinsey. The work includes: - Defining the purpose of Post Office now and in the medium term¹ - Reducing the cost base to be appropriate for the size of the business - Determining our “Big Bets”² and translating these into business initiatives. Deciding what to stop or pause as well as what to resource. Post Office has set out its key market ambitions and measures of success for these by 2020/21 in the “North Star” (included in the induction materials) and agreed strategies or is developing strategies for a number of business areas (Retail network, Financial Services, Insurance, Telecoms, Digital Identity, Post Office Money) but has no overarching strategy or route map to delivering its strategic objectives. Engagement surveys and the Organisational Health Index (OHI) conducted as part of the PSG work have scored low on clarity of strategic purpose. The Board has asked for a stripped back view of what the ideal retail network would look like, recognising that we have a commercial business but also operate branches which make a loss and are supported by Government to deliver an agreed set of Social General Economic Indicators (SGEIs)³. We should then consider the obstacles to achieving the desired network, for example, the requirement to maintain a branch network of 11,500 particularly as the use of cash declines. We should also consider how the other business lines support the network and where business lines are not prime contenders for investment we could consider “selling out, getting out, licensing, ticking over or cash cowing”. Following the October Board discussion, McKinsey was asked to produce an overview of the post office landscape in other parts of the world and of market disruptors (noting that the front office “Post Office” is not normally separated from the distribution network “Royal Mail”). This will be discussed at the November Board.
2.	Finance
2.1	<i>Funding (The Funding Agreement and Entrustment letter are included in induction materials)</i>
	Under the funding agreement for 2018-2021, Government agreed to invest up to £210m in Post Office. There has been significant expenditure on replacing or upgrading infrastructure. Post Office is required to submit a quarterly change report to the Shareholder. The latest position was set out in the October Quarterly Change Plan Report: “Three Year Plan 2018-2021 In our original Three Year Plan (2018-2021), we planned for a cash spend of £445m. Including non-cash spend (£21m), GLO spend (£39m) included elsewhere and the brought forward spend from 2017/18 (£26m), the equivalent total change spend demand is therefore £531m for the period to

¹ Beyond the next few years, income from the Banking Framework is set to decline as the use of cash declines, income from government services has already declined and maintaining a network of 11,500 branches is challenging.

² McKinsey has advised that most businesses will not back more than ten “Big Bets” at one time. These will be the main initiatives selected by a business to drive value (ranked by highest to lowest NPV) and evaluated for selection by financial returns, ease of capture and fit with company purpose.

³ The SGEIs are set out in the Funding document and Entrustment letter and delivery set out in the Annual Network Report laid before Parliament. These documents are included in the induction materials.

	March 2021. We are, however, currently assuming change spend over the three years to remain within the previously discussed level of £520m (plus an additional £20m for the Payzone acquisition, including future earn-out payments), through the continual review and prioritisation process discussed above. £445m was originally predicated on the assumption that we would spend all our incoming cash (net profit plus investment funding) but would not borrow significantly to fund investment. Whilst this logic is still being adhered to, further incoming cash opportunities and investment opportunities, beyond the scope of the original Three Year plan are being discussed and presented through Five Year strategy documents, which also discuss affordability. We are not requesting any funding for Q3, as all funding for the current funding period has been requested. It should, however, be noted that up to the end of September 2019 we have received £168m and requested a further £42m, with the final £42m still outstanding whilst a rolling three-year investment spend forecast is agreed, which has been delayed whilst elements of the Five Year planning are finalised. Given the delay in the Five Year planning process we will be submitting an interim update to release the £42m final payment. To that end, we confirm that the funds requested will be spent on transformation, in accordance with the priority areas set out in the Three-Year Plan that underpins the Funding Agreement.” A Network Subsidy Payment (of up to £160m for 2018-2021) is received for providing access to an agreed set of SGEIs (including state benefits, passports, bill payments, postal services, access to cash and basic banking facilities) through a network of at least 11,500 branches. Provision of the SGEIs is stipulated in the Entrustment Letter and Funding Agreement. POL also has a set of access criteria such as the percentage of the population that should be within x miles of a Post Office which helps to support rural and urban deprived communities. Funding for the next period is likely to be limited to the costs associated with delivering the SGEIs. This means that prioritising change spend (links to the “Big Bets” work and what to invest in and what to stop) and governance around testing business cases and assessing delivery of benefits through the project cycle is a particular focus⁴, as is the management of cash which is likely to become part of targets against which STIP and LTIP are measured. A paper on cash and facility management is included in the November Board papers.
2.2	<i>Five Year Plan</i>
	The Board will be asked to review a draft Five Year Plan in January 2020 and approve the Plan for submission to the Shareholder at its meeting in March 2020. This does not follow the normal approval cycle. The work on PSG, including defining the right organisation design and cost base for the size of the business, means that it has made sense to defer sign-off. The Board may need to approve an initial funding plan for submission to Government before March 2020 to align with the Government wide spending review cycle. The Remuneration Committee will also need to approve STIP and LTIP measures for submission to the Shareholder in advance of the Five Year Plan being finalised.
2.3	<i>In-year cost challenge</i>
	The EBITA target for 2019/20 is £74m. We are £1.6m ahead on the 6+6 forecast, but the full year 6+6 falls around £3m short of target. There are headwinds in insurance, travel money and telecoms.

⁴ Dan Zinner has been appointed as Transformation Director, reporting to Nick Read.

	To bridge the gap, work has been accelerated on spans and layers and discretionary spend has been minimised ⁵ .
3.	Litigation – subject to legal privilege
3.1	<i>Group Litigation</i> <i>Background (summarised from the Herbert Smith Freehills paper to the Postmaster Litigation Subcommittee on 13 November 2019)</i> In 1999/2000 Post Office introduced a computerised electronic point of sale system, Horizon, which Postmasters were required to use in their branches. The Horizon System requires sub-postmasters (SPMs) to account for stock, sales and takings and, as part of the balancing process, identifies shortfalls or discrepancies. Under the terms of their contracts, SPMs are required to make good any shortfalls out of their own funds. Some Claimants repaid their shortfalls; others hid them through false accounting. Post Office implemented robust audit and collections procedures to minimise losses. Some SPMs had their contracts terminated, some summarily for breach and others on notice. Until 2013 PO sought to prosecute in appropriate cases for theft, fraud and false accounting. Some settlements were paid under a mediation scheme in 2013 and under the Network Transformation Scheme leavers were offered 26 months' worth of earnings. The claimants are a group of 555 individuals (61 of whom were prosecuted by Post Office through the criminal courts) who allege that Post Office's policy of seeking recovery of shortfalls was wrongful because shortfalls were generated by "bugs" in the Horizon System. They also allege that Post Office failed in its "good faith" duties to provide proper training on the use of the Horizon System, to assist with queries or complaints, to disclose the existence of known bugs in the system, to conduct adequate investigations into the cause of disputed shortfalls and to allow suspended SPMs access to records to enable them to challenge Post Office's assumption that unexplained shortfalls were the result of theft or error. As a result of these breaches, they claim damages for the wrongful recovery of shortfalls, the wrongful suspension and termination of their contracts and associated wrongs including harassment, stress related illness and stigma. <i>The cases</i> The claims are funded by litigation funders, Therium. Mr Justice Fraser is the Managing Judge and has ordered that Group Litigation Order (GLO) is heard as a series of trials on issues of relevance to the claims. The Common Issues Trial was the first trial and considered the meaning of the contracts between Post Office and SPMs. The judgment issued in March 2019 was critical of Post Office's operating practices and also found that the contract was "relational" and implied a number of onerous "good faith" terms which are at a variance with Post Office's understanding of the contractual framework it had in place. Post Office sought leave to appeal and the application was heard on 12 November 2019. The Horizon Issues Trial was the second trial, focussing on whether the Horizon system was robust. The case concluded in July 2019 and the judgment is expected imminently. The first and second trials did not concern Post Office's liability for individual claimants' claims. An initial mediation hearing is scheduled for 27 and 28 November 2019. A Further Issues Trial is scheduled for March 2020 and will determine whether the types of loss claimed are recoverable in principle and, if so, how they should be quantified.

⁵ The spans and layers work is tactical and precedes the broader work on organisation design. Wave 1 and Wave 2A of spans and layers has identified 91 roles for removal. The overall in-year benefit is £3.79m in cash (annualised £8.79m). Wave 2B and Wave 3 are to follow.

	Depending on the outcome of these cases there may be a further trial (The Breaches Trial). The Board receives an update on the litigation at each meeting but has delegated authority to a Board Subcommittee to take strategic decisions in relation to the litigation (such as the range of settlement figures). The Subcommittee is chaired by Tim Parker and Tom Cooper (the Non-Executive Director appointed as the Shareholder's representative) and Ken McCall (Senior Independent Director). The Group CEO and CFO attend Subcommittee meetings. Herbert Smith Freehills are supporting the Board on the case together with the in-house legal team (Ben Foat is General Counsel) and Womble Bond Dickinson.
3.2	
4.	Legacy issues - IT systems, back office, processes and procedures
	Post Office has the challenge of dealing with legacy issues while seeking to modernise its offer to customers and agents through the development of online and digital services, moving from products to propositions, breaking free of some of the constraints of the previous Bank of Ireland and Royal Mail contracts and developing an attractive franchise proposition. The legacy issues include our systems and procedures. A network transformation programme was completed this year which modernised over 7,700 branches. PO Limited's financial processes were migrated from POLSAP to Transtrack CWC but there have been some cash reconciliation issues which are being worked through⁶. We have yet to move to the cloud (Azure) from two data centres operated by Fujitsu in Belfast. The Common Issues judgment was critical of Post Office policies and its approach to postmasters. Procedures and processes relating to how we support branches, recover losses, manage loss disputes, suspend and terminate Postmasters have been reviewed. A programme of activity to reduce Transaction Corrections through Horizon screen changes and further process system and restructuring activity is underway. Operation Transformation & Agent Relationship Programmes were already underway to improve support to Postmasters including hothousing⁷, which has been rolled out to more than 230 branches training, engagement, remuneration (please see below), improvements to the Horizon system and information provided to branches. Staff contracts: Post Office has a 90 day consultation process for roles that are at risk and generous redundancy arrangements. Staff in DMBs which are franchised receive two years' salary if they take voluntary redundancy. The DMB franchising process continues with 114 DMBs due to be operating at the beginning of the 2020/21 financial year.
5.	External environment: stakeholders

⁶ In the testing phase CWC was correctly recording the value of cash in supply chain but there were problems with how that value was being reported through to SAP CFS. Nevertheless, as the differences could be identified automatically and a process had been agreed to explain, resolve and rectify these differences, it was felt that the risks could be managed and a "go live" decision was taken.

⁷ Developing the capability of area managers to build relationships using a "trust" model which aims to deliver improved MI, increase knowledge of business finance and strengthen retail capability in branches.

Shareholder

Post Office is 100% owned by BEIS. Its day-to-day reporting route is through UKGI, with Tom Cooper as the Shareholder appointed representative on the Board. The Chairman and Group Chief Executive meet periodically with the Post Office Minister and the Permanent Secretary. We are about to agree a Framework Document with UKGI/ BEIS which will set out the accountabilities and reporting requirements for each party and refers to the Government guidance we must adhere to. We are also about to agree changes to the Articles of Association which extends some Shareholder consent requirements from POL to the group. Government, with HMT in the lead, has been seeking to drive consistency of approach in Arms' Length Bodies and Government owned companies to remuneration arrangements, such as not providing private medical insurance as a benefit in kind. There have been ongoing discussions about which elements should or should not apply to Post Office Limited. Post Office obtained legal advice that the Public Sector Pay & Terms Guidance (PSG&TC) did not apply to POL currently, on the other hand we are 100% owned by Government and need to take account of our Shareholder's views. The Board has agreed to follow UKGI's interpretation of which elements of the PSG&TC should apply to POL. The immediate implication is that PMI should not be offered as a benefit in kind to new employees. Consideration is also being given to how we treat cash perquisites for new GE members.

The Group Litigation, bank closures and the pressures on the high street have focussed attention on Post Office. The Daily Mail has been running a campaign to "Save our Post Office" and a BEIS Select Committee Network Enquiry Hearing was held on 21 May 2019⁸. Al Cameron gave evidence on behalf of Post Office. Written evidence, the hearing and the Committee's 1st report can all be found at: <https://www.parliament.uk/business/committees/committees-a-z/commons-select/business-energy-industrial-strategy/inquiries/parliament-2017/post-office-network-17-19/publications/>

Partners

Royal Mail, Bank of Ireland and Fujitsu are key partners for Post Office. We are negotiating a new MDA with Royal Mail. The exit provisions for the MDA come into force on 19th January 2020, unless RM and POL agree otherwise by amending the MDA, or entering into an agreement replacing the MDA before then. (please see below). We have just concluded a new deal with Bank of Ireland (please see below). The Fujitsu relationship is complicated because they provide IT support for our Horizon system, run the two data centres in Belfast, support our digital innovation work and also support our Telecoms Business (please see below). Fujitsu were required to provide witness evidence for the Horizon Issues Trial and we anticipate a critical judgment. It recently transpired that we had breached our disclosure requirements to the court because Fujitsu had informed us that the Known Error Logs (KELs) were overwritten which transpired not to be the case. The additional KELs released proved not to be material to the trial but has caused concern about the reliability of data provided.

⁸ "Scope of the inquiry

The Business, Energy and Industrial Strategy Committee will hold a one-off evidence hearing on Tuesday 21st May on the Post Office network, examining issues such as the franchising of Post Offices, the reduction of Government subsidies, and the long-term resilience of the service.

The evidence session will examine the future of Post Office branches, the moving of Post Office branches into retailers, the Post Office's modernisation programme and the tie-up with WHSmith, and the operation of Crown Post Offices."

	Competitors Board reports usually contain some analysis and information about competitors but feedback from the Board and low scores on our focus on competitors in the OHI survey suggest that this needs additional focus.
6.	Internal environment – newly appointed CEO, changes in the executive team and Board Paula Vennells stood down as Group Chief Executive Officer at the end of April 2019 having been at Post Office for 11 years and served as Group CEO for seven years (the separation from Royal Mail took place in 2012). Al Cameron, the CFO, served as Interim Group CEO. Nick Read joined Post Office on 16 September 2019. There have been a number of changes to the Group Executive (GE) over the past year. Ben Foat (previously the Legal Director) was appointed as General Counsel in May 2019, Shikha Hornsey took up post as Chief Information Officer in October 2019. Mo Kang, Group HR Officer, left in October 2019 and Lisa Cherry is Interim Group HR Director. A recruitment process is underway. Mark Davies, Group Communications and Communications Director, will be leaving at the end of 2019. A recruitment process is underway. Shirine Khoury-Haq stood down as a Non-Executive Director in July 2019 after being appointed as CFO of the Coop Group and deciding that the potential conflict of interest could not be managed. Tim Franklin will stand down at the end of 2019 after two terms as a Non-Executive Director. Tim will continue to chair the Post Office Insurance Board. Nick Read is deciding the shape of his senior team and wider organisation design is part of the PSG work.
7.	Retail: Short-term stabilisation of the network; Agents' remuneration; Developing as a franchise (making running a Post Office simpler, better support systems, changes in how we engage and operate as a business) Figures: Post Office network customer sessions averaged 10.1m per week for the year to September, +1% year on year, against a British Retail Consortium reported 3 month average High Street footfall decline of -4%. Trading profit YTD (including Payzone) £78.4m against a budget of £74.1m. Retail network The Board discussed proposals for the development of the network in July 2018, including new Post Office Models. Since then work has taken place to develop the support to Postmasters through a network of regional and area managers. A number of (particularly smaller) branches had not received a visit for some years and this has been rectified. Engagement events and calls have been set up with Postmasters. Postmasters are being engaged in the PSG work. In tandem, work has been taking place to improve processes and procedures, partly a direct response to the Common Issues judgment and partly work already underway but accelerated to improve IT support, MI provided, on-boarding and training. The changes have looked at tone as well as content and letters now include a number for Postmasters to call if they need further help or advice. Work is ongoing. The Post Office franchise is seen as unattractive currently and we are struggling to attract and retain Postmasters and (in some cases) multiples (464 closures in 2018/19, with closures up 25% on the same point last year, including in some previously stable parts of the network such as Mains). Churn costs are high (circa £23m in 2018/19, though circa 50% of churn relates to factors outside our control). We lack information on the wider retail takings of Post Offices which makes it difficult to understand the value of the footfall driven through running a Post Office. There is a perception that

we underpay Postmasters (while our trading profits have increased) but the position is complicated because of our offer as a franchise (we pay for things like IT hardware etc.), because we overpay for some transactions and underpay for others. Meanwhile, Postmaster costs have increased significantly because of the impact of the living wage and we subsidise some Post Offices which either cannot support a viable retail offer or do not have retail skill but which we want to maintain because of their value in rural or urban deprived areas.

The Board approved a further £20m for agent remuneration and support for agents at its October Board meeting⁹ which is in addition to the £17m already announced this year which links primarily to the fee increases associated with Banking Framework 2. These increases are seen as a short term fix and more work will be required to shore up and develop the Post Office network.

Royal Mail

We are negotiating a new MDA with Royal Mail. The exit provisions for the current MDA come into force on 19th January 2020 unless POL and RM agree otherwise by amending the MDA, or entering into an agreement replacing the MDA before then. The emerging shape of the deal is:

Term: 2+10. Last 2 years of MDA with restrictions, and subsequent MDA without restrictions

Online: Right to sell RM products online on Post Office website (before 2022)

Fixed fee: Network Access Fee, based on number of branches. Annual efficiencies removed

Shape of money: No change on money like for like

Variable fees: Move to commission fees for sales, and per item for acceptance

Miss-selling: PO to take on some limited liability for miss-selling

Access: PO accept all products

Agents' pay: Increased transparency / alignment.

Banking Framework 2

Banking Framework 2 comes into force in January 2020. It is for a three year period and 28 banks are participating. A doubling of the rate card was agreed. The Board also agreed that a Framework Fee cap should be set at 30 million transactions (the absence of a cap was a particular concern for Santander) and that there should be a mechanism to extend to 2026 at BF2 pricing.

BF1 makes a £68m contribution to profit (net income of £96m, less £28m of agents' pay). However, against an estimated all-in cost of our cash infrastructure of some £80m, the BF1 does not pay adequately to cover the full costs of supporting banking transactions. The fee increases in BF2 supports the standalone cost of supply chain, additional remuneration to Postmasters and reflects the true value of the Post Office to the Banking industry.

Barclays had originally decided not to allow their customers to use Post Office for withdrawals under BF2 but after pressure from MPs and Ministers, the press and consumer organisations (backed up by Post Office) it reversed its decision on 25th October 2019.

Payzone Bill Payments Services Limited

Post Office completed the acquisition of Payzone Bill Payments after clearance from the Competition and Markets Authority in October 2018. This brings an additional 14,500 locations into the network. Payzone signed an exclusive contract with British Gas last week. British Gas customers can already pay their bills and top up their prepay meters over the counter in Post Office branches. This new deal is for a minimum of five years and means that British Gas and Scottish Gas customers choosing to pay over the counter will only be able to use a Post Office or a Payzone store from January 2020 and this should bring in around 1.8 million additional customers. Payzone's strategic priorities are to deliver the British Gas contract, win further client contracts, build strategic partnerships and whole estate deals with major retailers (enabled by new retailer facing technology)

⁹ An additional £10m is being held in the budget for potential further initiatives (subject to Board approval).

	and develop a non-Royal Mail “pick up and drop off” mails offer to complement Payzone’s payments content.
8.	Financial services – new deal with Bank of Ireland. New credit card partnership with Capital One
	Figures (including FRES and Telecoms): Trading Profit YTD £70.5 against a budget of £78m. The travel market is poor with exchange rate depression linked to Brexit and reductions in package holiday bookings having a negative impact on travel money sales and travel insurance. Companies gaining customers and market share (e.g. Revolut) have been pricing at a loss.
	Post Office offers mortgages, savings, credit cards, personal loans, travel money and postal orders. Most of our financial services are offered in partnership with the Bank of Ireland, with whom we have had a partnership for 20 years and serve more than 2 million customers in the UK. A new deal was agreed with Bank of Ireland in September 2019. The deal is seen as positive in aggregate set against the backdrop of a deteriorating market with lower margins on mortgages etc. The term of the agreement has been extended from September 2023 to December 2026 (now the earliest termination date of the partnership). The agreement has been structured such that Post Office is able to exit the arrangement periodically (every five years). Interim review mechanisms have also been agreed. An exclusive arrangement remains on residential mortgages, personal loans and personal savings products. BoI will maintain exclusivity on motor finance and point of sale finance. Post Office will be able to explore other partnerships for transactional banking, retail investments and SME. An improvement in the FRES dividend was negotiated with an additional fixed commission flow of £8.3m p.a. to 2022 (representing £4.9m net p.a.), and £9m p.a. from 2023. A “Matched Book” principle has been agreed on exit, with Post Office agreeing to allow BoI to “rent” the excess deposits for a three-year period post Exit but with the option to discuss selling an unmatched book of assets and liabilities. BoI has shared a statement of intent, which details their intent to reduce the mismatch between assets and liabilities, mainly through making Post Office the primary brand for broker-originated mortgages in the UK. Bank of Ireland had already advised that it wanted to get out of the UK credit card market and Post Office launched two new credit cards with Capital One in November 2019.
9.	Insurance – market conditions. Attempting to secure more of the value chain
	Figures: Trading Profit £9.8m against a budget of £12.6m. The travel insurance market is very challenging with 10-12% declines YoY mainly due to exchange rate depression.
	Post Office Insurance offers travel, life and general insurance. The business has been seeking to increase its share of the value chain by bringing key products in-house. Travel, home and protection insurance are the main areas of focus for growth. An acquisition was considered last year to increase its share in the impaired market but did not come to fruition. It changed its underwriter from TIF to ERV during the year. The Board discussed the short/ medium term strategy for Post Office Insurance at its strategy sessions in July 2019. POI is due to return to Board in January 2020 with its longer term strategic thinking. The brand is viewed as strong and supports customer acquisition. The re-engineered products are delivering above market growth in revenue and contribution. The trading culture reacts to constantly changing dynamics in channels, pricing and market conditions. The new platform, new data, analytics and pricing capability are coming on stream. However, Ed Dutton, the Interim MD is taking a different approach to the management of the business to drive delivery execution, optimise resources and build new opportunities. These include: 1. Cessation of its isolationist approach - collaborate and better integrate with POL

	2. Reduce its operational expenditure through shared services, organisational design and smaller company thinking 3. Radically transform its cost of change and speed of innovation 4. Support the creation of Post Office customer led propositions 5. Rationalise its product set where possible 6. Opportunities to invest for longer term value are available, but the short term focus is on 2019/20 plan delivery, completion of the Home Insurance transformation, a review of organisational design and costs.
10.	FRESH/ FRES joint venture
	FRESH/ FRES is Post Office's joint venture with the Bank of Ireland for FX. Post Office receives a dividend. • FRES was established in 2002 as a joint venture between the Bank of Ireland and the Post Office Ltd. • Originally established to provide on-demand and pre-order foreign currency and travellers cheques to the POL branch network. • FRES has since expanded its operations through Post Office to provide Travel Money Online and Travel Money Card. • A number of 'white labelled' services have been developed in the UK (e.g. John Lewis, Santander) • Post Office has grown to be the largest provider of retail foreign currency services in the UK with circa 11,500 branches. • FRES operates a wholesale FX notes business, creating one of the five largest currency dealing rooms in the world by volume (£19bn pa.). In 2017, FRES completed the acquisition of American Express Wholesale Currency Services which created a travel focussed Corporate Client portfolio (e.g. TUI) • Regulated as a Money Services Business (MSB) by HMRC. • FRES is approved by the Financial Conduct Authority (FCA) as an Authorised Electronic Money Institution (AEMI) and issued its own Multi-Currency Card in March 2017.
11.	Telecoms
	Post Office Telecoms currently offers three core consumer products - Home Phone, Dual Broadband (ADSL), and an emerging Dual Broadband (Fibre) offer. It delivered £26.5m DPC in FY18/19. Regulatory pressure on consumer protection, increasing customer demand for high speed broadband services, the emergence of new connectivity technologies, including 5G mobile networks and Ultrafast Fibre broadband service direct to the home, mean that the Post Office needs to evolve its core proposition away from ADSL to one focused on fibre and high speed services if it stays in the market. The market is competitive with discounting being used and with declines in out of bundle calls looking set to continue. We are currently behind plan in year. An RFP is underway and sale of the business is also being considered. Fujitsu are the provider and we need to inform them what we intend to do by 17 February 2020. The timescales are challenging and it is not feasible to run the RFP and sales processes in parallel. The Board agreed at its October meeting that we should pursue a short term extension to the current agreement with Fujitsu. The Board also accepted the procurement risk associated with inviting the submission of a disaggregated bid from Fujitsu for the RFP. A paper on the RFP outcomes will be coming to Board in January 2020. Background: The Board considered three options at its meeting on 31 July 2019: a) Continue with current supplier relationship with Fujitsu Telecoms (FJT)

	b) Invest in an RFP and migrate to optimised suppliers c) Complete a sale of business. The Board requested a “parallel approach” running the RFP and sales processes in tandem so that returns could be compared by 17 February 2020 which is the date PO Telecom must give notice to preserve exit rights and an exit period of up to 24 months to enable transition to a new supplier. Best and Final Offers (BAFO) from the RFP show an annual gross cost saving guidance range of £11m - £13m. TalkTalk remain the leader in the process but FJT have now submitted a credible and competitive alternative and indicated that they would be willing to disaggregate their unified bid (FJT would have to finish within the top two in all lots in order not to be disqualified on 18 November and their offer is unattractive in some lots). Phase 1 selection down to two suppliers completes on 18 November 2019 and binding commercial agreements must be in place by 20 December 2019. PJT partners have undertaken a desk-based analysis on the Telecoms business and provided a valuation of £160-210m.
12.	Digital Identity
	Figures: Trading Profit YTD £10.2m against a budget of £8.4m (upside driven by driven by security authorisation and Post Office Document Checking Service.)
	Post Office Digital Identity provides services to DVLA, Home Office and the Government Verify service through Didentity. Government dropped its fee for Verify significantly in November 2018 and provision of the service is running at close to cost. All providers apart from Post Office and Didentity will drop out as providers after March 2020. We are focussed on increasing customer numbers. At the July Strategy Day a growth strategy for digital identity was discussed based on three broad phases of market engagement: i. Now to end 2022/23: build a dominant position in the Government market in order to grow our customer base from 2.5m to nearer 10m, thereby creating the critical mass required to unlock the major private sector opportunity. As part of this approach the Board agreed to extend our Verify contract to September 2021, enabling us to acquire around 3m additional customers at a net cost of £6-12m. From 2020 we will also extend into employee vetting to generate additional revenue and users and start building our pipeline of FS clients. ii. 2022/23 onwards: leverage our 10m base for a major push into Financial Services (the largest profit pool for ID verification), offering the banks rapid ‘one click’ customer on boarding with reduced fraud and regulatory risk. Our go-to-market strategy will include the use of leading channel partners such as MasterCard and Experian. The roll-out of Pensions Dashboards should also expand our market during this period. iii. 2023/24 onwards: extend into other high volume (but low margin) sectors for ID verification such as travel and retail, where a large existing customer base is essential to gain traction. In October the Board approved a short-term extension of the contract with Didentity and noted that the following options were being explored: 1) Establish end-to-end control of the supply chain. If the Group strategy review concludes that Digital Identity is a long-term priority it would be better to migrate to a disaggregated supply chain under our direct control. The net investment cost of doing so over the next few years is £30-50m.

	2) Establish a new profit-sharing relationship with Digidentity. A lower cost option of circa £10m is to form a new profit-sharing partnership with Digidentity, with co-investment to address their capability gaps and greater control (we are currently dependent on them as a monolithic supplier and are already stretching their capabilities with delays with the current digital development product). In that case, we could revisit the fully disaggregated model in 2023. 3) Franchise the brand and other assets to a strategic partner. If it is concluded that Digital Identity is not a priority for investment there are partners who could take on the opportunity on a franchise basis with modest returns for us but with limited strategic control. Greater strategic control might be feasible with a major partnership.
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