



**EXECUTIVE COMMITTEE
AGENDA
for the meeting to be held on 16 September 2014
in Room 501**

Present: Paula Vennells (Chair), Martin Edwards, Gavin Lambert, Mark Davies, Lesley Sewell, Chris Day, Neil Hayward, Nick Kennett, Martin George, Chris Aujard, Alwen Lyons, Kevin Gilliland, David Ryan

Apologies:

In Attendance:

Start time: 9.15 am
End: 12.30

Time	Item	ExCo Sponsor/Presenter
9.15 – 10.15	Finance Performance Pack & Business and functional targets for 2015-16	Chris Day
10.15 – 11.15	FS Strategy	Nick Kennett
11.15 – 11.30	BREAK	
11.30 – 12.00	Business Transformation	David Ryan
12.00 – 12.15	Actions log	Alwen Lyons
12.15 – 12.20	Noting papers for the Board: - Significant Litigation Report - IA Audit Status Report Summary	Chris Aujard Chris Aujard
12.20 – 12.30	AOB - Delegated authority for software contracts - Authentication of the Company Seal	All
	CLOSE	

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POST OFFICE LIMITED

Performance Report

August 2014

Produced By : Financial Control

For Queries & Comments Contact : Sarah Hall or Kam Bassra

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Headlines

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Headlines

Operating profit before exceptional items in the month was £9.2m which is £4.5m favourable to budget. Year to date profit of £24.5m is £4.1m adverse to budget and £13.4m adverse to prior year (including the NSP reduction of £16.9m).

In the period net income is adverse to budget by £8.0m. This reflects the continuing shortfall in Mails and Retail (mainly labels and delayed rollout of ebay returns) of £4.0m although the performance was only £0.8m (3%) lower than last year. Telecoms continued its adverse trend due to lower customer numbers and lower average revenue per customer. Data issues remain a concern. Government Services was £2.0m behind budget mainly due to POCA, but also Passport Check & Send volumes.

Year to date total net income has worsened to £15.2m behind budget and £2.1m worse than this time last year (excluding NSP).

Total expenditure (before project costs) in the month was £12.1m favourable to budget but includes £8.1m of VAT recovery upside and this reflects the impact of the Post Office leaving the RM VAT group and the conclusion of negotiations with HMRC.

Total expenditure (before project costs) year to date was £15.1m favourable to budget but includes £16.5m of VAT recovery upside so the underlying variance remains adverse. The £16.5m VAT upside (£11m relates to the prior year) was recognised in subpostmasters' costs (£2.3m) and non staff costs (£14.2m).

Subpostmasters' costs are favourable by £11.8m including £2.3m VAT recovered, further VAT and NI reductions and the impact of lower sales volumes. Staff costs are adverse by £2.8m reflecting the savings tasks not being achieved in Supply Chain and Commercial. Underlying Non staff costs, excluding the VAT upside, are adverse by £8.2m driven by £2.9m of central savings task budget and the mails segregation penalty accrued £2.5m. Project one off costs continue to overspend for Sparrow, the Journey to 2020 strategy work, and Business Transformation (spend is subject to review of accounting treatment).

The Commercial Committee supported by the weekly Trading Meeting is focusing on actions to drive income. The Business Transformation team is working with other business functions to identify and crystallise cost saving opportunities as soon as possible.

Cashflow

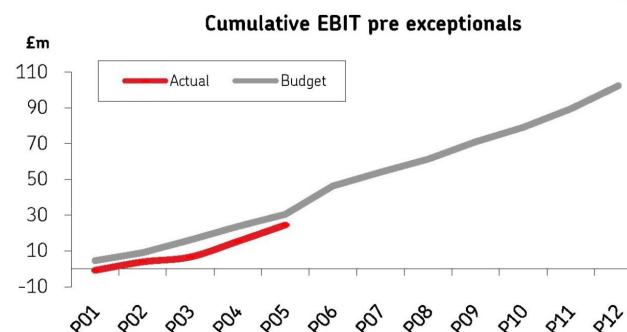
The YTD cashflow was an outflow of £42m which is £32m favourable to the budget of £74m outflow. The favourable variance is driven by lower than planned expenditure on NT and CT programmes.

Crown Profit

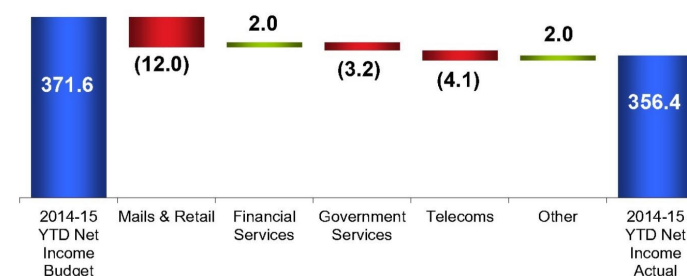
Crown profit is £2.8m adverse driven by lower Mails income and higher property costs.

Non Financials

The queue time metric is adverse, driven largely by Crowns, but is a significant improvement on the prior period.



£m Total Net Income - Budget to Actual Bridge



Financials

Total Net Income (excl NSP) £m (Bonus 20%)

Operating profit £m (Bonus 25%)

Free cashflow £m

Crown Profit (Loss) £m (Bonus 12.5%)

Non Financials

Queue time % < 5 minutes - Top 1k branches

NT Branches Transformed In Year (Bonus 12.5%)

Year to Date		
Act	Target	Var
356.4	371.6	(15.2)
24.5	28.6	(4.1)
(42.4)	(74.4)	32.0
(10.5)	(7.7)	(2.8)
76.8%	81.4%	(4.6)%
894	699	195

Profit & Loss Statement

August 2014

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£m	Current Month			Prior Year Period		Year to Date			Prior Year YTD		Full Year			Prior Year
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q1 Forecast	Budget	Variance	Outturn
TOTAL GROSS INCOME	70.7	78.4	(7.7)	72.2	(1.6)	401.1	415.6	(14.5)	404.8	(3.7)	1,031.9	1,031.9	0.0	979.4
Cost of Sales	(8.7)	(8.3)	(0.3)	(7.9)	(0.8)	(44.7)	(44.0)	(0.7)	(46.3)	1.6	(106.8)	(106.8)	0.0	(112.7)
TOTAL NET INCOME	62.0	70.0	(8.0)	64.3	(2.3)	356.4	371.6	(15.2)	358.5	(2.1)	925.1	925.1	0.0	866.7
Staff Costs	(20.1)	(19.6)	(0.5)	(22.1)	2.0	(106.2)	(103.4)	(2.8)	(110.6)	4.4	(238.7)	(238.7)	0.0	(253.9)
Subpostmaster Costs	(35.2)	(38.0)	2.8	(34.1)	(1.1)	(189.3)	(201.0)	11.8	(189.8)	0.5	(491.0)	(491.0)	0.0	(447.6)
Non-Staff Costs	(12.9)	(22.7)	9.8	(23.3)	10.4	(111.8)	(117.8)	6.0	(108.9)	(2.9)	(273.5)	(273.5)	0.0	(264.8)
Depreciation	(0.0)	(0.1)	0.0	(0.0)	(0.0)	(0.2)	(0.3)	0.1	(0.2)	(0.0)	(0.6)	(0.6)	0.0	(0.4)
Total Expenditure (pre P00C)	(68.2)	(80.4)	12.1	(79.5)	11.3	(407.5)	(422.5)	15.1	(409.5)	2.0	(1,003.8)	(1,003.8)	0.0	(966.6)
FRES - Share Of Operating Profits	4.7	4.7	0.1	4.7	0.1	19.8	19.7	0.1	18.8	0.9	35.0	35.0	0.0	33.1
EBIT - BAU	(1.5)	(5.7)	4.2	(10.5)	9.0	(31.3)	(31.2)	(0.0)	(32.2)	0.9	(43.7)	(43.7)	0.0	(66.9)
One off Project costs (P00C)	(1.6)	(2.0)	0.4	(1.4)	(0.2)	(11.9)	(7.8)	(4.0)	(14.5)	2.6	(17.3)	(17.3)	0.0	(26.0)
EBIT - Post Project Costs	(3.1)	(7.7)	4.5	(11.9)	8.8	(43.1)	(39.1)	(4.1)	(46.7)	3.5	(61.0)	(61.0)	0.0	(92.9)
Network Payment	12.3	12.3	0.0	15.4	(3.1)	67.7	67.7	0.0	84.6	(16.9)	160.0	160.0	0.0	200.0
EBIT pre exceptionals items	9.2	4.7	4.5	3.5	5.7	24.5	28.6	(4.1)	37.9	(13.4)	99.0	99.0	0.0	107.1
Interest	0.4	(0.2)	0.6	0.4	0.0	2.8	(0.7)	3.5	1.5	1.3	(3.0)	(3.0)	0.0	3.1
Impairment	(11.7)	(17.6)	5.9	(4.3)	(7.4)	(57.5)	(95.6)	38.1	(28.2)	(29.2)	(205.2)	(205.2)	0.0	(115.6)
Exceptionals & Redundancy & Severance Costs	(10.5)	(18.7)	8.2	(12.2)	1.7	(81.2)	(101.8)	20.6	(41.6)	(39.6)	(216.1)	(216.1)	0.0	(152.2)
Government Grant Utilisation	0.0	0.0	0.0	15.2	(15.2)	170.0	170.0	0.0	99.0	71.0	170.0	170.0	0.0	316.8
Profit/(Loss) On Asset Sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	(2.5)	0.0	0.0	0.0	3.4
Colleague Share/ Business Transformation Payments	(1.1)	0.0	(1.1)	0.0	(1.1)	(1.1)	0.0	(1.1)	0.0	0.0	0.0	0.0	0.0	(4.8)
Total Profit/(Loss) Before Tax	(13.7)	(31.8)	18.1	2.6	(16.3)	57.5	0.5	57.0	71.1	(12.4)	(155.3)	(155.3)	0.0	157.6

Period vs. Budget

Operating profit (EBIT) of £9.2m was £4.5m favourable to budget.

BAU was £4.2m favourable:

- **Lower non staff costs of £9.8m**, driven by the VAT recovery in the period.
- **Lower Subpostmaster costs of £2.8m** due primarily to lower sales and product mix.

Offset by:

- **Lower net income of £8.0m** due primarily to lower Mails, POCA and Telecoms income.
- **Higher staff costs of £0.5m** in the month. This is mainly due to the savings task not being achieved.

One-off Project Costs variance of £0.4m favourable due to timing.

Below EBIT

The exceptionals favourable variance is mainly driven by lower than budgeted subpostmaster compensation.

YTD vs. Budget

Operating profit (EBIT) of £24.5m was £4.1m adverse to budget. (Excluding the £11m VAT upside relating to prior year, this would be £15.1m adverse).

BAU was flat with budget:

- **Lower net income of £15.2m** due primarily to the continuing adverse income trend; Mails (£12m), specifically labels and Lottery, Telecoms (£4m), Government Services (£3m), mainly POCA, offset by favourable FS income (£2m), specifically banking, Premium Bonds and MoneyGram.

- **Higher staff costs of £2.8m** mainly due to the savings task not being achieved (£1.9m from Supply Chain and £0.5m from Commercial) and the Crown pay deal.

Offset by:

- **Lower non staff costs of £6.0m**, driven by the improved VAT recovery of £14.2m (£11m relates to the prior year). The underlying variance excluding all of the VAT upside would be £8.2m adverse driven by the impact of the centrally held savings task of £2.9m not being achieved and £2.5m accrued for Mails Segregation Penalty payment.
- **Lower Subpostmaster costs of £11.8m** due primarily to lower income and sales mix (£7.9m), VAT recovery (£2.3m) and other small variances including CTP budget opportunity.

One-off Project Costs variance of £4.0m adverse. This is mainly due to unbudgeted costs; £2.0m relates to unbudgeted Business Transformation costs to date (FYF c. £7m - spend is subject to review of accounting treatment), £1.4m relates to unbudgeted project Sparrow (FYF c. £7m) and £0.8m relates to unbudgeted strategy consultancy costs.

Below EBIT

Both impairment and exceptionals are under budget due to underspends in NT, CT and IT& Change. Although lower than budget, these are both twice last year's spend. The exceptionals budget also includes £8m ATOS contract set up payment incurred in 2013-14 but budgeted for 2014-15. Government grants have now been fully utilised.

YTD vs. Prior Year

Operating profit (EBIT) of £24.5m was £13.4m adverse to prior year.

Like for like BAU favourable variance of £0.9m was mainly due to:

- **Lower Staff cost of £4.4m** driven primarily by Crown savings.
- **Lower Subpostmaster costs of £0.5m** driven by improved VAT recovery.

Offset by:

- **Lower net income of £2.1m**. The variance versus prior year is driven primarily by lower Government Services income, mainly POCA and Telecoms offset by higher Financial Services (Moneygram, Mortgages, Savings and Insurance) revenue.
- **Higher non staff costs of £2.9m** due to increased IT costs (mainly Horizon and ATOS), marketing spend moving from P00C and VAT on RM costs, offset by VAT recovery received this year.

Non like for like adverse variance of £14.3m was due to:

- Lower Network payment of £16.9m, offset by
- Lower project costs of £2.6m.

Below EBIT

Included in grant utilisation this year is £77m of 2013-14 exceptional spend for which there was insufficient grant last year.

CFO High Level Profit Outlook At Period 5

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August 2014

	£'m	Income	JV Income	Staff Costs	Agents Costs	Non-staff	P00C	Costs	NSP	EBIT	Comments
Budget		925	35	(239)	(491)	(274)	(17)	(1,021)	160	99	
Mails and Retail											
Mails		(22.0)			13.9			13.9		(8.1)	£8m deterioration since P4 outlook is based on current run rate and delayed roll out of eBay returns.
Lottery and retail		(4.0)			2.5			2.5		(1.5)	
Mails segregation penalty						(3.0)		(3.0)		(3.0)	Camelot volumes £3.2m; Health lottery fixed fee £0.4m; Retail £0.4m. Max penalty under MDA of £6m, assume negotiate down as in 13/14.
Government Services											
POCA		(0.5)						0.0		(0.5)	Assumes £10m one-off from DWP.
DVLA		2.3			(0.4)			(0.4)		1.9	Volume upsides on tax discs and AEI £1.3m; one-off change control for EVL's £1.0m.
IDA		(1.0)			0.5			0.5		(0.5)	
Passports		(2.2)			0.9	0.5		1.4		(0.8)	Delayed launch. Still reliant on Cabinet Office committing to volumes. Digital passports delay, partially offset by paper passports volumes and price increase.
Telephony											
Homephone		(5.0)			0.3	0.9		1.2		(0.6)	Lower customer numbers and ARPU's, higher wholesale costs; campaign costs.
Mobile		(1.0)			0.5			0.5		(0.5)	Launch delayed and budget included 'stretch' volumes.
Energy		(3.0)			1.5			1.5		(1.5)	Proposition not being launched this year.
Financial Services											
Premium Bonds		6.3			(2.5)			(2.5)		3.8	Reflects max capped income under new NS&I contract.
Banking and Payments		2.4			(1.2)			(2.1)		1.5	Trading upsides.
Postal Orders		3.3			(0.5)			(0.5)		2.8	One-off adjustment to uncashed PO's 24 months to 12 months £2.3m; Trading £1m.
Mortgages		0.9						0.0		0.9	Trading and back book.
Credit cards		1.3			(0.5)			(0.5)		0.8	Trading and profit share.
Moneygram		2.0			(0.8)			(0.8)		1.2	Improved contract.
Client funding		1.3						0.0		1.3	
Life Insurance		(3.0)						0.0		(3.0)	Sales volumes £0.5m; additional commissions £2.5m.
New product launches/trading		(5.6)			2.0			2.0		(2.0)	Investments £1.6m; Loans £1.3m; PSP £1.2m; PPDC £0.8m; National Exp £0.5m; Current a/c £0.2m.
Stretch target		(6.9)			(3.5)			2.0		(2.0)	Covered by opportunities above.
Staff Costs											
Commercial staff costs				(1.5)				(1.5)		(1.5)	New Commercial structure does not deliver budgeted savings task.
Supply Chain staff costs				(2.0)				(2.0)		(2.0)	£2m savings budgeted. IR delayed implementation of new ways of working.
Central											
Release of contingencies		9.0						0.0		9.0	Release all of contingency.
		(25.4)	0.0	(3.5)	12.7	(1.6)	0.0	12.2	0.0	(4.4)	
Trading forecast at P5		900	35	(243)	(478)	(276)	(17)	(1,009)	160	95	

Crown Profit & Loss Statement

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August 2014

	Period			Prior Year Period		YTD			Prior Year YTD		Full Year			Prior Year
£m	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q1 Forecast	Budget	Variance	Outturn
Income and Distributions														
Variable income														
- Mails	2.5	2.9	(0.4)	2.8	(0.3)	14.4	15.7	(1.3)	15.7	(1.3)	39.2	39.2	0.0	39.6
- Financial Services	2.6	2.8	(0.2)	2.3	0.3	13.8	14.3	(0.4)	12.5	1.3	32.0	32.0	0.0	28.2
- Government Services	1.4	1.4	(0.1)	1.5	(0.1)	9.1	8.4	0.7	9.6	(0.5)	18.1	18.1	0.0	21.9
- Telecoms	0.1	0.1	(0.0)	0.0	0.0	0.4	0.7	(0.3)	0.3	0.1	1.3	1.3	0.0	0.8
Fixed income	1.7	1.8	(0.0)	1.6	0.1	9.1	9.4	(0.3)	10.1	(1.0)	21.9	21.9	0.0	25.2
Gamma/ Other	0.3	0.6	(0.4)	0.9	(0.6)	2.0	2.7	(0.7)	4.2	(2.1)	9.3	9.3	0.0	12.8
Renewals and Retentions	2.0	1.9	0.1	1.7	0.3	7.7	7.8	(0.1)	8.5	(0.8)	17.5	17.5	0.0	16.9
Total Income including Gamma/other	10.4	11.5	(1.1)	10.8	(0.4)	56.5	58.8	(2.3)	61.0	(4.5)	139.5	139.5	0.0	145.4
Branch costs														
- Staff	(7.3)	(7.5)	0.2	(9.0)	1.7	(41.9)	(41.9)	0.1	(45.9)	4.0	(90.0)	(90.0)	0.0	(106.0)
- Property	(2.6)	(2.4)	(0.3)	(2.7)	0.1	(14.1)	(13.3)	(0.8)	(14.8)	0.7	(30.1)	(30.1)	0.0	(34.4)
- Other branch costs	(0.1)	(0.2)	0.1	(0.6)	0.5	(0.8)	(1.1)	0.3	(1.8)	1.0	(2.4)	(2.4)	0.0	(4.3)
Infrastructure costs	(1.9)	(1.8)	(0.0)	(1.8)	(0.1)	(9.8)	(9.6)	(0.2)	(9.0)	(0.8)	(20.6)	(20.6)	0.0	(21.9)
Allocated central costs	(0.6)	(1.1)	0.6	(0.9)	0.3	(5.9)	(6.0)	0.2	(6.5)	0.6	(14.2)	(14.2)	0.0	(14.0)
Total Expenditure	(12.4)	(13.1)	0.6	(14.9)	2.5	(72.4)	(71.9)	(0.5)	(78.0)	5.6	(157.3)	(157.3)	0.0	(180.6)
JV Share of Profits	1.3	1.3	0.0	1.4	(0.1)	5.3	5.3	0.0	5.5	(0.1)	9.0	9.0	0.0	9.6
Statutory PBIT	(0.8)	(0.3)	(0.5)	(2.8)	2.0	(10.5)	(7.7)	(2.8)	(11.5)	1.0	(8.9)	(8.9)	0.0	(25.7)

Summary

Income:

Income is £2.3m less than plan.

Variable sales income is £1.3m less than plan principally due to (i) Mails - Lower parcel volumes, Retail sales and Home Shopping returns, (ii) Financial Services - shortfall from Life Insurance, Home Insurance and variable sales of Savings products. There is a corresponding upside in savings retention income due to the income guarantee with Bank of Ireland. Premium Bonds and Mortgages are performing above target although the Premium Bonds upside impacts on Other Income due to the income cap with NS&I. This is offset by (iii) Government Services - predominantly due to higher Passport check & send transactions. However, the variance in 'Other Income' that partially offsets this due to an element of the Passports target being held centrally.

Fixed income is adverse due to lower than planned LIBOR rates for Card Account commissions.

Retention income is adverse due to a lower customer base and Averaged Revenue Per User for HomePhone, partially offset by favourable Savings retention income.

Other income is adverse due to the delay or phasing of new products, predominantly Energy. Passport Check & Send and Premium Bonds (actual income in variable sales) is the other key driver.

Costs:

Costs are £0.5m higher than plan.

Staff costs £0.1m favourable primarily due to vacancies, mainly Financial and Mortgage Specialist, partially offset by the impact of the pay review settlement where associated efficiencies will be achieved in future months.

Other branch costs lower than plan due to losses being lower than expected although these are expected to reverse in the coming months.

Property costs £0.8m adverse due to the delayed savings for the new Facilities Management contract, now due to commence from October 2014.

Central Costs are £0.2m favourable due to improved VAT recovery partially offset by business wide efficiency savings still to be delivered.

Cost Management update

August 2014

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**Progress since P4 update****Value and confidence**

Following the introduction of a Cost Reduction Group (CRG) and an assesment of new opportunities, the gap between the in-year delivery of "line of sight" initiatives and the total cost reduction challenge has reduced to £21m (from P4 report of £26.9m).

Original Cost Management Programme	£34.2m
Additional Cost Challenge to achieve budget	£ 6.0m
Central Stretch to achieve budget	£ 5.9m
Total Budget Cost Challenge	£46.1m
Additional Challenge from Q1 EBITDAS gap	£ 7.0m
Total Current Cost Challenge	£53.1m
Current "Line of Sight" forecast	£32.1m
Gap to £53.1m	£21.0m

Delivery and governance

Governance of FY14/15 cost reduction initiatives has now been brought into the overall Business Transformation programme and work is underway with the various initiative owners to address the shortfalls versus budget and identify new opportunities.

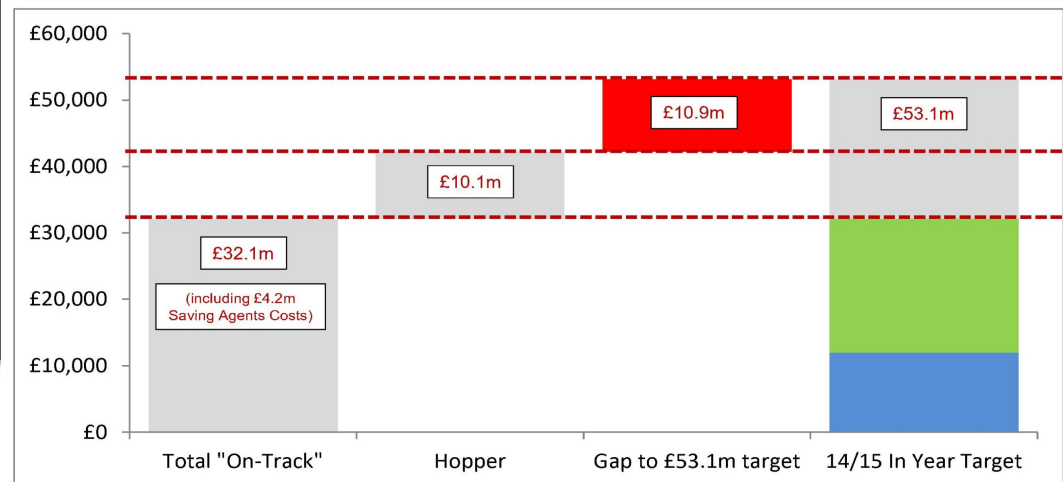
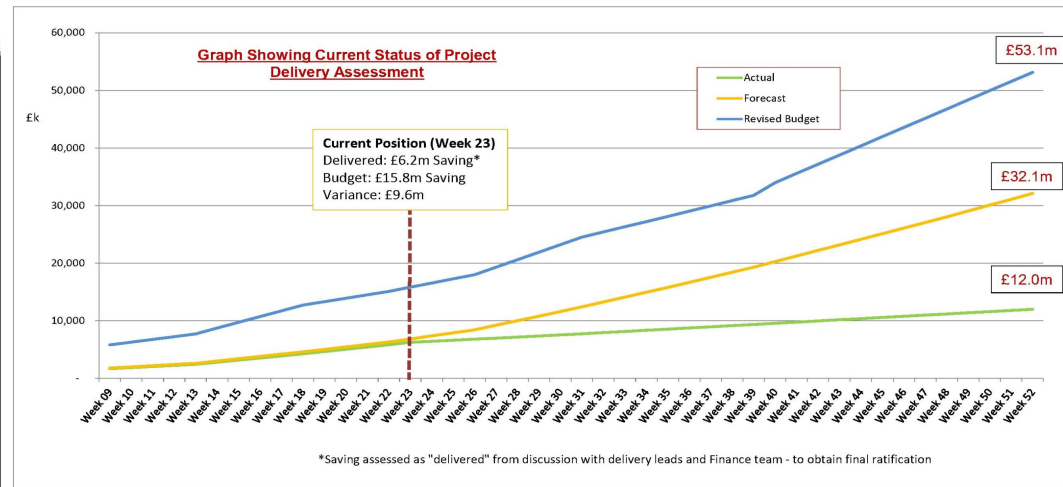
Regular 121 meetings have been established and "deep dive" meetings will be carried out with each business function during September to drive out further in-year opportunities to close the gap. These opportunities are added to a "Hopper" of high level ideas, which currently stands at £10.1m of in-year value.

Strategic initiatives for FY15/16 and beyond

The overall Programme is now progressing through Stage 2, designing the target operating model (TOM).

Work is ongoing to:

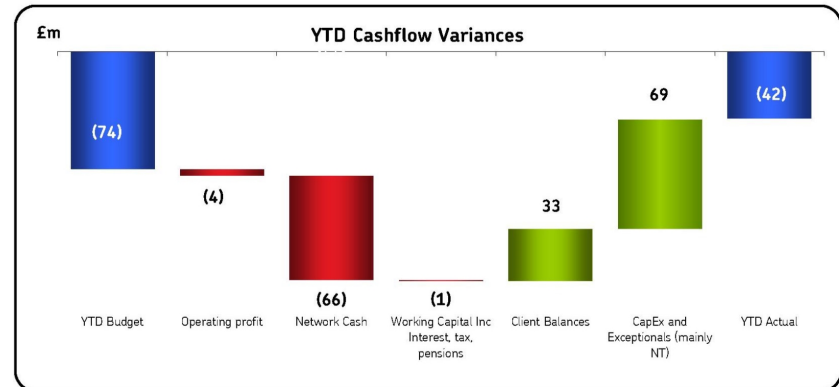
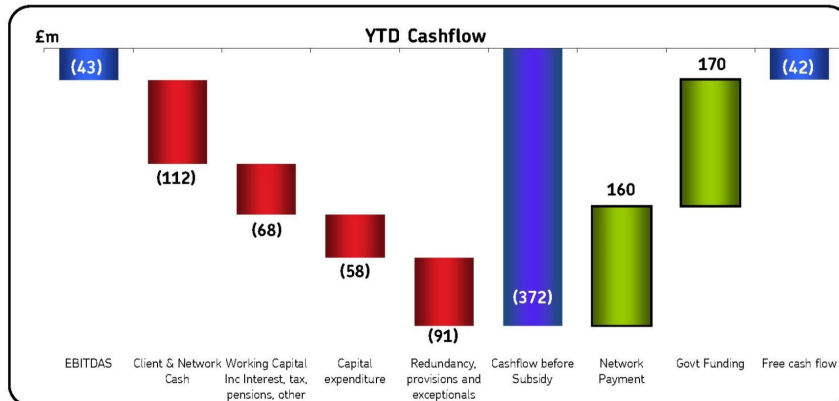
- 1) Identify a portfolio of incremental cost saving opportunities to achieve the £53.1m in-year improvement target placing all the cost saving initiatives under the scrutiny of the programme to ensure the expected improvement has the requisite effect on the 2014/15 EBITDAS outturn.
- 2) Design the target operating model that will ensure the cost efficiency targets for the programme (to 2019/20) are realised;
- 3) Craft design principles and develop business model scenarios in order to build a compelling business case for the Business Transformation programme.



Cashflow Analysis

August 2014

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Network Cash

£m		Mar-14	P5		
	Prior Year	Opening	Actual	Budget	var
Retail, Cash Centres	624	522	622	590	(32)
Bureau	95	58	80	86	6
Cheques, debit cards	121	129	172	131	(41)
Network Cash	840	708	874	807	(67)

	Opening	P5
Headroom (£m)	854	975

Cashflow

The £330m of government grant was received on 1st April which is the last payment of the 2010 funding agreement with BIS.

P5 cash outflow of £42.4m is £32m favourable to budget of £74.4m outflow.

The favourable variance is mainly due to:

- Capital and exceptionals continue to be favourable (capital £38m and exceptionals £31m) due to lower than planned NT, CT and IT spend.
- Client balances are £33m favourable. £24m of this is driven by higher Premium Bond (NS&I) sales due to premium bond personal limits rising from £30k to £40k.
- Working capital was close to budget.

Offset by:

- Network Cash was £67m adverse mainly due to higher volumes in cash centres (£44m adverse). The other adverse variances is in cheque and debit cards (£41m adverse) are offset by the favourable NS&I client variance.
- Operating profit is £4m adverse to budget.

£m	YTD			Full Year
	Actual	Budget	Variance	Budget
EBIT	(43.1)	(39.1)	(4.1)	(61.0)
Working Capital	(60.9)	(59.8)	(1.1)	27.0
Client Balances	52.2	19.0	33.2	17.0
Network Cash	(164.5)	(98.6)	(65.9)	(57.6)
Capital Expenditure	(57.6)	(95.6)	38.0	(205.2)
Government funding	330.0	330.0	0.0	330.0
Exceptional Items	(91.1)	(121.9)	30.8	(240.3)
Other (including interest and tax)	(7.3)	(8.4)	1.1	(9.9)
Free cashflow before interest, tax	(42.4)	(74.4)	32.0	(200.0)

Business Scorecard

August 2014

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Key Performance Indicators	Current Month			YTD			YTD	Full Year	2013-14
	Act	Target	Var	Act	Target	Var	Prior Year	Target	Outturn
Growth									
Total Net Income (excl NSP) £m (Bonus 20%)	62.0	70.0	(8.0)	356.4	371.6	(15.2)	358.5	925.1	866.7
Operating profit £m (Bonus 25%)	9.2	4.7	4.5	24.5	28.6	(4.1)	37.9	99.0	107.1
Earnings before ITDA and Subsidy £m*	(3.1)	(7.7)	4.6	(43.0)	(38.8)	(4.1)	(46.5)	(60.4)	(92.5)
Free cashflow £m	(51.2)	(67.5)	16.2	(42.4)	(74.4)	32.0	233.1	(200.0)	179.7
Customer									
Customer Satisfaction**	86.7%	89.0%	(2.3)%	87.6%	89.0%	(1.4)%	87.9%	89.0%	87%
Easy to do business with (Bonus 15%)**	25%	47%	(22)%	27%	47%	(20)%	44.7%	47%	41%
Net Promoter score**	1	2	(1)	0	2	(2)	-1	2	(4)
Queue time % < 5 minutes - Top 1k branches	81.8%	84.0%	(2.2)%	76.8%	81.4%	(4.6)%	82.5%	81.2%	82.1%
Branch Compliance - Financial Services - basket of 11 measures	70	<=60	A	84	<=60	A	N/A	<=60	N/A
Branch Compliance - Inland Dangerous Goods **** ^	64.6%	80.0%	(15.4)%	64.6%	80.0%	(15.4)%	TBC	80.0%	TBC
Branch Compliance - International Dangerous Goods **** ^	86.7%	85.0%	1.7%	86.7%	85.0%	1.7%	TBC	85.0%	TBC
People									
Engagement Index % (Once a year April) (Bonus 15%)^^	57%	58%	(1)%	57%	58%	(1)%	55%	58%	57%
Subpostmaster Engagement Index % (Once a year)^^	45%	48%	(3)%	45%	48%	(3)%	N/A	48%	45%
Post Office Values the diversity of the workforce (Once a year April)^^	52%	66%	(14)%	52%	66%	(14)%	N/A	66%	52%
(No.) % of BME appointments over total recruits at senior leadership and senior manager	14%	7%	7%	10%	7%	3%	9.5%	7%	11%
(No.) % of Female appointments over total recruits at senior leadership and senior manager	14%	45%	(31)%	44%	45%	(1)%	52.3%	45%	46%
Modernisation									
Crown Profit (Loss) £m	(0.8)	(0.3)	(0.5)	(10.5)	(7.7)	(2.8)	(11.5)	(8.9)	(25.7)
Crown Profit (Loss) Run Rate £m (Bonus 12.5%)^	N/A	N/A	N/A	(15.4)	(14.4)	(1.0)	N/A	0.0	N/A
NT Transformations - contract signatures ***	206	122	84	4,029	3,678	351	1,759	4,800	3,246
NT Branches Transformed In Year (Bonus 12.5%)	172	139	33	894	699	195	187	1,650	1,551

Bonus worthy metrics

* ITDA Interest, Tax, Depreciation, Amortisation.

** Monthly = 3 month average. YTD = 12 month average.

*** YTD and FY = cumulative including prior years.

**** POL are looking to hit 100%, and these target have been set for 2014-15 in recognition that marked improvement is required to reach 100%.

^ Target is the year end exit rate.

^^ Measured annually with some additional 'Pulse surveys'.

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Metrics To Focus On

August 2014

Key metrics to focus on (YTD below target) include:

Net Income: (Martin/ Kevin) (Bonus)

Net income is £15.2m adverse and is driven primarily by Mails, Telecoms and POCA income. The Mails variance was driven by labels, Collections & Returns, Special Delivery, Dangerous Good and lottery. This is partially offset by Financial Services being favourable.

Operating Profit: (All) (Bonus)

Operating Profit is £4.1m adverse. This is however offset by £16.5m (£11m relates to prior year) of VAT recovery and so is greatly under stating the underlying position, which is driven by the savings task not being achieved, lower income and higher project costs.

Customer Metrics:	3 month rolling	1 month
CSAT top 3 box	-1	0
CSAT top 2 box	1	9
Easy to do Business with (ETDBW score)	-2	5
NPS	1	10

Customer Satisfaction: (Martin)

We continue to report on top 3 boxes, but it is important to learn from the top 2 and neutral scores.

As customer responses for satisfaction in the top 3 boxes (Extremely/very/fairly satisfied) have remained stable, the top 2 boxes (extremely/ very satisfied) have shown an improvement of 9pp this month. This shows that we are getting more people who are extremely or very satisfied and fewer who are who are neither satisfied or dissatisfied.

Easy To Do Business With: (Martin) (Bonus)

3 month rolling - This measure has dropped a further 2pp in the 3 months to August to 25%. Looking into the Effort score, it's the Low Effort score (down by 1pp) that has caused the decline of the '3 month rolling' Effort metric.

1 month - The 3 month score masks an improvement in the monthly score of +5. Both High and Low Effort scores were in the right direction in the month of August (as fewer people think we are high effort, and more people think we are low effort). An improvement for three months will indicate a potential improvement overall. A single month may just be an exception.

Reason for '3 month rolling' dip in Effort; Given the decline in the Effort score, a handful of drivers show a negative trend. We have seen small declines in drivers statements around customer service and product: Staff go the extra mile (-2pp); The time I have to wait is always acceptable (-2pp); The products and services they offer meet my needs (-2pp); The website is easy to use (-4pp).

Reason for 3 month rolling decline in Effort: Crown vs. Agency branches; Crown branches have seen a dip in performance, with a new low of 8% Effort score reached. In particular, this is driven by poor 'go the extra mile' scores (down 9pp), which is likely to align with recent staffing issues. Agency branches act as a counterweight to some extent, and overall '3 month rolling' Effort scores have steadied at 35% (+1pp). However, within this, the 'technology' driver has seen a dip this time round, suggesting a continuing need to innovate and keep up with the competitive store environment. Other drivers show early signs of halting the decline (e.g. some parts of Customer Service); in the month of August, this driver has pulled back from its July low.

Net Promoter Score: (Martin)

Looking at NPS, the '3 month rolling' data is flat across the board, although the '1 month' data shows improvements in both ends of the NPS scale compared to July numbers.

Queue time % < 5 minutes - Top 1k branches: (Kevin)

The percentage that queued under 5 mins showed a marked improvement in August, up 6pp to 82%, and building on the marginal improvement seen in July. The improvement overall driven by queue times in Crown (showing a +9pp movement) and to a lesser extent Agency (+3pp). It appears that the greater shift to SSKs in Crowns may now be starting to show in wait times: something which will be monitored closely over the coming months.

We could hypothesise that during August, traffic was down in branch and so the in branch experience was better, both for Effort and for queues.

Branch Compliance - FS: (Nick)

This is made up of 11 weighted metrics: Mystery Shopping, Significant upheld complaints, Customer validation calls, Financial promotions, Limits on staff permissions, Staff product knowledge, Life Insurance cancellations, Savings cancellations, Credit card usage, Complaints process knowledge, Suitability of mortgage advice. The ones failing are Mystery Shopping (Red) and Life Insurance cancellations (Amber).

Branch Compliance - Mails: (Martin/ Kevin)

The targets shown are the full year exit rates. Inland (exit target 80%) has decreased from 69% to 65%, whilst International (exit target 85%) has decreased from 93% to 87%, which is still above target.

Measured annually with some additional 'Pulse surveys':

- **Engagement Index: (Neil) (Bonus)** - The Engagement Index target is 1% greater than prior year outturn of 57%.
- **Subpostmaster Engagement Index: (Neil)** - The Subpostmaster Engagement Index was last taken in December 2013 at 45%. The 48% target is the aspiration for the current year driven by the expected impact of the Branch Support Programme.
- **Post Office values diversity: (Neil)** - Survey from April shows 52% and the target is to get this to 66% driven by the business spotlight on diversity through various programmes such as the Diversity Forum, Women in Leadership and the introduction of directorate level diversity objectives.

Appointments: (Neil)

48 appointments YTD (5 April, 7 May, 14 June, 15 July, 7 August), 21 female appointments YTD - 43.8% (2 April, 2 May, 7 June, 9 July 1 August), 5 BME appointments YTD - 10.4% (3 June, 1 July, 1 August).

Crown Profit: (Kevin) (Bonus)

The Crown loss is primarily driven by the lower Mails income and higher property costs.

Crown Profit Run Rate: (Kevin) (Bonus)

The Crown profit Run Rate is a key metric for year end and is updated quarterly.

Network Transformation Scorecard - Mains

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August 2014

Reporting prior months data (i.e. one month in arrears)

	Key Performance Indicators	Current Month %			Ave £'s per branch	Actual Sample Size
		Actual	Control Group	Var	Var	
POL	Finance Approved Investment per Mains £000	(42)	(42)	0	0	
	Total Income: Post vs Pre Conversion					
	Branches live 6-12 months	5%	(0)%	6%	522	466
	Branches live 12-24 months	1%	(4)%	4%	435	401
	Focus Income: Post vs Pre Conversion					
Agent	Agents Remuneration: Post vs Pre Conversion					
	Branches live 6-12 months	6%	(4)%	10%	673	466
	Branches live 12-24 months	6%	(5)%	11%	845	401
	Customer Sessions					
	Branches live 6-12 months	3%	(2)%	5%		466
	Branches live 12-24 months	(1)%	(5)%	4%		401
	Operator Feedback on Retail Sales Performance	7%				146
	Operator Satisfaction	82%				93
		Actual	Target	Var		Actual Sample Size
Customer	Average Increase in Opening Hours	40%	20%	20%		1,458
	Customer Satisfaction	98%	90%	8%		30
	Queuing Times	1m 25s	< 5 mins	3m 35s		246

Mains

Branches that have been converted to a Mains model for more than 6 months have consistently out-performed the control group in delivering POL income. These agents receive a dedicated package and a renewed focus on sales targeting and performance at the point of conversion. This is having a significant impact on focus income for many branches.

The following products are performing particularly well:

- Travel insurance
- Passport check and send
- Cash withdrawals
- Growth bonds
- Insurance products

In addition, these agents have increased their POL earnings due to the improved sales and enhanced Mains pay rates.

Note: the control group is based on those branches of similar size that have not yet converted.

Customer

Customer Satisfaction, extended opening hours and queue times all remain positive.

Network Transformation Scorecard - Locals

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August 2014

Reporting prior months data (i.e. one month in arrears)



		Current Month %			Ave £'s per branch	
Key Performance Indicators		Actual	Control Group	Var	Var	Actual Sample Size
LOCALS						
POL	Finance Approved Investment per Local £000	(11)	(11)	0	0	
	Total Net Impact: Post vs Pre Conversion					
	Branches live 6-12 months					
	Income	(4)%	(5)%	1%	29	130
	Actual Fixed pay savings				869	
	Actual Net impact				899	
	Branches live 12-24 months					
	Income	(10)%	(9)%	(1)%	(26)	191
	Actual Fixed pay savings				910	
	Actual Net impact				883	
Agent	Customer Sessions					
	Branches live 6-12 months	10%	(2)%	12%		130
	Branches live 12-24 months	7%	(3)%	11%		190
	Operator Feedback on Retail Sales Performance	16%				52
	Operator Satisfaction	79%				61
		Actual	Target	Var		Actual Sample Size
Customer	Average Increase in Opening Hours	110%	80%	30%		1029
	Customer Satisfaction	95%	90%	5%		30
	Queuing Times	53s	< 5 mins	4m 7s		258

Locals

At the point of conversion there is an initial decline in performance; as the branches settle and embeds the operational changes. However this improves month on month and as they near the exit of the 6-12 month category the run rate of performance is now higher than the control group. This is partially as a result of the activities that have been put in place to limit the drop off in income and drive performance.

The 12-24 month category is still being impacted by branches where there was a steeper decline at the point of conversion.

Customer sessions/footfall continues to be strong so this should support the agents retail growth.

Note: the control group is based on those branches of similar size that have not yet converted less 5% to reflect lost products.

POL

- Products such as bill payments, etop ups, cash withdrawals and moneygram have delivered growth for these branches – with associated footfall. This has been offset in income terms by poorer performance on more complicated products.
- Fixed pay has been reduced to zero for all converted branches, in line with the strategic plan.
- On average Lottery income has reduced by c. £60k p.a in these branches. Corrective action on how we minimise future risk is now being looked at, principally by improving the sales messages and focus of the FCA's when signing up the retailer as well as the LRM's focussing on these messages for those already converted

Agent

- Customer sessions indicate that retailers are benefiting from greater footfall that should support their retail growth.
- The footfall is delivering quicker but lower value Post Office sales which in turn should allow the retailer to utilise their staff in different ways or reduce their staff costs.

Customer

- Customer Satisfaction, extended opening hours and queue times all remain positive.

Transformation Overview

August 2014

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- RAG, cost and benefits based on full programme life
- RAG in brackets indicates programmes view

Programme	Time	Cost	Benefit	Quality	Comment / Areas for Discussion
Network Transformation	A	A £956M	G £TBC	G	Contracts signed, openings and current quality measures ahead of target, though model profitability KPI to be agreed via revised business case which is now due for completion in September. Guided Leavers pilot underway with no significant negative stakeholder reaction, with continued roll out of next stages agreed at programme Steering Group. Key action for the programme is to define clearly, discuss and agree the 'cliff', aligning to business strategies being presented to Board in September.
Crown Transformation	G	G £125M	R P&L Break even	A	The programme continues to deliver in line with targets across branch transformations, training, staff cost reductions, SSK rollout, mergers and relocations - though P&L run rate £1M adverse at end of Q1 (due to income and business wide cost savings behind plan). Therefore an over achievement in last 3 quarters is required to achieve target. More focused income call to action required at Trading Board to address Crown income shortfall. Customer satisfaction (queue times and transformed branches) both behind target but at P5 variance from target improving. 16 of the 70 Franchise branches are at risk with the programme investigating options for alternative ways to franchise or find further savings to cover the shortfall. Programme to produce a series of options, for October Transformation Committee, to achieve Crown break even run rate by March 2015 (including close alignment with Network Development).
Branch Support	A	G	A £3M P/A	G	Programme continuing, rather than pause or integrate into Business Transformation to allow early savings to be realised and improve efficiency of existing operation. This will create a more stable platform for any Target Operating Model (TOM) changes to be made. The programme is investigating accelerating activity to bring forward benefits from 2015-16 into this year (potential additional £500K benefits). Specific questions within Agent engagement index are proposed to measure Quality of the programme output.
Separation	A	A £44M	N/A (G)	G	Core Finance System implementation and cut over successfully achieved to plan. Extension side letter due to be agreed at the next MSA Board on the 24 th Sept and includes incentives to separation dates for the remaining IT workstreams. The CSC contract supporting the separation of HR and Supply Chain (hosting and service elements) due to be signed in late September.
IT Transformation	A	A £53M	A (G) £25M P/A	TBC	Alignment between IT Transformation and Business Transformation programmes continues. Revised business case produced but not yet submitted to Finance Committee, benefits and 2014-15 cost profile remain on track, though there is a risk to the programme costs beyond 2014/15.
IT Enablers	A	G £56M	N/A (G)	G	Network Development has significant dependencies on Common Digital Platform and Branch Counter Refresh with appropriate ATOS and Accenture resource working within the Network Development programme. As a result of pausing the POL SAP upgrade a risk has risen regarding Fujitsu's willingness to continue supporting POL SAP on the existing infrastructure until March 2016 – discussions have started with Fujitsu. Transformation Committee agreed alternative governance reporting for IT Enablers portfolio.
Business Transformation	A (G)	A £7.5M 14/15	R £200M P/A	G	TOM recommendations discussed at ExCo in preparation for Post Office Board meeting on 25 th September. A review of the impact of the TOM on existing programmes to be undertaken prior to Board meeting. Programme co-ordinating all cost reduction activities (both operational efficiency and existing cost reduction actions) and reporting to ExCo on weekly basis. An assessment of 2014/15 change plan has been completed with recommendations being implemented (e.g. pausing certain projects and aligning others). Benefits red as route to achieving savings not yet agreed.
Network Development	A	G £4M (to Sept)	R	R	Programme fully operational with focus on recommendations for September Post Office Board, a compelling commercial proposition to inform the full programme business case and Ivy pilots (that are under development). A major risk for the programme is being able to develop a commercially viable business case. Dependencies exist with Business Transformation for 2020 product lists and CDP to enable separation from legacy technology. Future Network design underway and will need to consider impacts on other programmes particularly Network Transformation

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Appendices

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Income Report

Net Income By Pillar vs Budget

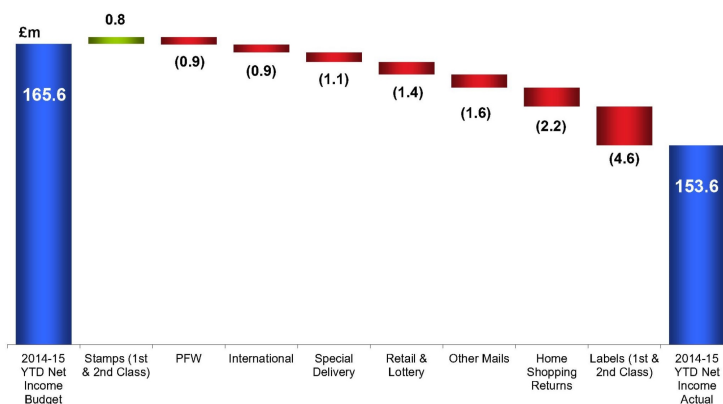
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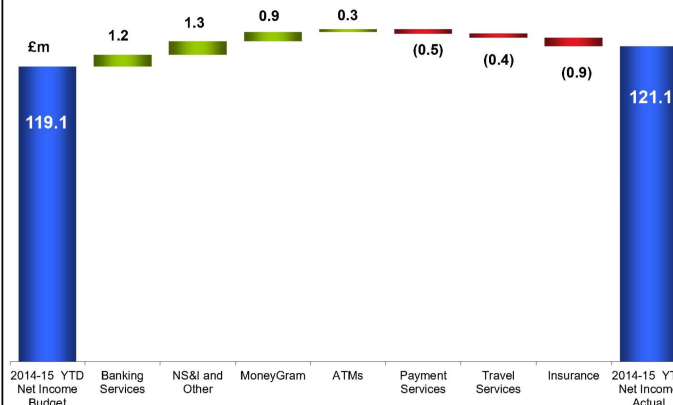


Net Income (£m)	Period			Prior Year Period		YTD			Prior Year		Full Year			Prior Year	
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q1 Forecast	Budget	Variance	Outturn	Variance
Mails & Retail	26.5	30.5	(4.0)	27.4	(0.8)	153.6	165.6	(12.0)	153.9	(0.3)	424.1	424.1	0.0	386.0	38.1
Financial Services	21.7	22.7	(1.0)	20.4	1.3	121.1	119.1	2.0	115.8	5.3	295.2	295.2	0.0	278.6	16.6
Government Services	7.4	9.4	(2.0)	8.7	(1.3)	45.7	48.8	(3.2)	50.1	(4.4)	116.6	116.6	0.0	116.1	0.5
Telecoms	3.3	4.7	(1.4)	4.6	(1.3)	20.8	25.0	(4.1)	22.6	(1.7)	61.9	61.9	0.0	46.0	15.9
Other	3.1	2.7	0.3	3.3	(0.2)	15.2	13.1	2.0	16.1	(0.9)	27.3	27.3	(0.0)	40.1	(12.8)
TOTAL NET INCOME	62.0	70.0	(8.0)	64.3	(2.3)	356.4	371.6	(15.2)	358.5	(2.1)	925.0	925.1	(0.0)	866.7	58.3
FRES - Share Of Operating Profits	4.7	4.7	0.1	4.7	0.1	19.8	19.7	0.1	18.8	0.9	35.0	35.0	0.0	33.1	1.9

Mails & Retail Services



Financial Services



Pillar Performance vs. YTD Budget

Mails & Retail Services - (£12.0m) Adv

Labels - (£4.6m) adv driven by lower parcel volumes.

Home Shopping returns - (£2.2m) adv - due to delayed launch of ebay returns and RM not winning a major 'Click & Collect' customer.

Other Mails - (£1.6m) adv driven by Philatelic and Dangerous Goods.

Lottery - (£1.5m) adv - due to lower Camelot Euromillions volumes.

Special Delivery - (£1.1m) adv due to lower volumes.

PFW - (£0.9m) adv due primarily to lower PF 24 & 48 and International volumes.

International - (£0.9m) adv - due to lower volumes.

Offset by:

Stamps - £0.8m fav - due to lower than anticipated volume declines.

Financial Services - £2.0m Fav

Banking Services - £1.2m fav due to higher than budgeted volumes.

NS&I - £1.3m fav due to income from the amended contract and impact of the new limit.

MoneyGram - £0.9m fav due to higher MoneyGram sales and new contractual terms.

ATMs - £0.3m fav.

Offset by:

Payment Services - (£0.5m) adv due to new projects launched (PPDC and PSP) but not yet delivering income.

Travel Services - (£0.4m) adv.

Insurance - (£0.9m) adv due to lower sales.

Government Services - (£3.2m) Adv

POCA - (£2.6m) adv reflecting lower LIBOR rate and budget assumes ring-fenced customers payment.

Passport Check & Send - (£0.7m) adv lower volumes in August.

Gov. Services Other - (£0.5m) adv driven by lower than planned volumes of Rod & Game licences.

Offset by:

Motoring - £0.5m fav higher volumes vs. budget.

Telecoms - (£4.1m) Adv

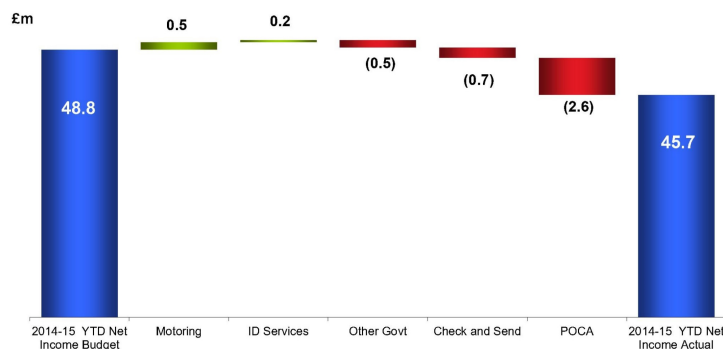
Homephone - (£2.9m) adv mainly driven by lower customer numbers, call usage and higher cost of sales relating to customer broadband usage and higher BT wholesale costs.

Energy - (£1.3m) adv relates to the budget anticipating sales from PO Energy.

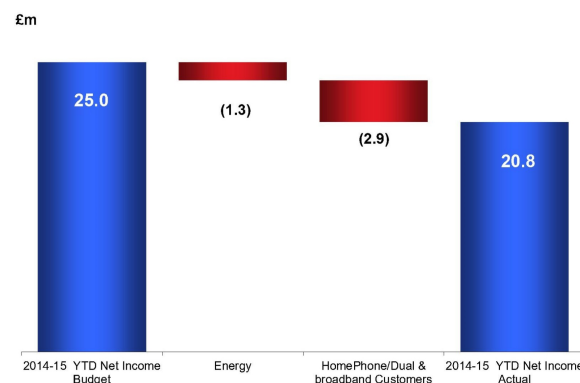
Other - £2.0m Fav income contingency (FY £9.4m).

FRES Profit Share - £0.1m Fav

Government Services



Telecoms



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Cost Report

Staff Cost By Function

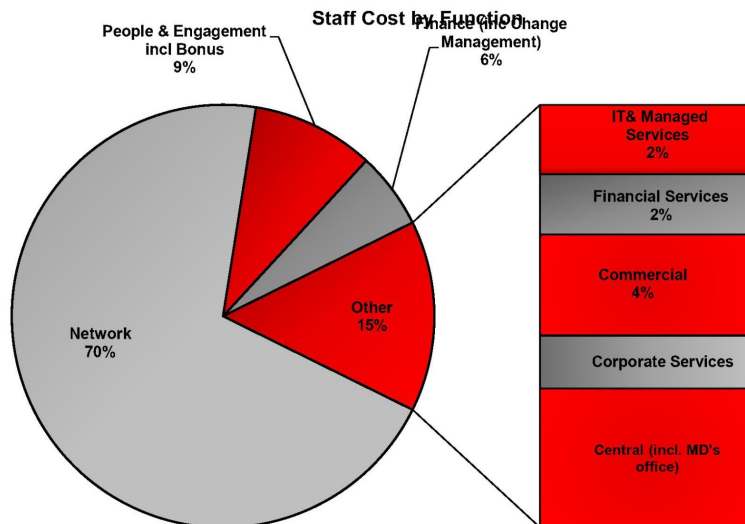
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£m	YTD			Prior Year		Full Year			YTD Headcount				Total NT & CTP Heads Memorandum
	Actual	Budget	Variance	Outturn	Variance	Q1 Forecast	Budget	Variance	%	Actual	Budget	Variance	
Staff Cost by Function													
Central (incl. MD's office)	(5.1)	(5.2)	0.1	(5.8)	0.7	(12.5)	(12.5)	0.0	0%	15	15	0	
Commercial	(3.7)	(2.8)	(0.9)	(3.2)	(0.5)	(6.8)	(6.8)	0.0	2%	130	127	(3)	1
People & Engagement	(3.6)	(3.4)	(0.2)	(3.4)	(0.2)	(8.2)	(8.2)	0.0	3%	193	174	(19)	36
HR - Centrally Held Bonus Payments	(6.4)	(6.4)	0.0	(7.9)	1.5	(15.3)	(15.3)	0.0	-	-	-	-	
Finance (inc Change Management)	(6.2)	(6.0)	(0.2)	(7.2)	1.0	(14.3)	(14.3)	0.0	4%	313	311	(2)	9
IT& Managed Services	(2.6)	(2.9)	0.4	(3.4)	0.9	(7.2)	(7.2)	0.0	1%	98	112	14	3
Financial Services	(2.2)	(2.3)	0.1	(1.9)	(0.3)	(6.3)	(6.3)	0.0	2%	116	108	(8)	
Network	(74.6)	(72.3)	(2.3)	(75.5)	1.0	(162.9)	(162.9)	0.0	87%	6,472	6,377	(95)	
Supply Chain	(24.6)	(22.7)	(1.9)	(23.7)	(0.9)	(53.5)	(53.5)	0.0	21%	1,552	1,565	13	
Crowns	(40.6)	(41.6)	1.1	(44.2)	3.6	(96.0)	(96.0)	0.0	50%	3,743	3,503	(240)	
Other Network	(8.9)	(8.5)	(0.5)	(7.7)	(1.2)	(20.3)	(20.3)	0.0	7%	526	602	76	
Programme costs	0.0	0.5	(0.5)	(0.1)	0.1	6.9	6.9	0.0	-	-	-	-	
CTP and NTP Heads (Costs in exceptionals)									9%	651	707	56	600
Corporate Services	(1.9)	(2.2)	0.2	(2.2)	0.3	(5.2)	(5.2)	0.0	1%	76	88	12	3
Total Staff Costs	(106.2)	(103.4)	(2.8)	(110.6)	4.4	(238.7)	(238.7)	0.0	100%	7,413	7,312	(101)	652

 PY Actual
 PY Variance

 7,990
 577
**YTD Staff Costs** are £2.8m adverse.

Higher staff costs of £2.8m mainly due to the savings task not being achieved (£1.9m from Supply Chain and £0.5m from Commercial) and the Crown pay deal.

Vs. Prior Year

The staff costs are £4.4m favourable to prior year driven by lower Crown costs, IT Outsourcing and lower bonus accruals this year.

Headcount of 7,413 is 101 adverse to budget.

The adverse variance is driven by Crowns as the headcount budget reflects the savings headcount profile expected.

Vs. prior year headcount has decreased by 577 primarily due to the Crown efficiency savings.

Non Staff Cost by Function & Type

August 2014

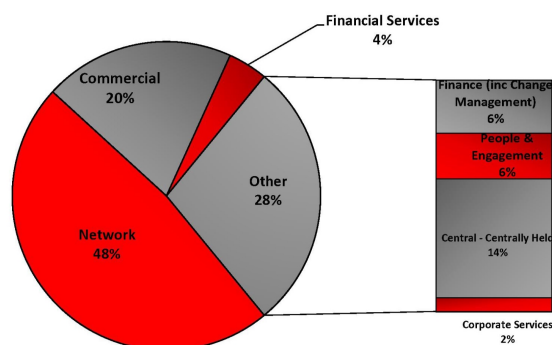
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£m	YTD			Prior Year		Full Year		
Non- Staff Cost by Function	Actual	Budget	Variance	Outturn	Variance	Q1 Forecast	Budget	Variance
Central - Centrally Held	11.7	1.1	10.6	(6.7)	18.4	7.6	7.6	0.0
Commercial	(16.3)	(12.4)	(3.8)	(6.3)	(9.9)	(30.7)	(30.7)	0.0
Finance (inc Change Management)	(5.2)	(4.0)	(1.3)	(7.2)	2.0	(10.1)	(10.1)	0.0
IT & Managed Services	(54.0)	(53.0)	(1.0)	(38.6)	(15.4)	(125.9)	(125.9)	0.0
Financial Services	(3.4)	(2.8)	(0.6)	(2.9)	(0.5)	(6.8)	(6.8)	0.0
People & Engagement	(4.5)	(5.0)	0.4	(3.5)	(1.0)	(10.6)	(10.6)	0.0
Network	(38.8)	(40.1)	1.3	(41.8)	3.1	(92.9)	(92.9)	0.0
Supply Chain	(12.5)	(13.5)	1.0	(12.9)	0.4	(32.5)	(32.5)	0.0
Crowns	(1.1)	(1.3)	0.3	(3.2)	2.2	(2.4)	(3.2)	0.8
Other Network	(25.2)	(25.1)	(0.1)	(25.7)	0.5	(59.7)	(58.9)	(0.8)
Programme costs	0.0	(0.1)	0.1	0.0	0.0	1.6	1.6	(0.0)
Corporate Services	(1.4)	(1.8)	0.4	(1.9)	0.5	(4.1)	(4.1)	0.0
Total Non Staff Costs Including Interbusiness	(111.8)	(117.8)	6.0	(108.9)	(2.9)	(273.5)	(273.5)	(0.0)

£m	YTD			Prior Year		Full Year		
Non- Staff Cost by Type	Actual	Budget	Variance	Outturn	Variance	Q1 Forecast	Budget	Variance
Computers & Telephones	(37.7)	(37.4)	(0.3)	(31.9)	(5.8)	(87.4)	(87.4)	0
Other Operating Costs	(24.4)	(18.6)	(5.8)	(47.0)	22.6	(45.0)	(45.0)	0
Consultancy, Marketing & Legal Fees	(16.8)	(19.8)	3.0	(12.5)	(4.3)	(47.8)	(47.8)	0
* Skills Group external contractors	(3.4)	(5.5)	2.1	(5.8)	2.3	(12.9)	(12.9)	0
Remainder	(13.4)	(14.4)	1.0	(6.8)	(6.6)	(34.9)	(34.9)	0
Finance	3.5	(9.2)	12.6	(9.8)	13.2	(16.0)	(16.0)	0
Property Facilities	(23.3)	(23.5)	0.2	(3.0)	(20.3)	(54.0)	(54.0)	0
Property Maintenance	(3.8)	(3.1)	(0.7)	(2.7)	(1.1)	(7.2)	(7.2)	0
Vehicles	(2.6)	(3.2)	0.6	(0.9)	(1.7)	(7.7)	(7.7)	0
Compensation	(2.7)	(0.7)	(2.0)	(0.5)	(2.2)	(1.6)	(1.6)	0
Collection, Delivery & Conveyance Charges	(0.2)	(0.2)	(0.0)	(0.1)	(0.1)	(0.4)	(0.4)	0
Staff & Agent Related Costs & Consumables	(3.6)	(2.1)	(1.5)	(0.5)	(3.1)	(6.3)	(6.3)	0
* Skills Group off-charges to projects	4.0	5.3	(1.3)	6.7	(2.7)	0.0	(5.45)	5.5
Remainder	(7.6)	(7.4)	(0.2)	(7.1)	(0.5)	(6.3)	(0.8)	(5.5)
Total Non Staff Costs	(111.8)	(117.8)	6.0	(108.9)	(2.9)	(273.5)	(273.4)	0.0

Non Staff by Function



Variance

YTD non people costs were £6.0m favourable to budget and £2.9m adverse to prior year.

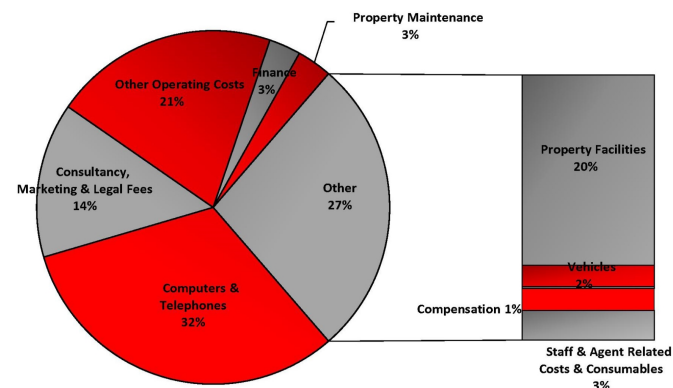
Vs. Budget

Lower non staff costs of £6.0m driven primarily by the improved VAT recovery of £14.2m (£11m relates to the prior year). The underlying position (excluding the VAT upside) would be £8.2m adverse, driven by the impact of the centrally held savings task of £2.9m not being achieved, £2.5m accrued for Mails Segregation Penalty payment in Compensation and other increased costs including postage.

Vs. Prior Year

Higher non staff costs of £2.9m due primarily to increased Property costs post separation (VAT on RM costs) and IT costs (mainly Horizon and ATOS). The marketing fees have also been moved from P00C to non staff this year with a FY impact of £9m. The overall increase is almost completely offset by the increased VAT recovery rate benefit this year of £14.2m (of which £11m relates to the prior year).

Non Staff by Type



* Skills group is the internal 'consultancy' providing project resource made up of a mixture of employees topped up with contractors. If demand is high the contractor spend increases but this is offset by higher recharges to projects.

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Transformation Report

Project Costs (OpEx)

August 2014

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The overall expenditure is £4m higher than budget, due primarily to unbudgeted cost, specifically Sparrow, Commercial Strategy and Business Transformation, which was partially budgeted.

OpEx		Current Month			YTD			Full Year		
Function	Programme	Actual	Budget	Var	Actual	Budget	Var	Outlook	FY Budget	POLIC Approved
Commercial	Digital & Multi Channel	(0.1)	(0.1)	(0.0)	(0.3)	(0.6)	0.4	(0.8)	(1.1)	(0.5)
	Mails	0.1	(0.4)	0.5	(0.1)	(1.3)	1.2	(3.0)	(3.5)	(1.3)
	Telecoms	(0.9)	(0.3)	(0.7)	(2.0)	(0.9)	(1.1)	(3.7)	(3.4)	(3.1)
	Government Services	(0.0)	(0.3)	0.3	(0.8)	(1.2)	0.4	(1.8)	(2.1)	(0.5)
	Customer Engagement	(0.0)	0.0	(0.0)	(0.1)	0.0	(0.1)	(0.8)	0.0	(0.4)
	Brand Marketing	(0.0)	0.0	(0.0)	0.1	0.0	0.1	0.1	0.0	0.0
	Commercial Strategy	(0.0)	0.0	(0.0)	(0.8)	0.0	(0.8)	(0.0)	0.0	(0.1)
Financial Services	Financial Services	(0.6)	(0.9)	0.4	(3.9)	(5.0)	1.1	(8.0)	(8.0)	(2.2)
Corporate Services	Compliance	(0.0)	0.0	(0.0)	(0.1)	0.0	(0.1)	(0.1)	0.0	0.0
	Mutualisation	0.0	0.0	0.0	(0.0)	0.0	(0.0)	(0.0)	0.0	0.0
Finance	Finance	(0.0)	0.0	(0.0)	(0.1)	0.0	(0.1)	(0.0)	0.0	0.0
	Business Transformation	(0.3)	(0.1)	(0.2)	(2.0)	(0.3)	(1.7)	(7.5)	(0.6)	(5.8)
Network	Network Other	(0.0)	0.0	(0.0)	(0.0)	0.0	(0.0)	(0.0)	0.0	0.0
	Property	(0.0)	0.0	(0.0)	(0.0)	0.0	(0.0)	0.0	0.0	(0.2)
	Supply Chain	(0.0)	0.0	(0.0)	(0.0)	0.0	(0.0)	(0.7)	0.0	(0.1)
IT & Managed Services	IT	0.4	0.0	0.4	(0.2)	0.0	(0.2)	(0.6)	0.0	0.0
People & Engagement	HR	(0.0)	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0
	Sparrow	(0.2)	0.0	(0.2)	(1.4)	0.0	(1.4)	(5.0)	0.0	0.0
	Communications	0.0	0.0	0.0	(0.0)	0.0	(0.0)	(0.0)	0.0	0.0
	Flow Through Projects	0.1	0.0	0.1	(0.2)	0.0	(0.2)	0.0	0.0	0.0
Centrally Held	Centrally Held	0.0	0.0	(0.0)	0.0	1.5	(1.5)	0.8	1.4	0.0
Grand Total		(1.6)	(2.0)	0.4	(11.9)	(7.8)	(4.0)	(31.3)	(17.3)	(14.2)

OpEx - £4.0m Over Spend YTD

Headlines: The overspend of £4.0m is driven by the unbudgeted projects; Sparrow, Business Transformation and Commercial Strategy. The projects which are behind planned activities are FS & Mails, and their YTD underspend is off setting the overspend in other areas.

Digital & Multi Channel: £0.4m favourable projects tracking behind plan.

Mails: £1.2m favourable, projects tracking behind plan.

Telecoms: £1.1m adverse. Set up costs are under review and an element may be capitalised.

Commercial Strategy: development £0.8m adverse due to this being an unbudgeted activity.

Financial Services: £1.1m favourable due to various projects being behind planned activities.

IT: £0.2m adverse, £0.1m relates to unplanned spend against projects which had flowed through from the previous year.

Sparrow: (Horizon Litigation) £1.4m adverse. £0.5m of cost have been exceptionalised. £1.4m is under classification review and further elements to be exceptionalised in Q2.

Centrally Held: £1.5m adverse, this is the overlay required to achieve the overall Target of £17.3m excluding unbudgeted projects which is yet to be allocated out to programmes, work in progress.

FY Outlook of £31.3m includes Sparrow (£5m) and Business transformation (£7.5m). Spend on these projects is subject to review of accounting treatment. Work is underway to review and stop projects which do not deliver an in year benefit or significant benefit in 2015-16.

Project Costs (CapEx and Exceptionals)

August 2014

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Capital Expenditure and Exceptionals are combined £60m underspent, driven by IT and Network projects.



CapEx		£m	Current Month			YTD			Full Year			
Function	Programme		Actual	Budget Rebased	Var	Actual	Budget Rebased	Var	Outlook	FY Budget Rebased	Board Approved Budget	POLIC Approved
Commercial	Digital & Multi Channel		(0.1)	(0.8)	0.7	(0.5)	(3.9)	3.5	(3.1)	(9.5)	(9.5)	(1.2)
	Mails		(0.4)	0.0	(0.4)	(1.1)	(1.0)	(0.1)	(1.4)	(1.3)	(1.0)	(1.9)
	Telecoms		(0.3)	(0.2)	(0.1)	(0.5)	(0.7)	0.2	(1.5)	(1.8)	(2.0)	(1.4)
	Government Services		(0.2)	(0.3)	0.1	(0.9)	(1.3)	0.4	(0.7)	(2.4)	(2.4)	(0.5)
	Customer Engagement		(0.0)	0.0	(0.0)	(0.5)	0.0	(0.5)	(7.4)	0.0	0.0	(0.9)
Financial Services	Financial Services		0.8	(3.0)	3.7	(1.8)	(8.1)	6.2	(25.3)	(27.8)	(27.8)	(3.1)
Corporate Services	Security			0.0	0.0	0.2	0.0	0.2	0.2	0.0	0.0	0.0
	Compliance		0.0	(0.0)	0.0	0.0	(0.2)	0.2	(0.7)	(0.9)	(0.9)	0.0
Finance	Finance		(0.0)	(0.1)	0.1	(0.2)	(0.3)	0.1	(1.1)	(1.2)	(1.2)	0.0
Network	Crown Transformation		(3.1)	(3.1)	0.1	(16.1)	(19.8)	3.7	(21.8)	(30.4)	(30.4)	0.0
	Network Other		(0.2)	0.0	(0.2)	(0.8)	0.0	(0.8)	(1.6)	(1.2)	(1.2)	0.0
	Network Transformation		(3.1)	(2.9)	(0.2)	(14.9)	(18.0)	3.1	(30.3)	(35.0)	(46.9)	0.0
	Property		(0.2)	(0.4)	0.3	(0.5)	(2.8)	2.4	(10.9)	(11.2)	(11.2)	(5.0)
	Supply Chain		(0.3)	(0.7)	0.4	(1.0)	(4.7)	3.8	(13.0)	(12.6)	(12.7)	(0.1)
IT & Managed Services	Independence & Separation		(1.7)	(1.8)	0.1	(8.3)	(13.3)	5.0	(23.3)	(19.9)	(18.9)	(11.8)
	IT Transformation		2.1	0.0	2.1	2.0	0.0	2.0	(0.1)	0.0	0.0	0.0
	IT		(5.0)	(4.5)	(0.5)	(12.5)	(22.5)	10.0	(42.6)	(53.7)	(54.5)	(17.3)
People & Engagement	HR		(0.0)	0.0	(0.0)	(0.1)	(0.3)	0.2	(0.1)	(0.3)	(2.8)	(1.0)
Old Projects	Old Projects		(0.0)	0.0	(0.0)	(0.2)	0.0	(0.2)	(0.1)	0.0	0.0	0.0
Centrally Held	Centrally Held		0.0	0.3	(0.3)	0.0	1.7	(1.7)	2.7	4.0	18.2	0.0
Capex Total			(11.7)	(17.5)	5.8	(57.5)	(95.6)	38.1	(182.3)	(205.2)	(205.2)	(44.3)

CapEx £38.1m underspend YTD

Commercial: The £3.5m favourable variance year to date is mainly driven by Digital & Multi Channel £3.5m and Government £0.4m favourable due to changes in activity profile and timings since the plan was presented.

Customer Engagement: is £0.5m adverse due to capital investment activity around the Customer Management Programme having been planned under Digital.

Financial Services: £6.2m favourable, various projects behind planned activities.

Crown Transformation: £3.7m favourable this is mainly due to property related costs being taken into the previous year. The forecast has been adjusted to reflect this.

Network Transformation: £3.1m favourable mainly as a result of re-categorising planned spend to Exceptional.

Property: £2.4m favourable, various projects behind planned activities.

Supply Chain: £3.8m favourable, various projects have slipped and have been re-forecast.

Independence & Separation: £5.0m favourable, mainly due to a combination of projects being behind schedule.

IT: £12.0m favourable due to numerous large capital projects being behind plan.

Centrally Held: £1.7m adverse, £4m savings overlay to be allocated out to programmes in due course to achieve full year target.

Exceptional		£m	Current Month			Year To Date			Full Year			
Function	Programme		Actual	Budget Rebased	Var	Actual	Budget Rebased	Var	Outlook	FY Budget Rebased	Board Approved Budget	POLIC Approved
Network	Crown Transformation		(1.9)	(5.0)	3.1	(11.3)	(15.9)	4.6	(26.4)	(29.6)	(34.6)	0.0
	Network Transformation		(6.1)	(11.9)	5.8	(59.7)	(69.5)	9.8	(166.9)	(163.6)	(149.2)	0.0
	Supply Chain		0.0	0.0	0.0	0.0	0.0	0.0	(3.0)	(3.0)	(2.9)	0.0
IT & Managed Services	Independence & Separation		(1.2)	(0.4)	(0.8)	(3.3)	(2.3)	(1.0)	(6.0)	(4.0)	(2.4)	(1.3)
	IT Transformation		(0.8)	(0.9)	0.1	(5.0)	(12.3)	7.3	(9.4)	(15.4)	(1.9)	(7.2)
	Transition		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(12.5)	0.0
	IT (CDP)		0.0	(0.2)	0.2	0.0	(0.9)	0.9	(2.6)	(2.6)	(2.6)	(2.2)
	Sparrow			(0.8)	0.8	(0.5)	(4.1)	3.6	(2.5)	(5.0)	0.0	0.0
Old Projects	Old Projects		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Centrally Held	Centrally Held		0.0	0.5	(0.5)	0.0	3.4	(3.4)	4.6	7.0	(10.0)	0.0
Exceptional Total			(10.0)	(18.8)	8.8	(79.8)	(101.6)	21.8	(212.1)	(216.1)	(216.1)	(10.7)

Exceptional - £21.8m underspend (£8.8m in period)

Crown and Network Transformation: £14.4m favourable mainly driven by the timing of the accounting of compensation payments for sign ups. Forecast suggests a significant increase in spend.

IT Transformation: £7.3m favourable, £7.9m of this is the ATOS setup cost payments which were accounted for in 2013-14 but budgeted in 2014-15.

Sparrow: £3.6m favourable project Sparrow (Horizon Litigation) costs in Opex, yet to identify what can be moved to Exceptional.

Centrally Held: £3.4m adverse, £7m savings overlay to be allocated out to programmes in due course to achieve full year target.

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Supplementary Information

Cashflow Statement & Balance Sheet Summary

August 2014

Balance Sheet

£m	Mar-14	P5		
		Actual	Budget	Variance
Fixed Assets	71	91	91	(0)
Debtors	155	154	135	19
Cash	708	873	807	66
Client Balances	(279)	(331)	(298)	(33)
Trade Creditors	(303)	(343)	(335)	(8)
Pension (deficit)/surplus	148	149	144	5
Provisions	(78)	(69)	(58)	(11)
Investments, Funding	(19)	(63)	(94)	31
Loan	0	0	0	0
Net Assets	403	461	392	69

Reserves	Mar-14	Actual	Budget	Variance
Capital and Reserves	(403)	(461)	(392)	(69)
	(403)	(461)	(392)	(69)

Cash Management Table

£m	Prior Year	Mar-13	P5		
	P5	Opening	Actual	Budget	var
Retail, Cash Centres	624	522	622	590	(32)
Bureau	95	58	80	86	6
Cheques, debit cards	121	129	172	131	(41)
Network Cash	840	708	874	807	(67)

	Opening	P5
Headroom (£m)	854	875

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Cashflow Statement

£m	YTD			Full Year			Board Approved Budget	Variance
	Actual	Budget	Variance	Forecast	Budget*	Variance		
Operating Profit	24.5	28.6	(4.1)	99.0	99.0	0.0	99.0	0.0
Depreciation	0.2	0.3	(0.1)	0.6	0.6	0.0	0.6	0.0
Working Capital	(60.9)	(59.8)	(1.1)	27.0	27.0	0.0	18.7	8.3
Client Balances	52.2	19.0	33.2	17.0	17.0	0.0	(9.0)	26.0
Network Cash	(164.5)	(98.6)	(65.9)	(57.6)	(57.6)	0.0	(10.0)	(47.6)
Dividends	(19.8)	(19.7)	(0.1)	0.0	0.0	0.0	(4.5)	4.5
Capital Expenditure	(57.6)	(95.6)	38.0	(205.2)	(205.2)	0.0	(205.2)	0.0
Government funding	170.0	170.0	0.0	170.0	170.0	0.0	170.0	0.0
NSP in advance	92.3	92.3	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional Items	(91.1)	(121.9)	30.8	(240.3)	(240.3)	0.0	(216.1)	(24.2)
Pensions	2.6	1.7	0.9	3.0	3.0	0.0	3.0	0.0
Proceeds from asset sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Business transformation				(10.5)	(10.5)	0.0	(10.5)	0.0
Free cashflow before interest, tax	(52.1)	(83.7)	31.6	(197.0)	(197.0)	0.0	(164.0)	(33.0)
Interest	(0.2)	(0.7)	0.5	(3.0)	(3.0)	0.0	(3.0)	0.0
Tax	9.9	10.0	(0.1)	0.0	0.0	0.0	0.0	0.0
Free Cashflow	(42.4)	(74.3)	32.0	(200.0)	(200.0)	0.0	(167.0)	(33.0)

* Budget has been updated to reflect year end outturn and a reconciliation is shown in the final two columns and explained below.

Cashflow budget

The 2014-15 budget was approved by the Board at £167m outflow, prior to the 2013-14 year end and noting the year end outturn may result in changes being required. The budget of £200m shown in this pack reflects the year end outturn impacts, namely:

- higher provision balances at March 2014 than anticipated (£24m),
- lower network cash outturn at March 2014 than expected and not assumed to repeat at March 2015 due to Easter timing (£48m),
- refinement to client creditor budget reflecting timing of Easter 2015 £26m, and
- other minor rebalancing £13m.

Income By Product Groups & Pillar

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August 2014

Adverse; Mails is £12.0m, Telecoms is £4.1m and Government Services is £3.2m adverse
Favourable; Financial Services is £2.0m, and other income is £2.0m favourable.



Net Income £m	Current Month			Prior Year		YTD			Prior Year		Full Year			Prior Year
	Actuals	Budget	Variance	Period Actual	Month (Yr On Yr)	Actual	Budget	Variance	Outturn	YTD (Yr On Yr)	Q1 Forecast	Budget	Variance	2013/14 Outturn
Parcelforce	1.4	1.6	(0.2)	1.6	(0.2)	8.5	9.4	(0.9)	9.1	(0.6)	23.8	23.8	0.0	22.8
Special Delivery	3.5	3.7	(0.2)	3.8	(0.3)	20.4	21.6	(1.1)	21.5	(1.0)	51.8	51.8	0.0	51.4
International Priority & Standard	2.1	2.3	(0.2)	2.3	(0.2)	12.4	13.3	(0.9)	13.2	(0.8)	34.6	34.6	0.0	34.1
Stamps (1st & 2nd Class plus other stamps)	1.7	1.5	0.2	1.8	(0.2)	9.5	8.7	0.8	10.2	(0.7)	26.2	26.2	0.0	30.6
Labels (1st & 2nd Class)	6.2	7.2	(1.0)	6.8	(0.5)	35.7	40.3	(4.6)	37.7	(2.0)	103.3	103.3	0.0	92.4
RM Mail Fixed	4.4	4.4	0.02	4.3	0.08	24.2	24.1	0.1	23.7	0.5	56.9	56.9	0.0	56.7
Retail & Lottery	2.7	3.6	(0.9)	2.9	(0.1)	18.6	20.1	(1.4)	18.3	0.3	48.0	48.0	0.0	43.7
Home Shopping Returns	0.6	2.0	(1.3)	0.6	0.1	3.8	6.0	(2.2)	3.2	0.5	22.7	22.7	0.0	7.7
Mails Other	3.7	4.2	(0.5)	3.2	0.5	20.5	22.1	(1.7)	17.0	3.4	56.8	56.8	0.0	46.5
Total Mail Services	26.5	30.5	(4.0)	27.4	(0.8)	153.6	165.6	(12.0)	153.9	(0.3)	424.1	424.1	0.0	386.0
Energy	0.0	0.3	(0.3)	0.0	0.0	0.0	1.3	(1.3)	0.0	0.0	3.0	3.0	0.0	0.0
HomePhone /Dual & Broadband Customers	3.3	4.4	(1.1)	4.6	(1.3)	20.8	23.7	(2.9)	22.6	(1.7)	58.9	58.9	0.0	46.0
Total Telecoms Services	3.3	4.7	(1.4)	4.6	(1.3)	20.8	25.0	(4.1)	22.6	(1.7)	61.9	61.9	0.0	46.0
Motoring Services	1.5	1.1	0.3	1.8	(0.3)	6.8	6.2	0.5	7.5	(0.7)	15.3	15.3	0.0	19.9
Card Account	3.8	5.3	(1.4)	4.6	(0.8)	22.4	25.0	(2.6)	25.5	(3.0)	60.2	60.2	0.0	59.2
Check and Send	1.1	1.8	(0.7)	1.3	(0.2)	10.7	11.5	(0.7)	11.4	(0.7)	25.8	25.8	0.0	23.0
AEI (DVLA & UKBA)	0.7	0.7	0.1	0.6	0.2	3.7	3.5	0.2	3.3	0.4	9.5	9.5	0.0	8.3
Other Government Services	0.2	0.5	(0.2)	0.4	(0.1)	2.0	2.6	(0.5)	2.4	(0.4)	5.7	5.7	0.0	5.8
Total Government Services	7.4	9.4	(2.0)	8.7	(1.3)	45.7	48.8	(3.2)	50.1	(4.4)	116.6	116.6	0.0	116.1
Bill Payment Services Direct	0.7	0.7	0.0	0.7	(0.0)	3.8	3.8	(0.0)	4.4	(0.6)	9.8	9.8	0.0	10.9
Bill Payment Services Reseller	1.9	2.0	(0.1)	2.6	(0.7)	11.1	11.1	0.0	11.8	(0.7)	24.5	24.5	0.0	26.9
Postal Orders	1.7	1.6	0.1	1.7	(0.1)	9.5	9.0	0.5	10.2	(0.7)	20.7	20.7	0.0	20.8
Payment Services	0.2	0.6	(0.3)	0.2	0.0	1.2	2.1	(0.9)	0.7	0.4	8.9	8.9	0.0	7.4
Personal Banking Clients	1.9	2.0	(0.1)	2.2	(0.3)	12.0	10.9	1.1	11.4	0.6	26.8	26.8	0.0	28.4
DWP Exceptions	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.03
Business Banking	1.9	1.9	(0.0)	1.9	0.0	10.9	10.9	0.0	11.6	(0.7)	26.8	26.8	0.0	28.1
ATM	2.2	2.5	(0.2)	1.8	0.4	13.7	13.4	0.3	12.7	1.0	32.7	32.7	0.0	31.4
PFS-Savings	4.2	4.2	0.0	4.2	0.0	21.1	21.0	0.0	20.3	0.8	52.6	52.6	0.0	50.0
PFS-Insurance	0.9	1.1	(0.3)	(0.2)	1.0	4.7	6.1	(1.4)	2.7	2.0	17.0	17.0	0.0	9.0
PFS-Lending	0.9	0.9	(0.1)	0.7	0.2	4.1	3.6	0.5	2.4	1.6	11.1	11.1	0.0	6.0
Bureau (excl profit share) (incl Travel Money Card)	2.4	2.5	(0.1)	2.0	0.4	12.1	12.4	(0.4)	12.1	(0.0)	25.1	25.1	0.0	24.3
Travel Insurance	0.8	1.0	(0.2)	0.8	0.1	5.2	5.2	(0.0)	5.9	(0.8)	9.1	9.1	0.0	9.6
MoneyGram	1.6	1.4	0.2	1.3	0.3	9.0	8.1	0.9	6.7	2.3	20.1	20.1	0.0	16.3
NS&I	0.4	0.3	0.1	0.3	0.1	2.8	1.5	1.3	1.7	1.1	3.1	3.1	0.0	6.7
Other	0.0	0.0	0.0	0.2	(0.2)	0.0	0.0	0.0	1.0	(1.0)	6.9	6.9	0.0	2.5
Total Financial Services	21.7	22.7	(1.0)	20.4	1.3	121.1	119.1	2.0	115.8	5.3	295.2	295.2	0.0	278.6
Other Income	0.4	0.2	0.3	1.1	(0.6)	2.0	(0.0)	2.0	4.0	(2.0)	(4.7)	(4.7)	(0.0)	9.2
Supply Chain	2.7	2.6	0.1	2.2	0.4	13.2	13.2	0.0	12.1	1.1	32.0	32.0	0.0	30.9
Net Income	62.0	70.0	(8.0)	64.3	(2.3)	356.4	371.6	(15.2)	358.5	(2.1)	925.0	925.1	(0.0)	866.7

Current Actions and Decisions LogExCo Meeting 18 February – Actions and Decisions

18/02/06	Action 1	<u>Transformation Board</u> Communicate to SLT the new Governance structure and their role in holding ExCo to account. <i>Update 13/06/14: RZW is progressing this action.</i> <i>AL: ON HOLD TOR AND DATES TO BE CIRCULATED TO SLT</i>	AL/AT/MD	End June On hold
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ExCo meeting 15 April – Actions and Decisions

15/04/20	Action 2	<u>Network Board papers</u> Mike Granville to provide a paper to look at the effect of the run up to the last election on the Business and the influence of manifestos. <i>Update 13/06/14: Mike Granville and Jane Hill preparing a paper.</i> <i>Update 12/08/14 – Influencing Update paper for ExCo on the approach to the election (influencing manifesto/preparation) will be provided in advance of October ExCo meeting. It will include any lessons from 2010.</i>	MD/Mike Granville	October ExCo
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ExCo meeting 8 May – Actions and Decisions

08/05/14	Action 13	<u>Strategic Risk- Risk Appetite</u> Feedback to Dave Mason any comments on the Risk Appetite paper. Dave to update and set up an ExCo session on risk appetite after the June Board away day. 12/8 – UPDATE FROM KEVIN G – FLAGGED CONCERN AND WILL TRIAL A NETWORK INITIATIVE TO TEST THE FRAMEWORK.	ExCo/DM	SEPT 11TH
08/05/15	Action 14	<u>Strategic Risk – Contingency Risk</u> Paula to discuss the contingency with Chris D to decide how the ExCo	PV/CD	SEPT 11TH

		take the lack of contingency risk forward.		
08/05/16	Action 15	Strategic Risk – Contingency Risk Chris Day to share the finance stress testing of the plan with the ExCo, to ensure contingencies are identified for the big programmes.	CD	SEPT 11TH
08/05/31	Action 4	Data Centre Procurement (pre ARC) Adnan to produce a draft learning sheet to use within the business.	CA	In progress
08/05/34	Action 3	TFL – Audit protocol guidance Put the policy on the intranet and ensure it is well communicated. <i>Updated 25/06/14: MD and CA meeting to progress</i>	CA/MD	In progress
08/05/37	Action 6	TFL – Audit protocol guidance Decide on the best approach to ensure the intranet is effective with the possible use of a super administrator. <i>Updated 13/06/14: MD to discuss at 1:1 with NH to progress.</i>	MD/NH	In progress

ExCo Meeting 9 June 2014 – Actions and Decisions

09/06/01	Action 1	Risk & Compliance Piece of communication needed to explain risk management and risk protocols particularly as we move into Business Transformation. <i>Updated 25/06/14: MD and CA met to progress further</i>	MD/CA	ONGOING
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ExCo Meeting 3 July – Actions and Decisions

03/07/03	Action 2	Project Nemo Consider whether we align any potential FS pensions product (e.g. advice service) with the new DC pension provision for our employees. <i>Scoping exercise to take place once the legal framework is better understood (eg. Mechanism to offer free advice at retirement etc)</i>	NH/NK	ONGOING- NO OPPORTUNITY AT THIS STAGE
03/07/05	Action 1	Significant Litigation Schedule an ExCo discussion on losses and prosecution policy	CA/AL	End Aug

03/07/09	Action 2	Cyber security noting paper Risk & Compliance Committee to consider Cyber Security on its next agenda	CA	21 July
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ExCo Meeting 8 July 2014 – Actions and Decisions

08/07/02	Action 2	Finance Performance update at Q1 – Telephony Organise a deep dive for telephony for the Autumn to review the product profitability.	MG/AL	ExCo October 21st
08/07/05	Action 3	CFO forecast – Mails Come back to ExCo to explain options for Mails segregation.	MG	Aug
08/07/07	Action 5	CFO forecast – Commercial Committee Extra ordinary meeting of Commercial committee to discuss life insurance sales model	Commercial committee	

ExCo Meeting 19 August – Actions & Decisions

19/08/14	Action 1	Industrial Relations. Produce a plan on the basis that the proposed changes to the IR Framework are to be implemented at some stage. Plan to take into consideration. - Shareholder reaction - Business transformation time line and possible TOM changes.	TM/KG/MD/NH	Update at Sept 11 th ExCo
19/08/14	Action 2	Industrial Relations. Produce a heat map to horizon scan all events and changes which could affect industrial relations to understand the possible options for the timing of any IR framework changes.	TM/NH/MD	End of August
19/08/14	Decision	People & Engagement Strategy The People & Engagement Strategy would report through the Transformation Committee		
		Stakeholder Management Produce a grid showing stakeholder meeting dates and the likely	MD	Completed

19/08/14	Action 1	content of these meetings, to then be discussed every week at the Monday ExCo. Propose the most effective contact within NFSP, CWU, CHA, BIS, ShEx, RM, Bol, Fujitsu and Media Updated 06/09/14: MD has produced grid and introduced to ExCo at weekly Monday meeting on 8 September		
19/08/2014	Action 2	<u>NFSP</u> Scenario plan the engagement with the NFSP regarding network development	NH/KG	End Sep
19/08/2014	Action 1	<u>Financial Preference.</u> Circulate monthly commercial business review meeting dates to ExCo who are invited to attend.	MG	Completed
19/08/2014	Action 2	<u>Financial Performance.</u> Provide a commentary for inclusion in team talk to explain the scorecard and the effect on the bonus for this year.	CD	21 Aug

19/08/2014	Action 1	Health & Safety Training Health & Safety report to come to ExCo for discussion before going to the Board	NH	Sep ExCo Agreed and Closed.
19/08/2014	Action 2	Health & Safety Ensure Health & Safety is included in the planning for the move to Finsbury Dials. Safety, Environment and Wellbeing Team representative is a core member of the re-location project board to provide S,E & W input.	SE	End Sep Closed
19/08/2014	Action 3	Health & Safety In future be explicit that Health & Safety requirements are clear for Business Transformation changes are included.	NH	On-going
19/08/2014	Action 1	Risk Clarify the TOR for the PwC work, to ensure we align this with the wider Business Enterprise risk.	NH/CD/CA/DM	21 st Aug
19/08/2014	Action 2	Sept Board Ensure there is additional ExCo time available to discuss Board papers before the September Board ensuring that the papers include risk assessment.	AL	End Aug
19/08/2014	Action 1	Delegated Authority for Software Licence Purchases Circulate the paper received from the external lawyers which explains the risk involved in software. On ExCo Agenda 16/9/14.	NW	30 th Aug
19/08/2014	Action 2	Delegated Authority. Provide a more detailed paper for the ExCo to consider. On ExCo Agenda 16/9/14.	NW/CD	Sep ExCo
19/08/2014	Action 1	148 Office Move Consider whether “huggers” could work out pedestals when discussing options with each lead team.	AA/HC	End Sep

19/08/2014	Action 2	148 Office Move Provide technology training (i-clinics) to ensure people are capable of using the new technology.	AA	End Dec
19/08/2014	Action 3	148 Office Move. Explore the option of using partner buildings in the lead team discussions.	AA	
19/08/2014	Action 1	Crowns Analyse the effect of Crown Branch opening times on P&L break even.	KG	End Sep

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September 2014

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")	POL/RW	Belinda Crowe / Angela van den Bogerd	POL has received various claims from subpostmasters (SPMs) alleging defects in the Horizon system and POL's internal processes. 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. 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. On 08.07.13, Second Sight published a Report finding shortcomings in POL's internal training and support to SPMs on the Horizon system, but no systemic problems with Horizon itself. Following the Second Sight Report, on 27.08.13 POL launched a Mediation Scheme (Scheme) aimed at resolving individual complaints made about Horizon.	This matter will be the subject of a separate update to ExCo. The Scheme received 150 applications, which are being progressed under the direction of a Working Group comprising retired Court of Appeal Judge Sir Anthony Hooper (as Chair), POL, Second Sight, and JFSA. Mediations have now been held for the first three applications. The POL project team continue to handle the applications in line with the Board's direction to take a firmer position, informed by its legal position and tighter control over timescales and costs. To date, no claim has been made against POL in the civil courts, and no appeal has been made against any conviction in the criminal courts, following Second Sight's Report.	Bond Dickinson

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Employment	POL/NM	Colin Stretch	Legal Privilege		Eversheds

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			Legal Privilege	
Employment	POL/NM	Colin Stretch	Legal Privilege	Weightmans

PART (B) – CRIMINAL LITIGATION**PROSECUTION CASES**

There are number of cases which could have been prosecuted (e.g. those with full and frank admissions to theft /fraud), but prosecutions were not commenced to avoid adverse judicial comment.

Several cases have also been terminated while POL obtains an independent expert report on the Horizon branch accounting system (see below).

There are currently 14 cases which are being kept under review as to whether a prosecution (supported by an expert report) can be commenced.

EXPERT REPORT

New experts from Imperial College London have prepared a scope of work on which formal instructions and a protocol for requesting and receiving information will be based.

Appropriate individual confidentiality agreements will be prepared for both for the experts and POL employees involved in preparing the report.

It is envisaged that meeting/s to progress the report will take place with the experts, POL and Fujitsu in September and October 2014.

PROSECUTION POLICY

Former First Senior Treasury Counsel Brian Altman QC has drafted a proposed prosecution policy for POL.

Comments from POL stakeholders will now be sent to Brian Altman for review.

Overall Summary as at August 31st 2014

Total actions outstanding b/wd as at 30th June 2014

Implemented by Mgt - to August 2014

Actions added (audits and advisory)

Superceeded/amended

Total	Red	Amber	Green
43	9	20	14
(14)	(1)	(7)	(6)
15	1	11	3
(1)		(2)	1

Carried Forward as at August 31st

43	9	22	12
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Analysis of Carried forward

Overdue - yet to start

Overdue - Work in progress

Not yet due

0			
37	9	17	11
6	0	5	1

43	9	22	12
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IA Activity has been focused on on going project assurance work mainly in the new finance system, and the IT Risk work, so number of actual recommendations agreed for the specific period is reduced.

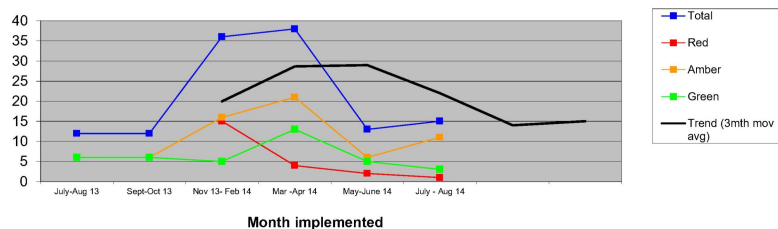
The IT Risk Advisory work conducted with PwC is not included in these numbers

A full report will be provided as normal for the ARC.

AS REPORTED AT THE JULY BOARD SUMMARY: - All of the red items relate to IT actions that were rebased by IT in May 2014 to accommodate changes in dates for the SISD and Towers. Most of these have a late 2014 to spring 2015 revised target date and relate to identity & access management and software licensing issues now dependent on new organisation.

Trends

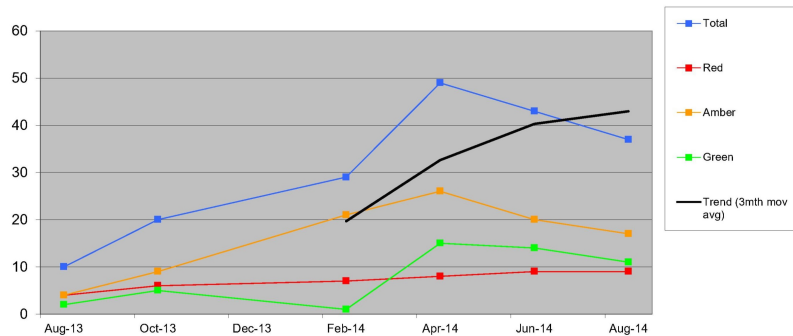
Reported Implementations - total per reporting period



Reported Implementations	Total	Red	Amber	Green
July-Aug 13	12	4	4	2
Sept-Oct 13	12	6	9	5
Nov 13- Feb 14	36	15	16	5
Mar-Apr 14	38	4	21	13
May-June 14	13	2	6	5
July-Aug 14	15	1	11	3
Cumulative	126	22	66	38

Implementation rates are steady with previous period which reflects that most IA work has been focused on ongoing higher risk project assurance work.

Audit Actions - Overdues - Trending by month



Overdue as at

Overdue as at	Total	Red	Amber	Green
31-Aug-13	10	4	4	2
31-Oct-13	20	6	9	5
20-Feb-14	29	7	21	1
30-Apr-14	49	8	26	15
30-Jun-14	43	9	20	14
31-Aug-14	37	9	17	11

IMPORTANT NOTE - IT ACTIONS HAVE BEEN REBASED WITH NEW TARGET DATES LATE 2014 and into 2015 to reflect changes in expected implementations of towers

The IA recommendations log still retains the ORIGINAL target date so that the business is fully aware it is still aware of the risks identified in the audit and these are still in place.

Most of these are in the following areas:

LAN and Identity Access Management - revised dates Sept 14 to March 15

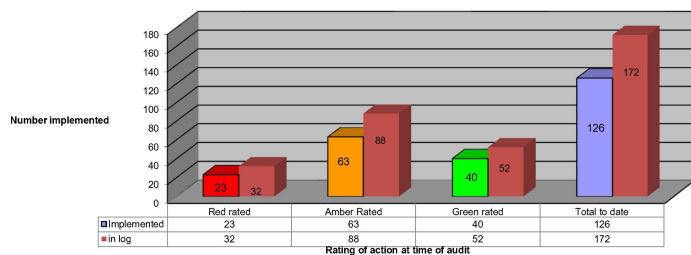
Software Licensing - Items presented but not considered complete enough yet for IA closure. Management agreed to finalise. The Governance and Controls Manager in IT left the business in July 2014, IT have transferred ownership to a senior member of the IT team.

IMPLEMENTATIONS in July August 2014.

Main implementations were; More formalised review of FX forecast accuracy by Treasury, review of banking tokens and pin pads by Treasury, completion of various governance actions by the FRP project team as part of the new Finance system.

Improved testing of the controls in User Acceptance Testing including negative testing, supervision controls over credit note

Implementations since July 2013



Implementations achieved (from June 2013)

	Implemented	Total	In log	%
Red rated	23	32	72%	
Amber Rated	63	88	72%	
Green rated	40	52	77%	
Total to date	126	172	73%	

IA logs the total actions agreed with the business and tracks implementations since the final transition from Royal Mail IA in June 2013

The total implementation rate is above 70% for the second successive period which is in line with expectations.

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POST OFFICE LTD EXECUTIVE MEETING

Delegating authority for software licence purchases – September 2014

1. Purpose

The purpose of this paper is to:

- 1.1 Prior to submission to the Board, present to the EXCO for noting a request for the delegation of its authority to approve software licence purchases and associated support contracts containing uncapped liability to a group consisting of the CFO (Chris Day), General Counsel (Chris Aujard) and CIO (Lesley Sewell).
- 1.2 Software licence agreements and associated support contracts will be signed by an authorised signatory under the 'Post Office Procurement Delegated Authorities' once the contract has been approved by the CFO, CIO and General Counsel.

2. Background

- 2.1 The Board has delegated their authority to enter contractual commitments on its behalf. This process is managed via the contract approval procedures and the Contract Approval Form ("CAF").
- 2.2 Any contracts with unlimited liabilities for Post Office must be approved by the Post Office Limited Board.
- 2.3 It is standard industry practice for software agreements for "off the shelf" proprietary products from large software vendors, such as Microsoft and SAP, to contain uncapped liability clauses. Negotiation options with these suppliers are limited.
- 2.4 Requesting Board approval for each licence agreement with an uncapped liability will burden the Board and add limited value, as these are market standard positions. This will also add time to the process of getting the relevant licences in place.
- 2.5 Delays in seeking Board approval may result in cost increases if negotiated discounts are time boxed by vendors.
- 2.6 In separating the software licence estate from Royal Mail Group, there is a large number of "off the shelf" software licences that will need to be signed in the name of Post Office Limited. There are 62 known software vendors whose products are in use and new licence agreements will need to be signed.
- 2.7 This recommendation will result in software licence agreements being added to the current list¹ of market standard, uncapped liabilities that have been delegated for approval, as documented in the guideline document that accompanies the CAF.

3. Activities/Current Situation

- 3.1 Negotiations are currently underway and nearing completion with the large vendors such as Microsoft, Oracle, SAP and Adobe. Each of their contracts contains, or will contain either an uncapped liability clause or the contract will be silent as to any cap on Post Office's liability.

¹ Category B Contractual Liabilities as documented in the Delegated Authority Guidelines.

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4. Proposal

- 4.1 All agreed licence terms and associated support contracts with software vendors are:
- reviewed by internal and/or external legal counsel
 - approved by Post Office Limited CIO, CFO and General Legal Counsel through the signing of a CAF (including countersignature by Company Secretariat)
 - signed by an authorised signatory within Post Office Procurement
- 4.2 Copies of the agreement(s) and CAF will be kept by Company Secretariat and a summary of the contract(s) signed through this route are sent to Board for noting.

5. Commercial Impact/Costs

- 5.1 There is limited commercial impact in delegation of authority. In many instances Post Office are already using these products through Royal Mail agreements.

6. Key Risks/Mitigation

- 6.1 The key risk is that the delegated EXCO members approve an uncapped liability position that the Board would view as an unacceptable risk. This is mitigated through the need to secure the approval of three nominated EXCO members.

7. Long term considerations

- 7.1 Software Asset Management will be implemented and managed via Atos as part of the transition to the IT Towers. This will allow Post Office to optimise the use of these assets and minimise risk of future liabilities arising from unlicensed software.

8. Communications Impact

- 8.1 There are no communication impacts beyond the IT procurement team who are already aware of this proposal.

9. Conclusion

- 9.1 Delegated authority to approve software licence agreements containing uncapped liability will not introduce any new material risks to Post Office Limited.

10. Recommendations

The EXCO is asked to note that:

- 10.1 A request to delegate authority to approve software licence agreements containing uncapped liabilities to the CIO, CFO and General Legal Counsel will be presented to the Board for approval.

Chris Day/Chris Aujard/Lesley Sewell
8th September 2014

Post Office Ltd – Strictly Confidential

POST OFFICE LTD BOARD

Authentication of the Post Office Limited Company Seal

1. Purpose

The purpose of this paper is to seek the Board's approval to revise the persons with delegated authority to authenticate the fixing of the Company's seal.

2. Current Situation

- 2.1 The principal purpose the company seal is used for is to execute documents as deeds (most commonly property documents). The Board receives and confirms the list of documents executed by the company seal at each Board meeting.
- 2.2 On 31 October 2013 the Board approved that the affixing of the company seal may be authenticated by any one of the following: a current Director of the Company; the Company Secretary; the Assistant Company Secretary; the General Counsel; and Piero D'Agostino.

3. Proposal

In light of changes to the Business and to meet the Business' needs going forward, it is requested that the Assistant Company Secretary is removed from the list of persons authorised to authenticate the company seal and that the Deputy Company Secretary is added.

4. Recommendations

The Board is asked to approve that the affixing of the company seal may be authenticated by any one of the following: a current Director of the Company; the Company Secretary; the Deputy Company Secretary; the General Counsel; and Piero D'Agostino.

Alwen Lyons
Company Secretary
September 2014