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Post Office Board Agenda

Date
27 March 2018

Start Time	Finish Time
11.00hrs	16.00hrs

Location
Room 1.19 Wakefield

Present	In Attendance
• Tim Parker (Chairman) • Richard Callard • Tom Cooper • Tim Franklin • Virginia Holmes • Ken McCall • Carla Stent • Paula Vennells • Alisdair Cameron	• Jane MacLeod (Company Secretary) • Veronica Branton (Minute Secretary) • Micheal Passmore (Finance Director) (item 5) • Cem Oztoprak (Finance) (item 5) • Mark Ellis (Network Operations Director) (item 6) • Russell Hancock (Supply Chair Director) (item 6) • Owen Woodley (CEO – FS&T) (items 7 & 8) • Colin Stuart (Finance Director, FS&T) (item 7) • Martin Edwards (MD, Identity Services) (item 10) • Chrysanthy Pispinis (Head of Post Office Money) (item 8) • Debbie Smith (CEO – Retail) (item 9) • Andrew Goddard (Head of Payment Services) (item 9) • Paul Squire (Programme Manager) (item 9) • Rob Houghton (CIO) (item 11)

Agenda Item		Action Needed	Purpose	Lead	Timings
1.	**POL Board and subsidiary board appointments**	Ratification	To ratify appointments of the POL, POMS and FRES Boards.	Tim Parker	11.00
2.	**Minutes of previous Board and Committee meetings including Status Report**	Decision	Minutes formally agreed.	Jane MacLeod	11.05
3.	**CEO Report**	Noting	CEO to update the Board on the report.	CEO	11.10
4	**Financial Performance Report**	Noting	CFOO to update the Board on the report.	CFOO / Micheal Passmore	11.30
5.	**Annual Strategic Plan & Quarterly Funding**				
	5.1 Annual Strategic Plan 2018/19	Decision	Board sign-off.	CFOO / Micheal Passmore / Cem Oztoprak	11.50
	5.2 Quarterly Funding Request	Decision	For the Board to approve the quarterly funding request.	CFOO / Micheal Passmore / Cem Oztoprak	12.10

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Agenda Item		Action Needed	Purpose	Lead	Timing
6.	**Cash Efficiency**	Noting	CFOO to update the Board	CFOO / Mark Ellis / Russell Hancock	12.30
LUNCH					13.00
7.	**FS&T Performance**	Noting	To update the Board	Owen Woodley / Colin Stuart	13.30
8.	**International Remittances**	Noting	To update the Board	Owen Woodley / Chrysanthy Pispinis	13.50
9.	**Project Panther**	Decision	To note progress and to approve setting up a Board Sub-Committee	Debbie Smith / Andrew Goddard / Paul Squire	14.20
10.	**Identity**	Noting & input	To update the Board	Martin Edwards	14.40
11.	**Microsoft Enterprise Agreement Renewal**	Decision	To approve the renewal of the Microsoft Enterprise Agreement across 3 years	Rob Houghton	15.10
12.	**Postmaster Litigation** 12.1 Terms of reference: Postmasters' Litigation Subcommittee	Noting Decision	To update the Board For the Board to approve the terms of reference	Jane MacLeod	15.20
13.	**Board Committee Chair updates (verbal)** 13.1 ARC	Noting	To update the Board	Carla Stent	15.30
14.	**Board Governance items** 14.1 Delegated Authorities and authorised signatories 14.2 Terms of reference 14.3 Register of Interests and Conflicts of Interest	 Decision Noting Review	 For the Board to approve revisions to the Delegated Authorities and authorised signatories For the Board to note the annual review against terms of reference For Board Directors to review their Conflicts of Interest and advise of any amendments.	Jane MacLeod	15.35

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Agenda Item		Action Needed	Purpose	Lead	Timing
15.	**Items for Noting**				15.45
	15.1 Sealings	Noting	For the Board to be aware of the affixing of the seal	Jane MacLeod	
	15.2 Health & Safety	Noting	To update the Board on Health & Safety	CFOO	
	15.3 Future Meeting dates	Noting	For Board to note future meeting dates for 2018	Jane MacLeod	
	15.4 Forward agendas	Noting	For Board to note	Jane MacLeod	
16.	**Any Other Business**				15.55
CLOSE					16.00

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POL and subsidiary Board appointments

Author: Veronica Branton, Head of Secretariat Sponsor: Jane MacLeod, Company Secretary
Meeting date: 27 March 2018

Executive Summary

1. Recruitment has concluded for Non-Executive Director appointments to Post Office Management Services. The Nominations Committee has approved the appointments of Tim Franklin and Andrew Torrance for **ratification** by POL. The Remuneration Committee has approved the fees for these appointments.

2. Recruitment has concluded for the CEO – Retail Services and Debbie Smith took up post in January 2018. The Nominations Committee has approved Debbie Smith's appointment as a Director to FRES and POL is asked to **ratify** this appointment.

3. Recruitment has concluded for the CEO – FS&T and Owen Woodley moved into his new role in February 2018. The Nominations Committee has approved Owen Woodley's appointment as a non-independent Non-Executive Director of Post Office Management Services subject to FCA clearance and as a POL Director of FRES. POL is asked to **ratify** these appointments.

4. The Secretary of State for Business, Energy and Industrial Strategy (BEIS) has approved the appointment of Tom Cooper to POL, acting in his capacity as Special Shareholder which allows him to appoint a Non-Executive Director. The length of time in the role is determined by SoS but is subject to the usual requirements to comply with POL's terms of appointment. Tom Cooper will take up post on 27 March 2018 when Richard Callard steps down. POL is asked to **note** Tom Cooper's appointment to POL and to **approve** his appointment to the Audit and Risk Committee.

Decisions

POL is invited to **NOTE**:

1) The appointment of Tom Cooper as a Non-Executive Director of POL with effect from 27 March 2018 and until such as time as the Secretary of State BEIS shall

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determine, subject to the appointee complying with his terms of appointment.

POL is invited to **RATIFY**:

2) The appointment of Tim Franklin as a Non-Executive Director of Post Office Management Services for a period of three years from 20 March 2018

3) The appointment of Andrew Torrance as Senior Independent Director of Post Office Management Services for a period of three years from 20 March 2018

4) The appointment of Debbie Smith, CEO – Retail, as a POL Director of FRES for the duration of her time in post

5) The appointment of Owen Woodley, CEO – FS &T, as:
   - a non-independent Non-Executive Director of Post Office Management Services for the duration of his time in post following FCA clearance
   - a POL Director of the FRES Board for the duration of his time in post.

The Board is asked to APPROVE:

1) The appointment of Tom Cooper as a member of the Audit and Risk Committee for an initial period of three years with effect from 27 March 2018.

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Post Office Limited
Board Meeting

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON MONDAY 29TH JANUARY 2018 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ AT 12.15PM

Present:	Tim Parker	Chairman **(TP)**	
	Richard Callard	Non-Executive Director **(RC)**	
	Tim Franklin	Non-Executive Director **(TF)**	
	Ken McCall	Senior Independent Director **(KM)**	
	Carla Stent	Non-Executive Director **(CS)**	
	Virginia Holmes	Non-Executive Director **(VH)**	
	Paula Vennells	Group Chief Executive **(CEO)**	
	Alisdair Cameron	Chief Financial and Operations Officer **(CFOO)**	
In Attendance:	Jane MacLeod	General Counsel & Company Secretary **(JM)**	
	Marla Balicao	Minute Secretary **(MB)**	
	Tom Cooper	UKGI Observer **(TC)**	
	Debbie Smith	Chief Executive, Retail **(DS)**	*(items 5,6,7 & 8)*
	Cathy Mayor	Finance Director, Retail	*(item 5 & 7)*
	Martin Kirke	Group HR Director **(MK)**	*(item 6)*
	Julie Thomas	DMB Programme Director	*(item 6 & 8)*
	Tom Wechsler	Programme Manager Mediation Scheme **(TW)**	*(item 7)*
	Andrew Goddard	Head of Payment Services **(AG)**	*(item 7)*
	Rob Houghton	Group Chief Information Officer **(RH)**	*(item 9)*
Apologies:	None		

ACTION

1. INTRODUCTION, CONFLICTS OF INTEREST, MINUTES OF THE PREVIOUS BOARD MEETING INCLUDING STATUS REPORT

1.1 A quorum being present, the Chairman opened the meeting.

1.2 The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

1.3 Minutes of the meeting of the Board held on 23rd November 2017 were APPROVED and AUTHORISED for signature by the Chairman.

1.4 The actions status report was NOTED as accurate.

2. CEO's REPORT

2.1 The Board NOTED the CEO report. In response to questions, the CEO made the following additional points:

2.2 The CEO:

(a) noted the strong retail trading performance over Christmas, which would be covered in more detail in the report from the CE, Retail later in the meeting.

(b) provided an update on Peregrine discussions following the conversations with the new BoI CEO., as a result of which negotiations have been more positive. BoI appear keen to do a deal and hope to get formalised through Heads of

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Terms by the end of February. The scope of discussions includes FRES however they have flagged that they do not want to change the 'contract construct' which we interpreted that they wish the contract to remain evergreen.

(c) reported that the payroll module of Success Factors ("SF") had gone live on 8th January with only a minor issues, and congratulated Martin Kirke and his team for their work delivering to that timetable. Overall feedback has been positive.

(d) advised that she had met Stephen Jones, CEO UK Finance in December in relation to the Banking Framework. **A further update would be brought to the Board in May on the further development of the Banking Framework.** **DS/MK**

(e) noted that RMG have signed a deal with the CWU although details of this deal still to be announced. Post Office was in discussions with CWU through ACAS to seek to resolve the dispute about the move from weekly to monthly pay. There are a number of other discussions ongoing with CWU in relation to operational developments such as telemetry etc.

(f) noted that the L300 event was taking place the next day with three main areas of discussion around IT Strategy, wider digitisation and people change, with a focus on strategy and key priorities.

(g) informed the Board that due to Prime Minister's reshuffle, there is a new Postal Minister – Andrew Griffith MP. This is still to be confirmed officially and PV is still to meet him.

(h) reported that Martin Kirke, Group HR Director has announced his intention to retire later in the year and a search for his replacement has started. Debbie Smith joined as Chief Executive, Retail on 8th January.

The Chairman questioned whether Post Office would seek compensation from Gemalto in relation to the disruption to our AEI services in December. PV responded that contractual compensation had been discussed and that this had been reported at the ARC earlier in the day.

3. FINANCIAL PERFORMANCE REPORT

3.1 The CFOO presented the P9 financial performance report covering December 2017.

3.2 The Board NOTED the financial performance report and in discussion the CFOO made the following points:

(a) There had been strong Christmas trading however he noted that this only added an extra £600k to EBITDAS reinforcing that mails are a low margin business.

(b) EBITDAS for P9 was £6.8m, giving us a £1.7m upside against forecast, but £1.5m adverse to budget, driven by strong mails trading, interest rate rises supporting POCA performance and accelerated IT costs savings, offset by additional agents pay.

(c) Balance sheet headroom in P9 was £127m which was £129m worse than P8 due to Christmas trading, but £36m better than forecast.

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(d) POMS trading performance was behind by £(0.5)m predominately due to profit share not being met.

(e) ATM performance is being watched as availability has fallen: 420 ATMs have been experiencing issues resulting in 65% availability. This is partly due to the introduction of new £10 notes. Both BoI and Post Office are reviewing performance and seeking to understand the impact of the new interchange fee structures. **AC noted that ATMs would be part of the cash strategy which would be coming to back to the Board in May. The Board requested that this review also consider whether there was value in talking to manufacturers, and review the location strategy.** **DS/ MK**

3.3 The CFOO noted that the Scorecard was showing positive outcomes (slide 3 in the Performance paper), and the following were discussed:

(a) Number of branches and 'trapped Postmasters' and **PV responded that this, together with the 'white space' strategy would be coming back to Board as part of the review of the retail strategy.** **DS**

(b) Branch technology conversions are progressing however there is a need to exit from BT and onto Verizon and this is affecting the shape of the delivery.

(c) Health & safety performance in Supply Chain was starting to cause concern. There are no significant trends or particular issues requiring specific intervention but rather a higher incidence of not taking care, especially on our premises. This will be addressed through activities seeking to engage peoples' hearts as well as their minds.

3.4 Other matters flagged by the P9 report included:

(a) Forecast EBITDAS for the year was still expected to be c£33 million, however there were a number of issues that would need to be managed to achieve this outcome.

(b) Project costs were much closer to forecast than they had been, apart from changes in the timing of DMB announcements.

(c) There is still ongoing work to reduce network cash levels back to the pre-Christmas levels, and branch cash are being managed more proactively.

KM queried the relationship between reductions in staff costs as franchising was rolled out, and increases in agents pay, and queried whether costs were reducing at the expected level? The CFOO noted that there were a number of factors affecting agents' pay including simplification and product mix. On staff and non staff costs, the next step change required the deployment of new technology and this could not be introduced scalably until the underlying systems programmes such as Back office Transformation are complete. He expected costs to be broadly flat in 2018/19, falling in 2019/20 and achieving more significant savings in 2020/21.

4. ANNUAL BUDGET 2018/19

4.1 The CFOO presented the Annual Budget for 2018/19 as set out in the paper which was NOTED by the Board. The CFOO highlighted the following:

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4.2 (a) The focus of the paper was on EBITDAS. The GE had reviewed progress during December and January and detailed budget reviews would start the following week.

(b) The CFOO noted that in October, the Board had approved an EBITDAS target of £40m for 2018/19. The impact of accounting changes including the exclusion of the costs of the Group Litigation meant that £47m would be consistent with the 3 year plan and was recommended. This represented significant growth given that there was no profit share from the Bank of Ireland (c£11 million), a significant Ofcom pricing challenge (c.£15 million gross impact) and growth in marketing of c. £15m. The CFOO noted that the gap still to close against the 2018/19 target was £12 million.

(c) The Board discussed the EBITDAS target and indicated that £47m now felt conservative and the target should be at least £50m. It was noted that the FS&T revenue lines were disappointing. The CFOO noted that savings products were still being impacted by low interest rates, and POMS had been struggling due to changes within Post Office relating to the withdrawal of mortgage and financial specialists, and the delay in roll out of marketing plans, as a result of which the 'hockey stick' uptick had been delayed. The CEO noted that a new marketing director has been appointed for POMS which should start to see a difference and she noted the new advertising campaign which had just been launched.

(d) The Board commented that the portfolio should be reviewed to ensure that Post Office could compete effectively in the financial services market, and consideration should be given to focussing efforts in those areas where the Post Office brand would allow us to compete most effectively. The Board challenged whether the balance was right between short and longer term objectives, and whether management were sufficiently ambitious for the POMS business. **The CEO undertook to come back to the Board to update on the POMS acquisition strategy, and the Chairman noted it would be helpful to get some wider background briefings from insurance experts.** **PV**

(e) TP noted that he would like a target figure of at least £50 million for 2018/19, that the Board needed to understand how the growth fund would contribute to this, and there should be some contingency in the plans. He noted that he was encouraged by initiatives however those projects that underpin the plan – and deliver longer term benefits, will be key.

(f) The Board then discussed how other initiatives such as Panther, New Call acquisition and Identity would contribute to the overall strategy. **The CEO noted that the strategy for the retail business was being reviewed by the new Chief Executive, Retail who had only recently joined and would be covered at the Board away day in June, however an update would be provided at the March board.** **DS**

4.3 The CFOO noted that proposals would be brought to the Remco at its meeting the following week, for the STIP and LTIP measures. He noted that management's view was that the measures for the two incentive schemes should be different, and that following discussion at Remco, the recommended measures would be brought back to the Board in March. He noted that the GE had debated supplementing a retained EBITDAS with two critical pieces of delivery: (i) the replacement of legacy and

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outdated infrastructure including POLSAP, HRSAP and HNGX; and (ii) the delivery of customer hub functionality with products available for customers in Travel and Identity.

5. CE PERFORMANCE REPORT – RETAIL SBU

5.1 The Chairman welcomed Debbie Smith, the new Chief Executive, Retail and Cathy Mayor and the Board NOTED the paper.

5.2 DS noted that she had attended the recent opening of the first 24 hour branch in New Oxford Street.

5.3 CM reported on the following:

a) Christmas trading had been strong with increased customer sessions and trading as compared with the previous year, although these had come through later in the trading period, and reflected structural changes in the market.

b) Customer services levels had improved year on year, including customer effort scores and wait time acceptability. The no queues at Christmas initiative had brought wait times down by an average of 2 minutes, an improvement by 4%.

c) Mails performance was underpinned by continued growth in home shopping returns and local collect which help offset ongoing decline in stamps.

d) Overall, the trading trends are positive and the current forecast is that Retail will end the year £7m ahead of EBITDAS budget.

e) The Board brought up the discussion of Agents pay and it was agreed **DS would be looking into this and come back to the Board in June with a strategy.** **DS**

5.4 The Board NOTED that transaction simplification was a key enabler for much of the network and was materially important to the larger multiples. DS commented that being able to convince retailers of the footfall benefits that Post Office could deliver through the Banking Services Framework, click and collect, etc, was key to leveraging the Post Office brand. Further work remained to be done on quantifying the DPC of the various products – presently many of the central costs are not well understood and therefore are not taken into account which may mean that products look more profitable than they actually are.

6. DMB STRATEGY

6.1 The Chairman welcomed Julie Thomas and Martin Kirke to the meeting.

6.2 The following points were highlighted to the Board:

a) DS introduced the paper and noted that it was clear that DMB's are not meeting customers' needs due to the restrictions on opening hours, and are not profitable due in part to the significant central costs required to support them. Work is ongoing to consider options to reduce costs including property options, reviewing employment terms. franchising options etc; nevertheless exiting DMBs becomes progressively more expensive due to the related central costs.

b) JT reported that the proposed revised franchising programme has been designed to enable the franchise of all 227 DMB's and staff over a three year period, however at this point approval was only being sought for the first phase of the

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roll out. JT explained the model worked in two stages: (i) temporary operators would be approached to operate a franchised DMB in the same premises, with flexible lease terms. This should enable immediate staff cost savings while the recruitment of the long-term operator and branch location is progressed in parallel.

c) While there are currently 3 well established organisations who each can manage approximately 30 branches on a temporary basis at any time, it is proposed that a compliant procurement process should be undertaken for operators of temporary branches across the network. The proposition should be attractive for temporary operators as it is low risk and involves minimal investment.

d) The Chairman queried the impact on employees and whether union consultation would be required? JT noted that under the current structures, it can take up to six months to complete a franchise and that employees are often keen to leave but are prevented from doing so because of the local consultation processes. She advised that the plan was to start the staff consultation process by telling staff about new Branches being advertised in the area and the strategy of replacement of DMB's over the next three years.

e) The Board queried the impact of the proposal on the underlying costs of the business and JT replied that the benefits step down over time as set out in the table on page 5 of the paper.

The Board was supportive in principal of the revised strategy however approval was only sought for a one year roll out following which the strategy would be re-assessed. **APPROVAL** was given on this basis including drawdown of the first year of funding of £23.1m for 2018/19 which would allow the roll out of the Franchise Programme to 56 branches.

7. PROJECT PANTHER

7.1 The Chairman welcomed Tom Wechsler and Andrew Goddard to the meeting.

7.2 [redacted]

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7.3 [redacted] **TW/ AG**

7.4 [redacted]

8. EUM

8.1 The Chairman welcomed Julie Thomas back to the meeting to present the business case for EUM paper.

8.2 Debbie Smith introduced the paper which was noted by the Board.

a) JT explained that since the Board approved the initial EUM business case of £7.8m in January 2017, it had become clear that a key design assumption that all training could be delivered through Success Factors could not be delivered and the current Horizon system does not support web-enabled training.

b) This updated Business Case requests £2.53m of additional funding to deliver: new IT developments needed to ensure EUM will work for agents using the current Horizon system.

c) Approval of funding will allow the programme to rollout to the entire network of c11,600 branches by November 2018 with a workable design, allowing us to be fully compliant with all relevant sales-related regulation and contractual requirements.

d) To the extent possible, EUM had been designed to ensure compatibility with HNGT.

e) Data collection regarding postmasters and their assistants was taking longer than expected, however those branches which were critical for POMS sales were being prioritised and it was still expected that the target of July 2018 which POMS were relying on, would be achieved.

8.3 The Board noted their concerns over the delay in the roll out of this programme, and queried what could be done to accelerate delivery to ensure delivery for POMS by the July target date? The Board also commented that management needed to review the project and understand what could have been done differently.

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8.4 It was **RESOLVED** to approve the revised scope and business case including the further funding of £2.53m, including an immediate draw down of £1.3m. The Drawdown of the balance £1.23m in due course should be brought to the Investment Committee.

9. BACK OFFICE TRANSFORMATION

9.1 The Chairman welcomed Rob Houghton to the meeting and the CFOO presented the replacement Back Office Transformation business case.

9.2 a) The CFOO gave an update on the progress of Back Office Transformation since the last update in September and explained the proposed changes to the Business Case with a request for a further drawdown of funds that will allow the programme to complete Phase 1.

b) Phase 1 remains focused on ensuring we exit from POLSAP by June 2018, delivering as much transformation as possible. In the next 2 months deliveries include: Agent Remuneration process transformation & data migration from HRSAP to CFS, and Cash Processing functionality migrated from POLSAP to Transtrack for Belfast cash centre (soft launch).

c) It was noted that while costs have increased slightly by £0.3m to an expected total of £21.2 million, the annualised IT benefits have reduced by £0.8m to £3.1m as set out in the Board paper

d) RH noted that Credence had now transitioned and that this creates further capacity in the Fujitsu environment, which of itself, decreases the risk.

9.3 The Board queried whether the CIO had now addressed the resourcing challenges in his team, and whether he was confident in the capability and capacity of that team to deliver the necessary changes required? RH advised that the Chief technology Officer had been the last key role to fill however there now remained a challenge to recruit the necessary IT architecture skills, although this was underway, with a much better operational team in house now in place.

9.4 It was **RESOLVED** that the Board approve the revised business case and additional £5m drawdown of budgeted spend to enable the completion of Phase 1, noting the reduction in IT cost benefits.

10. BOARD COMMITTEE CHAIR UPDATES (VERBAL)

10.1 ARC

CS as Chair of the ARC noted that all directors other than VH had attended the ARC which had been held that morning, and accordingly agreed to provide a separate brief to VH.

11. ITEMS FOR NOTING

11.1 Sealings

It was RESOLVED that the affixing of the Common Seal of the Company to documents numbered 1604 to 1636 inclusive in the seal register was confirmed.

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11.2 **Health & Safety**

The Board NOTED the report.

a) The CFOO noted that 'across the pavement' attacks were the greatest current area of concern in Supply Chain. Supply Chain is trialling body cameras to test usability: attacks are rare and they cannot be tested for impact. It is likely that if workable the cameras would be rolled out across high risk areas.

b) The Board noted that the expansion of the Banking Services Framework would result in increased cash in branches and that management would need to review whether MI and technology were adequate to cope with increased risks and demands.

c) The CFOO noted that work was underway to assess the impact of the expansion of the banking Services Framework, and further that an external audit of the Health and Safety framework had been commissioned, the results of which would be shared with the Board once available.

d) The Chairman noted that **it would be helpful if the reporting could separate robberies and criminal activity from the more traditional health and safety measures, so as to enable management and the Board to prioritise what needs to be done to reduce violence to employees**. **AC/ MH**

11.3 **Conflicts of Interest**

The Board NOTED that the Company secretary would circulate details currently held about other directorships and conflicts and that these would be updated and presented to the March board. **JM**

11.4 **Meeting Dates and Forwards Agenda**

The Board NOTED the future meeting dates and January's agenda.

12. AOB

12.1 **Bank Ring-Fencing Changes**

The Company Secretary advised that the Board previously approved Post Office entering into a Facilities Agreement dated 26 November 2015 with the Royal Bank of Scotland plc (RBS) under which RBS makes available: a £400m intra-day facility; a £350m overnight NRF facility (for the purpose of providing overnight collateral to the Bank of England); and a £1m collateral facility used in connection with our crime insurance (Facilities Arrangement).

As a result of the UK government's ring-fencing requirements which come into force on 1 January 2019, RBS has to restructure their activities and legal entities (which includes the National Westminster Bank plc (Nat West). Nat West will sit within the ring-fence of retail & business banking within the RBS Group.

Consequently, POL needs to enter into an Amended and Restated Facilities Agreement with RBS and Nat West to allow Nat West to provide the Facilities Arrangement going forward.

12.2 **IT WAS RESOLVED THAT**:

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1) The terms of and the entry by the Company into the Amended and Restated Facilities Agreement with RBS and Nat West ('ARA') and the other 2018 Ring-fencing Documents, and all other documents which are required to be entered into by the Company from time to time in connection with or pursuant to any of the foregoing (the "Ancillary Documents"), be and are hereby approved;

2) The CEO or CFOO be and is hereby authorised for and on behalf of the Company and in its name to agree such amendments (whether additions, deletions or other changes) to the ARA and the other Ring-fencing Documents and the Ancillary Documents as they shall deem appropriate subject to them being satisfied that the credit standing of any new legal entity counterparty is equal to or better than the existing legal entity (and whether such amendments are agreed before such documents have been entered into or are agreed after such documents have been entered into and are effected by entering into new documents or otherwise);

3) The CEO or CFOO be and is hereby authorised for and on behalf of the Company and in its name to execute and enter into (and in the case of any deed, to execute and deliver) the ARA and the other Ring-fencing Documents and the Ancillary Documents (including any and all amendments as detailed in the preceding paragraph);

4) The CEO or CFOO be and is hereby authorised for and on behalf of the Company and in its name to do all such acts and things as may be required in connection with the ARA and the other Ring-fencing Documents and the Ancillary Documents (and any such amendments thereto) and to carry into effect the purposes of the resolutions passed at this meeting, and to give or execute any notices, communications and other documents on behalf of the Company in connection therewith;

5) The CEO or CFOO be and is hereby authorised for and on behalf of the Company and in its name to approve and execute other documentation with any other UK regulated bank which is of a similar nature and has a similar effect as the ARA and the other Ring-fencing Documents and the Ancillary Documents, and to which the Company and such other UK regulated bank (being one of the Company's bankers) is a party subject to the CFOO being satisfied that the credit standing of any new legal entity counterparty is equal to or better than the existing legal entity, and the terms of these resolutions shall be deemed to apply equally to such other documentation as if passed specifically in respect of thereof.

12.3 **Postmaster Litigation Update**

JM provided the Board with a verbal update on the Postmaster Litigation noting that there was a procedural hearing scheduled for Friday 2 February. At that hearing the Court would be requested to determine the scope of disclosure required to be given by Post Office to support the trial in November 2018.

The Board NOTED the update and RESOLVED to establish a sub-committee for the purposes of monitoring the development in and strategy for the litigation. The members of that sub-committee would be the Chairman, Ken McCall and Tom Cooper

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(once appointed as a director). **JM was requested to provide the committee members with details of the key dates mandated by the Court so that appropriate time could be scheduled for the sub-committee to be briefed.** JM

12.4 There being no further business the Chairman declared the meeting closed at 16:00pm.

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Chairman **Date**

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POL Actions as at 20.03.18

REFERENCE	ACTION	ACTION OWNER (GE)	DUE DATE	STATUS	OPEN/CLOSED
29/01/18 **CEO'S REPORT**	To bring an update on the further development of the Banking Framework to the May Board.	Debbie Smith (Martin Kearsley)	24th May 2018	Slot included on May Board agenda	Open
29/01/18 (a) **FINANCIAL PERFORMANCE REPORT**	To include the value of talking to manufacturers and a review of location strategy as part of the paper in cash strategy coming to the May Board.	Debbie Smith (Martin Kearsley)	24th May 2018	Noted for inclusion in the May Board paper	Open
(b)	To cover the issue of "trapped Postmasters" and "white space" strategy within the review of retail strategy at the June strategy session.	Debbie Smith	26th & 27th June 2018	Noted for inclusion in the June Strategy paper	Open
29/01/18 (a) **ANNUAL BUDGET 2018/19**	To provide an update on the POMs acquisition strategy (it was suggested that it would be helpful to include wider background briefings from insurance experts).	Owen Woodley	26th & 27th June 2018	PO Insurance will be presenting strategic growth options at the POL Board awayday in June, including potential acquisition options.	Open
(b)	The CEO noted that the Mails strategy was being reviewed by the new Chief Executive, Retail, and would be covered in June at the away days; however an update would also be provided at the March Board.	Debbie Smith	27th March 2018	Update now included on May Board agenda	Open
29/01/18 **CE PERFORMANCE REPORT – RETAIL SBU**	To look at agents' pay and come back with a strategy to the Board in June 2018.	Debbie Smith	26th & 27th June 2018	Noted for inclusion in the June Strategy paper	Open
29/01/18 **PROJECT PANTHER**	Review the language in the Heads of Terms regarding conditions in the CMA clearance.	Debbie Smith (Andrew Goddard)	27th March 2018	Paper on Project Panther included on 27th March 2018 Board agenda	To close
29/01/2018 **HEALTH & SAFETY**	To separate robberies and criminal activity reporting from the more traditional health and safety measures, so as to enable management and the Board to prioritise what needs to be done to reduce violence to employees.	Alisdair Cameron (Martin Hopcroft)	24th May 2018	A first cut report on robbery and violence has been produced and a slot has been included on the May Board agenda.	To close
29/01/2018 **POSTMASTER LITIGATION UPDATE**	To provide the members of the sub-committee to monitor the development in and strategy for litigation with details of the key dates mandated by the Court so that	Jane MacLeod	27th March 2018	A timeline has been produced and dates for sub-committee meetings are being arranged.	To close

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POL Actions as at 20.03.18

	appropriate time could be scheduled for the sub-committee to be briefed.				

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CEO's Report

Author: Paula Vennells Meeting date: 27th March

Executive Summary

Context

Our target for 2017/18 is to achieve EBITDAS of £30m. Our 3 year goals are to:

- → Accelerate the transformation of the Post Office.
- → Secure commercial sustainability for the long term.
- → Establish a business that can ultimately fund investments and the social purpose from profits rather than subsidy.

In summary, our strategy is to secure our position as the UK's number one parcels and letters retailer, grow in financial services and protect our network and social purpose – all supported by a much leaner central organisation.

Input Sought

The Board is invited to note the report and highlight any issues where a future discussion would be welcome.

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The Report

Looking Back

WHAT HAS GONE WELL?

- **Financial Performance**

→ P11 benefitted from continuing strong trading and delays in programme spend versus forecast expectations. EBITDAS (excl. GLC) was £0.2m, £1.4m favourable to forecast and in line with budget. YTD EBITDAS (excl. GLC) is £20.1m, £4.4m favourable to forecast and £4.0m favourable to budget.

→ Balance sheet headroom in P11 was £299m. This was £10m lower than prior month as increases in cash holdings £66m and investment spend £22m were funded through an increase in the bond facility. Cash holdings increased by c.£40m due to the temporary impact of introducing high speed note counters in cash centres. Headroom will tighten again as we approach Easter and move more cash into the network.

→ Retail P11 performance is strong and YTD on track. FS P11 performance EBITDAS is £(1.3)m adverse to forecast. Revenue overperformance offset by additional costs and different revenue mix in agents pay, annual mortgage check fees and a reconciliation of full year performance on FRES.

- **Financial Services**

→ The Savings book will end the year strongly at £14bn (vs expectation of £12bn) following the base rate change in November and lower than expected attrition on the back book. The new mortgage lead generation and qualification model through the Chesterfield contact centre went live on 12th March and our new mortgage proposition launches next month.

→ Peregrine negotiations continue in depth following the arrival of the new BOI Group Chief Executive in November. We are likely to be offered an enhanced package across both the core products and FRES and expect to make a recommendation to Board, with some independent advisor analysis, in May.

→ Moneygram - work continues to improve our commercial terms and we have a proposal which will be discussed later in this Board.

→ The Q4 insurance campaign continues to perform in line with plans and is showing a 300% increase in protection sales versus P11 16/17. We are building our new home insurance model and have released an invitation to tender to underwriting companies to work with us on design and the customer solution. We aim to have this in place by June and will then move to the design phase.

→ Telecoms - Project Galaxy [voluntary pricing agreement between BT and Ofcom in the HomePhone only market; POL has 10% market share] has now moved into implementation with around 100,000 customers already contacted

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and response levels under 10% and lower than expected, which is encouraging. The agreement between BT and Ofcom is to reduce monthly customer pricing by £7 per month (£18.99 to £11.99), Post Office have agreed to offer eligible customers HomePhone customers, free Broadband or the option of HomePhone only at £11.50pm to maintain price competition with BT.

→ Customer Hub: The first launch is targeted for May 2018. The initial proposition is focused on the Travel Monday Card and Travel Insurance products which will be served through a new Post Office Travel App. The project is in development with both FRES and BOI. Following the launch, all new TMC customers will be directed to the Customer Hub where we will also be able to offer them travel and gadget insurance add-ons; this will be introduced as part of our summer campaign.

- **Retail**

→ Work continues on the Future of Cash business case to be presented at the May Board. Following the recent reorganisations, both ATM and POCA strategies will be included.

→ Banking Framework continues to over perform with increased Business Banking supporting performance above budget and forecast. Increased engagement from banks as well as new engagement with Credit Unions helps support our Financial Inclusion agenda. We continue to work closely with UK Finance on a joint proposal to send to John Glen MP, Economic Secretary of the Treasury, regarding the future plans for the framework.

→ The VOC results remain very strong with YTD Waiting Time Acceptability maintaining the all-time high of 94.2% against a target of 95% and Effort at an equally impressive 80.6% against a target of 76%.

- **Mails**

→ Royal Mail re-entered the FTSE 100 on 19th March with shares closing at 564p on the FTSE cut-off date; up more than 50% from a closing low of 370p in November. The market has responded positively as the risk of industrial action faded and the terms of the principle agreement with CWU became clear. The deal was unanimously agreed by the CWU's Postal Executive and will be recommended to the union's 110,000 postal members in a forthcoming national ballot.

→ Discussions regarding the prospect of extending the current MDA have begun and the Mails team will provide an update on progress at the May Board.

- **IT**

→ Everest (Fujitsu negotiation) continue and there is good progress on application maintenance, cloud migration and commercial contracts. The contract note on

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the principle of switching revenue from operational expenditure to capital expenditure has been signed. FJ demonstrated good innovation and customer journey ideas to the Group Executive at our recent GE meeting.

→ The network and branch technology rollout continues and is going well. We have passed the 10,000 branch level on network and hope to be virtually complete and transitioned to Verizon by end of March. Branch rollout is around 7,000 counters and the Admin network is almost complete with a complex set of issues overcome. There will be a high level of change taking place in the last two weeks of March to complete these plans.

- Our 101 digital innovation centre is fully active; we have employed our first software engineers and developments in customer hub, agent portal and the next generation Horizon (HNGT) are ongoing.

WHAT HAS NOT GONE WELL?

- **Severe weather and impact on the Network**

→ Due to the recent snow and bad weather all branches were affected across the network, but with minimal impact. 400 branches needed to close at some point due to severe conditions, however a maximum 210 branches were closed at anytime, which means at all time Post Office maintained around 98% of branches open to the public. Supply chain was affected minimally. During this time branch transactions were down as people chose not to travel.

→ Royal Mail and ParcelForce were unable to collect and deliver in some areas and special delivery guarantees were cancelled during this time. Our POMS call centre in Scotland closed for two days and the NSBC closed early on two days; no branches reported any issues with this. Our IT equipment continued to operate as normal.

→ Overall Post Office continued to operate as near normal throughout resulting in little impact and no customer complaints. We estimate £200k in lost revenue.

- **IT Transformation**

→ The full year target has slipped as a number of controls are currently actioned to be delivered in June/July, these controls are reliant on the implementation of the Security Operations Centre which will be fully commissioned in July. A review of the TrAction Controls Management tool tool is currently underway to ensure that control issues are being reported consistently.

- **Branch safety**

→ There were two incidents in branches recently due to branch colleague negligence with electrical appliances. An explosion in our DMB in Romford and a fire in the Hounsditch branch; thankfully both branches were closed and no one was hurt. Both issues were dealt with quickly and both reopened quickly. We have issued new communications to all colleagues highlighting the

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importance of turning off equipment when the branch is closed as well as reviewing and reissuing our white goods security policies.

Looking Ahead

FUTURE FOCUS

- **Simplification**
  - → Having assessed our change portfolio and the current strength of our proposition with agents, we have changed our plans on Simplification. Phase 1 of Mails simplification is fully implemented and will deliver £4.6m of recurring EBITDAS benefit through reduced remuneration. We have reviewed Phase 2 (which would deliver further efficiencies and £6.5m recurring benefit) and decided not to continue for three main reasons:
  - → 1 - the agent reaction to this particular Simplification approach has been as expected negative and we believe that implementing could put future numbers at risk;
  - → 2 - implementing Phase 2 would require a further £8.0m, (and the time of key subject matter experts), which we can re-allocate to other change initiatives;
  - → 3 - we need to minimise any further investment in our current codebase 'HNGA' given we are developing 'HNGT', which will radically simplify our customer and user experience. Our message to agents will be that simplification remains critical to our success and we are deferring, rather than stopping, plans to reduce remuneration where we can create genuine savings for agents.

- **Back office Transformation**
  - → The first phase of Back Office Transformation is live with agents now being paid through the new systems. This was on time and on budget. However, the remaining phases are signalling delay and our expectation is that the programme will be re-planned to complete end September rather than end June to avoid compromising testing, controls or management information. The CIO's view is that the infrastructure can sustain this delay. However, further delays would not be acceptable. The cash module has been more complicated than anticipated and the Belfast pilot has successfully gone live, 2 months behind plan. We are also behind on design and testing of the sales and finance workstream. A full re-plan is close to completion and will be subject to independent challenge.
- **Government Affairs**
  - → I am meeting with the new Minister for Postal Services, Andrew Griffiths MP on 19th March. Andrew was appointed Parliamentary Under Secretary of State at the Department for Business in the January 2018 reshuffle. This is the first

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meeting we have had and will provide an opportunity to update the Minister on our strategy and our key priorities.

→ I will also be attending the first meeting of the Financial Inclusion Policy Forum, jointly chaired by the Economic Secretary to the Treasury (John Glen MP) and the Minister for Pensions and Financial Inclusion at the Department for Work and Pensions (Guy Opperman MP). The purpose of the forum is to ensure that individuals, regardless of their background or income, have access to useful and affordable financial products and services.

→ Debbie Smith will be attending the Future of the High Streets Forum, hosted by Jake Berry MP the Ministry for Housing, Communities and Local Government.

→ The first phase of a brand activation campaign called #CommonUnity - celebrating communities and local activities, has been launched. The campaign explores the changing nature of community in the UK, with the Post Office telling the story in the context of modern Britain. We are giving Post Offices the chance to win upto £1,000 bursary by nominating and highlighting how community matters to them. Prize funds can be used for anything that supports the community.

- **Building an inclusive culture**

→ I have implemented a campaign internally which stresses the importance of speaking out against bullying and harassment. On the back of this we have received an increase in people coming forward to speak out, which is both encouraging and worrying. I am committed to ensuring we provide a safe and transparent workplace for our colleagues and that we remember and live by our PO values: Care, Challenge and Commit.

- **Personnel & Business unit changes**

→ Martin Edwards has formally moved into his role as Managing Director of the newly created Identity Services business unit.

→ I have created a new Strategy Group working to agile principles which will be led by Tom Moran, who also retains his role as Network Development Director. Tom will have a small central team reporting into him and they will be responsible for the broader business strategy, as well as leading on strategy for Retail and the preparations for the Board Away Day. There are three key topics for that agenda: Retail, IT and Post Office Insurance.

→ Nick Kennett left the business last month and I have made two changes to the Retail and FS business units; Banking has moved into the Retail business and I have promoted Owen Woodley to Chief Executive of Financial Services & Telecoms (FS&T).

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RISKS OR CONCERNS?

- **Postmaster Litigation**
  → A verbal update will be provided in the Board meeting.

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February 2018 (P11) - Performance

Author: Micheal Passmore Sponsor: Alisdair Cameron Meeting date: 27 March 2018

Executive Summary

Context

YTD P10 EBITDAS, excluding Group Litigation Costs (GLC) £19.8m. £3.0m favourable to forecast and £4.1m favourable to budget.

At end of FY 16/17, cash in Network was £666m and balance sheet headroom was £189m.

P11 forecast EBITDAS (excl. GLC) £(1.2)m, budget £0.3m. Balance Sheet headroom forecast was £286m from the facility limit, £86m from the Board limit.

Questions this paper addresses

1. What is the financial and scorecard performance in P11?
2. Does the performance highlight concerns over future delivery?
3. What are we anticipating for the full year outturn?

Conclusions

P11 benefitted from continuing strong trading and delays in BAU programme spend versus forecast expectations. EBITDAS (excl. GLC) was £0.2m, £1.4m favourable to forecast and in line with budget. YTD EBITDAS (excl. GLC) is £20.1m, £4.4m favourable to forecast and £4.0m favourable to budget.

Balance sheet headroom in P11 was £299m. This was £10m lower than prior month as increases in cash holdings £66m and investment spend £22m were funded through an increase in the bond facility. Cash holdings increased by c.£40m due to the temporary impact of introducing high speed note counters in cash centres. Headroom will tighten again as we approach Easter and move more cash into the network.

Network numbers are 11,510 which is very close to the contractual minimum of 11,500 branches. A number of new openings are planned and we anticipate the year end number will be closer to 11,600.

Change and capital spend of £28.6m, £3.0m more than 5+7 forecast suggesting continuing improvements over control and delivery.

The full year outturn is now anticipated to be c£36m, £6m above forecast due to higher Bank of Ireland Profit Share and release of Growth Fund.

Input sought

The Board is asked to note the financial performance.

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The Report

Scorecard

Key Performance Indicators	P11 Act	P11 Target	P11 Var.	YTD Act	YTD Target	YTD Var.	Full Year Target
Growth							
Total Gross Income (excl NSP) £m	74.9	73.2	1.8	872.6	857.4	15.2	945.0
EBITDAS (excl. GLC) £m	0.2	0.3	(0.0)	20.1	16.0	4.0	30.0
Headroom £m (vs Board minimum limit)	499	> 200	299	499	> 200	299	> 200
Digital Net Income £m (digital team)	4.6	3.7	0.9	43.7	40.9	2.8	45.0
Net profit £m [1]	(8.2)	(0.1)	(8.1)	14.9	3.9	11.0	0.0
Customer							
Customer Effort	84%	76%	8%	81%	76%	5%	76%
Net Promoter score Financial Services	26	25	1	25	25	0	25
Acceptable Wait Time %	96%	95%	1%	94%	95%	(1)%	95%
Branch Compliance (FS - basket of 11 measures)	80	<=50	(30)	66	<=50	(16)	<=50
People							
Representation (Senior Managers) - Gender	39%	37%	2.4%	39%	37%	2.4%	37%
Attendance [2]	-	-	-	-	-	-	96.7%
IT Lost Time (Number of Sev1/Sev2 IT incidents)	9	13	4	81	143	62	<156
Safety LTIFR	0.000	0.180	0.180	0.000	0.180	0.180	0.180
Modernisation							
Number of branches (one month in arrears)	Same as YTD			11,510	11,700	(190)	>=11,700
NT and ND Branches Transformed in Year	58	30	28	466	371	95	400
HNGA Network Only Rollout	1,484	700	784	7,091	3,400	3,691	4,000
HNGA Branch Counter Refresh Rollout	461	1,500	(1,039)	2,456	6,500	(4,044)	8,000
IT Transformation (% of IT controls implemented)	77%	90%	(13)%	77%	90%	(13)%	All high risk gaps closed

1. Net Profit metric target based on 5+7 forecast for Depreciation.
2. Attendance: Data currently not available due to Success Factors implementation.

Growth

1. Headroom at P11 was £499m (£299m above the £200m board limit) and security headroom was £223m. Ensuring facility headroom was higher than security headroom was a key target of the cash work as set out in the summer.
2. Net profit YTD is £11.0m favourable to budget; EBITDAS (incl. GLC) up £2.3m. Underspend on change charged to the profit and loss account is £3.9m and unbudgeted profit on disposal of property of £4.6m drive the remainder of the variance.

Customer

3. Acceptable Wait Time scores remain at 96% and continue to track above targets for DMB, agency branches and W.H. Smith. Acceptable Wait Time is 1% below target ytd.
4. P11 Branch compliance was rated Amber following 3 months of red ratings, YTD the rating remains Amber. Improvement was due to BoI reviews of FS promotional material held in branch that are no longer rated Red. Whilst this is encouraging we need to maintain our focus to ensure these improvements have been embedded.
5. The overall rating is Amber due to Counter Mystery Shopping continue to produce challenging results. The key reason for non-compliance was the failure to provide a Savings Summary Box leaflet with the application pack as well as BoI's assessment of other compliance requirements. To address this we have published a Branch

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Focus communication, online training for completion by 7th February and focussed the Business Control Team to support the network with compliance issues.

People

6. **Attendance Reporting:** Still not available following the implementation of Success Factors in P9. Absence and hours reports for P10 and P11 are being worked on but a number of anomalies have been identified with the data. A fix has been identified but has not been implemented.
7. **Safety LTIFR:** There were 7 employee accidents during P11 and 104 YTD v 112 for the equivalent period last year. However, LTIFR which measures the severity of the impact of accidents as a proportion of hours worked remains above budget.

Modernisation

8. **Network:** Network numbers are 11,510 which is very close to the contractual minimum of 11,500 branches. A number of new openings are and we anticipate the year end number will be closer to 11,600. YTD there have been 201 unplanned closures with 104 branches remaining closed following postmaster suspension.
9. **NT and ND Transformation:** 466 branches have now been transformed in the year exceeding the full year target of 400.
10. **Branch Counter and Network Rollouts:** Snow delays in the week commencing 26th February resulted in a 30% reduction to the weekly deployment. This will be addressed in week commencing 19th March schedule where 83 branches will be rescheduled. Project currently tracking green.
11. **IT Transformation (% of IT controls implemented):** The full year target is now unlikely to be achieved as a number of controls will be implemented when the Security Operations Centre is delivered in July.

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Period 11 Financial Performance

	P11				YTD			
£m	**Act**	**Var Fcst**	**Var Bud**	**Var PY**	**YTD Act**	**Var Fcst**	**Var Bud**	**Var PY**
Gross Income	**74.9**	**2.6**	**1.8**	**3.9**	**872.6**	**8.5**	**15.2**	**9.8**
Direct Costs	(9.9)	(0.4)	0.2	(0.8)	(112.2)	(0.7)	3.9	(8.6)
Net Income	**65.1**	**2.2**	**1.9**	**3.1**	**760.4**	**7.8**	**19.1**	**1.3**
Agents Pay	(28.7)	(0.3)	(1.1)	(1.0)	(343.1)	(3.0)	(10.5)	12.7
Staff Costs	(15.3)	(0.6)	(1.9)	0.6	(168.5)	(0.3)	(10.3)	18.2
Non-Staff Costs	(23.2)	0.5	1.5	(2.2)	(260.5)	0.3	5.6	(6.7)
Expenditure	**(67.3)**	**(0.3)**	**(1.5)**	**(2.7)**	**(772.1)**	**(3.0)**	**(15.3)**	**24.2**
FRES - Share Of Profits	2.5	(0.4)	(0.4)	0.1	31.7	(0.4)	0.2	(1.5)
EBITDAS (excl. GLC)	**0.2**	**1.4**	**(0.0)**	**0.5**	**20.1**	**4.4**	**4.0**	**23.9**
Group Litigation Cost (GLC)	(0.4)	(0.2)	(0.3)	(0.3)	(3.5)	(1.3)	(1.7)	(2.2)
EBITDAS	**(0.2)**	**1.2**	**(0.3)**	**0.2**	**16.5**	**3.1**	**2.3**	**21.8**
Network Subsidy	5.4	(0.0)	-	(0.8)	64.6	(0.0)	(0.0)	(9.2)
EBITDA	**5.2**	**1.2**	**(0.3)**	**(0.6)**	**81.1**	**3.1**	**2.3**	**12.5**
Depreciation	(4.8)	(0.3)	(0.3)	(4.7)	(45.3)	(1.7)	(1.7)	(44.9)
Interest	(0.3)	0.3	0.3	(0.6)	(4.6)	0.4	1.8	(6.2)
Impairment	-	-	-	1.8	-	-	-	88.6
Change Spend	(14.1)	(6.6)	(7.7)	6.4	(85.1)	14.0	3.9	44.9
Investment Funding	5.8	-	-	(5.8)	64.2	-	-	(64.2)
Profit On Asset Sale	(0.1)	(0.1)	(0.1)	0.0	4.6	1.3	4.6	50.2
Profit Before Tax	**(8.2)**	**(5.5)**	**(8.1)**	**(6.2)**	**14.9**	**17.1**	**11.0**	**80.9**
Retail	41.6	1.7	1.6	(0.5)	492.7	6.7	20.7	(25.9)
FS&T	27.8	0.9	0.0	3.6	323.4	3.0	(2.0)	33.6
POMS	4.5	0.2	0.3	1.0	43.5	(1.1)	(3.2)	4.0
Other	1.0	(0.1)	(0.1)	(0.2)	13.1	(0.1)	(0.2)	(1.9)
Total Revenue	**74.9**	**2.6**	**1.8**	**3.9**	**872.6**	**8.5**	**15.2**	**9.8**
EBITDAS								
Retail	8.6	3.8	2.3	0.5	84.7	9.4	13.1	(7.7)
FS&T	12.3	(1.3)	(1.6)	0.2	157.0	(3.0)	(0.4)	24.7
POMS	2.1	0.2	0.3	0.7	17.4	(0.6)	(2.0)	(0.6)
Other	(22.8)	(1.3)	(1.0)	(1.0)	(239.1)	(1.3)	(6.6)	7.6
EBITDAS (excl. GLC)	**0.2**	**1.4**	**(0.0)**	**0.5**	**20.1**	**4.4**	**4.0**	**23.9**

12. P11 EBITDAS was £0.2m, £1.4m favourable to forecast with strong revenue performance dropping through to the bottom line. Costs delays from programme spend were offset by incremental costs in the month. The full year outturn is now anticipated to be c.£36m, £6m above forecast due to higher Bank of Ireland Profit Share and release of Growth Fund.
13. Retail performance driven by Government Services revenue overperformance +£1.9m (POCA +£0.9m and Verify +£0.6m) and delays in programme spend £1.1m until 2018/19.
14. FS&T shortfall due to true-up in FRES position £(0.4)m for full year given volume shortfalls and annual mortgage check fees £(0.3)m not forecast.
15. POMS +£0.2m with strong response from the Q4 campaign (including DRTV) driving incremental Protections revenues. Still anticipating to achieve full year forecast position (less impact of Russet).
16. Other costs include the annual audit fee £0.4m (timing) a provision for losses £0.5m and a £0.3m fine for non-compliance with AML regulations. Change spend expenditure is £6.6m above forecast but this was shifted from capital spend in the period.

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Change Spend

	P11			YTD			FY		
	Act	**Var P5F**	**Var Bud**	**Act**	**Var P5F**	**Var Bud**	**Fcst**	**Var P5F**	**Var Bud**
IT & Digital	10.0	1.2	(1.7)	76.8	(2.7)	27.0	104.7	(9.5)	8.0
Network Development Programme	8.3	(2.6)	(1.8)	46.7	2.6	9.5	49.1	10.3	21.7
DMB Network Development	4.8	(2.0)	(2.7)	29.4	13.1	(9.7)	32.7	11.5	(11.1)
Back Office Transformation	1.4	0.0	0.1	14.6	1.3	3.6	18.5	(1.0)	1.6
FS & T	1.8	(0.5)	(0.3)	14.8	1.8	18.0	17.6	0.8	16.7
Retail	0.4	0.6	0.7	6.5	2.7	10.5	10.1	-	8.0
LEAN Centre	0.4	(0.4)	(0.4)	3.7	0.5	0.5	3.5	1.2	1.2
People and Engagement Transformation	0.7	(0.6)	(0.6)	5.6	(1.5)	(0.7)	4.8	(0.7)	0.1
Property	(0.5)	0.9	0.9	2.5	1.3	1.1	3.3	0.8	0.6
POMS	0.1	0.1	0.1	3.3	(0.7)	(0.1)	4.0	(1.2)	(0.6)
Supply Chain	0.9	(0.8)	(0.3)	3.6	1.2	(0.0)	4.8	-	(1.0)
Other Transformation	(0.0)	0.0	0.3	0.9	(0.9)	1.8	1.6	0.5	1.4
Corporate Services Transformation	0.0	0.3	0.3	0.2	0.9	1.6	1.3	0.2	1.0
Identity	-	0.4	-	-	2.0	4.0	(0.0)	2.6	4.7
Finance	0.3	(0.2)	(0.3)	0.4	0.1	0.1	0.4	0.1	0.1
Digital & marketing	-	-	0.2	-	-	2.1	-	-	2.3
Network Operations	0.0	0.5	(0.0)	0.0	2.1	1.8	2.3	0.1	(0.5)
Total	**28.6**	**(3.0)**	**(5.4)**	**209.0**	**23.8**	**71.3**	**258.8**	**15.8**	**54.5**
Capital	14.6	3.7	0.8	123.9	24.7	80.1			
Change	14.1	(6.6)	(6.2)	85.1	(0.8)	(8.9)			
Total	**28.6**	**(3.0)**	**(5.4)**	**209.0**	**23.8**	**71.3**			

17. In month, the total capital and change spend was £28.6m, £3.0m higher than forecast but continuing the trend of being much closer to forecast than prior months.

18. The key programmes have a number of major milestones and cost trigger points in P12 and it is currently anticipated that up to £35m of costs in the P5 reforecast could fall into 2018/19.

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Balance Sheet and Cashflow

£m	P11	Var Fcst	Var P10	Var P12 16/17
Fixed Assets	466.9	(12.8)	12.9	75.9
Cash	502.5	(178.2)	(14.7)	(177.5)
Stock	7.2	(1.3)	(0.2)	(0.8)
Pension Surplus	1.7	0.1	0.1	0.7
Debtors (excl. Clients)	164.2	(20.2)	(3.4)	(30.4)
Creditors (excl. Clients)	(269.9)	9.8	10.4	23.4
Client Debtors	132.1	(21.9)	(2.4)	(12.3)
Client Creditors	(285.4)	25.5	5.3	3.3
Provisions	(65.0)	3.7	(5.4)	23.0
Loan	(451.0)	213.1	(10.0)	110.0
Net Assets / (Liabilities)	**203.3**	**17.8**	**(7.4)**	**15.3**
		-		
Capital and Reserves	**203.3**	**17.8**	**(7.4)**	**15.3**
Network Cash	761.8	(124.0)	65.6	(150.2)
Cash at Bank - POL	0.4	0.4	(2.3)	(0.2)
Gross POL Cash	**762.2**	**(123.6)**	**63.3**	**(150.4)**
Cash at Bank - POMS	10.8	(4.2)	-	(2.6)
Demonetised	(270.4)	(50.4)	(77.9)	(24.4)
Net Cash	**502.6**	**(178.2)**	**(14.6)**	**(177.4)**
Net Funding Position £'m				
Government Loan	(451.0)	213.1	(10.0)	110.0
Demonetisation - NCS	(270.4)	(70.4)	(77.9)	(24.4)
Cash at Bank - POL	0.4	(14.6)	(2.3)	(0.2)
Net Funding	**(721.0)**	**128.1**	**(90.2)**	**85.4**
Headroom £'m				
Government Loan - Available Amount	950.0	-	-	-
Government Loan - Drawn Amount	(451.0)	213.1	(10.0)	110.0
Headroom	**499.0**	**213.1**	**(10.0)**	**110.0**
Target Minimum Headroom	200.0	-	-	-
Headroom Above/(Below) Target	**299.0**	**213.1**	**(10.0)**	**110.0**
Security Headroom £'m				
Total Security	774.2	(245.0)	(22.4)	(230.8)
Total Obligations	(551.0)	228.1	(15.3)	121.0
Headroom	**223.2**	**(16.9)**	**(37.8)**	**(109.8)**
Summary Cashflow £'m				
EBITDAS less JV Income	(2.6)	1.6	(2.6)	
Working capital - non client related	2.8	0.3	(34.9)	
Network Subsidy Payment	-	-	-	
Network cash inventory (gross)	(65.6)	(95.3)	(310.8)	
Working capital - client related	(2.9)	(22.6)	(15.9)	
Capital, investment and financing	(22.0)	3.0	1.9	
Net cash inflow / (outflow)	**(90.2)**	**(113.0)**	**(362.2)**	

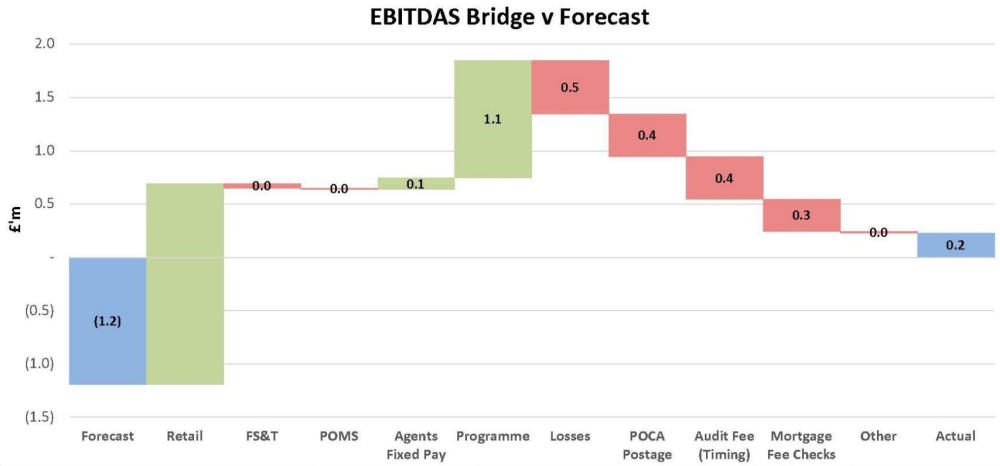
19. Our net funding position increased by £90m to £721m in P11 as cash in the network increased by £66m and £22m of capital and investment spend in the month.
20. Cash in the network increased primarily due to an increase in Cash Centres balances of £39m. This is a temporary increase as the new note counting machines were rolled out.
21. The loan balance with BEIS increased by £10m but headroom of £299m above target is maintained against the facility. This is anticipated to reduce as we approach Easter.

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Appendices

1. EBITDAS Bridge v Forecast
2. Revenue by Pillar
3. Retail
4. FST
5. POMS

1. EBITDAS Bridge v Forecast



	Revenue	Direct Costs	Agents Pay Variable	Net Cont.
Mails Trading	0.4	-	(0.2)	**0.2**
Retail and Lottery	(0.6)	0.4	(0.0)	**(0.2)**
Payment Services	(0.1)	(0.0)		**(0.1)**
Card Account	0.9	0.3		**1.2**
ID - Assurance (Verify)	0.6	(0.2)		**0.3**
Other Government Services	0.4	0.3	(0.2)	**0.5**
Retail	**1.7**	**0.6**	**(0.4)**	**1.9**
Post Office Money	0.4	-	(0.1)	**0.3**
MoneyGram	(0.0)	-	0.0	**(0.0)**
Banking Services	(0.3)	0.0	0.2	**(0.2)**
Telecoms	0.7	(0.7)	(0.2)	**(0.2)**
Postal Orders	0.1	0.0	(0.0)	**0.0**
FS&T	**0.9**	**(0.7)**	**(0.2)**	**(0.0)**
POMS	**0.2**	**(0.2)**	**-**	**(0.0)**

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2. Revenue by Pillar

£m	P11 Act	P11 Var Fcst	P11 Var Bud	P11 Var PY	YTD Actual	YTD Var Fcst	YTD Var Bud	YTD Var PY
Parcelforce	1.5	(0.0)	0.1	0.1	18.3	0.2	2.6	1.3
Special Delivery	3.8	0.1	0.1	0.0	45.4	0.5	0.9	(0.3)
International Priority & Standard	2.4	(0.1)	0.0	(0.0)	31.7	(0.8)	1.1	0.4
Stamps (1st & 2nd)	1.3	(0.0)	(0.1)	(0.1)	21.5	0.1	(1.5)	(2.1)
Labels (1st & 2nd Class)	6.9	0.1	0.2	0.4	84.3	0.6	2.0	4.4
RM Signed For	1.8	0.0	0.2	0.0	21.2	0.2	2.7	0.2
Home Shopping Returns	1.3	0.1	0.1	0.3	16.2	0.5	0.9	3.2
Other Trading	1.3	0.2	0.1	(0.2)	14.6	0.4	(1.4)	(3.9)
Total Mail Trading	20.3	0.4	0.9	0.3	253.2	1.8	7.3	3.3
Fixed fee	3.8	0.0	0.1	(0.2)	46.0	0.0	0.7	(2.7)
Mailwork & Mails non trading	0.8	(0.0)	(0.1)	(0.3)	9.2	(0.0)	(0.9)	(2.7)
Total Mail Non-Trading	4.7	0.0	(0.0)	(0.5)	55.1	0.0	(0.3)	(5.4)
Retail (Inc Gift cards & Other)	0.3	(0.7)	(0.9)	(0.6)	12.5	(0.8)	(1.6)	(0.4)
Lottery	2.5	0.1	0.5	0.1	29.0	1.5	5.3	(1.2)
Retail and Lottery	2.8	(0.6)	(0.4)	(0.5)	41.4	0.6	3.7	(1.5)
Payment Services	2.1	0.0	0.3	0.2	25.5	0.8	2.1	(4.6)
ATM	2.4	(0.1)	(0.1)	(0.2)	27.8	(1.6)	(2.4)	(2.7)
Payment Services	4.5	(0.1)	0.2	(0.0)	53.3	(0.8)	(0.4)	(7.3)
Motoring Services	0.6	0.1	0.2	(0.1)	6.4	0.5	1.4	(1.1)
Card Account	3.9	0.9	1.1	(0.6)	41.6	2.3	5.4	(15.1)
Passport Services	2.3	0.1	(0.7)	(0.0)	18.7	(0.1)	3.6	(1.4)
Digital ID Serv UKVI & Asylum	1.2	0.2	(0.1)	0.2	13.6	0.7	1.2	0.5
ID - Assurance (Verify)	1.3	0.6	0.5	0.7	8.4	1.3	(1.3)	3.3
Other Government Services	0.0	0.0	(0.0)	(0.1)	0.9	0.3	(0.1)	(1.1)
Government Services	9.3	1.9	0.9	0.1	89.6	5.0	10.2	(14.9)
Total Retail	**41.6**	**1.7**	**1.6**	**(0.5)**	**492.7**	**6.7**	**20.7**	**(25.9)**
Mortgages	0.3	0.2	0.0	0.2	2.7	0.7	(0.9)	0.1
Credit Cards and lending	0.3	0.2	0.0	0.2	2.1	0.5	(0.8)	0.1
Savings	3.4	(0.0)	(0.0)	(0.5)	37.0	(0.0)	(0.0)	(4.2)
Travel Money	1.6	0.0	0.0	0.0	23.5	0.5	1.0	0.9
MoneyGram	2.3	(0.0)	(0.2)	0.2	24.2	(1.7)	(4.6)	(3.3)
Post Office Money	7.9	0.4	(0.1)	0.1	89.5	0.0	(5.3)	(6.3)
Banking Services	6.4	(0.3)	0.2	2.2	80.4	1.0	5.1	23.4
Telecoms	12.4	0.7	0.6	1.4	139.9	1.8	2.3	20.2
Postal Orders	1.1	0.1	(0.1)	(0.2)	13.6	0.1	(1.4)	(3.6)
Other Income	0.0	0.0	(0.5)	(0.0)	0.0	(0.0)	(2.7)	(0.0)
FS&T	**27.8**	**0.9**	**0.0**	**3.6**	**323.4**	**3.0**	**(2.0)**	**33.6**
POMS	4.5	0.2	0.3	1.0	43.5	(1.1)	(3.2)	4.0
Total FS&T	**32.3**	**1.1**	**0.3**	**4.6**	**366.9**	**1.9**	**(5.2)**	**37.6**
Supply Chain	0.7	(0.1)	(0.1)	(0.1)	9.8	(0.1)	(0.3)	(1.4)
Other Income	0.3	(0.0)	(0.0)	(0.1)	3.3	0.0	0.0	(0.5)
Total Revenue	**74.9**	**2.6**	**1.8**	**3.9**	**872.6**	**8.5**	**15.2**	**9.8**

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3. Retail

£m	P11 Act	P11 Var Fcst	P11 Var Bud	P11 Var PY	YTD Act	YTD Var Fcst	YTD Var Bud	YTD Var PY
Gross Income	**41.6**	**1.7**	**1.6**	**(0.5)**	**492.7**	**6.7**	**20.7**	**(25.9)**
Direct Costs	(1.8)	0.6	0.8	0.9	(26.8)	0.8	1.7	2.2
Net Income	**39.8**	**2.3**	**2.4**	**0.4**	**465.9**	**7.5**	**22.3**	**(23.7)**
Agents Pay	(22.8)	0.1	(0.4)	(0.0)	(273.9)	(1.6)	(8.1)	11.7
Staff Costs	(6.4)	(0.1)	(0.8)	0.0	(75.9)	1.7	(5.7)	8.8
Non-Staff Costs	(2.0)	1.4	1.1	0.1	(31.3)	1.8	4.3	(4.5)
Expenditure	**(31.3)**	**1.5**	**(0.1)**	**0.1**	**(381.2)**	**1.9**	**(9.4)**	**16.0**
FRES - Share Of Profits	-	-	-	-	-	-	-	-
EBITDAS	**8.6**	**3.8**	**2.2**	**0.5**	**84.7**	**9.4**	**12.9**	**(7.7)**
Revenue								
Mails Performance	20.3	0.4	0.9	0.3	253.2	1.8	7.3	3.3
Mails Non Trading	4.7	0.0	(0.0)	(0.5)	55.1	0.0	(0.3)	(5.4)
Retail and Lottery	2.8	(0.6)	(0.4)	(0.5)	41.4	0.6	3.7	(1.5)
Payments Services	4.5	(0.1)	0.2	(0.0)	53.3	(0.8)	(0.4)	(7.3)
Govt. (excl. Verify)	8.0	1.4	0.5	(0.6)	81.2	3.7	11.5	(18.2)
Verify	1.3	0.6	0.5	0.7	8.4	1.3	(1.3)	3.3
Total Revenue	**41.6**	**1.7**	**1.6**	**(0.5)**	**492.7**	**6.7**	**20.7**	**(25.9)**

P11 EBITDAS £3.8m favourable to forecast driven by strong revenue performance and delays in programmes spend until 2018/19 as identified as part of the P9 risks and opportunities update.

Gross Income beat forecast by £1.7m:

Government Services +£1.9m with POCA +£0.9m (£0.5m Interest Rate, £0.3m closed accounts, £0.1m volumes) and Verify +£0.6m due to strong trading performance with volumes doubling to c.11,000 per month. Small volume gains in Passports & DVLA also.

Mails +£0.4m with continuation of recent trends.

Retail and Lottery £(0.6)m, being £(0.3)m shortfall for trading (timing with no impact on full year) and £(0.3)m accounting impact for the new contractual agreement with WHSmiths where margin only is recognised (minimal EBITDAS impact as offset in COS also)

Agents Pay +£0.1m: In line with revenue mix. Revenue overperformance in products with limited agents pay impact.

Non Staff Costs +£1.4m: Due to delays in programme spend (costs deferred until 2018/19) and delays in marketing spend, partially offset by incremental costs of £(0.4)m in the month for POCA statements.

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4. FST

£m	P11 Act	P11 Var Fcst	P11 Var Bud	P11 Var PY	YTD Act	YTD Var Fcst	YTD Var Bud	YTD Var PY
Gross Income	**27.8**	**0.9**	**0.0**	**3.6**	**323.4**	**3.0**	**(2.0)**	**33.6**
Direct Costs	(7.1)	(0.7)	(0.2)	(1.3)	(76.8)	(0.5)	4.8	(7.1)
Net Income	**20.8**	**0.2**	**(0.2)**	**2.3**	**246.5**	**2.5**	**2.8**	**26.5**
Agents Pay	(5.9)	(0.4)	(0.7)	(1.0)	(69.1)	(1.3)	(2.4)	1.0
Staff Costs	(1.1)	(0.2)	(0.1)	(0.1)	(11.0)	(0.6)	0.0	0.7
Non-Staff Costs	(3.9)	(0.5)	(0.2)	(1.0)	(41.1)	(3.3)	(1.0)	(2.0)
Expenditure	**(10.9)**	**(1.1)**	**(1.1)**	**(2.1)**	**(121.3)**	**(5.1)**	**(3.4)**	**(0.3)**
FRES - Share Of Profits	2.5	(0.4)	(0.4)	0.1	31.7	(0.4)	0.2	(1.5)
EBITDAS	**12.3**	**(1.3)**	**(1.6)**	**0.2**	**157.0**	**(3.0)**	**(0.4)**	**24.6**
Revenue								
Post Office Money	7.9	0.4	(0.1)	0.1	89.5	0.0	(5.3)	(6.3)
Banking Services	6.4	(0.3)	0.2	2.2	80.4	1.0	5.1	23.4
Telephony	12.4	0.7	0.6	1.4	139.9	1.8	2.3	20.2
Postal Orders	1.1	0.1	(0.1)	(0.2)	13.6	0.1	(1.4)	(3.6)
Other Income	0.0	0.0	(0.5)	(0.0)	0.0	(0.0)	(2.7)	(0.0)
Total Revenue	**27.8**	**0.9**	**0.0**	**3.6**	**323.4**	**3.0**	**(2.0)**	**33.6**

P11 EBITDAS £(1.3)m adverse to forecast. Revenue overperformance offset by cost pressures and a true-up of full year performance on FRES.

Gross Income +£0.9m better than forecast:

Post Office Money +£0.4m due to Credit Cards and Lending, Moneygram back in line with forecast in the month.

Telecoms +£0.7m continues to over perform with higher ARPU and customer numbers.

Banking Services £(0.3)m (reversal of overestimate in prior month – no impact on next year budget target)

Agents Pay £(0.4)m adverse: In line with revenue mix.

Non Staff Costs £(0.5)m: predominantly due to annual mortgage check fees £0.3m (not accrued).

FRES £(0.4)m: adverse based on the revised full year expectation now anticipated given decreasing volumes.

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5. POMS

£m	P11 Act	P11 Var Fcst	P11 Var Bud	P11 Var PY	YTD Act	YTD Var Fcst	YTD Var Bud	YTD Var PY
Gross Income	**4.5**	**0.2**	**0.3**	**1.0**	**43.5**	**(1.1)**	**(3.2)**	**4.0**
Direct Costs	(0.9)	(0.2)	(0.3)	(0.4)	(8.1)	(0.6)	(2.2)	(3.2)
Net Income	**3.6**	**(0.0)**	**(0.1)**	**0.7**	**35.3**	**(1.7)**	**(5.3)**	**0.8**
Agents Pay	-	-	-	-	-	-	-	-
Staff Costs	(0.3)	0.0	0.0	(0.0)	(3.5)	0.3	0.7	(0.4)
Non-Staff Costs	(1.1)	0.1	0.4	0.0	(14.5)	0.7	2.6	(1.1)
Expenditure	**(1.5)**	**0.2**	**0.4**	**0.0**	**(18.0)**	**1.1**	**3.3**	**(1.4)**
FRES - Share Of Profits	-	-	-	-	-	-	-	-
EBITDAS	**2.1**	**0.2**	**0.3**	**0.7**	**17.4**	**(0.6)**	**(2.0)**	**(0.6)**
Revenue								
Travel	1.0	(0.3)	(0.1)	0.1	14.0	(1.7)	(1.4)	2.4
Car	0.9	(0.1)	0.1	(0.2)	10.7	0.3	0.7	(2.1)
Home	0.8	(0.1)	(0.1)	0.0	8.8	0.1	(0.5)	0.8
Life	1.6	0.7	0.7	1.2	7.3	0.2	0.7	2.9
Other	0.2	0.0	(0.2)	0.0	2.7	0.0	(2.6)	(0.0)
Total Revenue	**4.5**	**0.2**	**0.3**	**1.0**	**43.5**	**(1.1)**	**(3.2)**	**4.0**

POMS has performed ahead of P5 forecast in the month and is in line with the updated view performed at the end of P9 (comparatives above refer to the Board approved P5 reforecast). The full year EBITDAS target is £19.9m and management continue to believe that this is deliverable (P5 forecast adjusted to remove the impact from the removal of Mortgage Specialists £0.3m).

The decisive factor in POMS hitting its full year EBITDAS target is the continued performance of the Q4 campaign which includes the Life Over 50's DRTV test and learn and associated activities. The campaign launched on the 22nd of January has achieved a step change in performance. In P11 3,464 Protection (Life, Easy Life and Over 50's) policies were sold which is 2,462 higher than P11 last year, an increase of 246%.

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Budget Update

Author: Cem Oztoprak | Sponsor: Alisdair Cameron | Meeting date: 27 March 2018

Executive Summary

Context

The purpose of this paper is to finalise the annual plan for formal submission to Government. At its review in January the Board requested EBITDAS of £50m, up from £47m.

RemCo has agreed on STIP targets and recommending a gateway criteria for STIP to remain above 11,500 branches, with incentives paid on three measures: EBITDAS; removing POLSAP, HRSAP and HNGX from the business; and having the Customer Hub operational, serving customers in two pillars of Travel and Identity.

Questions addressed in this report

1- How has the budget moved since the last Board meeting?

2- What is the 2018-19 change plan?

3- How are we proposing to manage the balance sheet in 2018-19?

Conclusion

There have been a number of moving parts within the budget which largely net off. We are not recommending any change to the £50m EBITDAS target.

We are budgeting for a change plan of c. £255m.

We will maintain cash control staying within headroom limits in spite of the growing banking framework.

Input Sought

The Board is asked to approve the annual Plan for submission to Government as summarised in this paper and detailed in the attached slides.

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The Report

How has the Budget moved since the last Board meeting?

1. The Board paper in January proposed a number of changes to finalise the budget delivering £50m EBITDAS. These changes have now been incorporated and the final proposed P&L is as following:

£m	2017-18 P5 Forecast*	2018-19 Budget	Variance	YoY
Gross Income	**949**	**968**	**19**	**+2.0%**
Cost of Sales	(121)	(121)	-	
Net Income	**828**	**847**	**19**	**+2.3%**
FRES	35	34	(1)	
Agents' Pay	(369)	(364)	5	
Staff Costs	(184)	(182)	2	
Non-Staff Costs	(276)	(285)	(9)	
EBITDAS	**34**	**50**	**16**	**+66.7%**

* Latest view on *2017-18 EBITDAS is £36m and overperformance vs budget is due to underspend in growth fund and increase in BoI profit sharing which will not recur next year.*

2. There are still a number of moving parts which might have an impact on 2018-19 EBITDAS. However, it is anticipated that these will not have a net negative impact on EBITDAS and expected to be managed within business unit targets.

Retail: Decision on not proceed with Simplification Phase 2 (£2.7m)

A decision not to implement network simplification Phase 2 which would reduce the agents' pay by £6.5m pa however materially increase our network risk through increased resignations and disengagement of partners.

FS&T: Moneygram Deal £2.0m - £3.0m

Negotiations to get additional guaranteed payments against the reducing volumes and change the existing exclusivity clause to allow us to pursue digital capabilities.

3. We don't have a deal with BoI and therefore no assumption has currently been made with regards to the wider negotiations with BOI (Peregrine) and it was agreed with the Board in January that the impact of this would lead to a change in the budget targets.

4. Although the growth on EBITDAS looks like only £14m YoY (from latest view of £36 to £50m). On a like for like basis the growth is £54m.

17/18 expected EBITDAS	**£36m**
BoI value share, not recurring next year as we don't a deal with BoI	(£13m)
Impact of Ofcom regulatory changes	(£15m)
YoY Marketing increase, including £5m growth fund	(£12m)
£40m Change benefits plus trading improvements	£54m
18/19 EBITDAS Target	**£50m**

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What's the 2018-19 change plan?

5. 2018-19 is the first year of 3-Year Plan. The budgeted change spend for this year is £255m and the expectation by strategic priority is as following:

Strategic Priority	Forecast
Simplify the retailer proposition	£55m to £65m
Build innovative, flexible and secure IT	£80m to £90m
Modernise our products and services	£70m to £80m
Digitise and optimise the business	£15m to £20m
Modernise our skills, culture, HR policies and processes	£4m to £6m
Regulatory & Group Litigation Costs	£11m to £14m
TOTAL	**£235m to £275m**

6. Among the projects planned for 2018-19, the below projects are crucial to deliver the EBITDAS target given that these projects will contribute with ca. £40m in-year benefit.

	2018-19 Investment	In-Year Benefit
Simplify the retailer proposition	**£61.5m**	**£11.8m**
- Further franchising DMBs	£22.8m	£1.6m
- Network Expansion	£18.7m	£2.0m
- Multi-year Crown Projects	£17.9m	£8.1m
- Self Service Kiosk Rollout	£2.0m	£0.1m
Build innovative, flexible and secure IT	**£33.8m**	**£7.3m**
- Branch Printer Replacement	£3.6m	£0.5m
- CDP re-procurement	£1.4m	£0.5m
- EUC Branch Deployment	£6.4m	£0.6m
- HNGT Lite	£1.8m	£0.9m
- PCI/Payments Hub	£2.5m	£0.2m
- Project Everest – Cloud enablement	£15.2m	£4.0m
- Project Nelson	£2.5m	£0.5m
- Software Asset Management	£0.4m	£0.1m
Modernise our products and services	**£19.7m**	**£17.1m**
- POMS Investments	£11.3m	£4.6m
- Project Galaxy	£4.8m	£11.6m
- Falcon – Travel Hub	£3.6m	£0.9m
Digitise and optimise the business	**£0.3m**	**£3.5m**
- Success Factors Ph1 Completion	£0.3m	£3.5m
Modernise our skills, culture, HR policies and processes	**£6.0m**	**£0.5m**
- Back Office Transformation	£6.0m	£0.5m
Group Litigation	**£9.0m**	**(£9.0m)***
TOTAL	**£130.3m**	**£31.2m**

* Group Litigation costs will be reported as exceptional spend and will not impact EBITDAS. Please see the appendix for YoY EBITDAS reconciliation.

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7. In addition to the above projects, there are further key investments to secure either the current income stream (income protection) or contribute to the future profitability beyond 2018-19.

	2018-19 Investment	Pro-Forma NPV
Simplify the retailer proposition	**£6.0m**	
- Agents/Postmasters Portal	£6.0m	TBD
Build innovative, flexible and secure IT	**£20.5m**	
- Full Thin Client Deployment (Solar Full)	£9.0m	TBD
- End-of-Life Replacements	£4.0m	TBD
- Risk & Resilience	£7.5m	TBD
Modernise our products and services	**£46.7m**	
- Identity Services Investments	£11.4m	£25.5m
- Banking Framework – Future of Cash incl. vehicles	£10.0m	£1.1m
- Mails Projects	£8.0m	£3.5m
- Falcon – Additional Verticals	£11.3m	£13.0m
- Property	£6.0m	TBD
Digitise and optimise the business	**£15.5m**	
- Enabling supply chain and back office improvement	£12.0m	£2.0m
- Project Arrow (BI Strategy)	£3.5m	TBD
Regulatory	**£4.0m**	
- GDPR	£4.0m	(£4.0m)
TOTAL	**£92.7m**	

8. The above project are currently either at their design stage or even initiation stage and therefore the NPVs are high level estimates. All these projects are subject to Investment Committee/Board approval before being kicked off.

9. The projects with in-year benefit (£130m) and further key investments (£93m) represents over 85% of the planned spend for 2018-19. The remaining is made up of smaller projects and are also subject to governance approval.

10. Current plan doesn't reflect Project Panther costs. If this materialises, the project will be self-funded.

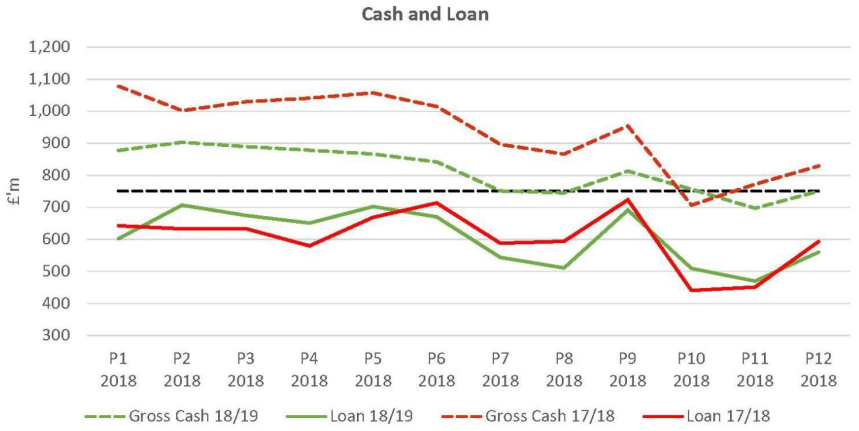
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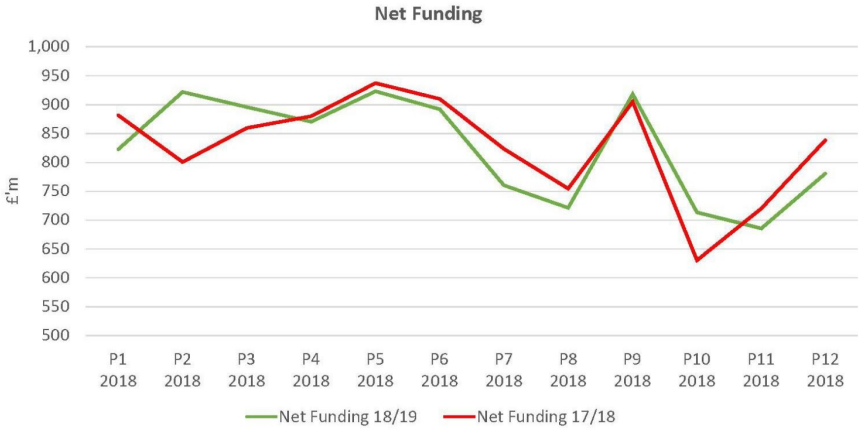
How are we proposing to manage the balance sheet in 2018-19?

11. The Balance Sheet, Cash and Headroom positions have been prepared and are subject to update following the final 2017-18 outturn position. The key assumptions made are:

- Government funding will be drawn down on a quarterly basis in line with the proposed spending pattern and there will be no significant fluctuations in spend profile vs. drawdowns.
- Banking Framework is assumed to require an additional £36m of cash in the network (future of cash paper is still in development)
- Branch holdings are reduced down to £486m, including the adverse impact of banking framework by end of next year vs. 2017-18 ytd avg. of £550m.
- Cash centre balances are held at current levels, subject to seasonal fluctuations.

12. The net inflow for the year is ca.£60m leading to a reduction in the net funding position. Month-end headroom is not expected to exceed the £750m threshold but as always will be tight over the Christmas period and will need to be closely monitored.





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2018/19 Budget

Al Cameron
27 March 2018

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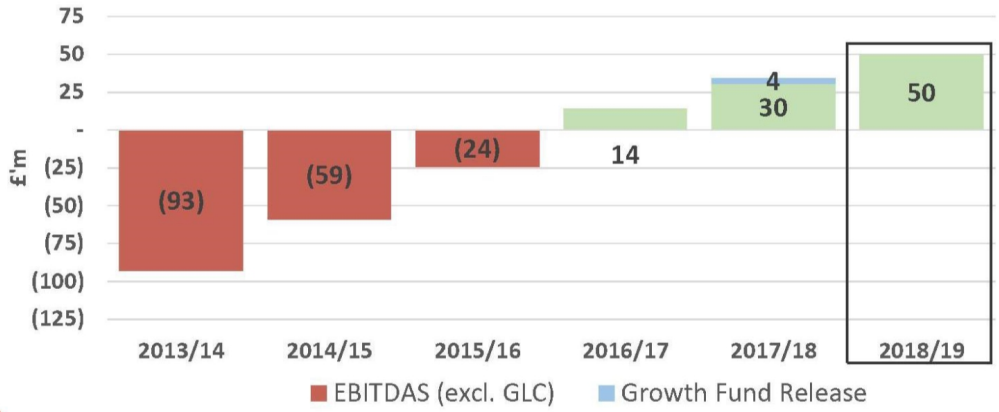
Overview

2017/18 Another year of progress:

- We continue to modernise, over 7,500 branches now modernised. These branches are delivering longer opening hours, more efficient ways of working and more attractive environments for customers in their local communities.
- Supply Chain rationalisation (Project Iris) implemented in early 2017 is now embedded into the organisation and settling down as BAU.
- Back Office Transformation continues with Phase 1 implementation ongoing and expected to complete in Aug 18.
- IT transformation continues with the network change to Verizon expected to complete by Mar 18 and Branch Technology upgrade in Aug 18.
- 3 year funding plan agreed and EBITDAS (excluding Group Litigation Costs (GLC) ahead of 2017/18 targets as we continue to deliver momentum towards commercial sustainability.

But trading conditions look challenging:

- £50m EBITDAS (£3m ahead of funding plan*) in spite of challenging trading conditions in Retail, Telecoms and Financial Services.
- 2018/19 will represent a year of stabilisation and delivery of key transformation projects as we set ourselves up to successfully deliver the next round of significant cost reductions in 2019/20.



* 3 Year Plan adjusted for known changes. See reconciliation on slide 7.

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As identified in the 3 Year Plan the Post Office still faces major challenges that must be addressed to secure its long-term sustainability

		Comment
Income is declining in our core markets with more work to do on costs	• **Government services, payments and traditional mails products are all facing downward pressure** due to the continued shift to alternative channels and growing competition . • While we have reduced costs significantly since 2012, because of legacy operating systems across the business we still have **more work to do to reduce costs** which otherwise drag on our profitability. • In the absence of further investment to complete the transformation we estimate that we **will revert back to an EBITDAS loss** of nearly £30m by 2020/21, compounded by the fire sale of assets to generate cash.	• Core retail revenues declining . • Detailed cost reviews ongoing • Budget assumes continuing investment spend in line with 3YP
Our digital capabilities are insufficient to meet consumer expectations and drive growth	• **Limited digital capabilities across our product range** , with no single view of customer. We are at risk of losing relevance to customers, with 60% of customers in our target segments saying they prefer to access services online. • This is particularly crucial for **financial services and identity, but even in mails** many customers want to be able to start their journey online, accelerated by developments like the roll out of eBay's online shipping platform.	• Customer hub launched in 2018/19 with marketing investment to support. Benefits expected in outer years.
We need to secure the right retailers to host our network	• **Retailers have more choice than ever** for ancillary services which range from self-serve coffee machines to parcel services. • **While retailers see the value of hosting a post office, for many this is offset by concerns** around the operational cost and complexity and the prospect of declining direct remuneration. • **These issues are creating the potential for network instability** , with 1,000-2,000 branches at risk over the next few years if we don't act.	• Continued network transformation and plan assumes delivery of c300 additional sites in 2018/19
Our major commercial partnerships need to be realigned	• We are **approaching the sunset years of the current contract with Royal Mail** , with an urgent need to work more effectively together to respond to intensifying competitive pressures. • The current relationship with **Bank of Ireland is no longer delivering decent growth prospects**, due to a combination of their balance sheet constraints and the wide ranging exclusivity which prevents us from working with new suppliers better equipped to support our commercial plans.	• Negotiations ongoing with Royal Mail around Simplification roll-out. • Plan currently assumes no agreement with BOI
Our IT systems need modernising to provide greater stability, security and flexibility	• The core operating system used in the branch network **(Horizon) was designed two decades ago** in a paper-based, non-networked world, and for a different purpose to the one we need today. • Both our branch and back office systems are at the end of their life, leaving us unsupported by suppliers or exposed to unacceptable cost demands and operational risks. We have suffered several significant service outages in recent months, and these incidents will continue if we do not invest.	• Back office transformation and branch technology roll out expected to delivery by Au 18. Significant IT cost savings included in 18/19

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Five strategic priorities address these challenges and complete the transformation

Strategic priority	Key initiatives 2018/19 – 2020/21	Investment 2018-2020 (£m)	Benefits & Outcomes	2018/19
Simplify the retailer proposition	• Simplification of product transactions and branch operations • Network expansion in urban areas to meet customer demand • Further franchising of DMBs (177 assumed in Plan) • Roll out of self service kiosks for agency branches, development of more flexible POS solutions (via HNGT) and the creation of an 'agent hub' to digitise and simplify services to postmasters	**£190 to £210m**	• **~£36m pa benefits by 2020/21** • Increased retailer demand for post offices, strengthening our ability to attract and retain the best agents (at lower remuneration). • A better network for customers, with more locations in areas of high demand.	C.£12m of benefits from transformation in plan.
Build innovative, flexible and secure IT	• Replace end-of-life branch hardware and invest in improving security and addressing recurring outages and system failures • Transition Horizon to cloud based architecture with increased business flexibility via development of 'thin client' • Restructure IT operating model to take back control of core functions at lower operating cost	**£80m to £90m**	• **~£23m pa benefits by 2020/21** • Operational risk profile shifted to within acceptable parameters. • Flexible IT architecture to enable better services for customers, agents and staff	IT program continues with £9m benefit.
Modernise our products and services	• Creation of integrated digital platform (the 'Customer Hub') to drive growth across financial services and our wider product range • Development of multi-channel mails services to deliver improved convenience for both SMEs and consumers • Investment in capabilities to lead the market in digital identity • Further expansion of the Banking Framework	**£90m to £110m**	• **~£31m pa benefits by 2020/21** • 10% of revenue base from new products & propositions, stabilising overall top line • Digital innovation used to improve every possible product transaction	Customer Hub, Identity Services & Banking Framework growth included
Digitise and optimise the business	• We will deliver a further 20% reduction in central staff costs by streamlining and automating key processes across the organisation and digitising our services to agents • Supported by transformation and replacement of back office systems to deliver improves processes and the MI our people need to run the business	**£30m to £35m**	• **~£16m pa benefits by 2020/21** • Our people are able to focus more of their time on serving customers and adding strategic value – not doing processes that are better performed by machines.	BOT ongoing in 18/19 with cost reductions from 19/20 planned
Trust our people to find the best way to do their jobs and help our customers	• Talent and career progression: provide an environment where our people have a chance to learn, grow and thrive, with the right succession planning and early career talent development. • Learning & Development: everyone who wants to learn and develop will be fully supported through a range programmes. • Reward and Recognition: attract and retain the talent we need.	**~£5m**	• **Underpins delivery of the above** • Culture and talent in place to deliver the next stage of the POL transformation • Improved staff engagement levels • 50% of senior roles filled by internal candidates	Review on going

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The 18/19 proposed budget delivers £50m EBITDAS. +£3m ahead of 3 Year Plan target

	2018/19 Bud	2017/18 P5F ^	Var P5F	% Var
Gross Income	**971.3**	**949.2**	**22.1**	**2.3%**
Direct Costs	(125.7)	(121.1)	(4.5)	3.8%
Net Income	**845.6**	**828.1**	**17.5**	**2.1%**
Net Margin	*87.1%*	*87.2%*	*(0.2%)*	
Agents Pay	(363.7)	(368.5)	4.8	(1.3%)
Staff Costs	(181.9)	(184.3)	2.4	(1.3%)
Non-Staff Costs	(283.8)	(276.0)	(7.8)	2.8%
Expenditure	**(829.4)**	**(828.8)**	**(0.6)**	**0.1%**
FRES - Share Of Profits	33.8	35.0	(1.2)	**(3.4%)**
EBITDAS (pre GLC)	**50.0**	**34.3****	**15.7**	**45.7%**
GLC	(9.0)	(2.4)	(6.6)	**275.0%**
EBITDAS	**41.0**	**31.9**	**9.1**	**28.4%**

Target Reconciliation

	2018 / 19
Per 3 YP	**40.0**
Project Costs into BAU*	2.0
GLC (per 5YP)	5.0
Target pre GLC	**47.0**
Board Challenge	3.0
2018/19 Budget	**50.0**

* 3 Year Plan approved by the Board included a £5m adjustment for project costs moving into BAU. Net adjustment in 2018/19 is £3m leading to the "target" being increased by £2m.

^ P5 Forecast updated to reflect assumed release of Growth Fund £3.9m.

** Latest view on 2017-18 EBITDAS is £36m and overperformance vs budget is due to underspend in growth fund and increase inBoI profit sharing which will not recur next year.

Gross Income

- Revenue growth 2.3% despite continuing pressures in Retail underlying trading, Telecoms pricing pressures (Ofcom) and removal of the profit share agreement with Bank of Ireland.

Direct Costs

- Growth in costs driven by Telecoms and Government Services growth. Slight margin decline.

Agents Pay

- Reductions in agents pay with simplification savings offsetting incremental costs from franchising DMB's. Changing revenue mix drives year on year improvements.

Staff Costs

- 3.0% payrise assumption impacts by c.£5m partially offset by £3m pension saving.
- £8m benefit from franchising DMB network (offset by increase in agent pay)
- £4m Incremental investment to fund skills gaps identified.

Non Staff Costs

- Marketing and growth spend, including a £10m growth fund (2017/18 estimated to be c.£5m) and £5m of incremental marketing year-on-year.
- Significant IT cost reductions of c.£10m.
- Increase in regulatory costs from POCA £6m and £2m card processing.

FRES

- Reduced trading performance due to AML regulations.

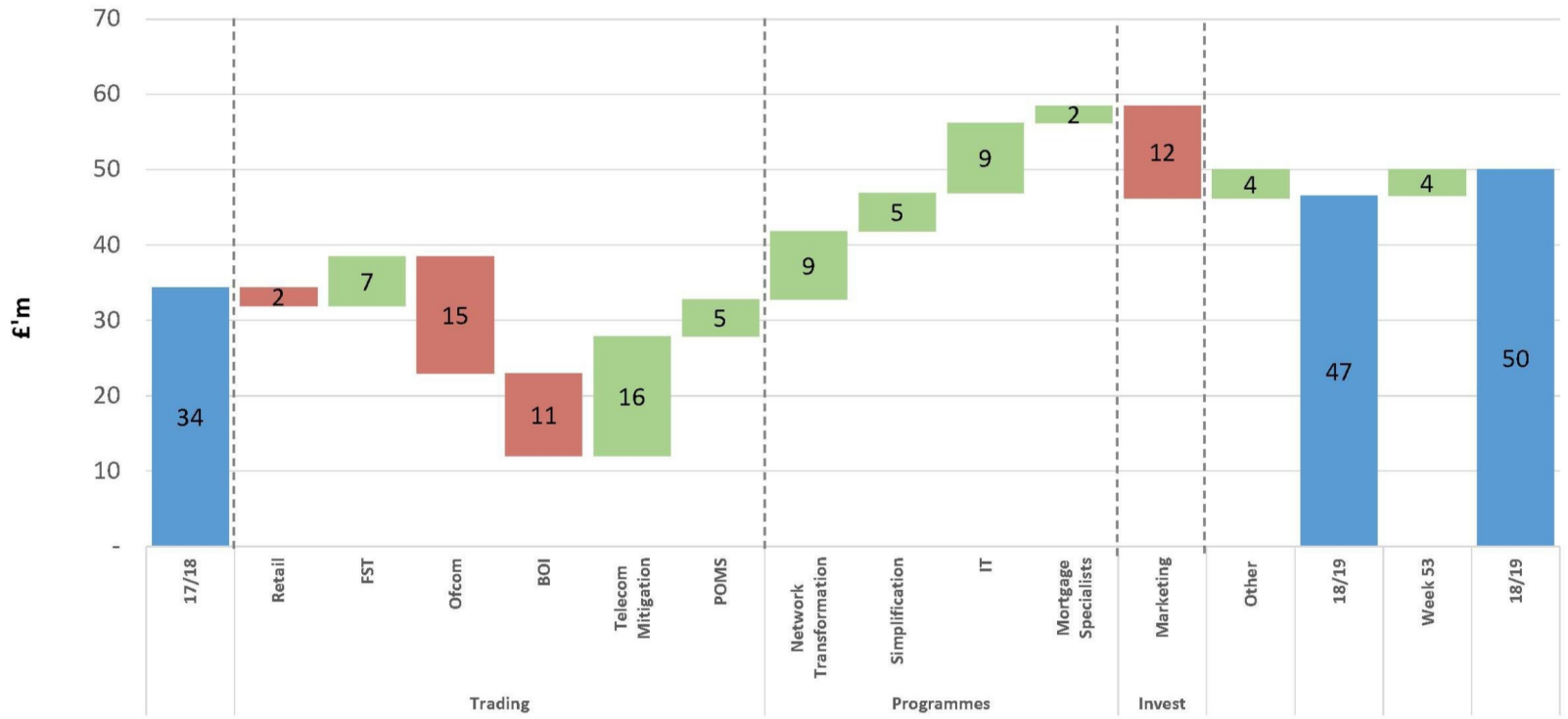
Group Litigation Costs

- Excluded from targets. Costs anticipated to be £7-£9m in 2018/19.

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£16m year on year EBITDAS improvement achieved against significant trading challenges



- £7m growth from FST including growth from Banking Services due to inflationary increases and continuing growth in Banking Framework
- £15m potential impact of Ofcom price reduction offset by volume growth and mitigating actions.
- £11m BOI value share and guaranteed income excluded from 2018/19 (currently under negotiation).
- Network Programmes deliver £14m of improvement – Network Transformation £9m and Simplification £5m.
- Transformation of the IT cost base continues with significant year on year savings delivered.
- Savings from Mortgage Specialists with announcement in January.
- £12m of incremental marketing costs (inc. Growth Fund) and £2m increase in marketing headcount.

Note: £34m is 2017/18 anticipated outturn as per the P5F adjusted for £2m impact of GLC and £4m anticipated release of the Growth Fund.

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Key income drivers, initiatives & investments in 3 Year Plan

	Mails	Identity & Government Services	Banking services	Payments
Key drivers	• Traditional mails volumes declining by 2-3% pa due to increased digitisation and competition. Our plan seeks to offset this by tapping into faster growing segments of the parcels market as set out below. Overall income also held up by RPI linked fee mechanism with RMG.	• Legacy services in continued decline, with net income from POCA, DVLA, UKVI & passports declining from £62m to £33m. Plan partly offsets this with growth in digital identity.	• Continued bank branch closures (nearly 500 in 2017 alone) and increased awareness of Banking Framework driving growth of c5% pa.	• Traditional bill payments market declining by >5% pa due to shift to alternative channels, although our strategy seeks to drive outperformance vs the market.
Key initiatives	Up to £40m invested to strengthen our network coverage and multi-channel capabilities, including through: • **Drop & Go:** growing the SME user base and improving the online service with additional features like loyalty discounts. • **Click & Collect:** improving the customer journey for parcels collections and potentially extending to other carriers and platforms. • **Multi-channel expansion and eBay integration:** enabling customers to start transactions online and complete in branch, and potentially selling RMG tracked services directly through our own digital channels.	• **Launch of Digital Check & Send for passports:** improving the customer journey and supporting HMPO's aim to remove paper. Delivers c£12m income by 2020/21. • **Identity services:** building the UK's digital identity market to improve security & convenience for customers and reduce costs for clients. Underpinned by c.£20m investment in digital platform and in-branch technology.	• **Further enhancements to the Banking Framework:** ongoing programme of product innovation, such as quicker deposit processes for business customers. • **Discussions underway with major banks around further extensions to the Banking Framework** to support more radical reconfiguration of their network, which would necessitate additional investment and financing arrangements.	• **Targeting large clients directly and enabling the technical capability** required to leverage growing segments such as pre-pay smart metering and transport ticketing. • **Project Panther** currently being assessed – seeks to accelerate improvements to our network, retailer technology & product range (£15-20m investment). • **ATMs:** new contract required during Plan period – options under review.
Risks	• Significant uncertainty associated with both the pace of market developments (e.g. shift to eBay shipping platform) and the outcome of negotiations with RMG – impact of these events could worsen mails income by £10-30m pa by 2020/21.	• Up to £15m pa profit at risk by 20/21 if identity market does not evolve as planed. • Potential for additional regulatory costs of £5-10m pa on POCA.	• New framework agreement needs to be negotiated with the banks before the end of the plan period, presenting both risks & opportunities.	• Bill payments income and volumes subject to significant binary risk associated with winning large client contracts against intense competition.

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Key income drivers, initiatives & investments in 3 Year Plan

	PO Money	POMS	Telecoms
Key drivers	• Bank of Ireland balance sheet constraints and alignment of incentives are the major factors influencing outlook for PO Money product range – currently assuming £7m income drop from savings. Offset by investment in own capabilities (see below). • Plan assumes we maintain our c25% share of a broadly flat travel money market.	• Against the backdrop of a competitive market, POMS plan seeks to deliver c£20m profit increase by 2020/21, by building on the investments to date to increase control of the value chain, retain more value and improve distributional capabilities.	Fixed line net income – traditionally the mainstay of the PO telco business – is set to decline, not least from impact of Ofcom interventions. Our plan seeks to offset this through growth in new products & customers.
Key initiatives	• **Negotiations with Bank of Ireland ongoing,** with aim to recalibrate FRES value share, establish greater product sourcing flexibility and align sales incentives. Outcome currently uncertain (*see Sept 2017 Board paper for further detail*). • **Building the digital platform ('Customer Hub')** required to support our future growth in financial services and other B2C product lines, delivering an integrated proposition to customers to meet their needs. Requires investment of c£30m over the period. • **Developing the product and proposition roadmap** to put through the new platform, starting with those which are already within our control like travel, identity & insurance. Intention to launch retail investment products in 2019.	POMS strategy review underway, reporting to POMS Board in Nov 2017 – assessing range of options for driving growth: • **Further increasing control over end-to-end product delivery** to improve value capture, including by re-negotiating (or exiting) the arrangement with JBF (the intermediary for motor & home insurance). • **Deepening capabilities in pricing management, digital sales and analytics**, leveraging the investment in the wider Customer Hub. • **Potential acquisition opportunities** to broaden distribution reach and move into MGA / underwriting capabilities.	• **Improving the efficiency of the current operations**, driving higher yield from more efficient targeting of existing customers, channels and pricing propositions. • **Broadening the customer reach** to appeal to new customer segments, leveraging the investment in the Customer Hub. • **Expanding the product portfolio** to capture greater revenue and increase retention rates – potentially including TV, energy and mobile.
Risks	• Inevitable uncertainty around our ability to gain traction in new product areas like investments (forecast to generate £8m pa revenue by 20/21). • As indicated above, relationship with Bank of Ireland is the key swing factor over the plan period, with both risks and opportunities against our baseline forecast.	• POMS plan is predicated on ambitious profit growth – a combination of external factors (regulation, Competition, macroeconomics) and internal capability dependencies could put some of this £20m growth at risk. The impact of Russet (£2.3m) and funding of additional central marketing costs are included.	• Precise impact of Ofcom review of landline pricing currently unknown - could add £5-10m pa risk. • Broadband market remains subject to intense price-led competition.

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Key 2018/19 planning assumptions

- **Bank of Ireland –** No value share included (targets would change dependant on outcome of negotiations). Prior year forecast had c.£11m impact.
- **VAT** – 9% irrecoverable rate assumed, no change from 17/18.
- **Inflation** – Where possible specified contract terms used, if not CPI at 2.6% used.
- **Interest** – assumes rate remains constant
- **Pay rises** – c.£5m budgeted (3%).
- **Bonuses (inc. NI) –** LTIP (£1.6m) and STIP (£16m) budgeted on a consistent basis with 2017/18

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£22m (2.3%) YoY increase in Gross Income despite significant reductions due to Ofcom pricing impact and no Bank of Ireland income support.

£m	2018/19 18/19	Var 17/18	% Var	2017/18 17/18	Var 16/17	% Var
Mail Trading	288.4	16.0	5.9%	272.3	5.4	2.0%
Mail Non-Trading	55.8	(4.0)	(6.7%)	59.8	(5.9)	(9.0%)
Retail and Lottery	39.0	(5.2)	(11.7%)	44.2	(2.1)	(4.5%)
Payment Services	58.0	0.0	0.0%	58.0	(7.6)	(11.6%)
Government Services	86.4	(5.8)	(6.3%)	92.2	(22.0)	(19.3%)
Total Retail	**527.6**	**1.1**	**0.2%**	**526.5**	**(32.2)**	**(5.8%)**
Post Office Money	99.5	(7.9)	(7.4%)	107.4	(10.0)	(8.5%)
Banking Services	97.0	10.7	12.3%	86.3	19.0	28.1%
Telecoms	162.8	13.2	8.8%	149.6	19.5	14.9%
Postal Orders	12.3	(2.2)	(15.3%)	14.5	(4.0)	(21.7%)
Other Income	(0.3)	(1.5)	(127.8%)	1.2	(0.1)	(5.6%)
FS&T	**371.3**	**12.2**	**3.4%**	**359.1**	**24.3**	**7.3%**
POMS	57.9	8.7	17.8%	49.2	6.1	14.3%
Supply Chain	10.9	0.0	0.0%	10.9	(1.2)	(9.6%)
Other Income	3.6	(0.0)	(0.7%)	3.6	(0.2)	(4.0%)
Total Revenue	**971.3**	**22.1**	**2.3%**	**949.2**	**(3.0)**	**(0.3%)**

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Retail: Mails Trading and Verify growth offsetting continuing declines in Fixed Fees, Retail and Lottery

£m	2018/19 18/19	Var 17/18	% Var	2017/18 17/18	Var 16/17	% Var
Parcelforce	21.6	2.0	10.3%	19.6	1.2	6.4%
Special Delivery	50.4	1.6	3.3%	48.8	(1.0)	(2.0%)
International Priority & Standard	37.5	2.4	6.9%	35.1	24.9	243.6%
Stamps (1st & 2nd)	22.1	(1.0)	(4.2%)	23.0	(2.3)	(9.3%)
Labels (1st & 2nd Class)	95.2	4.5	5.0%	90.7	4.0	4.6%
RM Signed For	24.3	1.5	6.4%	22.8	0.0	0.0%
Home Shopping Returns	21.6	4.6	26.8%	17.0	2.9	20.6%
Other Trading	15.8	0.4	2.8%	15.3	(24.2)	(61.2%)
Total Mail Trading	288.4	16.0	5.9%	272.3	5.4	2.0%
Fixed fee	45.8	(4.0)	(8.0%)	49.8	(2.9)	(5.5%)
Mailwork & Mails non trading	10.0	(0.0)	(0.0%)	10.0	(3.0)	(23.1%)
Total Mail Non-Trading	55.8	(4.0)	(6.7%)	59.8	(5.9)	(9.0%)
Retail (Inc Gift cards & Other)	11.2	(3.1)	(21.9%)	14.3	0.6	4.3%
Lottery	27.8	(2.0)	(6.8%)	29.8	(2.7)	(8.3%)
Retail and Lottery	39.0	(5.2)	(11.7%)	44.2	(2.1)	(4.5%)
Payment Services	26.8	0.5	2.0%	26.3	(6.3)	(19.4%)
ATM	31.2	(0.5)	(1.6%)	31.7	(1.3)	(3.9%)
Payment Services	58.0	0.0	0.0%	58.0	(7.6)	(11.6%)
Motoring Services	6.2	(0.2)	(3.1%)	6.4	(1.9)	(22.4%)
Card Account	39.1	(3.1)	(7.3%)	42.2	(19.0)	(31.1%)
Passport Services	14.5	(6.6)	(31.3%)	21.1	(1.4)	(6.2%)
Digital ID Serv UKVI & Asylum	13.0	(1.0)	(7.1%)	14.0	(0.1)	(0.7%)
ID - Assurance (Verify)	12.9	5.1	66.3%	7.7	2.1	37.9%
Other Government Services	0.7	(0.0)	(5.1%)	0.7	(1.7)	(70.4%)
Government Services	86.4	(5.8)	(6.3%)	92.2	(22.0)	(19.3%)
Total Retail	**527.6**	**1.1**	**0.2%**	**526.5**	**(32.2)**	**(5.8%)**

Mail

- Overall trading flat with favourable variance driven by RPI increase and additional week.
- Fixed fee £4m decrease split between contractual efficiencies and Annual Count reduction.
- Royal Mail request for changes to Mailwork pricing to be mitigated and will not impact 18/19 income.

Retail and Lottery

- Retail sales impacted by DMB closures offset by new WHS contract.
- Camelot lottery sales declines by 9.5%.

Payment Services

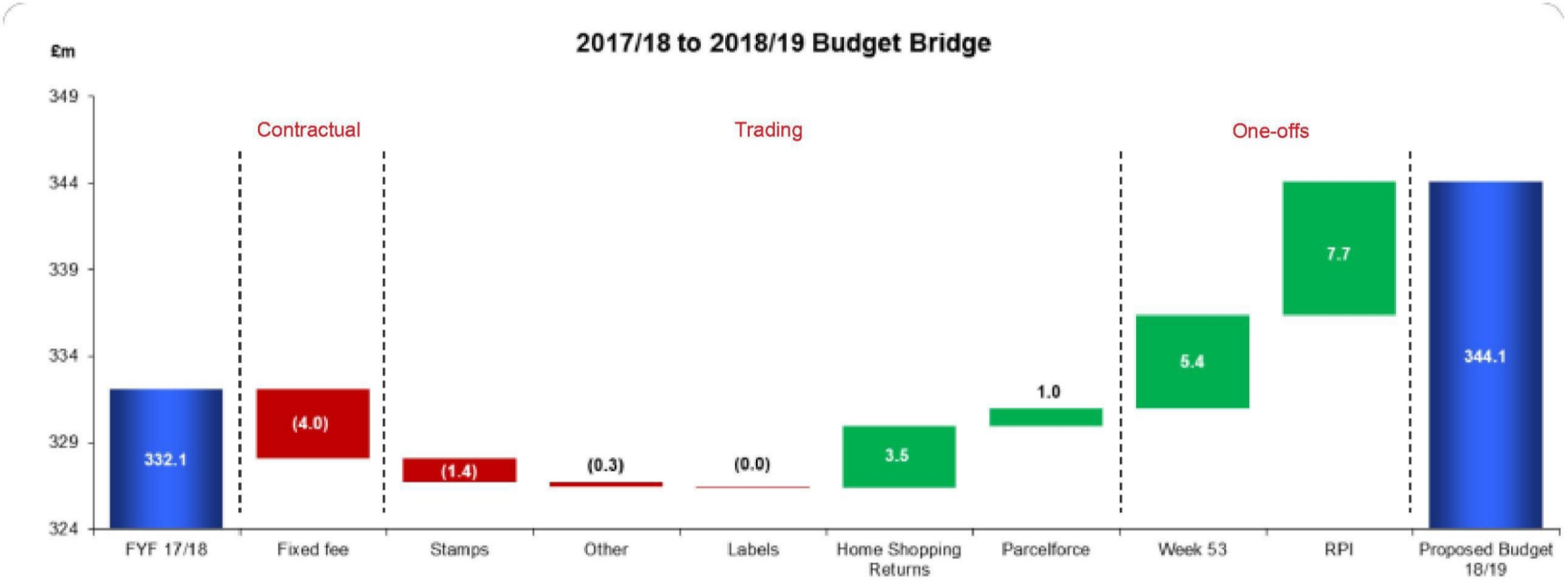
- HNGT Lite & new contract opportunities offsetting payments decline.
- POCA decline reduces ATM usage. Improvements in availability to 96% embedded in 2018/19.

Government Services

- POCA interest gains partly offsetting volume declines
- Passports decline led by HMPO announcement on differential pricing that makes online applications cheaper.
- Verify expecting consistent YOY volume growth vs. latest view of 17/18 exit

POL00027257

Mails: Fixed fee reductions offset by RPI increases. Growth driven by home shopping returns ad Week 53.



Decline Items

- Fixed fee reduction includes efficiency £(2)m and annual count £(2)m. No reduction in Mailwork fees budgeted.
- Stamps declining by 6% in line with volume YTD trend.
- Labels include 1st class £(0.4m) and 2nd class +£0.4m trending in line with volumes YTD.
- Other includes; special delivery £(0.8m), signed for +£0.3m, acceptance £(0.3)m and international +£0.6m.

Growth Items

- Home Shopping Returns increasing 21%, reflecting growth slowdown from latest 22% trend and broader industry trend slowing.
- Parcelforce increasing 4% in line with volumes YTD trend. Parcelforce confirm Rewards4U promotion will continue.
- RPI rate assumed in budget was 4% (RPI-1% applied to calculate contractual rate increase).

POL00027257

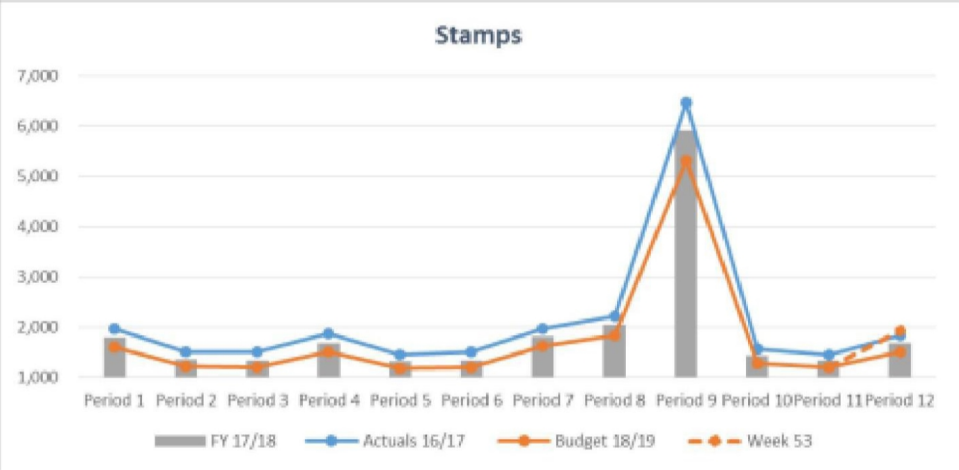
Mails: 5 priority initiatives to defend income and build improved customer journeys as part of our strategy to be No 1 in mails and parcels

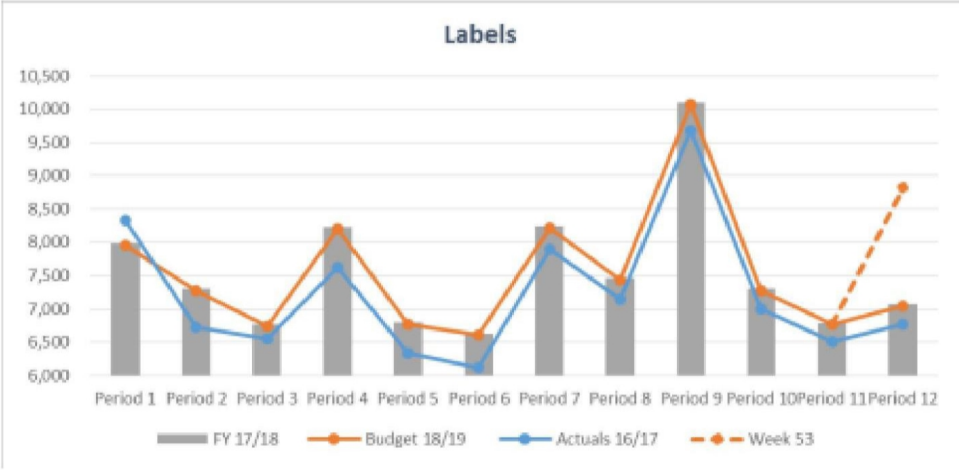
- 2018/19 Mails initiatives are focused on retaining core income and profit streams in the marketplace segment while preparing for the imminent renegotiation of the MDA with Royal Mail.
- This includes proactive creation of optionality in the Click and Collect market inline with our strategic ambitions, and ensuring we are able to react to the possible inflection point created by Royal Mail's response to eBay's shipping platform.
- The scale and phasing of some initiatives have been revised as our strategy has progressed this year

Initiative	What?	Why?	How?	Costs	Benefits
Mails Strategy	Preparation, execution and implementation of MDA renegotiation including POL NBA	To secure new agreement with RM from 2020 that delivers best value for Post Office	Continued funding of dedicated project team and specialised resource. Includes provision for legal and implementation costs	**£3.4m** reduced from £4.9m (exceptionalised)	Secure mails income of **~£330m** p.a. for next 10 years
Small Business Club/Drop & Go	Continue technical development of Drop & Go and create of a dedicated small business CRM programme	High volume marketplace sellers account for ~£60m of POL parcels income and are vulnerable to competition & online	Upgrading Drop & Go platform to reduce user attrition, provide user visibility & MI allowing direct communication & incentive programme	**£2.2m**	**£1.2m p.a.** recurring income retention (**£0.5m EBIT**)
Click and Collect	Increase POL's market share from 6% to 31% by 2025.	Defend core mails by preventing competitor building brand and user awareness & grow income stream	Improve existing customer journey and extend network to increase capacity and convenience including possible automation	**£3.6m**	**£22m pa** incremental income by 2025 DPC at 22% = £5m
eBay/Online	A range of responses to secure POL's relationship with high value e-Bayers depending on speed and scale of customer migration plus RM's response	RM new Tracked Online service & eBay shipping platform challenges POL high value sellers transactions	Range from dedicated eBay role to acquisition of full online sales and pcw platform. Includes POL building RM Tracked online journey on horizon	**£4.6m** (£15m exceptional deferred until trigger points reached)	Minimises risk of **~£16m** pa income (**£6.5m** EBIT) loss by yr 3 (from volume loss or rate dilution)
Multi-channel customer journey	In branch preparation to accommodate online or part online customer journeys	Some changes may be required in customer journeys, dependent on the response to eBay above	Options include prepare online, complete in branch, in branch printing	**£0.2m** seed funding £5m capex deferred to 2019/20	**Retain £6-9m p.a.** income (**£2.5 -3.6m EBIT**) by 2021/22 based on RM joint strategy

POL00027257

Mails and Income Graphs







Stamps – Continues to decline 7% YoY (excl. Christmas) due to e-substitution and overall market decline. UK letters market decline is (5)% including high volume business mail (statements and direct mail. (Note: RPI formula doesn't apply to Stamps).

Labels – YoY income broadly flat with 1% decline in 1st class volumes and flat 2nd class volumes.

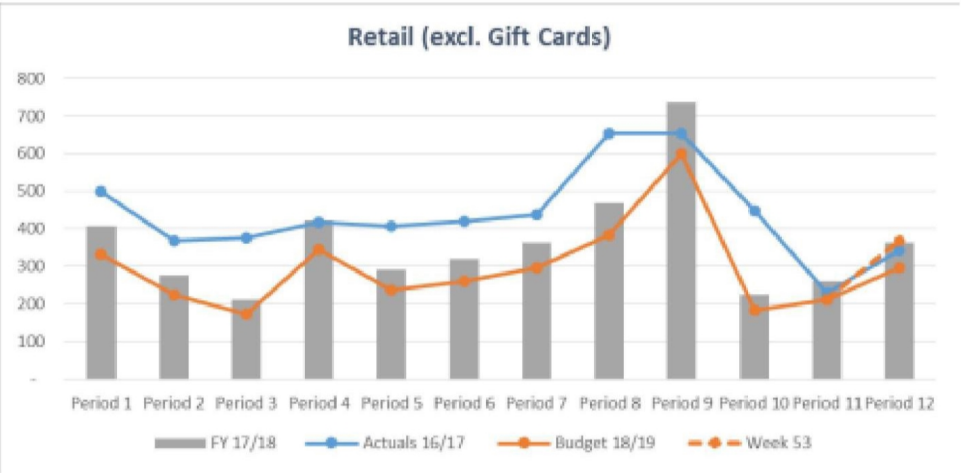
2017/18 volumes have held up despite challenges from Hermes and eBay price promotions and RM's channel strategy (online price differential and delivery confirmation)

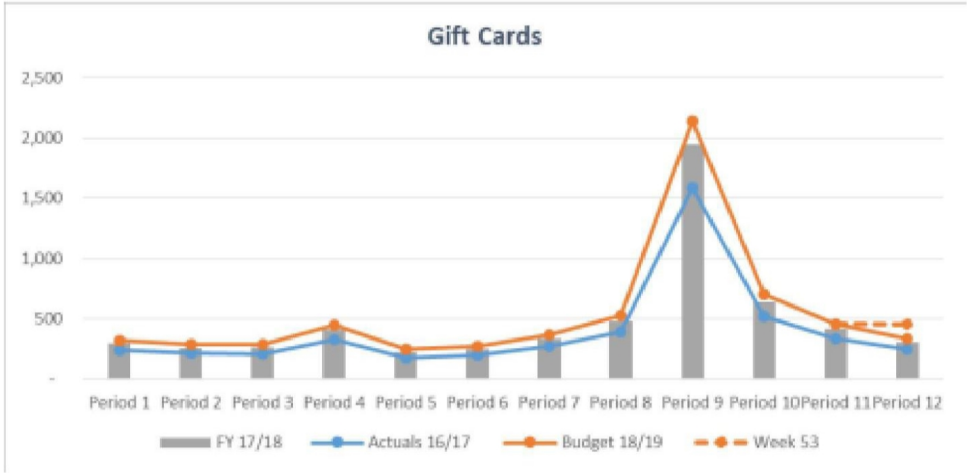
Labels remains the main area of risk and opportunity going forward with substantial challenges deferred from this year.

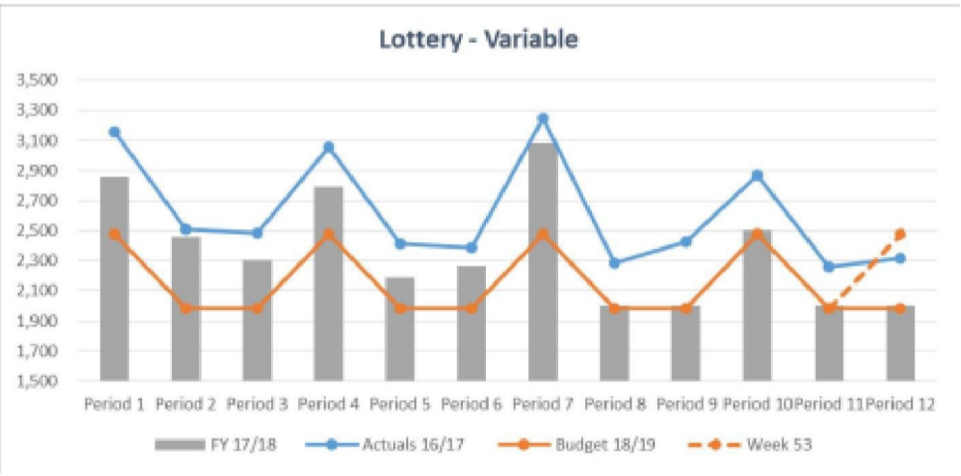
Home Shopping Returns - Continues to grow +21% inline with UK online sales. Retailers facing growing economic pressure to reduce paid for returns are challenged by growing customer expectation and competition offering improved returns and refunding experiences

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Continuing decline in Retail and Lottery. Gift cards continue to grow over and above market.







Retail (Includes Photo-Me booths) - decline driven by DMB closures (23 residual from 17/18 and 38 planned for 18/19). Retail sales income reflects the new WHS contractual arrangement and assumes a sales uplift of 40% due to new fit out and product range. c.£3m reduction in revenue and cost of sales (minimal EBITDAS impact) as we move to recognising commission only.

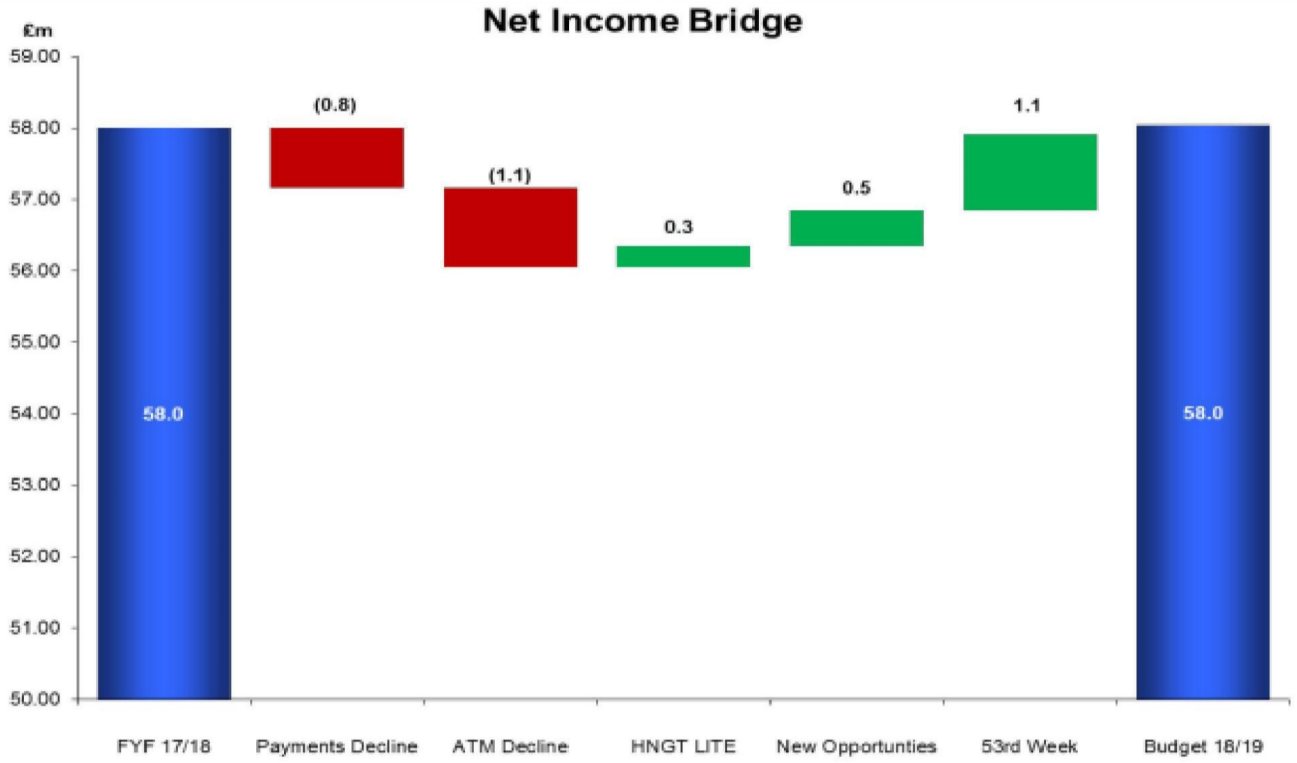
Gift Cards – Continues to grow +10% YoY above overall market growth (5% in 2016).* Predicted slowing of growth due to Amazon's departure.

Lottery Variable – Continues to decline 8% YoY based on prior two year average trend. The fixed fee for Camelot is assumed the same but is subject to a new mechanism based on our success in audits of prize payout tickets.

*Source: UK Gift Card & Voucher Association 2016 Summary H2

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Payment Services: ATM declines from POCA volume reductions offset by increased availability and HNGT Lite.

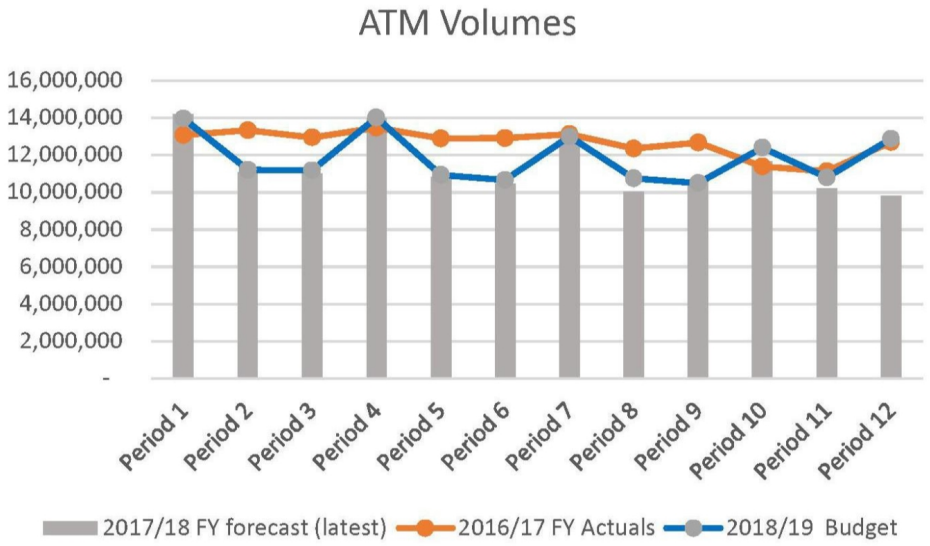


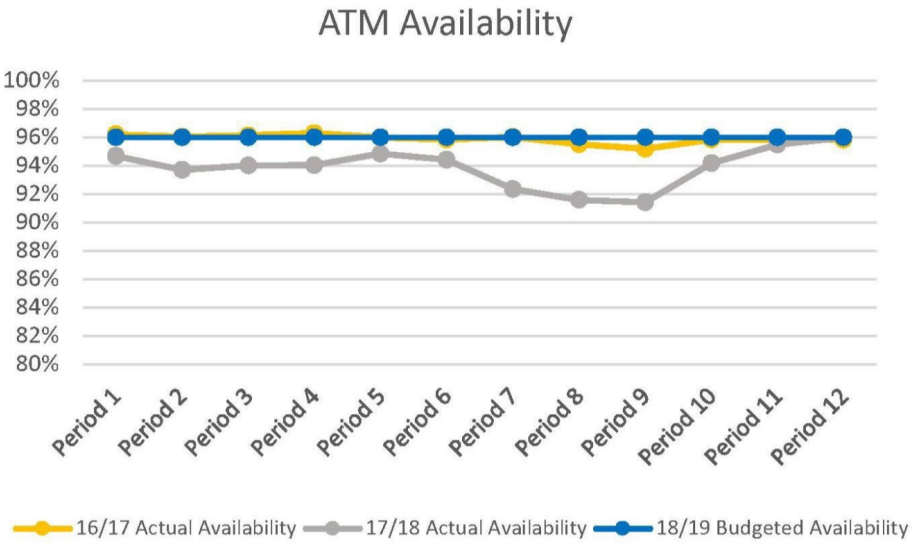
Key Items

- Direct Clients budgeted at 8% YoY decline & reseller a decline of 6%. Currently both direct and reseller volumes are declining at 9% YoY.
- Payment Services are expected to generate 102.5m (Bill Payments 95m + mobile top up 5m + 2.6m HNGT) transactions for 18/19 vs 104.4m in forecast.
- Decline in ATM resulting from a decline in POCa volume of (3.5)m withdrawals, partially offset by improved ATM availability from 94% to 96% which increases withdrawals by 2.8m YOY.
- HNGT Lite business case assumes annual benefits of £2.3m, of which £0.3m will be realised in 18/19.
- New Opportunities includes; Allpay exclusive £0.2m, smart £0.1m & payout £0.1m & BT payout £0.1m.

POL00027257

ATMs £(0.5)m Income driven by 10% volume decline





- Decline in ATM resulting from a decline in POca volume of (3.5)m withdrawals, partially offset by improved ATM availability from 94% to 96% which increases withdrawals by 2.8m YOY.

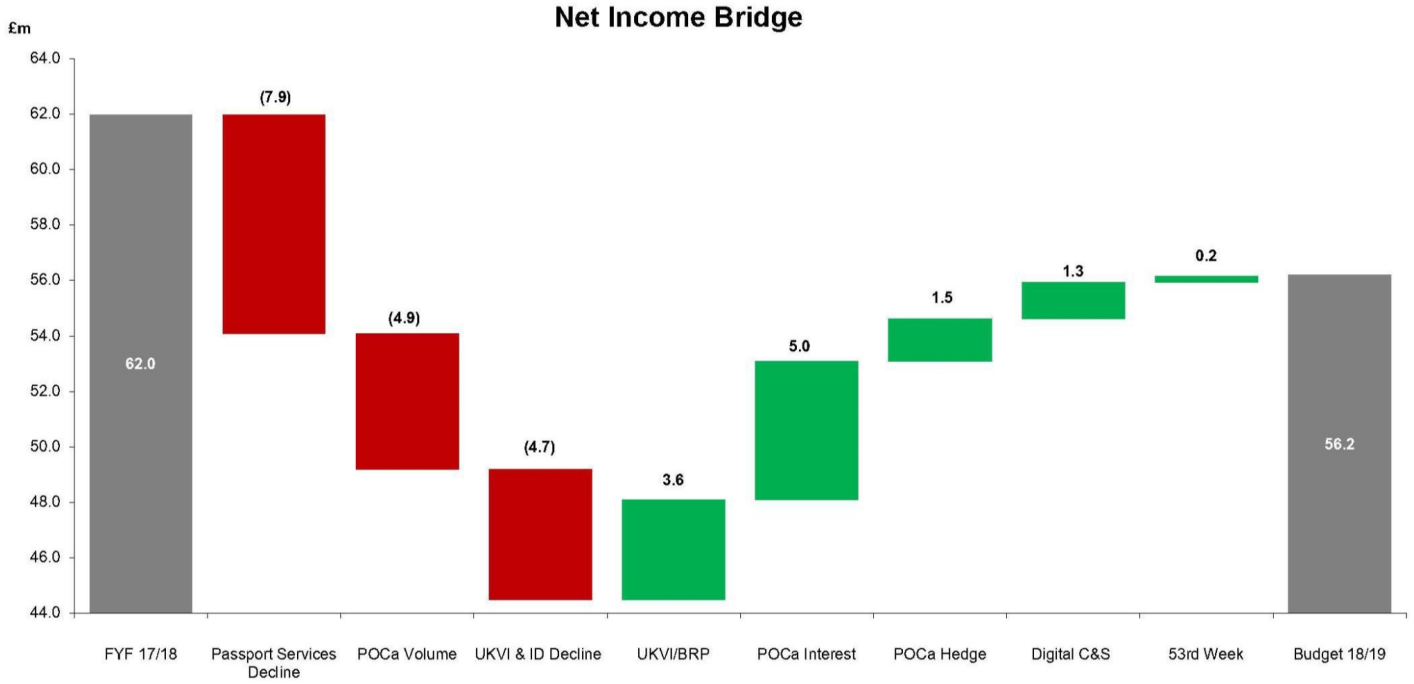
Availability issues:

- Of 2,370 live ATMs 2,110 are transacting at average availability of 98.2% (i.e. 2.2% above 96% target) @ P10 17/18
- The remaining 260 ATMs have been experiencing average availability of 65%. This is primarily being driven by a high number of cash dispenser faults and cash jams following the introduction of polymer £10 notes.
- YoY reduction (10%) is driven by POCA (3.2%), Out of Grounds ATM (2.6%) , Reduction in cash transactions (2.3%), Service issues (2%)
- 18/19 volumes will be supported through (i) service levels to remain above 96% target, (ii) £5 note dispense on additional 300 ATMs and (iii) 50 external ATMs to be installed in WHS

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Government Services (excl. Verify) continues underlying decline. Interest and hedge benefit from POCA offset declines but also impacted by additional regulatory costs

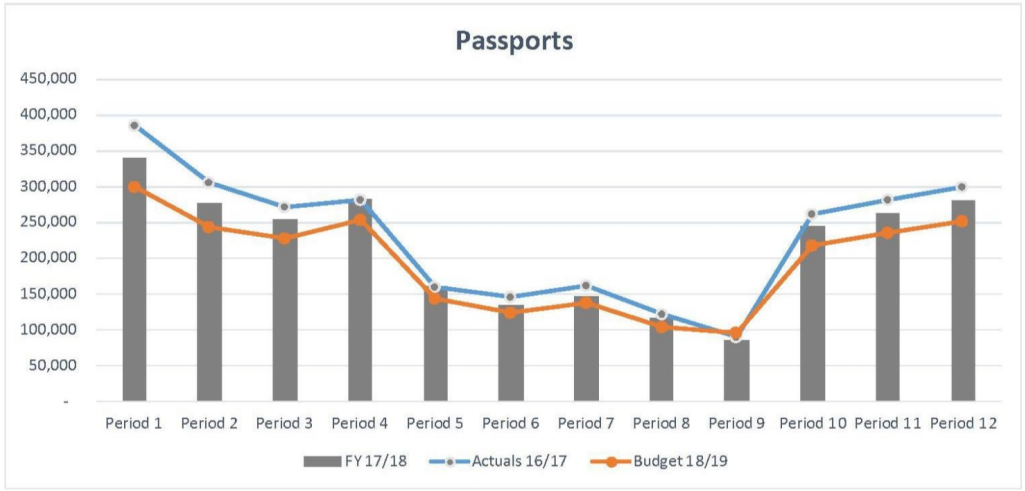


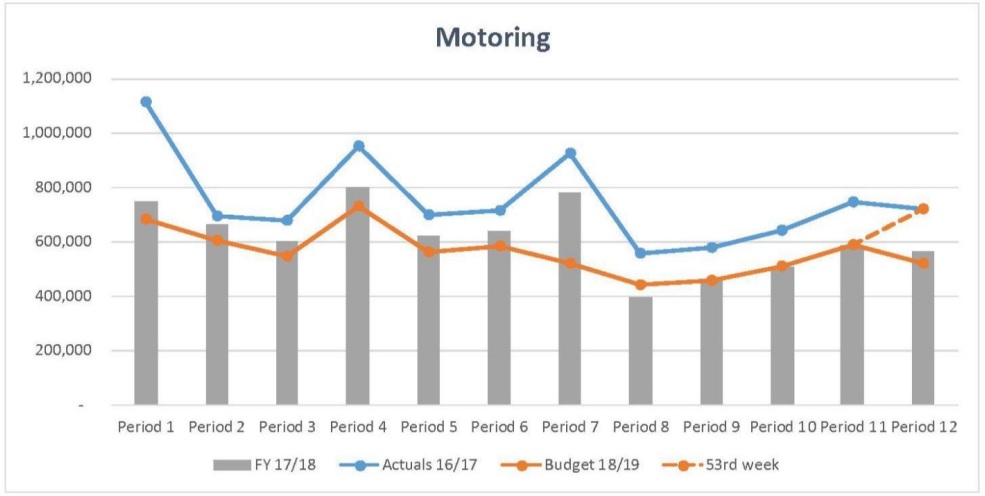
Key Items

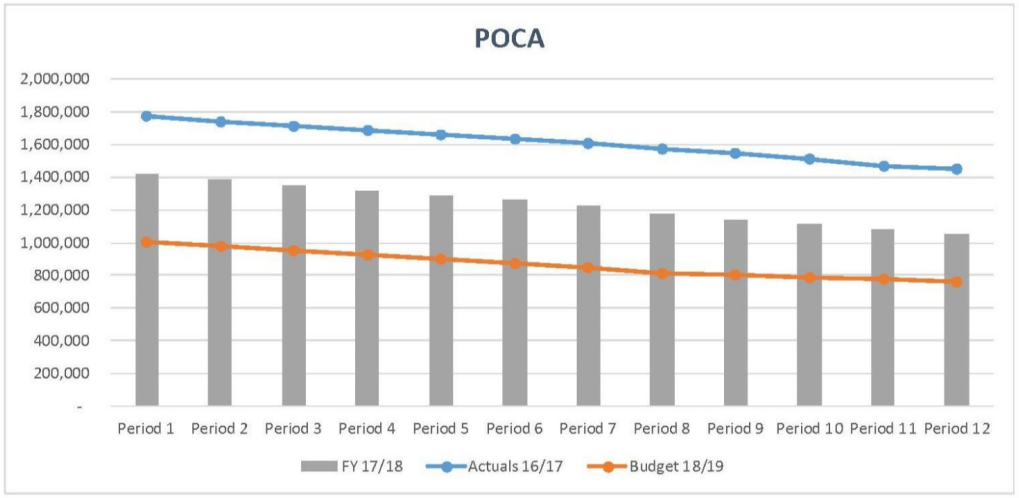
- Assumed decline of £(6.5)m for Home Office pricing announcement. Continuation of current YOY run rate of 7% decline £(1.4)m.
- POCa Active accounts are dropping YoY by 30% due to DWP migration of customers onto basic bank accounts £(4.9)m, income from overnight balances is up YoY by £5.0m due to the uplift in LIBOR rate in Nov 2017 (following BoE increase in base rate).
- Current UKVI contract due to expire October 18, expected to delay until December 18 £(1.9)m, partially mitigated by £0.3m from winning the new Front End Service. Annualised volumes will decrease from 400k to 50k, with a price change from £16 to £25 per transaction. SIA and Secure Collect contracts expire in July18. Budget assumes that will extend for a further year mitigating £1.7m net income exposure.
- Planning to enter a 3-year interest rate swap, Libor hedged at 0.725% across the period. Assumption that actual Libor will be at 0.5% in April 18, increasing to 0.6% in March 19, resulting in annual hedging gains of £1.5m.
- Digital Passport implementation P7 onwards £0.8m, with assumption of 50/50 split of volume paper to digital.

POL00027257

Government Services Income Graphs







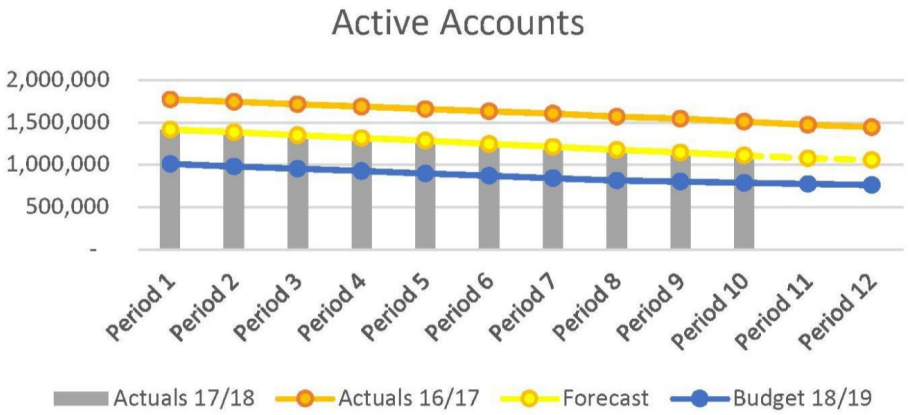
Passports - Budget has been revised and shows a year on year decline of 39%. The key driver of change is the HMPO announcement on differential pricing that makes online applications cheaper than those made through check and send. This change comes into effect at the start of the new financial year and will therefore impact branch volumes.

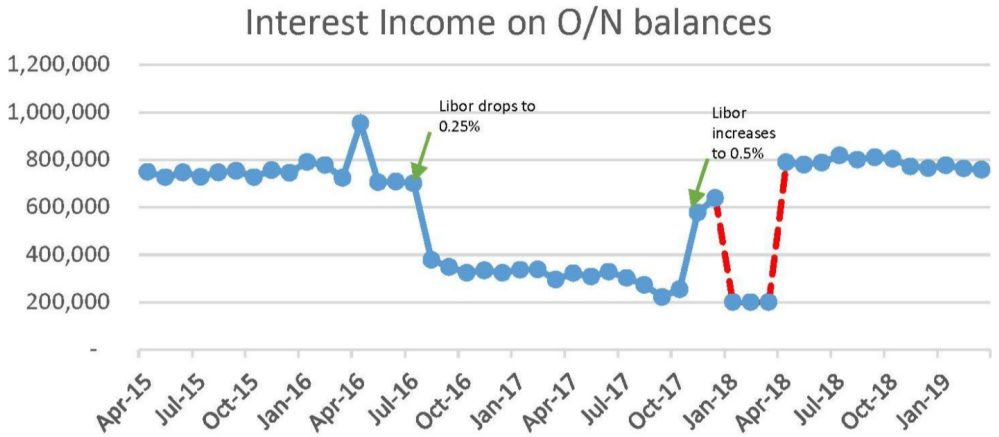
Motoring - volume decline is planned at 9% YOY, in line with current performance and reflects the slow down in decline over the past two years. The volume decrease is prominently led by tax discs, 10 year renewals are planned to remain static.

POCA - volumes are planned to continue to decrease steadily as account holders are migrated onto bank accounts.

POL00027257

POCa – Income 30% volume decline offset by £6.5m Interest uplift following interest rate increase in Nov 17. (Note: No changes to interest rates have been assumed in 2018/19)

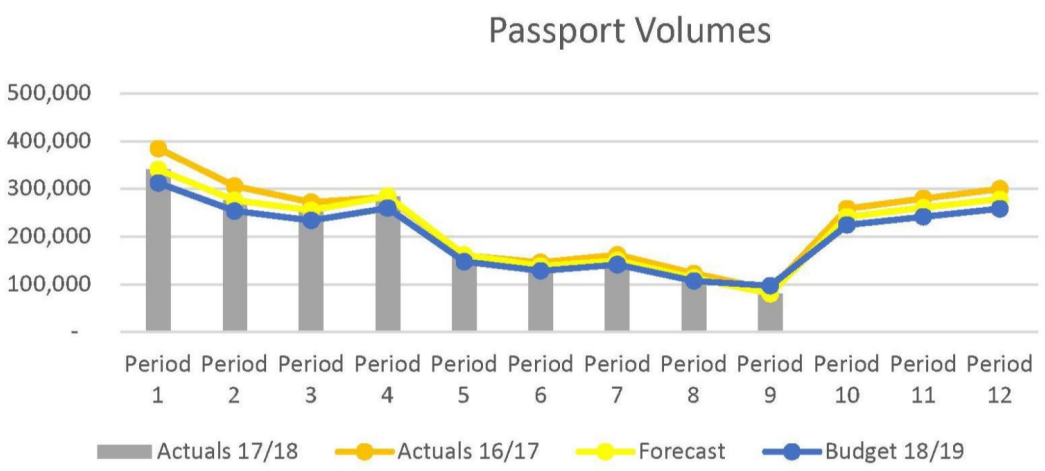


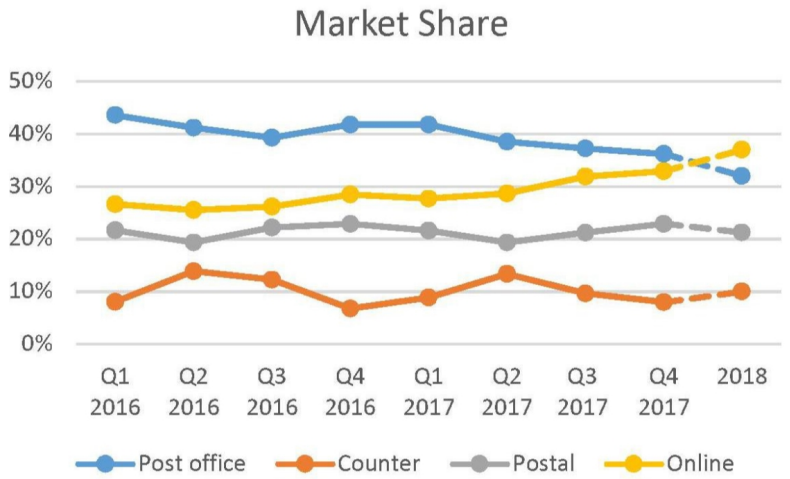


- Active accounts are dropping YoY by 30% due to DWP migration of customers onto basic bank accounts. The rate of migration has been less than DWP targeted and therefore they have started to target young pensioners as well as working-age customers. This will continue throughout this year as they attempt to hit their target of 720k customers (they are currently about half way through).
- Income from O/N balances is up YoY by £5m due to the uplift in LIBOR rate in Nov 2017 (following BoE increase in base rate) and additional £1.5m from the interest rate swap (approved by ARC).This is also helped by total balances remaining higher than originally forecast although this is expected to return to forecast as pensioners are encouraged onto other products.

POL00027257

Passports £(0.7)m Income driven by 7% volume decline





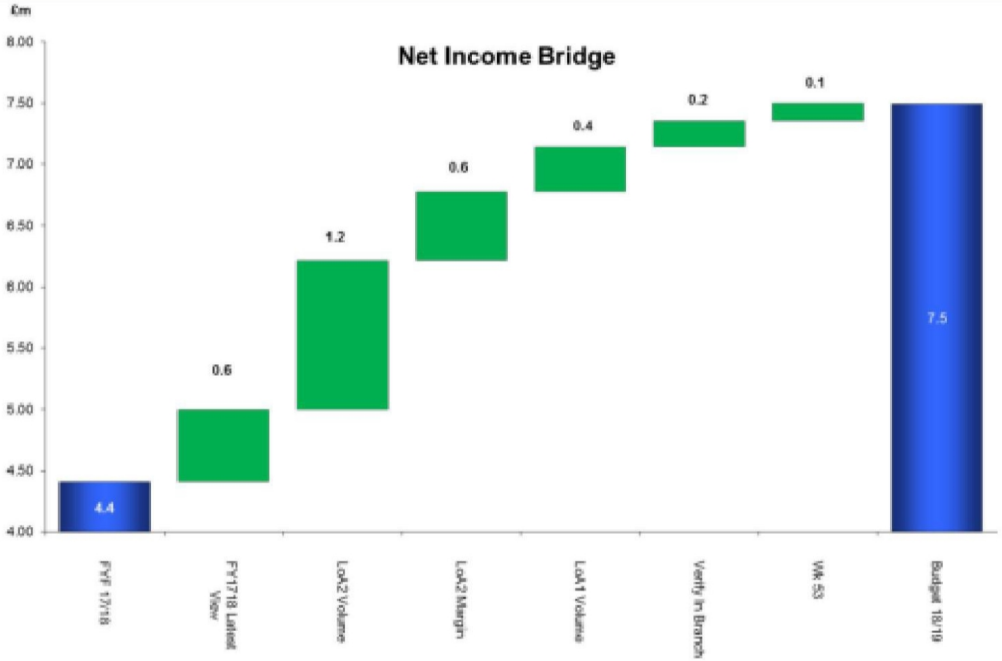
	17/18 FYF	18/19 Budget
Net Income	£21.1m	£20.4m

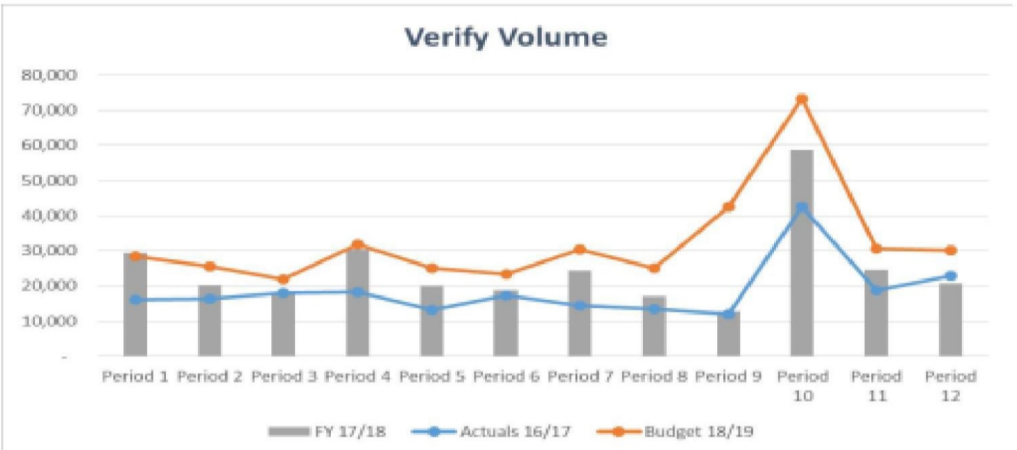
- Budget assumes an 8% decline in volume YOY. The current trend shows a 7% YOY decrease which has been embedded into the plan, with a further 1% reduction derived from new Home Office digital product launches expected in 2018/19.

- Market share of passports has continued to decline between 0.2% and 0.5% per month in 17/18, with a market share of circa 37.5% anticipated in March 18 compared to 44% in March 2017. HMPO have announced that PMA registered companies (Photo Me, Timpsons etc) will be able to provide digital photographs to support online applications and also that the online service will be extended to 16 -24 year olds. Both these actions are expected to impact 2018 volumes. We expect HMPO to increase the activity to promote online services in Q4 17/18, which may see additional pressure in 2018.

POL00027257

Identity Services revenue in line with recent volume trends





Key Items

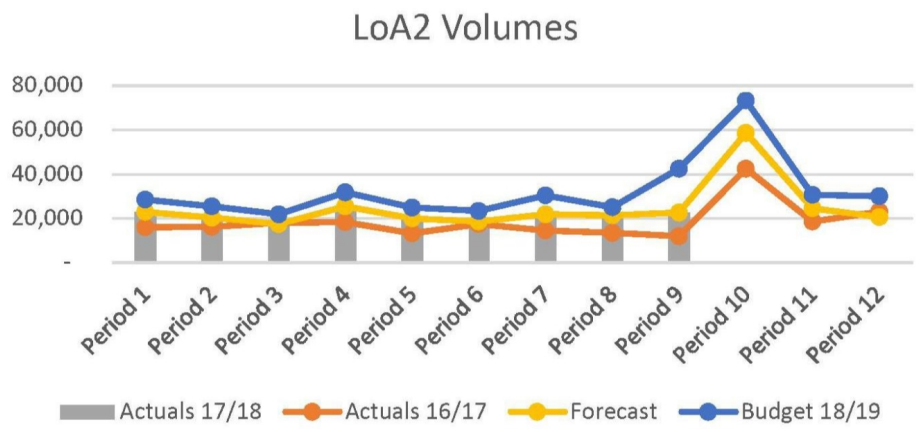
- Overperformance expected over the remainder of 2017/18 based on recent month revenue trends.
- Level of Assurance (LOA) 2 volume growth assumed to remain static at 31% for 2018-19.
- LoA2 margin improvement of £1.45 per transaction gained via contractual volume achievements.
- LoA1 was launched in P5 17/18, budgeted consistently with recent trends circa 2,000 transactions per week.
- Verify in branch anticipated rollout in P9, dependent on digital passport implementation in P7, benefits phased with incremental growth, steady state is £1.5m per annum.

Volume Key Items

- Verify volume growth is anticipated to remain static at 31% YOY, this is in line with current year performance.

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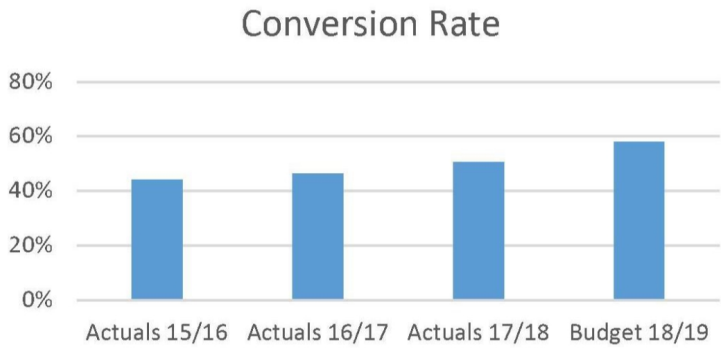
Verify +£3.1m Income driven by 31% volume growth





- Verify volume growth is anticipated to continue at 31% YOY, this is in line with P1-P8 2017/18 performance.
- Growth will be driven primarily by the on boarding of new services, which is handled by Government Digital Service. Improved conversion rate is the other driver, which itself is driven by improved and new data sources.
- LoA2 is still Verify's biggest income driver, contributing 93% of Verify income since LoA1s launch in Week 20
- LoA1s launch did not have the impact anticipated on LoA2 volumes mainly because DWP (View your state pension) service hasn't migrated away from LoA2 yet.
- Conversion rate has increased YoY from 46% to 50% and is expected to reach 58% in 2018/19
- PO remains market leader with circa 40% market share. We will be looking to improve this through marketing in 18/19, with an ambition of 47% during marketing campaigns

	17/18 FYF	18/19 Budget
Net Income	£4.4m	£7.5m



Post Office Limited – Commercial in Confidence

POL00027257

FS&T: £12m growth despite removal of BOI £(11)m and potential risk of Telecom pricing reductions c.£(15)m which have been mitigated

£m	2018/19 18/19	2018/19 Var 17/18	2018/19 % Var	2017/18 17/18	2017/18 Var 16/17	2017/18 % Var
Mortgages	1.8	(0.3)	(15.0%)	2.1	(0.6)	(21.7%)
Credit Cards and Lending	1.9	0.2	9.6%	1.7	(1.2)	(41.5%)
Savings	39.3	(8.0)	(16.8%)	47.2	(7.5)	(13.8%)
Travel Money	31.1	3.3	11.8%	27.8	0.5	2.0%
MoneyGram	25.5	(3.1)	(10.8%)	28.6	(1.2)	(4.0%)
Post Office Money	99.5	(7.9)	(7.4%)	107.4	(10.0)	(8.5%)
Banking Services	97.0	10.7	12.3%	86.3	19.0	28.1%
Telecoms	162.8	13.2	8.8%	149.6	19.5	14.9%
Postal Orders	12.3	(2.2)	(15.3%)	14.5	(4.0)	(21.7%)
Other Income	(0.3)	(1.5)	(127.8%)	1.2	(0.1)	(5.6%)
FS&T	**371.3**	**12.2**	**3.4%**	**359.1**	**24.3**	**7.3%**

- **Savings** - £9.5m reduction due to no Bank of Ireland income support not continuing into 2018/19 (Savings value share & no Savings guaranteed income). Negotiations with Bank of Ireland are ongoing. Additional shortfall in other income for £1.5m brings impact to £11m revenue shortfall y-on-y.
- **Moneygram** - decline in volumes anticipated to continue into 2018/19. Our international money transfer contract is up for renewal in 2018/19 and options being explored to mitigate downside risk.
- **Banking Services** - £2m inflationary rate increase and continuing growth in Banking Framework (£7m) and 53rd week (£1m).
- **Telecoms** - Impact of OFCOM pricing £(15)m mitigated by various initiatives (e.g. offering broadband, renegotiating supplier contracts).

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Post Office Money: Bank of Ireland Savings and Value Share reductions drive significant year on year reductions

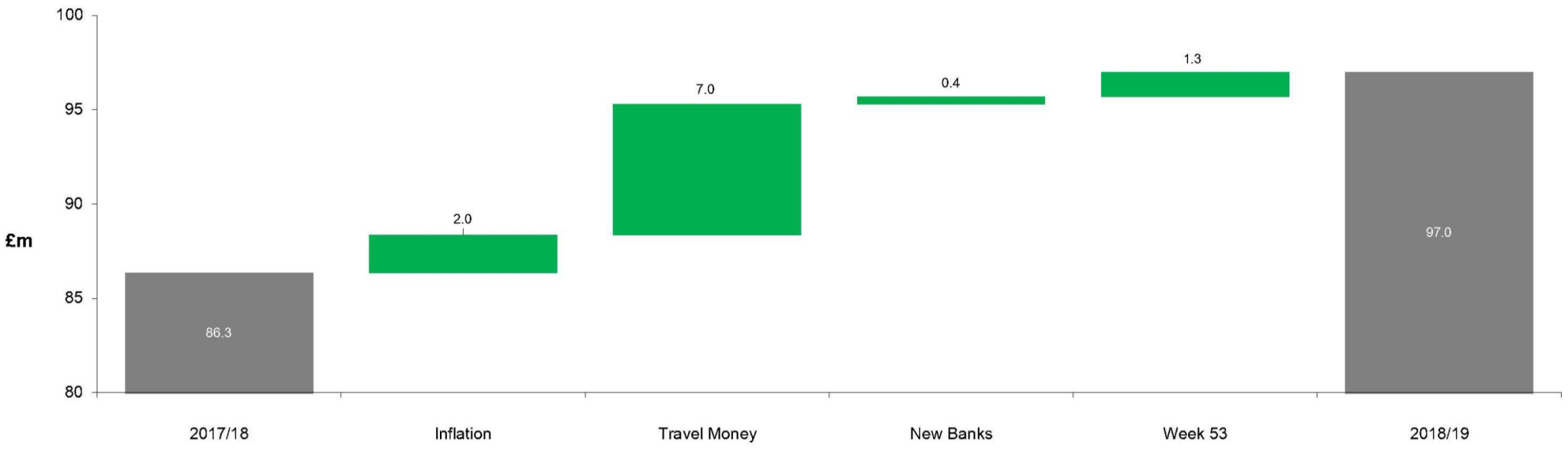


Key Items

- Moneygram year on year decline is a continuation of the current volume and value trends. No uplift included for any potential mitigation through contract renegotiation.
- Travel Money increase is due to higher transaction volumes, albeit at a lower average transaction value following the Anti Money Laundering regulations.
- Customer Hub is anticipated to deliver incremental revenue from the initial product launches.
- The impact of the BOI Income support (value share, guaranteed minimum savings commission) is not continuing into 2018/19. Negotiations with BOI are ongoing. Additional £1.5m shortfall in Other Income brings BOI impact to £11m.

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Banking Services: Inflationary increases and continuing growth from the banking framework agreement

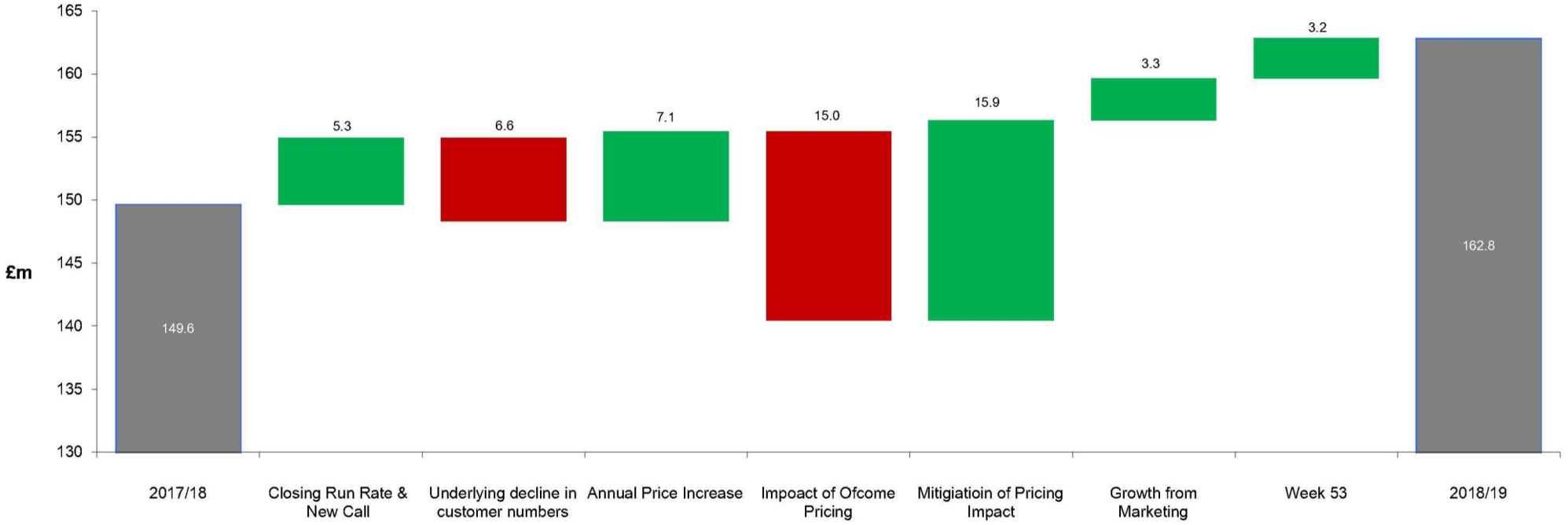


Key Items

- £2m Inflation is the impact of the contractual RPI increase (3% assumed) on the rate card which we charge to the banks.
- Growth trends are driven by further bank closures and more customers using the service, including business banking.

POL00027257

£10m growth in Telecoms revenues despite c.£(15)m from Ofcom price ruling



Key Items

- The full year impact of the New Call / Fuel acquisition (completed P4 2017/18) is £3.8m in 2018/19.
- Telecoms numbers, particularly Homephone, are facing underlying decline, with a £(6.6)m impact in 2018/19 offset by £7.1m incremental revenue from the annual price increases.
- Impact of Ofcom price ruling is offset by mitigating actions.
- Incremental marketing activity is driving £3.3m of revenue from additional customers.

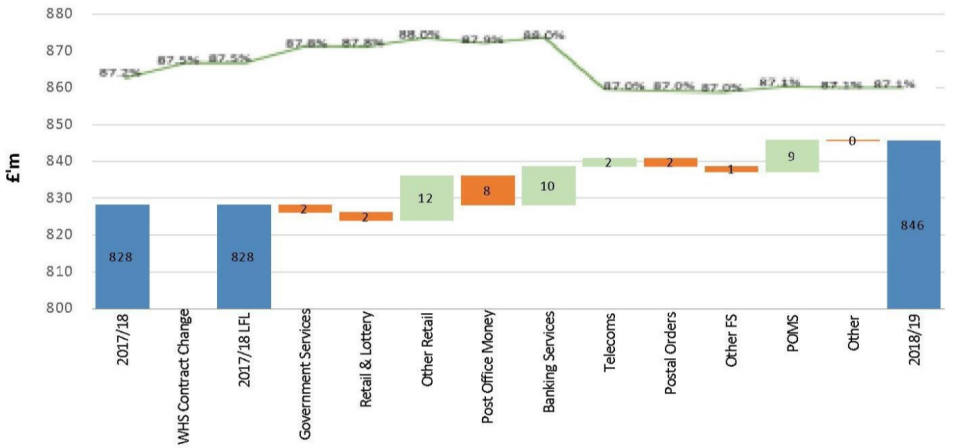
POL00027257

1. Strategic context and priorities
2. Overview of 2018/19
3. Income
4. **Margin**
5. Costs
6. FTE
7. POMS
8. Risks and Opportunities
9. Capital and Investment Spend
10. Cashflow and Headroom

POL00027257

Net Income margin remain stable due to changing product mix

	2018/19				Var			
£m	Rev £'m	COS £'m	Margin £'m	% Margin £'m	Rev £'m	COS £'m	Margin £'m	% Margin £'m
Mail Trading	288.4	-	288.4	100%	16.0	-	16.0	-
Mail Non-Trading	55.8	-	55.8	100%	(4.0)	-	(4.0)	-
Retail and Lottery	39.0	1.1	37.9	97%	(5.2)	3.1	(2.1)	7%
Payment Services	58.0	-	58.0	100%	0.0	0.0	0.0	0%
Government Services	86.4	22.1	64.3	74%	(5.8)	3.7	(2.0)	2%
Retail	**527.6**	**23.2**	**504.5**	**96%**	**1.1**	**6.8**	**8.0**	**1%**
Mortgages	1.8	-	1.8	100%	(0.3)	-	(0.3)	-
Credit Cards and Lending	1.9	-	1.9	100%	0.2	-	0.2	-
Savings	39.3	-	39.3	100%	(8.0)	-	(8.0)	-
Travel Money	31.1	-	31.1	100%	3.3	-	3.3	-
MoneyGram	25.5	-	25.5	100%	(3.1)	-	(3.1)	-
Post Office Money	99.5	-	99.5	100%	(7.9)	-	(7.9)	-
Banking Services	97.0	1.3	95.7	99%	10.7	(0.2)	10.4	(0%)
Telecoms	162.8	92.6	70.2	43%	13.2	(10.9)	2.3	(2%)
Postal Orders	12.3	0.1	12.2	99%	(2.2)	0.0	(2.2)	(0%)
Other Income	(0.3)	-	(0.3)	100%	(1.5)	-	(1.5)	-
FS&T	**371.3**	**94.0**	**277.3**	**75%**	**12.2**	**(11.1)**	**1.1**	**(2%)**
POMS	57.9	8.5	49.4	85%	8.7	(0.2)	8.6	2%
Supply Chain	10.9	-	10.9	100%	0.0	-	0.0	-
Other Income	3.6	-	3.6	100%	(0.0)	(0.1)	(0.1)	(3%)
Total	**971.3**	**125.7**	**845.6**	**87.1%**	**22.1**	**(4.5)**	**17.5**	**(0%)**



Comments

- Net margin remains stable at 87%.

Retail

- Retail reflects the new WHS contractual arrangement and assumes a sales uplift of 40% due to new fit out and product range.
- c.£3m reduction in revenue and cost of sales (minimal EBITDAS impact) as we move to recognising commission only.

FST

- Growth driven by Telecoms at lower at margin impacts overall POL position.

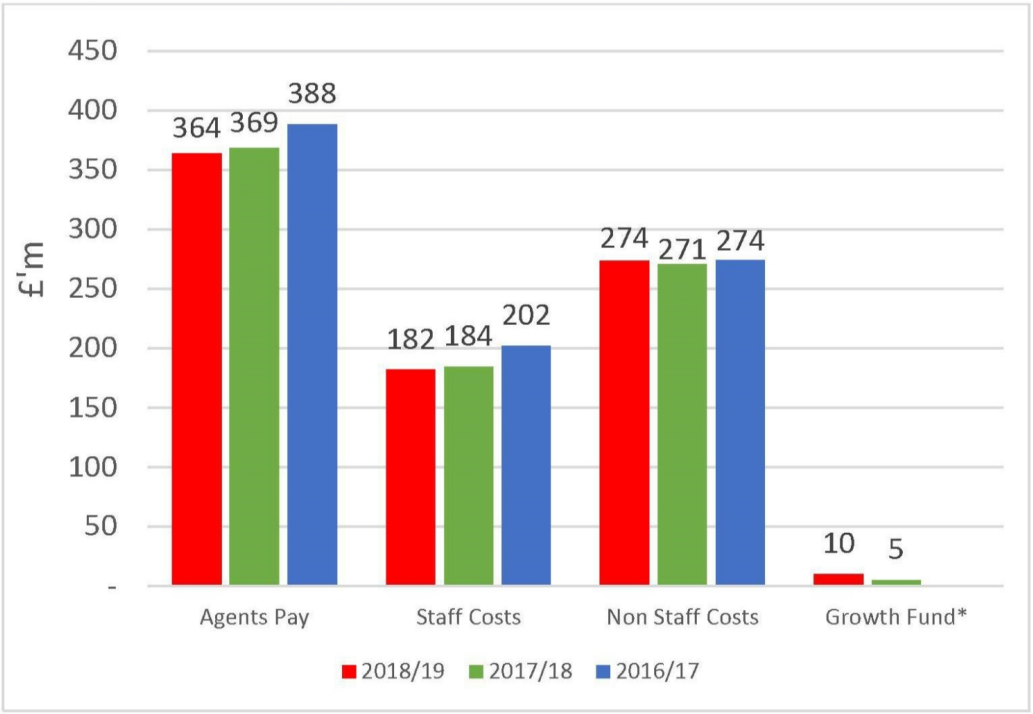
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Cost control maintained but planned investment in marketing and POMS growth plan

Expenditure by Cost Area



* Adjusted to include release of Growth Fund in 2017/18

Agents Pay

- Reduction in agents pay with simplification savings offsetting incremental costs from changing network shape. Changing revenue mix drives year on year improvement.

Staff Costs

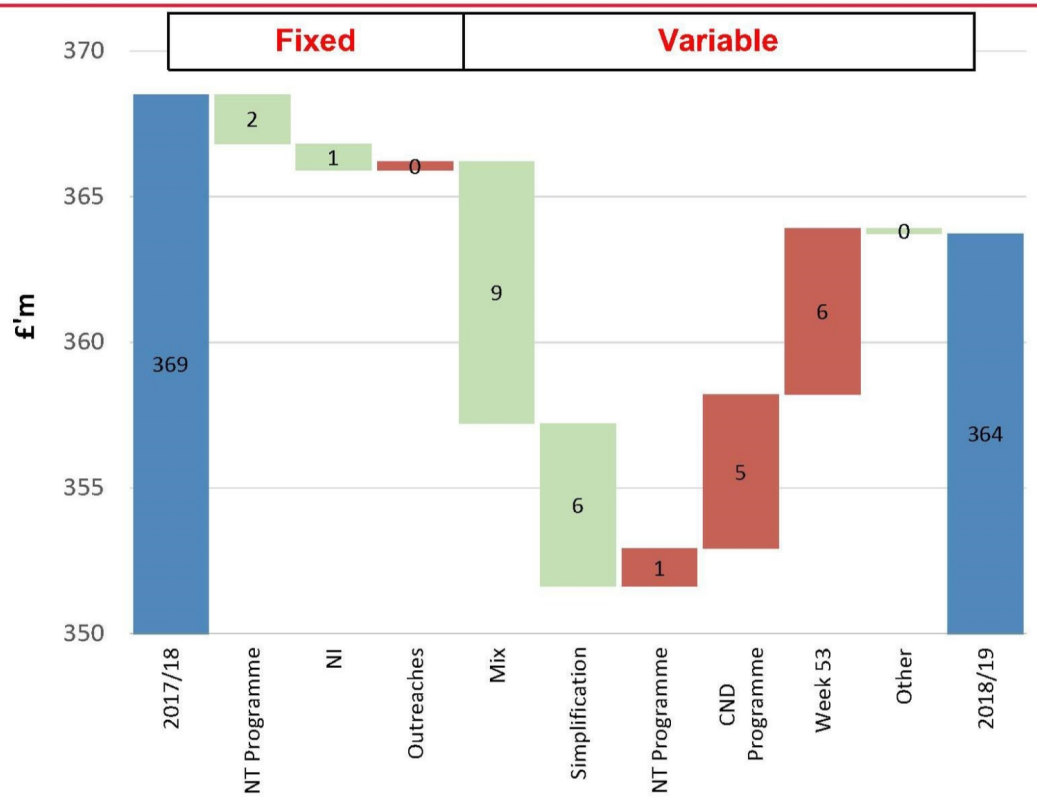
- 3.0% payrise assumption impacts by c.£5m partially offset by £3m pension saving.
- £8m benefit from franchising DMB network (offset by increase in agent pay)
- £4m Incremental investment to fund skills gaps identified.

Non Staff Costs

- Marketing and growth spend, including a £10m growth fund (2017/18 estimated to be c.£5m) and £5m of incremental marketing year-on-year.
- Significant IT cost reductions of c.£9m.
- Increase in regulatory costs from POCA monthly statements £6m

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Agents Pay: Reduction of £5m from £369m to £364m despite increased revenue volumes and additional trading week



	2018/19	2017/18	2016/17
Fixed	46.5	48.9	59.2
Variable	317.2	319.6	328.8
Total	**363.7**	**368.5**	**388.0**
Fixed %	12.8%	13.3%	15.3%
Variable %	87.2%	86.7%	84.7%

Movements

- NT conversions planned for next year include 70 locals and 30 mains. Fixed cost savings expected to be c. £1.3m
- National Insurance will continue to fall in line with the network transformation, but at a slower rate as we convert contracts from a C2I basis to C2C
- Trading mix – £9.0m reduction in government (POCA) and lottery variable costs
- Savings from simplification broadly offsets the incremental cost from changing the network shape through further franchising.
- Variable costs are now 87.2% of overall agent spend as we continue to move from fixed to variable.

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Agents Remuneration – YOY By Pillar

	Agency Remuneration						Net Income (Wk 52)	
Pillar	17/18 F	18/19 B	Var	Week 53	Budget Adj for 52 wks	Adjusted Budget vs 17/18 %	Budget vs 17/18 (£)	Budget vs 17/18 %
Mails	176.9	180.5	3.6	(3.4)	177.1	0.1%	6.6	2.0%
A Government Services	28.7	21.1	(7.7)	(0.1)	21.0	(27.0%)	(15.5)	(25.0%)
Payment Services	25.7	24.8	(0.9)	(0.5)	24.3	(5.4%)	(1.1)	(3.3%)
Retail & Lottery	24.7	22.9	(1.8)	(0.4)	22.5	(9.0%)	(2.8)	(10.7%)
FS	60.4	57.8	(2.6)	(1.1)	56.7	(6.2%)	(3.7)	(1.8%)
POMS	2.0	2.2	0.2	(0.0)	2.2	10.0%	8.5	20.7%
Telco	1.2	1.3	0.1	(0.0)	1.3	8.8%	7.7	5.2%
Total Variable Rem	**319.6**	**310.6**	**(9.0)**	**(5.6)**	**305.0**	**(4.6%)**	**(0.2)**	**(0.0%)**
Fixed	48.9	46.5	(2.4)					
Total Fixed Agents Rem	**48.9**	**46.5**	**(2.4)**					
CND Programme	0.0	5.3	5.3					
NT Programme	0.0	1.3	1.3					
Total Agents Rem	**368.5**	**363.7**	**(4.8)**					

- Mails – agents remuneration increasing less than income as it includes £5.0m of simplification
- Government Services – agents remuneration reduction led by passports (-31%) YOY and anticipated loss of UKVI contract
- Payment Services – agent remuneration reduction led by reduction in rates due to contract renewals.
- Retail & Lottery –reduction in agents remuneration driven by decline in Camelot volume, increase in gift card remuneration based on 10% expected growth.
- FS&T – Agents remuneration falling faster than income led by mix, driven by Moneygram & Banking Services volumes.

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A Government services income has been adjusted to remove POCa interest income which doesn't attract agents pay.

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Fixed Agents Remuneration By Component

Fixed Remuneration Type	18/19 B	17/18 F	Var	18/19 B Community
Assigned Office Payment	12.3	12.5	0.3	5.9
Core Tier Payment	11.2	12.5	1.3	5.4
Annual Revised Rural Fixed Product Payment	1.6	1.6	0.0	1.6
Mailwork (SPDOs)	7.1	7.0	-0.0	0.0
Part Time Rural	2.7	2.7	0.0	2.7
Outreaches	5.5	5.2	-0.3	5.5
Overscales	1.8	1.7	-0.1	0.9
FPO Premium	0.2	0.2	-0.0	
One-off Sales Incentives	0.0	0.1	0.1	
Misc.	0.5	0.3	-0.2	
NIPOC	2.6	3.5	0.9	1.3
NFSP Payments	2.5	2.5	0.0	0.0
Holiday &Sickness Substitution	1.1	1.1	-0.0	0.6
Fixed Programmes	-2.0	-1.9	0.1	0.0
Overlays				
Traditional branches	-0.1		0.1	
Community with retail	-0.0		0.0	
Community without retail	-0.1		0.1	
Flow Through	-0.1		0.1	
Total	**46.5**	**48.9**	**2.4**	**23.7**

The £46.5m fixed agents remuneration budget is built from £23.7m community costs, £7.1m of income related Mailwork costs and £15.8m from hard to place branches.

The £15.8m associated with hard to place branches is the future focus for cost reductions to fixed agents remuneration.

Fixed agents remuneration is decreasing £2.4m YOY to £46.5m

ND/NT conversions planned for next year include 70 locals and 30 mains. Fixed cost savings expected to be c. £1.7m

Planned to increase wage cost for outreaches by 10% in H2 18/19 (£0.3m), this is due to a pay freeze since 2013

National Insurance will continue to fall in line with the network transformation, but at a slower rate as we convert contracts from a C2I basis to C2C

Fixed Remuneration Type	18/19 B £m
Community	23.7
Income Related (Mailwork)	7.1
Hard to Place Branches	15.8
Total	**46.5**

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Staff Costs reduced by £2.4m as DMBs continue to be franchised. Investment in POMS to support future growth.

£'m	2018/19	2017/18	Var
Wages & Salaries	137.7	128.2	(9.4)
Pension	12.4	16.1	3.7
Overtime	5.9	4.8	(1.1)
Bonus & Productivity	14.0	13.7	(0.3)
Employers NI	15.4	17.3	1.9
Contractors & Temporary Resource	1.2	4.8	3.6
Staff Costs Efficiency Target	(4.6)	(0.6)	4.0
Staff Costs	**181.9**	**184.3**	2.4
Retail	76.3	83.6	7.3
FS&T	10.6	11.3	0.7
POMS	7.4	4.2	(3.2)
Finance & Ops	51.6	51.5	(0.1)
CEO	0.4	0.3	(0.0)
CIO	6.2	5.0	(1.2)
Strategy	0.6	0.6	0.0
LRG	6.0	5.6	(0.4)
HR	18.1	18.3	0.2
Communications	1.6	1.6	(0.0)
Central	3.1	2.2	(0.9)
Total	**181.9**	**184.3**	2.4

Wages and Salaries

- Includes 3% payrise assumption impact c£5m.
- Incremental investments of c£4m to fund skills gaps currently identified in the organisation. £2m incremental support for Marketing heads.
- £1m increase in Central Staff costs due to payrise partially held centrally awaiting final decision.

Pension

- £3m reduction following the removal of the 1 year uplift in contributions following the closure of the DB scheme.
- Pension autoenrolement has limited impact in the current year.

Bonus

- Budget for STIP and LTIP consistent with current year.

Employers NI

- Benefit from Network Transformation (Costs moved from Salaries to Agents Pay).

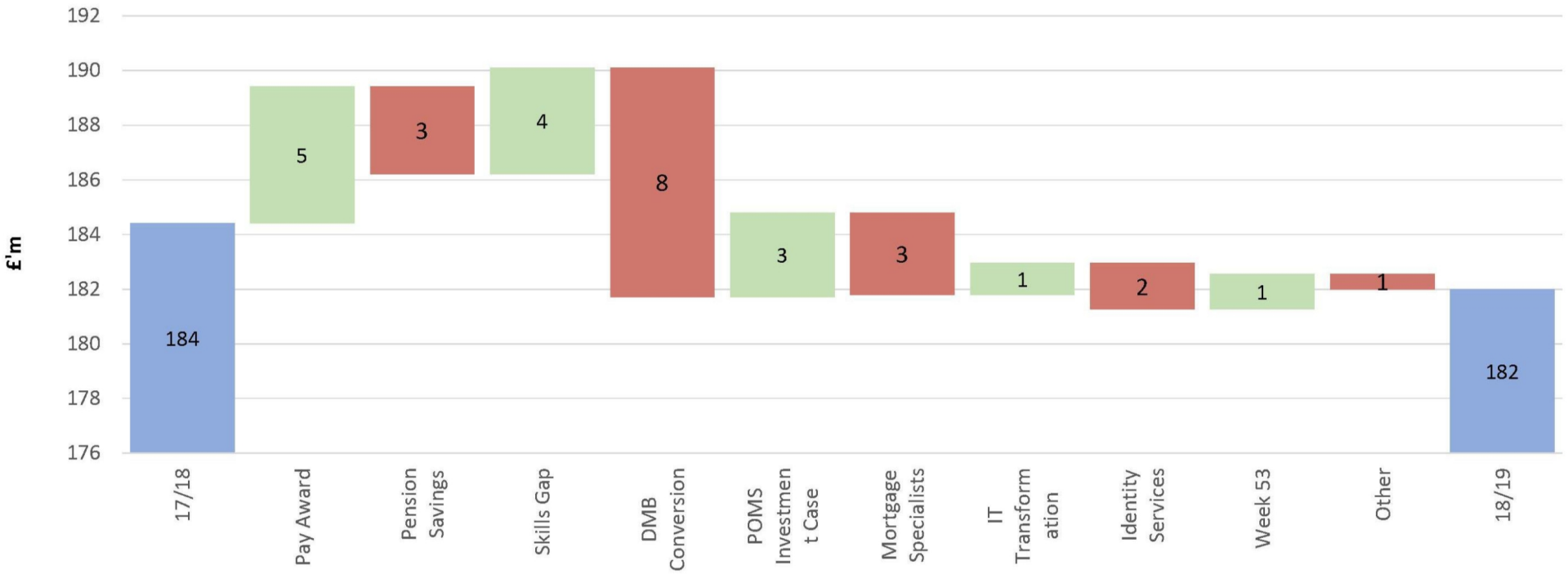
Efficiency

- £4.6m efficiency target to be identified in budget and detailed planning (primarily Finance & Ops).

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£2m decrease in staff costs to £182m.



- **Pay award** at 3% c. £5m impact
- **Pension Savings** of £3.2m following removal of 1 year uplift in 2017/18 following the closure of the Defined Benefit scheme.
- **Skills Gap Investment** £4.0m to support Retail £1.4m, Digital Capability within FST £1.1m, F&O £1.0m for Supply Chain (revised structure post OSOP) and LRG £0.5m for compliance team currently not resourced.
- **DMB Conversions** savings of £8m (offset by incremental agents pay £6m)
- **IT** £1.0m to bring security team inhouse as part of continuing IT transformation programme.
- **POMS** £3.3m investment in POMS heads to support the investment business case.

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Non Staff Costs

£'m	2018/19	2017/18	Var
Staff & Agency Related Costs	10.3	10.2	(0.1)
Consultancy & Advisory Services	9.6	3.6	(6.0)
Brand & Marketing	22.8	18.2	(4.7)
Legal Costs	2.3	3.0	0.7
Property & Facilities Management	40.1	41.9	1.8
Vehicles	4.1	3.7	(0.4)
IT Infrastructure & IT Services	86.0	96.8	10.8
Finance & Losses	29.4	26.0	(3.4)
Other Operating Costs	79.1	72.6	(6.5)
Non staff Costs	**283.8**	**276.0**	(7.8)
Retail	43.9	37.4	(6.5)
FS&T	47.5	41.4	(6.1)
POMS	21.7	16.5	(5.2)
Finance & Ops	70.5	70.5	0.1
CEO	0.0	0.0	(0.0)
CIO	83.2	93.7	10.5
Strategy	0.2	0.1	(0.1)
LRG	3.0	3.1	0.1
HR	6.5	6.3	(0.2)
Communications	3.2	3.2	(0.0)
Central	4.1	3.7	(0.3)
Total	**283.8**	**276.0**	(7.8)

Consultancy & Advisory Costs

- Incremental contractual costs as part of the Bank of Ireland agreement.

Brand and Marketing

- £4.7m increases in marketing includes:
  - £4m to support POMS growth plan
  - £2m support for customer hub
  - £(1)m reduction driven by customer insights
  - Additional £5m increase in Growth Fund (Other Operating Costs) supports overall investment.

IT and Infrastructure

- Continuing cost savings from the IT transformation programme.

Other Operating Costs

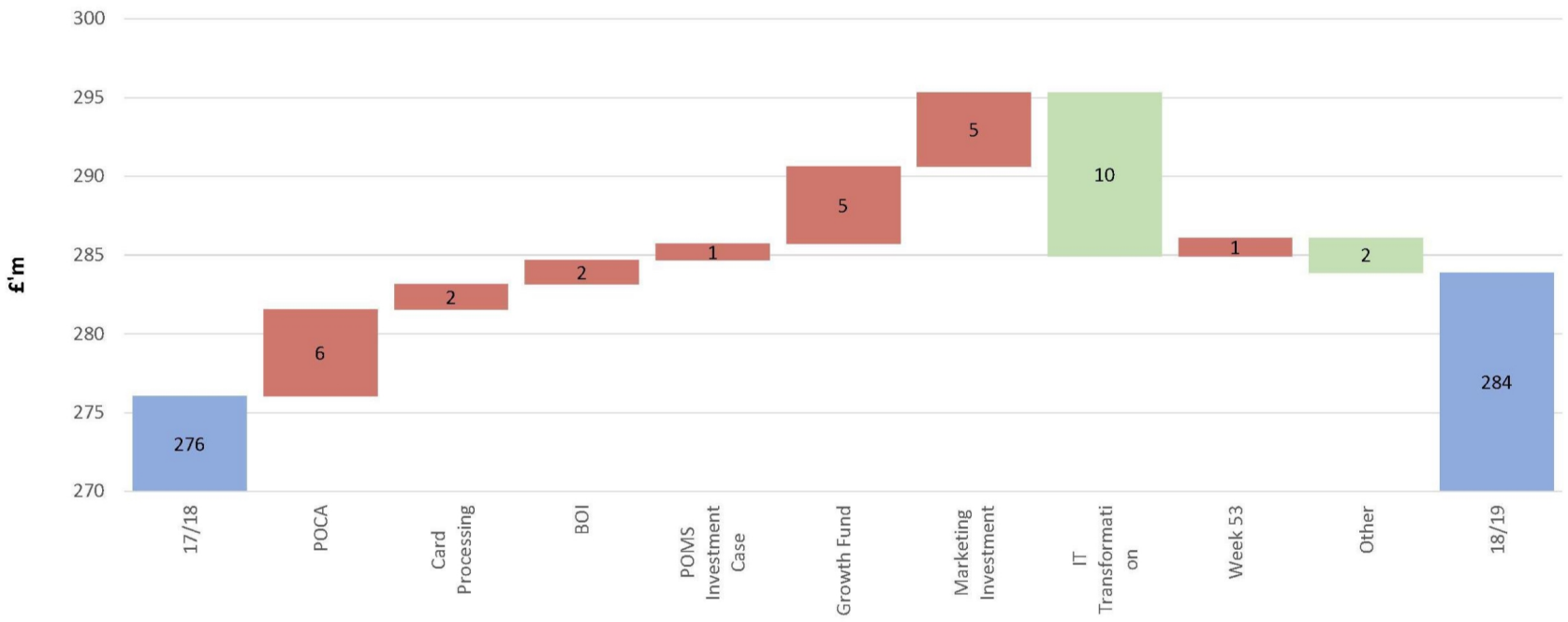
- Significant increase driven by POCA regulatory requirement to deliver monthly statements £6.3m

Growth Fund

- Growth Fund currently maintained at £10m in 2018/19 (2017/18: c.£5m).

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Non-staff costs increase £8m, but includes significant marketing investments, support for POMS investment case and regulatory increases from POCA statements.



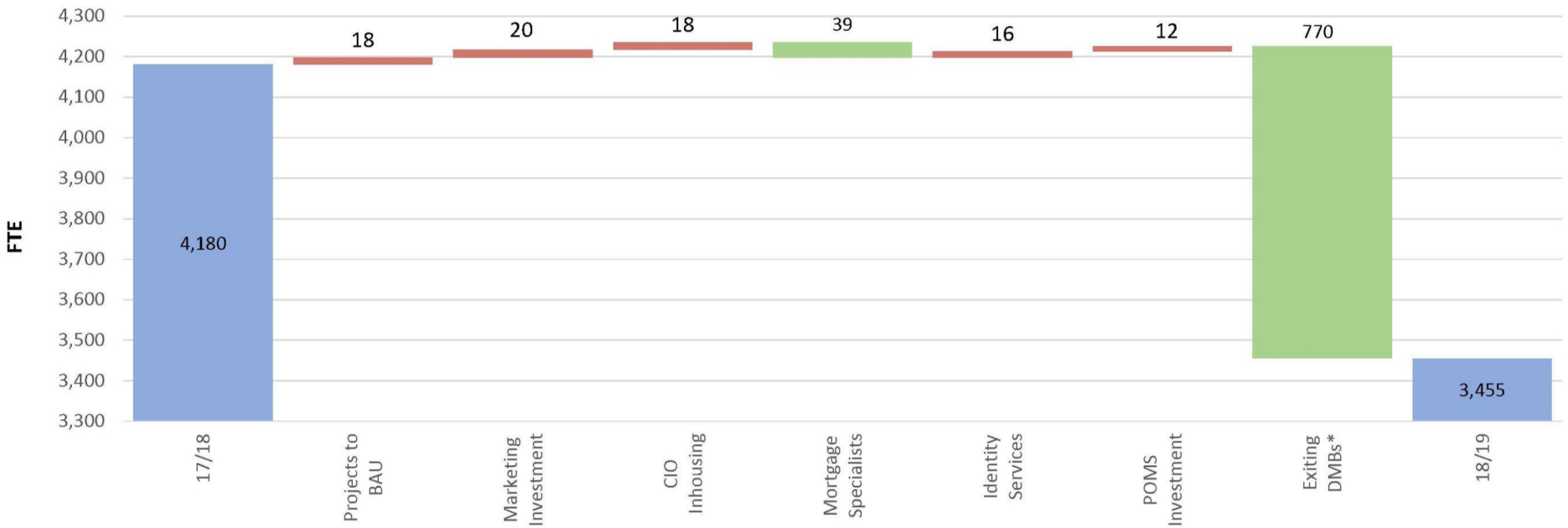
- **POCA** costs of £6.3m following the requirement to deliver monthly paper statements and technology refresh.
- **Marketing** increase to support POMS investment growth plan, customer hub and incremental Telecoms volumes. Growth fund held at £10m (£4m challenge to reduce gross marketing increase).
- **IT Transformation** continuing significant cost savings from the IT transformation programme.

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FTE reductions driven by continuing programme to exit DMB's via franchising and temporary operators



Some planned investments in the year;

- c.18 heads identified as currently being project funded and moving to BAU
- Marketing increase to support POMS investment growth plan and move to digital capabilities. Current marketing is under resourced.
- CIO continue to reduce overall cost base by in housing activities.
- Removal of mortgage specialists reduces FST headcount
- Investments to support Identity Services growth and POMS

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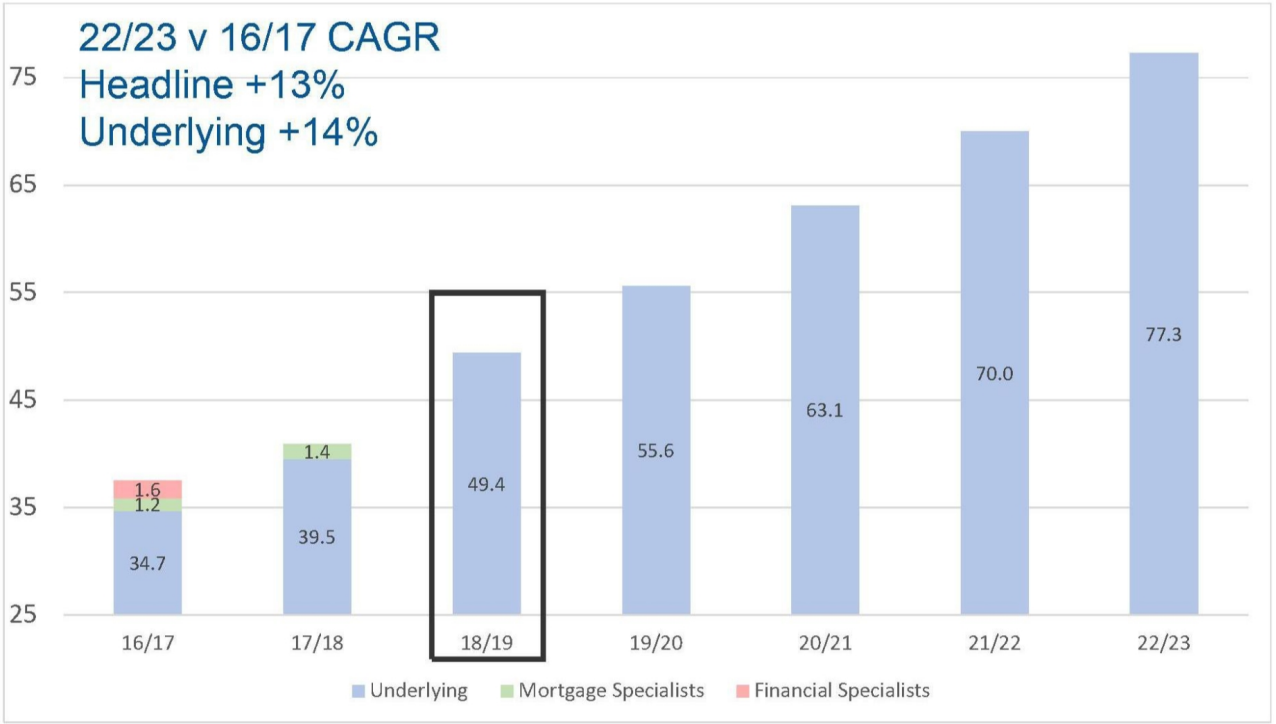
POMS – Exec Summary

18/19 will see POMS continue it's transition. We will leverage developments delivered in 2017/18 and increase investment in product, pricing and direct sales capability. Each will deliver benefits in year and provide a platform for long-term growth. We will being the transformation of a new Home insurance model.

- POMS has 3 strategic objectives:
  - Business Operating model designed for customer – led growth
  - Distinctive customer offer
  - Scalable customer management and distribution engine
- Our business operating model has evolved rapidly with Travel and Protection businesses being re-engineered generating £5m of additional revenue from 16/17 to 17/18 after absorbing the losses arising from the removal of Financial Specialists
- It includes a number of new and previously untested initiatives which are forecast to achieve in year payback. The bottom line impacts of these will be proactively managed through a series of test and learn activities with focus on hitting the EBITDA target
- We will continue to organise the business to capitalise on the capabilities delivered by Project Zeus (Policy Admin Platform) and Hera (Protection business model) as well as commence the development of a replacement Home insurance business model
- Together with the development of our new Home insurance model, the investments support our growth ambitions and drive revenue and group EBITDA contribution to £77.3m and £41.1m respectively (up 89% and 103% compared to 2017/18) by 22/23 whilst maintaining our group contribution of £20.3m in 18/19.
- As a result of proposed CAPEX spend a further capital injection will be required to ensure sufficient regulatory capital is maintained (£5m in 18/19, £2.5m in 19/20)
- The submission aligns to the POMS 5 year growth plan

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POMS – Net Income Trajectory

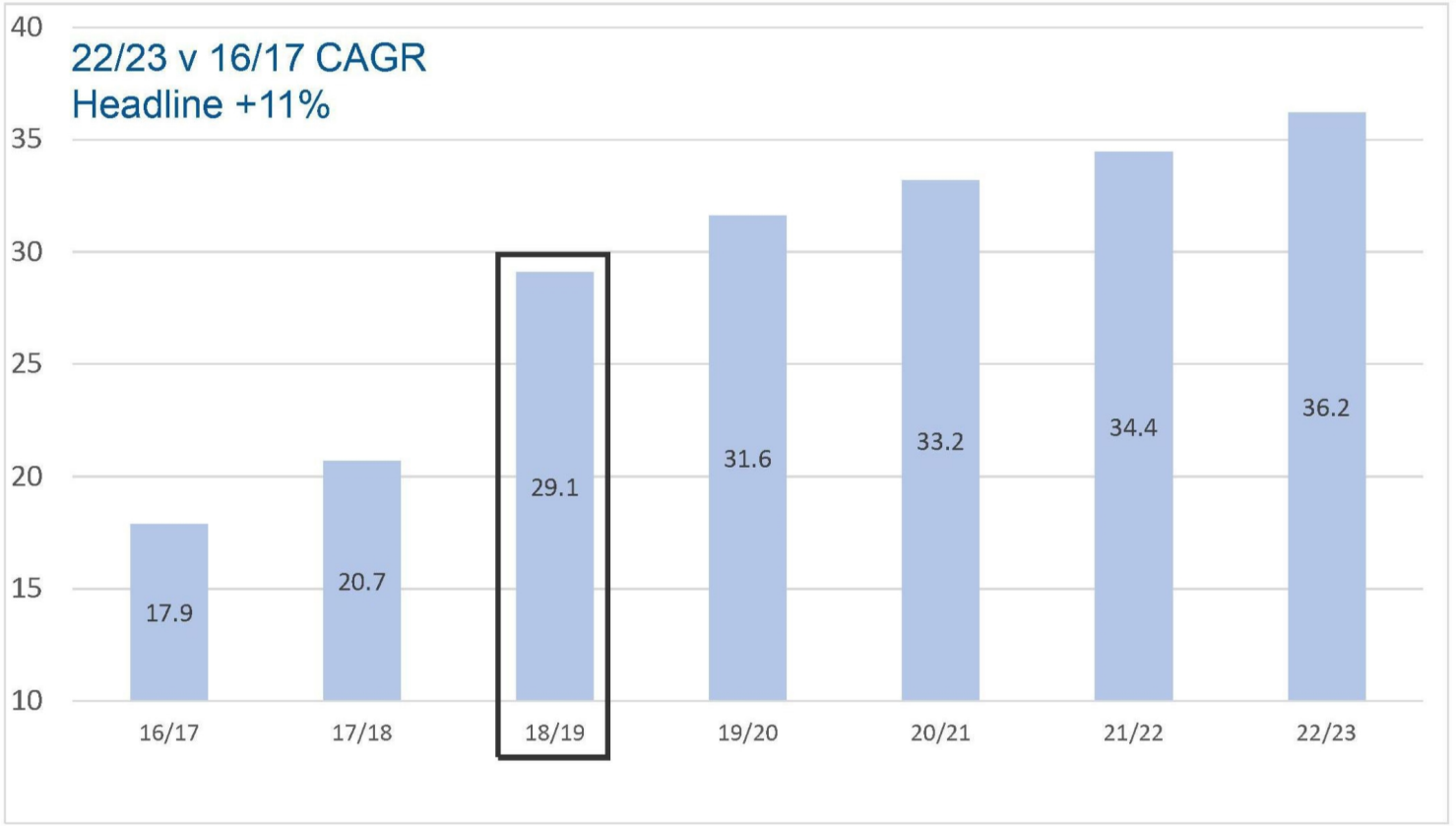


- POMS has faced trading headwinds from the loss of Financial and Mortgage Specialists.
- Underlying income growth between 16/17 and 18/19 **is +42%**
- New Home model delivers 50% improvement in home margin from H2 19/20
- Underlying portfolio growth delivers increased re-occurring income from 19/20
- Optimised marketing investment and pricing supports on-going growth throughout the planning period
- Improved CVM generates £2.5m of income in 19/20, rising to £11.8m in 22/23

*Net Income is commission income and profit share less Cost of Sales (predominately aggregator costs)

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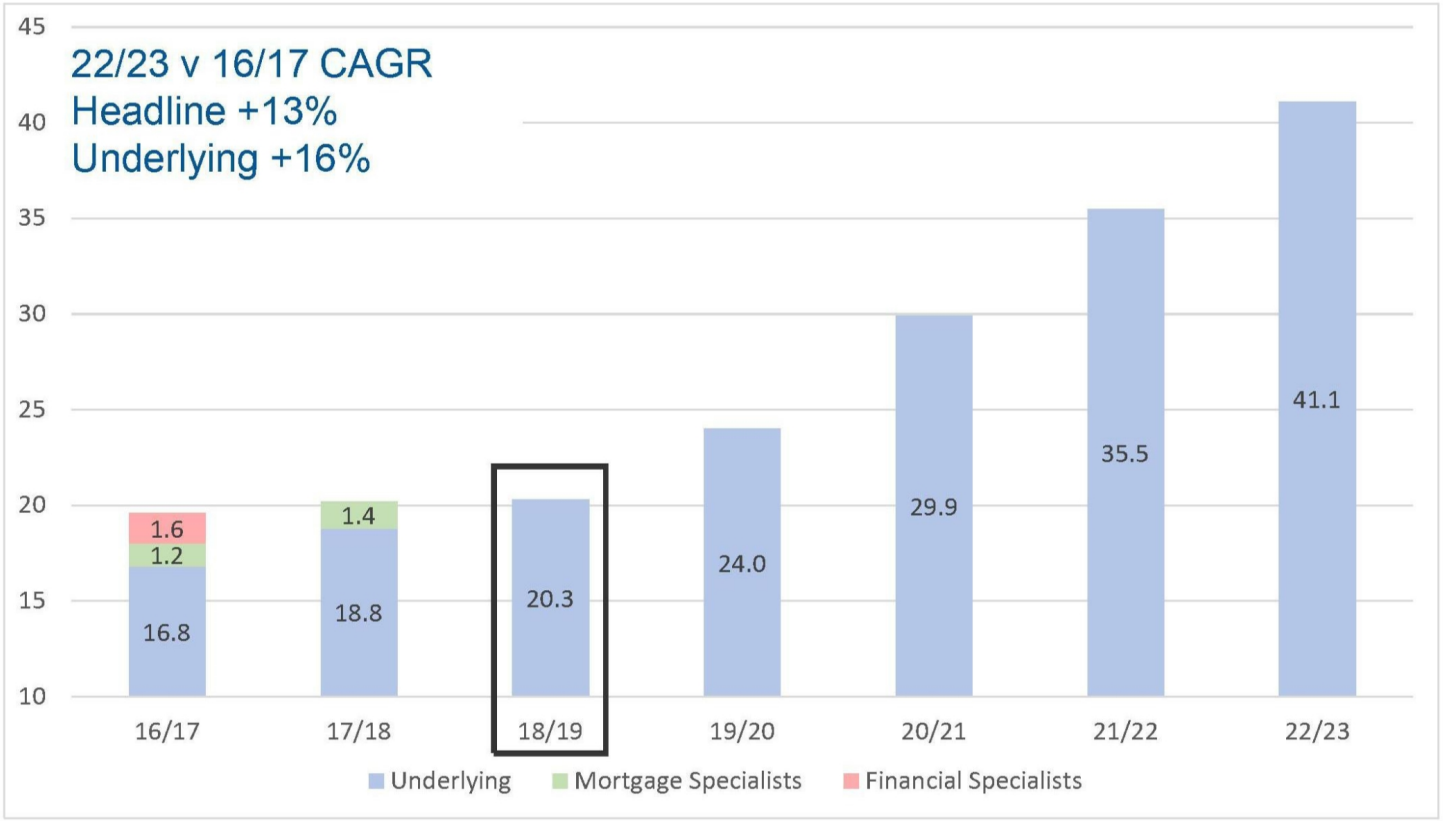
POMS – Operating Costs Trajectory



- Operating costs increase by £8.4m (+41%) 18/19 versus 17/18. This represents the investment in business capability and marketing
- Cost growth beyond 19/20 (post launch of new Home model) is 5% PA

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POMS – Group EBITDA Trajectory



- Underlying EBITDA growth between 16/17 and 18/19 is +21% during a year of transition.
- Post the migration of Home from BGL in September 2019, EBITDA growth is driven by CVM and margin enhancements from the new model

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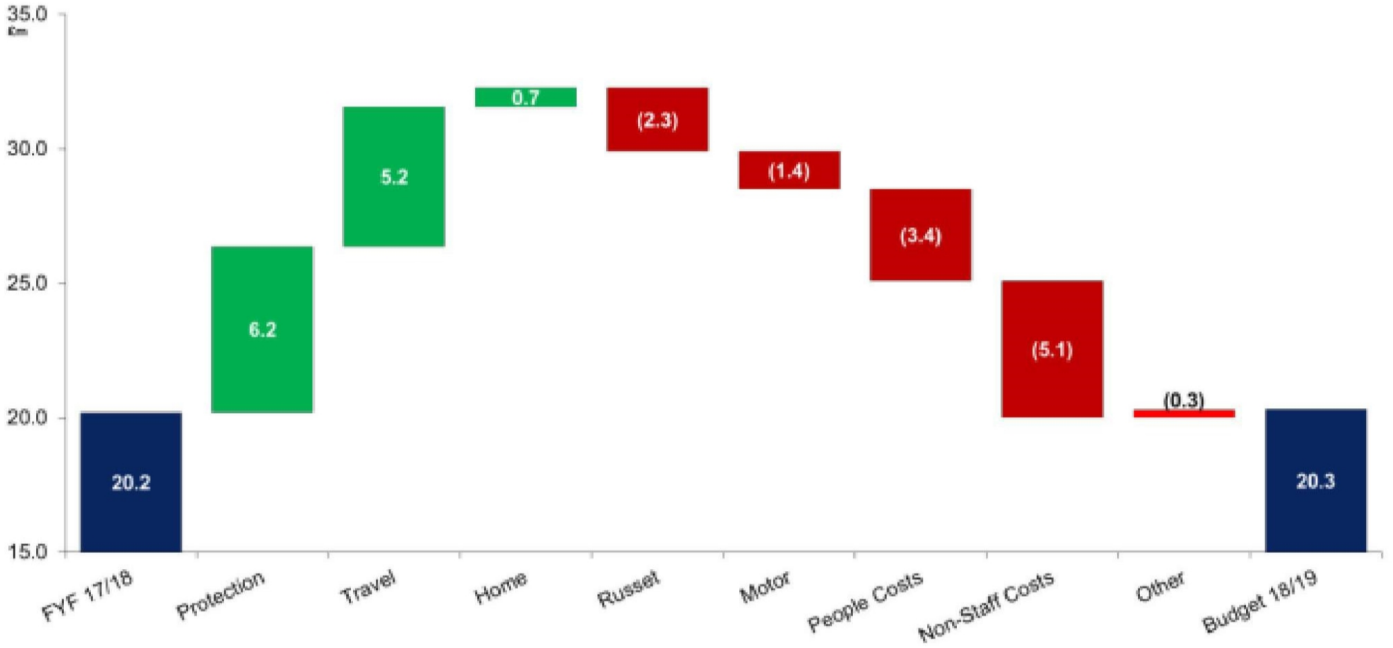
POMS Budget Submission Summary

£m	2016/17 Act	2017/18 5+7	2018/19 FY Budget	FY Budget V 2017/18 £m	FY Budget V 2017/18 %
			2018 / 19 Budget Summary		
Gross Income	**43.0**	**49.2**	**57.9**	**8.7**	**18%**
Cost Of sales	**(5.5)**	**(8.2)**	**(8.5)**	**(0.3)**	**3%**
Net Income	**37.5**	**40.9**	**49.4**	**8.5**	**21%**
People Costs	**(3.3)**	**(4.2)**	**(7.6)**	**(3.4)**	**(80%)**
Staff & Agency Related Costs	(0.2)	(0.4)	(0.6)	(0.2)	(56%)
Consultancy & Advisory Services	(0.4)	(0.7)	(0.7)	0.0	1%
Brand & Marketing	(3.0)	(3.3)	(7.5)	(4.2)	(129%)
Legal Costs	(0.0)	(0.1)	(0.1)	(0.1)	(146%)
IT Infrastructure & IT Services	(0.6)	(1.7)	(2.0)	(0.3)	(19%)
Finance & Losses	(0.9)	(1.0)	(0.9)	0.1	11%
Other Operating Costs	(9.4)	(9.4)	(9.7)	(0.3)	(4%)
Non-Staff Costs	**(14.6)**	**(16.5)**	**(21.5)**	**(5.1)**	**(31%)**
Operating Costs	**(17.9)**	**(20.7)**	**(29.1)**	**(8.4)**	**(41%)**
Group EBITDAS	**19.6**	**20.2**	**20.3**	**0.1**	**0%**
POL Commision & MSA	(11.8)	(12.7)	(15.6)	(2.9)	(22%)
POMS EBITDAS	**7.8**	**7.5**	**4.7**	**(2.8)**	**(37%)**

- Group EBITDA is held flat with investment driving revenue growth and returns in future years.
- Net income is +£8.5m with growth driven by:
  - Protection +£4.0m
  - Travel +£5.2m
  - Home +£0.7m
  - Motor £(1.4)m
- Post Offices investment in a number of initiatives supports delivery of increased revenue;
  - Customer Hub
  - CRM's
- People Costs are +£3.4m due to higher head count with investment in marketing and underlying capability.
- Non-Staff costs are +£5.1m due to marketing costs +£4.2m.
- Business acquisition and new product solutions remain under consideration and offer further growth potential

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EBITDAS in line with current year but investment of £8.5m to support longer term growth.



- Protection income growth is driven by a combination of improved margin, expanding distribution (Aggregators and DRTV) and new product initiatives (Easy Life)
- Travel income growth is driven by additional marketing activity (including investment fund initiatives) coupled with distribution, product and pricing actions
- 22 new hires in the year of which 10 are dedicated POMS staff in Post Office marketing team
- Non-staff costs are driven by increased marketing costs (+£4.2m)

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POMS Resourcing Plans

The submitted budget includes 22 new hires (10 Marketing and 12 POMS)

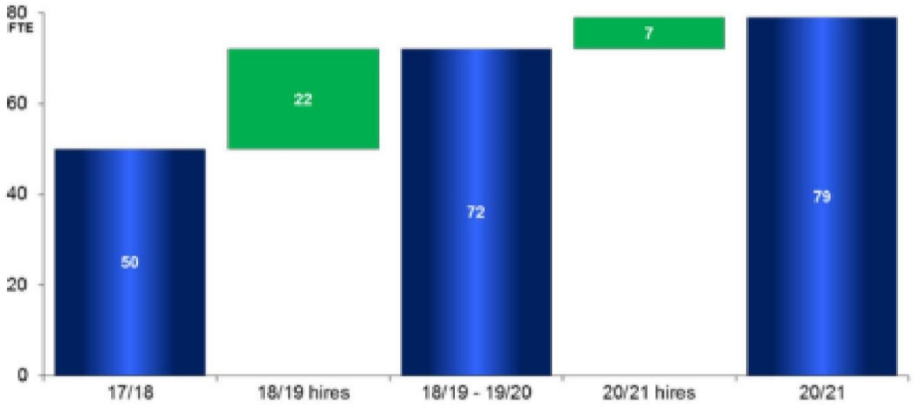
10 Dedicated POMS Central Marketing Staff (£0.7m).
These staff allow POMS to deliver budgeted revenue (campaign delivery). The staff are split into Digital Optimisation, SEO and CVM / Lead capture. These staff will generate revenue with a life time value of £2.9m in 18/19

The POMS resource (annual cost £1.2m) is made up of:

- 4 Pricing – for Travel and Home, pricing optimisation
- 2 Marketing Analysis and Marketing Executive, 1 role held over from 17/18
- 2 CVM – data analytics, cross product holdings etc.
- 2 MI – dedicated POMS MI team, current model not fit for purpose
- 1 Customer Proposition Manager (Product)
- 1 Finance / Ops – focus on Duck Creek controls / recs

7 hires are in the plan for 20/21, then no further hires are anticipated.

Resourcing



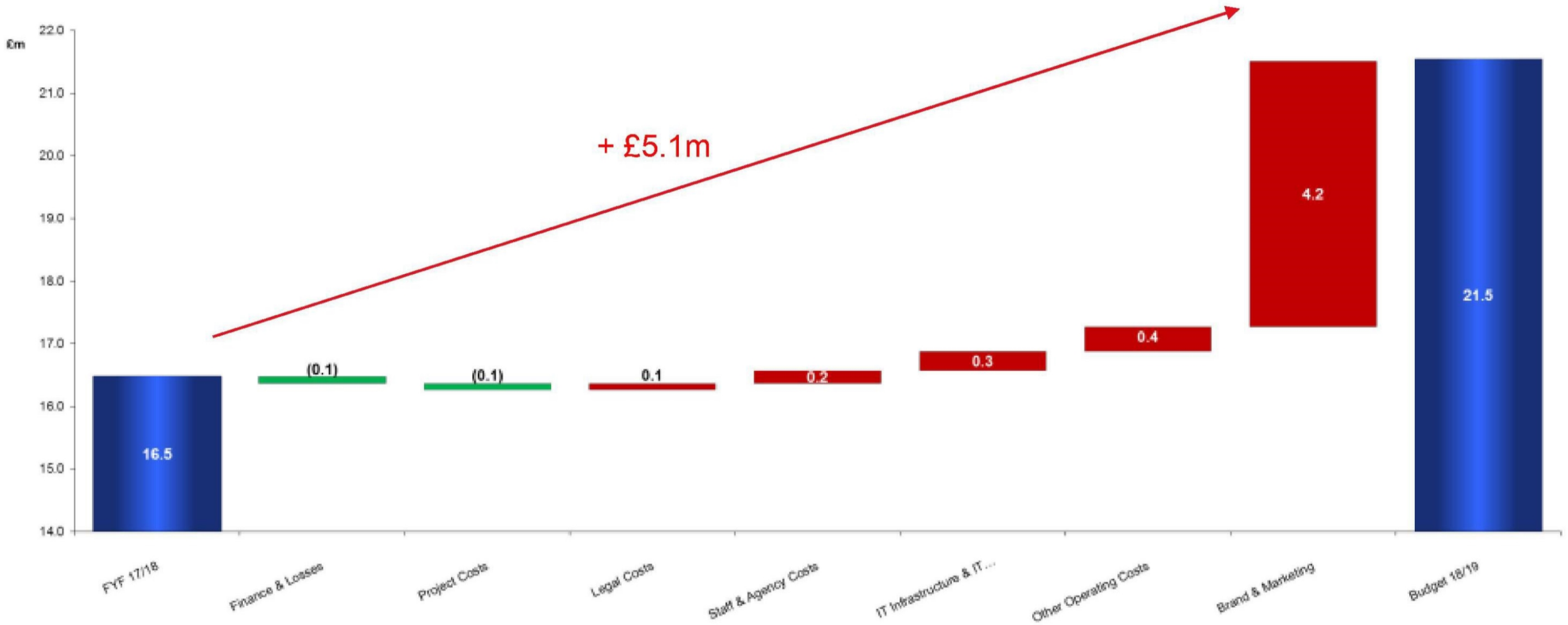
Costs



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POMS Non Staff Costs – YoY Movement



Key Items

- Total year on year increase is £5.1m of which marketing is £4.2m. Increase supports revenue growth of 21%, see next slide for full analysis of spend.
- Other Operating costs and IT are volume related variable costs.

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POMS 18/ 19 Marketing Costs

£000s	Branch	Direct Mail/EDM	Search	Web	Channel Expansion	DRTV	TOTAL	Var vs 17/18
Travel	455	25	1,009	465	1,369		3,323	1,712
Over 50s	45	150			30	1,380	1,605	1,417
Life	200	25	200	510	650		1,585	1,018
Car	20	409	60				489	(151)
Home	25	353	60				438	116
Minor Products	22		75				97	133
	767	**962**	**1,404**	**975**	**2,049**	**1,380**	**7,537**	**4,245**

Key Items

- Branch – covers in-branch leaflets and application packs along with campaign collateral for Travel and Life.
- Direct Mail / EDM – regular GI renewal mailings, plus 121 activity across Life and Travel and any costs associated with lead-capture not already covered in the project.
- Search – included branded search, generics and SEO investment.
- Web – non-search media costs for display and social, conversion rate optimisation.
- Channel expansion – building on learnings from 2017 up-weighted marketing investment to support growth plan including test and learn.
- DRTV – this spend is subject to the results of the test and learn activities in Q4 17/18

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8. **Risks and Opportunities**
9. Capital and Investment Spend
10. Cashflow and Headroom

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The 2018/19 budget plan is balanced through control over expenditure on the Growth Fund

Area	Total Risk	Weighted Risk	Comment
Retail	4.5	2.2	Passports decline, Mailwork negotiation, Disintermediation
FS&T	1.0	1.0	Current challenge to be identified
POMS	5.0	2.5	Trading risk due to growing activities from untested markets. Could be mitigated through reducing investment but this would impact longer term growth.
CIO	-	-	Detailed plans for savings delivery being finalised. Planning session on 20th.
F&O	4.0	2.0	Ungrounded plans for efficiency in H2 plus underlying trends
Total	**14.5**	**7.7**	
Growth Fund	(5.0)	(2.5)	Investment could be held back to hit targets if trading results not achieved.
Net	**9.5**	**5.2**	

Key Items

- Net Risk identified of c.£5m.
- Budget excludes any benefits from potential negotiations with Bank of Ireland or potential increase in Interest rates.

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The budgeted change spend for this year is £255m

Strategic Priority	Forecast
Simplify the retailer proposition	£55m to £65m
Build innovative, flexible and secure IT	£80m to £90m
Modernise our products and services	£70m to £80m
Digitise and optimise the business	£15m to £20m
Modernise our skills, culture, HR policies and processes	£4m to £6m
Regulatory & Group Litigation Costs	£11m to £14m
TOTAL	**£235m to £275m**

The anticipated spend profile is:



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The following projects deliver in year benefit and are key to delivery of 2018/19 budget target

Strategic Priority	2018-19 Investment	In-Year Benefit
Simplify the retailer proposition	**£61.5m**	**£11.8m**
- Further franchising DMBs	£22.8m	£1.6m
- Network Expansion	£18.7m	£2.0m
- Multi-year Crown Projects	£17.9m	£8.1m
- Self Service Kiosk Rollout	£2.0m	£0.1m
Build innovative, flexible and secure IT	**£33.8m**	**£7.3m**
- Branch Printer Replacement	£3.6m	£0.5m
- CDP re-procurement	£1.4m	£0.5m
- EUC Branch Deployment	£6.4m	£0.6m
- HNGT Lite	£1.8m	£0.9m
- PCI/Payments Hub	£2.5m	£0.2m
- Project Everest – Cloud enablement	£15.2m	£4.0m
- Project Nelson	£2.5m	£0.5m
- Software Asset Management	£0.4m	£0.1m
Modernise our products and services	**£19.7m**	**£17.1m**
- POMS Investments	£11.3m	£4.6m
- Project Galaxy	£4.8m	£11.6m
- Falcon – Travel Hub	£3.6m	£0.9m
Digitise and optimise the business	**£0.3m**	**£3.5m**
- Success Factors Ph1 Completion	£0.3m	£3.5m
Modernise our skills, culture, HR policies and processes	**£6.0m**	**£0.5m**
- Back Office Transformation	£6.0m	£0.5m
Group Litigation (Group Litigation costs will be reported as exceptional spend and will not impact EBITDAS.)	**£9.0m**	**(£9.0m)**
TOTAL	**£130.3m**	**£31.2m**

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Further key investments required to secure the current income stream (income protection) or contribute to the future profitability beyond 2018-19.

Strategic Priority	2018-19 Investment	NPV
Simplify the retailer proposition	**£6.0m**	
- Agents/Postmasters Portal	£6.0m	TBD
Build innovative, flexible and secure IT	**£20.5m**	
- Full Thin Client Deployment (Solar Full)	£9.0m	TBD
- End-of-Life Replacements	£4.0m	TBD
- Risk & Resilience	£7.5m	TBD
Modernise our products and services	**£46.7m**	
- Identity Services Investment	£11.4m	£25.5m
- Banking Framework – Future of Cash incl. vehicles	£10.0m	£1.1m
- Mails Projects	£8.0m	£3.5m
- Falcon – Additional Verticals	£11.3m	£13.0m
- Property	£6.0m	TBD
Digitise and optimise the business	**£15.5m**	
- Enabling supply chain and back office improvement	£12.0m	£2.0m
- Project Arrow (BI Strategy)	£3.5m	TBD
Regulatory & Group Litigation	**£4.0m**	
- GDPR	£4.0m	(£4.0m)
TOTAL	**£92.7m**	**(£17.2m)**

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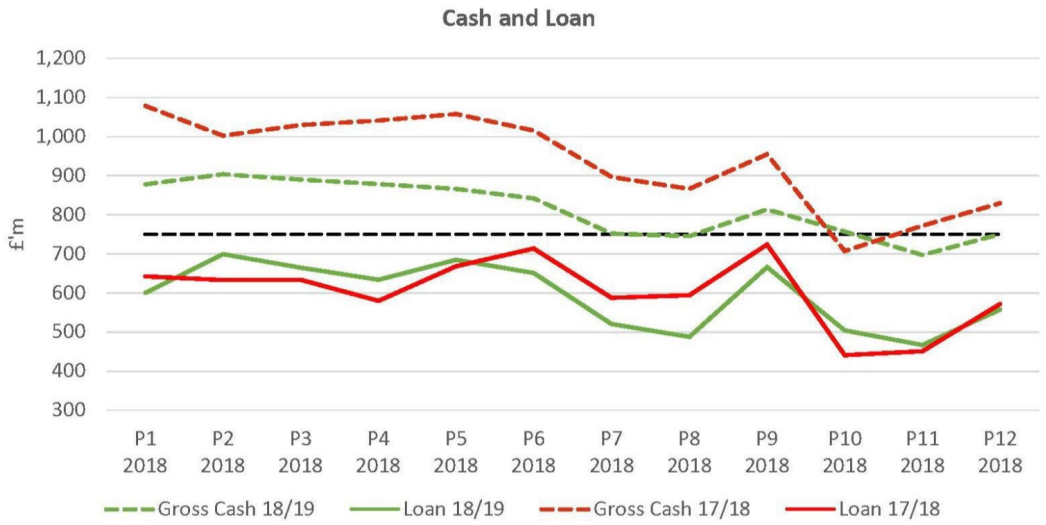
8 Risks and Opportunities

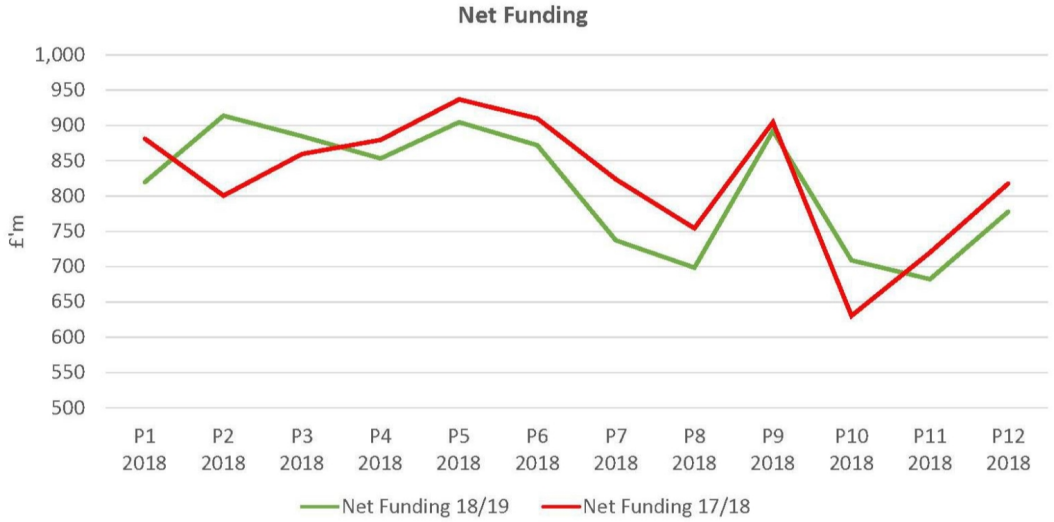
9 Capital and Investment Spend

10 **Cashflow and Headroom**

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Headroom held at >£200m at month end but is likely to breach intra month during Christmas trading

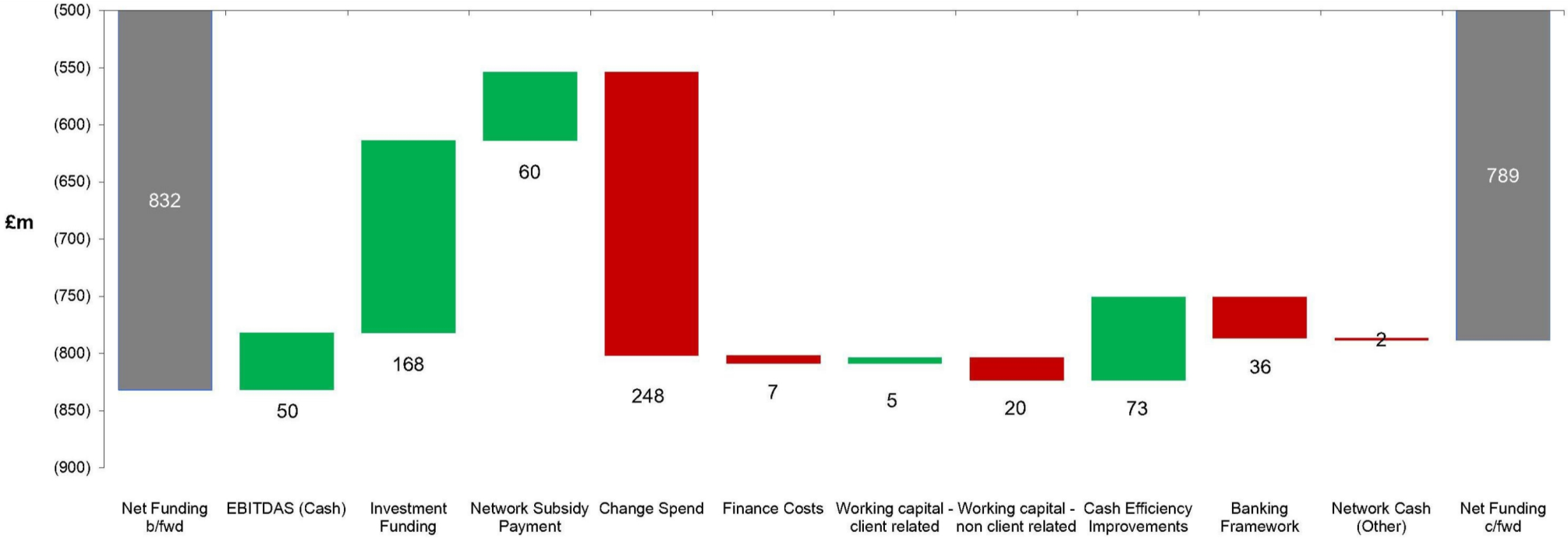




- The current budget on cash includes the following assumptions:
  - Government funding will be drawn down on a quarterly basis in line with the proposed spending pattern.
  - Banking Framework is assumed to require and additional £36m of cash in the network (future of cash paper is still in development)
  - Branch holdings are reduced down to £450m by end of year. 2017/18 average ytd is c.£550m.
  - Cash centre balances are held at current levels (subject to seasonal fluctuations)
- Change spend at £255m is offset by government funding of £228m (Subsidy: £60m and Change: £168m).
- EBITDAS of £50m will fund movements in working capital, finance costs and continuing pay down of provisions.

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Cash Efficiency improvements and EBITDAS generation will drive reductions in Net Funding Position



- The current budget on cash includes the following assumptions:
  - Government funding will be drawn down on a quarterly basis in line with the proposed spending pattern.
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Balance Sheet

£m	2018/19	2017/18	Var
Fixed Assets	569.5	477.1	92.4
Cash	570.5	588.3	(17.7)
Stock	7.2	7.2	-
Pension Surplus	2.6	1.8	0.8
Debtors (excl. Clients)	201.3	212.2	(10.9)
Creditors (excl. Clients)	(246.7)	(256.0)	9.4
Client Debtors	147.4	147.4	-
Client Creditors	(312.2)	(307.4)	(4.8)
Provisions	(49.8)	(63.6)	13.8
Loan	(568.0)	(586.3)	18.3
Net Assets / (Liabilities)	**321.8**	**220.6**	**101.2**
			-
Capital and Reserves	**321.8**	**220.6**	**101.2**

- Minimial movements in balance sheet anticipated excluding the impact of change spend. Capital element only £160m offset by depreciation of c.£67m.

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Appendices – P&L by Product

1. Mails
2. Retail
3. Other Retail & Lottery
4. Payment Services & ATM
5. Government Services
6. Identity Services
7. Mortgages
8. Cards and Lending
9. Savings
10. Travel Money & Fres
11. Moneygram
12. Banking Services
13. Telecoms

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Mails is expecting to deliver income and EBITDAS growth in 2018/19

2018 / 19 Budget Summary - Mails

£m	2017/18 FYF	2018/19 FY Budget	FY Budget vs 17/18	Week 53	2018/19 Budget adj for 52 wks	Adjusted Budget vs 17/18
Gross Income	**332.1**	**341.2**	**9.1**	**5.4**	**335.8**	**1%**
Direct Costs	**-**	**-**	**-**	**-**	**-**	
Mail Trading Income						
Parcelforce	19.6	21.2	1.6	0.4	20.8	6%
Special Delivery	48.8	49.8	1.0	0.9	48.9	0%
International Priority & Standard	35.1	37.2	2.1	0.7	36.5	4%
Stamps (1st & 2nd)	23.0	22.1	(1.0)	0.4	21.6	-6%
Labels (1st and 2nd Class)	90.7	94.2	3.4	1.8	92.4	2%
RM Signed For	22.8	24.0	1.2	0.5	23.5	3%
Home Shopping Returns	17.0	21.2	4.3	0.4	20.8	23%
Other Trading	15.3	15.7	0.4	0.3	15.4	0%
Mail Fixed Income						
Fixed Fee	49.8	45.8	(4.0)	0.0	45.8	-8%
Mailwork	10.0	10.0	(0.0)	0.0	10.0	0%
Net Income	**332.1**	**341.2**	**9.1**	**5.4**	**335.8**	**1%**
Variable Agents Pay	176.2	183.7	7.5	3.3	180.4	-2%
Staff Costs	0.6	0.8	0.2	0.0	0.8	-37%
Non-Staff Costs						
Consultancy & Advisory Services	0.1	0.1	(0.0)	0.0	0.1	45%
Brand & Marketing	0.2	0.2	(0.0)	0.0	0.2	19%
IT Infrastructure & IT Services	0.1	0.2	0.1	0.0	0.2	-199%
Other Operating Costs	2.5	2.0	(0.5)	0.0	2.0	20%
Expenditure	**179.8**	**187.0**	**7.2**	**3.3**	**183.7**	**-2%**
EBITDAS	**152.3**	**154.2**	**1.8**	**2.2**	**152.0**	**0%**

*Includes total staff costs for Mails, Retail and Lottery

Mails EBITDAS is up £4.8m YOY to £157.2m

- Despite contractual reductions of £4m, Mails net income is +£12m YoY due mainly to RPI (£7.7m), now confirmed at net 3% (RPI-1%) and benefit of 53rd week (£5.4m).
- Excluding these benefits, underlying income and EBITDAS are flat, reflecting the change in mix (fewer letters, more parcels)
- Variable Agents Pay is +£7.5m on 17/18, of which £3.3m relates to the 53rd week. The balance reflects the move from fixed to variable costs resulting from DMB closures and change in agent contracts.
- Staff costs are +£0.2m on 17/18 due to personnel transferring from projects back to BAU.
- IT costs reflect inclusion of £0.1m for ongoing maintenance of Drop & Go.
- Favourable £0.5m variance in Other Operating Costs is due to a one-off loss (fraud) on Parcelforce in 17/18.

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Retail

£m	2017/18 FYF	2018/19 FY Budget	FY Budget vs 17/18	Week 53	2018/19 Budget adj for 52 wks	Adjusted Budget vs 17/18
		2018 / 19 Budget Summary - Retail				
Gross Income	**7.9**	**4.4**	**(3.5)**	**0.2**	**4.2**	**-47%**
Direct Costs	**4.2**	**1.1**	**(3.1)**	**0.0**	**1.1**	
WHS Retail Sales	-	2.8	-	0.1	2.7	
Royal Mint	-	0.4	-	0.0	0.4	
Net Income	**3.7**	**3.2**	**(0.5)**	**0.1**	**3.1**	**-17%**
Non-Staff Costs						
Consultancy & Advisory Services	0.1	0.1	0.0	0.0	0.1	-54%
Legal Costs	0.1	0.1	-	0.0	0.1	0%
Other Operating Costs	0.3	0.1	(0.2)	0.0	0.1	76%
Expenditure	**0.5**	**0.3**	**0.2**	**0.0**	**0.3**	**41%**
EBITDAS	**3.2**	**2.9**	**(0.3)**	**0.1**	**2.8**	**-13%**

*Staff costs included in Mails P+L

Retail Income (excl. Gift Cards)

Retail EBITDAS is down £0.3m YOY to £2.9m

- Budget income reflects the new WHS retail contract whereby stock is owned by WHS and commission is earned on sales revenue. Additionally there is a direct contract with Royal Mint for the sales of coins within DMB's
- Closure of DMB's results in -£0.7m net income decline however is partially offset by WHS contract which provides a +£0.3m uplift.
- Direct costs (cost of sales) reduce by £1.3m due to the change in the Retail contract. £1.1m direct costs relate to purchase of Royal Mint coins.
- YoY non staff costs decrease by £0.2m due to procurement costs no longer required going forward.

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Other Retail & Lottery

2018 / 19 Budget Summary - Other Retail & Lottery

£m	2017/18 FYF	2018/19 FY Budget	FY Budget vs 17/18	Week 53	2018/19 Budget adj for 52 wks	Adjusted Budget vs 17/18
Gross Income	**36.3**	**34.8**	**(1.5)**	**0.6**	**34.1**	**-6%**
Direct Costs	-	-	-	-	-	
Other Retail						
Photo-Me	0.6	0.4	(0.2)	0.0	0.4	-37%
Gift Vouchers	5.9	6.6	0.7	0.1	6.4	10%
Lottery						
Variable income	28.5	26.7	(1.8)	0.5	26.2	-8%
Fixed fee	1.4	1.1	(0.3)	0.0	1.1	0%
Net Income	**36.3**	**34.8**	**(1.5)**	**0.6**	**34.1**	**-6%**
Agents Pay	24.9	23.9	(1.0)	0.4	23.4	6%
Non-Staff Costs					-	
Consultancy & Advisory Services	-	0.0	0.0	0.0	0.0	
Finance & Losses	0.2	0.1	(0.1)	0.0	0.1	57%
Legal Costs	-	0.1	0.1	0.0	0.1	
Other Operating Costs	0.1	0.1	0.0	0.0	0.1	-16%
Expenditure	**25.1**	**24.1**	**1.0**	**0.4**	**23.7**	**6%**
EBITDAS	**11.2**	**10.7**	**(0.5)**	**0.2**	**10.5**	**-7%**

*Staff costs included in Mails P+L

Other Retail & Lottery EBITDAS is down £0.5m YOY to £10.7m

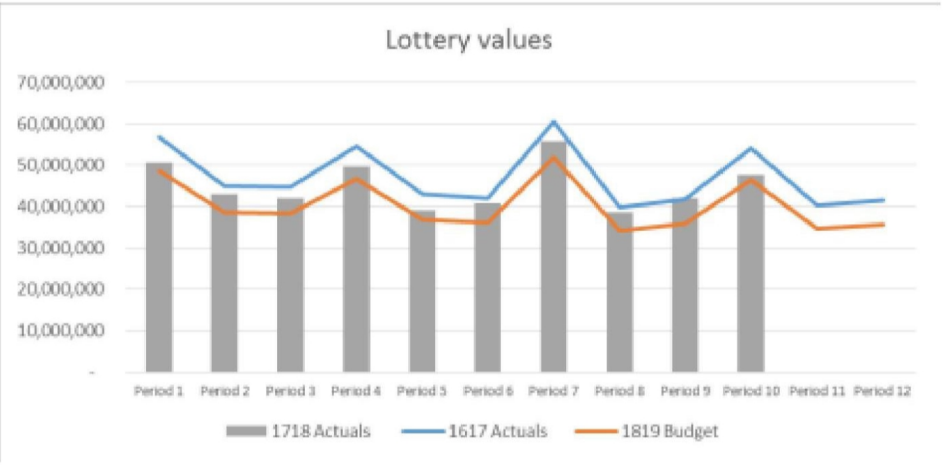
Other Retail

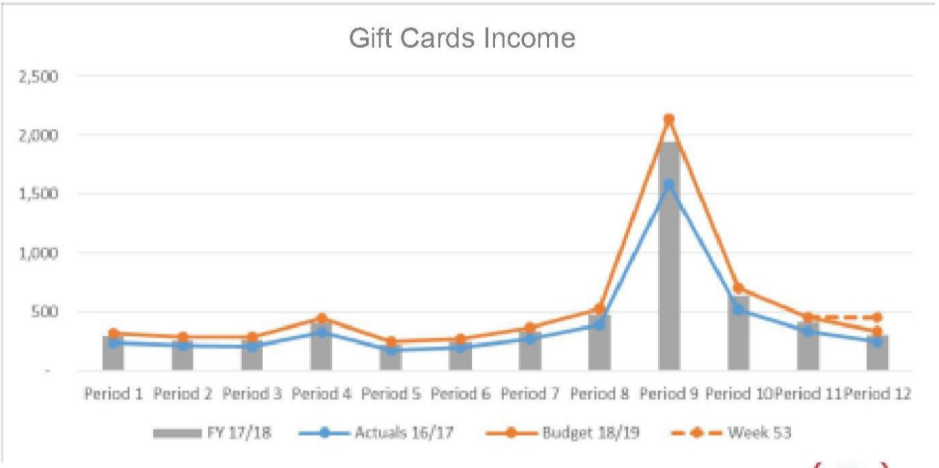
- Gift Vouchers +£0.7m - Continues to grow +10% YoY above overall market growth (5% in 2016).*
- There is a predicted slowing of growth compared to 17/18 inGift cards due to Amazon's departure.
- Photo-booth revenue is also reduced due to the closure of DMB's and the move onto a lower tier of commission payments

Lottery

- Variable -£1.8m - 8% decline on Camelot sales based on prior two year average trend.
- Fixed Fee – No change for 2018/19.
- The fixed fee for Camelot is assumed the same but is subject to a new mechanism based on our success in audits of prize payout tickets.

*Source: UK Gift Card & Voucher Association 2016 Summary H2





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Payment Services & ATMs

2018 / 19 Budget Summary

£m	2017/18 FYF	2018/19 FY Budget	FY Budget vs 17/18	Week 53	2018/19 Budget adj for 52 wks	Adjusted Budget vs 17/18
Payment Services	26.3	26.8	0.5	0.5	26.3	0%
ATM	31.7	31.2	-0.5	0.6	30.6	-3%
Gross Income	**58.0**	**58.0**	**0.0**	**1.1**	**56.9**	**-2%**
Direct Costs	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0%**
Payment Services	26.3	26.8	0.5	0.5	26.3	0%
ATM	31.7	31.2	-0.5	0.6	30.6	-3%
Net Income	**58.0**	**58.0**	**0.0**	**1.1**	**56.9**	**-2%**
Variable Agents Pay	25.9	25.4	0.5	0.2	25.2	2%
Staff Costs	0.9	1.2	-0.3	0.0	1.2	-28%
A Non-Staff Costs	13.5	15.1	-1.6	0.0	15.1	-12%
Expenditure	**40.4**	**41.7**	**(1.4)**	**0.2**	**41.5**	**-3%**
EBITDAS	**17.7**	**16.3**	**(1.4)**	**0.9**	**15.4**	**-13%**

Payment Services EBITDAS is down £1.4m YOY to £16.3m

- HNGT lite benefits £0.3m & new opportunities of £0.5m are offsetting underlying declines in the payments market, direct clients at (8)% and resellers at (6)%.
- POCa accounts decline impacts ATM performance by 3.5m withdrawals, this is partially offset by planned improved availability to 96%.
- Staff costs increasing with investment of 4 new roles, 2 x bill payments, 1 x non cash & 1 x ATMs.
- Non-staff costs increases from card processing costs led by UK cash converting to card at a rapid rate and effective rate increases.

A Payment Services & ATMs EBITDAS not representative as Non-Staff Costs include companywide card processing costs; 2017/18 at £11. 3m, 2018/19 at £12.9m.

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Government Services

2018 / 19 Budget Summary

£m	2017/18 FYF	2018/19 FY Budget	FY Budget vs 17/18	Week 53	2018/19 Budget adj for 52 wks	Adjusted Budget vs 17/18
POCa Accounts	39.3	29.7	-9.6	0.0	29.7	-32%
POCa Interest	2.9	9.4	6.5	0.0	9.4	227%
Passports	21.1	14.5	-6.6	0.1	14.4	-46%
Motoring	6.4	6.2	-0.2	0.1	6.1	-5%
UKVI	14.0	13.0	-1.0	0.0	13.0	-8%
Other Gov Products	0.7	0.7	0.0	0.0	0.7	-5%
Gross Income	**84.5**	**73.5**	**(10.9)**	**0.2**	**73.3**	**-13%**
Direct Costs	**22.5**	**17.3**	**5.1**	**0.0**	**17.3**	**23%**
POCa Accounts	17.3	12.6	(4.7)	0.0	12.6	-27%
POCa Interest	2.9	9.4	6.5	0.0	9.4	227%
Passports	21.1	14.5	(6.6)	0.1	14.4	-32%
Motoring	6.4	6.2	(0.2)	0.1	6.1	-5%
UKVI	13.5	12.7	(0.8)	0.0	12.7	-6%
Other Gov Products	0.7	0.7	(0.0)	0.0	0.7	-5%
Net Income	**62.0**	**56.2**	**(5.8)**	**0.2**	**56.0**	**-10%**
Variable Agents Pay	28.9	21.6	7.3	0.1	21.5	26%
Staff Costs	0.5	0.7	-0.3	0.0	0.7	-59%
Non-Staff Costs	8.4	12.7	-4.3	0.0	12.7	-51%
Expenditure	**37.8**	**35.0**	**2.7**	**0.1**	**34.9**	**8%**
EBITDAS	**24.2**	**21.2**	**(3.0)**	**0.1**	**21.1**	**-13%**

Government Services EBITDAS is down £3.0m YOY to £21.2m

- Net Income adverse by £(5.8)m YOY, led passport volume decline due to HMPO pricing announcement, POCa interest income offsetting volume declines.
- Agents pay reduction YOY in line with variable income.
- Staff costs increasing with investment of 2 new roles, 1 x Snr Propositions Manager & 1 x Propositions Manager .
- Non staff costs higher YOY led by POCa contract costs; additional postage £(4.0)m, JPM tech refresh £(1.5)m, additional intermediary activities £(0.5)m & audit costs £(0.25)m. Partially offset by reduction in passport postage costs led by volume decline £1.5m

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Identity Services

2018 / 19 Budget Summary

£m	2017/18 FYF	2018/19 FY Budget	FY Budget vs 17/18	Week 53	2018/19 Budget adj for 52 wks	Adjusted Budget vs 17/18
Gross Income	**7.7**	**12.9**	**5.1**	**0.2**	**12.7**	**64%**
Direct Costs	**3.3**	**4.7**	**(1.4)**	**0.0**	**4.7**	**-42%**
Net Income	**4.4**	**8.1**	**3.7**	**0.1**	**8.0**	**82%**
Variable Agents Pay	0.0	0.0	0.0	0.0	0.0	0%
Staff Costs	0.0	1.7	-1.7	0.0	1.7	-100%
Non-Staff Costs	0.0	0.0	0.0	0.0	0.0	0%
Expenditure	**0.0**	**1.7**	**(1.7)**	**0.0**	**1.7**	**-5667%**
EBITDAS	**4.4**	**6.4**	**2.0**	**0.1**	**6.3**	**43%**

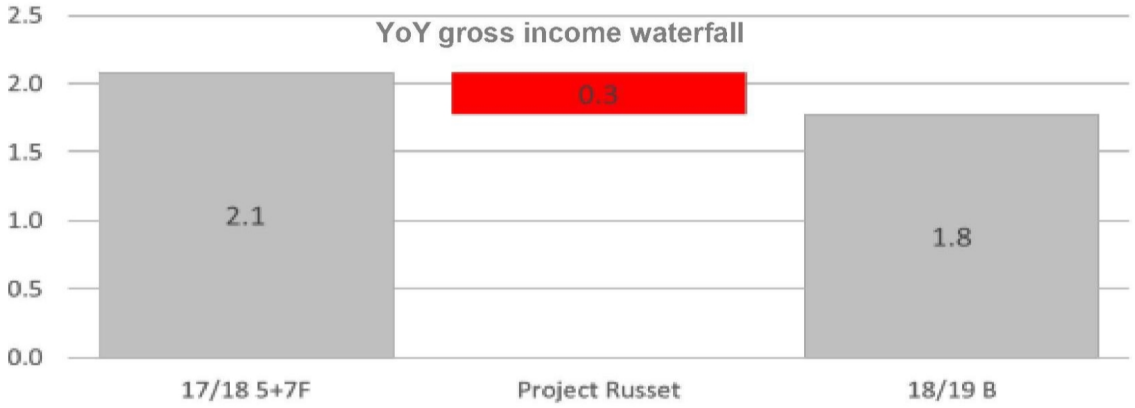
Identity Services EBITDAS is up £2.5m YOY to £6.9m

- LOA2 has continued volume growth of 31% planned for 18/19, coupled with margin improvement of £1.45 per transaction gained via contractual volume achievements.
- Further EBITDAS improvement from LOA1 income lapping and planned launch of verify in branch in P9.
- Implementation of team of 4; Sales Director, Head of Partnerships, Product Manager & Business Analyst.

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Mortgages: Yoy impacted by Project Russet

	Mortgages				
	18/19 Bud	17/18 5+7F	Var	17/18 9+3F	Var v 5+7F
Gross income	**1.8**	**2.1**	**(0.3)**	**2.3**	**0.2**
Cost of Sales	0.0	0.0	0.0	0.0	0.0
FRES profit share	0.0	0.0	0.0	0.0	0.0
Net income including FRES	**1.8**	**2.1**	**(0.3)**	**2.3**	**0.2**
Direct Costs					
Agent's Pay	(0.0)	(0.1)	0.1	(0.1)	0.0
Staff Costs	(0.1)	(0.1)	0.0	(0.1)	0.0
Staff & Agent Related Costs	(0.0)	(0.0)	(0.0)	(0.0)	0.0
Vehicles	(0.1)	(0.1)	(0.0)	(0.1)	0.0
Brand & Marketing	0.0	0.0	0.0	0.0	0.0
Other Non-Staff Direct Costs:	(0.0)	(0.0)	(0.0)	(0.0)	0.0
Indirect Costs					
Staff Costs	(0.0)	(0.0)	0.0	(0.0)	0.0
Non-Staff Indirect Costs:	(0.1)	(0.1)	(0.0)	(0.1)	0.0
Project Costs	(0.3)	(0.2)	(0.1)	(0.3)	(0.1)
FS&T Contribution	**1.2**	**1.5**	**(0.3)**	**1.6**	**0.1**



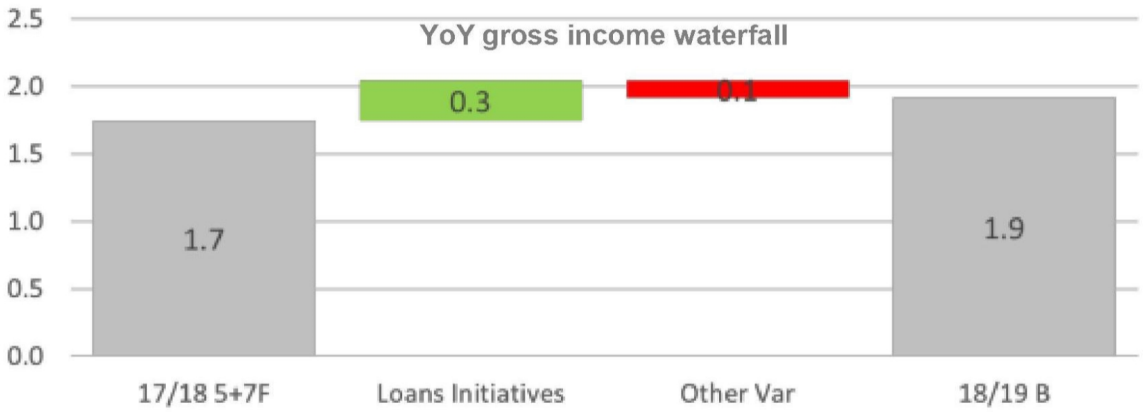
1. **Project Russet**
   - Impact of removal of branch advised channel estimated to be £0.3m
   - Investment in residual distribution capability – CRA contact centre and FS Capability Manager team

2. **Broker channel expansion – incremental opportunity**
   - Broker expansion agreement about to be signed with BoI
   - Expected 2018/19 volume of £0.5-0.8bn resulting in £0.5-0.8m of incremental income at 9bps

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Cards & Lending: Personal Loans growing, but credit cards not performing

	Cards & Lending				
	18/19 Bud	17/18 5+7F	Var	17/18 9+3F	Var v 5+7F
Gross income	**1.9**	**1.7**	**0.2**	**1.9**	**0.2**
Cost of Sales	0.0	0.0	0.0	0.0	0.0
FRES profit share	0.0	0.0	0.0	0.0	0.0
Net income including FRES	**1.9**	**1.7**	**0.2**	**1.9**	**0.2**
Direct Costs					
Agent's Pay	(0.1)	(0.1)	(0.0)	(0.1)	0.0
Staff Costs	(0.1)	(0.1)	0.0	(0.1)	0.0
Staff & Agent Related Costs	(0.0)	(0.0)	(0.0)	(0.0)	0.0
Vehicles	0.0	0.0	0.0	0.0	0.0
Brand & Marketing	0.0	0.0	0.0	0.0	0.0
Other Non-Staff Direct Costs:	(0.0)	(0.0)	(0.0)	(0.0)	0.0
Indirect Costs					
Staff Costs	(0.0)	(0.0)	0.0	(0.0)	0.0
Non-Staff Indirect Costs:	(0.1)	(0.1)	(0.0)	(0.1)	0.0
Project Costs	(0.3)	(0.2)	(0.1)	(0.3)	(0.1)
FS&T Contribution	**1.4**	**1.3**	**0.1**	**1.4**	**0.1**



1. Significant growth in personal loan volumes

- Improved risk appetite by BoI which has led to increased volumes
- Enhancement to the customer journey including funds available to customer next day
- Loans income projected to increase from 17/18 of £0.5m to 18/19 budget of £0.8m

2. Poor performance in credit cards

- BoI risk appetite continues to be limited
- Poor profitability resulting in the likely loss of the profit share for the foreseeable future

POL00027257

Savings

	Savings				
	18/19 Bud	17/18 5+7F	Var	17/18 9+3F	Var v 5+7F
Gross income	**39.0**	**47.2**	**(8.2)**	**48.9**	**1.7**
Cost of Sales	0.0	0.0	0.0	0.0	0.0
FRES profit share	0.0	0.0	0.0	0.0	0.0
Net income including FRES	**39.0**	**47.2**	**(8.2)**	**48.9**	**1.7**
Direct Costs					
Agent's Pay	(1.8)	(2.2)	0.4	(2.2)	0.0
Staff Costs	(1.2)	(1.7)	0.4	(1.7)	0.0
Staff & Agent Related Costs	(0.2)	(0.1)	(0.1)	(0.1)	0.0
Vehicles	0.0	0.0	0.0	0.0	0.0
Brand & Marketing	0.0	0.0	0.0	0.0	0.0
Other Non-Staff Direct Costs:	(0.8)	(0.8)	0.0	(0.8)	0.0
Indirect Costs					
Staff Costs	(0.3)	(0.5)	0.2	(0.5)	0.0
Non-Staff Indirect Costs:	(0.0)	0.3	(0.3)	0.3	0.0
Project Costs	(0.3)	(0.2)	(0.1)	(0.3)	(0.1)
FS&T Contribution	**34.5**	**42.0**	**(7.5)**	**43.7**	**1.6**



1. Strong performance in 17/18 under Value Share

- Cost of funds (NIM) reduced significantly, supported by BoI wholesale funding activity and November's base rate increase
- Balances expected to reach £14.5bn target by year end

2. Expiry of Value Share

- Agreement ends in March, with broader negotiation aiming to replace it with an overall value share
- Current £39m budget income figure represents the likely outcome based on the current FSJVA model

POL00027257

Travel Money & FRES: Financials

	Travel Money				
	18/19 Bud	17/18 5+7F	Var	17/18 9+3F	Var v 5+7F
Gross income*	**31.1**	**27.8**	**3.3**	**28.3**	**0.5**
Cost of Sales	0.0	0.0	0.0	0.0	0.0
FRES profit share	34.1	35.0	(0.9)	34.5	(0.5)
Net income including FRES	**65.2**	**62.8**	**2.4**	**62.8**	**0.0**
Direct Costs					
Agent's Pay	(23.9)	(23.6)	(0.2)	(23.6)	0.0
Staff Costs	(2.1)	(2.2)	0.1	(2.2)	0.0
Staff & Agent Related Costs	(0.3)	(0.1)	(0.2)	(0.2)	(0.1)
Vehicles	0.0	0.0	0.0	0.0	0.0
Brand & Marketing	0.0	0.0	0.0	0.0	0.0
Other Non-Staff Direct Costs:	(2.0)	(2.0)	(0.0)	(2.2)	(0.2)
Indirect Costs					
Staff Costs	(0.5)	(0.7)	0.2	(0.7)	0.0
Non-Staff Indirect Costs:	0.0	0.3	(0.3)	0.3	0.0
Project Costs	(0.3)	(0.2)	(0.1)	(0.3)	(0.1)
FS&T Contribution	**36.2**	**34.3**	**1.9**	**33.9**	**(0.4)**

* Submitted 18/19 budget less distorting double count of Customer Hub income with POMS £1.5m

Income and costs

- Increase of HMRC Fee from £115-£130 per Branch

Risks & Opportunities

- Strengthening/Weakening of sterling
- Brexit Negotiations
- Delay in launching customer hub capabilities
- 1% growth/decline in travel market impacts £14M in branch turnover

Change Activity

- Customer Hub, eKYC , Combined Journey on TMO (currency and card)

Strategy & Market

Economic uncertainty and rising inflation are putting pressure on consumers' holiday finances. GDP is forecast to grow by 1.4% in 2018 but is slowing

The Travel Market is expected to remain flat and Consumer confidence is at a low ebb of -13 (post Brexit it was -12).

Consumers continue to be price conscious so online and TMC are expected to grow whilst on demand sales will fall by 5.7% due to reduced footfall and new AML thresholds

Income and cost

- Travel Money increases 12% yoy, of which 5% is due to CustomerHub
- Contribution is impacted by agents pay increases due to higher turnover

Constituents of income

On Demand	13,619,161
Pre Order	521,834
Click and Collect	980,000
Home Delivery	0
TMO	687,190
Euro on Demand	400,000
TMC New Cards	1,901,528
TMC Top Ups	1,681,250
Total Variable Fee	**19,790,963**
Customer Hub	1,355,000
Fixed Fee	10,000,000
Total income	**31,145,963**

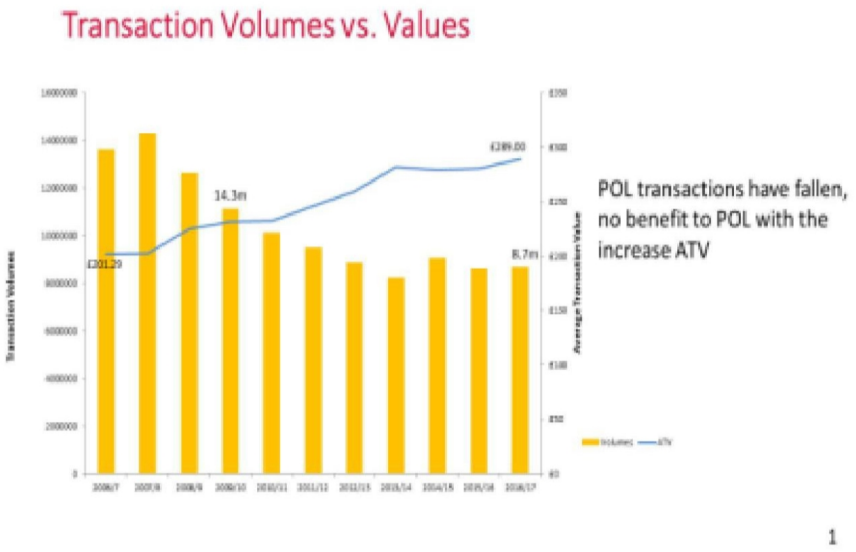
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Travel Money & FRES: Volumes and transactions

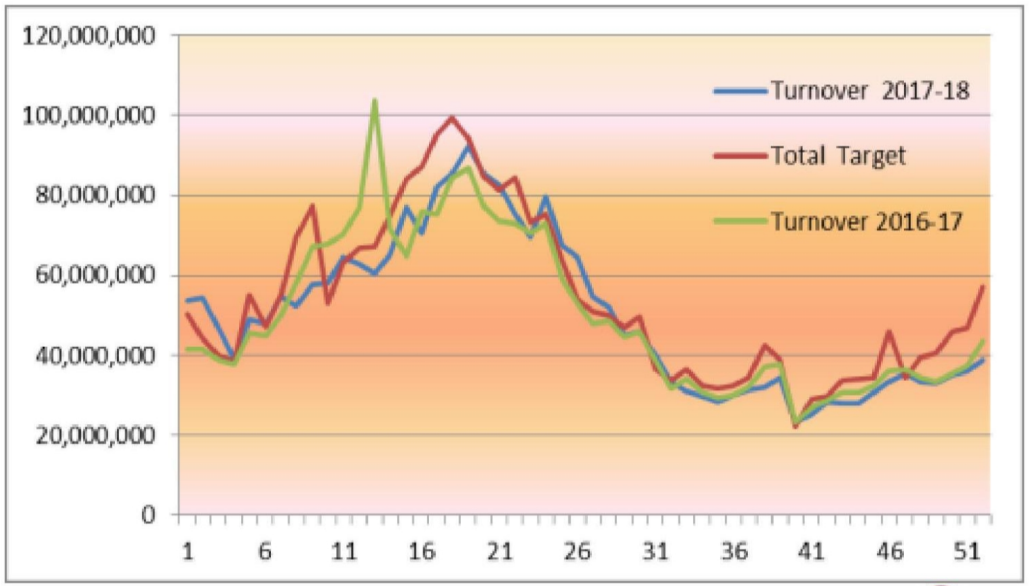
Revenue £k	18/19 B	17/18 9+3F	Var
TMC	1,902	1,600	19%
TMC Top Ups	1,700	1,300	31%
TMO	1,699	1,352	26%
Network	14,458	13,900	4%
Fixed Fee	10,000	10,000	0%
Customer Hub	1,380	0	
Total Travel Money	**31,139**		

This revenue table is representative of the following considerations:

- On Demand sales/buys decline of ~5%
- TMO + 9%
- TMC +20%
- Footfall decline and switch from notes to TMC
- Increase in sales/buy transaction fee £1.99 from £1.92
- Travel market growth of 1%
- New AML eKYC ID&V requirements
- Reduced impact of Easter ie early 2018/late 2019
- ATV increase of 2%
- Blended product margin of 5.16%



1



Post Office Limited – Commercial in Confidence

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MoneyGram: Strategy, market and budget

	MoneyGram				
	18/19 Bud	17/18 5+7F	Var	17/18 9+3F	Var v 5+7F
Gross income	**25.5**	**28.6**	**(3.1)**	**26.6**	**(2.0)**
Cost of Sales	0.0	0.0	0.0	0.0	0.0
FRES profit share	0.0	0.0	0.0	0.0	0.0
Net income including FRES	**25.5**	**28.6**	**(3.1)**	**26.6**	**(2.0)**
Direct Costs					
Agent's Pay	(11.6)	(11.5)	(0.1)	(11.5)	0.0
Staff Costs	(0.8)	(1.0)	0.2	(1.0)	0.0
Staff & Agent Related Costs	(0.1)	(0.1)	(0.1)	0.6	0.7
Vehicles	0.0	0.0	0.0	0.0	0.0
Brand & Marketing	0.0	0.0	0.0	0.0	0.0
Other Non-Staff Direct Costs:	(0.5)	(0.5)	(0.0)	(0.5)	0.0
Indirect Costs					
Staff Costs	(0.2)	(0.3)	0.1	(0.3)	0.0
Non-Staff Indirect Costs:	0.1	0.2	(0.2)	0.2	0.0
Project Costs	0.0	0.0	0.0	0.0	0.0
FS&T Contribution	**12.4**	**15.5**	**(3.1)**	**14.2**	**(1.3)**

Strategy & Market

Moneygram and Western Union remain the two largest operators of the cash to cash remittance market however digital providers continue to penetrate and grow marketshare. New AML regulations that came into effect in 2017 and the continued uncertainty over Brexit and the strength of sterling is having an adverse affect on both the ATV and number of transactions being conducted

We are currently in discussions with MoneyGram on new agreement terms as our existing contract requires us to confirm the existing agreement extending through to 2021. Alongside these discussions we have engaged an outside consultant to help us better underside the full market picture and capabilities prior to making our recommendations to the GE

2018/19 Budget & YoY (Profit)

We are predicting that the market will see a continued decline in the balance of 2017/18 impacting our forecasted revenues by ~£400k so our 18/19 budget is based off a declining baseline

Return on revenue is expected to decline to just below 50%

Income and costs

Post Office and MoneyGram have a commitment to contribute up to £250k each (£500k) towards joint marketing activity. PO will be taking a more active role in managing these marketing initiatives. (Awaiting Penny confirmation this is sitting in Marketing budget)

MoneyGram have given a short term commitment to fund an increase in remuneration for cash to account transactions to India. This funding supports the postmasters as their remuneration will be the same as a cash to cash transaction. Following a review of these results we will be looking to agree ongoing funding from MoneyGram and expand destinations.

Risks & Opportunities

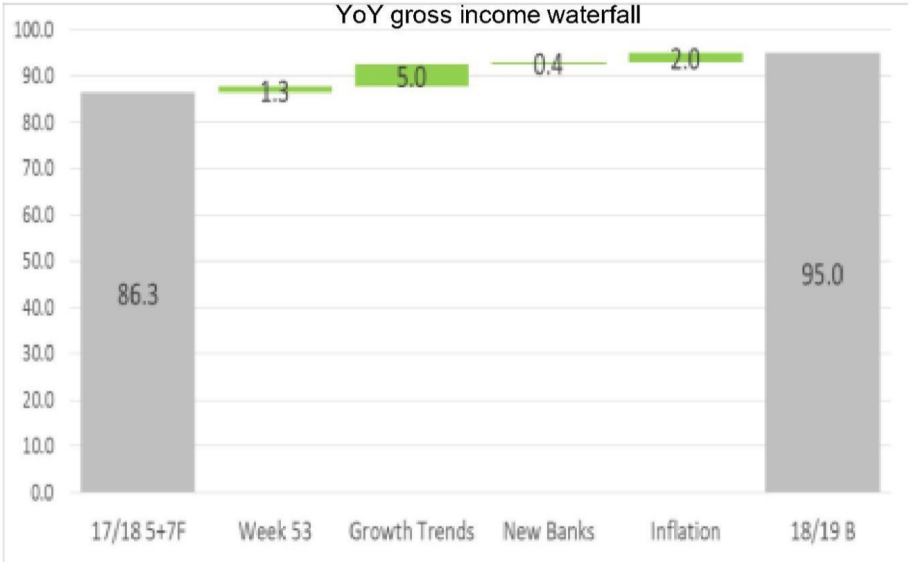
Depending on the outcome of our strategic review, we would expect to improve our financial position through enhanced remuneration form MoneyGram alternatively if we move to an RFP process we will have to increase our oversight of the relationship to ensure that MoneyGram do not divert their resources to the RFP. The RFP process is also expected to impact 18/19 as we do not expect M/Gram to deliver digital capabilities

Opportunity We are working with MoneyGram to develop more direct marketing campaigns in 2018/19 to maximise penetration of existing customer relationships. This focussed approach is also aimed at stabilising the current send and receive RPT.

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Banking Services: Income up £8.7m yoy; 10.1%

	Banking Services				
	18/19 Bud	17/18 5+7F	Var	17/18 9+3F	Var v 5+7F
Gross income	**95.0**	**86.3**	**8.7**	**88.0**	**1.7**
Cost of Sales	(1.3)	(1.1)	(0.2)	(1.1)	0.0
FRES profit share	0.0	0.0	0.0	0.0	0.0
Net income including FRES	**93.7**	**85.3**	**8.5**	**87.0**	**1.7**
Direct Costs					
Agent's Pay	(27.6)	(29.3)	1.7	(29.3)	0.0
Staff Costs	(0.5)	(0.3)	(0.2)	(0.3)	0.0
Staff & Agent Related Costs	(0.0)	(0.0)	(0.0)	(0.4)	(0.4)
Vehicles	0.0	(0.0)	0.0	(0.0)	0.0
Brand & Marketing	0.0	0.0	0.0	0.0	0.0
Other Non-Staff Direct Costs:	(0.2)	(0.0)	(0.2)	(0.0)	0.0
Indirect Costs					
Staff Costs	(0.3)	(0.7)	0.4	(0.7)	0.0
Non-Staff Indirect Costs:	0.2	0.7	(0.5)	0.7	0.0
Project Costs	(0.7)	(0.5)	(0.2)	(0.5)	0.0
FS&T Contribution	**64.6**	**55.2**	**9.4**	**56.5**	**1.3**



Key elements

- Versus the 5+7 forecast, gross income is up £8.7m (10.1%), which is £7.4m (8.5%) excluding the 53rd week
- £2m of the growth is due to tier increases in the framework fee due to volume increase which rises from £20.7m to £22.3.m, together with £400k RPI increases on transaction rate cards from P10.
- The remaining £5m is due to the ongoing volume increases resulting from Bank closure programmes and increased awareness. Which is an increase of 7.5% on 2017/18 transactional income base of £63.6m
- Agents Pay has reduced YoY by £1.6m to £27.6m versus the £29.3m in the 5+7 Forecast
- Other costs, are broadly flat YoY aside from £150k audit costs.. £180k of marketing was charged to the Development Fund in 2017/18

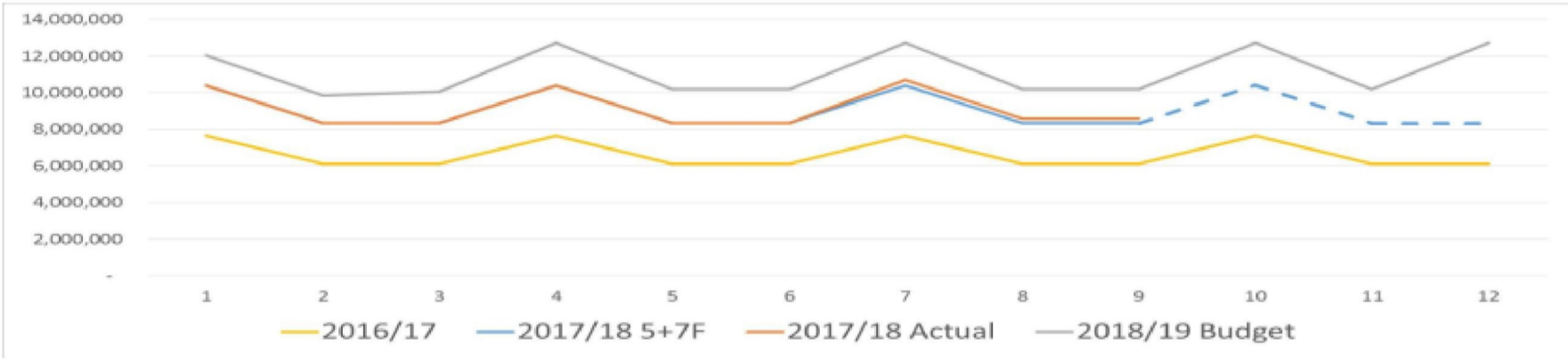
Since the budget was submitted

- Transactional income has exceeded forecast – likely end of 17/18 will be c. 67m vs £63.6m in initial budget.
- Trading in the period since the budget was submitted has been strong, and the expected outcome for 2017/18 is £1.7m better than the 5+7 forecast. The growth in Business Deposits (18.43% in 17/18) is significant, and as a result we believe that there is upside of up to £2m income versus the current submission, most of which is offset by measures to improve the agents' situation, and marketing spend. These are set out in more detail in the following pages.

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Banking Services

Total volumes (all transaction types) by period



YoY volume growth	1	2	3	4	5	6	7	8	9	10	11	12	TOTAL
2017/18 5+7F	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%	36%
2017/18 Actual	36%	36%	36%	36%	36%	36%	40%	40%	40%	40%	40%	40%	38%
2018/19 Budget	16%	18%	21%	22%	23%	23%	19%	19%	19%	19%	19%	48%	22%

Volumes

- The graph shows the yoy increase on volumes incorporated in the 2018/19 budget submitted in November.
- The trend is in line with last year, rising from 16% YoY in Period 1 to 23% in period 6, after which the volume increases from Lloyds and RBS seen in2017/18 annualise and growth settles to 19%.
- The large growth in Period 12 is driven by the 53^{d} week.

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Telecoms: FY 18/19 budget: HomePhone regulatory change and customer reaction to Galaxy proposition present the main risk/opportunity

	Telecoms			
	18/19 Bud	17/18 5+7F	Var	17/18 9+3F
Gross income	**160.4**	**149.6**	**10.8**	**150.7**
Cost of Sales	(88.5)	(81.7)	(6.8)	(81.7)
FRES profit share	0.0	0.0	0.0	0.0
Net income including FRES	**71.9**	**67.9**	**3.9**	**69.0**
Direct Costs				
Agent's Pay	(1.6)	(1.4)	(0.2)	(1.4)
Staff Costs	(0.9)	(0.5)	(0.4)	(0.5)
Staff & Agent Related Costs	(0.0)	(0.0)	(0.0)	(0.0)
Vehicles	0.0	(0.0)	0.0	(0.0)
Brand & Marketing	0.0	0.0	0.0	0.0
Other Non-Staff Direct Costs:	(31.0)	(29.3)	(1.8)	(31.1)
Indirect Costs				
Staff Costs	(0.4)	(0.5)	0.1	(0.5)
Non-Staff Indirect Costs:	0.1	0.5	(0.4)	0.5
Project Costs	(1.3)	(0.3)	(1.0)	(0.3)
FS&T Contribution	**36.8**	**36.4**	**0.3**	**35.7**

Strategy & Market

- **HomePhone** – Market move by BT £7pm price reduction from 01.04.18. PO implementation of Free Broadband (Galaxy) leads to increased revenue and cost, customer reaction to offer is unknown.
- **Broadband** - Market will remain highly competitive in both ADSL and FTTC*, with competitor mass marketing of high speed FTTH* products
- **Customer Strategy**
  - **Gross Ads** - activity phased in H1
  - Online and Telesales increased focus (69% of total)
  - Branch network flat YoY
  - **Churn** – budgeted reduction from 0.44% to 0.33% per month
  - Call centre retention (51% to 70%) through enhanced call centre availability and agent capability

2018/19 Budget & YoY (Profit)

- +7% YOY gross revenue
- +6% YOY growth in net Income

Income and costs:

- Increased costs in Homephone due to Project Galaxy decision (£7.39 cost now £10.31 blended), partially offset with lower ADSL pricing (~£1pm)
- Price increase planned May '18 (£6.1m in year DPC benefit)

Risks

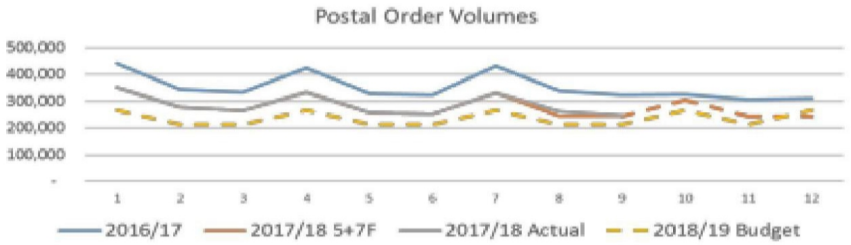
- £1.0m remaining risk, resulting from financial modelling (£2.4m) and Galaxy COS (£6.5m)
- Project Galaxy assumptions highly sensitive to customer reaction, potential for positive or negative commercial impact
- Mid year price rise subject to competitor pricing changes, PO rise will be reviewed at end Q1 when impact of Galaxy and Q1 trading is known

*FTTC – Fibre to the Cabinet. FTTH – Fibre to the home

POL00027257

Postal Orders: Income decline anticipated to continue at a similar rate to 2017/18

	Postal Orders				
	18/19 Bud	17/18 5+7F	Var	17/18 9+3F	Var v 5+7F
Gross income	**12.3**	**14.5**	**(2.2)**	**14.8**	**0.3**
Cost of Sales	(0.1)	0.1	(0.2)	0.1	0.0
FRES profit share	0.0	0.0	0.0	0.0	0.0
Net income including FRES	**12.2**	**14.6**	**(2.4)**	**14.9**	**0.3**
Direct Costs					
Agent's Pay	(2.9)	(3.3)	0.4	(3.3)	0.0
Staff Costs	0.0	0.0	0.0	0.0	0.0
Staff & Agent Related Costs	0.0	0.0	0.0	(0.1)	(0.1)
Vehicles	0.0	0.0	0.0	0.0	0.0
Brand & Marketing	0.0	0.0	0.0	0.0	0.0
Other Non-Staff Direct Costs:	0.0	0.0	0.0	0.0	0.0
Indirect Costs					
Staff Costs	(0.1)	(0.2)	0.1	(0.2)	0.0
Non-Staff Indirect Costs:	(0.0)	0.0	(0.0)	0.0	0.0
Project Costs	(0.1)	(0.1)	(0.0)	(0.1)	0.0
FS&T Contribution	**9.1**	**11.1**	**(1.9)**	**11.3**	**0.2**





Profit structure (£k)	Volume	Income as % of avg value	Income (£k)	Agents pay (£k)	COGS (£k)	Team (£k)	Contribution
< £5 (£0.50)	242,600	24.3%	121	(700)	(6)	(4)	(589)
£5 - £9.99 (£1.00)	248,758	16.8%	249	(718)	(7)	(4)	(480)
£10 - £99.99 (12.50%)	2,142,532	12.5%	8,138	(6,181)	(57)	(38)	1,862
£100 - £250 (£12.50)	180,317	8.1%	2,254	(520)	(5)	(3)	1,726
Breakage	2,814,206	12.5%	1,538		(75)	(50)	1,413
	5,628,412		12,300	(8,119)	(150)	(100)	3,931

Profit structure

The table above shows a graduated structure for fees depending on the transaction size. For total transaction values in 2018/19 of £186.7m Post Office will take £10.8m fees (5.8%) and take the benefit of the 12.5% of Postal Orders not cashed (£1.5m).

Agents are paid a flat fee per transaction (preparation and encashment), which means that for transaction values less than £10Post Office loses money. Overall, Post Office contribution is £3.9m after agents pay of £8.1m and other costs of £0.2m. This equates to 70p on an average transaction of £33.18

Income and costs

Costs are flat yoy. The £2.2m yoy income decline is driven by:

- An upside of £0.2m from the 53rd week in 2018/19
- £0.2m income from the 2017/18 instore advertising spend
- An underlying volume decline of 18% decline in volumes (compared to 20% in 17/18 £(2.7)m

Risks

- MoJ has indicated that it will stop paper Postal Orders in prisons due to high admin costs, but have asked PO for a solution. Timing for the withdrawal expected is to be end 2018/19 at the earliest.

POL00027257

Quarterly Funding Request

Author: Cem Oztoprak | Sponsor: Alisdair Cameron | Meeting date: 27 March 2018

Executive Summary

Context

The Post Office is undertaking a complex transformation programme, designed to modernise both its retail network and IT infrastructure whilst optimising the cost base and creating a platform for customer-led growth. The strategic goal is to create a commercially sustainable business within the next 3 years.

£210m of investment funding is available from Government, if needed, across 2018-19 and 2019-20. We have agreed to submit a quarterly report to Government on our progress which will support a drawdown of funding. The first full quarterly report will come to the July Board for approval with submission to UKGI following the Board approval. The purpose of this paper is to request funding for the first quarter of the new plan

Questions addressed in this report

1. What is the 2018-19 change plan?
2. What is the change plan details for Q1?
3. What funding is requested for Q1?
4. How does the future funding requirements look like?

Conclusion

The forecasted investment in Q1 of the 2018-19 financial year is £65m, £35m of which will be government funded.

Input Sought

The Board is asked to approve a request of £35m of funding from government for Q1.

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The Report

1. As part of the latest 3-Year Plan, five strategic priorities have been identified to address the strategic objectives with an investment ranging from £375m to £450m over the next 3 years.
   - Simplify the retailer proposition (£170m to £210m)
   - Build innovative, flexible and secure IT (£80m to £90m)
   - Modernise our products and services (£90m to £110m)
   - Digitise and optimise the business (£30m to £35m)
   - Modernise our skills, culture, HR policies and processes (~£5m)
2. Over half of the investment will be funded from trading profits, with the remainder being provided by £210m government investment fund over 2 years. Following this funding period, Post Office will be on a run-rate to commercial sustainability.

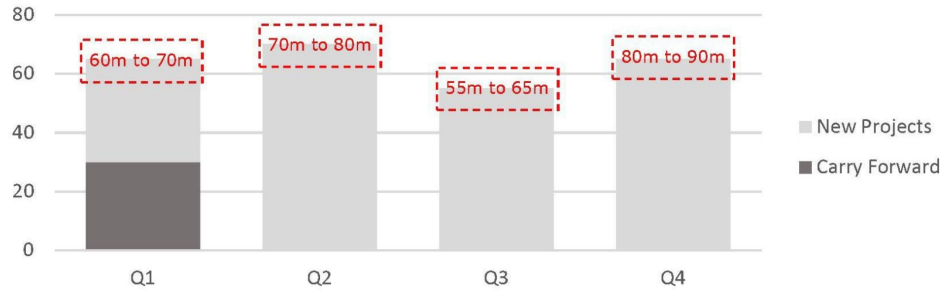
What is the 2018-19 change plan?

3. 2018-19 is the first year of 3-Year Plan. The budgeted change spend for this year is £255m and the expectation by strategic priority is as following:

Strategic Priority	Forecast
Simplify the retailer proposition	£55m to £65m
Build innovative, flexible and secure IT	£80m to £90m
Modernise our products and services	£70m to £80m
Digitise and optimise the business	£15m to £20m
Modernise our skills, culture, HR policies and processes	£4m to £6m
Regulatory & Group Litigation Costs	£11m to £14m
TOTAL	**£235m to £275m ***

*The details of the change plan is provided in the budget update paper.

4. The spend profile for 2018-19 is expected to be as following. Within that spend is c. £30m of change activity deferred from 2017-18 which we will fund from the business and not from the new investment funding. In addition, we will self-fund any investment in Project Panther, which is not in the budget.



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What is the change plan for Q1?

5. Q1 Spend is expected to be ca. £65m, including the carry forward from 2017-18 and will be mainly consist of deliveries of the strategic projects which are already in execution phase or being designed.

	Q1 Investment	Approval Status
Carry Forward projects from Q4	**£30.0m**	
Simplify the retailer proposition	**£9.9m**	
- Further Franchising DMBs	£4.7m	√
- Network Expansion	£4.3m	√
- Agents / Postmasters Portal	£0.6m	√
- Other smaller projects	£0.3m	
Build innovative, flexible and secure IT	**£18.2m**	
- Branch Printer Replacement	£1.8m	√
- CDP re-procurement	£1.1m	√
- EUC Branch Deployment	£2.9m	√
- HNGT Lite	£1.5m	√
- Project Everest – Cloud enablement	£3.3m	√
- Project Nelson	£1.5m	√
- Risk and Resilience	£1.9m	√
- Software Asset Management	£0.3m	√
- Full Think Client Deployment (Solar Full)	£0.8m	√
- Other End-of-life replacements	£1.2m	√
- Other Smaller Projects	£1.9m	
Modernise our products and services	**£15.5m**	
- POMS Investments	£2.3m	√
- Banking Framework – Future of Cash incl. Vehicles	£0.6m	
- Project Galaxy	£2.4m	√
- Mails Projects	£2.1m	
- Digital Check & Send	£1.2m	√
- Property	£1.5m	
- Falcon – Travel Hub	£1.5m	√
- Other smaller projects	£3.9m	
Digitise and optimise the business	**£2.4m**	
- Project Arrow	£1.5m	√
- Success Factors	£0.6m	√
- Other smaller projects	£0.3m	
Modernise our skills, culture, HR policies and processes	**£0.9m**	
- Back office Transformation	£0.9m	√
Regulatory & Group Litigation	**£1.0m**	
- GDPR	£1.0m	√
Estimated to be delivered in Q2	**(13.0)**	
TOTAL	**£65.0m**	

√ Approval at Gate 2 or beyond, development in progress
√ Approval at Gate 1, designing the project

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What funding is requested for Q1?

6. To fund expected £65m change spend in Q1, £35m funding is requested.

How does the future funding requirements look like?

7. Based on the current spend profile, we expect to have the following funding requirements

	Spend	Funding	Cumulative Funding
Q1	£65m (incl. 30m carry forward)	£35m	£35m
Q2	£65m to £75m	£55m	£90m
Q3	£50m to £60m	£50m	£140m
Q4	£60m to £70m	£28m	£168m

8. The above figures are indicative only and subject to change based on project delivery performance. At the end of each quarter, we will provide delivery update and revise the future outlook accordingly.

POL00027257

Cash Efficiency

Author: Mark Dixon, Russell Hancock, Mark Ellis Sponsor: Al Cameron Meeting date: 27 March 2018

Executive Summary

Context

Many of our customers want to transact in cash including the unbanked, people who are resistant to technology, people who prioritise privacy and security etc. Our cash enables our agents to support customer preferences and is, through Banking Framework, a product in itself for small business.

We operate at scale, managing around £1.5b of cash in a typical day and moving around £60b over the course of a year. The rules we operate under, set by BEIS and the Bank of England, are unique. An explanation is set out in the Appendix.

At the last Strategy Awayday, we agreed that we would improve the efficiency with which we use cash, creating future flexibility and improving our facility headroom to be greater than our security headroom.

Putting cash to use with agents creates the risk that they will steal or lose it, creating losses. Minimising cash availability reduces losses and it was agreed with the Board in January that we would provide a combined update.

The purpose of this paper is to set out progress and next steps.

Questions addressed in this report

1. What progress has been made in improving flexibility?
2. What else can be done?
3. What is happening with agent losses?

Conclusions

We reduced cash in use by £180m by end January, reducing to £127m in February due to the temporary impact of installing new High Speed Notes Counters. £24m extra was borrowed from the Bank of England, giving a total balance sheet reduction of £151m. This was partly offset because, as planned, we spent more on change in the period than we received in funding. Borrowing from BEIS fell by £110m.

This improvement has been made in spite of growing Banking Framework activity and is sustainable. We will always see seasonal impact, with an earlier Easter bringing forward higher branch cash in March compared to last year.

Facility headroom under the BEIS facility increased to £299m and now exceeds security headroom. We believe that a further £40m improvement should be possible without significant investment.

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Security headroom reduced to £223m due to the net change spend. As forecast, using less cash reduces the borrowing and the security without benefitting headroom. However, with higher facility headroom we can monetise security headroom if we need to.

To improve security headroom, we are about to trial using smaller denomination notes in branches and are in discussions with the Bank of England about an amendment to increase off-balance sheet funding. We are not pursuing any changes to the rules governing security headroom as we do not believe we will make progress.

Reducing cash in branches can also reduce fraud. As the Board is aware, due to the impact of the Postmaster Litigation, we are currently restricted as to the legal action, including County Court proceedings, we are able to bring against Postmasters with unexplained branch losses.

This is likely to remain the case for at least another year and is well known across the network. To combat higher levels of loss we have reduced excess cash in individual branches from £90m to £27m, improved conformance with cash declarations, improved the speed and accuracy of fraud analysis and significantly increased the number of audits. We now find a problem in 81% of directed audits with no significant issues identified in random audits.

In spite of this, losses have risen and the inherent risk will continue to rise. We are assessing whether we need to further increase resources.

We will focus on managing future impacts of the Banking Framework (the future of cash work will be brought to Board in May) and improving our MI on the back of the POLSAP replacement. A longer-term Phase will likely be created to introduce better technology, possibly including the internet of things and/or smarter counter safes transforming our knowledge of where cash is and reducing losses.

Our long term goal remains charging for cash delivery and inventory to align our interests with those of agents. However, this is a major change and would only be introduced as part of a package of measures. This will form part of the Retail Strategy.

Input Sought

The Board is asked to note the progress made and comment on the next steps.

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The Report

What progress has been made in improving flexibility?

1. We have c. £151m less cash on our balance sheet. We believe there is limited seasonal impact in this comparison:

Cash position, £m	Feb 2018	March 2017	Variance
Sterling	498	551	53
FX	57	85	28
Total Branch Cash	**555**	**636**	**81**
Inward REMs	48	83	35
Outward REMs/Other	91	74	(17)
Total for Processing	**139**	**157**	**18**
Other, cheques, cards	**68**	**120**	**52**
Total Cash in Use	**762**	**913**	**151**

2. January's cash in use was even lower at £708m: the rise in February is primarily due to £42m of extra cash in the machine processing rooms as we switch to the new High Speed Note Counters.

3. This reduction reflects progress in a number of the planned areas. We worked with 3,000 branches to recover cash after Christmas. Branch Sterling has fallen by c. £53m and as we will set out later in the paper, we believe this has been successfully focused on branches with excess cash (£60m) and has not risked trading through a general rationing of cash. We changed the way we provide Euros and US Dollars to send the amounts we thought branches needed rather than the amounts branches chose to order. FX holdings have fallen by £28m with at least £20m due to this initiative.

4. The next significant area of focus was cash being processed back into bond. Deploying overtime and 9 extra FTE in cash centres, inward rems are now £48m versus £83m last year and a peak of £160m in Q1 as the Banking Framework volumes increased.

5. We have spent £224m on capital and change while receiving £160m from trading and Government support. As a result our net funding from client and other creditors has fallen by £75m. We have borrowed more from the Bank of England, enabling us to reduce borrowing from BEIS by £110m:

Borrowing position, £m	Feb 2018	March 2017	Variance
Cash at bank	-	1	(1)
BEIS Revolving Credit Facility (RCF)	(451)	(561)	110
Off balance sheet BoE Funding (NRF)	(270)	(246)	(24)
Other	(41)	(107)	66
Total	**(762)**	**(913)**	**151**

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6. Our facility headroom on the RCF is measured against an effective limit of £750m: the facility limit of £950m less the Board's £200m internal cap. Our headroom has increased by £110m to £299m.

7. Our security headroom is relatively unaffected by the improvement because reductions in cash in use reduce both the limit and the balance. However, it is affected by the drop in the net funding provided by other sources as follows:

Security Headroom, £m	Net Security	Usage (RCF)	Headroom
March 2017	**894**	**(561)**	**333**
Reduction in branch cash	(140)	140	-
Other	(80)	(30)	(110)
February 2018	**674**	**(451)**	**223**

8. We agreed with the Board last summer that our immediate task was to ensure that Facility Headroom increased above Security Headroom, creating flexibility. That has been achieved.

What else can be done?

9. Overall, we estimate that a further c. £40m of cash can be removed by targeting excess cash in individual branches (this will never be nil), analysing whether it would be cost effective to bring back c. £10m of surplus foreign currency in less used currencies held in small amounts across the network and continuing to optimise the end to end process.

10. We identified four other potential opportunities last Summer. Firstly, reducing overall borrowing by creating a £50m third party facility: this is with HMT for approval. Secondly, creating additional capacity in the NRF: we have dialogue with the Bank and trials which in combination could benefit security headroom by c. £60m, partly by using lower denomination notes in branches.

11. Thirdly, we may be able to reduce our buffer if we forecast better. We are forecasting more often and working with KPMG to understand what else we can do in the current state of our systems. However, this has not yet led to a systematic improvement. Once we have replaced POLSAP, we expect to work on re-basing both our financial and cashflow forecasts on trends in the underlying £60b of transactions, for which information is not easily available today.

12. Finally, we discussed the potential to change the security headroom rules with HMT but believe they will not change as it could impact the way the loan is characterised on their balance sheet. We have stopped this workstream.

13. As we revert with the Future of Cash work, the banking framework may lead to further phases being required. In the long term, we would like alignment with agents on their use of cash by sharing the drivers of our cost base and charging for cash delivery and inventory.

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14. We have intentionally not made any progress in this area: we do not have sufficient, reliable data to support any charge for inventory, which could be the greatest driver of agent behaviour; and secondly, we can't assess this in isolation of the broader agent remuneration and retail strategy, due to the Board in June. Whether we charge for services, offer different levels of service and how we maintain people interested in taking and retaining Post Offices is complex and finely balanced. Nonetheless, this would remain our preference.

What is happening with agent losses?

15. In the 11 months to end February, we saw an increase in debt provisioning net of c. £4.3m – annualised c. £5m. This represented gross losses of £7.1m and recoveries or £2.8m of which the bulk happen within a few days of the loss being identified. This compares to net losses of c. £2.9m in 2016-17.

16. The pattern of rising network losses was discussed with the Board earlier in the year. It is some years since we have felt able to routinely prosecute agents for fraudulent activity and we are not now pursuing county court actions. This may contribute to an increase in incidents: in the first quarter of the year we saw three material losses of more than £300k each. We set out plans to improve conformance with and simplify the cash declaration process, giving us better data, to improve fraud analytics and to increase the number of audits.

17. We are working hard to combat the trend:

- Cash declaration conformance has increased steadily over the last year from 85% in January 2017 to 91% in February 2018 with a continuing upward trend. This is the result of thousands of phone calls.
- The project to simplify declarations is underway for delivery in July. It is taking a long time because making changes to Horizon code is slow.
- We have reduced estimated excess cash at branches from £90m (£126m after Christmas) to c. £27m. This does not represent a static population of branches.
- We have worked with a third party to improve the accuracy and speed of identifying fraud. We have completed 594 risk audits YTD versus 425 for the whole of last year. When the team request an audit there is a loss and /or excess cash to return 81% of the time, 75% have some sort of cash loss. 97 random counts have been carried out with 40 showing small losses totalling £18k, an average loss of £450, highest individual loss £2.3k.
- YTD 143 postmasters have been suspended compared to 116 last year, with 101 branches remaining closed. The majority relate to audit issues.

18. The net impact is that the average loss has fallen from £24k in Q1 to £16k now but that is a rising trend from Q2 at £9k. We are not seeing the very large losses – our largest loss in Q4 is £130k

19. Within a future phase, technology options can be used to reduce theft, including potentially using internet of things sensors on cash packets and new counter safes pioneered by the Norwegian Post Office which reduce handling of and access to cash. These are potentially game changing. The immediate systems priority however is to manage the transfer of cash management from POLSAP to new Transtrack software. We are working on improved data flows, analytics and forecasting to flow from this core change.

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APPENDIX – HOW DOES CASH WORK IN POST OFFICE?

The purpose of this Appendix is to remind people of the way we manage cash, the rules we operate under and the jargon we use. For consistency, we are using the data at the March 2017 year-end throughout.

Cash under our control

On that date we had £1,444m[1] of physical cash under our control. We operate as a member of the Bank of England's Note Circulation Scheme (NCS) which supports us operationally and with funding in exchange for us distributing cash throughout the country.

Cash we manage for other people but do not own

Of that £1,444m, £532m was in Bank of England (BoE) vaults in our Birmingham and London cash centres or in a Clydesdale Bank vault in our Glasgow. Once the cash is in the vaults, it belongs to the bank and not to us – neither the cash nor any related borrowing appears on our balance sheet.

There are very specific rules that govern the operation of the vaults from opening hours (broadly 9-5), to security to processing requirements. Either bank can and does send teams in without notice to audit us: to date we have always passed.

Our main risks are the security of the cash and ensuring that the amount of cash held does not exceed our insurance limits for that site or across our business. Limits can be stressed by the build-up of £50 notes. Oddly, people across the world will take £50 notes in their original wrapping but not once they have been used even if they remain in perfect condition (A-FiT). A-FiT £50s come in via FRES and tend to build up until we can persuade the BoE to take them back. To date, they have done that (to the tune of c. £210m this year) and we have not had to refuse FRES.

Cash we use in our business

Cash is used in our business from the moment it leaves the vault until it is paid to a customer and from the moment it is paid in to our till until it is back in the vault.

Cash is considered branch cash from the point at which it is barcoded (remm'd) into a branch as the Supply Chain driver delivers it. It is remm'd out when it is packaged for return and the barcode swiped – it may then stay in the branch safe until Supply Chain picks it up again.

Once it has been barcoded for return it becomes an Inward Rem. It will be picked up, and returned to one of 15, local depots. It will then be put on larger lorries to be "trunked" back to one of the cash centres. The cash is then counted by machine under camera. We are currently replacing our old machines with High Speed Note Counters that meet the BoE's new rules for polymer notes. The cash is processed in alignment

[1] *Shown as £1,479m in June 2017 paper reflecting change in presentation of debit cards and Clydesdale funding arrangements.*

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with BoE rules and goes back into the vault at which point the cash is owned by BoE and disappears from our balance sheet and funding requirement.

Cash will also be doing the same journey in reverse (Outward Rems) and we maintain other cash between vault and branch for a variety of reasons – local stocks of coin to speed up delivery, Scottish notes etc.

The cash in use in our business at year-end was therefore £913m, broken down as follows:

Cash position, £m	**March 2017**
Sterling notes and coin	551
Foreign currency notes	85
Total Cash in Branches	**636**
Inward REMs	83
Outward REMs/Other	74
Total for Processing	**157**
Other distributed inventory, cheques, cards	**120**
Total Cash in Use	**913**

Funding

That £912m of cash was funded as follows:

RCF	Clients	NRF	**Total**
561	106	246	**913**

The NRF

£246m was borrowed from the BoE under a complex arrangement within the NCS known as the Note Recirculation Facility (NRF). The BoE wants us to distribute cash around the country preferably using smaller denomination notes. Every note we process over the course of a year (October to October) creates capacity and the smaller the note, the more capacity it creates. Over the course of a year, the notes we distribute earn us capacity of some £250m every day.

We are allowed to sell that capacity to the BoE overnight. Effectively the cash sits in our branches and would sit as borrowing on our balance sheet during the day. At end of day, an amount is formally transferred to the BoE and both the cash and the borrowing are removed from our balance sheet.

We only have to stay within our capacity over the course of the year – on a given day we can sell capacity to the BoE up to a limit of £350m, giving short-term flexibility. If we over-use the facility across a year, we have to pay the BoE an interest charge on the additional amount. We work hard not to do this in case we risk the relationship.

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The BoE is not prepared to risk this money and it is guaranteed by RBS for which we pay a small LIBOR related interest fee. The RBS arrangement works within an overall commitment of £400m, used in various ways over a 24 hour period:

- £1m is used at all times as collateral with the Bank of England so support the £1m self-insured element of our Crime Insurance.
- At 6:00 am we repurchase notes from the BoE. This is funded by an overdraft on our RBS account. This can be up to £350m. We also pay the BoE for the amount of Notes that we expect to take out of bond on that day. The combination of the two can be no more than £399m. This means that our bank account with RBS can be overdrawn by up to £399m during the day.
- At the end of the operational day (6:30 pm) we receive funds from the BoE for notes demonetised (i.e. sold back within the NRF) and for any notes that we have put into Bond during the day.
- Treasury have to fund the RBS bank account so that the balance at the end of the day is zero.
- Shortly after RBS then allocate up to £350m from their collateral pool with the BoE in favour of POL as collateral for the notes purchased by the BoE to back up POL's commitment to repurchase them the next day.
- At about 5:30 am the following day this collateral is then released by the BoE.

The borrowing under the NRF and the cash it relates to is held off-balance sheet. In our ARA, the cash balance is not £947m but £947m minus £256m - £691m. We are looking, as discussed at the last ARC, at increasing the transparency of the NRF in the ARA.

Client Funding
£106m was funded by clients. Most of that was owed to Santander Bank whose customers have longer and more substantial paying in relationships with Post Offices.

RCF and RCF Headroom
The remaining borrowing of £561m was from BEIS under its Revolving Credit Facility or RCF.

We have to give BEIS 48 hours' notice of how much money we want to borrow.

The facility is capped at £950m which was reduced from £1,150m in a previous funding period and that has been confirmed through to March 2021.

The Board has taken the view that some funding availability should be held back in case the position of the business deteriorates, to manage volatility and to enable us to cope with shocks. As a result, we can only borrow above £750m with the Board's permission.

While the flow of client monies can create significant swings (in 2016-17 there were 10 days where our headroom deteriorated by more than £200m compared with the previous day and 29 days where it deteriorated by more than £100m) we have sought to manage that within the £750m. Only at Christmas in recent years have we requested Board permission to extend the limit to £850m and in fact that was not needed in 2017: we held at £749m of borrowing.

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Our facility headroom against that limit was therefore £750m less the balance of £561m - £189m.

However, the RCF was designed to fund the working capital needs of the business and is held on a different and less scrutinised part of the Government's balance sheet. The use of the facility is not hypothecated or limited and our cash is fungible. However, to ensure that we do not over-borrow against the facility for other reasons such as investments, the RCF is also subject to another limit, being Security Headroom. This requires the borrowing under the RCF to be less than the working capital needs of our business. This is defined according to a formula:

Security Headroom	**£m**
Cash in use in the business	913
Less: cash de-monetised under the NRF	(246)
Branch cash	**667**
Other defined net client assets/debtors	227
Total security available	**894**
Less: borrowing under the RCF	(561)
Security Headroom available	**333**

Managing Headroom

As set out in the main paper, and as forecast in the June Board session, reducing the amount of cash in branches and in the cash process will increase the facility headroom (we borrow less against £750m) but does not increase security headroom as the security limit and the branch are both reduced equally.

We also have a separate security arrangement with Santander which has c. £90m of headroom but which could presumably be managed within the overall relationship.

POL00027257

FS&T CE Report - March 2018

Author: Owen Woodley

Meeting date: 15th March 2018

Executive Summary

Context

This report provides an update to GE on the drivers of income and the current performance of the products across FS&T together with a full year outlook.

Questions this paper addresses

1. How do we make money in FS&T?
2. What are our propositions for customers?
3. What contribution does each of our products make?
4. How are we performing?
5. Where do we expect to be at year end?

Conclusion

- The FS&T trading portfolio (including Banking Services) has performed well against headwinds and is expected to land £0.6m off the full year budget contribution.
- MoneyGram remains an area of concern given wider market conditions in advance of Brexit. We are in detailed negotiations – see separate paper.
- The growth in the BoI product set continues to be constrained by the current contract. Again, we are in detailed negotiations.
- Work is progressing well on the launch of the Customer Hub and Project Galaxy is now into implementation in Telco to address the BT price regulation.
- FS&T Performance to P11:

Gross Income (£m)

	Period 11 YTD			Full Year			
	Actual	5+7 Fcst	Var	Out-turn	5+7 Fcst	Budget	Bud Var
FS&T incl PO Insurance	**318.5**	**317.2**	**1.3**	**361.5**	**361.5**	**372.2**	**(10.6)**
Banking Services	80.4	79.4	1.0	87.4	86.3	79.8	7.6
FS&T, PoI and Banking Services	**398.9**	**396.6**	**2.3**	**448.9**	**447.8**	**452.0**	**(3.1)**

FS&T Profit Contribution after Agents' fees (£m)

	Period 11 YTD			Full Year			
	Actual	5+7 Fcst	Var	Out-turn	5+7 Fcst	Budget	Bud Var
FS&T incl PO Insurance	**134.9**	**137.4**	**(2.5)**	**159.9**	**161.4**	**167.1**	**(7.2)**
Banking services	52.8	52.3	0.5	57.6	57.1	51.0	6.6
Central Marketing	(10.4)	(10.1)	(0.3)	(12.3)	(11.1)	(11.3)	(1.0)
Total FS&T, PoI and Banking Sevices	**177.3**	**179.7**	**(2.4)**	**205.1**	**207.5**	**206.7**	**(1.6)**

Input Sought

The GE is requested to review and note the report and approve it for Board submission.

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The Report

Balance Sheet Product Set

1. How we Make Money

- Mortgage income is based on the total completions value: 30bps for contact centre/online and 9bps for brokers. Cards and Loans are based on transaction volumes and balances - 45bps of total written lend value and £21 for each card sale.
- In Savings, under the current value share, we receive a fixed payment of £43m. There is also variable income based on a Net Interest Margin (NIM) target of 55bps in March 2018, with £0.55m of income for each additional 1bp below this target.

2. Core Proposition for our Customers

Today we offer good value, straightforward retail banking products but we need to move away from being price-led into differentiated propositions that build long-term customer relationships. The first will be two new mortgage propositions launching in April.

3. Product P&L P11 YTD

Gross Income (£m)	Period 11 YTD			Full Year			
	Actual	5+7 Fcst	Var	Out-turn	5+7 Fcst	Budget	Bud Var
Mortgages	**2.7**	2.0	0.7	**2.8**	**2.1**	3.6	(0.9)
Credit Cards and Lending	**2.1**	1.6	0.5	**2.2**	**1.7**	3.7	(1.5)
Savings	**37.0**	37.0	(0.0)	**52.2**	**47.2**	47.8	4.4
B/S Products	**41.8**	**40.6**	**1.2**	**57.2**	**51.0**	**55.2**	**2.0**

Profit Contribution (£m)	Period 11 YTD			Full Year			
	Actual	5+7 Fcst	Var	Out-turn	5+7 Fcst	Budget	Bud Var
Mortgages	**2.0**	1.4	0.6	**2.0**	**1.5**	3.2	(1.1)
Credit Cards and Lending	**1.5**	1.2	0.3	**1.6**	**1.3**	3.6	(2.0)
Savings	**34.5**	34.8	(0.3)	**49.2**	**44.6**	46.0	3.2
Agent's Pay	**(2.2)**	(2.1)	(0.0)	**(2.4)**	**(2.3)**	(2.3)	(0.1)
B/S Products	**35.8**	**35.3**	**0.5**	**50.5**	**45.0**	**50.5**	**0.0**

4. Review of Performance

Savings performance has been very strong, supported by the partnership's pricing responses to the base rate increase. We expect NIM to be c.46bps, leading to a forecasted income level £4.4m above budget.

Mortgages are tracking ahead of last year but remain behind target in both apps and completions. Price is the key driver which has restrained volumes but we are launching two new propositions in April, backed by a major marketing campaign. Our unsecured lending journeys are improving with higher accept rates (68% in cards/55% in loans).

5. Year-End Outlook

Contribution is expected to end the year in line with budget and £5.5m ahead of forecast. We are not expecting to receive any profit share from credit cards (budget £0.9m) or personal loans, however this will be offset by the additional savings income.

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Transactional Product Set

1. How we Make Money

- Our foreign currency products deliver income on a transactional basis (£1.92 per 'normal' FX transaction, 0.4% of 'click & collect' turnover, £4.58 per new 'travel money card' sale and 0.625% of all top-ups) plus an annual fixed payment of £10m.
- MoneyGram income is generated through three streams: the FX margin (c.34%), customer fee (c.36%) and a fixed 65p per transaction. We get c£6.35 per Send and £10.50 per Receive and there is also an additional £3m annual payment to POL.
- Postal Orders ("POs") cost 50p for transactions 50p-£4.99, £1 for £5.00- £9.99 and above that 12.5% capped at £12.50. We also recognise income from expired POs.

2. Core Proposition for our Customers

Post Office is the number one provider for in-branch foreign currency sales, with a market share of 25% and online share of 17%. We also have the largest network of money transfer branches in the UK and hold a c.13% share of cash money transfer business. Postal Orders are in structural decline and subject to a wider strategic review.

3. Product P&L P11 YTD

Gross Income (£m)

	Period 11 YTD			Full Year			
	Actual	5+7 Fcst	Var	Out-turn	5+7 Fcst	Budget	Bud Var
Travel Money & FRES	55.7	55.1	0.5	62.8	62.8	61.8	1.0
MoneyGram	24.2	25.9	(1.7)	26.9	28.6	31.7	(4.8)
Postal Orders	13.5	13.4	0.1	14.6	14.5	16.2	(1.6)
Transactional Products	93.4	94.5	(1.1)	104.4	105.9	109.8	(5.4)

Profit Contribution (£m)

	Period 11 YTD			Full Year			
	Actual	5+7 Fcst	Var	Out-turn	5+7 Fcst	Budget	Bud Var
Travel Money & FRES	49.8	50.1	(0.2)	56.7	57.4	56.5	0.2
MoneyGram	22.8	24.6	(1.7)	25.5	27.2	29.7	(4.2)
Postal Orders	13.2	13.1	0.0	14.2	14.2	15.9	(1.7)
Agent's Pay	(36.2)	(35.5)	(0.7)	(39.1)	(38.4)	(37.8)	(1.3)
Transactional Products	49.6	52.3	(2.6)	57.2	60.4	64.3	(7.0)

4. Review of Performance

Travel Money & FRES revenue is £1m ahead of budget and £0.5m better than YTD forecast, principally due to the performance of the TMC but also recently better volumes in branch. However, AML limits are a risk to FRES profit (£2k+ transactions down 40%).

MoneyGram is behind its original income budget by £(4.8)m and YTD forecast by £(1.7)m. Key drivers are migrant levels and uncertainty around Brexit, the value of £ and FX margins and stricter AML regulations requiring ID on higher value transactions. PO volumes are declining by c.20% YoY and are 13% lower than budget.

5. Year-End Outlook

We are expecting Travel Money to end c.5% behind target due to competitive pricing in the online market but this has been offset by the good performance of the TMC. We are reviewing our remittances strategy and are in commercial dialogue with MoneyGram. Postal Orders contribution is expected to end the year in line with the 5+7 forecast.

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Telco

1. How we Make Money

- We offer consumer telephony products (HomePhone, Broadband ADSL and Fibre) and telephony services (voice calls, premium install, virus protection etc). The products offer 3 contract lengths (12/18/24 mths) ensuring that new promotional offers can be rotated to balance ASA compliance with avoiding "always on" offers.
- Customer monthly Average Revenue per User ("ARPU") and average tenures vary by product and promotional price points. In HomePhone, the average ARPU is £24.46 over 57 months and in Broadband it is £27.48 over 32 months. ARPU is a mix of fixed contract income (c70%) and variable income from call packages etc.

2. Core Proposition for our Customers

Broadband (ADSL) & Fibre (FTTC): For Q1 18/19 we will be launching our most competitive Standard Broadband price point at just £18pm through our key affiliate partners (U-Switch, Moneysupermarket, Broadband Choices) and improving Fibre retail prices from £32 to £31pm on our most popular tariffs. This increased aggression is primarily supported through wholesale cost reductions negotiated with Talk Talk.

HomePhone: The base HomePhone offering will be reduced from £16.99 to £11.50 on 1st May in response to the OfCom's market pricing intervention. We are also introducing a £1.50 charge for paper billing for customers moving to the £11.50 tariff but we expect POL to remain competitive vs BT with better value through free call features and rates.

3. Product P&L P11 YTD

Gross Income (£m)

	Period 11 YTD			Full Year			
	Actual	5+7 Fcst	Var	Out-turn	5+7 Fcst	Budget	Bud Var
Telecoms	139.9	138.0	1.8	152.1	149.6	149.4	2.6
Telecoms Products	**139.9**	**138.0**	**1.8**	**152.1**	**149.6**	**149.4**	**2.6**

Profit Contribution (£m)

	Period 11 YTD			Full Year			
	Actual	5+7 Fcst	Var	Out-turn	5+7 Fcst	Budget	Bud Var
Telecoms	35.1	35.3	(0.3)	36.9	38.0	31.2	5.7
Agent's Pay	(1.3)	(1.3)	(0.0)	(1.4)	(1.4)	(1.4)	(0.0)
Telecoms Products	**33.7**	**34.0**	**(0.3)**	**35.5**	**36.6**	**29.9**	**5.7**

4. Review of Performance

Telecoms gross income is £1.8m better than forecast due to higher customer numbers and greater ARPU. YTD contribution variance to forecast is (£0.3m) due to accounting treatment of contract set-up costs, partly offset by higher customer numbers and an early price increase and lower cost of sales, particularly for HomePhone only customers.

5. Year-End Outlook

Telco gross income should outturn c£2.6m ahead of forecast due to higher customer take up and ARPU. At the same time, amortisation costs have increased since the 5+7 forecast through a changed accounting treatment adding £1.5m to the cost base. Overall, Telco contribution is expected to outturn (£1.1m) adverse to 5+7 forecast.

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Post Office Insurance ("POI")

1. How we Make Money

- **Travel Insurance ("TI"):** Revenue is through commission income. 84% of sales are single trip policies with one-off revenue. The rest are Annual Multi-Trip (AMT) policies which builds annuity income. AMT retention is c18%. There is an underwriting profit share; returned as revenue or rate reduction.
- **Life & Over 50s:** Income is generated through commission, reflecting the lifetime value of the sale to POI and is subject to clawback for policies cancelling within the indemnified period (up to 48 months). An annuity income stream is received monthly for all policies that continue beyond the indemnity period and a monthly income stream of 2.5% of premiums is paid to POI as commission on these policies.
- **Home, Car & Van:** Revenue is generated through a combination of commission income, add-on margins (e.g. Legal Expenses, Roadside Assistance etc), service fees, instalment income and First Notification of Loss income. Policies generate an annuity income stream from both new sales and renewals, plus a profit share.

2. Core Proposition for our Customers

POI propositions are simple to understand, easy to access and offer good customer value while not being the cheapest in the market. Propositions for Travel and GI remain mass market with limited differentiation although plans to refresh this are in development. Protection products are evolving at pace, providing the platform to successfully build a material share of the growing direct to consumer protection market.

3. Product P&L P11 YTD

Gross Income (£m)

	Period 11 YTD			Full Year			
	Actual	5+7 Fcst	Var	Out-turn	5+7 Fcst	Budget	Budget Var
Travel Insurance	**14.0**	15.7	(1.7)	**15.4**	**17.0**	16.6	(1.1)
Life & Over 50s	**7.3**	7.0	0.2	**8.7**	**8.0**	7.2	1.5
Home, Car, Van & Other	**22.2**	21.4	0.9	**25.0**	**28.8**	28.8	(3.9)
PO Insurance Products	**43.5**	**44.1**	**(0.6)**	**49.1**	**53.7**	**52.6**	**(3.5)**

FS&T Profit Contribution £m

	Period 11 YTD			Full Year			
	Actual	5+7 Fcst	Var	Out-turn	5+7 Fcst	Budget	Budget Var
Travel Insurance	**8.9**	10.4	(1.5)	**9.9**	**11.2**	11.1	(1.2)
Life & Over 50s	**4.1**	4.6	(0.5)	**5.1**	**5.4**	5.0	0.1
Home, Car, Van & Other	**9.4**	9.0	0.4	**10.2**	**10.1**	9.8	0.4
PO Insurance costs	**(4.8)**	(6.3)	1.5	**(5.3)**	**(6.5)**	(4.6)	(0.6)
PO Insurance Products	**17.5**	**17.6**	**(0.1)**	**19.9**	**20.2**	**21.3**	**(1.4)**

4. Review of Performance

Q4 protection campaign continues to build momentum. Marketing is delivering above expectations driving response for over 50's into all channels. We are seeing early signs of success in respect of our 1 on 1 customer communication and digital marketing for Life insurance. Month on month digital sales of protection are up by 323% (P10 to P11). Renewal retention for car insurance continues to outperform plan by 2%. We continue to track behind plan for Travel Insurance sales volume across multiple channels.

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5. Year-End Outlook

POI forecast group EBITDA outturn is £20.2m, prior to a £0.3m risk from Project Russet. As of P11 YTD EBITDA was £17.5m. The continued strong performance of Life Over 50's DRTV, Life sales and Easy Life will be critical in hitting the year end number.

Customer Hub

1. Programme Plan Summary

The Customer Hub is targeting a first launch in May 2018. The initial MPV is focused on the TMC and TI products which will be served through our own Travel App. The project is in its product development sprint cycle, application build and API integration with both FRES and POI. FRES now has dedicated development, test and production environments and we are now working on a clear, POL-wide Hub operating model.

2. Achievements to Date

We have introduced Agile Ways of working to support rapid product and application development - learnings which will need to be shared more widely in POL. The Post Office Digital Innovation Centre has been launched and key people recruited. The procurement of the OutSystems platform & development is ongoing. UI/UX prototyping for TMC is now completed, and continuing for TI.

3. Launch Proposals

Following launch in May, all new TMC customers will be directed to the Customer Hub where we will also be able to offer them TI and Gadget Insurance as add-ons. Sales support kits and call centre briefings are being prepared.

4. Expected Take Up and Usage

Assumptions for the first MPV are based on an approach of co-existence with the current FRES TMC App initially. This will be followed by a period of migration for existing TMC customers to the Travel Hub (expected to complete by the end of Q4 2018/19). We also intend to migrate existing TI customers into the Hub at their renewal point and from this base, we will cross-sell TI, TMC, Gadget Insurance and Identity products. Regular usage is critical via personalisation, velocity of new services and some key capabilities:

- Active customer management based on data analytics, e.g. nudging.
- Additional functionality to increase self-serve (e.g. insurance add-ons, Mid-Term Adjustments, Claims, Chat bot, TMO, onboarding TMC etc)
- Improved propositions (e.g. affinity arrangements such as HolidayExtras).

5. The Future

We are developing a process to include additional verticals in the future. This process will be discussed and approved in the Customer Hub Steerco and brought to GE for information.

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Appendix - Brief Market Overview

Mortgages

Current market size c£1.4bn; POL's total stock c£5.4bn; market share c0.38%.
Mortgage lending has been growing consistently over recent years, with accelerated growth in 2016 compared to 2014 and 2015 but base rate rises would impact the market over the coming period. The dominant players in the market are Lloyds Banking Group, Nationwide, RBS, and Santander. Digital channels are most important when customers are researching a product, but many customers still value face-to-face advice at the application stage. The intermediary channel continues to grow in importance.

Savings

Current market size £1.45trn; POL's book size c£14.5bn; market share c.1%
Savers have been disadvantaged by extremely low interest rates for a number of years and as such customers have often been turning to interest-bearing current accounts instead as a means of bolstering their savings income. The major retail banks together with Nationwide and NS&I remain the largest providers of retail savings accounts.

Personal Loans

Unsecured loans market size c£38bn; POL written lending c£120m; market share 0.3%
The unsecured lending market grew by 40% between 2012 and 2016, reaching £260 billion by the end of the period, with estimates from Mintel showing a further 5% growth for 2017, spurred on by low interest rates making repayment levels more affordable.

Credit Cards

Current market size 36m (vol); POL active accounts 406k (vol); market share 1.12%
Credit card lending has maintained growth levels of 5-10% over the last five years. Low interest rates have driven hard competition with increasing balance transfer offers and rewards. The number of credit cards in circulation has been roughly stable at 60 million over the last five years. Barclaycard remains the largest provider with an estimated market share of 16% followed by LBG at 15% and HSBC at 11%.

Travel Money

Market transaction value £9-12bn; POL transaction value £2.5bn; market share 25%
UK residents spent £43.4 billion abroad in 2016. However the Brexit vote led to an immediate fall in the value of the pound which has yet to recover its pre-referendum levels. This has significantly reduced consumer spending power abroad and as a result, consumers are paying closer attention to exchange rates and are much more likely to spend more time shopping around to find the best deal. Fintechs like Revolut are performing well in the pre-paid multi-currency card arena.

Telco

Homephone only market c2m households and POL market share is 10%; Broadband market is c25m households and POL market share is c1%
There are four major providers in the Telco market - BT, Sky, Virgin and TalkTalk. All are focused on fibre broadband to support fully converged 3 or 4 play offers. Fibre offers lower margin returns, but which these are offset by converged offers of TV and Mobile by most of the big four. ADSL broadband (up to 17mb) is still in over 9m UK homes,

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and remains highly attractive to value seeking or smaller households. Over 50% of customer switching is now happening online and through affiliate websites such as U-Switch.

Travel Insurance

Market Gross written premium c£730m; POI's GWP is c£50m; market share 6.8%
Steady market growth predicted with the current market size of £730m written premium forecasted to grow to 920m over the next 5 years. This will lead to the continuation of intensified price competition from a crowded market. Annual Multi Trip continues to be c.40% of the overall TI market, but this is inflated by policies offered by Banks/Credit cards. Market share of packaged accounts with travel insurance is on the decline with customers expected to revert back into the direct travel insurance market.

Motor Insurance

Car insurance market GWP c£11.5bn; POI's GWP is c£80m, market share 0.7%
Whole car market growth is estimated at c1%pa to 2020 with aggregator expected to grow at the same rate. There is little to no impact from insuretech/fintech in motor given high entry barriers and costs and business/product model highly commoditised. The short term outlook for motor is favourable with a short and shallow drop in rates expected as some providers move for growth.

Home Insurance

Market GWP c£5.7bn; POI's GWP is c£98m; market share 1.7%
Insurable households currently total 20.1m and expected to fall by an average of 2% p/a over the next 3 years (eBenchmarkers). This reflects changes in home ownership especially for younger segments. Aggregator share is still expected to grow by 7% pts between now. The home market is likely to be more challenging in the short term as traditional insurers have not sufficiently adjusted their business models to reflect increased competition from aggregator distribution.

Term Life

Total non-advised market 250k new policies pa, £70m APE; POI's market share 2.5%
There remains a significant protection gap in the UK market - very difficult to scale but believed to be multiple £bn. Mintel forecasts 1-2% market growth per year over next 3 years with a trend for direct to consumer new business comprising an increasing portion of the market. Aggregator growth is expected to continue too at c10% pa.

Over 50's

Market is 280k new policies pa; £55m APE; POI's market share 7%
The market is expected to be flat in 2018/19 with potential for limited growth in 19/20 and beyond. It should be noted however that market size has shown a strong historical correlation to the TV advertising expenditure of the market leader, Sun Life.

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International Remittances

Authors: N. Boden / C. Pispinis Sponsor: Owen Woodley Meeting date: 27th March 2018

Executive Summary

Context

- Following on from the Remittances paper presented to the December GE[1], Post Office Money has completed its review of our current contractual obligations with our in-branch cross border payment provider, MoneyGram (MG).
- Money Transfer Operators (MTOs) have seen continued impact to consumer spending caused by a number of key factors – Brexit, falling immigration rates, the weakness of sterling and continued focus on AML requirements – all of which will remain ongoing considerations over the short to longer term.
- The financial impact to POL continues to be challenging with double digit YOY decline in transaction numbers. Our 2017/18 YE income outlook is £26.2m, £2.4m adverse to the 5+7 forecast.
- Digital capabilities, in contrast to the traditional cash-to-cash send and receive transactions, continue to increase in popularity with remittance customers. It is estimated that digital remittances have grown from 5% of the UK market to around 20% over the last three years. Currently, our existing agreement with MG contains an exclusivity clause removing our flexibility to operate in this digital arena with other providers, yet this is not a strength for MG's European operations.
- Our current exclusive contract with MG runs to September 2019, with the option (requiring confirmation by 30th March 2018) to extend to September 2021.

Questions addressed in this report

1. What is the size of the current market and estimated share by MTO within the UK?
2. What would be our key RFP considerations and how would these balance against improved value from an extended MoneyGram contract?
3. What is our current 3-year forecast and how does it compare to the negotiated outcome with MoneyGram?
4. What are our recommendations and next steps?

Conclusions

1. As digital activity continues to build in the remittances market, and growth in the total market remains flat at best, we expect cash-initiated remittances to see single to double digit decline over the next three years. Further changes in AML transaction thresholds and lower immigration into the UK will exacerbate this decline rate, as

[1] Please refer to the December 'International transfer and remittance' paper in the Reading room for further background on the market & competitive landscape, and contractual set-up with MG.

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we have seen following the current £800 limit introduced in 2017 and Brexit. Our future revenue expectations will therefore be under growing pressure unless we have access to a complementary digital solution.

2. Our discussions in the market would suggest that we are unlikely to get an enhanced offer on our branch proposition from an alternative provider and critically, any new agreement would only commence in late 2019 by which point we expect the digital market to have moved even further. We believe we need to act sooner than that.
3. We do not believe that it is feasible for POL to own the full value chain for the foreseeable future, given the need for a global network of correspondents: current branch, online and digital providers operate in >100 countries and come with recognised and trusted brands. We also believe that a multi-partner branch proposition would be untenable given differing provider tariffs and exchange rates, and would be potentially less beneficial commercially.
4. Based on the above and our earlier analyses, we have two primary choices:

- **Option 1**: Move to RFP - this would corroborate, or otherwise, the sense we are getting from the market and determine whether MG would provide enhanced terms from late 2019 onwards under competitive pressure. However, this would certainly delay our ability to launch a digital proposition until early-mid 2020. Furthermore, it is expected that any new provider would be seeking a significant new contract period and likely request full exclusivity across branch and digital.
- **Option 2**: Negotiate better commercial terms through to September 2021 and remove exclusivity on digital capability with MG immediately. This would keep the focus and continuity on our current branch product; help protect against any further declines in performance from the political landscape affecting immigration (our core customer base); and enable us to develop our digital product offering and test the market faster than if we had to wait to go to RFP.

5. We believe option 2 provides better customer and business outcomes, particularly with a clear commitment from MG to build out their non-European corridors; as such, we have sought and secured an improved guaranteed income stream from our existing branch channel which will mitigate against any further revenue decline. This amounts to a net income of £5.6m over the life of the extended MG contract to 2021. We have also secured MG's consent to give us more flexibility on digital remittances, including full freedom on pure digital transactions. We think this is a compelling offer which helps to mitigate our market risk over the next three and a half years and we therefore recommend that the MG contract is extended to September 2021, subject to legal terms.

Input Sought

The Board is asked to support the recommended next steps.

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The Report

What is the current size of the UK market, estimated share by MTO and product differentiators?

1. The UK is an outbound market with send transactions accounting for 90% of all transactions. We estimate the send market to be c£6bn p.a. with 21m send transactions in 2017 by MTOs for walk-in and online business. Share by operator (banks excluded) is as follows:
    a. Western Union ("WU") 43%
    b. MoneyGram 19%* (*POL represents 70%)
    c. RIA 8%
    d. World Remit 7%
    e. Transferwise 5%
    f. Others 18%
2. POL is the largest single network with a UK market share of 13%.
3. WU primarily operates across a network of independent operators, similar to RIA; RIA commenced a pilot with Asda in 2017 for a white-label online solution, the success rates of which are unknown. RIA's owner, Euronet, also owns HIFX and XE who are competitors of POL in the digital sphere.
4. The three largest MTOs – WU, MG and Ria – are all US companies and between them have over 1m send and receive locations globally. They also operate in most countries and territories. They all offer a 10-minute person-to-person cash send/pick up service, as well as bank account deposits and deposits to mobile wallets in certain markets. These markets are growing and a key focus of each operator. The very broad and established network locations in 'receive' countries are the main reason why POL would not be in a position to become a provider in its own right over the short to medium term, and therefore is better off partnering with an existing, recognised branded network.
5. FinTech MTOs operate simple internet/mobile low cost models and provide an alternative to the walk-in cash-to-cash models, by signing agreements directly with banks and mobile operators. Similar to the cash-to-cash providers, these digital operators are also focussed on owning the customer data to directly market their new services and influence customer behaviour, e.g. through prompt and personalised notifications of exchange rate movements.
6. We believe there is a significant opportunity for POL to engage in the digital space by partnering with a FinTech – either the established names, such as Azimo, Transferwise or Revolut – or the less established, such as Smallworld or TransferGo. There are also opportunities for POL to disrupt the market in terms of a more simple pricing structure which we will be exploring further.

What are core RFP considerations and how do these balance against improved value from an extended MoneyGram contract?

7. WU and RIA are expected to require a minimum five-year agreement as this timescale is currently a recognised payback period for signing fee, branch rebranding and marketing investments for a partner with our branch footprint. We would also expect to be required to accept an exclusivity clause for this time period consisting of cash-to-cash and digital capabilities.

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8. Additionally, we think that an RFP would result in loss of focus from MG on the core business during the critical period in the run up to Brexit, which would likely further impact POL's decline in revenues over the next 18 months. MG's current agreement expires at the end of September 2019, unless POL requests an extension through to September 2021, to be requested by 30th March 2018.
9. Whilst the recent ANT Financial planned purchase of MG was blocked by US authorities, MG remains open to further takeover bids. If this situation was to occur, POL would have a right to terminate if MG were acquired directly or indirectly by an entity outside of MG's group, provided we can explain our motives, which must be reasonable.
10. Of course, an RFP would give us the opportunity to engage with the market leader, Western Union. This has its benefits, though we should also consider:
    - The market is changing rapidly; waiting for the RFP, which means we would not be contracting with a (new) party until October 2019, would further exacerbate the current declining income trend, by less focus on the business given diversion of resource to the RFP, and further falling behind in the digital space.
    - Informal engagement with WU indicates they could provide digital capability within 3-4 months, subject to POL tech; the negotiating approach we have taken with MG (i.e. more digital flexibility) would still give us the opportunity to partner with WU in the digital space.
    - WU has also indicated they would not be prepared to give us access to customer and behavioural data; this would limit the wider payment capability we are looking to leverage across POL, and through Customer Hub specifically. This would apply to physical and digital transactions
    - Whilst some of the points above could be negotiated, WU, as any new provider, would most likely be looking for exclusivity for a minimum of five years to ensure payback; this would take us out to late 2024.
11. Other areas we have considered in moving to an RFP process include: timescale to complete; opportunity cost of the RFP process, including senior management, legal and procurement resources and cost; unknown financial impact to October 2019 (date from which a new agreement would run and by which time the digital part of the market is likely to have continued its rapid growth); removal of existing signage and rebranding of our branches; employee training; and system investments.
12. As such, we devised a negotiation strategy with MG, developed on the basis of three key objectives: (i) protect against current revenue decline, (ii) release/reduce our current "exclusivity" contractual obligations to allow us to develop/partner on new digital capabilities and, (iii) create a financial benefit for POL if MG is unable to deliver against a pre-committed new market and product development schedule. Through our negotiations we have made significant progress against the first two of these objectives. MG's reliance on third party agreements to deliver against the schedule means that they are not willing to agree on the third objective.
13. To help MG get to their final offer, we have actively supported a review of their cost base and received a 12-month new market and product development plan.
14. The table overleaf shows a summary of MG's offer and our commentary. It is important to share at this point that we do not think that the cost reductions MG has proposed to part-fund the additional fixed payment will exaggerate further revenue decline, except for point 3 which is expected to impact our gross income by £0.2m p.a.

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MoneyGram offer	Post Office comment
1. Additional fixed payment of £6m over the term of the extended contract	This is in addition to the current anniversary and network access fees, increasing our guaranteed income. We have some flexibility in terms of how we stage this and depending on wider POL business requirements, e.g. could take £3m in 2018/19 and £3m in 2019/20
2. Reduce global marketing investment from £1.5m to £1m, saving MG £0.5m p.a.	POL has no control over this spend so the annual benefit falls directly to MG
3. Reduce footprint of PO branches to c. 6,000; this is about removing c.4,000 branches that conduct less than 2 send transactions p.m., saving MG £0.52m p.a.	Effective from 1st October 2018; the saving is based on MG not renewing their HMRC licence at these branches. Their is little opportunity in those branches, as their demographics do not lend themselves to remittances. MG records show that only 2 branches of the 4,000 have fixed signage, which MG will remove and make good. All other signage is portable and MG will work with POL on removal program between Oct 18 and March 19. Should the population demographics change in the future MG and POL to work together in line with current program for new branches.
4. Remove existing MG sales team and engage POL netwok sales team (in place pre current MG agreement). Estimated saving to MG of £0.2m p.a.	Requires co-operation of Network Sales team. This would be effective October 2018, giving us time to socialise and engage to minimise any sales impact
5. Reduce annual branch signage budget from £0.5m to £0.1m, saving MG £0.4m p.a.	Network is currently fully branded, so no impact expected on exisiting network. Any new locations will be assessed on a case by case basis
6. More flexibility in the digital space: a. for pure digital transactions, POL to have non exclusive capability from 1st April 2018 b. for stage & pay transactions, i.e. digital transaction preparation with cash fulfillment in branch: MG and POL commit to deliver by Dec 2018, and MG has exclusivity for three months post launch	This outcome works well for POL: - the pure digital freedom gives us the optionality of both parterning and M&A to support wider POL capability in payments and ID - MG already has stage & pay capability in other countries, incl. Australia and the US; this means we'd be able to introduce this for POL customers earlier than if we had to contract with a new provider altogether; and the 'exclusivity' would drop off before the current contract expiry of September 2019
7. Development of new market capabilities to penetrate bank accounts and wallet (See table in Appendix 1)	MG will not reimburse POL should timescales not be met as they are reliant on third-party actions

15. In summary, MG will reduce its annual costs by £1.6m p.a. and pay POL an additional guaranteed payment of £6m (£5.6m net) over the life of the extended agreement. MG has also confirmed that POL has the freedom to source a new partner or develop its own product for digital remittances, providing a new revenue stream and enhancing the Travel Hub and ID propositions.
16. Whilst the recent acquisition of MG by ANT financial has been blocked, MG continues to develop its direct relationship with ANT which is a critical development to gain penetration against the existing strength of WU in the Asia-Pacific market. The table in Appendix 1 represents MG's 2018 market development roadmap, all of which will be accessible to POL through its branch network, pending any system developments. This roadmap should significantly improve MG's competitive strength in these regions.

What is our current three-year forecast and how does it compare to our negotiated outcome with MoneyGram?

17. MG has offered an additional £6m fixed payment over the term of the extended contract; on taking the extension payment over 2018/19 and 2019/20:
    - Any decline in FS&T Contribution is protected by £5.6m over the next two financial years as it is a guaranteed payment, not a variable payment.
    - A sensitivity check against a 10% decline in sales in 2018/19 and 2019/20 would provide FS&T a contribution value of £13.8m and £11.9m respectively, based on the new financials.

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	MoneyGram Current Extension Forecast					MoneyGram Negotiated Extension Forecast				
	16/17	17/18F	18/19	19/20	20/21	16/17	17/18F	18/19	19/20	20/21
Variable Income	24.7	21.2	20.1	19.1	18.2	24.7	21.2	20.1	19.1	18.2
Branch Closure (c.4,000)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.2	-0.2
Annual Fixed Payment*	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Network Access Fee	2.1	2.0	2.0	2.0	2.4	2.1	2.0	2.0	2.0	2.4
Extension Payment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	3.0	0.0
Gross income	29.8	26.2	25.1	24.1	23.6	29.8	26.2	27.9	26.9	23.4
Total Direct Costs	-12.9	-12.4	-13.0	-13.0	-13.0	-12.9	-12.4	-13.0	-13.0	-13.0
Total Indirect Costs	-0.2	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1
FS&T Contribution	16.7	13.7	12.0	11.0	10.5	16.7	13.7	14.8	13.8	10.3

**If the agreement is not extended then the annual fixed payment reduces from £3m to £1m and the Network access fee reduces from £2m to £1m in the 2019/20 budget bringing our contribution down to £8m*

The table above assumes the additional £6m 'extension payment' is equally split over two years, 2018/19 and 2019/20; this could be flexed differently depending on POL's wider business requirements.

NOTE: The extension of the agreement would also run for the first six months of our 2021/22, for which MG is not proposing any additional payment; in line with current agreement we would only receive a network access fee at a value of £1.08m (no fixed payment)

18. With the removal of digital capabilities from the current exclusivity clause with MG, POL will have the freedom to realise new revenue streams by developing the right capabilities to capitalise on its ambition in this arena. If the digital market grows to £2.1bn (35% share of the total remittance market) and POL can penetrate 10% of that market at a margin of 1%, it could drive c.£2m gross income p.a., subject to commercial negotiations. We will formally engage with digital providers as soon as we are contractually able, to assess the size of the opportunity.

What are our recommendations and next steps?

19. Following our successful negotiations with MG in securing additional guaranteed payments totalling £6m gross, and the change in the existing exclusivity clause to allow us to pursue digital capabilities (whether with MG or elsewhere), we recommend extending our existing agreement with MG through to September 2021. This is a finely balanced decision since it defers a competitive tender from MG for two years, but it enables POL to pursue other avenues for digital, whilst keeping momentum in the cash-initiated business without the distraction brought by an RFP, also allowing us to focus our resources on other business priorities.
20. A two-year extension with MG would give us additional guaranteed income and the ability to test the digital opportunity and reality; this would put us in a much stronger position in 2021, when we go out to the market at the end of the extended MG term.
21. We would also undertake the following next steps:
    - Engage legal to draft the required MG contract changes and initiate the business case process as appropriate
    - Engage with a selection of FinTech and online specialists, with the aim of understanding their strengths, the market and digital fit with POL. Review opportunities of a JV with or acquisition of a FinTech or online specialist
    - Continue engagement with Innovation and Identity to assess opportunities of developing a digital remittances proposition within our new app, whilst supporting our aspiration to eKYC every customer once for all products
    - Develop a comprehensive digital deployment roadmap (please refer to Appendix 2)

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Appendix 1 – MoneyGram market development roadmap

The table below represents MG's 2018 market development roadmap, which should significantly improve MG's competitive strength in regions they have struggled to penetrate before and thereby start to mitigate MG's current over-reliance on Eastern European corridors.

	H1 2018		H2 2018	
APAC	Philippines Gcash DR (√)	2M wallets, expected to triple in 12 mo'	Philippines Gcash DS	2M wallets, expected to triple in 12 mo'
	China Alipay DR	520m wallets	China Alipay DS	520m wallets
			Korea Kakao DR+DS	50m wallets
			Thailand TrueMoney DR+DS	
MESA	India PayTM DR	280m wallets	India PayTM DS	280m wallets
			Bangladesh DS to all banks + wallet	30m users
			Pakistan DR+DS to wallet	
Africa	Ghana DS to all banks	12m accounts	Ghana DR+DS to all mobile wallets	22m wallets
	Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo DS to all banks		Kenya DR+DS to all banks	42m accounts
	Nigeria DS to all banks	37m accounts		

DR = Directed receive; DS = Directed Send. MG has advised that the India PayTM is ready for launch subject to Bank of India granting the required licence to PayTM.

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Appendix 2 – Indicative digital remittance deployment roadmap

There are two elements to the development of digital remittance capabilities we will be exploring in parallel.

1. The first pertains to our ability to introduce stage & pay transactions, i.e. digital transaction preparation with cash fulfilment in branch. Below is an indicative timeline for the introduction of the stage & pay solution with MG.

Tasks	Target Date	Owner	Dependencies	Status
Submit CR for 15.12 including Staging Completion	March 2018	MoneyGram	MoneyGram to provide CR document	Complete
15.12 API's PDF's available	April 2018	MoneyGram	MoneyGram to provide API documentation to POL	
Commence Design Calls with POL and Development Partner	May 2018	MoneyGram/POL/Dev Partner	MoneyGram to provide Spec for companion app/MGO staging. POL/MoneyGram to formulate staging completion design.	
Functional Specification	May/June 2018	POL	POL to develop spec	
Functional Specification Sign Off	June 2018	POL	POL to sign off spec	
Development	June –October 2018	POL/MoneyGram	POL to develop software	
Certification	October – November 2018	MoneyGram/POL	POL/MoneyGram to certify	
Teller Training/Pilot	November 2018	POL	POL to train tellers and organise pilot	
Rollout	January 2019	POL	POL to roll out service	

2. The second relates to how we exploit the 'pure' digital remittance opportunity. As mentioned earlier, we'll need to decide how we deploy that capability, e.g. through a partnership with or acquisition of an existing online specialist. Other considerations will include wider Customer Hub developments, broader payment capabilities (including Payment Hub), and digi-identity.

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Identity services: priorities for 2018/19

Sponsor: Martin Edwards **Authors:** Bryn Robinson Morgan, Elinor Hull **Meeting date:** 27th March 2018

Executive Summary

Context

Identity Services was established as a separate business unit in February 2018, with an objective to lead the market for digital identity. This paper outlines the immediate priorities for the new unit over the year ahead.

Questions addressed in this report

1. What is the opportunity and vision for Identity Services?
2. What is our product strategy for 2018/19?
3. How should we re-engineer our supplier ecosystem to support the delivery of our strategy?

Conclusions

1. Digital identity is a major growth opportunity for the Post Office, with an estimated addressable UK market in excess of £1.5bn pa (based on the costs of identity checking under existing business models). While there are a broad range of prospective players looking to take a slice of this profit pool, the competitive advantages of the Post Office put it in a unique position to lead the market.
2. We see 2018/19 as a critical foundation year in this context, with an urgency to accelerate customer acquisitions and launch the products that will enable us to target new clients rapidly and cost effectively. We are proposing a c£8m investment programme in eight priority projects to lay these foundations, which will be reviewed via Investment Committee over the coming weeks and months.
3. While our existing contract with Digidentity has served us well since 2015, we now need to re-engineer our supplier arrangements to align to the much broader ambitions of our new strategy. We therefore propose an accelerated process of negotiations with Digidentity and other short-listed suppliers over the next 3 months to establish new 'backbone' capabilities, but architected with flexibility to evolve with other suppliers over time.

Input requested

The Board is asked to: a) provide any steers on the overall shape of the proposed delivery programme for 2018/19, before specific funding requests are taken to IC; and b) note the proposed negotiating approach with suppliers, indicating any preferences between the different commercial models outlined in this paper.

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The Report

In-year trading and current market position

1. The full year revenue budget for our existing GOV.UK Verify service is £10.5m in 2017/18 (£5.8m of profit contribution), which we exceeded five weeks before year end. We expect to deliver 66% income growth over the full year. This strong performance has been driven by three main factors:
    a) successfully persuading HMRC to give more prominence to Verify for the Self-Assessment peak in January, and backing this up by running our own social media campaign targeted at self-employed small businesses;
    b) product improvements to support more customers to complete the process of assuring their identity, which have enabled us to maintain the best conversion rates out of the seven Verify providers; and
    c) the roll-out of Universal Credit and other new services such as online criminal record checks, driving a significant increase in new registrations.
2. At present our product is limited to the 15 government services connected to Verify, with no private sector clients. Across the Verify federation there are currently 2 million registered users - around 45% with Post Office - representing just 4% of the UK adult population. The imperative for 2018/19 therefore is to supplement the organic growth of Verify (budgeted to increase to £12.9m in 2018/19) with additional decisive actions to lay the foundations for our long-term success, set out in further detail below.

The broader market opportunity and our vision for identity services

3. Across the economy there are a broad range of transactions which require customers to prove their identity before they can access a service. These checks are typically performed on a siloed basis, requiring customers to prove who they are again and again relying primarily on physical documentation like passports, driving licences and utility bills. The cost to the UK economy is estimated to be at least £3bn pa, split between the direct cost borne the organisations performing the checks and the indirect costs for customers. The table below summarises the key areas of demand for high assurance identity services in the private sector.

Opportunity	Transactions	Costs (£m)
Bank account opening	2m	134
Travel (includes pre-flight checks and car hire)	78m	102
Age verification & retail	>2,000m	557
Gambling	20m	95
Property rental	23m	151
Health (access to health records, home care worker ID)	914m	138
Sharing economy	4m	21
Legal (conveyancing, divorce, wills)	3m	15
Insurance	60m	45
Pensions & asset management (e.g. share certificates)	72m	111
Employment vetting	38m	206

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4. Digital identity disrupts the traditional Know Your Customer (KYC) market by providing individuals with an efficient and reusable means of proving who they are according to recognised standards. Consumers benefit from increased convenience and greater security and control of their personal data. Organisations benefit from reduced acquisition costs and drop-out rates, creating a substantial commercial opportunity for us to monetise.

5. The Post Office is uniquely well placed in the UK to lead the development of this new market, building on our existing leading position under GOV.UK Verify. This ambition - to lead the market for digital identity - is now reflected in the Post Office's overall North Star. Annex A provides the Identity Business Unit's own North Star to distil its vision and measures of success for the next three years. The 3 Year Plan assumes £15m of net income growth from digital identity services by 2020/21, on top of a baseline of £5.8m this year. Bottom-up modelling is underway to chart a course to deliver these outcomes.

6. In pursuing this vision we need to contend with a broad range of competitors, including:

   a) **the KYC Incumbents** – Credit Reference Agencies provide much of the data driven transactional identity market today. With the shift to consumer owned identity this is a threat to their core business. At present they are keeping an active interest in supporting the digital identity market to re-purpose their operating model for data.

   b) **Payment Incumbents** – MasterCard and Visa have experience of integrating and creating interoperability across national borders and market segments. With their market reach they have the ability and motivation to own the infrastructure on which identity runs in much the same way.

   c) **Tech giants** – Alibaba, Amazon, Apple, Facebook, Google, Microsoft and WeChat all offer federated log in services. As they expand into more regulated markets, such as payments, they have the ability to disrupt the identity market through their customer and market penetration. The risk is they do identity themselves; the opportunity is they look to be consumers of digital identity.

   d) **Tech Challengers** – The personal information economy has spurned some well-funded start-ups such as Yoti, Digi.Me, Evernym. They currently lack adopted standards or customer volume, though are pushing hard on both.

Product strategy for 2018/19

7. As indicated above, the UK digital identity market is still in its infancy, with the Post Office currently only servicing the GOV.UK Verify market. Our ambition for 2018/19 therefore is to launch an identity product that works across a broader range of channels and markets, positioning us firmly ahead of the competition.

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8. To achieve market penetration, we have set the following 2018/19 targets underpinned by a c£8m project portfolio (see Annex B) driving the product build and client acquisition.

   i. **Develop a market ready product:** We will: a) develop our product on a modularised rather than bespoke basis, enabling us to serve new clients quickly and cost effectively; b) provide an extensible menu of identity checks, continually evolving to meet increasing market and regulatory needs; c) enable our service to be seamlessly integrated into customer on-boarding journeys; and d) develop standardised contractual terms including limitation of liabilities.

   ii. **Prove the case internally:** to build momentum and establish our credibility with the external market we need to demonstrate that we have sufficient confidence in our identity solution to use it for our own products and services. We are embedding identity as one of the key horizontal capabilities in the Customer Hub, starting with the Anti-Money Laundering (AML) checks required for travel money. This generates two-way benefits: accelerating growth in our identity user base with up to 1 million additional registrations by 2020/21; and providing the Customer Hub with one-click access to the 1 million 'pre-qualified' customers who have already registered for Verify. We are also developing plans to embed our identity service into the vetting process for new Post Office employees and postmasters, reducing our costs and increasing advocacy.

   iii. **Link branch and digital:** our Verify service is currently a purely digital offering, with no option for customer to register or use their identity across our branch network. We are missing a major opportunity to accelerate adoption and differentiate from our competitors. We are pursuing three initiatives in 2018/19 to rectify this: i) launching in-branch support of customer registration; ii) giving customers of our new digital passport application the ability to create an identity account as part of the service; and iii) introducing a digital notarisation service, to replace the existing paper-based service, with the option for customers to create a re-usable identity account as part of the process. We will equip counter colleagues with the right sales messages to explain the benefits of a digital identity account to customers, linking to both internal and external use cases and testing incentives such as Travel Money Card credits. Based on the 18% conversion rate which Australia Post have achieved for similar initiatives, this has the potential to generate nearly 1 million additional users by 2020/21.

   iv. **Build the external market:** our priority sectors for 2018/19 are: a) travel, covering both Post Office travel products and external services such as car hire and airline Advance Passenger Information; b) retail age-verification, leveraging our existing relationships with retailers (including the Panther network) and self-service kiosk manufacturers; and c) banking, co-ordinating efforts to influence the regulators to recognise the use of digital identity to meet KYC requirements and promoting our new digital notarisation service as a precursor product that can reduce the need for banks to serve customers in their own branches.

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Re-engineering the supplier ecosystem to support the delivery of our strategy

9. At present we have a very thin role in the digital identity value chain, essentially just being a brand. We rely on our Dutch partner, Digidentity, to provide us with an end to end identity service. This provided us with a low cost, low risk way to enter the market, and has generated over £15m of cumulative net profit to date.

10. Our contract with Digidentity expires at the end of the calendar year. We are now at an inflection point in our strategy and it is appropriate to review our supplier arrangements to ensure we are set up for long-term success.

11. It is critical that our commercial relationship with our identity supplier(s) enables us to move rapidly in the market and seamlessly integrate with the wider Post Office digital architecture. To support this objective, we propose to re-engineer our supplier arrangements based on four key design principles:

    i. **Closer control of customer experience** – consistent with the approach we are taking across the business, we need to fully own our customer – brand, experience, data and interfaces.

    ii. **Modular flexibility** – we need the flexibility to source 'best of breed' components on an evolving basis from multiple suppliers at competitive rates.

    iii. **Continual innovation** – the technology to support identity moves on at pace; as does the threat landscape for identity fraud and cybercrime. Our supply chain must support continued innovation to address this rapidly evolving environment. We need responsiveness and flexibility to meet our ongoing market needs.

    iv. **'One team' operating model** – it is essential that we have close alignment with our key suppliers, creating an agile, holistic and responsive mode of working together with shared priorities for product innovation, driven from market insight.

12. The technology and 'manufacturing' side of the digital identity market is relatively well supplied, with a broad range of providers offering scalable capacity and a steady stream of innovations in data and analytics. Over the past few months we have met with over 20 of prospective suppliers, supported by desk-based analysis of a longer list through our specialist consultants.

13. However, for the foreseeable future GOV.UK Verify remains our cornerstone market and there are only six suppliers currently qualified to meet the specific technical requirements set by Government: Avoco, Digidentity, Experian, GBG, Idemia, and Verizon. Our principal supplier must therefore be one of these six companies, while preserving the flexibility to add in others as our broader market propositions evolve.

14. We have ruled out building the end-to-end solution in-house on the grounds that: a) it will take at least 18 months to build an accredited solution so we would not

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have market-ready capabilities in place until 2020, by which time the key opportunities will be lost; b) our design principle of continual innovation means we need the flexibility to source the right technology from the market as it emerges, rather than being encumbered with maintaining our own legacy, custom technology.

15. To meet our design principles we need the right commercial construct with our principal supplier. We have assessed four different models, with varying degrees of direct ownership for Post Office:

    a) **a strategic alliance via a contractual relationship**, with growth and outcome based incentives for the supplier;

    b) **a technology joint venture**, co-investing in a new entity which has a primary mandate to provide services into Post Office's identity business;

    c) **a market facing joint venture,** giving our supplier a minority stake in our identity business (set up as a subsidiary) in return for them injecting technology and other assets; and

    d) **a partial or full acquisition** of a supplier.

16. Inevitably those options which entail greater direct ownership of the technology assets provide us with increased control and stronger alignment of incentives - but with the trade-off that we either need to invest upfront (in options b and d) or share more of our upside value (option c). Joint ventures and minority stakes obviously also come with additional governance complexity.

17. As the table at Annex C sets out in more detail, these commercial models are not equally applicable to all six of the short-listed companies. Based on our pre-tender assessment, we view three lead options as the best fit strategically for Post Office: a) a strategic alliance or joint venture with Digidentity; b) an acquisition of Avoco; or c) a contractual arrangement with GBG. In all cases we would propose sourcing the supplier via an SPV rather than direct from Post Office Limited.

18. We are now commencing a 3-month accelerated procurement process inviting the short-listed suppliers to participate in an evaluation of their technological capability and commercial alignment to meet our design principles and product needs. The technology assessment will be undertaken through a combination of traditional due diligence activities and use-case based hackathons, providing a better indication of technical competence, cultural alignment, speed and agility.

19. We expect to be in a position to make a firm recommendation to the Board by July, setting out non-binding heads of terms and any additional investment requirements.

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Identity services strategy: supporting slides

March 2018

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Annex A: Identity North Star

Who are we?	We are a commercial provider of identity services, with a social purpose			
What we are here to do	To lead the market for digital identity services			
Our key market ambitions	To be the **number one provider of citizen identity assurance to government**	To build our position as a **trusted provider of identity services to the private sector**	To increase **accessibility to digital services** for customers	Provide **trusted identity to every Post Office transaction** that requires "know your customer"
Key measures of success by 2020 / 21	**Grow our customer base** of reusable assured identities to 5m users	**Generate sustainable profit** with an annual net revenue of £4 per user	**Have an active customer base**, with an average of 3 identity transactions per user per annum	**Reduce our own cost of identity by 15% through reuse** of persistent, customer owned identity
Our five priorities to deliver these outcomes	**Simplified experience,** with customers at the **heart, owning their identity**	Have **the best in breed secure technology** platform	Create a **compelling client proposition**	Accelerate the **adoption of standards** for interoperability	**Use identity to transform customer experience** across the Post Office

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Annex B: 2018/19 Project Delivery

Project	Description & Benefits	Costs
1. Account creation from digital passport application	Enabling creation of a re-usable identity account when using Post Office's new digital passport application service. Estimated additional 700k additional identity accounts by 20/21– with added value of ICAO compliant photo	£0.3m
2. Customer Hub Identity Integration	Full integration with Customer Hub, meaning customers have a single identity account which spans Post Office services, e.g. TMC (500k accounts by 20/21) and external connected services Creation of additional app-based tools which enable customers to share elements of their verified identities (e.g. proof of age) in order to access the services they want, online and in-branch – opens up broad range of market opportunities	£2.5m
3. Post Office FX AML +	Functionality for customer to: a) create a re-usable digital identity when proving identity for a Post Office FX transaction; and b) re-use an existing digital identity next time they want to access FX. Provides credibility of product when selling KYC services to external FS providers	Already funded
4. Post Office HR vetting	Integration of digital identity service into the on-boarding of Post Office employees, postmasters and counter colleagues Development of market leading capabilities to sell to other employers (£200m+ addressable market)	£0.2m
5. Digital notarisation	Notarised digital copy of an identity document, which can be shared with 3rd party clients through web interface. Ability to link to identity account – c.150k additional new users pa Establishes basic digital identity service for banks, creating commercial relationship ahead of regulator endorsement of full KYC product	£2.0m
6. In-Branch Verify	In-branch registration options for customers (c.100k) who are unable to complete Verify journey online. Promotes digital inclusion	£0.4m
7. POCA / Verify project	Leveraging account data and branch contacts to help POCA customers (c.200k) through the Verify process, e.g. to apply for UC or state pensions Promotes financial and digital inclusion, strengthens relationship with DWP	£0.5m
8. NHS Digital	Provision of digital identity service enabling customers to access digital health records. NHS committed to 2018 launch – early foothold in emerging digital health market	£1.5m

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Annex C: Commercial Options vs Supplier Short-list

Commercial Option	Avoco	Digidentity	Experian	GBG	Idemia	Verizon
Contractual Relationship *A flexible contract to cover the full range of identity use cases with modular pricing of the component capabilities.*						
Technological Services JV *New JV formed to provide 'back office' technology services into Post Office Identity*						
Market Facing JV *PO and Supplier combine a broader set of assets to form a new UK business set up for commercial purposes*						
Full Acquisition *Full control of the capabilities required to support our long-term ambitions*					 *ID&V platform only	
Notes	Desire to sell business – 15 UK based employees	100% owned by Solera, a $1bn revenue US car insurance firm	FTSE 100 company. See Post Office as a direct competitor	FTSE AIM 100 company. Provide for 2 other GOV.UK Verify brands	Group owned, global presence. Failing UK IDP business.	Global conglomerate Verify supplier to Barclays. Poor track record in UK ID market.

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Postmaster Litigation Subcommittee

Author: Veronica Branton, Head of Secretariat Sponsor: Jane MacLeod, Company Secretary Meeting date: 27 March 2018

Executive Summary

Context

The Board approved the establishment of a Postmaster Litigation Subcommittee at its meeting on 29 January 2018 and agreed its membership.

The Board is invited to **approve** the terms of reference for the Subcommittee which are at appendix 1.

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Postmaster Litigation Board Subcommittee

1. Purpose & Responsibilities

1.1 Post Office is the defendant in *Alan Bates & Others v. Post Office Limited*, High Court of Justice Queen's Bench Division, Claim No. HQ16X01238 (the "Claim").

1.2 A subcommittee of the Post Office Limited Board is established to receive legal advice on the Post Office's Defence in the Group Litigation as it proceeds to final resolution.

1.3 The subcommittee will be disbanded at the final resolution of the Group Litigation, or upon the instruction of the Board, whichever is sooner.

2. Membership

2.1 At its meeting no 29 January 2018 the Board appointed Tim Parker (Post Office Chairman) Chairman of the Subcommittee, Ken McCall (Senior Independent Director) and Tom Cooper (Non-Executive Director and Shareholder Representative) as members, together with Paula Vennells (Group Chief Executive) and Alisdair Cameron (Chief Finance & Operating Officer).

2.2 The Company Secretary (Jane MacLeod) will act as Secretary to the subcommittee and may nominate a deputy in her absence.

3. Organisation

3.1 The subcommittee shall meet as often as required.

3.2 The quorum shall be two Non-Executive Directors.

3.3 The subcommittee may meet in person, by telephone or by electronic means so long as each member can contribute to the business of the meeting simultaneously.

3.4 Meetings may be convened by the Secretary, at the request of the Chairman, or by any member at any time. Notice of each meeting shall be given to all members and, unless there are special circumstances, shall be given at least three working days before each meeting.

3.5 The Secretary (or a nominated deputy) shall attend meetings and keep minutes. Other Post Office employees and or relevant external consultants and lawyers may attend for part or the whole of the subcommittee meeting at the invitation of the Chairman.

3.6 The Secretary shall be accountable to the Chairman for the provisions of relevant and timely information and for ensuring regular reporting from the subcommittee to the full Board.

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Committee Terms of Reference Evaluation Reviews

Author: Veronica Branton, Head of Secretariat Sponsor: Jane MacLeod, Company Secretary
Meeting date: 27 March 2018

Executive Summary

Context

The UK Code of Corporate Governance recommends that clear Terms of Reference ('ToR') should be in place for the Remuneration; Nominations; and, Audit, Risk and Compliance Committees and that an evaluation against these should take place annually. This paper provides POL with oversight of those evaluations. The full evaluations are available in the BoardPad Reading Room.

Questions addressed in this report

1. Has each Committee fulfilled the requirements of its respective ToR during 2017/18?

Conclusion

2. The analysis for each Committee has concluded that the requirements of the respective ToR have been met in 2017/18 with the exception of carrying out Committee effectiveness reviews. It had been decided that effectiveness reviews should be held over until the new Non-Executive Directors of POL were on board and had concluded their induction process.

Input Sought

3. POL is asked to **note** the conclusion of the Committee evaluations against Terms of Reference for the Nominations Committee; Remuneration Committee; and, Audit, Risk and Compliance Committee. The full evaluations are available in the BoardPad Reading Room.

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The Report

Nominations Committee and Remuneration Committee

4. The Secretariat has reviewed the agenda and minutes of the Nominations and Remuneration Committees for 2017/18 against their terms of reference. Both Committees were found to have fulfilled their requirements to the Board[1], specifically that:
    a. The **purpose** of each Committee was clear having been previously approved by the Board in March 2015 and amended in November 2015 to incorporate Post Office Management Services (POMS)
    b. The **composition and terms of office** had been adhered to throughout the year
    c. The **meetings** had been convened in accordance with the TOR
    d. All **duties and responsibilities with regard to the Company** had been discharged
    e. All **duties and responsibilities with regard to POMS** had been discharged.

Audit, Risk and Compliance Committee (ARC)

5. Secretariat has reviewed the agenda and minutes of the ARC Committee against its terms of reference. It was found to have fulfilled its requirements to the Board[2], specifically that:
    a. The **purpose** of the Committee is clear having been previously approved by the Board in September 2015 (including amendments to incorporate areas of risk previously covered by the Pensions and Financial Services Board Committees)
    b. The **composition and terms of office** have been adhered to throughout the year
    c. The **meetings** have been convened in accordance with the TOR
    d. All **other governance responsibilities** have been discharged
    e. **Auditing services** are provided by Internal and External Auditors and both the Head of Internal Audit and the External Auditors attend every ARC meeting. Internal and External audit plans are agreed by the ARC.
    f. The CFOO attends the ARC and has time on the agenda to provide a regular update on the **'Accounting, Financial Control and Financial Reporting.**

[1] With the exception of carrying out Committee effectiveness reviews, as noted.
[2] With the exception of carrying out a Committee effectiveness review, as noted.

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Register of interests/ conflicts of interest

Author: Veronica Branton, Head of Secretariat Sponsor: Jane MacLeod, Company Secretary Meeting date: 27th March 2018

Executive Summary

Context

Directors are asked to note the appointments listed for them at Companies House and any additional information we hold on their register of interests (Appendix 1) and advise of any changes or additions that need to be made.

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Post Office Limited Board of Directors – Register of Interests

Richard Callard

No declared interests

Alistair Cameron

Company Name	Country	Position	Appointed
Dover Harbour Board	United Kingdom	Director	-

Timothy Franklin

Company Name	Country	Position	Appointed
Enville Court Management Limited	United Kingdom	Director	13/04/2016
PCF Bank Limited	United Kingdom	Director	22/05/2017
PCF Group PLC	United Kingdom	Director	06/12/2016
Topaz Finance Limited	United Kingdom	Director	12/10/2017
HM Land Registry	United Kingdom	-	-
Firstsource	United Kingdom	-	-

Virginia Holmes

Company Name	Country	Position	Appointed
British Airways Pension Investment Management Limited	United Kingdom	Director	01/01/2016
British Airways Pension Services Limited	United Kingdom	Director	01/10/2015
British Airways Pension Trustees Limited	United Kingdom	Director	01/10/2015
Intermediate Capital Group Plc	United Kingdom	Director	31/03/2017
Jupiter European Opportunities Trust Plc	United Kingdom	Director	07/11/2017
The Investor Forum CIC	United Kingdom	Director	10/12/2014
USS Investment Management Limited	United Kingdom	Director	30/06/2011

Ken McCall

Company Name	Country	Position	Appointed
SUSTENIR Group PTE LTD	Singapore	Chairman	01/01/2016
Europcar Groupe S.A.	Various	Various Directorships of Group Companies	-

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Post Office Limited Board of Directors – Register of Interests

Tim Parker

Company Name	Country	Position	Appointed
Samsonite International S.A.	United Kingdom	Chairman	-
The Brand Foundation	United Kingdom	Chairman	18/11/2015
The Grange Festival	United Kingdom	Director	27/03/2017
The National Trust	United Kingdom	Chairman	08/11/2014
Royal Academy of Music	United Kingdom	-	-

Carla Stent

Company Name	Country	Position	Appointed
JPMORGAN ELECT PLC	United Kingdom	Accountant	20/04/2015
Littlefish FX Limited	United Kingdom	Director	01/02/2013
Malherbe Limited	United Kingdom	Accountant	09/05/2016
Marex Sprectron Group Limited	United Kingdom	Director	09/12/2014
MCS Advisory Limited	United Kingdom	Accountant	27/02/2014
Power To Change Trustee Limited	United Kingdom	Director	23/01/2015
Savernake Technology Limited	United Kingdom	Director	30/08/2014
This Is The Big Deal Limited	United Kingdom	Accountant	20/02/2014
Power to Change (Charity)	United Kingdom	-	-
Octopus Group	United Kingdom	-	-

Paula Vennells

Company Name	Country	Position	Appointed
HYMNS ANCIENT AND MODERN LIMITED	England	Director	11/11/2008
MIDASGRANGE LTD	United Kingdom	Director	08/02/2007
ROYAL MAIL HOLDINGS PLC	England	Director	18/10/2010
WM Morrison Supermarkets Plc	United Kingdom	Director	01/01/2016

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Post Office Limited Sealings

Author: Jane MacLeod Meeting date: 27 March 2018

Executive Summary

Context

The Directors are invited to consider the seal register and to approve the affixing of the Common Seal of the Company to the documents set out against items number 1637 to 1657 inclusive in the seal register.

Input Sought

For the Directors to resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1637 to 1657 inclusive in the seal register is hereby confirmed.

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POST OFFICE LIMITED

Register of Sealings

Date
15.03.2018

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1637 / TR1 Form	22/01/2018	18/01/2018	TR1 in relation to the transfer of 3 Victoria Square, Droitwich WR9 8BZ. Post Office Limited is the Transferor. Transferee is Baljinder Dhadda.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1638 / Agreement for sale	22/01/2018	19/01/2018	Agreement for sale in relation to 143-145 Terminus Road, Eastbourne, BN21 3NS. Post Office Limited is the transferor. Kirk Bryson & Co Limited is the transferee.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1639 / TR1 Form	22/01/2018	19/01/2018	TR1 form associated with agreement for sale in relation to 143-145 Terminus Road, Eastbourne, BN21 3NS. Post Office Limited is the transferor. Kirk Bryson & Co Limited is the transferee.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1640 / Capital Allowances Election	22/01/2018	19/01/2018	Capital Allowances Election in relation to agreement for sale in relation to 143-145 Terminus Road, Eastbourne, BN21 3NS. Post Office Limited is the transferor. Kirk Bryson & Co Limited is the transferee.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1641 / Counterlease	26/01/2018	25/01/2018	Counterlease of Part Ground and First Fllors (known as unit 7) at Wyndham House, Wyndham Street, Bridgend, Wales. POL is the tenant. Lexton Investment Limited is the landlord.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1642 / Form of Election	29/01/2018	26/01/2018	Form of Election in relation to 10 High Cross Street, St Austell, PL25 4AA. POL is the seller. Tempophase Ltd is the buyer.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1643 / Underlease	29/01/2018	26/01/2018	Underlease of whole relating to Ground Floor, 37 Church Lane, Pudsey, LS28 7LB. Landlord is POL. Tenant is TNB Training Limited. Other parties are Mark Butcher of Whitehorn House, 52 Valley Drive, Ilkey, West Yorkshire and Carol Butcher of Whitehorn House, 52 Valley Drive, Ilkey, West Yorkshire, LS29 8PA (together guarantors)	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1644 / Deed of removal & appointment	05/02/2018	05/02/2018	Deed of removal and appointment of trustees to the Post Office Limited Life Assurance Trust. (Alwen Lyons Retiring Trustee and Roger Gale, New Trustee). Deed between Post Office Limited and Roger Gale, Natasha Wilson, Sean Leahy and Martin Edwards. CAF number 882.	Victoria Moss, Deputy Company Secretary	Company Secretariat Contract Repository
1645 / TR1	12/02/2018	12/02/2018	TR1 form in relation to disposal of Enfield Wash Post Office reversionary freehold. Transferor is POL. Transferee is Sunstar Group Limited	Jane MacLeod, Company Secretary	Jean Reynolds
1646 / Tenancy Agreement	13/02/2018	12/02/2018	Tenancy agreement in relation to 12-14 London Road, St Leonards on Sea, TN37 6AA. Landlord is POL. Potent Solutions is the tenant.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1647 / Deed of Surrender	19/02/2018	15/02/2018	Deed of Surrender in relation to Part of 130C Lord Street, Southport, PR9 0AA between Property Letting & Development Limited and Post Office Limited.	Jane MacLeod, Company Secretary	Jean Reynolds
1648 / Underlease	20/02/2018	19/02/2018	Underlease of whole relating to Post Office Premises, County Square, Ulverston, Cumbria, LA12 7AA. POL is the Landlord. Tenant is Peall and Hughes Ltd. Other party is William Richard Hughes of 27 Fair View, Marton, Ulverston LA12 0NH and Barry Edward Peall of Sunny Crest Lindale, Grange over Sands, LA11 6QR (together as guarantors).	Jane Fahey, Deputy Company Secretary	Jean Reynolds

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POST OFFICE LIMITED

Register of Sealings

Date
15.03.2018

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1649 / Agreement for Sale	01/03/2018	01/03/2018	Agreement for sale relating to Galatea House, 1 Narvick Road, Kingston Upon Hill, Hull, HU7 0AB. Post Office Limited is the seller. Essential Estates Limited is the buyer.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1650 / TR1	01/03/2018	01/03/2018	TR1 relating to agreement for sale relating to Galatea House, 1 Narvick Road, Kingston Upon Hill, Hull, HU7 0AB. Post Office Limited is the seller. Essential Estates Limited is the buyer.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1651 / Agreement for sale	06/03/2018	01/03/2018	Agreement for the sale of 51 London Road North, Lowestoft, NR32 1AA. Post Office Limited is the seller. Waveney District Council.	Jane MacLeod, Company Secretary	Jean Reynolds
1652 / TR1	06/03/2018	01/03/2018	TR1 in relation to agreement for the sale of 51 London Road North, Lowestoft, NR32 1AA	Jane MacLeod, Company Secretary	Jean Reynolds
1653 / Renunciation	08/03/2018	08/03/2018	Renunciation of Units 34,35 and 36 Piazza Centre, Paisley. New River Retail (Paisley) Limited = Landlords. POL = tenants.	Jane MacLeod, Company Secretary	Jean Reynolds
1654 / Option Agreement	13/03/2018	12/03/2018	Option Agreement relating to 113 Market Jew Street, Penzance, TR18 2LB. Post Office Limited is the seller. Bost Developments Limited is the buyer.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1655 / TR1	13/03/2018	12/03/2018	TR1 in relation Option Agreement relating to 113 Market Jew Street, Penzance, TR18 2LB. Post Office Limited is the seller. Bost Developments Limited is the buyer.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1656 / License	13/03/2018	12/03/2018	License relating to Post Office, 28-30 Cowgate, Peterborough between Edwin Victor Davis (Landlord) and Post Office Limited (Tenant).	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1657 / Deed of Settlement	13/03/2018	12/03/2018	Deed of Settlement in relation to a dilapidations claim between CIP Property Limited and Post Office Limited.	Jane Fahey, Deputy Company Secretary	Jean Reynolds

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Performance Review – Health and Safety

Authors: Martin Hopcroft Sponsor: Al Cameron Meeting date: 27th March 2018

Executive Summary

Context

1.1 Keeping our employees healthy and safe is fundamental to Post Office success. This is reflected in the Post Office Board's legal responsibilities and members of the board have both collective and individual responsibility for health and safety.

1.2 Our Health & Safety performance has improved significantly in the past 6 years and we have a rolling 3-year plan to drive compliance, targeting a reduction in safety metrics including accidents; lost time accidents; days lost; and personal injury claims. Our H&S reporting and safety management system is measured against the externally recognised standard, OHSAS 18001. We also recognise the importance that wellbeing can play in creating engaged and motivated employees.

Questions this paper addresses:

2.1 It has been agreed to provide a monthly performance report to the Board for noting and a more in depth Health & Safety deep dive report 6 monthly.

Conclusion:

3.1 There has been a recent decrease in the total number of accidents and absence related accidents reported by Directly Managed Branches during periods 10 and 11 following an increase in December. Whilst the number of incidents year to date in Supply Chain are in line with 2016/17, the rate per 1000 employees has risen. Investigations have been undertaken and accountabilities reviewed with a safety plan agreed for which includes the introduction of a Safety Forum and Safety Champions. Other initiatives are being developed to strengthen a 'hearts and minds' safety culture.

3.2 Benchmark data indicates that overall Post Office performance is favourable. HSL/HSE have reported that the POL Safety Management System is very strong.

3.3 Road risk is being reduced through a number of initiatives in Supply Chain eg. Telemetry, Alcolock, winter driving advice and online awareness training for those driving for work, including those using personal cars for business.

3.4 Whilst CViT attacks remain lower, Post Office robberies have increased over the last 12 months, however, the trend has reversed and decreased over the last quarter. A number of initiatives are being deployed in hot spot areas.

3.5 Due to an increase in violence across the industry, a review including a horizon scan of risk across the industry and the Post Office is taking place and a report will be provided to PO Board in May. This review will also look at the increase of violence and abuse from customers.

3.6 The overall level of Property risk is predominantly low. An Independent Assessment of high risk building fabric (including signage) is complete, with remedial works completed in March. Medium risk assessments have commenced and will be completed by April. Current property statutory compliance is good at 96.70%.

a) A serious gas explosion took place at Harold Hill DMB on Sunday 4th March and was reported in the local press. There were no injuries and no investigation by HSE or local authority likely. A swift response from Operational teams and CBRE engineers who completed gas, electric and structural surveys enabled the branch to reopen at 13:30 Monday. The collective view of the Fire Brigade, Police and engineers was that the cause of explosion was likely to have been due to a gas cooker being left on with a low flame that extinguished over the weekend, allowing a slow build-up of gas which was ignited by an electric supply to the microwave LED, which was extensively damaged. Engineers have been instructed to check all appliances at their next monthly maintenance visit, remove all gas cookers from our branches asap. An instruction has been given to all

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Managers that gas cookers must not be used if an alternative means of cooking is available. There is no evidence of faulty kitchen appliances.

b) There was also a fire reported at Houndsditch DMB involving a Portable Heater. The site was evacuated and the fire extinguished. The Fire Brigade were called and declared the site safe and the fire risk assessment checked and passed. CBRE have been instructed to remove all similar make and model heaters on the next monthly check, as well as instructing all managers to check their heaters and report damage or wear and tear to the Property helpdesk and not to leave heaters unattended at any time.

3.7 An independent audit with HSL / HSE has been undertaken to review the Post Office Safety Management System. Initial feedback confirms that we have an excellent safety management system in place with a focus from Group Executive to frontline. There are a few areas to strengthen in order to reach best in class:

- Recognition - we should celebrate where we do this well and there should be greater discussion, visibility and recognition communicated in team meetings and 121s
- Broader training - to raise competence across the business. Higher level health and safety training to be provided where the risk is higher.
- Greater awareness and management of verbal abuse in stores. This is a general area of concern for the HSE and an expectation that businesses will do more to mitigate risk through training, support, policies, recording and monitoring of cases to assess risk. Whilst we have a policy and training brief and we assess risk, our approach should be reviewed and updated with more training for frontline colleagues.

The Head of Health & Safety will receive a report and will circulate for discussion with GE in April, prior to Post Office Board in May.

3.8 Absence data is not robust following migration to Success Factors but we expect to report accurate year end data from the end of the month.

- There has been a positive uptake of free flu vaccinations offered to Support Centre and Supply Chain colleagues and early indications are that flu related absences are below the current industry level.
- Mental health related absence remains the most common cause of long term absence. Proactive activity includes 'positive mental health awareness' sessions for colleagues, Mental Health Awareness Workshops for line managers and the introduction of approx 50 Mental Health First Aiders who have received training to provide proactive support to colleagues.
- The new Wellbeing portal has been linked to peoplehub and has now been formally launched to bring all Occupational Health services together in one place to raise colleague awareness. www.postoffice-wellbeing.com

Input Sought

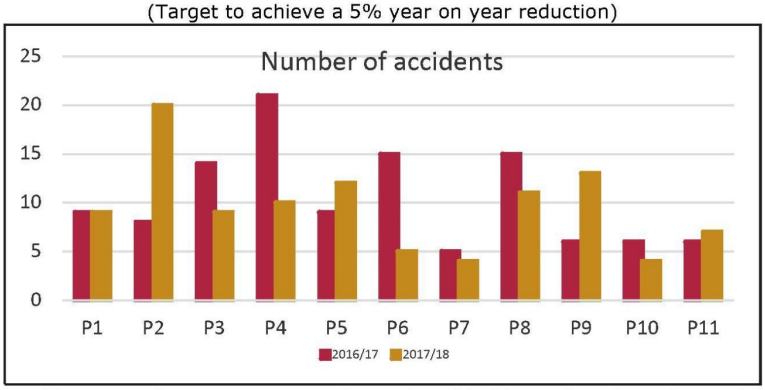
The Post Office Board are requested to **note** the current health safety performance and content of this report.

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The Report – H&S Metrics

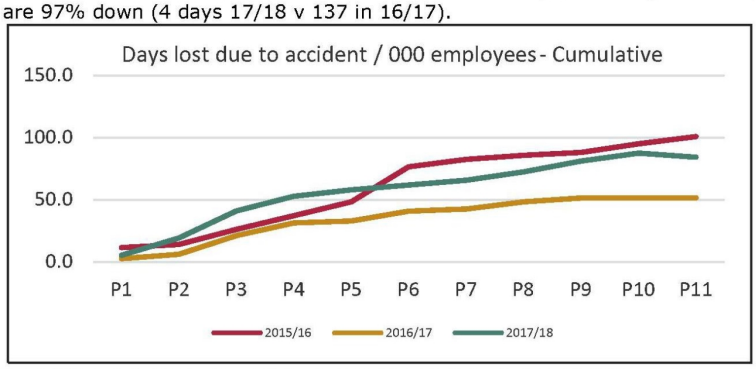
Summary of Safety Performance - YTD Period 11 (Feb 2018)

Number of Employee Accidents – Monthly - Period 11
(Target to achieve a 5% year on year reduction)



Accidents are forecast to outturn lower than 2016/17. There have been 104 accidents YTD compared to 112 at P11 in 2016/17. Causation is consistent with previous years in DMBs and due to falls indoors, lifting and handling and stepping and striking. Whilst stepping and striking and non RTA vehicle related accidents have increased in Supply Chain recently, lifting and handling related incidents have reduced. Following an increase in recent accidents and a serious near miss, an action plan has been developed to mitigate future risk. A Safety Forum and safety Champions are being set up to share best practice and discuss lessons learnt and promote safety culture.

There was 1 lost time accidents reported in P11 with **19 lost time accidents** YTD 2017/18 and 448 total lost days. Cumulative Trends can be seen per 000 employees in the graph below. Total lost time has risen by 53% YTD v 16/17 but 32% lower than 15/16. **Trauma** related total lost days, following an attack, are 97% down (4 days 17/18 v 137 in 16/17).



Post Office total lost days: 2 in Period 10 and 8 in Period 11 (February)
DMB total lost days P11 YTD: 233 (96 - 16/17) 1 step/strike, 1 lifting, 2 fall, 1 assault. Supply Chain total lost days P11 YTD: 209 (191 - 16/17) 3 vehicle, 3 falls, 2 lifting. Support teams total lost days P11 YTD : 6 (6 in 16/17)

Road Risk - P11 Road Traffic Collisions
- 8 Road Traffic Incidents in P11
- 3 at fault, 5 not at fault

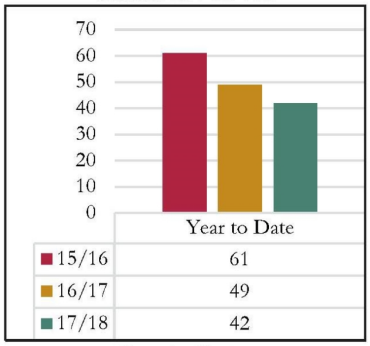
There were 81 RTCs YTD in 2017/18 v 145 (16/17), a 44% reduction YTD. At fault RTC's were 91 in 2016/17 and have reduced to 48 in 2017/18, a 47% YOY reduction. Initiatives include:

• An overarching Road Risk Policy, with improved training and compliance checks is being developed by the Fleet Management team to cover Commercial Fleet, Business Cars and Personal Car use.

• Driver Training has been developed and launched on Success Factors for all employees who drive on business and a check across all business areas is being undertaken by the H&S BPs.

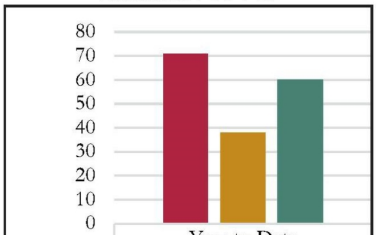
• Road Risk Manager is working closely with the road safety charity Brake, our Insurers, QBE and Fleet providers, BT Fleet and Inchcape and Cranfield University to benchmark and pilot initiatives to mitigate risk.

Directly Managed Branch
Accidents P11 YTD

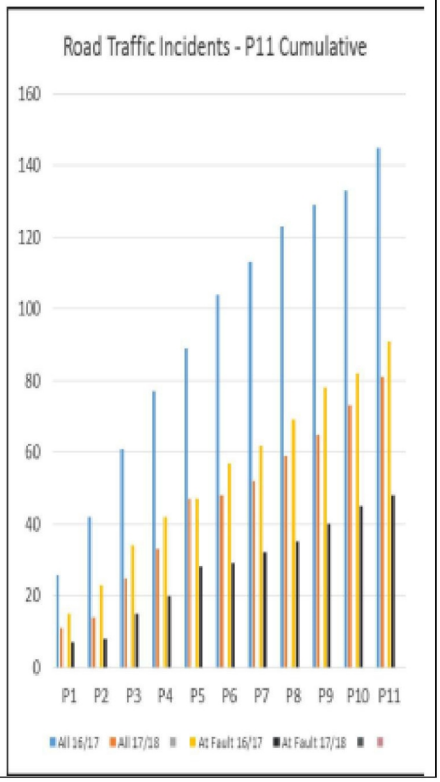


	Year to Date
15/16	61
16/17	49
17/18	42

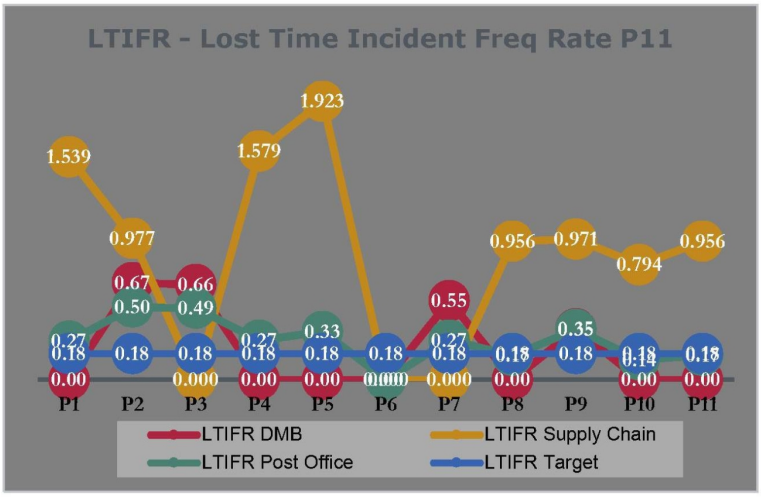
Supply Chain
Accidents P11 YTD



	Year to Date
15/16	71
16/17	38
17/18	60



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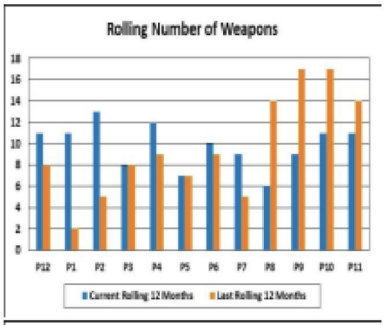
Supply Chain
LTIFR P11 YTD
YTD P11 – 0.956
2016/17 out turn – 0.590
2017/18 target – 0.500
Benchmark – 0.600
Absence accidents/000 SiP
13.54 YTD v 9.52(16/17)

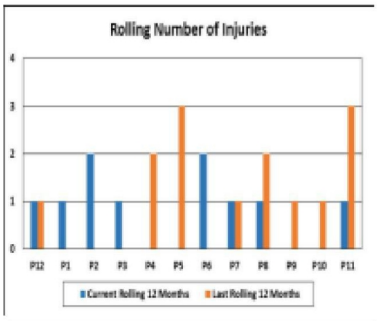
All Post Office – Employee
LTIFR P11 YTD
YTD P11 – 0.267
2016/17 out turn – 0.168
2017/18 target – 0.180
Benchmark – 0.300
Absence accidents/000 SiP:
3.75 YTD v 2.58 (16/17)

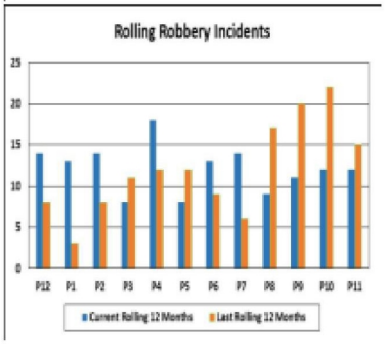
Post Office CViT Robberies – P11

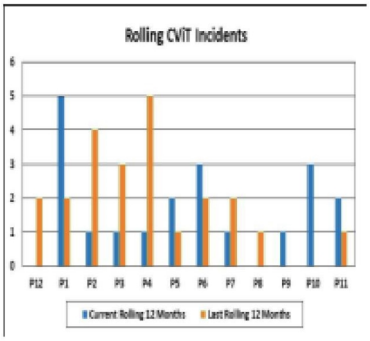
There were 2 incidents reported in Feb v 1 in 2016/17 and there have been 20 incidents v 23 over 12 rolling months. Trend is being monitored closely. Violence has been used in 6 incidents this year with 3 injuries incurred. 7 used weapons v 6 in 2016/17 YTD.

- Merseyside currently a hot spot area industry wise, Security Manager attends local Operation Guardian meeting to share intelligence with police and carriers and determine mitigating activities.
- 23 Cross Pavement Observations undertaken during period by Security Managers with 283 completed YTD.
- 20 further body camera units in process of being procured and will be deployed as appropriate in high risk areas.
- 2 Operation Stripe tests undertaken by Security managers during period to test Depot resilience to unforeseen threats or occurrences.
- Partnership activity agreed with Flying Squad to use depot facilities to run CViT 'incident test' this will raise Police awareness of our operation. Hoped to mirror this engagement with other forces in other areas.









Post Office (All branch types) Robberies:
Sep - 13 incidents v 9 (16/17)
Oct – 14 incidents v 6 (16/17)
Nov - 9 incidents v 17 (16/17)
Dec – 11 incidents v 20 (16/17)
Jan – 12 incidents v 22 (16/17)
Feb – 12 incidents v 15 (16/17)
132 robberies YTD v 135 in 2016/17
146 compared to 143 in rolling 12mth

P11 2017/18
Violence – 1 vs 4 last year
Injuries – 1 vs 3 last year
9 injuries YTD v 13 (2016/17)
Weapons - 11 (4 firearms, 5 blades) vs 14 last year (2 firearms, 7 blades). 107 YTD (56 blades) v 107 in 16/17 (55 blades)
Trend is downwards over last quarter with 35 incidents v 57 incidents in 2016/17.

The percentage of attacks targeting open plan remains at a similar level to last year, 55% vs 60% last yr, 76% of these involving weapons. Despite an increase in weapons and robberies, injuries remain fairly static year on year. Torch visits scheduled in north east during next few weeks to advise and mitigate against recent spike in robberies in that area. The number of attacks involving weapons remains static year on year with YTD 107 vs 107 last yr, although the percentage of robbery incidents involving a weapon has slightly increased from 79% to 81%.
8 of the incidents involving a weapon resulted in injury compared to 9 the previous year with 38% of these injuries due to staff members resisting vs 33% last yr. The deployment of fogging and IP cameras is aimed to reduce robberies and the associated risks, as noted with zero injuries where activated.

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POST OFFICE BOARD

Post Office Limited Board Meetings

Author: Jane MacLeod Meeting date: 27 March 2018

Executive Summary

Context

The Directors are requested to note the future meetings dates scheduled in respect of Post Office Limited Board meetings.

Input Sought

The Board is requested to note the future meeting dates.

The Report

2018

Date			Time	Notes
Thursday	24 May	2018	11.15 – 16.00	
Tuesday	26 June	2018	TBA	Board Away Day
Wednesday	27 June	2018	TBA	Board Away Day
Tuesday	31 July	2018	11.45 – 16.30	
Tuesday	25 September	2018	11.45 – 16.30	
Tuesday	30 October	2018	11.45 – 16.30	
Tuesday	27 November	2018	11.45 – 16.30	

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Draft Board Agenda for meeting on 24th May 2018

Description of Item	Timings	Origin	GE Sponsor	Presenter	Required Outcome
Minutes of previous Board and Committee meetings including Status Report	5	Board action from previous meeting	Jane MacLeod	Jane MacLeod	For noting
CEO Report Including IR update	20	Standing item	CEO	Paula Vennells, CEO	For Noting
Financial Report	20	Standing item	CFOO	Al Cameron, CFOO	For Noting
CE Performance Report - Retail	20	Standing item	Debbie Smith	Debbie Smith	For Noting
RM Negotiation Update	20	Standing item	Debbie Smith	Mark Siviter	For Noting
Customer Hub Update	20	Periodic action from forward planner	Rob Houghton	Jeff Smyth	For Noting
Postmaster Litigation	10	Standing item	Jane MacLeod	Jane MacLeod	For Noting
Future of Cash	30	Board action from previous meeting	Al Cameron	Mark Ellis/ Mark Dixon/ Russell Hancock	
Health & Safety (to include a report on Robberies and Violence)	20	Standing item	Al Cameron	Martin Hopcroft	For Noting
SSK Procurement Plan	20	Reserved decision	Debbie Smith		Decision
Mail Strategy Update	20	Standing item	Debbie Smith		For Noting
POMS Regulatory Capital	10	Reserved decision	Al Cameron	Simon Parr	Decision
Total No Hours	**215**				