POL00027276

Group Executive Agenda

Remember (a+vei) (otw) (p&o) & (cit) !

Date reported as
14th September 2017

Start Time	Finish Time
08.30hrs	14.30hrs

Location
Room 1.19 Wakefield

Present	In Attendance	Other Attendees	Apologies
• Paula Vennells (Chair) • Alisdair Cameron • Nick Kennett • Kevin Gilliland • Jane MacLeod • Rob Houghton • Martin Kirke • Mark Davies • Martin Edwards		• Natasha Wilson (item 2) • Rob Clarkson (item 5) • Gill Tait (item 9) • Tom Moran (item 9) • Steve Norris (item 10)	None

Agenda Item		Action Needed	Purpose	Lead	Timing
1.	**Performance – Financial Results & Review of Business Scorecard**	For information & input	To review the Financial Results & the Business scorecard and discuss any areas which are shown to have a RED status.	Al	08.30 – 08.50
2.	**Accounting and Incentives**	For discussion & GE input	To agree the LTIP targets for each of the next three years.	Al / Natasha Wilson	08.50 - 09.40
3.	**Performance Report - Retail SBU**	For information & input	To review the Performance of Retail SBU.	Kevin	09.40 – 10.10
4.	**Peregrine Update (verbal)**	For information	To update GE on Peregrine.	Nick	10.10 – 10.20
BREAK					10.20 – 10.30
5.	**POMS Update**	For noting	To receive the POMS' Shareholder report ahead of its submission to the POL Board.	Nick / Rob Clarkson	10.30 – 10.40
6.	**NFSP Strategy & Funding**	For discussion & GE input	To update the GE on proposals regarding future funding of and relationships with the NFSP.	Kevin	10.40 – 11.00
7.	**IT Strategy**	For discussion & GE input	To update GE on IT Strategy pre-Board.	Rob	11.00 – 11.55
8.	**Back Office Transformation**	For discussion & GE input	To update GE on Back Office Transformation.	Al	11.55 – 12.15
9.	**Transaction Simplification Project Changes**	For information & input	To update the GE on the Transaction Simplification Project Changes.	Gill Tait / Tom Moran	12.15 – 12.30

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Agenda Item		Action Needed	Purpose	Lead	Timing
LUNCH					12.30 – 13.00
10.	**Finsbury Dials Review**	For discussion and approval	To finalise strategic direction on admin sites specifically (1) London estate and FD and (2) CTOs.	Steve Norris	13.00 – 13.15
11.	**Verbal update from Committees & Steering Groups** 11.1 IRSG 11.2 Ops Board 11.3 CRG	For noting	Chairs of Committees to update GE.	 Martin Kirke Al Al	13.15 – 13.30
12.	**Contracts for Approval** 12.1 Interest rate SWAPs	For approval	For GE to approve the Contracts.	Mark Dixon	13.30 – 14.00
13.	**Review of GE Minutes, Action Points and Updates**	For noting and	To update the GE on the actions taken and provide any information requested .	All	14.00 – 14.10
14.	**Items for Noting** 14.1 Health & Safety 14.2 Forward Agendas GE – October 2017 Board – September and October 2017	For noting	For GE to note the papers.		14.10 – 14.15
15.	**AOB**	For input	To discuss any other items of business not on the agenda.	All	14.15 – 14.25
16.	**Feedback on meeting**	For input	Review the agenda items and the effectiveness of the sessions.	All	14.25 – 14.30
CLOSE					**14.30**

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August 2017
Financial Performance

Amanda Radford
14 September 2017

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Trading performance continues in line with recent trends. New Call launch delivers £1.5m revenue.

Context

- YTD P4 EBITDAS performance was £4.0m. £1.5m favourable to budget.
- At end of FY 16/17, cash in Network was £666m and balance sheet headroom was £189m
- P5 budget EBITDAS is £0.0m

Questions

- How is our scorecard performance in P5?
- What is the financial performance of the business in P5?
- Are we appropriately funded?

Assumptions

- For the purposes of this pack we have assumed a reversal of our impairment policy and depreciation charges have been applied. Should we not have reversed impairment net liabilities would be £(78)m.

Conclusions

- Reporting EBITDAS of £0.5m in P5 (£0.5m favourable to budget) and YTD of £4.5m (£2.0m favourable to budget). However favourable timing differences of £1.6m YTD means that in reality we are marginally ahead of budget by £0.4m.
- Trading performance in the month was in line with performance of prior months, uplifted for the impact of New Call coming on line in P5. Some challenges remain in the cost base and a detailed review will be undertaken as part of the P5 forecast process.
- Balance sheet headroom in P5 was £81m, a decrease of £89m v prior month. The increase in RCF of £89m reflects lower client funding (£56m) and a reduction in NRF usage (£32m). We anticipate that the client funding position will reverse in P6. Network cash remains comparatively high as a result of summer forex demands and inward rems processing (which we continue to monitor).

Input Sought

The GE is asked to note the financial performance.

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Branch numbers continue to track below targets

Key Performance Indicators	P5 Act	P5 Target	P5 Var.	YTD Act	YTD Target	YTD Var.	Full Year Target
Growth							
Total Gross Income (excl NSP) £m	73.3	71.4	2.0	391.0	385.1	5.9	945.0
EBITDAS £m	0.5	0.0	0.5	4.5	2.5	2.0	28.0
Headroom £m (vs Board minimum limit)	281	> 200	81	281	> 200	81	> 200
Digital Net Income £m (digital team)	3.7	4.0	(0.3)	18.4	20.0	(1.6)	45.0
Net profit £m [1]		TBC			TBC		
Customer							
Customer Effort	82%	76%	6%	78%	76%	2%	76%
Net Promoter score Financial Services	25	25	0	25	25	0	25
Acceptable Wait Time %	95%	95%	0%	93%	95%	(2)%	95%
Branch Compliance - Financial Services - basket of 11 measures #	10	<=50	40.0	30	<=50	20	<=50
People							
Line Manager Engagement Index % (Once a year) [2]		Same as YTD		61%			
Representation (Senior Managers) - Gender	38%	37%	1.3%	38%	37%	1.3%	37%
Attendance	96.0%	96.7%	(0.7)%	96.0%	96.7%	(0.7)%	96.7%
IT Lost Time (Number of Sev1/Sev2 IT incidents)	11	13	2	37	65	28	<156
Safety LTIFR	0.166	0.180	0.014	0.303	0.180	(0.123)	0.180
Modernisation							
Number of branches (one month in arrears)		Same as YTD		11,574	11,633	(59)	>=11,700
NT and ND Branches Transformed in Year	32	40	(8.0)	214	177	37	400
IT Transformation (% of IT controls implemented)	59%	59%	0%	59%	59%	0%	All high risk gaps closed

1. Accounting estimate for impairment currently under review as part of FY 2016-17 year end process.
2. For comparison, prior year was 68%

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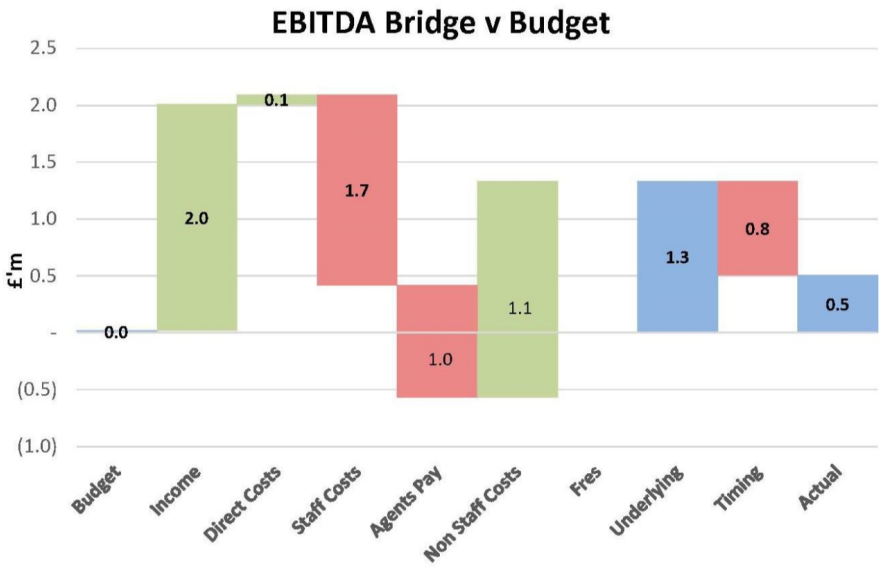
Digital Income below targets driven by Travel activity

- **Digital Net Income**
  - A better performance in Digital Income this month which was £(0.3)m adverse to target and is £(1.6)m adverse YTD.
  - The shortfalls in the month were again driven by Travel products which is £(0.5)m adverse in the month and £(2.1)m adverse ytd.
  - For both Travel products paid marketing has been delivering against its agreed plans and the website has performed above target. Anticipated uplifts in volumes due to natural search increases have not been delivered leading to budget shortfalls.
  - Strong performance in Motor and Home Insurance continues to over perform and fill some of the gap.
- **Attendance**
  - There is an increasing trend of long term absence in Directly Managed Branches and Supply Chain. Short term absence has also increased in Supply Chain in P5 but there is no single cause and absences are varied and are not related to mental health.
  - Causation for absences that have converted from short to long term over the past 60 days include a number of musculoskeletal cases in Supply Chain and a number of stress related in Directly Managed however, a number of long term stress related cases have returned to work early in P6 in DMBs. The Health & Safety team are working closely with Supply Chain to review the daily tasks and impact of SSC, whilst further analysis of mental health related absences is also being undertaken with our HR and OH providers.
- **Modernisation**
  - Number of branches reduced by 8 in the month and is now 11,573, 60 behind the ytd target. Our Network Numbers continue to be under pressure with a reduction in sites driven by two main factors, the increased number of postmaster suspensions this year due to losses (88 branches ytd), together with a higher than anticipated level of churn in the Network overall.
  - The Field Team, together with the NNL Team, have developed a joint plan which through a number of interventions will take us back to previous year's numbers (11,624) by the end of Q4. The plan includes 4 x additional Mobile Post Offices, simplification of the agent appointment process and additional funding being made available to assist postmasters in converting premises.
  - In the month 32 branches were transformed which is 8 below the monthly target. YTD however we continue to significantly track ahead with 217 transformations against a target of 177. Transformations are slowing down as anticipated as we are addressing more complex cases. Full year targets are still expected to be delivered.

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P5 EBITDAS is £0.5m favourable to budget.

£m	P5 Act	P5 Var Bud	P5 Var PY
Gross Income	**73.3**	**2.0**	**2.2**
Direct Costs	(9.8)	0.1	(1.6)
Net Income	**63.6**	**2.1**	**0.6**
Staff Costs	(15.1)	(1.7)	3.3
Agents Pay	(28.6)	(1.0)	0.4
Non-Staff Costs	(22.2)	1.1	(0.1)
Expenditure	**(66.0)**	**(1.6)**	**3.6**
FRES - Share Of Profits	2.9	(0.0)	(0.1)
EBITDAS	**0.5**	**0.5**	**4.1**



- **Gross income** – £2.0m favourable. Continuing overperformance in Retail (+£2.6m). FS&T revenues (+£0.7m) due to continuing strong performance in the underlying business. New Call revenue (£1.5m) came online in the month and performed in line with budget. Shortfall in POMS (£1.3)m due to budget phasing. Further details provided on slides 7&8.
- **Staff costs** – £(1.7)m adverse. Overspends in Retail £(0.9)m due to continuing delays in branch conversions and ongoing Supply Chain challenges £(1.0)m. Further details on slide 9.
- **Agents pay** – £(1.0)m adverse and continuing to track in line with YTD trends due to favourable revenue variances in Retail and the channel/product mix.
- **Non-staff costs** – £1.1m favourable including one-off benefits:
  - £1.0m benefit from Property (£0.6m lease benefit following the closure of 48 DMB's and £0.4m rent rebate on Old Street property)
  - £0.5m benefit from bad debt provision release as agents are on payment plans to recover.

  Continuing underspends in marketing £0.8m, which are expected to reverse, are offset by other cost timing variances. Marketing plans and spend phasing will be reviewed as part of the P5 Forecast process.

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YTD EBITDAS is £2.0m favourable to budget. £0.3m on an underlying basis.

£m	YTD Act	Var Bud	Var PY
Gross Income	**391.0**	**5.9**	**(8.7)**
Direct Costs	(49.8)	3.4	(2.7)
Net Income	**341.2**	**9.4**	**(11.5)**
Staff Costs	(77.0)	(3.8)	20.3
Agents Pay	(155.2)	(4.6)	7.9
Non-Staff Costs	(118.3)	1.7	3.2
Expenditure	**(350.4)**	**(6.8)**	**31.4**
FRES - Share Of Profits	13.7	(0.6)	(3.4)
EBITDAS	**4.5**	**2.0**	**16.6**

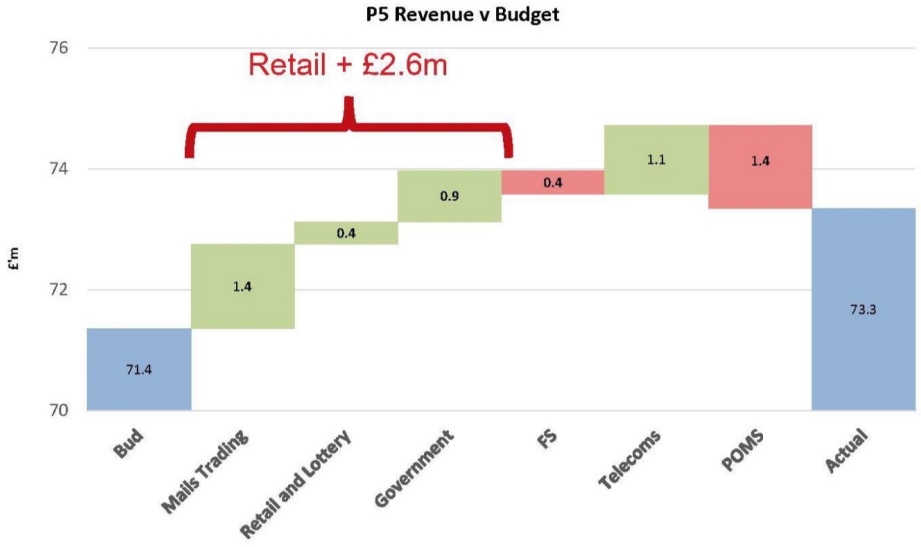


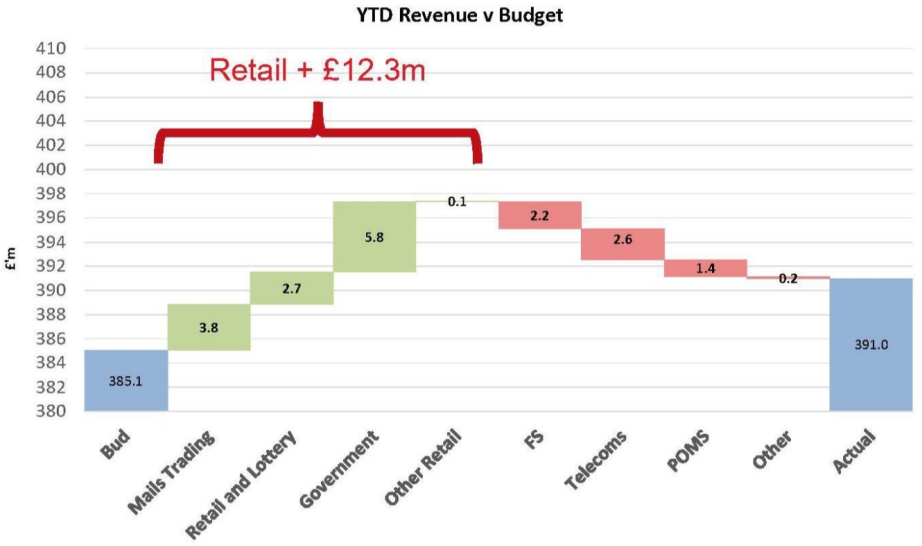
- **Gross income** – £5.9m favourable.
  - Retail +£12.3m with strong performance in Parcelforce, RM Signed for, Lottery and Government Services.
  - Significant year on year decline £(13.0)m driven by Government Services £(9.5)m.
  - FS&T £(4.8)m adverse to budget driven by delays in New Call launch £(6.0)m ytd and declines in Moneygram revenues £(1.8)m due to drop in volumes following Brexit.
  - Strong performance in other Telco areas due to c.32,000 additional customers (driven by closing 2016/17 base) partially offsetting these declines.
- **Staff costs** – £(3.8)m adverse. Overspends in Retail £(2.6)m due to continuing delays in branch conversions and Supply Chain challenges £(1.6)m.
- **Agents pay** – £(4.6)m adverse and continuing to track in line with YTD trends due to favourable revenue variances in Retail.
- **Non-staff costs** – £1.7m favourable with significant underspends in marketing £2.4m which are currently anticipated to reverse over the remainder of the year. Marketing plans and spend phasing will be reviewed as part of the P5 Forecast process.
- **FRES** – £(0.6)m shortfall ytd but action plans in place and currently expecting to deliver full year targets.

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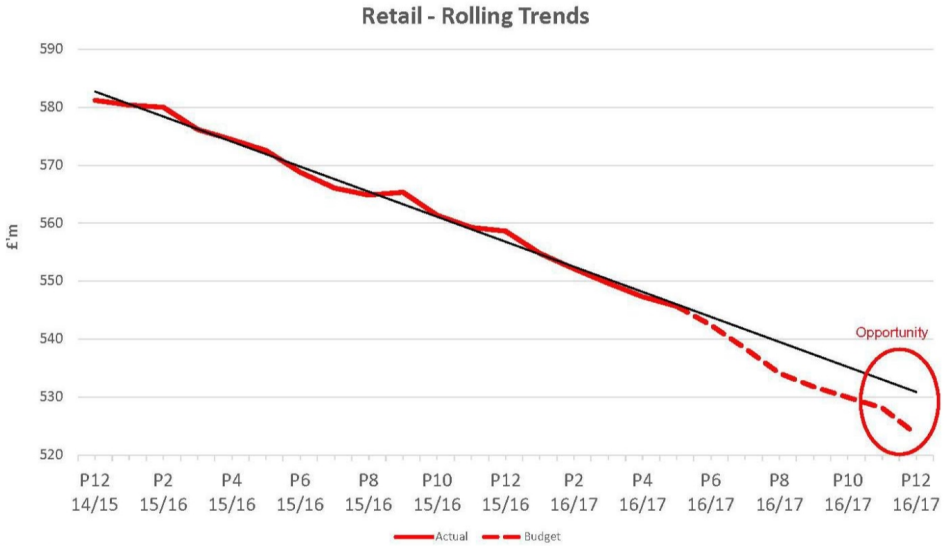
Retail revenues +£12.3m favourable to budget. FS&T £(4.8)m adverse with shortfalls in Moneygram and Telecoms





Retail

- Continued strong performance in the month following recent trends across all revenue pillars.
- As called out in the R&O, trends suggest there will be a revenue opportunity in the remainder of the year. Additional revenues will be offset by continuing cost pressures.



FS&T - Further details provided on next slide

POMS

- Shortfall in the month due to budget phasing. YTD position correct with a £1.4m gap v target but £2.0m y-o-y growth. POMS still on track to deliver full year EBITDA target.

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Moneygram continues to suffer from post-Brexit uncertainty. New Call launch in P5 delivers budgeted revenue.

£m	P5 Act	P5 Var Bud	P5 Var PY	YTD Actual	YTD Var Bud	YTD Var PY
Mortgages	0.3	0.0	0.2	1.2	(0.6)	(0.2)
Credit Cards and lending	0.1	(0.1)	(0.1)	0.8	(0.5)	(0.5)
Savings	3.4	(0.0)	0.0	16.8	(0.0)	(1.6)
Travel Money	2.7	0.2	0.3	12.5	0.3	0.5
MoneyGram	1.9	(0.6)	(0.5)	11.1	(1.8)	(1.5)
Post Office Money	8.5	(0.5)	(0.1)	42.3	(2.6)	(3.2)
Banking Services	6.8	0.4	1.6	35.9	1.2	10.0
Telecoms	12.6	1.1	3.1	60.2	(2.6)	6.6
Postal Orders	1.1	(0.1)	(0.2)	6.5	(0.6)	(1.9)
Other Income	0.0	(0.2)	(0.0)	(0.0)	(0.3)	(0.1)
FS&T	**29.0**	**0.7**	**4.3**	**144.9**	**(4.8)**	**11.5**
POMS	4.5	(1.3)	1.1	21.7	(1.4)	2.0
Total FS&T	**33.5**	**(0.6)**	**5.3**	**166.6**	**(6.2)**	**13.4**

Moneygram - £(0.6)m mth and £(1.8)m ytd

- Continued post-Brexit impact with ongoing decline in send transactions following decline in the £/Euro exchange rate.
- Money laundering regulations came into effect in June requiring ID to be requested for every transaction.
- Measures to counter this trend include branch visits to assess promotional opportunities, better customer retention and targeted marketing spend.

Banking Services - £0.4m mth and £1.2m ytd

- Additional volumes driven by the Banking Framework

Telecoms - £1.1m mth and £(2.6)m ytd

- New Call acquisition live in month delivering £1.5m of revenue (in line with budget). YTD shortfall of £(6.0)m reflects timing of acquisition.
- Homephone and Dual continue to over perform +£1.1m due to c. 32,000 additional customers and price rise impact

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Delay in branch conversions and challenges in supply chain lead to overspend in staff costs

Total	Month			YTD		
£'m	Actual	Bud	Var Bud	Actual	Bud	Var Bud
Wages & Salaries	10.2	10.1	(0.1)	53.6	55.2	1.5
Overtime	0.5	0.3	(0.2)	2.0	1.7	(0.4)
Contractors & Temporary Resource	0.6	0.0	(0.6)	2.2	0.3	(1.9)
Employers NI	1.4	1.3	(0.2)	7.6	6.8	(0.8)
Pension	1.4	1.2	(0.2)	6.9	6.6	(0.3)
Staff Costs - Run Rate	**14.1**	**13.0**	**(1.1)**	**72.3**	**70.5**	**(1.8)**
Bonus & Productivity	0.9	1.2	0.3	4.7	6.1	1.4
Staff Costs Efficiency Target	-	(0.8)	(0.8)	-	(3.4)	(3.4)
Staff Costs - Total	**15.1**	**13.4**	**(1.7)**	**77.0**	**73.1**	**(3.8)**
Staff & Agency Related Costs	0.8	0.1	(0.7)	4.4	3.8	(0.5)
Consultancy & Advisory Services	(0.0)	0.5	0.5	0.8	0.1	(0.7)
Brand & Marketing	0.9	1.6	0.8	6.3	8.7	2.4
Legal Costs	0.4	0.3	(0.1)	1.9	1.8	(0.1)
Property & Facilities Management	2.5	3.6	1.2	17.6	19.3	1.7
Vehicles	0.4	0.3	(0.1)	1.6	1.8	0.1
IT Infrastructure & IT Services	8.2	8.6	0.4	43.5	42.8	(0.6)
Finance & Losses	1.9	2.5	0.5	11.0	11.0	0.0
Other Operating Costs	7.2	5.8	(1.4)	31.3	30.7	(0.6)
Non staff Costs	**22.2**	**23.3**	**1.1**	**118.3**	**120.0**	**1.7**
Total Costs	**37.3**	**36.7**	**(0.6)**	**195.2**	**193.1**	**(2.1)**

Staff costs £(3.8)m adverse YTD:

	Retail	F&O	Other	Total
Salaries, NI& Pension	(0.9)	(0.3)	1.9	0.6
Contractors & Overtime	(0.8)	(0.5)	(1.0)	(2.3)
Staff Costs - Run Rate	**(1.7)**	**(0.9)**	**0.9**	**(1.6)**
Bonus	-	-	0.4	0.4
Efficiency	(0.9)	(1.3)	(0.4)	(2.6)
Staff Costs - Total	**(2.6)**	**(2.2)**	**1.0**	**(3.8)**

- £(2.6)m driven by delay in branch conversions. For the full year there will be a partial mitigation in agents pay. The gap is anticipated to continue throughout the financial year.
- Of the £(2.2)m variance ytd in F&O, £(1.6)m is due to Supply Chain with budget task £(0.7)m not achieved, adverse overtime costs £(0.3)m due to sick leave and £(0.3)m of project costs to transferred.
- The remaining overspend in F&O is due to £(0.3)m payrise impact (budget held centrally) and £(0.2)m of contractor costs in financial control and change for vacancies.
- £1.0m of benefits in Other include costs budgeted centrally for pensions and payrise £0.7m which are currently absorbed within the divisions.

Non-staff costs (excluding YTD marketing underspend of £2.4m) are in line with budget

- Benefits in property costs +£1.7m (leases and rebates) offset overspends in other areas.

Phasing of marketing spend will be revisited as part of the P5F.

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Significant Capital and Investment cost in month following the announcement to close 48 DMB

£m	P5 Act	P5 Var Bud	P5 Var PY	YTD Act	YTD Var Bud	YTD Var PY
EBITDAS	**0.5**	**0.5**	**4.1**	**4.5**	**2.0**	**16.6**
Depreciation	(5.4)	-	(5.4)	(17.8)	-	(17.6)
Network Payment	5.4	-	(0.8)	29.6	(0.0)	(4.2)
EBIT pre exceptionals	**0.4**	**0.5**	**(2.1)**	**16.3**	**2.0**	**(5.2)**
Interest	(0.4)	0.2	(0.5)	(1.6)	1.3	(2.2)
Impairment	-	-	7.3	-	-	41.5
Capital & Investment	(17.9)	(10.1)	(8.5)	(39.5)	0.7	8.9
Government Grant Utilisation	5.8	-	(51.4)	29.2	-	(86.6)
Profit/(Loss) On Asset Sale	(0.0)	(0.0)	0.0	6.5	6.5	4.9
Profit/(Loss) Before Tax	**(12.0)**	**(9.4)**	**(56.5)**	**10.9**	**10.6**	**(38.7)**

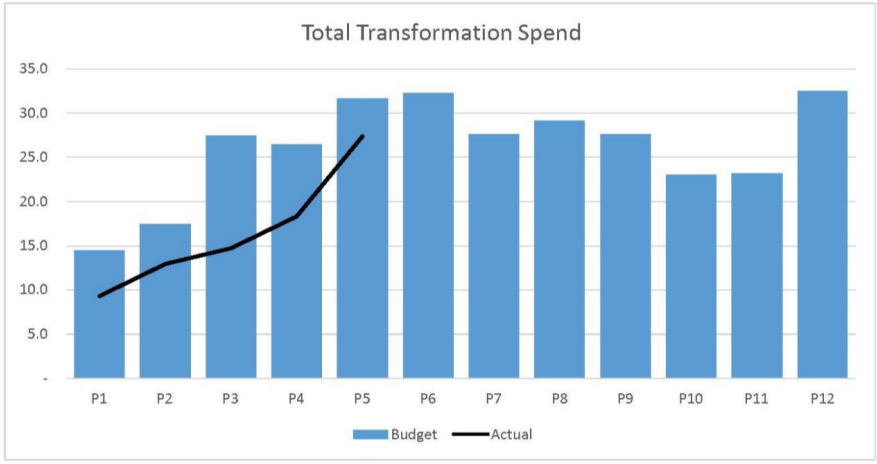
- Assumes that Post Office no longer impairs assets on acquisition, and that assets are depreciated over their useful life.
- Depreciation charge is £5.4m in the month and includes a ytd adjustment following the finalisation of the accounting for fixed assets as part of the FY16/17 audit process.
- Capital & Investment (previously exceptional) expenditure is £17.9m in the month following the creation of a £13.0m Onerous Property provision in month following an announcement regarding the closure of 48 DMB.
- In period spend on capital assets was £10.3m, £42.7m YTD.
- A further breakdown of the capital and investment spend is provided on the next slide.

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Transformation is tracking below budget and is c.£83m ytd

	P5			YTD			FY
	Act	Bud	Var Bud	Act	Bud	Var Bud	Bud
IT & Digital	5.4	11.4	6.0	21.8	43.9	22.0	112.7
Network Development Programme	4.4	4.4	(0.0)	18.4	20.2	1.8	70.8
DMB Network Development	13.3	1.6	(11.8)	17.3	6.9	(10.4)	21.6
FS & T	0.5	9.4	8.8	7.0	18.4	11.4	34.4
Back Office Transformation	1.9	1.4	(0.5)	5.1	6.3	1.2	20.1
LEAN Centre	0.2	-	(0.2)	2.9	3.2	0.3	4.7
Retail	0.6	1.8	1.1	2.6	8.3	5.7	18.1
Supply Chain	0.2	0.2	0.0	2.4	0.4	(2.0)	3.9
People and Engagement Transformation	0.7	0.2	(0.5)	1.9	2.6	0.7	5.0
POMS	1.0	0.5	(0.5)	1.4	1.5	0.1	3.4
Property	0.4	0.3	(0.1)	1.3	1.1	(0.2)	4.0
Other Transformation	0.1	0.3	0.1	0.5	1.3	0.8	3.0
Corporate Services Transformation	0.0	0.1	0.1	0.2	0.6	0.4	2.3
Identity		-	-		0.4	0.4	4.7
Finance		0.1	0.1		0.3	0.3	0.5
Digital & marketing		0.2	0.2		0.7	0.7	2.3
Network Operations	-	-	-	(0.0)	1.5	1.5	1.8
Central Adjustments	(0.0)		0.0	(0.0)		0.0	
Total	**28.8**	**31.7**	**2.9**	**82.7**	**117.4**	**34.7**	**313.3**
Capital	10.9	23.9	13.0	43.2	77.2	34.0	210.3
Investment	17.9	7.8	(10.1)	39.5	40.2	0.7	103.0
Total	**28.8**	**31.7**	**14.6**	**82.7**	**117.4**	**90.6**	**313.3**

Prioritisation and phasing work is ongoing as part of the P5 forecast process.



Transformation Spend

- IT & Digital continues to see delays in the rollout of a number of projects as issues with programs and suppliers are worked through. YTD spend is £22m behind budget.
- Network Development Programme includes £14.4m of agents compensation costs ytd.
- DMB spend in the month includes £13m provision for property costs following the announcement to close 48 DMB.
- FS&T includes £6.1m ytd for the acquisition of New Call v budget of £10.3m. Project Finch and Peregrine delays drive additional budget underspend.
- YTD Back Office Transformation costs include £2.0m for the Sales and Finance Transformation programmes and £1.3m for Cash Processing.

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P5 balance sheet shows a net asset position assuming reversal of impairment accounting policy

£m	August 2017	Mar 2017	Variance
Fixed Assets	429	390	39
Debtors	326	335	(9)
Cash	790	680	110
Creditors	(618)	(583)	(35)
Pension surplus	1	1	0
Provisions	(74)	(88)	14
Other	9	8	1
Loan	**(669)**	**(561)**	**(108)**
Net Assets/(Liabilities)	**193**	**182**	**11**
Capital and Reserves	**193**	**182**	**11**

- As at P5 the balance sheet would be in an net liability position of £(78)m if the impairment accounting policy were reinstated.
- The increase in the cash balance since the year end (see slide 13) is largely offset by the increase in creditor and loan balances.
- Increase in creditors driven by the government grant which is received in April, recognised on the balance sheet as a creditor and released to the income statement over the year.
- Reduction in provisions balance due to OSOP and agents compensation payments. Additional provisions in the month have been made for £13.0m following the DMB closure announcement.

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Network cash has increased by £68m since year end largely funded by higher RCF balances

(1) Where was our cash?

£m	Branches	CViT	Cash Centres	Total
March	648	139	160	947
August	669	146	225	1,040
Variance	21	7	65	93

(2) How was it funded?

£m	RCF	Clients	"Network Cash"	NRF	Total
March	561	130	691	256	947
August	669	90	759	281	1,040
Variance	108	(40)	68	25	93

(3) What was our facility headroom on the RCF?

£m	Cap	Board Buffer	Net Limit	RCF	Facility Headroom
March	950	(200)	750	(561)	189
August	950	(200)	750	(669)	81

(4) What was our security headroom on the RCF?

£m	Network cash	Other net assets	Total Security	RCF	Security Headroom
March	691	227	918	(561)	357
August	759	227	986	(669)	317

(5) What was our actual headroom?

Given we do not apply £200m buffer to Security headroom our actual headroom is £81m.
(lower of £81m facility and £317m security headroom)

- Within branches, Foreign exchange holdings have increased from £85m in March to £120m in P5 in line with summer demand.
- Cash centre balances have increased since the year end as we continue to see higher cash in transit awaiting processing at the cash centres (Inward Rems).
- Inward Rems were £84m in March 2017, rising to £144m in P3. Initiatives to reduce the inward rems balance reduced the P5 closing balance to £121m. We continue to monitor inward rems closely.
- Facility headroom has reduced by £108m since March. This is due to higher network cash and paydown of provisions, partially offset by the receipt of the government grant.

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Appendix

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In P5 Gross Profit margin is on budget

	P5								YTD							
	Actual				Var				Actual				Var			
	Retail	FS&T	Other	Total	Retail	FS&T	Other	Total	Retail	FS&T	Other	Total	Retail	FS&T	Other	Total
Gross Income	**38.8**	**33.5**	**1.0**	**73.3**	**2.6**	**(0.6)**	**(0.1)**	**2.0**	**218.6**	**166.6**	**5.9**	**391.0**	**12.3**	**(6.2)**	**(0.2)**	**5.9**
Directly Attributable	(2.6)	(7.2)	-	(9.8)	(0.2)	0.2	-	0.1	(12.9)	(36.9)	(0.0)	(49.8)	(0.3)	3.6	(0.0)	3.4
Supply Chain	(2.3)	(1.2)	-	(3.5)	(0.3)	(0.2)	-	(0.5)	(10.9)	(5.7)	-	(16.6)	(0.8)	(0.4)	-	(1.2)
DMB Costs	(4.7)	(1.4)	-	(6.1)	(0.5)	(0.2)	-	(0.7)	(24.2)	(7.1)	-	(31.2)	(1.6)	(0.5)	-	(2.0)
Agents Pay	(22.4)	(6.2)	(0.0)	(28.6)	(1.0)	0.0	(0.0)	(1.0)	(123.8)	(31.3)	(0.0)	(155.2)	(6.8)	2.1	(0.0)	(4.7)
Gross Profit	**6.9**	**17.5**	**1.0**	**25.4**	**0.5**	**(0.6)**	**(0.1)**	**(0.1)**	**46.8**	**85.6**	**5.8**	**138.1**	**3.0**	**(1.3)**	**(0.2)**	**1.5**
Gross Margin %	**17.7%**	**52.3%**		**34.6%**	**0.2%**	**(0.9%)**		**(1.1%)**	**21.4%**	**51.4%**		**35.3%**	**0.2%**	**1.1%**		**(0.2%)**

- **Gross profit margin** is on budget YTD at 35%. In P5;
  - Retail gross margin is slightly favourable as gross income flows through,
  - FS&T margin in P5 impacted by POMS revenue adjustment (c.2% impact). Excluding adjustment P5 is inline with ytd trends.
- **Supply Chain** costs adverse to budget due to non-delivery of staff efficiency task.
- **Other income** relates to Supply Chain and Gamma.

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P5 and YTD EBITDAS by Area

	Overheads	Month						YTD					
		Actual			Var to Bud			Actual			Var to Bud		
	£'m	Staff Costs	Other	Total	Staff Costs	Other	Total	Staff Costs	Other	Total	Staff Costs	Other	Total
KG	Retail	6.8	2.7	**9.5**	(0.9)	0.4	**(0.5)**	34.9	12.9	**47.9**	(2.6)	3.5	**1.0**
MK	FS&T	1.1	2.6	**3.7**	(0.1)	0.6	**0.5**	5.0	17.2	**22.2**	0.0	(0.2)	**(0.1)**
NK	POMS	0.3	1.6	**1.9**	0.1	(0.0)	**0.1**	1.8	7.8	**9.6**	0.1	0.5	**0.6**
AC	Finance & Ops	4.6	3.8	**8.4**	(1.0)	2.5	**1.5**	21.8	28.6	**50.4**	(2.2)	2.4	**0.2**
RH	CIO	0.4	8.5	**8.9**	(0.1)	0.1	**(0.0)**	1.7	43.0	**44.8**	(0.0)	(0.6)	**(0.7)**
JM	LRG	0.4	0.4	**0.8**	(0.0)	(0.2)	**(0.2)**	2.1	1.2	**3.4**	0.3	0.0	**0.3**
MK	HR	1.4	0.3	**1.6**	0.2	(0.2)	**0.0**	7.6	2.0	**9.6**	0.2	(0.0)	**0.2**
	Central	0.0	2.4	**2.5**	0.1	(2.1)	**(2.0)**	2.0	5.5	**7.4**	0.3	(3.9)	**(3.5)**
	Total	**15.1**	**22.2**	**37.3**	**(1.7)**	**1.1**	**(0.6)**	**77.0**	**118.3**	**195.2**	**(3.8)**	**1.6**	**(2.1)**

- **Retail** - Staff variance driven by delays to branch conversions. Non-staff costs favourable due to timing of marketing spend, favourable card processing and monetisation project spend.
- **FS&T** - Non-staff costs adverse due to FX losses, Telecoms Ofcom strategy spend, and reversal of favourable marketing spend in prior periods.
- **Finance and Ops** - staff costs adverse driven by Supply Chain overtime and budgeted staff task. Non-staff costs are favourable in P5 due to agents provision correction and property savings.
- **CIO** - both P5 and YTD adverse due to Fujitsu delays on network transition and Verizon cost saving delays.
- **Central** - P5 includes £0.9m accrual of PO's released in Finance and Ops and reversal of £0.9m from P4 as we confirm the accounting treatment.

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Targets and Incentives

Author/Sponsor: Al Cameron Meeting date: 14 September 2017

Executive Summary

Context

In recent years, the Board has focused us on delivering EBITDAS profit as a proxy for progress towards commercial sustainability. LTIP targets were set at the time of the last Strategic Plan and were not varied subsequently. STIP targets did vary but there was always pressure to revert to the Strategic Plan if possible. As a result, 100% of LTIP and 80% of STIP for 2017-18 is targeted on reaching £28m EBITDAS.

Following the agreement of principle on funding, we will seek Board approval for a new Strategic Plan (2018-21) in November. We will also need to agree with RemCo the LTIP targets for this period, recognizing that the traditional 3 year periods ending in 2019 and 2020 are already underway. The 2018-19 Annual Plan and STIP targets will be discussed with the Board in January 2018 and finalized in March 2018.

We agreed that we would debate the approach at GE well in advance of the November decisions, recognizing that we will have to live with the targets until 2021. Targets set in November make have to be subject to changes in lease accounting.

Questions addressed in this report

1. What is the shape of our profit and loss account?
2. What sort of measures should we use for LTIP and STIP targets?
3. Do we want to balance a future focus on profit with a mix of targets?

Conclusion

Our profit and loss account now presents in columns, separating trading from discontinued activities and capital and investment. The latter comprises the former exceptional items of government grant and the more transformational change spend. The third category of exceptional item, the write off of capital spend, will cease as we capitalise the assets and increase the charge for Trading depreciation.

From 2018-19, we could treat Network Subsidy as a payment for services, moving from a focus on EBITDAS to EBITDA (both within the Trading column) and simplifying our narrative. This could signal to the business much earlier and easier achievement of a "£100m goal" but we can define the £100m to mean something else, such as free cash flow for investment.

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For profit measures we can target Trading EBITDA, focusing us on trading performance, or we could target net profit. The latter would bonus us on how we deal with Interest, Depreciation, Tax and the net spend on change projects – only Discontinued Items would be excluded. As well as being a more complete view, it would end the two-speed economy of BAU versus change. This would have to be balanced with some evidence of change delivery to stop us gaming the cash flow, would be harder to achieve and more complex.

It might be sensible to separate the LTIP and STIP goals: it is hard to defend the separate value of LTIP if it has identical targets. One option would be to focus STIP on trading (Trading EBITDA) and LTIP on net profit, which is similar to the sort of EPS calculation used by many public companies. However, to define change spend 3 years ahead might limit our flexibility and make our governance processes more complex.

An alternative would be to reverse the above approach and target net profit for STIP, as it would be easier to set change priorities over the shorter term, retaining the simplicity of EBITDA for LTIP. All of these have pros and cons and would benefit from discussion: once we agree them, they are hard to change.

In the past we have also had gateway measures of Network Transformation (STIP) and Network numbers (LTIP). We could replace these with access criteria as the genuine gateway issue?

We should build a balanced scorecard for the GE of measures that we believe are important for our progress as a business across the domains of Network & Agents; Growth; Customers; Technology; People and Financial.

The Board has recently focused us on financial measures: profit and cash. Do we want to be solely targeted on these measures, however important? The danger is that the singular focus gives us too great a short-term focus. Having STIP based on net profit, including the need for strategic change delivery and with LTIP targets requiring us to improve Trading EBITDA by investing successfully in change might mitigate that risk, at least in part.

The Board is unlikely to approve us moving to a balanced scorecard approach. However, if we felt that there were 1 or 2 critical non-financial measures, we could make the case, recognising that they are often harder to track and measure. For example, would we be prepared to throw our caps over the wall by staking part of LTIP on the number of customers with an active, digital relationship with POL? Looking at other companies, the scorecard tends to be more associated with STIP than LTIP but this may be an issue for the Board.

Input Sought

The GE is asked to recommend an approach to the Strategic Plan targets prior to the RemCo and Board discussions.

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The Report

The Shape of our profit and loss account.

1. In previous years, we have focused on EBITDAS. Our p/l account was structured as follows:

2015-16, £m	P/L	EBITDAS
Turnover	981	981
Network Subsidy	130	
Depreciation	(1)	
Other operating costs	(1,040)	(1,040)
Share of profit of joint ventures	35	35
Operating profit before exceptional items from continuing operations/EBITDAS	**105**	**(24)**
Government Grant	150	
Transformation Project Costs	(283)	
Impairment of Fixed Assets	(136)	
Total Exceptional Items	**(269)**	
Operating Loss from continuing operations	**(164)**	
Net Interest/Financing	3	
Taxation	4	
Discontinued Items	(10)	
Loss for the financial year	**(167)**	

2. For the 2016-17 we are amending the presentation. On a like for like basis, this information will now be presented showing discontinued operations and what were exceptional items in columns. In addition, from 2017-18 we are ceasing the automatic impairment of fixed assets, resulting in a lower cost in the capital column (reversing £136m in the example above), replaced by a higher charge in trading depreciation. This does not affect EBITDAS.

3. So we might imagine a future version of this p/l looking more like:

	Trading	Closed	Capital	Total	EBITDAS
Turnover	981			981	981
Network Subsidy	130			130	
Depreciation	(30)			(30)	
Other costs	(1,040)		(283)	(1,323)	(1,040)
Government Grant			150	150	
Share of Joint Venture	35			35	35
Operating Loss/EBITDAS	**76**	**(10)**	**(133)**	**(67)**	**(24)**
Net Interest/Financing	3			3	
Taxation	4			4	
Loss for the financial year	**83**	**(10)**	**(133)**	**(60)**	

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4. From 2018-19, I would expect to see fewer items in the discontinued column: this has been made up of pensions changes, the closure of the Supply Chain third party operations; and the closure of Mobile.

What profit measure should we use for LTIP and STIP targets?

5. We have traditionally excluded Network Subsidy from our EBITDAS calculation because it was temporary, rapidly reducing in size and its value was not connected to the costs of maintaining loss-making branches.

6. Government has agreed to maintain these payments for another three years, settling at £50m per annum, in recognition of loss-making branches and the value is not inappropriate. I am therefore recommending that for 2018-19 we should re-christen Network Subsidy as a Network Payment and recognise it in our trading profit, moving from EBITDAS to EBITDA, which is more consistent with other companies.

7. Maintaining a STIP profit target on EBITDA helps us to maintain a single, easily understood target, focused on our trading - £76m in the example above.

8. The disadvantage is that it excludes the net change spend, depreciation, interest costs and taxation. We know that the current exclusion of change spend has created a constant pressure to have a two-speed economy where we starve BAU and fund change. In future, depreciation will be significantly more material, interest charges will increase as rates rise and POCA balances fall and we will move to paying, and seeking to minimise Corporation Tax.

9. For LTIP I would therefore recommend that we therefore move to a fuller version of the p/l, excluding only discontinued items: a loss of £50m in the example above (60 less 10).

10. In isolation, this would be too easy to game: we could simply slow down change spend to hit the target. It would therefore have to be balanced with some evidence that we were delivering change activity in line with expectations.

Do we want to balance a future focus on profit with a mix of targets?

11. We have been overwhelmingly focused on profit targets in recent years as we have driven the business to reduce its losses. We have loosely targeted c. £100m of profit as giving commercial sustainability, by which we have probably meant having c. £100m of free cash flow to invest in the business.

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12. This might look roughly as follows. Clearly, it assumes that our transformational change spend, net of investment funding, averages c. £100m per annum:

£m	Profit	Cash
EBITDAS	75	75
Network Payment	50	50
EBITDA – potential STIP target	**125**	**125**
Taxation	(15)	(15)
Interest	(10)	(10)
Depreciation	(30)	-
Profit/Cashflow	**70**	**100**

13. The question is whether we want this to be the vast bulk of what we target and incentivise. A pure profit focus lends us to being short-term.

14. The recommendation is that the Finance Directors work with the business to create a balanced scorecard for us as the Group Executive under the following headings: Network & Agents (access criteria, urban penetration, churn); Growth (trading cashflow, footfall, active digital customers, digital customer spend, sales, income); Customers (NPS, complaints, queue times, digital completion rates, awareness, brand and trust); Technology (operational risk, transaction costs, digital platform, speed and cost of change); People (safety, wellbeing, attrition, absence, engagement, gender balance, internal promotions) and Financial (profit, cashflow, ROCE).

15. In addition, we could discuss with the Chairman and the RemCo whether there is appetite to have one or two non-financial measures, especially for the LTIP. UKGI has no objection in principle to such a move, if we chose to recommend it, and we would seek private sector examples to support a change if there is appetite. However, the target setting is harder to do, we tend to be less familiar with the measures and they tend to be less within our control.

16. Any additional measures should therefore be strategic priorities where we consider progress essential and are therefore prepared to put our money where our mouth is. Possibilities for inclusion might be the number of active digital customers, the value of digital transactions, urban penetration in the network, or the speed and cost of change in IT.

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Retail CEO's Report – September 2017

Author: Cathy Mayor Sponsor: Kevin Gilliland

Meeting date: September 2017

Executive Summary

Context

The Period 5 YTD Retail Commercial Performance Report for the Board.

Questions this paper addresses

1. How are our sales and revenues performing against our targets and prior year?
2. What are the implications for our outlook and plans?
3. Competitor Information

Conclusion

1. Retail trading continues to perform ahead of budget with footfall remaining consistently 16.7m +/- 0.1m for the last 12 months.
2. The decline in mail volumes has slowed over the last quarter. Variable income continues stronger than expected from price effects (RPI and barcoding).
3. Competition continues to evolve in the mails and parcel market. Royal Mail reported weak business confidence behind increased decline in letter volumes, while parcel growth continues. Major operators, including Amazon and eBay, continue to evolve their offerings with the need to differentiate in a crowded market.
4. As previously reported, delays to conversions in the DMB programme has caused a £1.5m in year shortfall. We have advertised 46 more opportunities to strengthen the pipeline to commence delivery of the targeted £17m recurring benefits as part of the DMB Strategy.
5. There is a £4.0m in year shortfall against targeted savings of £6.3m arising from the simplification programme.
6. Stronger income trends than budgeted offset the programme downsides so Retail is confident it will meet or exceed budget.

Input Sought

For the Board review and note.

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The report

Overview of Financial performance

Gross Income (£m)	Period 5 YTD					Full Year		
	Actual	Budget	Var	PY	YoY	**Budget**	PY	YoY%
Mails Fixed	**25.2**	25.4	(0.1)	27.8	(9.2)%	**60.1**	65.7	(8.5)%
Mails Variable	**108.7**	104.8	3.9	107.1	1.4%	**264.7**	270.9	(2.3)%
Government Services	**42.2**	36.4	5.8	51.8	(18.4)%	**87.8**	114.2	(23.1)%
Payment Services	**24.5**	24.3	0.2	27.3	(10.2)%	**57.9**	65.6	(11.8)%
Retail & Lottery	**18.0**	15.4	2.7	18.9	(4.6)%	**40.9**	46.3	(11.6)%
Retail Total	**218.7**	**206.3**	**12.4**	**232.9**	**(6.1)%**	**511.3**	**562.7**	**(9.1)%**

Retail Profit (£m)	Period 5 YTD					Full Year		
	Actual	Budget	Var	PY	YoY	**Budget**	PY	YoY%
Mails	**60.6**	60.8	(0.1)	64.0	(5.3)%	**150.6**	155.7	(3.3)%
Government Services	**14.1**	10.3	3.9	20.9	(32.4)%	**26.1**	44.5	(41.2)%
Payment Services	**7.9**	4.7	3.3	10.0	(20.6)%	**11.1**	23.6	(52.9)%
Retail & Lottery	**5.3**	4.4	0.9	5.2	1.8%	**16.1**	15.1	6.2%
Retail Total DPC	**88.1**	**80.1**	**8.0**	**100.2**	**(12.1)%**	**203.9**	**238.9**	**(14.6)%**
Fixed Agents Pay	**(21.3)**	(20.7)	(0.6)	(27.1)	21.3%	**(52.0)**	(59.1)	12.0%
Sales and Trade Marketing	**(33.8)**	(31.8)	(2.0)	(38.7)	12.6%	**(73.6)**	(88.1)	16.5%
Retail Programme Costs	**(2.1)**	(2.0)	(0.1)	(1.9)	(12.0)%	**(4.4)**	(2.8)	(59.3)%
Retail Central Costs	**(1.2)**	(3.2)	2.0	(1.4)	16.2%	**(7.7)**	(2.9)	(163.6)%
Retail Profit	**29.7**	**22.4**	**7.3**	**31.2**	**(4.8)%**	**66.1**	**85.9**	**(23.0)%**

1. Whilst all areas are in volume decline, Retail continues to perform well versus budget. Mails income is benefiting from price effects; in particular higher levels of barcoding items than expected and the failure of delivery confirmation to reduce Signed For volumes. All key Home Office services continue to perform ahead of budget. Most notably, digital take-up on passports has been far lower than predicted by HMPO and we have maintained 41% market share (43% in July 2016).

2. The income trends are projected to continue for the remainder of the year (subject to strike risk at Royal Mail) and fully mitigate the £5.5m programme benefit in year delivery gaps and other downsides, with Retail currently forecasting +£1m net R&O upside.

Market Update

3. The convenience market in which most of our agents compete has seen recent trends continue this quarter: growth; cost pressures and big plays in the market which tend towards consolidation. IGD's recent upgrade of their growth forecast for the UK food and grocery market to 2021 from 9.9% to 18% is driven by the convenience, on-line and discount sectors. The continued strength of convenience (c50,000 convenience stores in the UK) is good news given our dependency on this market.

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4. Set against continued growth is an ever greater focus on costs. The CEO's of McColl and OneStop both cited national living wage, rates and inflation as major concerns when we met recently and want to work with us to improve profitability. Simplification and automation will help here but this is also a clear indication that we should avoid any further remuneration reductions that would make Post Office less profitable than rival categories for space in stores such as Subway (which is now the UK's largest fast-food chain and intends to open a further 500 stores by 2020, all of which would likely be in retailers suitable for Post Offices).

5. Fierce competition in the food and convenience market continues. Amazon acquired Whole Foods in June for £10.7bn and Co-op have recently announced their intention to bid for Nisa, a symbol group which operates 2,500 convenience stores and has recently lost its wholesale contract for McColls stores to Morrisons. Tesco's £3.7bn takeover of Booker is still progressing, itself following Booker's purchase of Musgrave's GB business (c2,000 Budgens and Londis stores) in 2016.

6. Royal Mail's share price has been under sustained pressure since May reflecting stronger than expected decline in letters (-9%), continued competitive pressure in parcels and the risk of industrial action over pensions. This resulted in RM moving out of the FTSE 100 on 30th August.

7. Ofcom's latest market report revealed that although 88% of people value the option to use the post and the majority (64%) consider stamps as good value for money, the use of mail continues to decline notably in younger demographics, presenting a long term challenge to POL.

8. eBay's shipping platform is beginning to progress with signs of a likely launch before Christmas 2017. Hermes have launched a £2 small parcel promotion on eBay and RM are expected to launch their new retail Tracked product in mid-October in response. This presents a potential risk to Post Office from income loss to competition or dilution from sale to accept rates.

9. RM are undertaking a 3 month price promotion of medium parcels bought online (not via POL). This is aimed at testing their ability to win back volume from competitors who dominate the >2kg parcel market. myHermes responded with a similar summer promotion. To date there has been no evidence of loss of POL volumes, reinforcing the view this is impacting existing online customers.

Mails performance

10. Negotiations with Royal Mail have concluded with a £3m reduction to the Mailworks annual fee.

11. The realisation of industrial action by the CWU may challenge mails performance over peak subject to the type and timing of action taken. CWU will ballot on 6th Sept, RM have started their contingency planning and we are engaged with them on the minimising the impact on the network.

12. The long standing Drop and Go settle to cash (STC) issue has been successfully resolved with instances of locked customer accounts reduced by >90%. This facilitates the immediate increasing of the number of branches offering the service.

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Governments Services performance

13. Further to the discussion at July's Board meeting, we have entered into detailed legal and contractual discussions with DXC and JP Morgan in order to complete the ongoing POca procurement. We aim to reach a conclusion on the new contract during September 2017 although there is a risk of slippage to October given the need to take account of forthcoming regulatory changes and their associated complexity.

Payment Services performance

14. We have processed 24.5m transactions to date, +1% ahead of budget.

15. We have retained the Welsh Water business on a direct dual supply arrangement with Paypoint, securing c.1.2m transactions p.a. We are finalising the renewal of the BT post-pay contract (5m transactions) and concluding the extension of the SSE energy pre and post-pay contract (8m transactions), our 2nd largest client after British Gas. Contractual discussions with Payzone on Thames Water (0.3m new transactions, ending PayPoint exclusivity) and Anglian Water (estimated 0.6m transactions tri-supply) are being finalised.

16. We have agreed revised commercials terms and concluded technical and reseller agreement for the provision of smart energy solutions with allpay (our largest reseller with 21m transactions per annum). This will enable us to deliver the deployment of smart energy pre-paid solutions for SSE in September and target new "challenger" energy companies eg, Co-op Energy, Ovo Energy. We have detailed business planning workshops during September and October with Capita and Santander, our two other reseller partners.

17. Further to the discussion at the Board strategy sessions, we have commenced formal due diligence of the Payzone business and a dedicated project team are working through an assessment of their financial health, convenience network (14k locations), IT infrastructure, bill payment content and capability, brand, organisation competencies, alongside determining the optimum corporate structure. We will keep the Board updated of progress.

Network Transformation Programme

18. The programme remains green and ahead of target with 7,382 branches transformed to date. We have already over-delivered our contracts target for the year (106 against a target of 93) and so far have delivered 212 NT branches, leaving 138 branches to open to deliver this year's target. The programme decommissioning remains on track with three tranches of staff redundancies planned for September, December and March 18. Employees will be redeployed to Network Development or elsewhere if possible however the majority will take voluntary redundancy.

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Directly Managed Branches (DMB) Programme

19. We are on track to fully deliver the 17/18 in year benefits of £2.2m (£4m EBITDAS), in line with the GE deep dive review and subsequent refreshed business case. The programme needs to deliver a minimum of 27 activities in 2017/18 and 26 contracts are now signed with a further 6 agreed subject to contract. The pipeline for 2018/19 (the final year for Network Shape business case) is well underway with 22 branches in advanced planning to replace the DMB with 1 or more Main and Local and 8 branches already in recruitment. This activity, along with 5 x 1:1 franchises to be carried forward from 2017/18 activity put the programme in a good place to deliver next year's 25 DMB closure target.

20. Activity has commenced for the new DMB Strategy with 46 adverts placed at the end of July for Local or Main operators close to 46 DMB branches. Opening new branches in the next year will facilitate the final closure of the 46 DMB over the next 2-3 years giving a £5.6m EBIT value. We have received 80 registrations of interest across 37 Post Districts. A Trade Marketing communications plan is in development to further boost interest across the DMB estate in addition to the POL website advert.

Network Development Programme

21. To date we have identified 926 new locations without Post Offices and our field teams are using our new pitch pack to engage with potential new operators. Of these, 668 have been contacted and made a decision with 229 progressing, a 34% conversion rate to date compared to c20% using the old approach. 48 contracts have been signed against a P5 cumulative target of 91 so we are behind and Amber on contracts signed.

22. The pipeline of potential new Postmasters is positive and we are urgently reviewing how we can open branches more quickly. Practically this includes trialling replacing the face-to-face interview process with a telephone interview which should reduce timescale and improve the applicant journey, and reviewing all financial information as it comes in rather than waiting until a full business plans is submitted.

23. On openings, we are on track for the year to date target of 20 with 11 scheduled and 9 open.

24. The plan to implement Phase 1 of Simplification (quicker mails transactions and resulting remuneration reduction) on 31st August was hit by a Fujitsu error which result in a delay to September and a £400k in-year benefit reduction, increasing the total gap to £4m.

25. The initial response to simplification is likely to be negative, particularly from Multiples. We have risk assessed and have a mitigation plan in place. Each Multiple will have bespoke support with their branches and we have developed a new Retail Value Proposition, to which Multiples have so far responded well, which demonstrates the commercial value of Post Office. We are also engaging Multiples in our automation plans, which will start with machines in selected trial branches before Christmas. Our aim is to develop a fully automated solution and we will work with postmasters to develop this.

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Customers

KPIs	SOURCE	CURRENT PERIOD (P5)	LAST PERIOD (P4)		YTD	P5 Last Year	Target
Effort (% saying Post Office is Easy to do business with)	VOC	82%	81%	+1	78%	76%	76%
Wait time Acceptability	VOC	95%	94%	+1	93%	93%	95%

26. Network customer sessions continue to be stable at approximately 10.3m per week to the end of P4. Year on year the decline in session numbers has slowed to about 2% which continues to reflect the footfall reductions seen in H1 16/17 but also the relative stability we began to see from July 2016 and since when customer sessions have been pretty consistent.

27. P5 has seen continued improvements in both the 'Effort' and 'Waiting Times', hitting the period target for the latter for the first time this year. Network is now ahead of the YTD target for Effort but still slightly behind on Waiting Times. The continued focus on these aspects from the Task Force and 'Customer Champions have driven improvements in Effort scores of a further 1% vs P4, with waiting time performance strong and improving in DMBs at 95% exactly as in Agency, and WHSmith also improving by 1% to 93%.

28. The absolute wait time trial continues to roll out in 10 branches, with live data now being collected. Cost indications per branch are expensive (£3-£10k) so we are exploring a blend of options to include Take a Ticket branches, Voice of the Customer programme and customer research before substantially extending the size of the trial.

29. The trial of the new role in 10 DMB branches as part of NQAC is underway. We have had some teething issues which have reduced the number of branches in the trial to 7 but training is complete and marketing materials are in place. We are now increasing the size of the trial to circa 50 branches so that we will have meaningful data, and we are aiming to have the first of the increase in place by mid October.

30. The agreed improvements to some of the customer journeys on SSKs, such as removing the need for host interventions when a customer requires confirmation of posting, making it clearer how to buy a single stamp, and changes to Horizon are on track for implementation before Christmas. We have also commissioned the production of 5 short films for uploading to social media showing customers how to 'help us to help them', by, for example, explaining the Dangerous Goods restrictions so they know what can be sent through the post and what cannot.

31. Following the Grenfell Tower tragedy, where we rapidly provided access to cash and other government services for affected residents, we met with Central Government officials and fed back the lessons learned and proposed solutions going forward. The feedback was positively received and a meeting is scheduled for early September to plan for any future disaster, and will include DCLG, BEIS, Cabinet Office CitA and POL.

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Performance Report – Full Year 2016/17 Results for Submission to the Shareholder

Author: Rob Clarkson Sponsor: Nick Kennett, Steve Ashton Meeting: September 2017

Executive Summary

Context

Post Office Management Services Limited ("POMS") is a subsidiary of Post Office Limited and undertakes the business of insurance intermediation. It is regulated as an insurance intermediary by the Financial Conduct Authority ("FCA"). Under its Articles of Association, POMS is required to submit a performance report every half year to its shareholder. This paper is the report for the year 2016/17; as it is submitted after P5 we have included brief comments on current performance.

In June 2017 POMS presented to the Board an overview of long term strategic options.

Questions this paper addresses

- What are POMS' strategic objectives and shorter term goals?
- Is POMS delivering what it said it would do?
- What are the constraints and considerations for future profit growth?

Conclusion

POMS' strategy is to build a sustainable competitive advantage through delivering value by understanding the needs of target customers, building propositions that meet those needs, optimising the operating models and building long term profitable relationships.

POMS is now well established and performing broadly in line with business case expectations; the key building blocks planned to date are in place and being embedded. The business model has settled following Hawk and shown flexibility to respond to market/sales conditions to deliver profitable outcomes.

In POMS, Post Office has a strategic asset that can generate significant value. In 2021 the current plan will generate Group returns of £35m and create a business with an estimated value of c£200m[1]. However there are challenges from evolving regulation and changes to Post Office distribution. In light of these, and following the Post Office Board strategy away day discussion in June, POMS is reviewing and will update its five year plan.

In assessing the options, POMS is seeking guidance from its shareholder as to the strategic and financial priorities that it is seeking from POMS; in particular the balance between revenue growth and in-year EBIT, and long term value creation.

Input Sought

The Board is requested to review, note the report and provide guidance to the POMS board.

1 *Based on 11-12 times EBITDA*

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The Report

1. 2016-17 Financial delivery

1.1. POMS trading profit ("EBITDA") was £7.8m, which was £(1.3)m adverse to Plan and £0.2m better than the Forecast.

£m	Actual	Full Year Var to Plan	Var to Forc
Gross Income	43.0	(5.0)	(0.5)
Cost of Sales	(5.5)	0.1	(0.1)
Net Income	**37.5**	**(4.9)**	**(0.6)**
People Cost	(3.3)	0.8	0.1
Marketing Costs	(3.0)	(0.4)	(0.0)
Non Staff Costs	(11.6)	1.6	0.5
IB Costs	(11.8)	1.5	0.2
Total Expenditure	**(29.7)**	**3.6**	**0.8**
EBITDA	**7.8**	**(1.3)**	**0.2**
Other	(0.2)	0.6	0.2
EBT	**7.7**	**(0.7)**	**0.5**
Capex	**(6.6)**	**(1.7)**	**0.1**

* *"IB costs" are Inter-business amounts for Commissions and Services paid to POL*
* *"Forecast" is the forecast outturn for the full year made at the end of the third quarter*

1.2. Income was £(4.9)m lower than Plan, principally due to weak travel insurance sales £(3.3)m in the first half of the year, the impact of project Finch (£0.4)m and new initiatives not meeting the overlaid income target £(1.7)m:

- Travel insurance performance was a result of lower sales in branches in Q1. This was reversed in Q2 by the introduction of a promotional discount aligned to the purchase of travel money. However, there was an impact on margins, which were c20% below plan.
- Travel insurance performance in the second half of the year was in-line with budget.

1.3. Costs were £3.6m ahead of Plan, with:

- Staff costs £0.8m lower than Plan due to the release of a bonus provision for 2015/16 and vacancies not being filled.
- Marketing costs were £0.4m higher than Plan from increased spend to support the travel insurance on-line promotions.
- Non-staff costs (excluding Marketing) were £1.6m lower than Plan, mainly due to contact centre costs being £0.8m less following lower travel insurance volumes and the renegotiation of the contract.
- Commissions payable to Post Office were £1.5m lower, reflecting lower sales and reduced margins.
- Other costs were £0.7m less than Plan due to lower depreciation charges from the later delivery of Zeus.

1.4. Capital expenditure was higher than Plan due to higher project costs.

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1.5. POMS is regulated by the FCA and in the year was required to maintain a minimum £0.7m of qualifying capital at all times. At the year-end, POMS' regulatory capital of £3.4m exceeded the FCA minimum by £2.7m[2].

1.6. At the year-end POMS had cash of £13.4m, balanced by amounts due to Post Office for commissions and recharges of £2.0m, £2.2m due to Insurance third parties, £7.3m of reserves and £1.9m for working capital.

1.7. In 2016/17 as the business model has settled following Hawk, POMS has shown flexibility to respond to market/sales conditions to deliver profitable outcomes.

1.8. 2017/18 EBITDA is targeted to be £7.3 m, with net income of £44.4m. After P5:

- POMS EBITDA of £2.8m, £0.8m adverse. £0.5m of the EBITDA variance relates to timing (commissions & cost classifications) and £0.1m to unbudgeted cost.
- POMS' regulatory capital of £5.5m exceeds target by £3.6m.

2. Building the future model

POMS strategic objectives

2.1. POMS' strategy is to build a sustainable competitive advantage and grow market share and value by:

- **Engaging more effectively with target customers**, ensuring that propositions are relevant and they are aware of POMS and able to research, purchase and manage their insurance products with us in the way they want.
- **Optimising our business and operating models** thorough harnessing the power of the Post Office brand, its network, digital presence and data, differentiating POMS from the open market, relentlessly increasing efficiency and retaining value.
- **Building long term profitable relationships** prioritising retention and deepening our customer relationship by focussing on experience and using intelligence to target relevant additional services. Our partnership relationships will be developed to ensure aligned objectives and values.

The 5 year Growth Plan

2.2. The POMS Growth Plan is founded on building new business and operating models, and aligned to the Post Office Money "New Normal" customer positioning. These will provide the environment to enable POMS to provide its customers with enhanced service, control, trust and value by:

- Securing end-to-end responsibility for delivery, balancing internal and external resources, and increasing access to the value chain.
- Ensuring POMS meets the needs of more customers, by evolving and adapting its products and increasing customer awareness.

2 *A full balance sheet is set out at Appendix 1.*

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2.3. The result is an increase in EBITDA to £17m in 2020/21; when the value of the sales commissions to Post Office is included, Group profits will be £35m (from £19.5 in 2016/17).

2.4. A review of the 5 year growth plan is underway and due to be presented to the POMS Board in November.

- As a result of market, regulator and distribution changes, an increase in marketing spend is likely to be required to deliver optimal long term growth as anticipated in the Titan/Hawk business cases. The impact on in-year profitability will be assessed and discussed with the shareholder to confirm that the resulting P&L shape is acceptable.

Significant progress has been made towards the strategic objectives

2.5. POMS has successfully integrated the general insurance business acquired from Bank of Ireland in 2015 (Hawk) and this is outperforming the business case.

2.6. Internal risk and compliance capability and processes have been developed.

2.7. The deployment of the strategic technology platform (Zeus) has been completed, opening the way for further expansion of POMS' participation in the general insurance value chain.

2.8. In Q4, Royal London was appointed as the provider of Life assurance business. This new arrangement provides greater flexibility and higher commissions.

2.9. In Q4 the travel underwriting agreement was re-negotiated with the Collinsons reducing product manufacturing costs by over 10% and providing full P&L transparency.

Challenges ahead

2.10. While EBITDA is broadly in line with the trajectory set out in the 5 Year Growth Plan, the actual shape of the plan is different. There are significant delivery challenges, including:

- £2.7m revenue stretch in 2017/18 (and thereafter) following the removal of Financial Specialists to maintain EBIT expectations;
- Higher distribution costs as POMS pivots to focus on digital sales, and increased staff costs as some activities are transferred to POMS without adjustment to the commission structures;
- Managing the impact of political and economic change, particularly:
  - The decline in Sterling - lower exchange rates will reduce foreign travel and adversely impact net rates (majority of travel medical claims are settled in Euros);
  - Continued low interest rate impact investment returns and consequently premiums and profitability of long term protection products.
- Managing the impact of regulatory change, particularly relating to conduct risk and the implementation of:
  - Insurance Distribution Directive (IDD) and related FCA proposals are live from February 2018;

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- General Data Protection regulation – systems access controls and customer permission regarding use of data. Impact to be assessed in conjunction with the Post Office GDPR programme;
- The Senior Managers' Certification Regime - extension to all regulated firms in 2018, with increased scope of personal accountability for POMS staff.

- Having the necessary resources, technology, operational and risk management processes to enable POMS to take on more of the value chain.
- Ensuring that Post Office is able to deliver the level of branch oversight and management required under its AR obligations.

2.11. In November the POMS board will review an update of the 5 year strategy to take account of the changes. This will include an assessment of growth options and their financial impact by year:

- Sales growth for general insurance products usually impact the P&L negatively in the year of acquisition due to strain of marketing and pricing costs (the "J-Curve").
- Profit is only achieved through subsequent renewals, hence the focus on retention and pricing management.
- There is therefore a clear balance between top- and bottom-line growth. In the 2016/17 budgeting review, POMS curtailed top-line growth to ensure that the cost profile met group objectives.
- As POMS finalises the strategy, it will seek confirmation from Post Office as to the relative priority of the line management of income and cost over profitability growth.
- In addition, the Board will consider whether acquisitions could deliver transformative growth[3].

2.12. POMS and Post Office are currently renegotiating the MSA and DA under which certain services are provided by Post Office to POMS. This review does not include the commission arrangements under which POMS pays Post Office 30% of its net income.

3. Governance

3.1. A Board effectiveness review has been undertaken and the recommended changes are being implemented.

4. Risk management

4.1. Risk management framework and governance structures are in place and operational.

4.2. The relationship with Post Office as both AR and service provider is in place; as tabled at the Post Office ARC, the biggest risk is the operational oversight of branches. Progress has been made to improve the systems and controls. Actions are being developed by both Post Office and POMS to further improve the levels of conduct risk. The POMS Board regularly assesses whether enough progress

[3] *As discussed at the Post Office Board strategy away-day.*

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has been made, or anticipated, for it to be comfortable to continue to allow Post Office to sell POMS products in branches.

4.3. The POMS-Post Office relationship structure is unusual as Post Office is both its sole shareholder and Authorised Representative. POMS works closely with the Post Office to ensure issues of regulatory concern are addressed and managed.

4.4. There have been no notifiable issues to the FCA in the period.

5. Performance of the "Titan" and "Hawk" projects

5.1. During recent discussions at the Post Office Board POMS was asked to provide an update on the performance of the two core business builds to deliver the long term insurance strategy – Titan and Hawk. The third component (the acquisition of the activities undertaken by Junction) has been delayed to 2019 and our approach to this will be set out in the updated strategy.

5.2. Following discussions at the Post Office Board from 2012-14, POMS was established in late 2014 and from January 2015 took over the management of travel insurance. Project Titan included the establishment of POMS as a trading entity (including gaining FCA approval), the migration of travel insurance business from AON to POMS; the establishment of a dedicated call centre; and the building of the policy management system (Zeus).

5.3. Core components of Titan have been delivered and are operational; however there have been challenges, in particular:

- Zeus delivery was delayed and project costs were higher;
- In branch sales of travel insurance has slowed, but the margin generated is 15% higher;
- The business case assumed an aggressive growth in online sales, in particular through aggregators. This channel was delayed due to contractual issues with the interim platform manager and the delay in launching Zeus. The business case assumed 1.0m sales in 2017/18 against the current budget/forecast of 700k.

5.4. The net impact has been that the business case is currently £2.3 million adverse, although we are confident that that gap will be closed as digital sales grow.

		2013/14	2014/15	2015/16	2016/17	2017/18 P	Total
Actual	Revenue £m		2.4	12.7	11.8	15.3	42.1
	Cost £m	-1.9	-3.1	-9.5	-7.1	-8.0	-29.7
	EBITDA £m	**-1.9**	**-0.7**	**3.2**	**4.7**	**7.3**	**12.5**
Bus. case	**EBITDA £m**	**-1.9**	**-3.6**	**5.1**	**6.5**	**8.7**	**14.8**
	Net Difference £m	0.0	2.8	-1.9	-1.8	-1.4	**-2.3**

Performance of the "Hawk" business acquired from Bank of Ireland

5.5. In November 2015, POMS acquired Bank of Ireland's interests in Post Office's general insurance business (Project Hawk). Since acquisition, the business has performed ahead of the plan by £1.8 million:

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EBITDA	2015/16	2016/17	Total
Actual £m	1.6	4.3	5.9
Bus. Case £m	0.3	3.8	4.1
Net £m	**1.3**	**0.5**	**1.8**

5.6. The business case also incorporated further benefits in the years past 2016/17:

- The initiative to take on more of the value chain through buying-out main general insurance supplier ("Junction") now has lower gross benefits, but a greater certainty of delivery. The net impact of these factors on the value case was a drop in NPV of c£(10)m.
- Slower growth in existing business and slower growth in new products versus the business case, but with an increased certainty of delivery for both. These resulted in a £4m improvement in NPV.

5.7. As a result of the above, the review showed NPV incremental to the cost of acquisition of NPV of £24m versus the original £29m.

5.8. The holding value of Hawk remains at £43.9m, the acquisition price.

6. Conclusion

6.1. POMS is now well established and performing broadly in line with expectations.

- The key building blocks that were planned are in place and being embedded.
- The five year plan forecasts income and profit outcomes that exceed the original Hawk business case, confirming the significant opportunity that POMS provides to its shareholder.
- POMS is undertaking a review of this strategy to reflect the impact of market, regulatory and distribution changes. This is likely to result in a pivot to a digital driven model, with concomitant increase in marketing and in-year EBIT impact.

6.2. In POMS, Post Office has a strategic asset that will provide financial growth and long term value to its shareholder. In assessing the strategic options, Post Office should consider the strategic and financial outcome that it is seeking from POMS. Should growth be based on:

- Lower long term revenue and EBIT growth delivered by a lower level of marketing?
- A focus on revenue/sales growth, with higher marketing spend, acknowledging that the J-Curve will impact short-term EBIT, but should generate long term EBIT growth and the business value anticipated in the creation of POMS?

6.3. POMS management and Board have focussed on the latter, as anticipated in the original POMS business case. We are seeking feedback from our shareholder to frame the strategic discussion in November.

Rob Clarkson, POMS Managing Director

Nick Kennett, POMS Deputy Chair

Steve Ashton, POMS Chair

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Appendix 1: POMS Balance Sheet

£k	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Non-current assets					
Intangible assets	45,789	46,979	48,369	49,621	52,196
	45,789	46,979	48,369	49,621	52,196
Current assets					
Amounts owed by group undertakings	202	381	0	0	0
Other debtors	142	126	293	98	115
Accrued income	4,552	4,830	4,250	3,767	5,620
Prepayments	41	23	130	142	121
Cash at bank and in hand	14,576	13,483	17,170	12,999	13,441
	19,512	18,844	21,843	17,006	19,298
Total assets	65,301	65,823	70,212	66,628	71,493
Creditors: amounts due within one year					
Trade creditors	(738)	(663)	(1,203)	(611)	(746)
Amounts owed to group undertakings	(6,638)	(3,231)	(5,853)	(2,208)	(2,043)
Other creditors	(1,082)	(1,859)	(1,880)	(885)	(1,525)
Accruals	(4,115)	(5,054)	(3,537)	(4,141)	(6,797)
Provisions	(994)	(1,121)	(1,182)	(856)	(991)
Tax Creditor	0	(432)	(965)	(1,265)	(1,567)
	(13,567)	(12,361)	(14,619)	(9,966)	(13,669)
Total assets less current liabilities	51,734	53,462	55,593	56,662	57,824
Creditors: amounts due in more than one year					
Amounts owed to group undertakings	(500)	(500)	(500)	(500)	(500)
	(500)	(500)	(500)	(500)	(500)
Net assets	**51,234**	**52,962**	**55,093**	**56,162**	**57,324**
Capital and reserves					
Share capital	50,000	50,000	50,000	50,000	50,000
Retained earnings	1,234	2,962	5,093	6,162	7,324
Total equity	**51,234**	**52,962**	**55,093**	**56,162**	**57,324**

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NFSP Review – August 2017

Discussion Paper

Author: Nick Beal Sponsor: Kevin Gilliland Date: 14th September 2017

Executive Summary

Context

George Thomson's recent announcement he will be standing down as CEO of the National Federation of Sub-postmasters in June 2018 is an appropriate point at which to assess all aspects of our relationship with the NFSP. The change of leadership presents us with opportunities and risks and we need to have a strategic approach to the transition period and the impending new era to make the most of it. In particular, we need a clear view on the Post Office's contractual and financial position regarding the NFSP, as this underpins much of our current work with it.

Questions addressed in this report

1. What is our current arrangement with the NFSP and what controls and benefit measurements do we have?
2. What are the alternatives to the NFSP?
3. What are the strategic risks in this situation?
4. What is our recommended approach and next steps?

Conclusion

1. We have a formal Grant Agreement with the NFSP that costs an annual £1.5m (+£1m for projects). It is controlled via an Annual Plan/review process and individual project cases. Additional benefits also arise from NFSP support for other business initiatives.
2. We believe there will always be representation for postmasters. The alternatives – CWU, ACS, NFRN - are not considered to be desirable to Post Office.
3. NFSP has restructured and modernised but we would like to see this happen faster and have set clear milestones for the future. The NFSP reverting to an antagonistic approach or losing influence with postmasters would create a vacuum for the CWU or ACS to exploit.
4. We should push the NFSP to continue modernising within the current framework of the Grant Agreement. Our comprehensive transition plan involving extensive work with the current and new leadership will use the 'Annual Plan' to maximise influence.

Input Sought

To discuss the contents of this paper, provide feedback to the Post Office NFSP team, and endorse the proposed approach.

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The Report

What is our current arrangement with the NFSP and what controls and benefit measurements do we have?

1. We have formally managed NFSP via the Grant Agreement since 2015. This framework was part of the wider discussions and agreements arising from the NT funding decision made in 2013. The agreement runs for 15 years, subject to NFSP meeting the conditions of the agreement, which are summarised in annex 3.

2. The fundamental driver for Post Office supporting the concept of the NFSP as a Trade Association was that we wished to ensure that there is effective engagement between our branch operators and the management structures within our large, complex organisation. This has not changed. Neither has the basic financial rationale behind agreeing to fund NFSP – that their support enabled a cost effective delivery of Network Transformation (NT) with its associated embedded and recurring benefits. With NT drawing to a close, we need to consider whether the first driver is sufficient and what additional benefits there are. A key additional benefit to date, which we believe will continue to be beneficial, has been NFSP support on a wider range of other initiatives such as 'Sparrow', remuneration changes (£8.5m recurring benefit to date) and simplification (£11.65m further recurring benefits pending roll-out).

3. We measure the benefits against four key areas. Please see Appendix 4 which sets out the milestones for each of these for the period 2015-2020. The areas are:
   a) Company structure/transition;
   b) Co-operation with Post Office;
   c) Communications (including NFSP conference); and
   d) Projects.

4. In summary, we have seen the benefits delivered to date in areas b-d, with NFSP's help with our stakeholder environment particularly relevant. On a (Company Structure/transition), we have delivered a re-constituted trade association and a new board which now includes non-elected members (WHS, Hendersons and Ryman) representing multiple partners. The NFSP has also consistently championed the importance of retail to postmasters, which is very helpful and completely in line with our Retail Strategy. The NFSP also play an important role in supporting Post Office's ability to defend the position of postmasters being self-employed.

5. It was therefore disappointing that the NFSP chose an existing postmaster, Calum Greenhow, as its new CEO rather than taking the next step on their journey and recruiting a professional from outside the agent community. This was our preferred option, privately shared with George (and advocated by him).

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6. Our milestone plan for the next 3 years covers all four areas. We formally measure progress through an Annual Plan, which the NFSP has to submit and secure agreement on every year to be awarded its full funding. This gives us a clear lever with the NFSP.

What are the alternatives to the NFSP?

7. This is the most important point to consider, and can be reduced to three, key questions. First, is it realistic to think we could withdraw from a formal relationship with the NFSP and remove their influence without another organisation (or a changed version of the NFSP) filling the vacuum? Second, if a trade association or similar is at least unavoidable and at best desirable, is NFSP our preferred partner? Third, how difficult would ending the current arrangement be simply for convenience, should we wish to do so? We believe the answers to these questions are 'no', 'yes' and 'very' respectively.

8. On the first question, Post Office has a history as a long standing, high profile public organisation. It remains high on national and local political agendas. Other organisations already compete with the NFSP for pre-eminence in being the 'voice of the postmaster'. If we stopped funding the NFSP, it is highly unlikely this would mean the end for them immediately but it would be likely they would actively lobby against us. It is also seems unlikely that the Post Office would simply become a stakeholder/lobbying-free zone.

9. There are three potential alternative partners or lead stakeholders for agents:
   1. CWU (either through the Postmasters Branch or directly): The CWU does not have any alignment with Post Office on its strategic ambition. It is also a union and would seek employee status for postmasters and attempt to join employee and postmaster disputes together. The CWU Postmasters Branch (led by Mark Baker) has also been fiercely critical of Post Office over 'Sparrow'.
   2. Association of Convenience Stores (ACS): Whilst professional and well respected, and on occasions supportive of Post Office, the ACS is the paid voice of Multiple partners and lobbies aggressively on issues such as restrictions.
   3. National Federation of Retail Newsagents (NFRN): An old-fashioned organisation which bears comparison to the NFSP 10-15 years ago. It is more traditionally focussed than NFSP ever was and has a poor understanding of the wider retail environment.

10. The NFSP is unique among the groups listed above in having a genuine concern and care for the sustainability of the Post Office and its agents – they understand the importance of the overall network rather than just individual members (reflected in their support for the restrictions policy).

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11. In addition, under the terms of the current agreement, the NFSP cannot merge with any other organisation or revert to a Trade Union, nor can it undertake any public activity which may prevent Post Office from implementing any of its initiatives, policies or strategies or other activities which may be materially detrimental to Post Office or induce agents to breach their contract.

12. Non-adherence to any of the above would allow us to terminate the GA. There are no clauses which allow termination through convenience or give rise to automatic re-negotiation of the agreement.

13. Any risk to the continuance of the Grant Agreement is an existential threat to NFSP (should it fall, they are very unlikely to be able to re-recruit enough subscription paying members to achieve the funding required and we would not help). It is reasonable to assume that any attempt to terminate the agreement outside of the breach conditions would be resisted on a legal basis. The exposure to Post Office in the event of a successful claim by the NFSP could ultimately be a settlement to the value of the remaining term of the agreement (currently £30m).

14. It is theoretically possible that we could increase our direct engagement with agents to an extent that a representative organisation was unnecessary. However, our key driver is that one is desirable given the complexity of our organisation and such an outcome would create the vacuum that other organisations strive to fill. That said, should the need arise, our approach would be to consider a "Postmasters' Communications & Engagement Forum" – a concept considered as part of the original assessment made prior to the signing of the GA in 2015, for which a draft high level TOR was produced (but no progressed) at the time.

What are the strategic risks in this situation?

15. The key strategic risks and planned mitigations are as follows:

- *That the current NFSP CEO acts irresponsibly and/or out of self-interest in his remaining time in post (to June 2018)* – we have little evidence of this apart from the one recent incident over publication of an article about the Royal Mail in the Subpostmaster. This risk is time-limited and our engagement transition plan is designed to avoid this. We also have the lever of withholding part of the NFSP's annual funding in the event of further problems. We will also be looking to influence the incoming CEO because of the implications of tis going forward.
- *That the new leadership sees the NFSP revert to an antagonistic approach to Post Office transformation* – our engagement transition plan and leverage through our funding of the NFSP's annual plan are designed to make this as unlikely as possible. We will keep this under review and, should it occur, we would reconsider the other strategic options summarised in this paper.
- *That the CWU Postmasters branch use this opportunity to increase membership and influence* – we continue to keep a very firm line against any attempt to

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recognise the CWU as a representative organisation for postmasters. This risk would be most likely if a vacuum developed so supporting the NFSP in its transition is critical. We do not consider this a material threat as most postmasters, as business owners, would be naturally opposed to union membership.

- *That the new leadership loses influence and/or respect amongst postmasters or multiple partners* – our mitigating actions are largely covered above. We will continue to particularly work with our Multiple partners which are actively engaged with the NFSP (currently WHS, Ryman and Hendersons) to align as far as possible. We want to keep the NFSP credible with retailers as a counterweight to the Association of Convenience Stores (ACS).

What is our recommended approach and next steps?

16. We believe continuing the present arrangement whereby NFSP continues on its modernisation journey is the best way forward and our plan reflects this.

17. Our plan is to engage intensely with Calum and George in the period prior to George's departure to ensure Calum understands our assessment of the situation and our desire for the relationship to continue as now in the environment of a modernising NFSP.

18. We will continue to manage NFSP within the framework of the Grant Agreement ensuring that they demonstrate tangible evidence, both through their actions and their Annual Plan that their direction of travel is as expected of a trade association. Depending upon the wider environment, we will consider additional activity that NFSP can undertake to support Post Office, particularly to re-inforce the self-employed aspects of our relationship with postmasters.

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Appendix

1. Background to the change of leadership
2. Calum Greenhow & West Linton post office
3. Summary of the Grant Agreement
4. Modernising the NFSP – Progress and future milestones

1. Background to the change of leadership

- George Thomson was elected NFSP General Secretary in 2007 and won a second, 5-year term in 2012. The process changed in 2015 as part of NFSP's transition to trade association status and George was appointed by the NFSP Board (consisting of postmasters and, since 2016, 2 multiples) for a new 5-year term in 2015.
- George's current position is strong and we believe he is leaving to concentrate on his external interests including his wife's post office business. George's departure (though not his replacement) had been an 'open secret' for the last few months.
- The NFSP board has sole responsibility for appointing a replacement. We know they considered the following 'talent pools' when considering a new CEO:
    - The Postmaster network: inviting any PM to apply, potentially through an election process;
    - The NFSP Board: this would effectively have been an internal election amongst Board members – this is the option they have taken by appointing Calum Greenhow on (we believe) an initial 2-year contract;
    - The NFSP senior management team: this now includes Troy Gardner and his Retail Awareness team, largely funded by the Post Office and representative of the more commercial approach we are promoting; and
    - The market: finding the best candidate through an external recruitment/headhunting process.
- Our preferred option (also shared privately by George) was an external or internal senior managerial appointment. The vast majority of trade associations, including the ACS, recruit their leaders based on expertise in professional lobbying rather than 'skin in the game' or longstanding experience of the trade they represent. The NFSP Board has chosen to appoint from within the board – Calum Greenhow, postmaster at West Linton post office. Annex 2 provides background to Calum and his branch. Whilst this decision is somewhat disappointing, it is not a shock and Calum is probably the best candidate from the NFSP board, albeit with some unknowns.
- Our view (supported by confidential conversations with George Thomson) is that their board felt it was too early in their transition to risk an external appointee and therefore have settled on the safe option.

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2. Calum Greenhow & West Linton Post Office



- Calum is personable and, by NFSP standards, 'centrist' but traditional. His branch has been designated a transitional local, which is not ideal as these branches are 'problem children' under NT.
- We have limited information and background on Calum (though have made discrete initial enquiries with the local operations manager). He only joined the NFSP board a year ago and was elected to their Negotiating Committee (the group we meet with on a monthly basis) at last April's conference. Calum represents, in NFSP terms, a 'centrist', being relatively young and forward thinking whilst having a commitment to some of the traditions NFSP are trying to protect.
- Calum has run West Linton Post Office, 15 miles south of Edinburgh since 1998. Calum also ran Biggar Post Office 2008-2013, exiting under NT. Under NFSP rules Calum cannot run a Post Office while being CEO, something he will probably achieve (as did George) by transferring the undertaking a transfer to his wife.
- Unfortunately, Calum's engagement with Post Office from a personal branch perspective is not ideal. His branch was, due the very low level of retail business, designated a transitional local under NT i.e. we sought to compulsory convert the branch to a local in another location in the community. We have been unable to convert the branch as there are no willing retailers in the community, leaving Calum on a SPSO contract until the branch either improves its retail or a replacement retailer is identified. Both are unlikely – retail is £840 pw against a target of £4000 and there is no viable retailer locally. Should the latter emerge, the contract with the branch will be terminated and a leaver's payment made.
- He has had limited engagement with our sales teams in the past due to the small size of his branch. The discrete enquires with the local Post Office operations manager team indicate that our assessment of his style and behaviour is accurate and that Calum has concentrated on supporting members with individual issues rather than displayed any strategic agenda. His recent visits to Western Isles are indicative of his commitment but also of a focus on a particular type of postmaster.

West Linton PO (Main Street, West Linton, EH46 7EE)

- West Linton post office is classified as a post office local+ but currently operating as a SPSO as it has been designated as a transitional local. It has c600 CS per week and is open 'traditional' hours (no evenings, Sat PM or Sundays). It has fixed remuneration of £27k a year and a limited retail offer.

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3. Summary of the Grant Agreement

- Term and value: The GA is a 15 year grant funding agreement for the NFSP with a maximum spend of £37.5m over 15 years. If the GA runs for the full 15 years, the range of expenditure is from £22.5m to £37.5m depending upon whether specific projects are agreed.
- Commencement: Start date is 1 April 2015.
- Principles: The GA is based on the terms of the Memorandum of Understanding (MoU) which were agreed in principle between the parties in November.
- Status of NFSP: The NFSP is company incorporated in England following re-constitution in 2016 from an unincorporated association.
- Membership and data: Membership of the NFSP is free to all postmasters (including Multiple operators). There are minimum membership levels required (which NFSP are currently meeting) and since November 2016 membership has been facilitated via automatic membership unless a postmaster explicitly opts out. Data to support membership is shared between the NFSP and Post Office within the framework of the Data Sharing agreement signed in December 2016.
- Grants: Post Office will provide grant funding to the NFSP for 15 years. Funding is split into annual grant and project specific funding:
    - An annual grant payment in respect of the activities approved in the Annual Plan (capped at £1.5m per annum in respect of organisational support (such as the day to day operational costs of running the NFSP)) payable from FY 2015/16 onwards.
    - Project specific grant funding for certain approved projects. This will be no less than £1m per annum as long as the projects are approved by Post Office. Projects will be subject to existing Post Office business case processes – defined by Post Office finance in 2016 as budget authority devolved to Network & Sales Director (now CEO Retail), subsequently Network Development Director.
- Termination: The GA has no right for either party to terminate for convenience during the 15 year term. However, there are provisions allowing either party to terminate for breach (including breach of the Conditions of Grant as set out in the GA). The agreement sets out specific activities NFSP can and cannot undertake, defining clear activities that would represent a breach of the GA which Post Office could then, if it chose, seek to rely on to terminate. This includes, amongst other things, any public activity which may prevent Post Office from implementing any of its initiatives, policies or strategies or other activities which may be materially detrimental to Post Office.

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4. Modernising the NFSP relationship – Progress and future milestones

Area	2015/16	2016/17	2017/18	2018/19	2019/20
Company structure/ transition	- Agreement signed	- Transition to a company incorporated - New board established - Multiples on board - CEO confirmed as a board appointment - Annual plan - Free membership	- New CEO appointed - Annual plan	- Apprenticeship scheme - Build organisational capability - Gain recognition as experts within the retail industry	- Build organisational capability - Develop commercial partnerships
Co-operation with Post Office (* anticipated Post Office initiatives)	- NT support - 'Sparrow' support	- NT support - Remuneration reductions accepted - 'Sparrow' support	- NT support - Simplification acceptance - Segregation re-structuring accepted - 'Sparrow' support - Identify with PO other support areas - Banking opps - New network locations (whitespace) acceptance/support	- 'Sparrow' support (as necessary) - Implement other support areas - Further simplification - Banking opps - Future technology development* - New network locations (whitespace) acceptance/support	- Retail strategy* - Banking opps - Future technology implementation* - New network locations (whitespace) acceptance/support
Comms	- New Subpostmaster magazine launched	- Revised conference format	- New communications director appointed - Revised conference format - Parliamentary activity	- Launch "How To Guides" e.g. cash management - Data & info sharing - Parliamentary activity - Implement other support areas	- "How To Guides" series - Review & further improve Subpostmaster magazine - Parliamentary activity
Projects		- Franchise Finance business support project	- Retail team resourced - Segregation team resourced	- Retail workshops - Develop & offer retail "slot in" issues - Develop commercial partnerships	

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Technology Strategy Update

Author: Rob Houghton Sponsor: Paula Vennells Meeting date: September 2017

Executive Summary

Context

This document is the third in a series of updates to the IT Strategy (previous updates were presented in July 16 and January 17). We're now deep into execution of the strategy with course correction as appropriate. This update is more focussed on business areas and has greater emphasis on digital transformation.

Questions addressed in this report

1. Is our operational risk profile improving?
2. What is the revised cost and benefits position?
3. What are our digital transformation plans?
4. Is the IT strategy on track to deliver the intended benefits for each business?
5. What is our architecture roadmap and technical strategy?
6. What is our plan and operating model to deliver?

Conclusion

- We have now moved solidly into execution across all the strategy areas; we have passed 1,100 branches on branch technology change, strengthened our security posture and started our digital transformation agenda
- Our focus remains to address areas that remain outside of risk appetite and we continue to balance cost, risk and schedule decisions
- With better information from supplier negotiations, we have now refined our cost scenarios and present a stretching but more realistic cost scenario
- We have gained further confidence from the architecture proving of thin client which present a tremendous retail network transformation opportunity
- Our scale up of digital capability and investigations, now presents a business opportunity to transform the way we work through digital enablement and proposition development
- Our executive talent hiring is complete, ATOS discussions close to finalisation and agreement to strengthen out our permanent capability is in progress

Input Sought

The GE is asked to support the direction set out in this document and approve presentation to the POL board.

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The Report

Reminder of Key Strategy Messages

1. Since January we have refined the IT Strategy messages into the following core objectives. These seek to transform the way that the business operates internally and externally:



- **Digital Transformation** - deliver world-class digital services and transform the way Post Office operates, from front-end to back-office, in a modern and efficient way. This requires re-architecting systems, cultural change, increased digital enablement of Business processes and driving innovation



- **Protect Service** – we need to build secure and resilient systems by default, ensuring that we create protection against service disruption and cyber-crime through every stage of our digital transformation. This requires our delivery of IT infrastructure change programmes, Security Transformation programmes and improved Environment Monitoring/Management



- **Cost Reduction** – we need to drive our cost base to a competitive level in order for the business to reinvest in change. We do this through supplier renegotiations, counter rationalisation and service differentiation. We need to continuously rethink the engagement model between Post Office central and Post Masters to drive a different cost profile



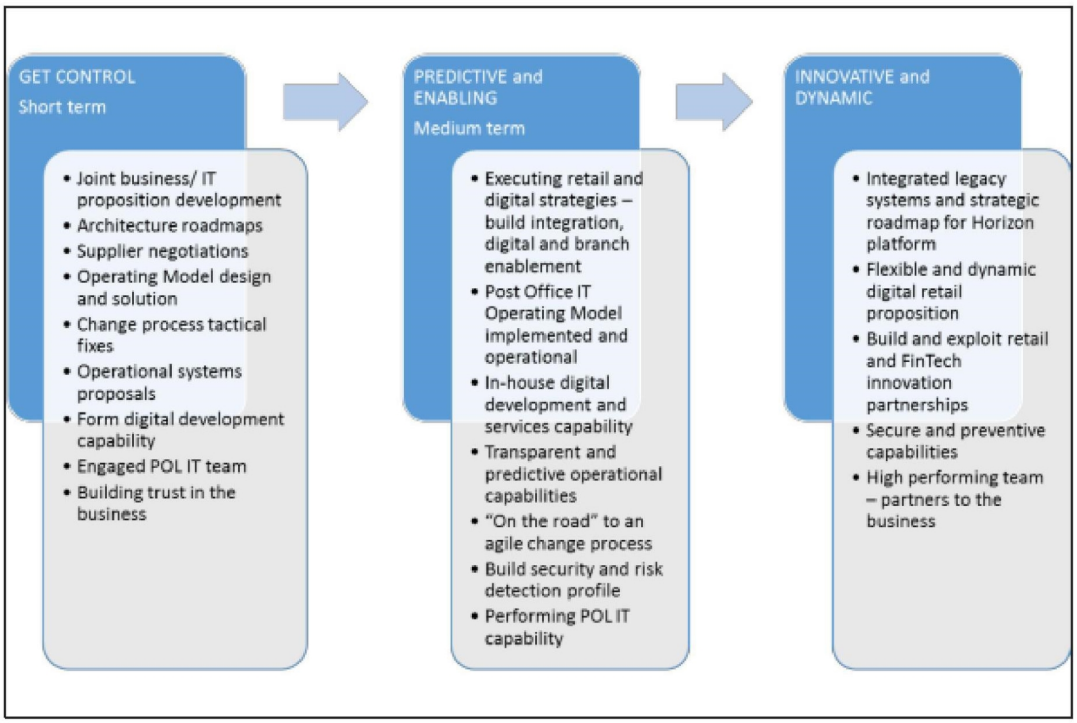
- **Deliver with excellence** – our intent is to drive fundamental change to the delivery model whilst avoiding service disruption. The architecture changes, operating model shifts and focus on agile delivery are key enablers
- This is underpinned by developing and hiring great **people within the right Operating model** – key to this is building our own strong technical capability and helping non-digital specialists to understand the potential of new or different ways of working

2. Since January 17; we have moved solidly into execution of the roadmap.
   - The Senior team recruitment has completed
   - We have delivered technology change to over 1100 branches with "HNGA" and networks delivery in full progress. Very positive feedback.
   - We continue to deliver to move us within Risk Appetite. Significant improvements include the migration of Credence into cloud infrastructure in the next month, a stronger control around Disaster Recovery, and the strengthening of our IT Security Controls, including SOC selection.
   - The control gaps are now understood and remediation activities underway
   - A "Thin Client" proof of concept – was successfully proved in 4 months.
   - Security Transformation execution is ongoing with BYOD, stronger patching regime and Security Operations Centre selected.
   - We have established solid negotiation positions with ATOS and Fujitsu

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- We have outlined and made headway on a digital transformation agenda
- We have initiated re-procurement of our digital hosting environment and delivery partner.

3. I have validated the IT Strategy through a number of low cost, technical expert "point" engagements since I joined to reassure the board that we are heading in the right IT Strategy direction; findings are available as required:
    - KPMG performed a financial cost base review in June 2016
    - Deloittes performed an Information Security Review in November 16 which formed the Security Transformation programme
    - TORI reviewed the Operating Model in Feb 17 which led to the letter of intent with ATOS and subsequent changes
    - Inasight (cloud specialists) performed a review of the Cloud direction and FJs cloud architecture in May 17 which formed Pivot to Cloud design
    - We engaged network specialists to perform network transformation review to design the right network architecture and devices roll out
    - KPMG were engaged to set the Risks and Controls direction and analysis
    - Business Transformation Experts (retail IT specialists) were engaged to help develop the Retail IT strategy, peripherals and device strategy
4. We committed to a plan of activity which we are progressing against with many of the 'Get Control' activities well underway or complete and "Predictive and Enabling" now also underway.
5. To provide further assurance and challenge, POL CEO has instigated an independent assessment of the IT strategy and this will be presented and discussed in October board.



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What progress are we making on our operational risk profile and has our risk profile shifted?

6. In January, we outlined that we remain outside of our operational risk appetite. We have made solid progress on moving towards a better risk profile.
7. A core objective for the IT strategy for the organisation focuses on "Protect Service" and this is consistently communicated across the organisation
8. Our main operational risk involves Fujitsu which is an original consequence of Trinity decision:
    - The hardware frames and network routers on which some of our critical services exist (POLSAP/ HNGX) are significantly beyond life. Delivering Back Office transformation, Data Centre Refresh and Branch Rollout mitigates this risk.
    - We have (today) sufficient spares to recover service in the event of a failure. However, below a minimum criteria or increased outage will mean we instigate emergency service recovery. We have already instigated emergency measures on the routers to lower the risk profile.
    - We have a number of systems that haven't successfully completed DR for a period of time. The most concerning is the complete failure and failover of the Horizon Data Centre – which is being scheduled. This cannot be carried out whilst we have POLSAP and HNGX remaining on the old frames – the frames are very susceptible to failure if you power down.
    - We have increased the governance around all DR testing across our estate and are constructing mitigation plans for all our critical systems.
9. These risks expose the business to the following critical risks. The potential for these to materialise is high but we remain confident that we can recover service in a reasonable time (albeit not within the Recovery Time objectives):
    - Complete or partial failure of the branches operating on HNGX devices. As of today 90% of the network but declining each month with HNGA rollout.
    - Failure of the Supply Chain and, in particular, the Cash Management processes operating on POLSAP.
10. The delivery of the IT infrastructure programmes are essential mitigating strategies aimed at moving us within our risk appetite. Specifically, we are:
    - Transitioning Horizon platform to modern and supplier supported operating infrastructure that will migrate business systems to the cloud.
    - Rolling out an integrated central and secure IT network core to mitigate the potential loss of sensitive data.
    - We have selected and chosen a Security Operations Centre, upgraded our patching process and instigated BYOD/ Phishing protection.
    - Deploying to branch a modern counter/desktop asset to replace HNGX and prepare the counter for a new Thin Client Electronic Point of Sale (EPOS), which will mitigate the potential for loss of front office counter applications

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- Transitioning our reporting systems (Credence) to cloud, transforming supply chain, finance, and reporting systems to mitigate potential back office platform failure
- Reviewing DR plans across core suppliers to mitigate potential loss of key systems

11. The aim is to move us to within our risk appetite within the next 10-18 months.
12. In January, we also highlighted that, to achieve effective IT risk management, required the use of well-defined controls and processes. Since then, to help manage our key operational risks, we worked in partnership with KPMG to implement the industry best practice control framework COBIT5.
13. Out of the 37 COBIT5 processes within scope, we identified 11 priority processes and controls that have proved to be effective countermeasures in reducing our exposure to both internal and external IT operational risks.

What is the progress on our run costs reductions and 5-year plan?

14. A core objective for the IT strategy for the organisation focuses on "Cost Reduction" and this is consistently communicated across the organisation
15. The drivers of the IT cost base and rationale for difficulties in benchmarking were outlined in January this year:
    - Historic high, fixed level, contracts with "Tier 1" suppliers based on assumed operating models and service levels.
    - As a retail business we have an extremely high number of users and branches; a lot of retail businesses we compare against have low central IT costs and move costs to every branch operating as independent P&Ls.
    - Service Levels: price is informed by service levels and these are too uniform across Post Offices; offering tiered/reduced/ improved service levels would reduce/shift costs.
    - Infrastructure provision: PO has been designed on dated and expensive "fixed capacity" model in the infrastructure. Moving to "elastic compute" with virtualised network, thin client and cloud based solutions significantly matches cost to usage and reduces costs.
    - Operating model – the SIAM model has introduced complexity, overhead and cost into every process.
16. Our view in January was based on FY16/17 IT OPEX figures of £107m. We closed FY16/17 OPEX at £103m (underpinned by £1.5m one-off accrual releases). An extremely aggressive and ambitious plan to reduce to around £71m by FY20/21 (a reduction of 33%) was outlined with many assumptions highlighted.

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5 Year Plan as at January 2017	OPEX				
	16/17	17/18	18/19	19/20	20/21
	Underlying Result	Budget			
	£m	£m	£m	£m	£m
January 2017 Forecast	**104.5**	**102.9**	**94.0**	**94.8**	**95.3**
LESS:					
Expected savings from Supplier re-negotiations		(7.2)	(13.5)	(14.1)	(14.3)
Strategy to Plan initiatives		2.3	(2.8)	(11.2)	(12.1)
Shadow IT Costs		0.7	0.9	1.3	1.6
Revised Forecast	**104.5**	**98.7**	**78.6**	**70.8**	**70.5**
% Change (Cumulative)		5.5%	24.7%	32.3%	32.5%

NB 17/18 includes additional budget tasking of £1.2m

17. We now have much better information and identified some flaws in the original forecast model. We have refreshed the model and updated it in this paper.
18. The plan faces a number of risks, including:
    - Our most material supplier risks are the Fujitsu negotiations (paper in October) and ATOS finalisation
    - Risk with Computacenter and Verizon contractual assumptions and expectations against the revised baseline
    - Back Office Transformation projects incur delay, which in turn impacts our Opex costs (not realising savings as expected); a SafeHaven delay may impact our costs by £2.5m-£4m in F18/19.
    - Branch Technology or Network rollout do not deliver to expectation which has a material impact on Opex with the need to agree FJ and BT extensions
    - We have a severe service failure on the existing infrastructure and have to spend unallocated funds to restore service
    - There is a risk that conflicting or contentious Business Change will inhibit IT's ability to enact change to deliver OPEx reductions eg Transaction Simplification, Receipt Printer

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19. For each Tier 1 supplier, we made a series of operating assumptions. In the table below we outlined the initial forecast, and now include what we now expect to achieve, with confidence indicator.

	Playbook Scenario		Forecast Spend and Opportunity						
Supplier	**Oct-16 5-Yr Plan Submission**	**5-Yr Plan Overlay Assumptions**	6 Month Forecast Update	**5 Year Opex Forecast**	**Overlay Saving Forecast**	**Confidence Level in Achieving Savings Forecast**	**Overlay CAPEX Forecast**	**5-Yr Plan Risk & Potential Range**	**Comments**
ATOS	Run Contract to expiry date	Terminate contract. Tender process.	Jan Sept	£35.9m £30.5m*	£7.2m £5.3m	High	£0m-£4m £0m-£4m	£28.7m-£35.9m	Negotiations taken longer than anticipated
Computacenter	Thin client fails - rollout desktop everywhere. No relief on SLAs. No innovative Post Master deal. No reduction in number of users	Thin client impact takes hold; reduced device costs; Postmaster pays for premium service; reduced SLAs. Aggressively manage users & devices.	Jan Sept	£69.7m £60.3m*	£11.6m £7.5m	Low	£0m - £6.3m £0-£6.3m	£58.1m - £67.8m	January renegotiation avoided significant cost. Additional savings will be delivered later than anticipated
Accenture CDP	Run to termination date August 17	Terminate & aggressive tender process	Jan Sept	£15.1m £15.1m*	£0m £3.2m saving already baked in the base plan of £15.1m Retender in progress	n/a	£0m £0m	£14.8m-£15.1m	Retender in progress
Verizon	No change to SLAs/ number of branches/ thin client	Reduced SLAs as standard; premium service pack; thin client and data centre migration allows network re-architecting	Jan Sept	£50.3m £43.9m*	£12.5m £3.3m	Medium	£0m £0m	£37.8m - £50.3m	Focus has been on achieving Network Rollout. Additional savings will be delivered later than anticipated.
Fujitsu	No negotiated settlement - FJ sweat PO as cash cow	FJ allow a negotiated settlement based on thin client, cloud migration and re-architecting	Jan Sept	£160m £142m*	£24.6m £22m	High	£0-£26.3m £5m-£36.6m	£135.4 - £163.9m	Negotiations are advanced, focus on switching from 85% Fixed to Variable model.

**The savings forecast has been incorporated into the Opex Forecast here (i.e. Atos 5 Year Forecast is £30.5m, incorporating £5.3m of savings)*

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20. Our updated plan reflects status of supplier negotiations and our increased understanding of underlying cost drivers; our investment profile to achieve these savings is being reforecast currently and is aligned to the government funding request:

5 Year Plan as at September 2017	OPEX				
	16/17	17/18	18/19	19/20	20/21
	Underlying Result	F'cst			
	£m	£m	£m	£m	£m
September 2017 Forecast	**104.5**	**104.0**	**92.3**	**92.1**	**92.1**
LESS:					
Expected savings from Supplier re-negotiations		(2.4)	(6.5)	(9.0)	(10.7)
Strategy to Plan initiatives		0.3	(1.0)	(5.4)	(7.2)
Shadow IT Costs		0.0	0.9	1.3	1.6
Revised Forecast	**104.5**	**101.9**	**85.8**	**79.0**	**75.8**
% Change (Cumulative)		2.5%	17.9%	24.4%	27.5%

21. We continue to focus on opportunities to reduce service costs; have estimated £1m annual savings in the plan, and believe there is further opportunity with helpdesk Self Service and Single-Sign on.

What is the progress on our Digital Transformation?

22. Technology sits at the heart of the wider business strategy set out in our 5 Year Plan – both as a direct driver of financial benefits and as a critical enabler for most of the other profit improvements envisaged in the plan. A core objective for the IT strategy for the organisation focuses on "**Digital Transformation**"
23. The major change since January is further refinement of our digital transformation agenda.
24. The tools, techniques, technology and approaches of the internet age give us greater opportunities than ever before to help transform our delivery of services, assemble services more quickly and at lower cost; and continuously improve services based on data and evidence.
25. We have pivoted the organisation around three main digital experiences: the agent, the customer and our employee experience
26. We believe that the opportunities delivered through the three areas have a profound and deep transformation across several areas:
    - Back Office service centres – the ability to systems think the processes and digitise/ automate could fundamentally change the shape and size of service centres whilst significantly improving service.
    - Agent interaction - delivery of a digital self-service solution to automate business processes and provide functionality to our agents.

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- Customer engagement –creation of a single customer mobile application (customer hub) that offers functionality for Post Office products.

27. We also continue our agenda of innovation and emerging technology. In particular our focus remains on:
    - Blockchain and distributed ledgers due to the opportunity within Identity Services
    - Predictive Analytics/ Machine learning/ AI due to both the huge consumer disruption it will cause but also due to applicability in Back Office
28. A profound talent and cultural shift is required. We will make a significant investment in internal digital IT permanent skill base to drive the pace and breadth of expertise that we require to succeed across digital initiatives.
29. To deliver the digital transformation, we will also influence the capability and culture "outside of IT". The following roles and capabilities are essential:
    - People that "think digital" – our preeminent mindset is based on traditional leadership and analogue thinking models (both in operational and change mindsets). Changing this is our greatest challenge.
    - Agile and digital savvy product managers to lead functional prioritisation of digital initiatives
    - Customer/User journey design specialists
    - Digital Operations specialists to create and maintain fast changing content
    - Mobile digital marketing specialists
30. We will develop plans in our overall digital "presence" capability. This includes next generation multi-channel digital content management, web analytics, Search Engine Optimisation and service location/reservation tools.

Is IT delivering against the intended business outcomes – Retail IT Strategy?

31. We have now developed our Retail IT Strategy which aligns the Mails, Payments and Network Development goals to the 2017-2021 IT technology roadmap.
32. We have pivoted our strategy to enabling postmasters when serving the customer and running their Post Office business.

"SERVING THE CUSTOMER"

33. Our strategic direction will reduce queue time/failure demand, make our customer experience more enjoyable and improve efficiency of service performance. It will also reduce cost.
34. Our "device strategy" is a critical part which will be ready 3Q17; this transitions current legacy end of life branch hardware to an integrated IT environment which befits a modern day retailer. Smaller counter EPOS and kiosks, faster/higher quality receipt printers, 2D barcode scanners and refreshed pinpads and AEI terminals are to be deployed
35. A core enabler of this is the development of HNG-T (technology that allows us to run a very modern "Horizon client" in the Post Office on a web browser i.e a thin client version of the existing Horizon)

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36. We have increased confidence having proven our thin client concept in four months through the HNGT development of our Telephony E-top up service. A demo will be sent out separately.
37. Learning from past mistakes, we will build and deliver Thin Client (in parallel to BAU) in short demonstrable, viable and repeatable stages. If it proves successful, we will roll-out Thin Client to the entire network. If not, we have the contingency to roll-back to deploy HNGA
38. We are also engaging with our multiple partners and have a reasonable degree of confidence that they will want to take this solution in to their estates if we get it right. Key to this is proving our ability to deliver, so an initial pilot with an MVP in their existing PO estates is the right way forward.
39. We are deploying "new devices" into the estate – this is a difficult dynamic. We will exhaust existing counter hardware stock by November 2017 and are to procure the smaller footprint/lower cost device in September 2017. The new devices must be compatible with and future proofed for HNGT deployment.
40. We have two outstanding areas which are significant and we need to partner with the business on. They both drive increased cost into our estate and the business strategy still in formation. These are:
    - Self Service Kiosks – The business plan is to deploy circa 1,500 new self service kiosks to our retail partners over the next 2 years on a lease basis. The initial 50 machine pilot in agency is designed to mitigate a 6.5m cost risk by proving enough staff savings to justify a profitable sub-lease rate.
    - Passport/ Identity Services – The current plan for Digital Check and Send (DC&D) is to implement the service at the circa 750 branches with biometric booths, leaving the paper service as an option elsewhere. In the longer term there is a consideration to withdraw the paper and extend DC&S to other 2,700 branches, if there is sufficient demand and it costs in for the less busy sites. We need to ensure we're not exposed to significant higher cost; however there is a risk that HMPO turn off the paper channel (perfectly plausible against the Government digital strategy) and we risk losing the income if we do not have a solution.

"RUNNING THE POST OFFICE BUSINESS"

41. We intend to digitise business processes critical to the running of retail branch by implementing self-service capabilities. Many processes are manually laborious and require intensive support with complex remediation. In addition our service has, to date, been uniform, irrespective of the branch performance and location Post Masters get the same service support.
42. Our first pilot application will be Horizon Self Service which will automate and deliver agent sales and transactional MI in near real time; currently full data is provided by CDROM to retail partners 3 months in arrears!
43. Subsequent business prioritised user stories include the raising of branch IT incident tickets via the portal and providing real time service updates, the ordering of cash/coins and stamp stock management.

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44. The Differentiated Service Proposition is targeted for go-live in 3Q17.
    - This will deliver new service revenue, reduce operational costs and provide enhanced customer propositions through a channel where IT has previously been provided free of charge.
    - The intent is to charge for "premium service" offerings which will provide more choice and flexibility in the running of their business. See Appendix C for Premium Service offering.

Is IT delivering against the intended business outcomes – Financial Services?

45. Financial Services can be considered in two ways: the launch of consumer hub for new digital journeys which is core to the Financials Services strategy and how we support the business

"CUSTOMER HUB"

46. The customer hub is a core enabler of the financial services strategy supporting digital financial products and open banking framework. We believe that this will be a key enabler for customers in the omni-channel environment
47. The foundational asset will be a reusable portable customer identity capability linked to an easy purchasing experience for customers. In doing so, we enable a fast track purchasing experience for all branch customers for all branch transactional branch products and, in parallel, accomplish pre-branch data entry steps for Drop and Go, International Mail or Bill Payment transactions
48. We are developing the roadmap and customer facing digital agenda by working with the Financial Services and Identity teams to finalise the MVP for the hub.
49. We successfully ran a hackathon in June which built a retail mobile application for the business in 48 hours. This proved our capability to rapidly prototype our ideas using a Low Code Development tool and integrate a broad range of external API services such as Open Banking and facial identity verification
50. The low code application development platform accelerates software delivery and testing lifecycles facilitating rapid idea prototyping and robust production solution delivery
51. We are going to build our "digital factory" around this capability and invest in engineering skills to support scalable agile delivery, enterprise digital architecture, enterprise cloud hosting, mobile application development and API service engineering

"SUPPORTING THE BUSINESS"

52. Key drivers and deliverables are:
    - Salesforce; our customer acquisition platform for distribution partners supporting prospect leads capture and mortgage sales development
    - Banking Framework; a suite of retail and business banking services for UK banks to utilise the Post Office branch network ecosystem to process cheques, deposit/withdraw cash and execute change giving. Future options are being explored to provide enhancements for eKYC checking services

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- Post Office Money next generation digital AML/eKYC services; to simplify customer identity proving and optimise digital/branch experiences for personal financial services and travel money transactions
- Marketing; Creating our future customer-product-service-insight platform that will power customer personalisation, targeted 1:1 marketing and whole of life customer relationship management

Is IT delivering against the intended business outcomes – our colleagues?

53. We have a profound cultural transformation to ensure our colleagues can think Digital first both in the ways that we conduct our own business but also in the products/ solutions. To assist that we also need to digitise ourselves.
54. We are changing our back end platforms which in itself will drive change in the ways we do business.
    - Consolidation of Back Office systems on to CFS and Transtrack providing a stable and robust financial system.
    - SuccessFactors migration will remove HR SAP fully from our environment and will enable staff to update their own data, make requests and ensure managers get better visibility of their team.
    - Review of our MI and data warehouse capability (Credence) in a big-data world is required to evaluate suitable analytics capability.
    - Contact Centre Case management will enable web, phone and social interaction with post masters, employee and clients for our call centres.
55. Concurrently we are investing in internal resource in our Process Centre of Excellence; already we have a number of activities run by software robots, processes brought online using workflow, e-signatures replacing paper and structured sharepoint sites and forms replacing personal inboxes.
56. The GE will also plan our hiring, training and enabling of our teams. We need to determine:
    - How we reprogram people to think and work digitally; despite the investment in tools and capabilities, we have a workforce predominantly working in a 90s mindset
    - Internal culture and training on systems thinking
    - Working with department leads to address issues, deploying our own toolset to improve service or remove business challenges in 2-4 week chunks (note, this is already beginning to happen).

How is the core Infrastructure changing to support the strategic outcomes?

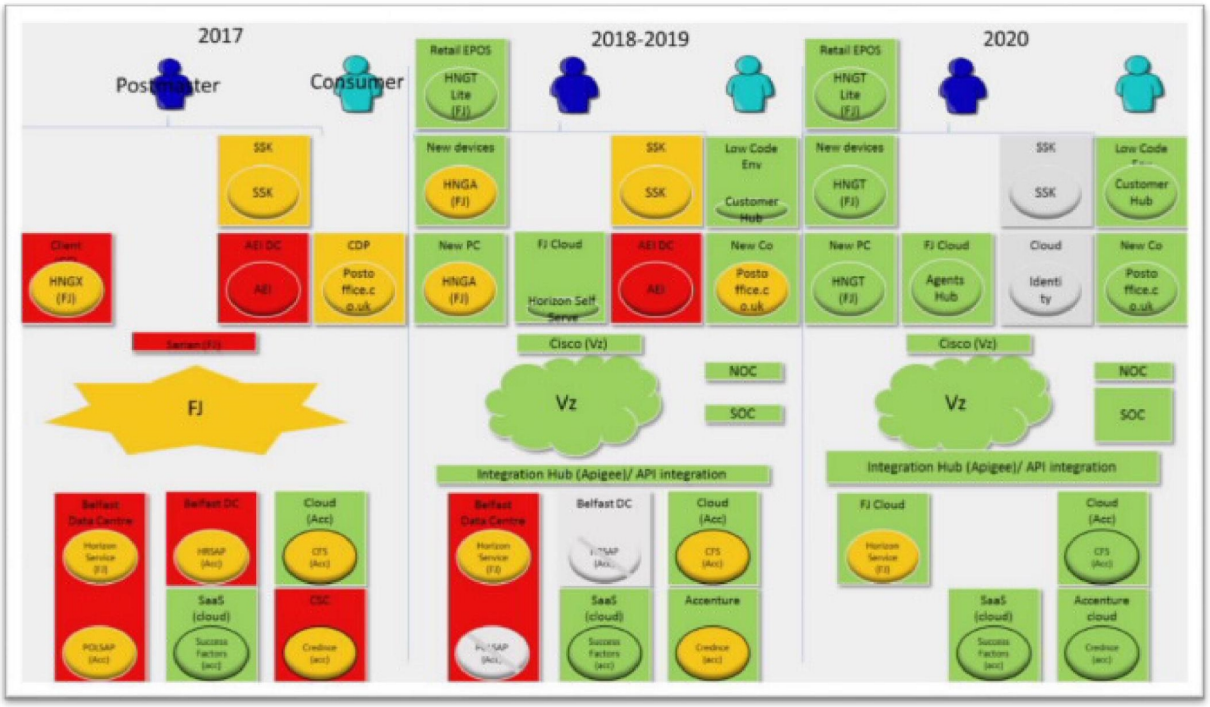
57. Our target state remains to deliver an elastic, agile, secure, future proof, low cost model for the Post Office without undue reliance on specific suppliers.
58. We are currently re-architecting to improve business delivery:
    - We are in the design phase and working with Fujitsu on migrating our infrastructure to a cloud based architecture to provide a greater platform

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for business agility at a lower cost. This coupled with the Everest negotiations allows a much greater flexibility of cost and service

- We have published our tender on the Government Digital Outcomes framework to re-procure our common digital platform which will continue to be extensively used for our website and as a platform for Customer Hub. We have adopted a hybrid approach to our digital development activities (due to nascent contract and supplier limitations) and have a digital platform convergence strategy for the future.

59. We have developed an Architecture roadmap to demonstrate the journey we are on. This forthcoming year is essentially all about Risk and Cost Reduction and a level of business enablement. Beyond there, our focus increasingly pivots to business transformation.

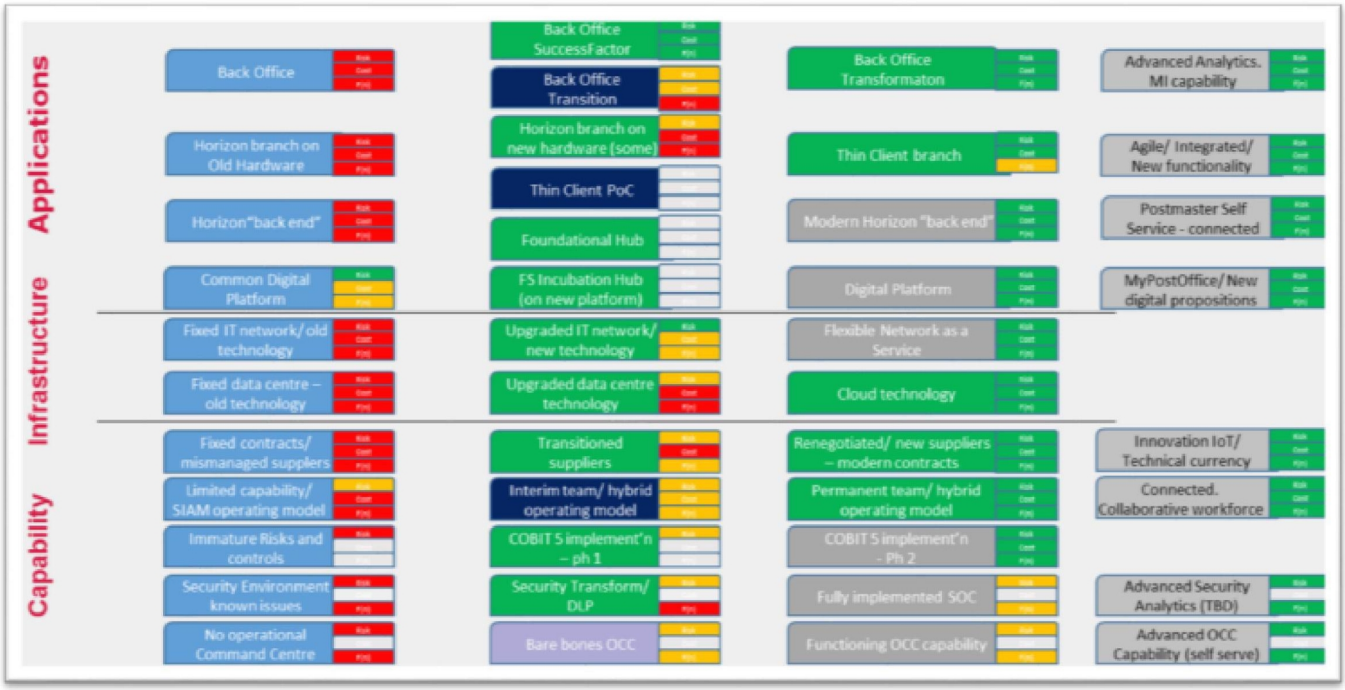


What is our plan to achieve the strategy?

60. Our profile of spend in the last two years is predominantly on operational risk and cost reduction.
61. Our submission for the government funding outlined the key areas for investment which falls into three main areas:
    - Branch IT investments – completion of rollout and pivot to a retail transformation through thin client deployment
    - Essential IT upgrades – continued investment on risk and resilience activities, cyber security and back office transformation
    - Enabling the business – replatforming onto cloud, building a digital development capability and platform

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62. The roadmap presented in January, is aligned to the funding request and has been updated to demonstrate in progress activities and some movement on the plan. Broadly the plan remains both on track and relevant.



What is our operating model for IT?

63. We previously outlined an operating model which includes PO taking back control of business-critical services.
64. In addition, we discussed the negotiations with ATOS which have now concluded with a letter of intent. The letter of intent outlines:
    - Agreement for Atos to embark on an improvement plan to the service desk services, which will have clearly defined set of measures
    - Post Office taking back responsibility for managing change demand services, with Atos providing a systems integration role where required
    - Agreement on pricing adjustments that reflect redesigned service requirements, providing full year cost reduction on FY17/18 costs of £1.2m
    - Cessation and suspension of certain lines of services which have been identified as no longer required.
65. We have also identified critical capability gaps in the operating model regarding our digital transformation. We also anticipate medium term (<12 months) needs in machine learning, predictive analytics and big data manipulation domains. Critical gaps are:
    - Architecture skills
    - Technical skills
    - Agile delivery skills
    - Security skills
    - Low code development

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66. Our strategy for developing this capability is:
    - Making Post Office a leader in attracting a diverse workforce for digital, data and technology roles;
    - Supporting non-digital specialists in understanding the potential of new or different ways of working;
    - Working to make sure that current and future leaders have the right training and experience to manage digital projects effectively, work in an agile way and manage digital-age organisations.
67. Our engagement survey results indicated the requirement to focus on four key areas to improve engagement and buy-in to our strategy:
    - Communication and decision making – increase collaboration between CIO and other functions and increase visibility of CIO lead team;
    - Company strategy – deliver against our vision with speed and conviction;
    - Working environment – improve workplace processes with digital solutions;
    - Employee wellbeing – resource more effectively; improve PDR process.
68. We have taken the opportunity to define our new diversity agenda. Our diversity agenda is made up of six key initiatives:
    - Introduction of unbiased job descriptions with non-gendered language;
    - Mandatory unconscious bias training for all managers;
    - Anonymised CV pilot to reduce unconscious bias;
    - 1 in 4 female candidate shortlists for all vacancies;
    - Utilising diversity forums as job channels, e.g. we have recently set up a partnership with FDM Group, an IT talent supplier that work directly with ex-Armed Forces individuals;
    - Reintroduction of support networks into the CIO function, e.g. Women in Leadership events.

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Appendix A: Progress against Measurement of IT Strategy

Measure	Activity	July 2016	Sept 2017	Target 2020
Lower Cost	Aim to meet budget in first year and with target investment reduce costs by 5-10% beyond that without increases. Note that business change (rightly) increases IT cost	£104.8M	Current Year Forecast £101.9m	£70-£80M Dependent on growth
Faster speed to market (Flash to bang):	Previous experience dictates that this requires end-to-end change. Aim to halve end to end cycle teams across the system	12-18 months	In-house Demand Management & Engineering in progress	3-6 months incremental value
Increased productivity	Requires end to end change but through agile and systems thinking the process – from initial view; aim to save at least 30-50% on cost of delivery	Expensive, layered, waterfall	HNGT, Customer Hub and Horizon Self-Service all being established as agile	Agile, cheaper, high quality
Security Effectiveness	Use a capability measure from Deloitte's against 5 key risk areas to assess and gain an accurate measure of IT/Cyber security maturity.	Limited visibility; limited testing; low risk profile;	Security Operations Centre in progress	High understanding ; robustly tested; higher risk profile
Digital Capability Maturity	Our current capability is well behind leading retail peers. The development work over a year should be to get us amongst our peers	Web site "brochure ware"; immature; limited transactions	Agent & Customer portal in progress	High transactional capability; online/ offline journeys; MyPostOffice/ SME
Always On service	Aim for a consistent reduction in lost business revenue year on year for key services and avoidance of lost hours through predicting events.	Regular Sev 1/ Sev 2 per month (last 6 months - Severity 1 = 16 Severity 2 = 67 Total = 83)	Q1 High Severity Incidents = 30 Q2 High Severity Incidents = 21	20% reduction on critical business hours lost
Colleague Feedback	Aim to establish a mechanism across the company on how technology is performing from a branch, end user and business change perspective. Improve and resolve root cause	Low trust; business/ supplier attitude; low expectations	Engagement action plans in development	High trust; IT as a partner driving value and innovation

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B: IT Project In Flight & 5Yr Plan Capex & OPEX

IT Programmes currently in flight

IT Programmes in Flight	Spend Type	Last Signed Off Amount	Last Forecast Previously Presented	6 Year Programme Forecast[1]	Spend to Date[2]	Estimate to Complete
EUC Branch Deployment	Capex	£49,600k	£45,800k	£49,246k	£26,541k	£22,705k
IT Networks	Capex	£28,800k	£30,900k	£33,355k	£11,636k	£21,719k
Project Chameleon	Capex	n/a	n/a	£8,247k	£806k	£7,441k
Safe Haven & TDC Exit	Capex	n/a	n/a	£2,742k	£494k	£2,248k
ePOS Capability in Branch Network/PCI Project	Capex	n/a	n/a	£8,370k	£13k	£8,357k
Replacement of Counter Receipt Slip Printers	Capex	n/a	n/a	£6,914k	-	£6,914k
Back Office Transformation	Capex	£29,200k	£31,500k	£33,013k	£4,785k	£28,228k
IT for ITRisk & Resilliance	Capex	£34,200k	£33,700k	£44,451k	£25,651k	£18,800k
IT for ITProject Everest	Capex	n/a	n/a	£15,000k	-	£15,000k
IT for ITProject Everest	Exceptional	n/a	n/a	£26,397k	£534k	£25,863k
IT for ITIT Operating Model	Capex	n/a	n/a	£1,635k	£653k	£982k
Common Digital Platform	Capex	£2,000k	£1,800k	£6,217k	£3,117k	£3,100k
IT for ITBuild SOC and Command Centre	Capex	n/a	n/a	£8,655k	£918k	£7,737k
		£143,800k	**£143,700k**	**£244,243k**	**£75,148k**	**£169,095k**

[1] Spend across 15/16 through to 20/21

[2] Lifetime spend to date up to August 2017 (P5)

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5 Yr Plan CAPEX & OPEX

5 Year Planned Pipeline		6 Year Programme Forecast (£m)	Opex Impact (£m)[3]
IT for ITIT Operating Model	Exceptional	£9,900k	-
UEC Branch Overlay	Exceptional	£3,432k	-
IT for IT foundational architecture	Capex	£5,050k	£2,540k
		£18,382k	**£2,540k**

3 Increase / (Decrease) in opex run rate.

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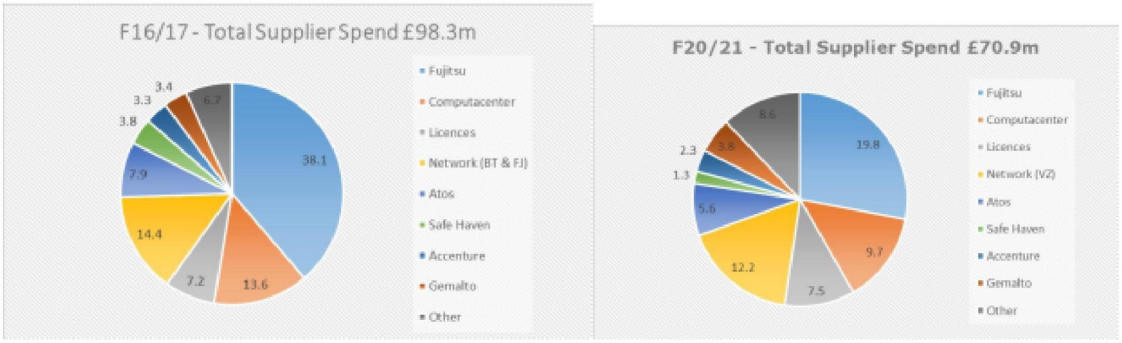
C: Differentiated Service Offering – Premium Services

Premium Service Offering	Description	Suitability
Mobile counter (tablet)	Provide the branch with a tablet capable oF Horizon transactions, accessing email.	
Branch Wi-Fi	Provide branch with Wi-Fi that could be accessed by staff and customers	
Digital Signage Board	Provide screen in branch to promote both P ost Office/ local community content	
Higher Quality Broadband	Provide a higher quality of broadband connection e.g. Fibre	
Bl-annual IT Health Checks	Pro-active engineer visits to undertake health check and reduce downtime	
Real time monitoring devices	Remote monitoring of PC, branch router, peripherals and self-service devices	
4 Hour Service Level (Bundle)	Capped number of quicker resolutions that the branch could utilise	
Consumables (Bundle)	Consumables that would be included free to a branch as part of a bundle	
Guaranteed kit refresh	Provision of new kit on a regular cycle, rather than waiting for failure	
Post office Email & Web	Provide a post office email account and web access via the tablet	
VIP Service Desk line	Access to a VIP service desk line	
MI Reporting	Enhanced reporting on trends, peak times, employee 'incentivised sales', etc.	
Peak planning assistance	A dedicated SWAT team of engineers deployed provide prompt resolutions	

D: Opex Forecast of Supplier Spend

These charts illustrate the changing spend per supplier, assuming we are able to deliver all savings targets and spend re-profile.

Note, these only indicate Opex spend.



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Back Office Transformation

Authors: Tim Collins Sponsor: Alisdair Cameron Meeting date: 14 September 2017

Executive Summary

Context

The Back Office Tower Transition Board Paper 29th September 2016 highlighted operational and cost risk to two of our fundamental back office systems, HRSAP and POLSAP. POLSAP is responsible for £60bn of client settlements annually and manages over £500m of our physical cash.

On November 24th 2016, the Board approved a collection of projects grouped as Back Office Transformation. These planned to avoid technical upgrades to the older instances of SAP in favour of re-designing our operation, using modern standard processes that largely exist within our other applications, such as the SAP CFS Finance system.

At the May Board meeting, it was agreed that the full transformation of CFS, changing the way we pay agents, manage cash, procure, manage stock, process and report on sales and settle with clients, could not be completed before we need to exit POLSAP.

The agreed proposal was to ensure exit from POLSAP (and HRSAP which also requires changes in CFS) by June 2018, delivering as much transformation as possible. The remainder of Transformation would follow. We would also seek to avoid expensive upgrades to stabilise POLSAP.

The May Board approved a further £7m of funding (cumulative £8.9m) to continue until the end of September.

By this September, we agreed to deliver several proof points including: a settlement process working in CFS test; the upgrade of our CFS system to IS-Retail, enabling us to organise our financial model around branch and product; a complete agent remuneration cycle in test; and we would soon be live with the new way of processing cash in one depot, Belfast. We would have a clear plan for POLSAP process migration and an improved forecast for the subsequent transformation.

The rough estimate of the end to end project costs was £21-25m. Direct benefits, primarily for exiting POLSAP, were estimated at £3.9m pa with indirect benefits of £2.6m by enabling the replacement of HRSAP. Benefits had not been estimated for the full transformation or for changes to procurement/Swindon.

Questions addressed in this report

1) Have we delivered as promised in May?
2) Are we on track to get off POLSAP and HRSAP?
3) Can we continue to avoid an upgrade of POLSAP?
4) What is our latest view of costs and benefits?

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Conclusions

We have delivered all of the promised proof-points due to date. However, we have re-planned the live trial of cash processing in Belfast from October to January 2018. This enables us to stabilise the hardware, which is due to be moved to Accenture hosting at the end of October, before we go live. The length of the delay is because we try to avoid significant change to Supply Chain in the run up to Christmas. We have spent £7.6m of the £8.9m forecast, replacing planned Accenture resources with contractors.

We continue to recommend a two-stage process, with transformation completed after we are off POLSAP. Our plan continues to enable us to be off both POLSAP and HRSAP by June 2018, enabling us to significantly reduce our operational risk. Decommissioning would take place from July, realising the savings.

We are closely monitoring the risk to the resilience of POLSAP and HRSAP including the usage of spares. If we decide at any point that the risk is too great, either because we are using spares more frequently or because the project timelines extend, we can upgrade POLSAP at 6 months' notice for a cost of c. £6m. To date, we do not believe we have to trigger that choice but are asking for delegated authority to do so if circumstances change.

By June 2018, we plan to have delivered the following:

- POLSAP process and data migration to CFS
- Agent Remuneration process transformation & data migration from HRSAP to CFS
- Cash Processing functionality migrated from POLSAP to the Cash Web Community application (CWC, a Transtrack product) and integrated with CFS
- Cash Processing in CWC with Forecasting at initial capability stage
- Improved management information and reporting in CFS
- Product and Branch profitability reporting available
- Controls framework and security improvements
- Infrastructure transformation and relocation
- Integration with Success Factors
- SAP Industry Solution for Retail (IS-Retail) via a technical upgrade of CFS

As per our previous recommendation, this is not the whole suite of Transformation. Phase 2 which we would aim to deliver by end 2019, and which is not yet fully scoped and planned or benefits identified includes:

- Billing automation in CFS. This will significantly reduce the amount of manual intervention in our settlement with clients and our reporting, enabling the removal of systems related spreadsheets from the financial reporting process
- Operational cash forecasting solution in CWC with full capability achieved
- Agent debt linked to remuneration
- Client simplification and automation
- Changes to procurement processes
- A new warehouse solution for stock management in Swindon

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We are seeking the next tranche of funding, £7.3m, in addition to the previous approval of £8.9m, to take us through to end February 2018, with cumulative project funding of £16.2m.

While we are only seeking funding to February, it is important to flag changes to the estimates of the full project economics. By June 2018, we are forecasting that we will have spent £20.4m. The lower run rate after February reflects the fact that the design and build teams will reduce, with the focus on testing and business implementation.

Including the costs of the optimisation support period (July-August) and de-commissioning, the total cost of Phase 1 is estimated at £20.9m giving a NPV of £13.4m with a payback period of 6 years. These forecasts assume we spend the £2.9m of contingency originally included.

This is a deterioration from the very first, high level estimate of a £20m spend generating £12.7m NPV with a 5 year payback. This reflects the delay in benefits to September, higher costs arising as a result of that delay, a much more detailed appreciation of the resources required, longer (5 months) of system and user testing and parallel running tests to de-risk go live.

The original case included high level estimates for the costs and benefits of changes to procurement and Swindon stock. These now form part of Phase 2. For procurement, the preparation work for a separate business case is nearing completion. For Swindon we are reviewing the site strategy.

Including procurement, Swindon and the full project could increase total project costs to £31.3m. However, we are not seeking funding for these changes at this stage and decisions can be taken later when a complete view of costs and benefits are available.

Input Sought

We are asking approval for £7.3m of additional funding drawdown, taking the cumulative investment to £16.2m, to progress the programme to 28 February 2018.

We are also asking for delegated authority to the CEO, CIO and CFOO to upgrade POLSAP at a cost of £6m if the operational risk deteriorates.

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The Report

Have we delivered as promised in May?

1. The program committed to report back to the board on a number of proving points (in the diagram below) that have been delivered since May '17.

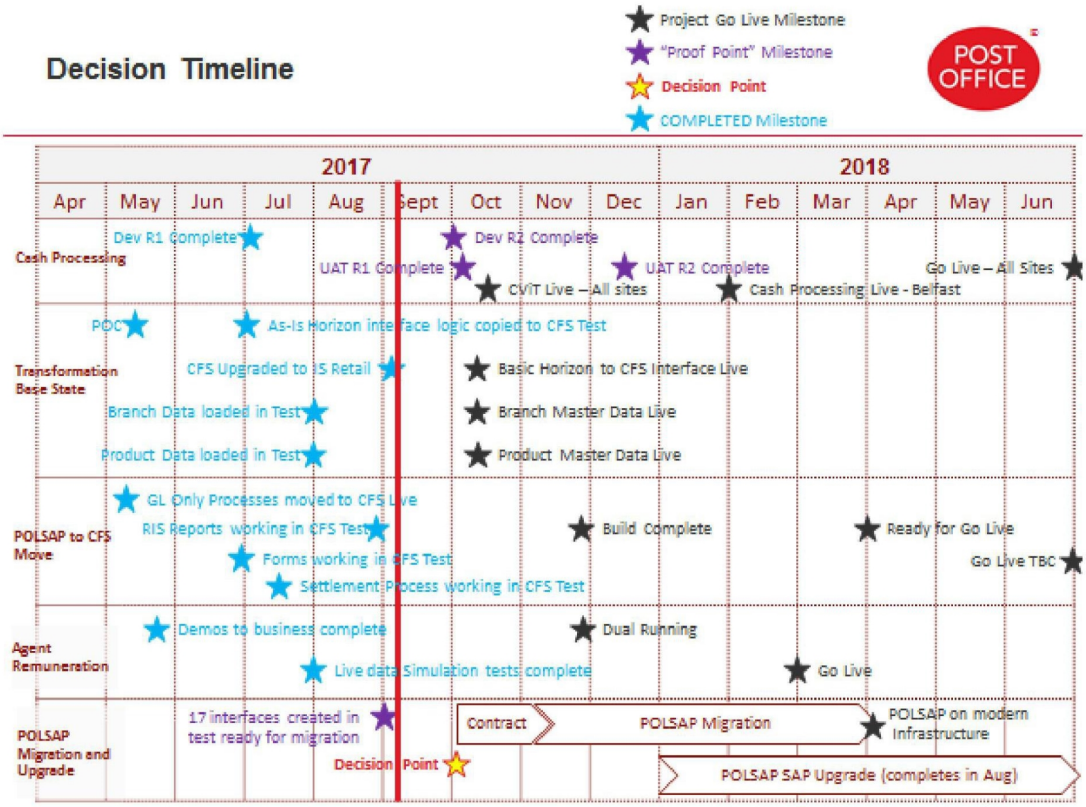


Figure 1: Back Office Transformation Projects - Proving Points

2. Good progress has been made against the Proof Points planned by the team, with 100% of the points due, completed. However, the Belfast soft launch of cash processing has been re-planned from October to January 2018, for 3 reasons:
   - to de-risk the go-live by moving the infrastructure to new Accenture hosted hardware first and then looking to go-live with the new solution for Belfast once this has stabilised
   - Slippage in the integration between CWC and SAP Central Finance System due to resource mobilisation issues – the team is now mobilised
   - Longer than anticipated time to agree the infrastructure required to support the CWC solution and associated contracting

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3. The status for each Prove Point is shown below:

Project	Proof Point	Due Date	Status
Transformation Base State	POC	9/5/17	Complete
Transformation Base State	As-Is Horizon interface logic copied to CFS	1/7/17	Complete
Transformation Base State	Branch Data loaded in Test	1/8/17	Complete
Transformation Base State	Product Data loaded in Test	1/8/17	Complete
Transformation Base State	CFS Upgraded to IS Retail	15/8/17	Complete
POLSAP Process Migration	GL Only Processes moved to CFS Live	31/5/17	Complete
POLSAP Process Migration	Forms working in CFS test	30/6/17	Complete
POLSAP Process Migration	Settlement process working in CFS test	15/7/17	Complete
POLSAP Process Migration	Retail Information System Reports in CFS	30/8/17	Complete
POLSAP Process Migration	PI Interfaces created in test ready for migration	1/9/17	Complete
Agent Remuneration Transformation	Demos to business complete	19/5/17	Complete
Agent Remuneration Transformation	Live data Simulation tests complete	31/7/17	Complete
Cash Processing	Development Release 1 complete	30/06/17	Complete
Cash Processing	Cash Processing Live - Belfast	15/09/17	Re-planned
Cash Processing	UAT Complete	15/09/17	On Track
Cash Processing	CViT Live – All sites (Migration to Accenture Infrastructure)	13/10/17	On Track

4. Below is a summary of more detailed progress for each of the projects:

Project	Status
Transformation Base State	➢ SAP Industry Solution for Retail functionality upgrade of the Central Finance System complete ➢ Branch and Product master data resident in the Central Finance System complete ➢ Horizon and Credence interfaces built
POLSAP to Central Finance System Process Migration	➢ Horizon sales interface built and tested ➢ Profitability Analysis As-Is proof of concept complete ➢ Master data structures and hierarchies rationalised ➢ Spreadsheet analysis (137) On plan with to-be Central Finance System Design, Build and Unit Test to incorporate POLSAP processes: ➢ 37% of Business Process Designs Drafted, 16% in Review ➢ 91% Of Functional Designs Drafted and 52% Reviewed

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Project	Status
	➢ 70% of Reports, Interfaces, Enhancements, Forms and Workflows Built and 63% Unit Tested ➢ 71% of Data Conversions Built and 50% Unit Tested ➢ Archiving and data residency analysis underway ➢ Technical preparations activities to support transition of services for Safe Haven started (E.g. SAP Portal vs GUI, Printing, Roles and Authorisations)
Agent Remuneration Transformation	➢ Pilot Agent Remuneration process ready ➢ Agent Remuneration system build is 90% complete. Completion is on target for November. ➢ Parallel Payroll calculations validated with 100% accuracy over a period of two months.
Cash Processing	➢ Cash and Valuables in Transit (CViT) migration to Accenture infrastructure planned for October – on track ➢ Pilot cash processing & forecasting process for Belfast - delayed ➢ Belfast solution design complete but due to delays in resourcing and infrastructure agreements, plus a desire to go-live with Belfast separately to the CViT migration above, this has now been rescheduled for January ➢ Forecasting solution options being evaluated.
Swindon Stock	➢ On Hold pending a strategic review of the future of the Swindon site before we commit to £3m of IT spend
Procurement	➢ Strategic review of options taking place.

5. Spend to date is £7.6m compared to the budget of £8.9m.

Are we on track to get off POLSAP and HRSAP?

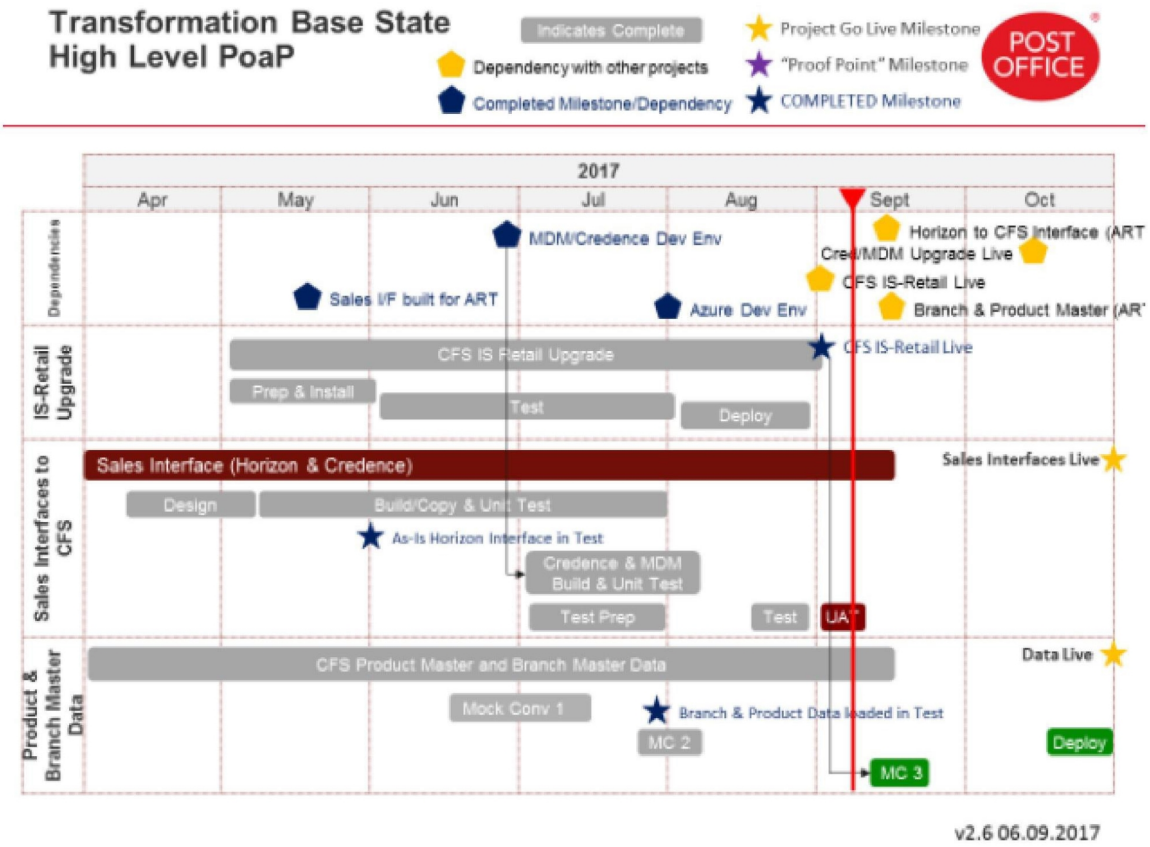
6. Our plan shows us migrating fully off POLSAP and supporting the migration from HRSAP by June 2018. This requires us to postpone some transformational activity, Procurement and Swindon. The Finance migration is now due for completion by June rather than March, reflecting the risks around migrating at year-end.

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7. We have set out below the status of the different elements of the project. A description of the high-level processes and the associated changes for each element is set out in Appendix 1.

Transformation Base State and POLSAP Process Migration v2.6 20170906

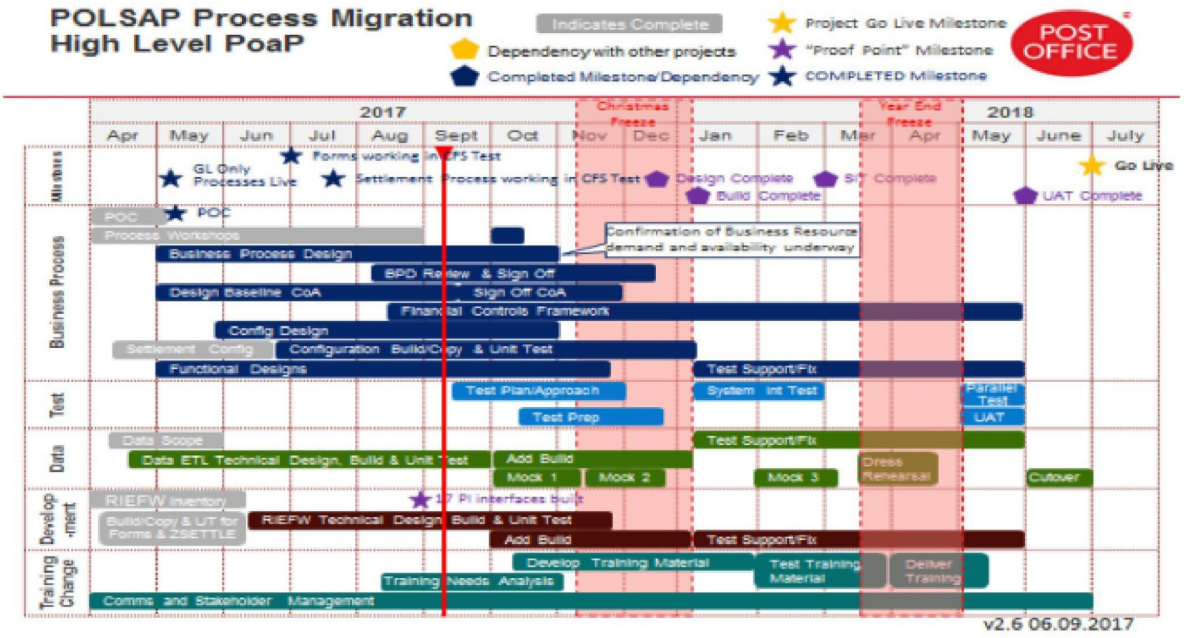
8. This is on track to go-live as planned. The first component IS Retail Upgrade of CFS has now successfully gone live. The two remaining components Sales data from Horizon and Product/Branch Master data live in the Central Finance System are ready to go-live as planned. The deployment window to Production may change due to the Credence/MDM migration project timeline shifts.



9. Migration of the processes from POLSAP to the Central Finance System remain on track against the business and 3rd party resource loaded plan. Changes since May are reflected to show a longer period to complete Design based on availability of resources and to build in a "Business Freeze" period around year-end/audit.

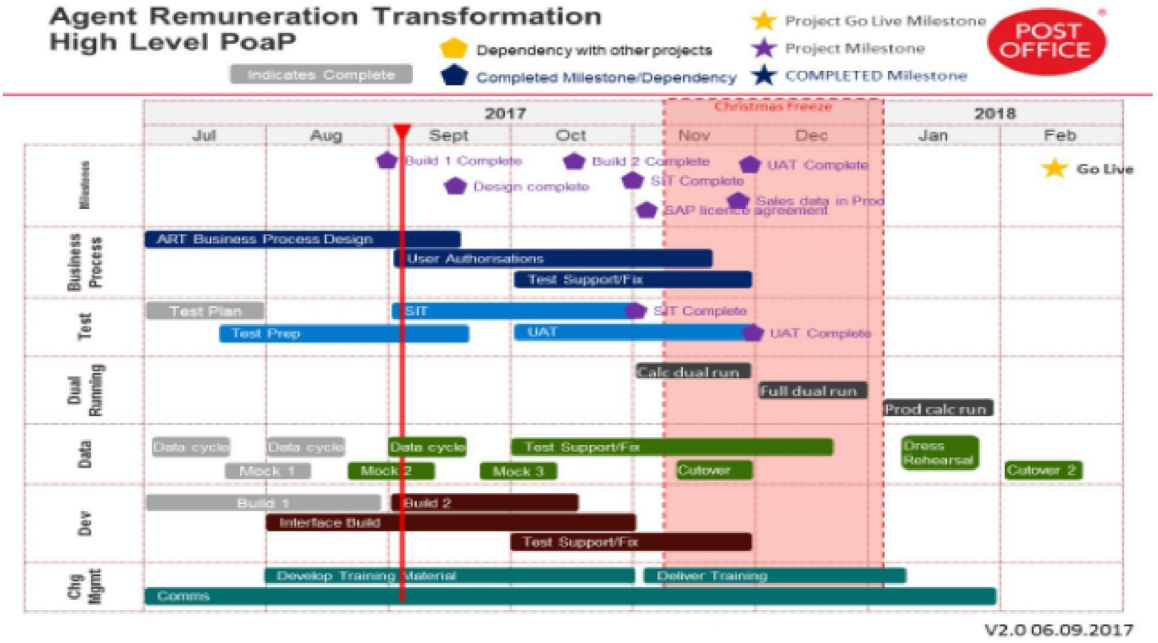
10. In January 2018 Design and Build is planned to be completed with System Integration Test and Training Material Testing started.

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Agent Remuneration Transformation - Plan on a Page (v2.0 20170906)

11. Agent Remuneration has been approved by the Project Delivery Group to progress from Build into System Integration Test. The plan between now and January will be to conduct a series of parallel tests of the agent remuneration calculation utilising real data from Production to reconcile and check the results achieved match. By January this should give sufficient quantitative input to a go/no go decision.

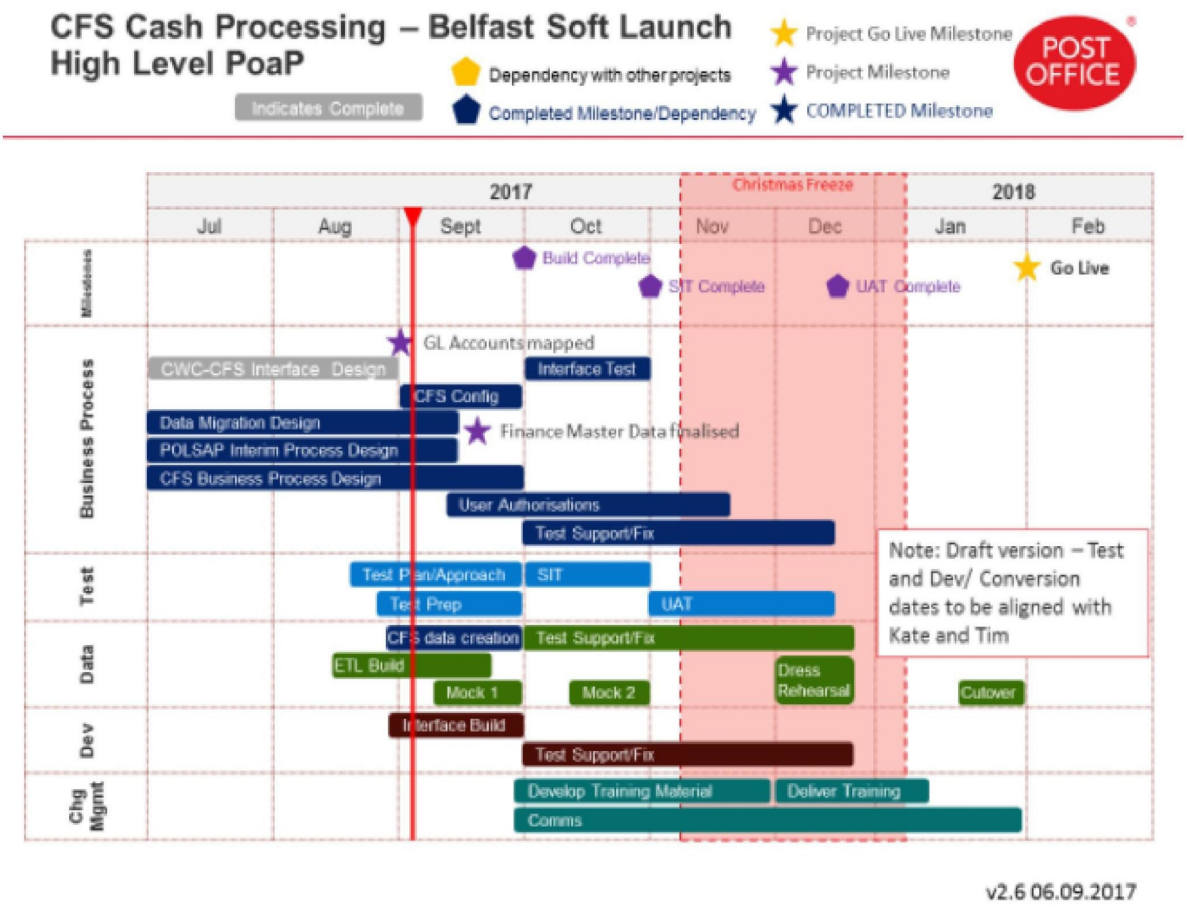


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Cash Processing Transformation - Plan on a Page (v3.1 20170825)

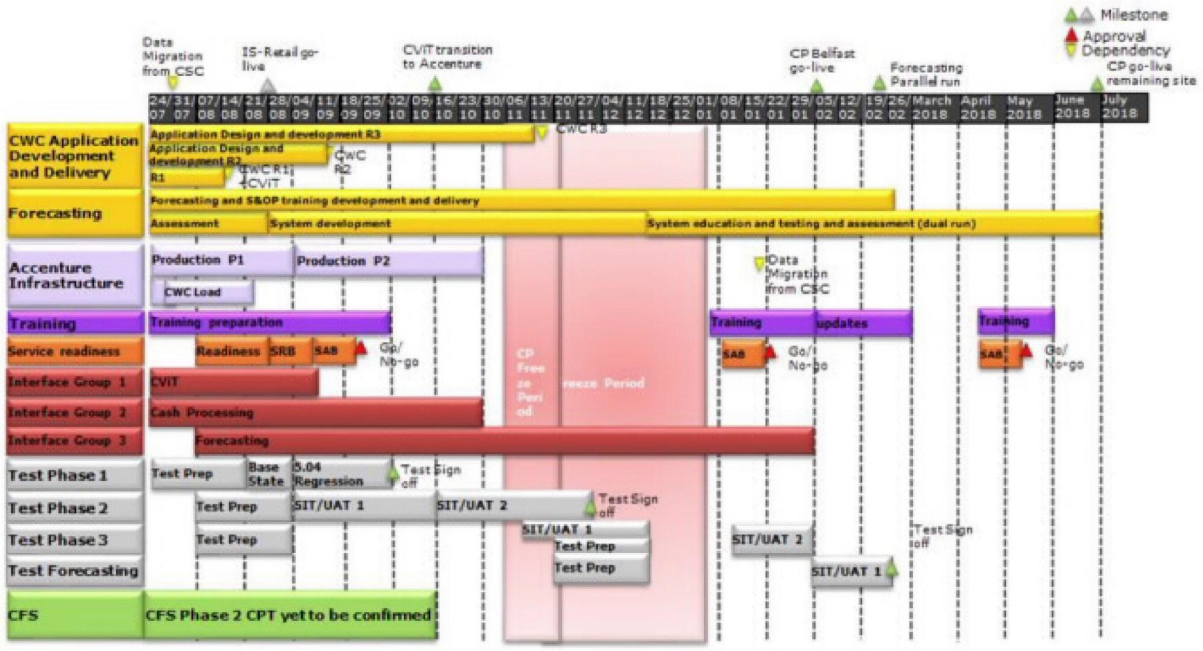
12. The Cash Processing delivery is split in to three core deliveries:
    1. Cash and Valuables in Transit Infrastructure migration for all cash centre – go-live Oct 2017
    2. Belfast Cash Processing and Forecasting soft launch – end of Jan 2018
    3. All remaining cash centres go-live – June 2018

Belfast Soft Launch Plan



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All Remaining Cash Centres Plan on Page



Can we continue to avoid an upgrade of POLSAP?

13. Two factors could trigger a need to upgrade POLSAP: deterioration in its stability; or a delay in taking it out of operational use. The project is closely monitoring the operational risk of POLSAP failure, an event which would, if prolonged, stop our ability to trade. The table below describes the risk areas, mitigation strategy and trigger points:

Risk Area	Mitigation Strategy & Trigger Point
Infrastructure Failure (only POLSAP)	➢ Monitor component failure rates and available spares, any indication that failure rates are becoming more frequent is a trigger point to move to Plan B – a POLSAP infrastructure upgrade and migration. ➢ Conduct IT security penetration test and act on results as appropriate ➢ Consider migrating to a more secure network within Fujistu (pending the above) ➢ Consider testing POLSAP on lower specification blades for which more spares are available.
SAP Extended Support Ending	➢ A service review of the reduced support available has taken place, reducing our view on the impact of this risk.

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Risk Area	Mitigation Strategy & Trigger Point
	➢ SAP have been informed that if they cannot support us, we will tender SAP support to 3rd parties (e.g. Rimini street) ➢ Serious discussions have begun with SAP to provide some form of cover between Dec '17 and our expected go-lives in Mar-Jun '18.
Business Continuity for POLSAP	➢ POLSAP Process Migration planning is incremental. As each process moves the risk of POLSAP failure decreases. ➢ Business continuity plans for key processes (with client settlement as top priority) are being reviewed and updated. Robust and proven plans exist for a 1-2 day outage.

14. Given the progress since May, we have an increasing degree of delivery confidence:

- On-boarded twenty extremely seasoned programme professionals with fifteen to twenty years of programme delivery experience, to improve planning, risk mitigation, governance, application solutions and delivery, controls framework, security and management information tool solutions
- Developed a detailed cross programme plan with interdependencies across technologies, processes and 3rd parties
- An extended period of four months testing built into each of the three projects i.e. system testing, functional and non-functional testing and UAT
- Parallel testing between POLSAP/CFS, and HRSAP/CFS with ART to de-risk the go-lives
- Three trial data loads within each project prior to go-lives
- Additional project management to drive a better delivery model and instil a "left to right" philosophy i.e. plan an appropriate amount of time for each activity, as opposed to forcing to a set date
- SAP Programme audit being planned to review the planning, risk mitigation and capability

15. The programme is subject to a quarterly Accenture Quality Assurance Review and will be the subject of an internal audit in November.

16. However, none of this can be taken as conclusive. We have the ability to stop the programme and perform a six month POLSAP infrastructure migration to safeguard the business if needed. If we conclude at any stage that we cannot be confident of getting off POLSAP before its resilience deteriorates, we will upgrade it.

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What is our latest view of costs and benefits?

17.Program Costs

1. BO Transformation Original Business Case

Budget Approved	20.0

Net Present Value	12.7
Payback Period	5.7

2. BO Transformation Forecast to August 2018

Project	Sep-17 (£m)	Feb-18 (£m)	Jun-18 (£m)	TOTAL (£m)
Agent Remuneration	1.0	0.8	0.1	2.0
Cash Processing	3.0	1.8	0.6	5.4
Sales and Finance	4.9	4.6	4.0	13.5
TOTAL	**8.9**	**7.3**	**4.7**	**20.9**

Approved Drawdown	8.9

Net Present Value	13.4
Payback Period	6.0

3. BO Full Transformation Forecast

Agent Remuneration, Cash Processing & Sales and Finance	20.9
Swindon Stock Centre	2.9
Procurement	0.8
Further Finance Transformation	6.7
TOTAL	**31.3**

Net Present Value	21.1
Payback Period	9.0

Notes

1. £2.9m Contingency in original budget built into the numbers
2. £6.7m Further Transformation starts Jul 18 for 12 Months
3. £2.9m Swindon Stock Centre starts in Nov 17 for 12 Months
4. £0.8m Procurement assumed to start in Jan 18 for 12 Months
5. Optimisation period July-August 2018

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Program Benefits

13. The benefits in the original case are expected to be crystallised as follows:

	Projects	Benefit Generator	Plan (£m)	Jun '18 (£m)	Expected (£m)	Benefit Start
DIRECT	➢ Cash Processing ➢ Transformation Base State ➢ POLSAP Process Migration	Decommission POLSAP	1.2	1.2		Sept 18
	➢ Cash Processing ➢ Transformation Base State ➢ POLSAP Process Migration ➢ Agent Remuneration	Remove CSC SAP Common Services	1.1	1.1		Sept 18
		SAP Extended Maintenance & SAP Active Embedded Maintenance charges	0.4	0.4		Sept 18
	Cash Processing	TransTrack moves off Citirix	0.1	0.1		Dec 17
		Cash Ordering Helpdesk Headcount Reduction	0.4		0.4	Sept 18
	Swindon Refresh	Warehouse Licence and Support	0.3		0.3*	2019
		Improved Warehouse Processing	0.4		0.4*	2019
		Total Direct Benefit	**3.9m**	**2.8m**	**1.1m**	
INDRECT	Agent Remuneration	Decommission HRSAP	2.0	2.0		June 18
	Sales & Finance Transformation	FSC Headcount Reduction	0.6	0	0.6*	TBA
		Total Indirect Benefit	**2.6m**	**2.0m**	**0.6m**	

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Appendix One –Back Office Transformation Overview

POLSAP Process Migration

Process	Description and advantages of change	Degree of change
Cash & Bureau Processing (CFS Finance)	• Process required to change as inventory and financial processes are currently in a single system (POLSAP) and will be split over Transtrack and CFS • New CFS flows include only standard SAP finance processes that are already in use. GL accounts, controls and end-to-end flows will be updated	Process Changes Required
Banking and Cash Management	• Automated bank account reconciliation already exists in CFS • Additional POLSAP bank accounts need to be migrated • There is an opportunity to rationalise bank accounts	None
Taxation (POLSAP map)	• Tax codes are currently assigned in POLSAP, but all tax processes occur in CFS • In future the tax code mapping will occur in CFS, but the process is not anticipated to change.	None
Retail Accounting	• Transaction Corrections, ATM accounts, open item managed accounts – anticipated to be similar to today.	Limited Process Changes
Settlement	• The settlement process will be simplified by making more use of SAP standard. • The transactions used will remain the same for many components	Process Changes
Over the counter income	• Over the counter income will be posted to accounts automatically. As sales orders are created the profit centre and GL will be derived from Product master data. • Income will be re-mapped to fit with profitability analysis requirements	Limited Process Changes

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Billing	• Future transformation opportunity to integrate and to automate Settlement and Billing using one source of sales data and SAP standard processes • Automated accruals • Improves the granularity of profitability analysis and sales and revenue reporting	Not in scope of Phase 1
Stock Accounting	• Non Balance Sheet stock processes will be replicated with minimal changes • Reporting for Royal Mail likely requires re-design	Limited Process Changes
Profitability	• Opportunity for standardisation and simplification • Elimination of spreadsheets achieved through using SAP standard COPA reporting (Product Costing in Phase 1) • Not required for POLSAP Process Migration, but planned to be delivered	New Process
Record to Report	• Updates to the Period End timetable • Update existing reports to include additional processes • Opportunity to exploit additional standard SAP reports as all transactions will be within one system, including Branch/Product attributes	Limited Process Changes

Agent Remuneration Transformation

Process	Description	Degree of Change
Agent Remuneration Processing	• Calculation engine for Agent Remuneration will now be calculated based on Contract Conditions and Rates which will be maintained as Master Data increasing the transparency, control and reporting directly within CFS • Calculation of Agent Remuneration will remain the same • Integration with Success Factors to correctly calculate the PAYE and NICs implications for an Agents Remuneration	Process Change Required
Financial Accounting	• The financial processes will undergo element of change increasing traceability and auditability • A foundation for Profitability Analysis by supporting greater system led granularity of agent costs	Limited Process Change

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Outputs to Agents	• Agents will see no change to their amount of Remuneration or the way in which they interact with the Post Office	None

Cash Processing

Process	Description	Degree of Change
Cash Processing	• Management of Cash Stock Material for both Sterling and Foreign currencies in line with the Banking Framework providing improved controls, reporting and security • CViT audit and tracking of secure stock movements to and from the Branch Network, Cash Centres, and Swindon Stock Centre.	Process Change Required
Cash Forecasting	• Provides an improved forecasting solution using improved data meeting both treasury and supply chain requirements • Enablement of full benefits requires process change	Process Change Required
Cash Ordering	• Currently managed manually Post Office provides a new capability that will allow improved ordering capability by the Branch network and the inventory team	Process Change Required
Integration to CFS	• New CFS flows include only standard SAP finance processes that are already in use.	Limited Process Change

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Simplification Implementation

Author: Tom Moran Sponsor: Kevin Gilliland Meeting date: 14 September 2017

Executive Summary

Context

Our new, simpler Mails transactions are now ready to be implemented across the network. The next phase of simplification (quicker printers and simpler branch processes) will follow in Q4. The changes will result in an average workload reduction of 7.2% and a commensurate reduction in agent remuneration of 3.1% on average. It will deliver £11.65m of recurring benefit to Post Office. This is a material change which is central to our Retail Strategy.

Questions addressed in this report

1. What do we propose to do and why?
2. What support are we offering to agents?
3. What do we need to do next to progress?

Conclusion

1. We intend to implement simplification in September now the plan is fully developed. This is critical to avoiding any further reduction of in-year benefits.
2. Our approach is based on 3 principles agreed with the NFSP: sharing the benefits; giving time to prepare (through transition payments); and offering support and advice to agents on how to realise the benefits of simpler, quicker transactions.
3. Our plans are in place and the remaining work is in-hand to finalise and test the new processes in branch. We require GE endorsement to move to implementation.

Input Sought

1. The GE is asked to note the proposed approach to implementing simplification and endorse the roll-out

Input Received

2. The simplification approach has been reviewed and signed-off by the Network Development SteerCo which includes Retail, Legal, Communications, IT and Mails.

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The Report

What is the need or opportunity and why now?

3. Simplification is core to our Retail Strategy and was re-endorsed by the Board in July. The Board also noted and endorsed the independent benchmarking of our retail proposition. This showed we have a good offer but are up against strong competition and need to balance any reduction in remuneration with a commensurate reduction in work. Simpler, quicker transactions and in-branch processes allow us to do this and we are now in a position to implement.

4. There is also a clear financial need to deliver simplification as soon as possible. The recurring benefits of simplification will be £11.65m from 2018/19 onwards. We have already flagged a shortfall of £3.6m against our in-year benefits target of £6.3m for 2017/18. In addition, an error in unrelated routine maintenance from Fujitsu has resulted in a delay to our implementation timetable which has reduced our in-year benefits by a further £400k.

5. We therefore now have £4m shortfall against our in-year benefits as a result of:
    - High level assumptions on Postmaster usage and behaviours proved to be invalid (eg incorrect transaction timings, use of PAF address, reading of Pop Ups) - £1.9m
    - RMG unsupportive of printing service barcodes on existing printers due to print quality issues, resulting in dependency on new branch receipt printer rollout in March 18 - £0.7m
    - Printing labels on a roll initiative assumed there would be a single printer in the market that could print receipts, Postal Orders and labels on a roll – this proved invalid and it was unacceptable to implement 2 printers per branch when our aim is to reduce our footprint - £1m
    - An error in unrelated routine maintenance from Fujitsu has resulted in a delay to our implementation - £0.4m

6. We reviewed all options for avoiding the £400k further reduction. This was driven by the fact that, to deliver our in-year benefits, we need to be able to implement by 31st August to claim the benefits from then. The only way to do this would have been to significantly reduce the amount of testing and in-branch piloting of the new transactions. Given the high profile nature of this change we believe this would have created an unacceptably high level of risk – specifically an increased risk that there would have been technical issues resulting from the changes and also that we would have not had enough time to validate in branch that the

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efficiencies were being made as planned. We therefore maintained our standard timings for testing.

7. This test went live on 24th August in 97 branches and 398 counter positions covering all model types and nations of the UK. This has included some of our biggest branches such as Moorgate and Old Street and, overall, branches completed 131,000 transactions in the first week of the trial. Initial feedback has been positive – we have had no complaints or queries from branches and our proactive engagement (telephone interviews) has been good. It is important to note that 2 of the 3 major improvements we are making, Home Shopping Returns and Parcelforce Contract (pre-paid), are already live in the network – the test covers the other major change which is the simplification of the process to sell Mails. We therefore have a high degree of confidence that the quicker transactions are realisable from the first 2, limiting the risk here.

8. To further validate the efficiencies we have used our 'Voice of the Agent' group in the model office replicating the branch trial in controlled conditions. This has allowed us to have in-depth discussion and to video transactions (old and new) which has also validated our detailed assumptions.

What is our approach to implementation?

9. Simplification will take place in 2 phases. We are making this clear with postmasters in our communications:
    - *"Simpler Mails transactions: From September 2017. This will reduce workload by an average of 3%. Branch remuneration will reduce by an average of 1.3% - but not until October 2018 (ie September 2018 transactions) due to the transition payment.*
    - *Quicker printers – From March 2018. This will reduce workload by an average of 4.2%. Remuneration will reduce by an average of 1.8%. Again, we can confirm that there will be no change to remuneration before October 2018."*

10. We have a high degree of confidence that Phase 1 will deliver its (much reduced) in-year benefits and subsequent recurring benefits. We are working through the implementation of Phase 2 which is dependent on delivery of the new printers and 2D Scanners across our branches – this is through joint working between Retail and IT. We have a clear plan to deploy to all HNGA (the new Horizon system) branches through the already set up implementation plan, which minimises cost by combining visits with the Branch Technology Programme. Two thirds of our counters are expected to be on HNGA by March 2018 with the final tranche remaining on HNGX until July 2018.

11. A current risk to benefits in 2018/19 and recurring is that the printers have not been proven to deliver the faster operations on the HNGX platform and the 2D

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Scanners have also to be proven on HNGX. Fujitsu are working on this with us and the ability to deliver both on the remaining HNGX estate is required to protect 2018/2019 benefits.

12. We are very conscious of the need to avoid a repeat of the over-estimation of simplification benefits which has occurred in 2017/18 and are reviewing these benefits urgently. We have including a full benefits table below which breaks down the benefits. We will quantify the benefits risk following the conclusion of the benefits risk review later this month, however the risk could be in the range of £0.2m-£2.98m.

Figure 1: Benefits Breakdown

Initiative	Delivery Month	18/19	17/18
Simplified journeys	September	4.63	2.31
Phase 1 Sub-total (DELAYED)			
Printing of Barcodes	Mar	1.44	0.00
Printing Labels NOT on a Roll & COP	Mar	4.52	0.00
Reading of 2D Barcodes	Mar	0.56	0.00
Mails TOTAL		11.15	2.31
ATM Balancing	Feb	0.5	0
TOTAL		**11.65**	**2.31**

13. This section focuses on the implementation approach *per se* and particularly the ways in which we are mitigating the risks to successful implementation, drawing out the key aspects.

Overall assessment and mitigation of network and stakeholder reaction

14. The introduction of simplification and attendant announcement of pay reduction across the network, in the current environment, creates a high potential for adverse reaction / noise.

15. There are a number of corporate level risks related to timing in the current environment, particularly if stakeholder momentum builds on a simplistic (and not necessarily fair) counter narrative of '*this is a pay cut being made at the worse possible time'.* The collateral issues we need to be aware of in considering this business wide overlay are;
    - Finalisation of NT – as the programme comes to an end, there will be extensive political activity about 'post implementation review' and 'value for money'; these activities could affect wider sentiment about Post Office, and views on business management approaches (and ongoing impact on future funding).

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- Business moving into profitability (and potentially announcing this in the ARA – this activity will take place as one of the first following the announcement of moves into profitability.
- As a network wide 'event' – it can prompt a network wide response where every constituency will have branches impacted.

16. We aim to mitigate the risk through an implementation approach that is based on three principles, all of which have been agreed with the NFSP and will feature in all communications:
    - **Sharing the benefits** of simplification between postmasters and Post Office – any reduction in overall remuneration for each product will reflect an average 50% of the equivalent time saving;
    - **Time to prepare** for remuneration change, via transition payments; and
    - **Support to adjust** ways of working and make the most of the opportunities these changes offer.

17. To mitigate the reaction as effectively as possible we have already begun to implement a comprehensive plan. This includes up front briefing and support from BEIS; extensive and phased transition payments; and a support fund for specific cases. We also already have a fully trained field team ready to provide assistance to branches that request support (see Appendix A for Training Approach). We have also worked with Comms to make sure our timetable is part of our wider communications and business initiatives affected agents. We also have agreed PR lines and have worked through the likely attack lines, including an assessment of which branch model types are most likely to be critical (for example, we know that small Mains without retail will find it hardest to achieve efficiencies). At the detailed level, each Branch has been individually modelled –Appendix B details the remuneration impact per branch model type.

18. Our approach to implementation and stakeholder management has been produced by and with our Communications team. The recent positive news regarding government funding is helpful in terms of managing our shareholder, but we need to be clear that the introduction of simplification and attendant announcement of pay reduction across the network, creates the potential for adverse reaction and noise.

19. The implementation approach means agents will have time to prepare and we will have time to support agents in how best they can take advantage of simplification. Our field support team will be available to work with the operators to identify the particular actions / levers available to the individual branch – these include support with staff resource modelling, automation opportunities, time saving benefits which can be repurposed for Retail growth. We will also be highlighting the benefits of our investment in HNGA and the faster transaction times.

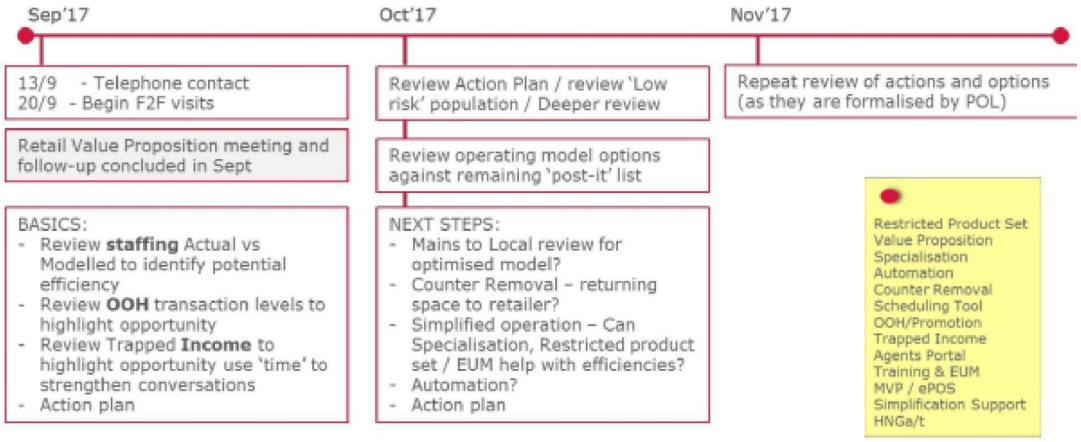
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20. The field support team will play an important role in handling individual agent reactions in person, as some of these may be emotional rather than rational – in these cases, having someone to talk to who understands the details of how their branch operates is useful as it will allow us not only to help these individuals, but also to monitor the trend in how the network is responding.

Multiples

21. This will be particularly important for our multiple partners – our approach is to meet with the Multiple Operators to present the impact of Simplification, not just at the operator level but at a branch by branch level. The bespoke approach to Multiples is summarised below. In particular, each Multiple will be talked through a per branch and whole Post Office estate impact assessment of the efficiencies and associated income reductions.

Figure 2: Implementation support approach for Multiple partners



22. We have a specific risk with WH Smith as they already have automation in their Post Offices, so one lever to achieve efficiencies is already in place (albeit not optimised). We will be working through these details with WH Smith to emphasise that they have already benefited from automation and can get more benefit; and that we can work with them to identify and implement other ways to become more efficient such as counter removal. Another key mitigation is the transition payment approach we are adopting. WH Smith reacted badly to our reduction of Moneygram remuneration last year because we gave very little notice. For simplification, there will be no impact on any agent remuneration for 12 months (October 2018), giving them time to prepare. It is also relevant that simplification will come shortly after the conclusion of negotiations on our DMB Retail concession. This process saw WHS reduce the value of the contract to Post Office, something which we have made clear to WHS we saw as disappointing.

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Transition support fund

23. This agreed approach to transition payments allows for a support fund of £2.95m, which we will use on a targeted basis to fund in-branch changes (particularly counter removal). It also gives us the flexibility to respond to particular partners or individual postmasters and to demonstrate to stakeholders that we are here to support our network.

Automation

24. A key consideration is wage inflation as a key issue within the retail and convenience sectors. Simplification is a sensible reaction to this and is typical of what retailers are doing. Automation is another key trend and we are already talking to our multiple partners about our plans.

25. We have identified the top 50 Multiple partner branches /Agent branches who would most benefit from automation following the implementation of Simplification and the associated remuneration reduction. The business case for this activity has been approved and the machines are now on order so will be in branch in P8 in time for Christmas peak trading. This is a necessary trial in order to prove the commercial case to our agents and multiples as the basis for a wider roll-out. Specifically, the trial is intended to validate that agents will be able to save enough money from staff reductions (based on migrating trade from the counter to the SSK) to fund the cost of sub-leasing the machines from Post Office. This will provide a clear way for retailers to reduce the resource costs of running a Post Office and it is important we 'paint the picture' of our longer term push for greater simplification and technology improvements.

What do we need to do next to progress?

26. Our plans are in place and the remaining work is in-hand to finalise and test the new processes in branch. The Network Development SteerCo provides the forum for the technical 'go/no-go' decisions on the new transactions, we require GE endorsement to move to implementation. Given the sensitivity, we will also update GE regularly as we roll-out to track agent and stakeholder reaction.

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Appendix A

Field Team & Central Admin Team

An all day session on the 8th August was held with the field team to train them on the following:

- Simplification overview (Business drivers and key messages, Mails Simplified journeys (before and after) and overall approach)
- Walkthrough of the letters the branches will receive
- Daily reporting requirements and walkthrough of the E2E Process
- What to prepare prior to visiting the branch
- Revised remuneration rates and transition payment
- Data pack walkthrough and use
- Postmasters presentation walkthrough and presentation practise exercises

Additional sessions on how to use the datapacks with the postmaster were also conducted with the field team.

Sales Team / NBSC /HRSC / Network Ops

- A briefing session was held with Andy Kingham's Sales team in August (MSAs, ASPMs, MSMs)
- Kendra Dickenson (NBSC) has been engaged, briefed and provided the operational changes and all communications
- Tracy Wilkes (HRSC) has been engaged, briefed and provided the operational changes and all communications
- All were provided the contact points to the Admin team
- Pam Heap, Steve Blampied, Colette MacAteer (Network Ops) have been briefed via Network Gateway process

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Appendix B

Remuneration Impact per Branch Type Model

FAD	Branch Type	Branch Name	Max /Min Impact	Current Pay	Workload Reduction	Pay Reduction %	Pay Reduction
413201	Main	The Jewellery Quarter	Maximum	£212,938	8.8%	-6.54%	-£13,923
352832	Main	Castlemilk	Minimum	£40,702	2.5%	-1.7%	-£698
090033	Medium Main	The Pond	Maximum	£61,406	11.1%	-6.8%	-£4,151
187704	Medium Main	Lagmore	Minimum	£34,454	2.6%	-1.3%	-£451
104026	Small Main	North Street	Maximum	£31,183	10.6%	-5.79%	-£1,806
197327	Small Main	Marshall Avenue	Minimum	£21,618	1.7%	-1.2%	-£259
287227	Very Small Main	Oakdale Road	Maximum	£36,323	9.4%	-5.8%	-£2,124
298704	Very Small Main	Turf Lodge	Minimum	£26,277	1.7%	-0.9%	-£246
528611	Local	Park Place	Maximum	£4,096	12.3%	-7.5%	-£308
459611	Local	Glenboi	Minimum	£15,905	0.8%	-0.2%	-£24
188337	Community	Middleton	Maximum	£8,868	12.7%	-7.1%	-£630
208552	Community	Diptford	Minimum	£666	3.4%	-0.1%	-£0.36
293504	Unconverted	The University	Maximum	£16,996	12.2%	-6.2%	-£1,049
168702	Unconverted	Glenravel	Minimum	£3,616	3.1%	0.0%	-£2

Strictly Confidential

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DRAFT PROPOSAL – FOR CONSULTATION PURPOSES

Administration Site Strategy

Steve Norris

5 Sept 2017

Highly Confidential – Not for Distribution

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Contents

1. Context, questions and conclusions
2. Training and meeting centre overview
3. London overview
4. Other dedicated admin sites
5. Fit with POL strategy
6. Next steps

Appendices

1. London satellite sites sublet analysis
2. Additional FD apace requirement
3. Tech enabled new ways of remote working
4. Longer term location potential of Chesterfield

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1. Context and Questions

Context

There are 31 recognised admin sites of which 14 are part of building freehold/long leases valued at £12m and £7m opex p.a. There are 3 segments, some occupying the same site;

1. 4 Dedicated, Finsbury Dials (FD), Future Walk (FW), Bolton Bark St, Glasgow Guild Hall
2. 5 Admin sites shared with Directly Managed Branches (DMBs) in London
3. 22 Counter Training Offices (CTOs), 18 are attached to operational DMBs

Small mothballed admin space is scattered across our DMB estate. Some IT projects rent admin space from their suppliers.

Questions

1. What is the meeting/training centre strategy?
2. What is the London estates strategy including Finsbury Dials?
3. What is the strategy and progress on remaining admin sites (Guild Hall Glasgow, Bark Street Bolton)?
4. How does this enable's POL strategy?

The purpose of this report is to gain buy into the strategic objectives from the GE so we can move to detailed design and business planning

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1. Summary of Conclusions and Proposals

1. What is the meeting/training centre strategy?

Agree in principle the strategic objectives of :

- Invest £1-£1.5m in 14 flagship training offices around the UK
- Flagship site footprint as it matches major population centres and has been agreed by Property, IT, Learning and Development and Network Operations
- High facilities and technology fit out standard has been proposed by Property, IT, Learning and Development and Network Operations
- Proceed to detailed business case and execution planning

2. What is the London estates strategy including Finsbury Dials?

- Decision between Option A (exit 2nd floor), or Option B (consolidate into FD)
- Agree the refreshed design principles for FD and approve relaunch (Appendix 5)
- Agree uplift proposals and changes at FD on a case by case basis…
  - £113k to move security and receptions to front of building and create 20 more desks in café and 2 meeting zones
  - £86k to in increasing capacity by 66 desks
  - £114k to closure model office and move test facility to create 2 more meeting rooks
  - £140k to close canteen but saving £90k p.a. subsidy
  - £11k to create 2 meeting rooms from Servest room and media room

3. What is the strategy and progress on remaining admin sites (Guild Hall Glasgow, Bark Street Bolton)?

- Agree date for Bark Street move of HRSC to FW and should it be tied into the lease extension period we are able to negotiate

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2. Training & Meeting Centre Overview

1. Objectives

Rebrand as training/meeting centres and reduce the CTO estate from 22 to 14 flagships with a national UK footprint near large population centres. Invest in the remaining centres to uplift their décor, capacity, meeting room availability and IT including video conferencing to make them meeting places of choice. Deliver the following benefits:

- Reduction of £500k-£1m of £4m T&S, by reducing travel to London and Chesterfield for face meetings. Stop external meeting room bookings except large gatherings
- Welfare of staff by reducing away from home working and long travelling days
- Staff output by reducing inefficient travel
- Safety and carbon emissions resulting from less travel
- Enable the digital remote way of working, engaging with staff, customers and suppliers
- Reduce POL property CTO estate by 50% and uplift its utilisation from 20% to over 50%
- Reduce longer term reliance on FD, enabling a smaller premises upon lease expiry in 2023
- Brings POL into line with other dispersed organisations (checked PWC, BNP who successfully achieved T&S reductions through video conferencing use).

2. Training/meeting centres design standard

The design standard of the 14 flagship centres will make them attractive places of work:

- CTO meeting room with minimum 8 seat capacity
- At least one adjoining meeting room with a minimum1 people
- IT including IP phones, workstations, fast fibre broadband, Wi-Fi, remote networked into POL core systems, video conferencing and “bring your own device” integration for agents
- Uplift FW and FD with 4 video conferencing facilities in each
- Condeco bookable with secure card access
- Good decor standard, desks and welfare
- Disability Discrimination Act (DDA) compliant
- This will require investment in the region of £1-£1.5m in refurbishment and I.T. fit out

3. Business case

The detailed case will be developed if this strategic case agreed in principle:

- Circa £1-1.5m investment in 14 flagship meeting/training centres and FD/FW uplift
- Increased opex costs of £300k p.a. for IT and maintenance costs
- Supports the T&S reduction T&S of £500k to £1m p.a, in the IT video conferencing case
- Increase in staff engagement score index on wellbeing

Note: Site disposal proceeds and Opex savings already included in CND case.

4. Strategic fit with business strategy

A strong fit exists with POL’s strategic objectives::

- Reduces Opex costs (T&S), but this requires an enabling cultural change
- Improved staff engagement and welfare
- Reduce risk and carbon footprint
- Long term reduction of some high cost London based which be regionally based
- Contributes to IT strategy to develop digital ways of working

5. Key risks and concerns

- Additional Agents travel costs as POL reduces footprint from 22 to 14
- High communications bandwidth availability
- Making cultural changes stick
- Ensuring the optimal IT and décor fit out, balancing between a simple uplift to high end décor and IT refit

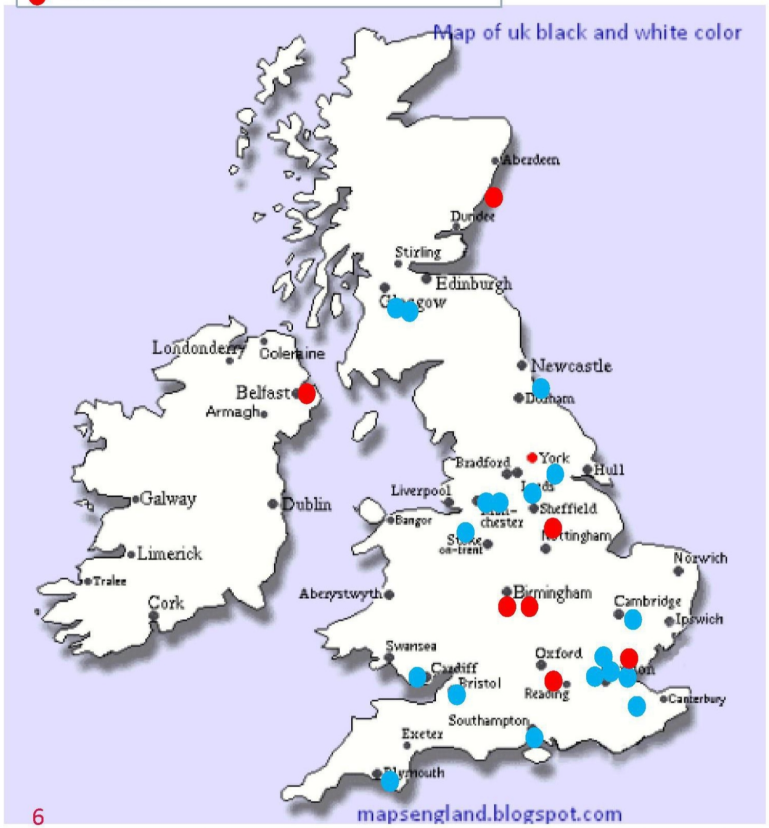
6. Next steps

- GE approve strategy to move to detailed business case and planning
- Approve the location footprint and decide on location London
- Build the detailed business case with costed design standard hard and soft benefits
- Align the implementation plan to DMB exit plan
- Pilot sites at Dunfermline, Bromsgrove and Springburn
- Action T&S polices to control external spend and travel to FD/FW

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2. As-is situation

- 22 sites (18 with 16 trading DMBs)
- average 20% utilisation
- 158 seats
- Poor facilities, IT and Poor facilities, IT and decor
- Not reviewed for years and avoided as admin work places
- DMB site
- Non DMB site



This has already reduced from 28 to 22 over 18 months in agreement with the Agent Training Team

	CTO	Location	Seats	Utilisation	F.H. / lease	Value £k	Opex £k	DMB planned closure	Flagship?
1	Ashford	DMB	6	11%	05/04/2075		52	29-Feb-20	No
2	Belfast	Stand alone	8	14%	Licensed		20	Not a DMB - a property we lease on licence	Yes
3	Bristol	DMB	6	30%	24/06/2115		193	31-Dec-20	Yes
4	Bromsgrove 1	DMB	8	25%	Freehold	335	48	DMB shut - look at alternative site for CTO and sell property	Replace
5	Bromsgrove 2	DMB	8	6%	Freehold		-	DMB shut - look at alternative site for CTO and sell property	No
6	Cambridge	DMB	8	28%	12/12/2020		371	31-Mar-21	No
7	Chester	DMB	6	23%	Freehold	700	57	29-Feb-20	Yes
8	Chesterfield	Admin site	6	15%	Freehold		-	Not a DMB	Yes
9	Croydon	DMB	8	20%	24/03/2020		235	30-Jun-20	No
10	Dartford 1	DMB	6	4%	25/12/2062		101	30-Apr-19	No
11	Dartford 2	DMB	8	14%	26/12/2062		-	30-Apr-19	No
12	Dunfermline	DMB	6	20%	Freehold	310	76	done - look at alternative site for CTO and sell property	Yes
13	Glasgow	DMB	8	13%	01/04/2024		125	25-Mar-18	Yes
14	Guildford	DMB	8	21%	24/03/2021		147	Not listed on DMB plan	Yes
15	Kensington Church Street	Franchise	8	44%	07/11/2017		202	Not a DMB -	Replace
16	Leeds	DMB	8	8%	Freehold	555	31	Not listed on DMB plan	No
17	Mutley (Plymouth)	DMB	6	28%	Freehold	350	35	31-May-20	No
18	Newport	DMB	6	32%	21/05/2024		47	31-Jul-19	Yes
19	Portsmouth	DMB	8	18%	30/03/2033		48	Not listed on DMB plan	Yes
20	South Shields	DMB	6	16%	20/03/3012	170	26	31-Jul-20	Yes
21	Stockport	DMB	8	34%	07/06/2026		136	31-Mar-21	Yes
22	Swindon	Supply chain	8	6%	Freehold			Not a DMB	Yes
	Average		158	20%		2420	1950		

Any disposal benefits will be attributed to the branch and network transformation

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2. To-be footprint

A to-be footprint has been proposed with Property, Network Operations and Learning People and Development teams



14 to be sites required....

- 5 at sites long term future
- 3 new sites needed soon (Perth, London, Bromsgrove)
- 6 new sites will be needed if POL deliver it plan to exit the site due to DMB closure, lease expiry or freehold sale. Upgrading to flagship status will only occur at replacement sites

We are additionally looking at a site between Manchester and Glasgow (Penrith) which if agreed would mean 15 CTOs.

As we have done with Bromsgrove and Dunfermline, should a CTO closure (upon DMB exit) cause excessive Agent T&S costs, we would look at the case for acquiring a local replacement site. This will be analysed in the business case.

	CTO	Location	CTO seats	Meeting seats	Facilities	F.H/lease	Value £k	Opex £k	DMB planned closure
1	Belfast	Stand alone	8	0	Poor	Licensed		20	Not a DMB - a property we lease on licence
2	Bristol	DMB	6	0	Poor	24/06/2115		193	31-Dec-20
3	Bromsgrove new (Coleshill)	Newsite	8	15		lease		30	branch closed 08 February 2017
4	Chester	DMB	6	0	Poor	FH	700	57	29-Feb-20
5	Chesterfield	Admin site	6	0	Good	FH		-	Admin site
6	Dunermline new (Perth)	Newsite	8	15		lease		30	branch closed 02 March 2017
7	Glasgow Springburn Way	DMB	8	0	Poor	01/04/2024		125	25-Mar-18
8	Guildford	DMB	8	0	Poor	24/03/2021		147	Not listed on DMB plan
9	London new	Newsite	8	20		lease		150	site to be secured
10	Newport	DMB	6	0	Poor	21/05/2024		47	31-Jul-19
11	Portsmouth	DMB	8	0	Good	30/03/2033		48	Not listed on DMB plan
12	South Shields	DMB	6	12	Poor	20/03/3012	170	26	31-Jul-20
13	Stockport	DMB	8	0	Poor	07/06/2026		136	31-Mar-21
14	Swindon	Supply chain	8	0	Poor	FH			Supply chain
	Average		102	62			870	1009	

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3. Two options exist for POL's future London Admin Estate

Option A - exit FD 2nd floor ✗

Overview
- Close second floor & move teams around or out of FD to enable space reduction
- Increase use of London satellites which have good South, East, West spread
- Ensure behaviours on future use (demand smoothing/3day use/satellite site use)
- Close canteen. Coffee vending
- 60 more desks on grnd and 1st floors open areas & more "soft" meeting areas
- Demand for London desks can be reduced over the period of the FD lease to 2023 when a smaller lease could be taken

Business case
The business case has been competed. The key highlights are:
- FD lease expires on 30 June 2023
- A sub tenant could be in place by April 2018
- The overall income would be £5.6m June 2023 (inc 12 mths rent free)
- Costs of circa £350k includes agents fees, refit and managing the project
- NPV £2.4m, payback 1.75 years

Concerns
- Executive emotional preference to increase a London focal point in FD rather than dispersing to lower standard sites
- Difficult building use behavioural changes needed to exit 2nd floor and large people moves
- Meeting room space would be critical
- Some teams and projects re requesting more space for 60 desks in FD
- Most London satellites will be closed as part on DMB closure plans over next 4 years

Option B – Exit 5 London satellite sites ✓
(Clapham, Camden, St Alban, Whealdstone, Colchester)

Overview – 5 London satellites
- Exit the 5 satellite sites upon lease expiry/DMB closure and move staff into FD
- Subletting space prior to closure is not viable:
  - Rentable income after marketing and rent free would be too short averaging 12 months or the income level too low (Appendix 1)
  - It would not justify £130k separation costs of the admin space from the DMBs
  - The standard of the space, apart from Clapham is low quality, yielding low rent.
- Possible 50+ people would be moved to FD from satellite sites
- Enables POL to reconsider its space in London in 2023 when FD lease expires (See Appendix 3 for London core roles analysis by 2023.

Business case
- The income is negligible due to subletting not being viable.
- The sale proceeds and opex reduction benefits are already in the Crown Network Development (CND) case.
- Options to invest in FD to accommodate improved security and demand for 60 new desks and 80 moving in from satellites:
  - £85k to create 66 more desks mainly on 1st floor
  - £113k to decommission model office to crate 2 meeting rooms
  - £113k to move reception and security to front and create 20 new desks
  - £140k to close canteen and save £90k subsidy

Concerns
- This Option gives no financial benefits compared to considerable benefits of Option A

Conclusion:
The only viable option to deliver material cost reductions is Option A, exit 2nd floor at FD, where we could reduce FD "presentism" by moving some roles to more home based and other locations including Clapham and Camden to early 2022. Option B would instead focus on consolidating people in FD. There are several options to uplift FD which are covered on the following slide and require discussion.

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3. Short term options at FD under any scenario

As demand at FD remains strong in the short to medium term, the property could be uplifted in terms of its capacity, security, working culture through a set of discrete stand alone initiatives…

Initiative	Overall £'k	Status
2nd Floor		
8 new perm desks in gaps	10	Recommend but to be confirmed
1st Floor		
48 new perm desks in gaps	60	Recommend but to be confirmed
Convert broadcast room into meeting room	6	To be discussed
Ground Floor		
Decommission/Remodelling of Model Office.	114	To be discussed
Decommission canteen area and partition off and lay off staff	140	To be discussed. Annual benefit of reduced £100k canteen subsidy payment
Servest room converted to meeting room.	5	To be discussed
Remove reception and move to front of building, install a turnstile security barrier system	33	Going ahead
20 new perm desks/meeting rooms in café area by moving reception	80	Going ahead. Need to consider café design and "tech garage" theme
10 new perm desks in gaps	16	Recommend but to be confirmed
Total	464	
Summary		
Move security, reception to front, 20 new desks in café with 2 meeting rooms	113	Going ahead
Create 66 new desks in worskpace gaps	86	Recommended
Close model office and create 2 meeting rooms	114	To be dissussed
Close canteen	140	To be dissussed
Create meeting rooms	11	To be dissussed
	464	

A suitable location will be found in FD for the testing facilities currently within the model office. This could be a smaller room within its current location or in the canteen serving area if the FD canteen is closed.

Other short terms considerations:

- There have been requests for 60 more desks, a meeting room and 2 breakout areas in FD (Appendix 2)
- 50+ people could move to FD when the satellites close
- The café area could be more fundamentally redesigned as a Tech Garage for a similar cost (Appendix 3)

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3. Longer term property fit with people location strategy

Some work has been undertaken by HR on the longer term people location strategy which has been considered in the the admin property strategy:

The HR view of people location longer term strategy is in line with the property admin strategy as;

1. POL will always need a the London office to attract scarce skills and for a small number of jobs 60-70 * which need to be central London based for BEIs, media, BOI etc., because;
   - Skill base predominantly exists in London
   - Need to be near London stakeholders
   - Need for a co-located team based in London
2. When we are recruiting scarce skills we are flexible on the base (the normal place of work in the contract) provided they will travel as required. Base can be home, nearest POL site to home, London, Chesterfield etc.
3. Change the culture by reducing " presentism" i.e. some leaders still want team members to be physically in the same place as them
4. Improve the technology to enable more flexible remote working-Skype and team collaboration tools to reduce travel time and cost

Other considerations

1. Agree the refreshed the FD design principles (Appendix 5) and relaunch and moitor them in life
2. Chesterfield could be considered more as a location for recruiting non critical London skills and could reduce both pay, accommodation costs and churn rates. A macro overview of Chesterfield shows this could be advantageous to POL (Appendix 4):
   - Large population towns/cities exist within 30 miles including Sheffield (UK's third largest district)
   - There are several blue chip employers based nearby, 5 major universities and an approved HS2 link
   - The skill base is good for finance, procurement, shared services and HR but less so for digital
2. The FD lease expires in 2023 which allows sufficient time to migrate recruitment to other locations and allow the acquisition of smaller London based remises in 2023
3. In the short to medium term demand at FD will remain high as projects and teams expand

* Note: this this is not proposing POL moves roles to Chesterfield of other site. It is the number or roles which would need to be London based to do their job using a zero based approach. A precise number would require further work with each GE member

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4. Other dedicated admin sites

Background

There are 4 dedicated admin only sites:

Site	Value or LH	Opex	Capacity	
Finsbury Dials	L.H. to 20 Jun 2023	£3.5m	572	Already discussed…maintain and invest in higher space yield
Future Walk	F.H. value £3.3m	£0.7m	513	Long term strategic site. Heavy investment made in facilities, energy efficiency and welfare
Bark St, Bolton	L.H. to 20 Jun 2018	£0.4m	157	Lease expires 20 Jun 2018. Attempting to negotiate 2 year lease for 1 floor to Jun 2020
Guild Hall, Glasgow	L.H. to 20 Sept 2017	£0.1m	21	Decision taken to exit Guild Hall 30 Sep 17. Move to Springburn going to plan

Bark Street

- 115 desks on 3rd floor and 42 on 4th floor
- There are now 113 employees on site both perms and hot-deskers
- 4th floor accommodates
  - 13 people from Security/Fleet (substantive)
  - archiving and server space Qs
- 3rd floor accommodates
  - Finance 12
  - HRSC 57
  - Agents 31

HRSC have requested to move to Chesterfield around June 2020. We are have started landlord and the lease period we can agreed will be a key factor in timing of this move

Future Walk

- The site is a freehold and has a long term strategic future
- Investment continue on the site; new power system, redecoration, new canteen and power efficiency costing over **£1m.**
- Spare capacity of 80 desks exists with further potential if the gym space is used (replaced by external provider eg Nuffield) for example as a Tech Garage (see Appendix 3)
- The future people location strategy could migrate roles to the area. There is a good skill pool (Appendix 4). This which would save employment costs, and accommodation costs vs London

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5. Fit with POL strategic initiatives

✓ **Environmental**
- Reduced greenhouse emission from 10-20% less travel

✓ **Cost**
- 10-20% reduction in £4m T&S budget, but circa £1.5m investment required

✓ **Risk, Health and Safety**
- Less risk from people excessively travelling reviewed with Capita
- Reduces estate in London and CTOs

✓ **People/Engagement**
- Acquiring skills in other regions outside London
- Commit to regional investment
- Aligned with possible future location strategy reviewed with HR

✓ **IT**
- Digital Transformation – using new technology whilst exploiting the current platforms.
- Cost Reduction – increased use of Skype as opposed to business phones.

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6. Next steps

1. Meeting/training centre strategy

- Approve strategic objective (GE)
- Detailed business case and benefits analysis
- Impact on T&S, both Agents and staff and interaction with benefits from other projects with IT and Angela Van-Den Bogerd
- Launch pilot sites at Bromsgrove and South Shields and FW
- Build detailed delivery plan

2. London estates strategy including Finsbury Dials

- Agree Option A (Exit 2nd floor FD) vs Option B (consolidate into FD and uplift)
- Agree refreshed design principles
- Produce deployment plan for design principles
- Detailed design for FD especially safe area and tech garage with detailed costing
- Agree each proposed uplift initiative for FD and build detailed costed business case and delivery plans

3. Strategy and progress on remaining admin sites (Bark Street Bolton)?

- Agree the ambition for moving the HRSC into Chesterfield
- Agree new lease extension to 1 floor with landlords and attempt to obtain a 2 year extension

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Contents

1. Context and questions
2. Training and Meeting Centre Overview
3. London Overview
4. Other dedicated admin sites
5. Fit with POL strategy
6. Next steps

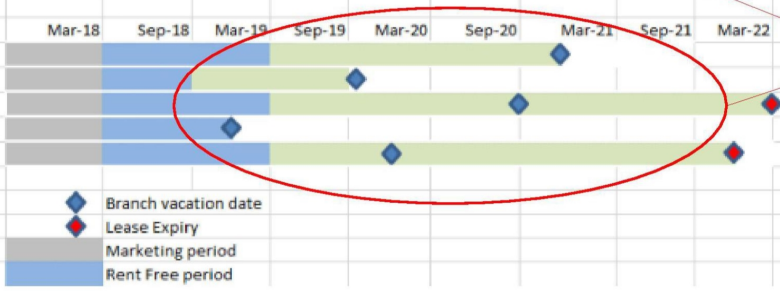
Appendices

1. London Satellites Sites Sublet Analysis
2. Additional FD Space Requirement
3. Tech Enabled New Ways of Remote Working
4. Longer Term Location Potential of Chesterfield

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Appendix 1 – London Satellites Sublet Analysis

Property	Planned DMB exit date	Lease expiry	Postcode	Rent per annum	Service Charge per annum	Rates per annum	Marketing void (months)	Rent Free	Sale Price	Comments	Potential works required	Indicative Costs
St Peters Street	31/12/2020	Freehold	AL1 3AA	£ 30,000	n/a	£ 7,651	6	6	£1.25m	Separate access, however works would be required to separate offices from welfare area	Recommission right hand entrance to site and utilise existing staircase for access to 2nd floor. Block off doorways/routes into POL Demise on ground & 1st floor, reconfigure first floor to accommodate this. Reprovide comms to POL demise as currently on 2nd floor. Debrand; fire, alarm, power & data works.	£50k - £75k
Wealdstone	31/10/2019	Freehold	HA3 5QL	£ 50,000	n/a	£ 32,755	6	6	£0.95m	Separate access, however the offices are in a tired state. Potential to develop upper parts as residential	Block up fire exit door from 1st floor to POL welfare. Create alternative secondary fire exit route (tbc). Debrand; fire, alarm, power & data works.	£10k - £20k
Camden High Street	30/09/2020	09/01/2022	NW1 0RR	£ 30,000	n/a	£ 11,614	6	12	n/a	Access at rear of property. Some works required.	Block up fire exit door from lobby to POL area. Create alternative secondary fire exit route (tbc). Debrand; fire, alarm, power & data works.	£10k - £20k
Clapham Common	20/09/2018	Freehold	SW4 7ST	£ 70,000	n/a	£ 32,575	6	9	£2.3m	Separate access, offices recently refreshed. Potential to convert upper parts to residential	Debrand; fire/security alarm works, power & data works.	£5k - £10k
Colchester	24/12/2021	24/12/2021	CO1 1PX	£ 20,000	n/a	£ 3,587	6	12	n/a	Separate access. Space is in fair condition.	Debrand; fire/security alarm works, power & data works.	£5k - £10k



Show stoppers

- Average rental period 18 months
- Low rent average c. £40k p.a.
- Separation costs of £135k
- In situ tenant could frustrate vacant possession freehold value of £4.5m

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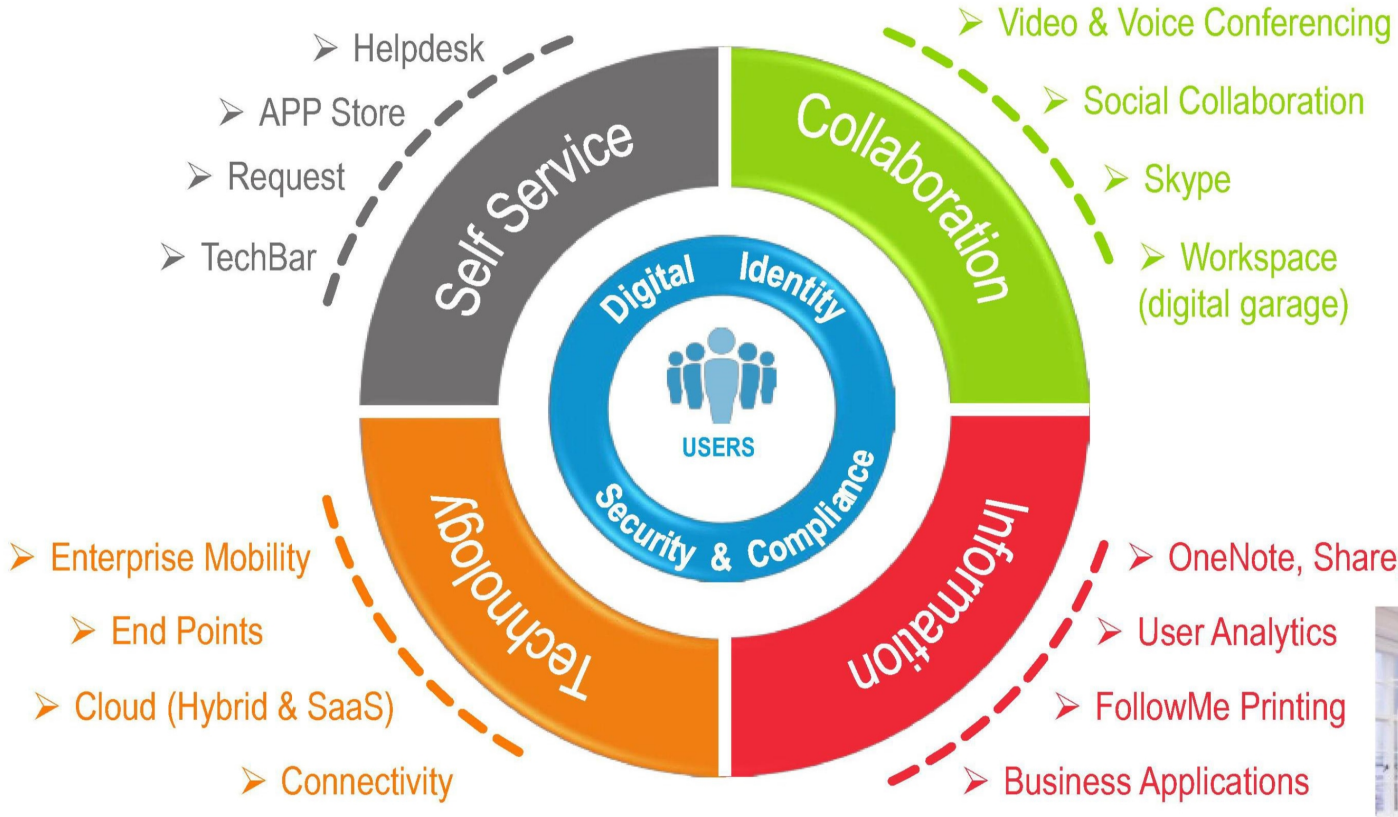
Appendix 2 – Additional FD Space Requests

Project/Dept	Requestor	Current (if known)	Additional
Project Chameleon	Caroline Austin	23 (Hot basis) - Incl B/Bar Reserved	33 Desks from 1/9/17 (in three scrum units)
Dept POMS	Russell Tavener	25 Desks/1 x Large Meeting Room	15 Desks and 1 Small Meeting Room from ASAP
IT Dept/Projects	Sharon Gilkes	32 Desks	18 Desksand 2 Breakout Tables from ASAP
Corporate Services Dept	Mark Underwood	TBC	4 Desks (forms part of increase to ground floor) Required ASAP
			Total 70 more desks , 1 meeting room , 2 breakout tables

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Appendix 3 – Tech-Enabled New Ways of Remote Working

POL could create a "Digital Garage" in the FD canteen space and/or the Chesterfield Gym Space







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Appendix 3 – Tech-Enabled New Ways of Remote Working



Functions

"We ***have access to the tools and services*** that I need to work effectively"
"We are ***able to communicate & collaborate more effectively***"
"We work in what we would class as a ***modern working environment which evolves*** with us"



Teams

"The use of IT delivers an ***improvement to staff engagement***"
"We are ***able to innovate quickly***"
"Post Office is ***an attractive place to work***"



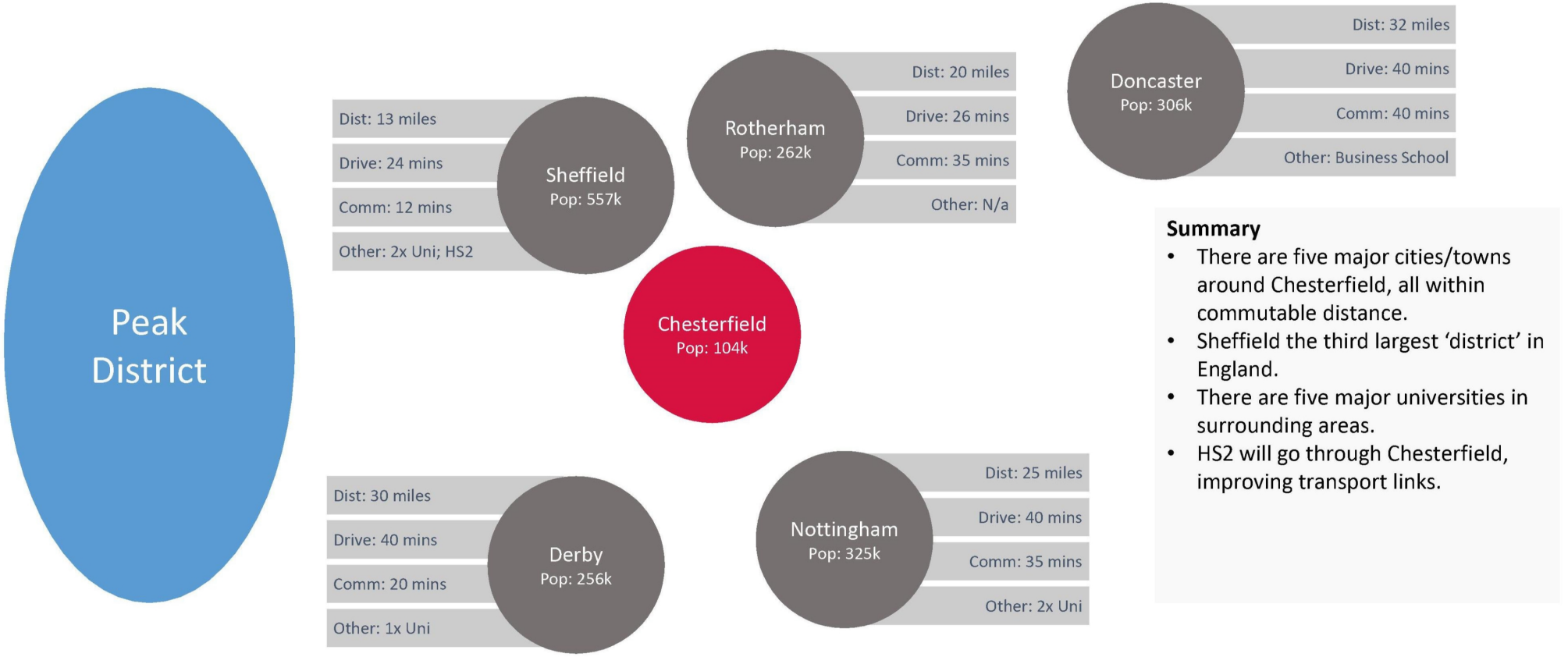
Individual

"We are able to provide ***appropriate access to sensitive data*** and assets, without being location or time dependent"

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Appendix 4 – Longer Location Potential of Chesterfield

Chesterfield has attractive characteristics for locating more roles to



Summary

- There are five major cities/towns around Chesterfield, all within commutable distance.
- Sheffield the third largest 'district' in England.
- There are five major universities in surrounding areas.
- HS2 will go through Chesterfield, improving transport links.

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Appendix 4 – Longer Location Potential of Chesterfield

Many blue chips organisation based in the region

Based in the area (i.e. HQ)

ARUP

SUMO DIGITAL

Thorntons

Home Office Border & Immigration Agency

wilko

SPORTS DIRECT.COM

Department for Work & Pensions

Experian

CapitalOne

Henry Boot

Specsavers

ROLLS ROYCE

IM irwinmitchell solicitors

The University Of Sheffield.

Sheffield Hallam University

The University of Nottingham

NOTTINGHAM TRENT UNIVERSITY

Major presence (i.e. call centres)

AVIVA

Capgemini CONSULTING.TECHNOLOGY.OUTSOURCING

BT

IBM

HSBC

Nationwide

sky

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Appendix 4 – Longer Location Potential of Chesterfield

What recruitment agencies have to say…

What roles are can be recruited for?

Finance, Procurement, HR

What roles are challenging to recruit for?

Digital marketing because it is a relatively new skill, so requires moving fast

What are candidates seeking in the area?

Challenging work, career progression and work-life balance

Recruitment in different levels?

Experienced hires easier as people are willing to commute and value work-life balance

Early career talent mixed bag, some want to get on property ladders, whilst others have commitment to training contracts

What would be Post Office's advantage in the area?

Prestigious brand, work-life balance, pays well relative to other organisations

Other comments

There are some big organisations within Derbyshire area which recruitment agencies would approach for talent

221 Source: Distinct Recruitment

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Appendix 5 - FD Design Principles refreshed

Proposed Refreshed FD Design Principles
This document is mainly a refresh of the original design principles for FD, which we have drifted away from. It has been enhanced with additional principles, based upon our experience of operating from FD and a review of other businesses corporate centres in London.

Reviewers: Mark Ellis, Martin Kirk, Angela Van-Den Bogerd, Sharon Gilkes, Bob Hammond, Steve Norris, Joe Connor

Assumption that the 2nd Floor will not be sublet

Meeting room use principles

- 6 new meeting rooms and screened zones (and possibly more privacy booths) will be created from layout changes on the 1st 2nd and ground floors such as the Servest Room, Video Room, and creating screened off areas or a tech garage in thew café area on the ground floor
- No meeting rooms for single occupancy (subject to special circumstances)
- Stop unused block bookings by exec and stop removing rooms from Condeco
- Conference call meetings will be encourage as an alternative to face meetings
- Block booked meetings room space should primarily be at satellite offices or FW
- Meetings rooms across the London estate will be visible for booking
- A number of meeting rooms will be short stay – 30 mins max
- Meeting room booking will be encouraged on non-peak days (Monday and Friday)
- Meetings will be encouraged more at suppliers' sites
- Contractors (not interims) and outside parties will be restricted from booking meeting rooms
- Meeting rooms at FD used for training will be encouraged on Fridays
- Projects using meeting rooms will be reviewed to be moved to move to London satellite sites
- All project mobilisation decisions will include a location review
- Off site 1-1, 1-2 meetings such as in Costa and Baristas will be promoted unless meetings are confidential
- Misuse such as logging in but then not using will be chased up and addressed immediately

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Appendix 5 - FD Design Principles refreshed

Culture principles

- Video conferencing enables less f-f meetings and meetings will be held in optimal locations rather than default to FD
- FD staff will be encouraged to work out in the network more to increase front line engagement by using the FS rooms
- 66 additional desks will be added in obvious places where gaps exist on the ground ,1st and 2nd floors. This swill not have a significant visual effect on the floors
- Neighbourhoods will be redefined with a mix of perm and hot desks clearly identified. Signage implemented to clearly mark out zones/desks with daily sign in sheets available at desks/zones.
- Perm desk based people at FD (1/3rd) will work in "activity zones" and defined on the business need necessity to be permanently and daily near Moorgate stakeholders or special needs and not on personal preference
- Projects will be encouraged to be hosted at other sites including FW, with location controls in place unless there is a proven case for permanent daily Moorgate stakeholder access by the full team
- Remaining 2/3rd of employees should work from alternative locations or LiW and hot desk when stakeholder access is needed
- LiW and field based people will not be allocated perm desks and reviewed to increase work from home more
- A hot desking culture will be re-launched, they will be clearly marked and used on first come first served basis
- Building use will be encouraged more on Fridays and Mondays to smooth demand across the week
- Create a space where P.O.L identity and values are reflected and further echoed. Ground Floor redesign with more café style working will create this. Ground Floor redesign/changes to more café style or "tech garage".
- While celebrating its heritage, creating a dynamic, modern and an inspiring workplace and visitor centre.
- Warm and inviting feel with increased capacity in the café area, open and natural but with more practical furniture for meeting use
- Managers and leaders will be requested embed more flexible working for their teams
- Spare unused FS offices in branches should be encouraged both for the use of space and to "get HO people out into the business more"

These principles will be taken to GE members for consultation and agreement. Leaders will be asked to apply these principles to assess the impact of reduced demand levels at FD in the following order of priority...

- Hosting projects at other sites
- LiW workers not being based at FD
- Smoothing out demand to make more use of Fridays and Mondays space at FD
- Contractors (who aren't filling interims) reducing their demand at FD (IR35)
- Where managers could allow more flexibility and agile working in their team
- Relocating some teams to Camden until 2022 and Clapham until closure

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Appendix 5 - FD Design Principles refreshed

Security
- Move reception to front of building
- Install turnstile barriers at front of building

Facilities
- The Directors (G.E.) Hub will be retained
- If canteen is closed coffee and self-serve drinks and snack facilities will be available.
- Simple increases of 66 desks on 1st and ground floor will be actioned where possible
- Desk types (perm, hot or touchdown) and neighbourhoods will be more clearly identified
- Video conference enables in some meeting rooms
- The café area design will be to be more "tech garage" and have at least 20 more seats

Making change stick (do we need an enforcement culture?)
- We have to enforce the policy. As could be seen from the presentations at L300 event – some people have not done money laundering to timescale – what are the consequences of that for the people – this was meant to be mandatory.
- Meeting rooms - booking restricted to a smaller community such as PAs who control optimal use
- Managers will be tasked to do a full re-assessment of their team locations and ways of working in accordance with these design principles
- Quarterly reviews of building and meeting room use will be reviewed for non-compliance to the design principles
- Communications will be developed that show we are considering the wider business which includes cost efficiencies at FD
- All department heads will be asked to fully review their staff working locations based on applying these principles in order to assess the reduction in demand at FD

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Appendix 5 - FD Design Principles refreshed

Original FD Design Principles

10 Ways of Working Principles

1. **Neighbourhoods:** Functions will be allocated **neighbourhoods** with a proportional amount of desk space to which they will be responsible for determining the allocation of desks using the principles outlined in this document. ExCo will have their own neighbourhood which will include space for personal assistants.
2. **Work Location:** Employees who are home based, field based or non-London based will not have a permanent desk
3. **Hot-desking:** The majority of employees will be required to hot-desk (business wide expectation that permanent desks will be the exception with a minimum of 2/3rds hot-desking). **Huggers*** will have a permanent desks and **Hoppers*** will be mobile (both will still have Finsbury Dials as contractual location)
4. **Permanent Desks:** Huggers will be determined using transparent criteria based on business or personal requirement. Lead teams to determine which roles are huggers (including SLT) as part of a mapping exercise in September.

*We will be asking people to vote on the best name for permanent and mobile workers but are using the terms hugger (permanent desk) and hopper (mobile worker) for briefing purposes

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10 Ways of Working Principles (contd)

5. **Temporary workers:** Where covering a permanent role will be included in proportional neighbourhood space. Project work will need to include a space request as part of a separate business case submission (including existing projects)
6. **Storage:** Huggers will have permanent storage (slim pedestals) while hoppers will have access to individual personal lockers. There will also be separate team storage where required (i.e. legal requirements for confidentiality) but the emphasis will be on becoming more digital (i.e. office clear out days)
7. **Costing:** Desks will be cross-charged to functions. Additional requests for space will be factored into business cases which the property team will support as appropriate. Conversely, teams can hand back space as appropriate and realise a cost saving.
8. **Desk Booking:** Desks will not be pre-bookable
9. **Touch-down desks:** Touch-down desks (70) will be available on a first come first served basis
10. **Clear Desk Policy:** There will be a clear desk policy (no towels on sun loungers!)

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POca Interest Rate Swap

Author: Mark Dixon Sponsor: Alisdair Cameron Meeting date: 14 September 2017

Executive Summary

Context

The Department for Work and Pensions ("DWP") engaged POL to set up and run the Post Office card account service ("POca") in 2002. Claimants are able to receive benefit payments into a POca which they can then withdraw in cash either in branch or via a PO ATM. POL receives a fee for providing this service. The current suppliers contracted by POL to provide this service are DXC and JP Morgan. JP Morgan hold POca cash (in anticipation of withdrawals by claimants) and pay interest on the balance to POL at 1 month GBP Libor less a 12.5 bps management fee. This arrangement exposes POL to changes in 1 -month LIBOR.

At the July Board meeting a paper was presented asking the Board to give consideration to entering into a 3-year amortizing interest rate swap under which POL would pay 1 month GBP Libor and receive a fixed rate. This effectively "locks in" the interest income on a portion of the POca balances at a fixed rate for a three-year period would provide certainty around a portion of the interest component of the POca income statement.

The Board authorized the Group CFOO, following ARC approval, to execute an interest rate swap if considered advantageous.

This paper sets out the steps required to execute an interest rate swap and considers how we plan to manage the risks associated with that swap execution.

Question addressed in this report

1. What transaction is being proposed; how would it be structured; and what pricing is hoped to be achieved?
2. What steps need to be taken to execute the swap?
3. How will POL manage the execution risks around this transaction to ensure tightest possible pricing?
4. What is the accounting treatment for the transaction?
5. What documentation is required to execute the swap?
6. What are the implications for POL if interest rates differ from those currently expected over the three year term of the swap?
7. What are the economic and accounting implications if the swap has to be unwound before maturity?

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8. What other considerations need to be taken into account when executing the swap?

Conclusion

We believe that it is advantageous for POL to enter into a 3-year amortising interest rate swap under which it pays 1-month GBP Libor and receives a fixed rate.

This swap simply "locks in" interest income over the three year period at current rates to give certainty around a portion of the interest component of the POca income statement over the next three years. It should not be seen as a bet on future interest rates or as a way of securing a higher interest income in any given year.

We believe that the steps set out in this paper will allow us to appropriately address execution risks around the transaction and that execution and documentation can be completed in the timescales envisaged.

We will ask approval from the ARC at its meeting on 25 September to go ahead with the transaction as described with delegation of authority to the CFOO to: (i) agree the choice of swap co-ordinator bank; (ii) agree a range of pre-agreed pricing within which the Head of Treasury can execute the transactions; and (iii) execute any documentation required in connection with the transaction, including ISDAs and novation confirmations.

Input Sought

The GE is asked to approve the execution of an interest rate swap and subsequent submission to the ARC for approval.

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The Report

What transaction is being proposed; how would it be structured; and what pricing is hoped to be achieved?

1. Transaction - We are looking to enter into a 3-year amortising interest rate swap (the "swap"). POL will pay 1 month GBP Libor and receive a fixed rate.

The net exposure to variable rates and hence the amortisation profile for the swap has been prepared by the POca team with the help of Rothschild. It has been calculated by:

a) estimating the gross POca cash balance over the next three years building in a month-on-month reduction to allow for the decline in the business over the period;
b) adjusting this down to allow a buffer which reaches 20% by April 2020;
c) reducing this by the projected amount of the variable rate debt (i.e. the Working Capital Facility and the NRF);
d) .

The notional value therefore reduces from £1,200m at inception to £627m at maturity in September 2020.

2. Structure – Given the size of the notional value of the swap and the requirement for the derivative counterparties to take credit risk on POL we propose to execute the swap with a group of 2 to 3 banks.

We have asked RBS, Barclays and Lloyds to participate. The transaction can be completed with two banks but having a third bank allows pricing competition. Having three banks would be ideal because it allows access to ancillary business for a wider group of our relationship banks.

3. Pricing – Final pricing (i.e. the fixed rate received on the swap) will be a combination of: (i) the mid-market rate at execution; (ii) a market execution cost; (iii) and, the credit and capital charges imposed by the banks.

The mid-market rate will be the rate that is obtained in the market when the swap is executed. We aim to optimise this with our execution strategy (see later). As at the 6 September the mid-market rate on the proposed swap was 0.451%.

The market execution cost is effectively the fee that the bank is earning for the transaction. We estimate that this will be between 0.75bps and 1.5 bps depending on execution strategy adopted. This cost will be pre-agreed with the co-ordinator bank.

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We will seek to minimise this by having three banks quote for the market co-ordinator role (see below).

Credit and capital charges will also be pre-agreed. We can seek to minimise these through negotiation and the auction process. We estimate that these will be in the range 2.0 to 2.5 bps.(i.e. 0.02% to 0.025%).

Based upon the mid-market rate of 0.451% at 6 September the all-in rate would have been between 0.423% and 0.411%.

How will POL manage the execution risks around this transaction to ensure tightest possible pricing?

4. Pricing Transparency – because the swap is amortising and is against 1 month rather than 6-month Libor it is non-market standard and therefore the mid-market price cannot be seen directly on market information screens. POL do not have direct access to Bloomberg or Reuters pricing tools.

There is therefore a risk that we do not achieve the correct mid-market pricing prevailing in the market at execution.

We will manage this risk by requiring the co-ordinator bank to provide screenshots of pricing models from Bloomberg at execution and by holding dry runs of the pricing and execution process.

5. Execution Strategy – the notional size of the swap is large for a single trade. There is a risk that such a size of trade itself causes the market to move against POL during execution.

To manage this risk we will appoint a market hedge co-ordinator. The co-ordinator will execute a market hedge and will then sell down participations to other banks through an auction process.

The choice of market hedge co-ordinator depends on (i) market execution fee quoted by the bank and (ii) bank's ability to execute the trade.

RBS, Barclays and Lloyds have all indicated their interest in performing this role. We believe that RBS, Barclays and Lloyds all have the necessary credentials to execute a swap of this size on behalf of POL. The choice of market co-ordinator will therefore be a function of market execution cost fees.

As part of its delegated authority to the CFOO we will ask the ARC to delegate authority to approve the choice of co-ordinator bank proposed by Treasury.

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We will agree a final execution strategy with the co-ordinator bank that minimises execution risk to POL (e.g. breaking the trade down into several "clips"). Execution charges will vary depending upon the execution strategy adopted.

6. Execution Steps – the proposed swap will not be executed until contracts with current suppliers, JP Morgan and DXC, have been finalised and executed. In order to execute the swap the following steps need to be completed:

- Execute ISDA Agreements with RBS, Barclays and Lloyds
- Obtain confirmation from banks that they are credit approved for transaction
- Complete banks on-boarding documentation
- Based on preliminary term sheet request indication of (i) market execution costs, (ii) credit and capital spread and (iii) size of appetite for final hold position on the swap
- Appoint swap co-ordinator bank
- Agree final market execution strategy with co-ordinator bank
- Perform dry runs for pricing and execution
- Execute market hedge
- Use auction to sell down participations to other banks
- Complete novation confirmation documentation

We have asked each bank to obtain credit approval to hold up to 50% of the transaction. In this way we can complete the transaction with either two or three banks depending on pricing.

Treasury will provide a recommendation on the market co-ordinator role for CFOO approval.

To ensure efficient execution on the day(s) that the swap is transacted, Treasury will obtain approval for pre-agreed range of pricing from the CFOO within which it can execute trades together with agreement of periods for which this pre-agreed range will remain in place.

What is the accounting treatment for the transaction?

7. The Financial Control team has prepared a paper setting out the accounting treatment for this transaction. The position paper is with EY, our external auditors, for sign off. We anticipate obtaining agreement on this position before the ARC papers are finalised.

The swap is hedging a portion of the interest cash receipts from the POca balances. Since the cash flows are deemed to be highly probable, and provided the swap is correctly designated and it therefore provides very little hedge ineffectiveness, it can be designated as a cash flow hedge.

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The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge should be recognised directly through reserves in Other Comprehensive Income (OCI). These gains or losses can then be recycled through the income statement in the same period in which the hedged interest income is recognised. Any ineffective portion must be recognised immediately through the income statement.

What documentation is required to execute the swap?

8. ISDA Master Agreement and Schedule - POL will need to execute ISDA agreements with each participating bank in advance of any transaction. An ISDA Agreement is a standardised agreement under which market participants execute derivative transactions.

Although the agreement is standardised it still requires negotiation in certain areas and Linklaters have been providing advice during this process.

The ISDA will remain in place and will allow POL to execute other derivative transactions should it wish to in future.

In anticipation of the transaction we are putting in place ISDAs with three banks (RBS, Barclays and Lloyds). The ARC will be asked to delegate authority to the CFOO to execute these ISDAs on behalf of POL. We anticipate executing the three ISDAs shortly after the ARC meeting.

It should be noted that the ISDA documentation contains change of control wording. If the Post Office is no longer owned by government this would constitute an event of default under the ISDA. Such language does not appear unreasonable and allows the banks to better evaluate POL from a credit perspective.

9. Other Documentation – various other documentation will need to be signed in order to execute the swaps, including the banks' on-boarding documentation for trading and the novation confirmation documentation for the sell down of the swaps to the participating banks. We will ask the ARC to delegate authority to the CFOO to execute this documentation.

What are the implications for POL if interest rates differ from those currently expected over the three year term of the swap?

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10. Over the term of the swap:

a) If 1-month GBP Libor is less than the fixed rate on the swap then the bank will pay POL the difference between the fixed rate on the swap and 1-month GBP Libor.

b) If 1-month GBP Libor is more than the fixed rate on the swap then POL will be required to pay the bank the difference between 1-month GBP Libor and the fixed rate.

11. Since the yield curve is upward sloping POL would expect to receive cash in from the swap during the initial period of the swap and then pay cash out to the bank over the latter period of the swap.

12. If actual out-turn rates follow the yield curve when the swap is put in place there is no benefit to POL. POL is simply fixing in its interest receipt. (There is of course the cost to POL of the swap in the form of the credit and capital charges and the market execution cost.)

13. If interest rates rise at a faster rate than that implied by the yield curve when the swap is entered into then there is an opportunity loss to POL. POL would not benefit from the higher interest income from the POca balances because it pays this across to the swap counterparties in the form of higher payments (or lower receipts) on the swap.

14. The opposite is true if rates rise at a slower rate than that implied by the yield curve when the swap is transacted.

What are the economic and accounting implications if the swap has to be partly or wholly unwound before maturity?

15. There is a risk that POL may want, or need, to unwind the swap in whole, or in part, before its maturity date. This may be as a consequence of all or part of the POca balance no longer being in place to be hedged. Account volumes are set to reduce significantly over the course of the contract as DWP migrate working-age account holders to mainstream bank accounts and as the pension customer base shrinks.

Depending on prevailing market conditions there may be a cost to unwinding the swap. This may be substantial.

We have conservatively estimated this breakage cost to be £13.75m in the scenario when the swap needs to be immediately terminated and prevailing Libor rates have

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increased to 1.00% (compared to 0.25% at present). Given the current 1-month Libor we believe that this is an appropriate stress test for a potential unwind.

In this scenario the full value of the breakage cost would be taken to POL's income statement on termination.

16. We are managing this risk by executing a 3-year swap through to September 2020, rather than a longer dated swap, and by allowing for a 20% contingency when estimating our net exposure to variable rates.

POL signed a new contract with DWP in 2015 to provide POca until November 2021 (with 3 one year extensions to 2024 at DWP's discretion).

The POCA team believe that, given the time that it would take for customers to be migrated to other products, they have sufficient visibility over the balance (after allowing for the 20% contingency) to justify this risk over a three-year period.

What other considerations need to be taken into account when executing the swap?

17. Managing Counterparty Risk – in entering into an interest rate swap POL takes a credit risk on the counterparty bank. At inception the fair value of the swap will be zero but if market rates move in favour of POL it may be in a position such that the mark-to-market results in POL being owed money by its bank counterparties.

It should be noted that the risk is around the mark-to-market value of the swap rather than its notional value.

POL will manage this risk by spreading the hold positions over 2 to 3 banks.

18. EMIR Trade Reporting – on entering into the swap POL will assume certain trade reporting obligations under EMIR. [redacted]

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GROUP EXECUTIVE			Reference: GE 17.08.17
Date: 17.08.17	Venue: Finsbury Dials		Time: 09.30hrs to 12.30hrs

Present:		In Attendance			Apologies	
Jane MacLeod (Chair)	(JM)	Amanda Radford		(AR)	Paula Vennells	(PV)
Kevin Gilliland	(KG)	Paul Swanton		(PS)	Alisdair Cameron	(AC)
Nick Kennett	(NK)	Ann Miller	(item 2)	(AM)	Martin Edwards	(ME)
Alwen Lyons	(AL)	Sean Leahy	(item 2)	(SL)	Mark Davies	(MD)
Rob Houghton	(RH)	Steve Norris	(item 3)	(SN)		
Martin Kirke	(MK)					

Agenda Item 1

Performance – Financial Results & Review of Business Scorecard

Purpose

To review the Financial Results and the Business Scorecard and discuss any areas which are shown to have a RED status.

Discussion

- Financial performance continues to see the trends from the first quarter.
- Overall EBITDAS in P4 is £2.5m (£0.3m favourable to budget) and YTD EBITDAS is £4.0m (£1.5m favourable to budget).
- Balance sheet headroom was £170m (with a loan balance of £580m)
- On the scorecard, the most notable adverse variance is the number of branches which stand at 11,581 at the end of P4. We're required to be at 11,500 under the current funding arrangements. Noted that BEIS had raised as a concern in their last financial review.
- Ongoing discussion about opening hours and contracts. Linked to the issues with branch finder and accurate information for customers. Bring back to the GE for discussion. Need to be pragmatic about high profile branches but must not set a precedent. Include this debate in the session on Retail strategy in October.
- KG believed that we would get close to the 11,500 but not breach it.
- The target was not in the funding agreement but would been seen as symbolic by stakeholders if it was breached. The 11,500 gateway target for the LTIP was a yearend measure, as clarified to GE by Natasha Wilson in an email.
- Digital measure on the scorecard uses income factors to report and has been affected by the decision to focus on the yield of insurance products rather than the volume sold. The use of income factors makes the measure ineffective as it does not take account of the POMS decision to optimise value. Need to ensure this measure is changed when the scorecard is reviewed.
- The line-manger engagement score of 61% is now showing but there can be no target set for this because of the change in the survey in 2017.
- KG challenged the narrative on slide 4 of the pack pointing out that branch compliance had not deteriorated with the expansion of the CRM programme. The branch compliance was a basket of 13 measures and the worsening to amber had been affected by the increase in the number of visits. NK was not concerned by the result, although agreed it was confusing and more detail would be provided at RCC and ARC.
- NK asked that POMS profit be reported on a separate line in future packs
- Retail income continues to perform better that budget with Mails, Retail & Lottery and Govt. Services all contributing above target
- Telecoms income was behind because of delay in the New Call deal, but a higher than budgeted HP & Dual customer base and lower attributable costs have delivered £0.1m favourable to budget.
- FS almost on target, insurance and banking favourable. MoneyGram is a concern especially sales to Eastern Europe. Bring MoneyGram strategy back to GE in November as part of the wider Payments business
- The 5+7 forecasts will be led by the Finance Directors in the first week of September working towards taking the reforecast to the Board in October.
- The GE receives monthly details of the operational performance and asked that the pack in future include the change and investment spend.
- JM reported from a meeting with the Govt. that they are considering whether future funding should be provided through equity, although there is no clarity on what this would mean. Govt. have an appetite for more reporting: a 3 year strategic plan – which they already sign off; an annual statement; and quarterly reporting of delivery against the strategy. They accept that POL operates with an independent Board and Govt. do not want to hypothecate the funding but want to be able to track the spending against outcomes. The Board will need a discussion on how they respond to any changes.

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- At the moment all discussions were directional.

Outcomes

The GE agreed the following actions:	
• Add Retail strategy to the October GE agenda	**AL**/KG
• Include MoneyGram in the paper for November GE	**NK**
• Report POMS profit as a separate in future packs	**AR**
• The financial performance pack in future to include the change and investment spend	**AR**

Agenda Item 2

Product Manager Role (PM)

Purpose

Feedback on work to date for the Product Manager Role.

Discussion

SL & AM joined the meeting

- The PM role varies depending on the product and the upstream supplier. There is a significant difference between managing a partnership with RMG or BoI and the distribution of their products, or the tendering and sales component of bill payment contract.
- Need to be clear about what we are asking people to do and what they are accountable for.
- Recent hires into FS have seen an improvement in capability and the same is planned for Retail.
- Do we have the right skills to go out to get new business, and is this a PM role? However we are not competing for business on a regular basis across the whole business. Mainly in bill payments, need to make sure we have the capability to bid for work in that team.
- AM explained the diagnostic work with Cranfield to identify what is relevant for the roles and what training modules could be available for individuals. The modules would include one on customer.
- RH asked if the training would include a focus on; digital thinking; digital leadership and customer (systems thinking). It was suggested that Dr Sue Holt meet KG/NK&RH to discuss the Cranfield input.
- PM need to have end to end accountability for the product in the business irrespective of the supplier. However this will have implications across the business, as could affect Chesterfield, Supply Chain etc.
- JM – this ties to the work on accountabilities. The RCC in September are looking at regulatory accountabilities but the two pieces of work need to align.
- The GE discussed how the Cranfield work would be paid for. LS explained that the work could be funded from existing Retail and FS&T budgets and the cost of the diagnostics and developing the modules would be below OJEU threshold.
- Work would be undertaken to see if the courses could be funded using the apprenticeship levy as this was still unclear, but if it could be used legitimately this would be done.
- Need to be honest with employees who sign up for this development about the commitment it will take and the expectations of the business in return.
- MK was asked to include an update on this development as part of a future HR strategy update

AM and SL left the meeting

Outcomes

The GE agreed the following actions:	
• Organise for Dr Sue Holt to meet KG/NK&RH to discuss the Cranfield input.	**AM**/KG/NK/RH
• Include an update on L&D training work with Cranfield as part of a future HR strategy update.	**MK**

Agenda Item 3

Finsbury Dials (FD) Review (verbal)

Purpose

To update the GE on the Finsbury Dials review.

Discussion

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SN joined the meeting

- FD discussion needs to be part of a longer term, wider discussion on people strategy and where we need people to work, however there is a tactical issue now as we are short of space.
- Might save £1.7m by releasing a floor but what would be the consequences of such a decision?
- SN explained that he had been looking at admin sites including FD, Bolton, Glasgow and CTOs (Counter Training Offices). Glasgow was to be vacated at the end of September with people moving to homeworking. In Bolton looking for a 2 year lease for 1 floor after which time the work would move to Chesterfield. CTOs are under-utilised and could provide space for meetings and training facilities, which would reduce the need to travel long distances, especially to FD.
- If people used technology instead of travelling to FD there could be a reduction in T&S. 73% of T&S is for travel to internal meetings.
- RH stressed that Skype should work for meetings, but is compromised by poor wifi at external locations.
- There are also behavioural and cultural barriers, eg long meetings, requirement for people to be in the room. Have to make a step change to working remotely. We could use part of the estate at very little cost.
- SN will involve RH and bring a proposal back to September for discussion.
- There is a proposal that we could reduce the capacity at FD by one floor saving £1.4m, or alternatively keep this floor and bring people in to FD from other London sites saving £0.7m. However there is a challenge that FD already feels crowded.
- One quick action would be challenge the need to have contractors to be based in FD. To not be caught by IR35 contractors should not be 'based' at FD
- The FD lease is up in 2023. May need to develop the people location strategy: assess which small number of jobs need to be in the London office; where do we need to be to attract talent; change in cultural behaviour to allow people to work elsewhere; move Bolton work into Chesterfield; how easy is it to recruit talent in Chesterfield. If end up with a smaller London office need capacity to house people where we need them.
- What about a more innovative space? Could we create a digital garage, a customer/digital hub, with flexible work areas
- The BCP test on Friday 25th should test people capability to cope with technology off site. Need to advise people what to do if they do not have the facilities to work from home

SN left the meeting

Outcomes

The GE agreed the following actions: • GE need help to ensure they are getting the best out of the technology available for meetings (eg SKYPE) • Ensure that people know where the office sites are which can be used for skype meetings • Introduce a control mechanism into the change programmes to define where contractors will be based (mindful of the IR35 implications if they are based at FD), should there be a desk charge to the programme for any FD desks? • SN will bring back a decision paper in September after involving RH for technology, MK for people and KG for CTO strategy. To include: CTO strategy, Plan for FD and London including a flexible innovative area/ digital garage hub option. • The BCP test on Friday 25th would test people capability to cope with technology off site. Need to advise people what to do if they do not have the facilities to work from home	**RH** **SN**/PS **AVDB** **SN**/RH/MK/KG **PS**

Agenda Item 4

IR update including Reps (verbal)

Purpose

To update the GE on IR and the decision taken on the Unions Rep.

Discussion

- The proposal to reduce full time reps is on track, this issue dominated the recent meeting between the CEO and the CWU. CWU may put in a legal challenge based on discrimination for trade union activity and sex discrimination.
- CWU making it difficult as they will not respond or co-operate with discussions
- Right that the business hold its line on the issue as we now have less staff and need less union reps.
- RMG involving POL in their IA contingency planning although they still believe it will not happen. The plan includes reducing collections to one a day from branches which would cause real operational problems, especially where there is no space for storage
- Decided to leave project Jay until after Christmas as do not want CWU to conflate this with any RMG issues
- [redacted]

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• Any planning for a Mails Christmas marketing campaign needs to be mindful of any possible RMG strike. KG explained that the campaign is in the planning phase but no spend has been committed to date. • Would any strike affect cash deliveries using RMG? This will be covered in the IA planning.	
Agenda Item 5	
Verbal Update from Committees & Steering Groups 5.1 IRSG covered in item 4 above 5.2 CRG	
Purpose	
Chair of Committees to update GE	
Discussion	
AR updated. • A gap of £8.5m now exists in delivering the £28m target. Need to focus on the cost reductions that can be delivered. • A new document is being introduced which will improve the reporting and controls. • The apprenticeship levy is due for discussion on Monday 21st August	
Agenda Item 6	
Review of GE Minutes, Action Points and Updates	
Purpose	
To update the GE on the actions taken and provide any information requested.	
Discussion	
• Three actions were due: 13/07/17 H&S – check the fire escapes in the 4 clad buildings SN to respond 13/07/17 AOB – GE to let SN have additional desk requirements - CLOSED 13/07/17 AOB – FD accommodation - CLOSED	
Outcomes	
• GE Minutes for the meeting on the 13th July were approved.	
Agenda Item 7	
For Noting 7.1 H&S Report 7.2 Forward Agendas : • GE - September 2017 and Board - September 2017	
Purpose	
For GE to note the papers.	
Discussion	
H&S – KG updated the meeting on the Muswell Hill incident, nobody had been seriously injured, although a claim was expected from a person who had sustained bruising.	
Outcomes	
Changes to Forward agendas GE September • Change 'POMS and Strategy Update' change to 'POMS Update' • MK to circulate update on Taylor report to GE, and pick any implications in September • 'HR Strategy – regulations, accountability and cost including Senior Manager Regime' change to 'Senior Manager Regime' • 'Product Simplification' now added • 'Peregrine' need 60-90 minutes added to the agenda BOARD September • 'Modern Slavery' does need to be approved by the Board – check minutes and if not already done leave on the agenda but move to ratification • 'Peregrine' need 60 minutes added to the agenda • Change 'POMS strategy' to 'POMS performance against strategy' • Add 'Annual Report and Accounts Approval' (decision following ARC recommendation)	**JM**

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GE October • 'Health & Safety Deep Dive' BOARD October • 'Health & Safety Deep Dive' • 'Project Jay'	

Agenda Item 8

AOB

Purpose

To discuss any additional items raised.

Discussion

Data Issue

- NK reported that as part of the New Call migration a customer email had been addressed to the wrong customer. This had occurred because he customer had two email addresses. Of the 60,000 customers involved in the migration it was thought that 447 could be at risk, however after investigation it appears to have been only one customer involved. Verbal advice suggests this does not need to be reported to the information commissioner. NK to discuss any further action with JM

HNGA

- 1000 HNGA counters have now been rolled out. By September the run rate will be up to 70 a day. The reconciliations are working well.

BCP Friday 25th August

- To ensure that the Business Continuity test is effective we need the comms to stress the need to maintain as much BAU activity as possible

New ATOS account Director

- RH reported that the new ATOS account director was the father of Ben Cooke, Post Office Head of IT Service Delivery.
- The two roles would not be involved in any negotiations between the two businesses
- GE asked RH to ensure that the Business was not compromised by their relationship, and that it is made to clear to them both that they need to inform RH if any conflicts arise, as this is not an ideal situation.

Grenville Tower

- KG reported a meeting with DCLG, BEIS, Cabinet Office and the Gold Team following the Grenville Tower disaster. BEIS were pleased with the support provided by Post Office, and have asked for a set of standard procedures which could be used if required in the future. The aim is to have these procedures in place by the end of the calendar year. The work has been appreciated and has emphasised the value in the roll Post Office plays.

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Last updated 11/09/2017 at 15:39

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Post Office Limited Group Executive Action Log

Key

Outstanding actions for discussion at GE	
Completed and action closed	
Actions in white not due	

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open / Closed
GE on 17th January 2017					
17/01/2017: IT Strategy / Action 10	Set up a skype GE meeting.	**Rob Houghton /** Jane MacLeod	GE on 13th November 2017	Still ongoing - challenges with network bandwith being investigated.	Open
GE Performance on 27th February 2017					
27/02/17: Operations / Action 5	RH to consider how to address the need to review and communicate to staff what was and was not permissible on the Post Office IT systems.	**Jules Harris** / Rob Houghton	29th September 2017	Discussed at Security Committee and Comms being owned by Julie Harris. **Update 08.05.17** - The code of business standards will be the vehicle. Acceptable use is one of the chapters. The standards are being worked on at present. Suspect it will be end of June before they are issued as there are-lots of different departments involved. **Update 03/07/17 –** still waiting for the code to be issued – the suggested changes from other areas were complex. However, the annual Information Security and Data Protection training was brought forward which contains relevant information on the subject. It was released 2 weeks ago. Currently 50% of support offices have completed it**. Update 03/07/17 –** Code of Business Standards is being redrafted and final version will be ratified by GE later this month. Current status of staff completing the Security and Data Protection training is currently at 89.98%. Emails to line managers of those who haven't completed is being sent w/c 14th August to close the gap. **Update 03/07/17 – Code of Business Standards is being presented at RCC on 13th September. Once agreed and signed off, this action can be closed.**	Open
GE on 17th May 2017					
17/05/17 : HR Strategy (Part 1) / Action 7	Bring a session on regulation, the timetable and effect of new regulation, accountability and cost back to the GE.	**Martin Kirke /** Sean Leahy	GE on 13th November 2017	Suggest GE discussion on ownership.	Open

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REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open / Closed
GE on 14th June 2017					
14/06/17 : Performance - Financial Results & Review of Business Scorecard / Action 2	Include KG and NK in the work on product profitability, with FDs and Amanda Radford.	**Al Cameron /** Kevin Gilliland / Nick Kennett	31st October 2017	Due to fixed asset reinstatement work and ongoing audit work, product profitability in current state system environment has been delayed and will start again in early September. This will run concurrently with the hierarchy and chart of accounts work in back office transformation. Update in October.	Open
14/06/17 : Performance - Financial Results & Review of Business Scorecard / Action 3	Include Brand and Brand marketing on the GE agenda.	**Mark Davies /** Kevin Gilliland	GE on 19th October 2017	This has been agreed to move from July, now scheduled on the agenda for October 2017.	Closed
14/06/17 : Cash Management / Action 1	Set up a review on the Santander security rules towards the end of the calendar year.	**Al Cameron**	30th November 2017	Underway.	Open
14/06/17 : Cash Management / Action 2	Develop an online training package highlighting the importance of cash.	**Martin Kirke**	31st September 2017	It has been agreed that the best way forward would be to manage this as a Comms piece as it is not a training need. This should be a high level central communication around the scorecard, along with an ongoing campaign on the importance of cash (working with Doug Brown for DMB), especially in the lead up to Christmas.	Open
14/06/17 : Cash Management / Action 4	Bring Cash product strategy back to the October GE.	**Martin Edwards /** Al Cameron	GE on 19th October 2017	ME update: This will be discussed at the October GE.	Closed
14/06/17 : For Noting - H&S Report / Action 1	Future GE agenda to include H&S Deep Dive.	**Al Cameron /** Alwen Lyons	GE on 19th October 2017	Scheduled on the agenda for the 19th October 2017.	Closed
GE on 13th July 2017					
13/07/17 : CEO Update / Action 1	MK to provide a briefing note to the GE on the effect of the Taylor report on 'modern workplace practices' on mainstream employment.	**Martin Kirke**	11th September 2017	Circulated to GE by John Whitefoot on Friday 8th September 2017.	Closed
13/07/17 : CEO Update / Action 2	Bring a paper on the new Marketing structure and strategy to a future GE.	**Nick Kennett**	GE on 19th October 2017	Scheduled on the agenda for the 19th October 2017.	Closed
13/07/17 : Performance - Financial Results & Review of Business Scorecard / Action 2	Check if the number of branches is a requirement for the funding agreement and if so clarify the target and the consequence of any breach.	**Martin Edwards**	31st August 2017	Confirmed that requirement to have 11500 branches is in the funding agreement, with provisions to enable BEIS to reduce funding if we fall short of this target. Similar provisions expected in new funding agreement, although we have negotiated some additional flexibility to allow for temporary shortfalls.	Closed

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REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open / Closed
13/07/17 : IT Digital Roadmap and ATOS TOM Update / Action 1	RH, MK, ME work out what is required to embed digital systems thinking into the organisation.	**Rob Houghton /** Martin Edwards / Martin Kirke	GE on 13th November 2017	Ongoing – suggest a GE discussion at a future GE session.	Open
13/07/17 : IT Digital Roadmap and ATOS TOM Update / Action 2	GE session on social media landscape, to understand the cause, effect and value for PO social media work.	**Mark Davies**	GE on 13th November 2017	On the agenda.	Open
13/07/17 : Crown Network Development / Action 2	Return to GE with the plan on how the white space initiative will be taken forward.	**Tom Moran /** Julie Thomas	29th September 2017	[redacted]	Open
13/07/17 : Sparrow Update / Action 1	GE noted the briefing and requested that a further update be provided to GE and the Board following the Case Management Conference. This update should include an assessment of the potential impact on Post Office and its business and operations of the range of possible outcomes, based on the issues to be considered through the Lead Cases.	**Jane MacLeod**	GE on 13th November 2017		Open
GE is on 17th August 2017					
17/08/17 : Performance – Financial Results & Review of Business Scorecard / Action 1	Retail strategy to be added to the October GE agenda.	Kevin Gilliland	GE on 19th October 2017	Scheduled on the agenda for the 19th October 2017.	Closed
17/08/17 : Performance – Financial Results & Review of Business Scorecard / Action 2	Include MoneyGram in the paper for November GE.	**Nick Kennett**	GE on 13th November 2017		Open

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REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open / Closed
17/08/17 : Performance – Financial Results & Review of Business Scorecard / Action 3	Report POMS profit as a separate in future packs.	**Amanda Radford**	GE on 14th September 2017	POMS EBITDAS performance will be shown separately in the P5 pack (for 14 September GE).	Closed
17/08/17 : Performance – Financial Results & Review of Business Scorecard / Action 4	The financial performance pack in future to include the change and investment spend.	**Amanda Radford**	GE on 14th September 2017	The change and investment analysis will be changing for the P5 pack although we expect this to evolve over coming periods.	Closed
17/08/17 : Product Manager Role / Action 2	Include an update on L&D training work with Cranfield as part of a future HR strategy update.	**Martin Kirke**	31st October 2017		Open
17/08/17 : Finsbury Dials Review / Action 3	Introduce a control mechanism into the change programmes to define where contractors will be based (mindful of the IR35 implications if they are based at FD), should there be a desk charge to the programme for any FD desks?	**Angela Van Den Bogerd**	31st October 2017	Ongoing.	Open

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Performance Review – Health and Safety

Authors: Martin Hopcroft Sponsor: Al Cameron Meeting date: 14th September 2017

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 health and safety compliance, targeting a reduction in four key safety metrics: accidents; lost time accidents; days lost; and personal injury claims. Our H&S reporting and safety management system is measured against the BSI standard.

Questions this paper addresses:

2.1 What is going well across health and safety and what are the current activities?
2.2 What are we doing to mitigate the key risks, including driving and robberies?
2.3 Are there any significant emerging risks?

Conclusion:

1. Accident Performance, including absence accidents and lost days have returned to normal in July and August (see Report-H&S Metrics). **Benchmark data** has also been requested from suppliers/insurers for reporting in October to GE & ARC.
2. Mitigating action has reduced **road risk** which remains at a low level. The Road Risk Policy is being reviewed and an overarching policy will be developed for all business drivers (including those using personal cars).
3. Whilst there were only two CViT attacks in P5 and P6, Post Office **robberies** remain high with a number of initiatives being deployed in hot spot areas, however trend is now downward.
4. The overall level of **Property** risk at 31st August was predominantly low, however, there are some high risk exceptions that are being reviewed. We are amending our FM contract to move to a proactive fabric management regime. A serious signage incident on the 3rd August has increased the current 'building fabric' risk to high, whilst measures are put in place. Signage checks are being undertaken by CBRE across the whole estate and will be completed. Current property statutory compliance is good at 95.63 and we are now tracking remedials with 80.24% completed. Current fabric cladding checks have been reported 'clear' with no remedial work required.
5. Following the **H&S deep dive review**, a number of actions are progressing (see final page), including a review of road policy, guidance for lone workers, safety of vacated buildings, competency and statutory compliance. A 3rd Party Audit will be arranged in Q3 to review the Post Office Safety Management System.
6. A number of initiatives are being developed to raise awareness of **mental health** support and resources, including MH Awareness Workshops, and introduction of MH First Aiders to provide proactive support to colleagues across the business.

Input Sought

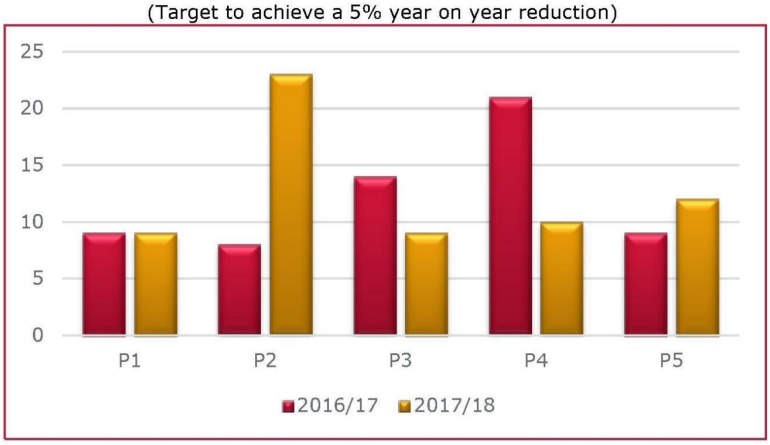
The GE are requested to **note** the current health safety performance and content of this report.

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The Report – H&S Metrics

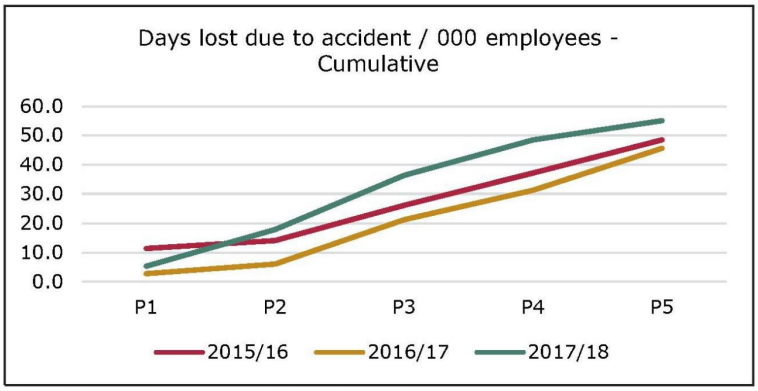
Summary of Safety Performance - YTD Period 5 (Aug 2017)

All Accidents – Monthly - Period 5
(Target to achieve a 5% year on year reduction)



Accidents have returned to normal levels and are consistent with 2016/17. There have been 62 accidents YTD compared to 61 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.

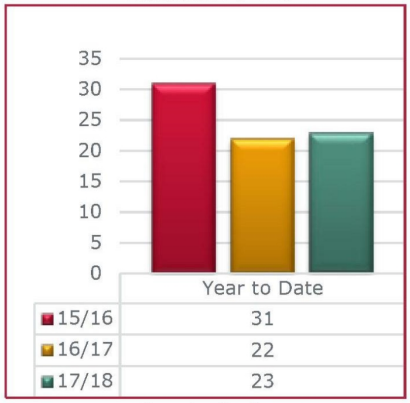
There was 1 lost time accidents reported in P5 with **10 lost time accidents** YTD 2017/18 and 277 total lost days which is a 5% decrease compared to 2016/17 but a 17% decrease compared to 2015/16. Cumulative Trends can be seen per 000 employees in the graph below. Total lost time / 000 employees has risen by 20%. **Trauma** related total lost days, following an attack, are 60% down (36 days 17/18 v 86 in 16/17).



Post Office total lost days: 33 in Period 5 due to an ongoing absence in DMB.
DMB total lost days P5 YTD : 153 (96 in 16/17) – 1 slip/trip, 1 lifting, 1 fall
Supply Chain tot lost days P5 YTD: 141 (109 in 16/17) 1 RTA, 3 falls, 1 lifting
Support total lost days P5 YTD : 6 (6 in 16/17)

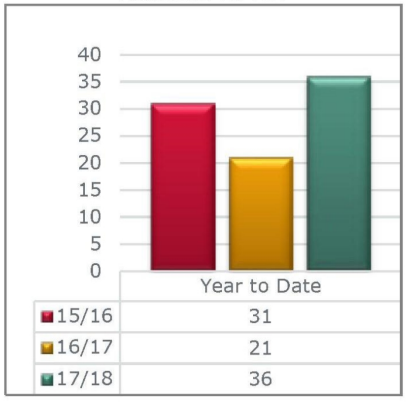
Post Office CViT Robberies – P4 (July 17)
There was 1 incidents reported in July v 5 in 2016/17 and 8 YTD v 14 YTD in 16/17. Trend is being monitored closely. Task Force vehicles deployed in usual hot spots with cross pavement observations. Merseyside identified as current industry hot spot area. Regular Security team attendance at monthly 'Operation Guardian' meeting to highlight and mitigate against CViT criminality in the area.

Directly Managed Branch
Accidents P5 YTD



	Year to Date
15/16	31
16/17	22
17/18	23

Supply Chain
Accidents P5 YTD



	Year to Date
15/16	31
16/17	21
17/18	36

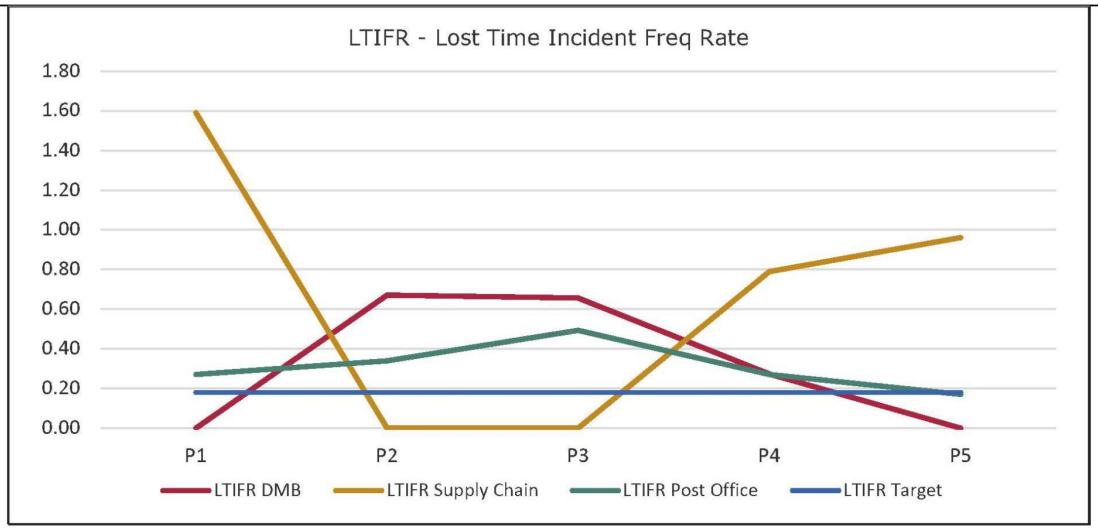
Post Office (All branch types)
Robberies – P4 (July 17)
There were:
(152 incidents in 16/17 v 104 in 15/16)

13 incidents in April v 3 (16/17)
15 incidents in May v 7 (16/17)
8 incidents in June v 11 (16/17)
4 incidents in July v 8 (16/17)

22 burglaries YTD v 34 in 2016/17
69 compared to 129 rolling 12 mth
Recent trend is reversing.
A review of causation and mitigating activity has been undertaken by the Security Team including TORCH visits to hot spot branches to verify for compliance to security standards.

2017/18 P4
Violence – 1 vs 2 last year
Injuries – 0 vs 2 last year
Weapons - 12 (6 firearm) vs 9 last year (3 firearms)

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Lost Time Injury Frequency Rate (LTIFR) – Period 5 YTD

Supply Chain

YTD P5 – 0.704
2016/17 out turn – 0.586
2017/18 target – 0.500

All Post Office – Employee

YTD P5 – 0.303
2016/17 out turn – 0.168
2017/18 target – 0.180

Road Risk

P4 YTD Road Traffic Collisions

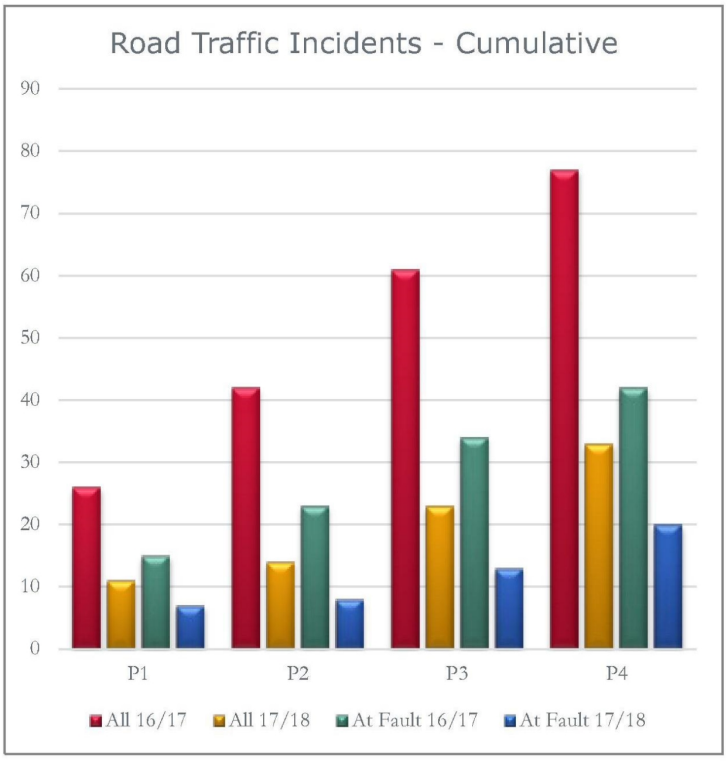
- 33 RTC's – YTD.
- 5 at fault, 3 not at fault
- 4 minor RTC's, 4 major in respect of damage costs.
- Some additional analysis is being done regarding fleet size, staff hours and headcount for future reporting.

Comparing 2016 v 2017

- There were 77 RTCs YTD in 2016/17 v 33 this year (17/18), a 57% reduction YTD.
- At fault RTC's were 42 in 2016/17 and have reduced to 20 in 2017/18, a 52% YTD improvement

Enhanced MI and accident analysis is starting to be provided and shared and will be included in future H&S reports.

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 is being developed and will be launched on Success Factors asap.



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Summary of Wellbeing Performance - YTD Period 5 (Aug 2017/18)

- The overall attendance level remains stable at 96.8% YTD P5 (August 2017/18). Short Term absence is 1.0% YTD and long term absence has increased to 2.4% YTD. Supply Chain Long term sick absence has increased to 3.1% and DMB LTS increased to 2.9%
- Mental health related absence remains the most common cause of long term absence and there is an increase in lost days in Directly Managed Branches. Some additional analysis is being undertaken by our Occupational Health and HR Service Providers to understand trends and areas of concern to target intervention.
- Proactive activity across the business, includes 'positive mental health awareness' sessions for colleagues, additional awareness training being piloted for line managers and the introduction of Mental Health First Aid initiatives. The recruitment approach for MHFA is being developed with the HR Business Partners and OH Assist ™ and training courses planned for September and October. There is a GE sub-committee meeting planned 5th Sep to discuss and agree support for the Mental Health and Wellbeing Plan and initiatives.

Business Area Absence Performance v Target – P5 YTD 2017/18

2017/2018	Sick Absence %ge						
	Period 01	Period 02	Period 03	Period 04	Period 05	Y.T.D Totals	Gross Hours Target
CENTRAL	**0.0%**	**0.0%**	**5.0%**	**0.0%**	**0.0%**	**0.9%**	**0.3%**
STRATEGY OFFICE	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.2%**
CHIEF FINANCE & OPERATIONS OFFICE	**3.4%**	**3.3%**	**3.2%**	**3.6%**	**4.0%**	**3.5%**	**3.4%**
FIN: FINANCIAL CONTROL MI	0.2%	2.3%	3.7%	1.9%	2.0%	1.9%	3.3%
FIN: SUPPLY CHAIN	4.0%	3.7%	3.9%	4.1%	5.0%	4.1%	3.6%
FIN: HRSC	0.8%	3.6%	1.1%	2.6%	6.1%	2.7%	3.3%
FIN: NO CONTACT CENTRES	3.7%	1.9%	2.5%	5.4%	3.9%	3.2%	4.2%
FIN: NETWORK OPERATIONS	2.1%	3.6%	2.0%	2.1%	1.9%	2.4%	3.3%
FIN: FSC	4.0%	1.7%	2.1%	1.9%	2.2%	2.4%	3.4%
RETAIL OFFICE	**3.4%**	**3.1%**	**3.4%**	**4.1%**	**4.3%**	**3.7%**	**3.3%**
RO: DIRECTLY MANAGED BRANCHES	3.8%	3.3%	3.7%	4.6%	4.8%	4.1%	3.7%
RO:CS: NETWORK AGENCY SALES,SVCES & TRAI	5.0%	5.1%	4.2%	1.5%	2.6%	3.7%	3.3%
RO: NETWORK DEVELOPMENT	0.7%	0.9%	1.2%	1.3%	1.5%	1.1%	3.3%
COMMUNICATIONS & CORPORATE AFFAIRS	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.3%**
HUMAN RESOURCES	**0.0%**	**0.3%**	**1.8%**	**1.3%**	**1.3%**	**0.9%**	**1.2%**
HR: ENGAGEMENT	0.0%	0.6%	3.5%	2.5%	2.4%	1.8%	
GENERAL COUNSEL	**0.1%**	**0.0%**	**0.0%**	**0.7%**	**1.5%**	**0.5%**	**1.5%**
GC: INFORMATION, SECURITY & ASSURANCE	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
GC: PORTFOLIO	0.0%	0.0%	0.0%	7.8%	17.6%	5.0%	
GC: SECURITY & FINANCIAL CRIME	0.4%	0.0%	0.0%	0.0%	0.0%	0.1%	1.0%
FINANCIAL SERVICES & TELECOMS	**3.0%**	**2.3%**	**1.9%**	**2.1%**	**1.7%**	**2.2%**	**1.9%**
FST: PO MONEY PRODUCTS	6.0%	4.5%	3.8%	4.1%	3.3%	4.4%	3.7%
CHIEF INFORMATION OFFICE	**2.7%**	**3.1%**	**2.6%**	**5.2%**	**5.4%**	**3.3%**	**3.5%**
Post Office Ltd	**3.3%**	**3.0%**	**3.2%**	**3.7%**	**4.0%**	**3.4%**	**3.3%**

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The Report

2.1 What is going well across health and safety and what are the current activities?
2.2 What are we doing to mitigate the key risks, including driving and robberies?

SAFETY and ENVIRONMENT

Performance remains strong across key health & safety metrics, including road risk and CiT related robberies (see Report–H&S Metrics). Current activities include:

1. **Person in Control (PiC) Training –** The H&S team are continuing to support all recently trained PiCs and ensure that all have received suitable training.
2. **Fire Training –** all colleagues and DMB and SC managers have undertaken training on Success Factors with ongoing support from Supply Chain.
3. **Property related risk (As reported in the Property Compliance Report)**
   - Current overall compliance, measured by up to date inspections is 95.63%.
   - Fire risks have been closed out and this year's programme will commence in Q3.
   - Electrical 5 year inspections are now BAU and remedial actions rectified following inspection.
   - Fabric projects for 17/18 are under review to ensure we optimise the capital budget on the higher priority sites.
   - Objectives next 2 months include; further fabric inspections and site audits to prioritise capital spend; an inspection of all shared site signage has being carried out with reports provided and all sites by end of October.
4. **Health & Safety Activity Calendars -** To ensure Health & Safety activities are undertaken, H&S BPs are attending Lead Team meetings to help raise awareness and compliance and this is being extended across all areas of the business in 17/18.
5. **Road Risk -** The volume of road traffic incidents continues to reduce. The Fleet Management Team and H&S Team are developing an overall Road Risk Policy.
6. **Security / Robbery Risk -** To mitigate risk following the recent increase in Post Office robberies additional TORCH surveillance visits are being undertaken. CViT related incidents have remained low.
7. **3rd Party Audit –** Head of H&S is in discussion with a number of providers including the British Safety Council, HSL and NSI in preparation for an independent audit of Post Office Health & Safety Management System in Q3 to identify weaknesses, improvement opportunities and receive guidance and support to achieve world class status. An update will be provided to GE at the deep dive in October.
8. **Environment -** The Environmental Tactical Group has reviewed policy and plans and reviewing energy, recycling and carbon data received from CBRE for year-end.

HEALTH & WELLBEING

1. The Health & Safety team are raising awareness of resources that are available to colleagues at Support Centre, Supply Chain & Directly Managed team meetings.
2. Mental Health awareness 'Time to Talk' sessions continue to be supported.
3. OH Assist have provided guidance for 'Mental Health First Aid' training for volunteers and a selection criteria has been agreed with HR BPs for recruitment during late September. Training is being scheduled for Sept / October.

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4. A new MH Awareness training workshop has been piloted with a group of line managers with very positive feedback and a roll out programme has been agreed from September.
5. Health Checks will continue to be offered to all employees (either Kiosk or Mobile)
6. The range of available OH services has been extended and current activity includes:
    - Launch of the Post Office Wellbeing Portal, enabling access to all services and resources through one landing page from PO and personal devices.
    - Extension of the absence 'case management' pilot, OH Assist™ Advice Plus.
7. A GE H&S Sub Committee review of Mental Health Initiatives is planned for 5th Sep.

What additional activity has been undertaken to address specific risks?

1. **Compliance to Driving and Mobile Phone Policy**
   A check has been incorporated into the local risk assessment undertaken by all line managers who have staff who drive for work. A new online training module is being developed and will be issued via Success Factors in Q3.
2. **Environmental Policy**
   The Property Compliance and H&S teams are working closely with Legal, Servest and IT to minimise risk associated with waste, especially hazardous. Guidance has been issued to Persons in Control to minimise the risk of waste reaching landfill sites.
3. **Security and lone working in Support Centres**
   H&S, Property & Security Managers are reviewing personal security arrangements in place at Support Centres & satellite offices to be implemented following the upgrade of security & access arrangements at Finsbury Dials that have been agreed.
4. **Fire Training and Evacuation Plans – Finsbury Dials**
   Additional Fire Wardens and First Aiders have received trained at Finsbury Dials and an evacuation plan worked through and reviewed in conjunction with Business Continuity Plan. Communications will be issued to remind staff of the evacuation plan. Online Fire Training was also issued in July and August via Success Factors.

2.3 Are there any significant emerging risks for 2017?

1. **Change Programmes -** H&S Business Partners continue to monitor absence, accident causation and working closely with lead teams, providing training and improving the focus on safety, attendance management and wellbeing to improve competence and compliance. Will work across the Network Operations
2. **Property / IT – Disposal of hazardous waste – Whilst Inherent risk is low** hazardous waste Horizon printer cartridges are being addressed by IT and a solution sourced by Procurement. **Current Objectives** include: Closure of outstanding remedial actions from previous '5 Year Electrical Inspections', further fabric inspections and site audits (see below).
   Property – Incident - A specific high risk issue has emerged for the fabric of our buildings, as reflected by the recent incident at Muswell Hill DMB. The incident was managed very well locally with no escalation to local authority or HSE necessary or likely. All signage has been checked at Royal Mail shared buildings and is continuing across the estate. Guidance was issued to Agents in April and will be reissued in September. There is an ongoing internal investigation by POL Property & Health & Safety to assess the current maintenance and contractual arrangements in place

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with our preferred FM partner (CBRE) to check that all of the fabric checks have been / will be undertaken and to include signage.

In addition we are

a. Checking the obligations of our partner CBRE are both understood and fulfilled and checking where provision may have been switched off following previous contract reviews, exposing Post Office to additional risk.
b. CBRE are checking all signs affixed to POL buildings and shared buildings
c. Undertaking a profiling of fabric risk across the estate with urgency and the forward maintenance plan updated

The investigation has identified a causation of substandard plywood materials being used for fixing signage and whilst the current priority is to control the risk and check the rest of our estate, ongoing investigation will help us understand the extent of the problem.

3. **An annual Health & Safety 'deep dive review'** has been undertaken by the GE H&S Sub Committee (Safety Board).

Areas carrying a higher risk of fatality or serious injury were reviewed including:

a. Property (Fire, Electrical, Fabric and Asbestos, Legionella, behaviour)
b. Security (ATMs, Agents robberies, Supply Chain attacks)
c. Road Risk for Commercial and Business Drivers (maintenance, fatigue and distraction, alcohol and drugs, mobile phone use, working hours and travel policy, lone working).

A review of H&S in Supply Chain, Directly Managed branches and Support teams also took place. GE Committee members and senior leaders for each function discussed and reviewed the risks and considered the current controls, agreeing areas for prioritisation and attention during 2017/18. These include:

a) Implementation of a single road risk policy for all business drivers and to monitor its application, including document checks and risk assessments
b) Identifying and then providing guidance and training to all lone workers
c) Improving safety of our vacated buildings, to include surveys of external fabric
d) Review and reissue personal security guidance for agents and consider best ways to share guidance for H&S and Business Continuity related matters.
e) Improve H&S competency of new line managers and PiCs across the business
f) Monitor compliance to H&S Activity Calendars and procedures and provide reports to GE, Safety Board and Senior Leaders to enable them to support and satisfy their business areas are compliant.
g) Consider an external audit of H&S governance, procedures and compliance during the second half of the year.
h) Urgently increase the number of Fire Wardens and First Aiders at Finsbury Dials and review provision at all largely populated sites.
i) Summarise and review the business crisis plan updates and evacuation plans.
j) Review Stay Calm manuals, update contents, simplify instruction and guidance and develop a consistent process that is fit for purpose.

An action plan has been developed and an update will be provided to the GE in October

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Group Executive Agenda - Draft

Remember (a+vei) (otw) (p&o) & (cit) !

Date reported as
19th October 2017

Start Time	Finish Time
09.30hrs	15.30hrs

Comments
Papers are due 12th October 2017

Present	In Attendance	Other Attendees	Apologies
• Paula Vennells (Chair) • Alisdair Cameron • Nick Kennett • Kevin Gilliland • Jane MacLeod • Rob Houghton • Martin Kirke • Mark Davies • Martin Edwards		• John Whitefoot (item 3) • Mark Siviter (item 8) • Tom Wechsler (item 9 & 10)	

	Agenda Item	Action Needed	Purpose	Lead	Timing
1.	**Performance – Financial Results & Review of Business Scorecard**	For information & input	To review the Financial Results & the Business scorecard and discuss any areas which are show to have a RED status.	AI	09.30 – 09.50
2.	**Performance Report – FS&T SBU**	For information & input	To review the Performance of FS&T SBU.	Nick	09.50 – 10.20
3.	**Project Jay**	For discussion & GE input	TBA	Martin E / John Whitefoot	10.20 – 10.50
BREAK					10.50 – 11.00
4.	**Identity Strategy**	For discussion & GE input	TBA	Kevin	11.00 – 11.30
5.	**Cash Product Strategy (GE action from 14th June)**	For discussion & GE input	TBA	AI / Martin Edwards	11.30 – 12.00
6.	**ATM Strategy**	For discussion & GE input	TBA	Nick	12.00 – 12.30
7.	**Brand & Brand Marketing (GE action from 14th June)**	For discussion & GE input	TBA	Kevin / Mark	12.30 – 13.00
LUNCH					13.00 – 13.30

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Group Executive Agenda - Draft

Remember (a+vei) (otw) (p&o) & (cit) !

Agenda Item		Action Needed	Purpose	Lead	Timing
8.	**Update on Royal Mail Negotiations**	TBA	TBA	Mark Siviter	13.30 – 14.00
9.	**POCA / Universal credit**	TBA	TBA	Tom Wechsler / Kevin	14.00 – 14.30
10.	**Government Services Opportunities**	TBA	TBA	Tom Wechsler / Kevin	14.30 – 15.00
11.	**Everest Update**	TBA	TBA	Rob	15.00 – 15.30
BREAK					15.30 – 15.40
12.	**Verbal update from Committees & Steering Groups** 12.1 IRSG 12.2 Ops Board 12.3 CRG	For noting	Chairs of Committees to update GE.	 Martin Kirke Al Al	15.40 – 15.55
13.	**Contracts for Approval.** 13.1	For approval	For GE to approve the Contracts.		15.55 – 16.05
14.	**Review of GE Minutes, Action Points and Updates**	For noting and input	To update the GE on the actions taken and provide any information requested.	All	16.05 - 16.15
15.	**Items for Noting** 15.1 Health & Safety 15.2 Forward Agendas GE – November 2017 Board – November 2017	For noting	For GE to note the papers.		16.15 – 16.20
16.	**AOB**				16.20 – 16.25
17.	**Feedback on meeting**	For input	Review the agenda items and the effectiveness of the sessions.		16.25 – 16.30
CLOSE					**16.30**

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Post Office Board Agenda

Date
26th September 2017

Start Time	Finish Time
10.30hrs	15.00hrs

Comments
Papers are due 19th September 2017

Present	In Attendance	Apologies
• Tim Parker (Chairman) • Richard Callard • Tim Franklin • Virginia Holmes • Ken McCall • Carla Stent • Paula Vennells • Alisdair Cameron	• Jane MacLeod • Steve Ashton (item 4) • Nick Kennett (item 4, 6 & 8) • Kevin Gilliland (item 6) • Rob Houghton (item 7) • Owen Woodley (item 8) • Representatives from McKinsey (item 8)	None

Agenda Item		Action Needed	Purpose	Lead	Timing
1.	**Minutes of previous Board and Committee meetings including Status Report**	Decision	Minutes formally agreed.	Jane MacLeod	10.30 – 10.35
2.	**CEO Report**	CEO report noted	CEO to update the Board on the report.	CEO	10.35 – 10.55
3.	**Financial Report**	For noting	CFOO to update the Board on the report.	CFOO	10.55 – 11.10
4.	**POMS Performance against Strategy**	For noting	To update the Board on POMS' performance against strategy.	Steve Ashton / Nick Kennett	11.10 – 11.25
5.	**Approve Report & Accounts after recommendations from the ARC**	For approval	For Board to approve the Annual Report and Accounts.	CFOO	11.25 – 11.50
BREAK					11.50 – 12.00
6.	**Chief Executive Retail Performance Report**	For noting	To update the Board.	Kevin Gilliland	12.00 – 12.25
7.	**IT Strategy**	For information and input	To review the IT Strategy.	Rob Houghton	12.25 – 13.15
LUNCH					13.15 – 13.45
8.	**Peregrine Update**	For discussion and potential decision	To update the Board on negotiations with the BoI and the options for 2023.	Nick Kennett / Owen Woodley / McKinsey Representatives	13.45 – 14.45

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Post Office Board Agenda

Agenda Item		Action Needed	Purpose	Lead	Timing
9.	**Ratifications of decisions made by correspondence** 9.1 Modern Slavery	Ratification of statement	The ARC approved the statement at its meeting in may but this was not brought to the Board for approval. Accordingly ratification is now required.	Jane MacLeod	14.45 – 14.50
10.	**Items for noting**				14.50 – 14.55
	10.1 Sealings	For noting	Board aware of the affixing of the seal		
	10.2 Health & Safety	For noting	To update Board		
	10.3 Meeting dates and forward agendas				
11.	**AOB**				14.55 – 15.00
	CLOSE				15.00

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Post Office Board Agenda - Draft

Date
31st October 2017

Start Time	Finish Time
09.30hrs	14.00hrs

Comments
Papers are due 24th October 2017

Present	In Attendance	Apologies
• Tim Parker (Chairman) • Richard Callard • Tim Franklin • Virginia Holmes • Ken McCall • Carla Stent • Paula Vennells • Alisdair Cameron	• Jane MacLeod • Nick Kennett (item 4) • Kevin Gilliland (item 4 & 7) • Martin Edwards (item 6) • John Whitefoot (item 6) • Rob Houghton (item 8) • Martin Hopcroft (item 9)	None

	Agenda Item	Action Needed	Purpose	Lead	Timing
1.	**Minutes of previous Board and Committee meetings including Status Report**	Decision	Minutes formally agreed.	Alwen Lyons	5 mins
2.	**CEO Report** Including IR update	CEO report noted	CEO to update the Board on the report.	CEO	20 mins
3.	**Financial Report**	For noting	CFO to update the Board on the report.	CFOO	20 mins
4.	**Chief Executive Financial Service & Telecoms Performance Report**	For noting	To update the Board.	Nick Kennett	25 mins
5.	**Cash Efficiency**			CFOO	30 mins
BREAK					10 mins
6.	**Project Jay**			Martin Edwards / John Whitefoot	30 mins
7.	**Identity Strategy**			Kevin Gilliland	30 mins
8.	**Everest Update**			Rob Houghton	30 mins
9.	**Health & Safety Deep Dive**			CFOO / Martin Hopcroft	30 mins
LUNCH					30 mins
10.	**Back Office Transformation**	For noting	To update Board on Back Office Transformation.	CFOO	30 mins

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Post Office Board Agenda - Draft

Agenda Item		Action Needed	Purpose	Lead	Timing
11.					
12.					
13.					
14.	**Board Committee Chair updates (verbal)**	For noting	To update Board		15 mins
15.	**Ratifications of decisions made by correspondence**				10 mins
16.	**Items for noting**				10 mins
	16.1 Sealings	For noting	Board aware of the affixing of the seal		
	16.2 Health & Safety	For noting	To update Board		
	16.3 Meeting dates and forward agendas				
17.	**AOB**				10 mins
	CLOSE				