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Cover Page

Title:	FY24/25 Business Plan (including Product Profitability)	Meeting Date:	01 March 2024
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Input Sought: Review

The purpose of this report is to provide a summary of the FY24/25 Business Plan including Product Profitability analysis.

This Plan is the Executive's Recommended Plan for FY24/25 which includes self-funded 'Other Change spend' of IRRELEVANT as set out within the report.

This Plan has been prepared against the backdrop of Business Unit Strategic Priorities (as set out in the Appendix), recognising that this will need further development and guidance from the Executive and Board as part of the 3-5 Year Strategic Vision.

Based on Investment Committee feedback, the Executive understand that there may be appetite for additional 'Other Change Spend' beyond IRRELEVANT. In anticipation of this discussion, this report includes a section covering 'options' on where additional investment could be directed with continued consideration sought to funding requirements, sustainable affordability, strategic alignment, risk tolerance, return on investment as well as timeframe/capacity/practicalities of delivery and would welcome the Board's feedback and guidance on this.

Roadmap	Milestone	By When
Board Engagement	1:1 Walkthroughs of Pre-Read	22nd February – 26th February
February Board	**Review of FY24/25 Business Plan including Product Profitability**	1st March
March SEG - Monthly	**Recommendation for Approval of FY24/25 Budget + Review of FY25/26 Plan**	**13th March**
March Board	**Final Approval of FY24/25 Budget** **Review of FY25/26 Plan and Outline of preparation for FY25/26 Spending Review**	**25th March**

Next steps:

There are some elements linked to the FY24/25 Business plan that continue to be a work in progress and which are listed below:

Next steps:	By When
Summary of FY24/25 POL Strategic Priorities aligned to Board guidance on FY24/25 investments	March Board
Refinement of FY25/26 Assumptions and preparation of Outline for FY25/26 Spending Review	March Board
3-5 Year Business Plan including Strategic Vision and Horizon Scanning	Board Strategy Day

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FY24/25 Business Plan: Contents

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FY24/25 Business Plan
1. Headlines

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Executive Summary (1/3)

1

Headlines

The FY24/25 Budget is projecting a IRRELEVANT a 'base' position aligned to IRRELEVANT of 'other change' activity noting that additional 'growth' or 'efficiency' related investments could realise benefits that improve this trading position. Revenues are projected to IRRELEVANT equivalent to a (5.3%), with IRRELEVANT loss in revenue due to the exit of Lottery in Jan-24; excluding Lottery this is a (3.3%) decline. Total PM Remuneration is expected to be at IRRELEVANT which includes IRRELEVANT for Operational Excellence incentive payouts. Variable PM Rem as a % of Variable Revenue is expected to be at 51.6% (vs 51.4% in FY23/24 or 50.6% excluding Lottery). Whilst the Operating cost base is expected to be broadly flat year on year, this is driven by IRRELEVANT of projected cost increases, fully offset by IRRELEVANT of cost reductions (of which IRRELEVANT are expected to meet the Remco savings criteria). Opportunities to reduce the cost base further have been identified through this process, with assessment on investment required, implications and executability included within this Business Plan.

2

Mails Revenue

Mails revenues are expected to IRRELEVANT (0.4%) year on year, with IRRELEVANT revenue partially offset IRRELEVANT

The IRRELEVANT projected year on year IRRELEVANT is considered to be volume driven with the introduction of IRRELEVANT and shift to lower margin IRRELEVANT as well as a 52 week (vs 53 in FY23/24).

IRRELEVANT is expected to grow by IRRELEVANT driven by higher volumes across all areas with improved maturity of branches, as well renewed efforts to relaunch and refocus on IRRELEVANT from Q4 23/24 onwards.

3

Banking Revenue

Banking revenues are expected to grow organically by IRRELEVANT year on year in response to bank closures and through the further Banking Hub openings.

IRRELEVANT budgeted to grow by IRRELEVANT (4%) driven by IRRELEVANT in volumes, along with inflationary price rises. IRRELEVANT (7%) with volumes expected to remain flat and growth through inflationary increases. Banking Other revenue is IRRELEVANT (64%) YoY due to an increase in Bank Hub openings.

The Banking Framework IRRELEVANT is expected to hit the IRRELEVANT cap in FY24/25. There is no scope for any additional framework IRRELEVANT is the maximum per the current agreement, however is a c. IRRELEVANT based on how the IRRELEVANT s calculated.

4

Financial Services, Travel and Insurance Revenue

Bank of Ireland (MSL) revenues are budgeted to IRRELEVANT in line with an expected return to lower and more stable interest rates, and the shifted construct of the recently signed agreement. There may be potential upside to this projection if interest rates do not fall as expected.

Travel Insurance revenue is expected to IRRELEVANT (11%) due to the full year impact of moving from SEO position P1 to P2 along with price increases of c.10% for aggregators due to IRRELEVANT IRRELEVANT Delivery of these revenues will be more targeted, however, driving higher profits overall.

Travel Money revenue is budgeted to IRRELEVANT due to RPI uplifts, whereas our FRES profit share is expected to be IRRELEVANT because the FRES business is more IRRELEVANT to the overall IRRELEVANT than the Travel Money business.

5

Other Revenue

Retail, Lottery & Gift Cards revenue is declining by IRRELEVANT (72%) due to the exit of Lottery in Q4 FY23/24.

Payment Services revenue is IRRELEVANT (14%) as we are not expecting a repeat of the small amount of EBSS payout roll over that we benefitted from in FY23/24.

Government Services revenue is IRRELEVANT (16%) YoY with the UKVI contract coming to an end in FY24/25 and no extension planned.

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Executive Summary (2/3)

6 **Postmaster Remuneration (PM Rem)**

FY24/25 Variable PM Rem will reduce by IRRELEVANT due to the exit of Lottery, partially offset by a IRRELEVANT placeholder for the Operational Excellence (OE) Incentive. Excluding these impacts on a like for like basis, Variable PM Rem is expected to increase by IRRELEVANT (aligned to Variable revenue increase of IRRELEVANT and is assumed to be at 51.6% of variable revenue (vs 51.4% in FY23/24 or 50.6% excluding Lottery). Within this average, overall Mails rates are expected to increase slightly due to product mix, whilst Banking rates are expected to fall from 55% to 53% due to shift in mix towards lower rem generating volume drivers whilst Average Transaction Values (ATVs) are assumed to remain flat.

FY24/25 Fixed PM Rem payments are budgeted to reduce by IRRELEVANT to a total of IRRELEVANT driven by the cessation of Major Branch Support as OE ramps up, assumed 6% churn in branches that receive Assigned Office payments (with no inflationary increases assumed) and lower in-year Strategic Partners payments. It does include a IRRELEVANT increase in Other Fixed payments to cover an anticipated increase in hardship volumes following the exit of Lottery and Living Wage increase.

7 **Network Shape**

FY24/25 is expected to commence with 11,776 branches in the network. Churn is forecast at c.3.5%, broadly in line with the rate for 23/24. The network plan assumes the planned exit of 7 DMBs, 10 loss-making branches on exceptional remuneration and 45 'Hard to Place' branches. It also assumes 200 net Drop & Collect (D&C) openings and the targeting of 70 Mains & Locals openings, co-funded by postmasters. Subject to carrier agreements, a stretch plan could deliver up to 200 additional D&C, creating the headroom for 200 Outreach exits. This will be managed to reflect evolving market & financial conditions subject to quarterly review. Overall, the network in March 2025 is forecast to be close to 11,600, remaining above the 11,500 target.

8 **Operating costs and Headcount**

Operating costs of IRRELEVANT (staff costs of IRRELEVANT and non-staff costs of IRRELEVANT are expected to remain flat year on year - driven by IRRELEVANT of gross cost increases offset by IRRELEVANT of gross cost reductions, of which IRRELEVANT could meet the Remco definition of 'incremental' year on year savings that are actively pursued (breakdown on page 38). Within the IRRELEVANT of cost increases, IRRELEVANT is due to RPI and contractual indexation and IRRELEVANT is due to a Pay Award assumption of 3.75% for CWU and Unite employees and 2.75% for 3A and 4 grades. There is potential opportunity against this dependent on the outcome of Union negotiations. Average projected FTE headcount of IRRELEVANT are projected to reduce by IRRELEVANT FTE on a net basis, with IRRELEVANT FTE reduction within Remediation Unit and IRRELEVANT FTE reduction through the closure of the Swindon Supply Chain site; this is partially offset by planned increases in People, CIO and CFO for which further explanations are provided on page 36.

Activity Based Costing analysis suggests of the IRRELEVANT total opex costs, IRRELEVANT of operating costs are considered to be 'Central' overheads, IRRELEVANT is linked to delivering DBT policy and the remaining IRRELEVANT are linked to supporting revenue (of which c. IRRELEVANT has been identified as potential reclassification into Cost of Sales). Indicative analysis suggest 87% of non-staff costs IRRELEVANT are considered to be contracted; further work is being undertaken to understand the nature and pipeline of these contractual costs, particularly in relation to 3-5 year horizon scanning. The budget assumes IRRELEVANT of losses due to branch discrepancies – a reduction of IRRELEVANT year on year. Opportunities related to 'Efficiency' investments supporting further cost reduction are set out on page 23.

9 **Product Profitability**

The objective of Product Profitability is to understand a truer profitability for POL products and services taking into account direct costs, indirect costs and allocation of central overheads; and to leverage these results as a tool to support, validate and enhance commercial and network decision making across the organisation, such as IRRELEVANT The analysis in this report is based on a purely mathematical exercise using the FY24/25 Trading Profit – it has not been reviewed by Commercial leads for commentary or input. It does not include an allocation of items below Trading Profit such as NSP or investment cost, nor does it calculate the Postmaster cost to serve – these have been identified as limitations.

The key findings show that all commercial business units are projected to make a positive variable contribution in FY24/25 and where possible these should continue to be benchmarked to competitor products in commercial assessments. At the notional profit level, before the allocation of central overheads IRRELEVANT – assumed to be due to the following reasons: i) The network cost base for delivering IRRELEVANT is aligned to a revenue base that is declining year on year (e.g. IRRELEVANT) – removing these increasing network costs in line with revenue requires some time and investment; ii) With the implementation and delivery of the Mails Strategy, IRRELEVANT but this is expected to take time to ramp up; growth in this area will require investment; iii) Variable Postmaster Remuneration IRRELEVANT is significantly higher than other BUs such as IRRELEVANT - this needs to considered when reviewing the Remuneration Strategy in the Summer.

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Executive Summary (3/3)

10 **Investment and Change Spend**

Total Change Spend for the FY24/25 budget is projected to be IRRELEVANT comprised of IRRELEVANT for projects categorized in Replacement of Horizon (incl. SPMP), IRRELEVANT for Remediation Unit & Inquiry, (both of which POL is requesting DBT funding) and IRRELEVANT of 'Other' Change Spend (assumed to be self-funded by POL). Of this IRRELEVANT is considered to be 'Maintenance' related (Non-discretionary spend) and IRRELEVANT 'Efficiency' related to support cost reduction plans. Latest forecasts since the Investment Committee review suggest the IRRELEVANT of 'Other Change spend' could potentially increase by a further IRRELEVANT due to deferral/slippage from FY23/24 across multi-year programmes – the cashflow impact of this is expected to be limited. A breakdown of the projects within these categories is provided on page 17 of this plan.

11 **Security Headroom and Facility Headroom – and sensitivity analysis**

The **baseline Security Headroom** assumes DBT funding of IRRELEVANT in FY24/25, which is comprised of IRRELEVANT n NSP IRRELEVANT for RU/Inquiry (as part of the IRRELEVANT agreement) and IRRELEVANT contingency (subject to agreement), IRRELEVANT for Replacement of Horizon (as part of the agreed Investment funding with DBT) and a further IRRELEVANT for SPMP (subject to receipt of funding letter). Based on these assumptions, FY24/25 Security Headroom is projected to be positive throughout the year. The lowest point would be IRRELEVANT in Dec-24 (noting a recommended buffer of IRRELEVANT maintained throughout the year due to cover a downward swing in payables IRRELEVANT would be c.50% of banking deposits over a weekend). The SH forecast assumes an unfunded variance of c IRRELEVANT change spend on SPMP (over and above the IRRELEVANT and c IRRELEVANT of RU/Inquiry spend (over and above the IRRELEVANT contingency) – should this position change this would provide additional SH upside. IRRELEVANT

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The **baseline Facility Headroom** assumes a WCF of IRRELEVANT throughout the year, and an NRF facility of IRRELEVANT n H1 and IRRELEVANT n H2. There are ongoing discussions regarding increasing the WCF by IRRELEVANT with the NRF permanently reducing down to IRRELEVANT This would provide facility upside in H2 based on current assumptions. There are no breaches of Facility Headroom forecast for FY24/25 with the lowest point in Dec-24, which is IRRELEVANT away from entering the £ IRRELEVANT Board approved buffer.

12 **Risks & Opportunities**

Risks & opportunities to the FY24/25 Trading Loss position include those that are trading related (page 27) as well as operating cost related (page 39). These are not included within the FY24/25 budget as there is a probability associated with these crystallising. There are also risks identified to Change spend (page 15), including RU & Inquiry which will be mandatory and 'self-funded' should DBT funding not be made available e.g. to cover administration of the £75k payments, 1,500 late HSS applications, exoneration impacting Overturned Convictions, potential extension to the Inquiry timelines and Capture related investigation, legal fees and compensation payments.

POL's current position of highest areas of Enterprise risk exposure remain in the following areas: Cyber Security, Technology, Legal, People & Operations (Retail & Franchise). There are 18 out of 81 intermediate risks outside of tolerance all of which have a remediation plan to bring into tolerance by an agreed target date (November ARC). However due to increased focus on the Inquiry, Media attention, increased pressure on colleagues it is expected that several risks will remain outside tolerance for longer – subject to change spend 'options' being agreed through this review.

13 **Options and Next Steps**

Based on all considerations of this Business Plan, decisions on the quantum of 'self-funded' FY24/25 'Other Change spend' must be balanced with a view of sustainable affordability. Whilst additional change spend of say IRRELEVANT in FY24/25 may not breach Security Headroom in FY24/25 it erodes the ability to manage cash flow and 'self-funded' investments in FY25/26 and beyond. This would be further impacted by the expectation of a IRRELEVANT Trading loss in FY24/25 as per this Plan, which would not contribute to positive cash flow optionality for future years.

Options on where additional investment could be directed within Maintenance, Efficiency and Growth categories are provided within this Plan with continued consideration sought to strategic alignment, risk tolerance, return on investment as well as timeframe/capacity/practicalities of delivery. Feedback from the February Investment Committee also suggested 'Innovation' related investment for longer term commercial development as well as investments within 'Digital/ Automation' which must also be considered. Options for 'Maintenance' related investments would reduce identified risks, bringing these into tolerance within the agreed target date. IRRELEVANT

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Key Assumptions Underpinning the FY24/25 Business Plan

Area	Key Assumptions	Further detail
Self-funded 'Other Change Spend'	IRRELEVANT **of self-funded change investments** following GE prioritisation of which: • IRRELEVANT 'Maintenance': largely non-discretionary that is necessary, contracted or nugatory spend or (avoiding sunk costs) • IRRELEVANT 'Efficiency': investments that enable cost reduction • IRRELEVANT 'Growth': of which IRRELEVANT for Mails Strategy (developing Non-RM propositions)	Page 18
DBT Funding	IRRELEVANT **of DBT funding** of which: • letwork Subsidy Payment (to subsidise cost of the uncommercial network required due to the Network Access Criteria) • RU/Inquiry (as part of the IRRELEVANT agreement) • IRRELEVANT RU/Inquiry Contingency (subject to final agreement) • or Replacement of Horizon (as part of the agreed Investment funding) • for SPMP (subject to receipt of funding letter)	Page 19
Revenue	**52 week trading vs 53 week in FY23/25** • Mails: Average IRRELEVANT in Royal Mail volumes across product portfolio • Banking: Deposits IRRELEVANT Withdrawals IRRELEVANT Banking Framework Fee: IRRELEVANT cap • Mortgages, Savings Loans: IRRELEVANT guaranteed minimum commission in 2024 & 2025. • Travel Insurance: IRRELEVANT due to SEO position P2 (vs P1 in FY23/24) and price increases of c.10% for aggregators (reducing aggregator volumes) • Government Services: UKVI contract ending in FY24/25 with no extension planned	Page 27-28
Postmaster Remuneration	**Variable PM Rem** of 51.6% (vs 51.4% in FY23/24 or 50.6% excluding Lottery); RM Mails 63.3% (vs 62.3% in 23-24); Banking 53% (vs 55% in 23-24) Variable PM Rem includes IRRELEVANT for Operational Excellence incentive based on 62.5% conformance (vs current 37.5%); pro-rated for Sept-implementation; **Fixed PM Rem**: 6% churn in branches receiving Assigned Office Payments IRRELEVANT unallocated for expected increase in Hardship Volumes (Min Wage; Lottery exit)	Page 30-32
Network Numbers	Opening at 11,776 branches; churn in commercial branches of c.3.5% (flat on FY23/24). Planned exits of 7 DMBs, 10 loss-making branches on exceptional remuneration and 45 'Hard to Place' branches. Openings of 200 Drop & Collect (D&C), the targeting of 70 Mains & Locals openings, co-funded by postmasters. Closing forecast of c.11,600 – remaining above 11,500 target. Subject to carrier agreements, a stretch plan could deliver up to 200 additional D&C, creating the headroom for 200 Outreach exits.	Page 34-35
Inflation RPI	RPI – 3.6%; CPI – 2.5% Source: Forecomp_October.pdf (publishing.service.gov.uk); For work performaned by Fujitsu - contractual indexation of 6%	Page 13
Pay Award	3.75% for CWU and Unite employees and 2.75% for 3A and 4 grades	Page 37
FTE Headcount	Average FTE headcount of IRRELEVANT FTE projected to reduce by IRRELEVANT FTE on a net basis, with IRRELEVANT FTE reduction within Remediation Unit and IRRELEVANT FTE reduction through the closure of the Swindon Supply Chain site; this is partially offset by 39 planned increases in People (20), CIO(14) and CFO (5).	Page 36
Cost Savings	IRRELEVANT of budgeted cost savings that could meet the Remco definition of 'incremental' year on year savings that are actively pursued	Page 39
Loan Facility	Working Capital Facility IRRELEVANT throughout the year, and Notes Relief Facility of IRRELEVANT in H1 reducing to IRRELEVANT in H2.	Page 20
Interest rate	Drawdown of the DBT WCF at a fixed rate of 1.32%	Page 9
Depreciation	IRRELEVANT of Budgeted Capex assumed to depreciate over average UEL of 7 years	Page 9

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Historical Overview: Revenue vs Operating Cost base

Since separation with Royal Mail, Mail revenues have declined by IRRELEVANT and revenues from Government Services (including POCA/Voucher Encashment) have declined by IRRELEVANT Despite this and excluding the sale of Telco in FY20/21, Network revenues have remained broadly flat in comparison to FY13/14 levels due to the creation of additional revenue streams through the Banking Framework and Non-Royal Mail revenues with other carriers.

However over the last few years, Operating Costs (Staff & Non-Staff costs) as a percentage of revenue and income have been increasing – **a position that is unsupported by the P&L, unaffordable and unsustainable.**

Activity Based Costing analysis estimates that 52% of the FY24/25 Operating Cost base is focused on delivering key areas of DBT policy of sustaining the network (37%) and cost of cash access (15%) – with the Network Subsidy Payment remaining at IRRELEVANT since FY19/20. There is every **opportunity to "right size" the business** through **effective strategic prioritisation and delivering sustainable efficiencies.**

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Revenue and Income | Total Operating Costs | Operating Costs % of Revenue and Income

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Post Office Limited - Document Classification: INTERNAL

FY24/25 Summary P&L: Profit Before Tax

			FY24-25 Variances vs 9+3		FY24-25 vs 3YP	
	23-24 9+3 Forecast	FY24-25 Budget	YoY £m	YoY %	FY24-25 3YP	Var £m
Mails - RM						
Mails - Non RM						
Banking Services						
ATMs						
Travel Money						
Mortgages, Savings & Loans						
International Money Transfer						
Credit Cards						
PO Insurance						
Payment Services & Payzone						
Retail, Lottery & Gift Cards						
Government Services						
Identity Services						
Voucher Encashment						
Supply Chain/Other						
Total Revenue						
Cost of Sales						
Postmasters Rem Variable Costs						
Postmasters Rem Fixed and Other Costs						
Merchant Commission						
FRES						
Gross Margin						
Staff Costs						
Non Staff Costs						
Total Overheads						
Trading Profit						
Network Subsidy Payment						
EBITDA						
Depreciation						
Interest						
Exceptional Change Spend						
Investment Funding						
Profit On Asset Sales						
Profit Before Tax						
KPIs						
Total PM Rem						
Total PM Rem % Total Revenue						
Variable Rem % Variable Revenue						
Total Opex % Revenue and Income						

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Headlines

- The FY24/25 Budget is projecting a Trading Loss of IRRELEVANT a 'base' position aligned to IRRELEVANT of 'other change' activity noting that additional 'growth' or 'efficiency' related investments could realise benefits that improve the trading position.
- The largest driver of the year on year movement is a projected reduction in revenues of IRRELEVANT equivalent to a (5.4%) decline, although like for like excluding Lottery this is a (3.3%) decline.
- Total PM Remuneration (Variable + Fixed) is expected to be at IRRELEVANT of which IRRELEVANT is expected to be Variable. This includes IRRELEVANT for Operational Excellence incentive payouts. Variable PM Rem as a % of Variable Revenue is expected to be at 51.6% (vs 51.4% in FY23/24 or 50.6% excluding Lottery).
- The Operating cost base is expected to be broadly flat year on year, driven by (IRRELEVANT of projected cost increases, wholly offset by IRRELEVANT of cost reductions (of which IRRELEVANT are expected to meet the Remco savings criteria).
- Detailed review of the Operating cost base has identified c IRRELEVANT of costs which could be reclassified as Cost of Sale. Whilst this has no impact to Trading Profit it reflects a truer nature of the operating cost base which would reduce to IRRELEVANT (49% of revenue and income). Any reclassification would be overlayed after the FY23/24 year end to ensure like for like comparison. Opportunities to reduce the cost base further have been identified through this process, with assessment on funding required, implications and executability included within this Business Plan.
- Depreciation costs of IRRELEVANT include (IRRELEVANT) for existing assets and a further (IRRELEVANT in relation to IRRELEVANT of budgeted capex spend (assumed to depreciate over an average useful economic life of 7 years).
- Interest costs are largely determined in relation to drawdown of the WCF at an average rate of 1.32% - these are expected to be IRRELEVANT higher due to an expected increase in the WCF drawdown to compensate for a IRRELEVANT reduction to the NRF facility from P7.
- FY24/25 Investment funding of IRRELEVANT in this base Budget assumes IRRELEVANT for RU/Inquiry (as part of the IRRELEVANT agreement) plus a further IRRELEVANT contingency (s.t. agreement), IRRELEVANT for Replacement of Horizon (as part of the agreed Investment funding with DBT) and a further IRRELEVANT for SPMP (s.t. receipt of funding letter).

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FY24/25 vs FY23/24: Revenue trajectory and phasing

FY24/25 Revenue of IRRELEVANT is expected to be a IRRELEVANT reduction on the FY23/24 Outturn. Mails revenues are expected to be impacted by further re-baselining of the IRRELEVANT (MSL) IRRELEVANT in line with lower and more stable interest rates and the shifted construct of the recently signed agreement. Net Banking revenues are expected to continue to grow organically in response to bank closures and through the further Banking Hub openings. Revenue phasing is fairly consistent YoY, with a gradual reduction month on month. The lower BOI MSL incentive can be seen with reduced P11 revenue in FY24/25 compared to FY23/24,

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Total Revenue 23-24 — Total Revenue 24-25

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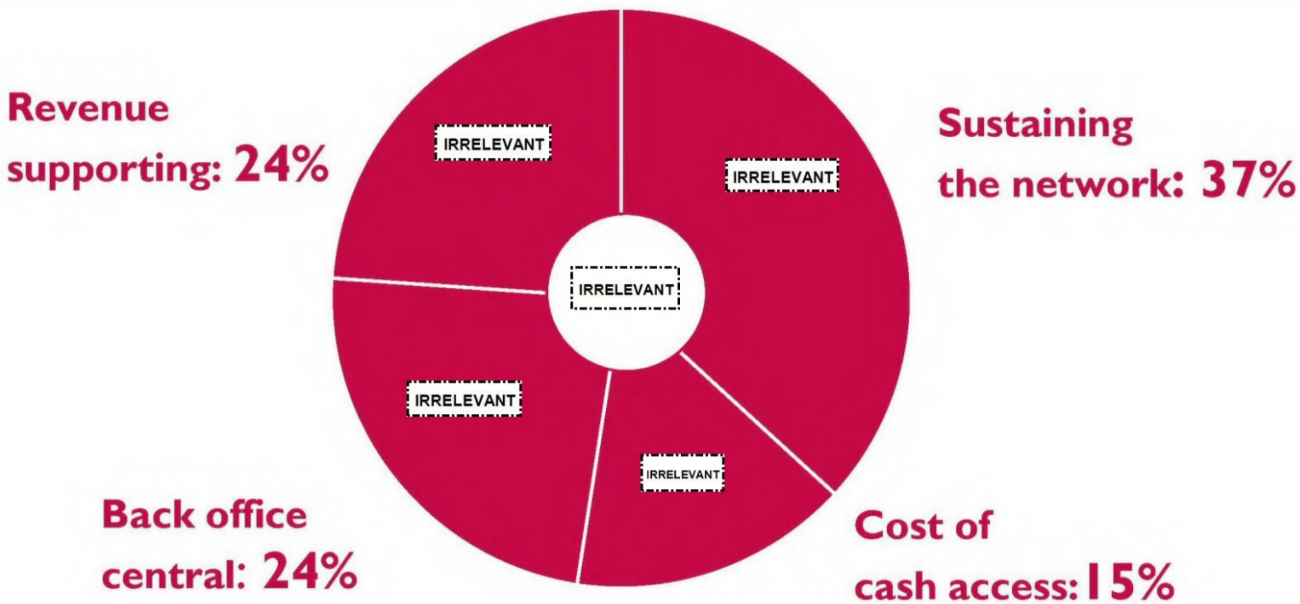
FY24/25 Total Cost base – by Activity

50% of POL's cost base today is focused on key areas of DBT policy, with 24% driven by back office central costs

FY24/25 BUDGET COST BASE: IRRELEVANT		
COST OF SALES IRRELEVANT	STAFF COSTS IRRELEVANT	NON STAFF COSTS IRRELEVANT



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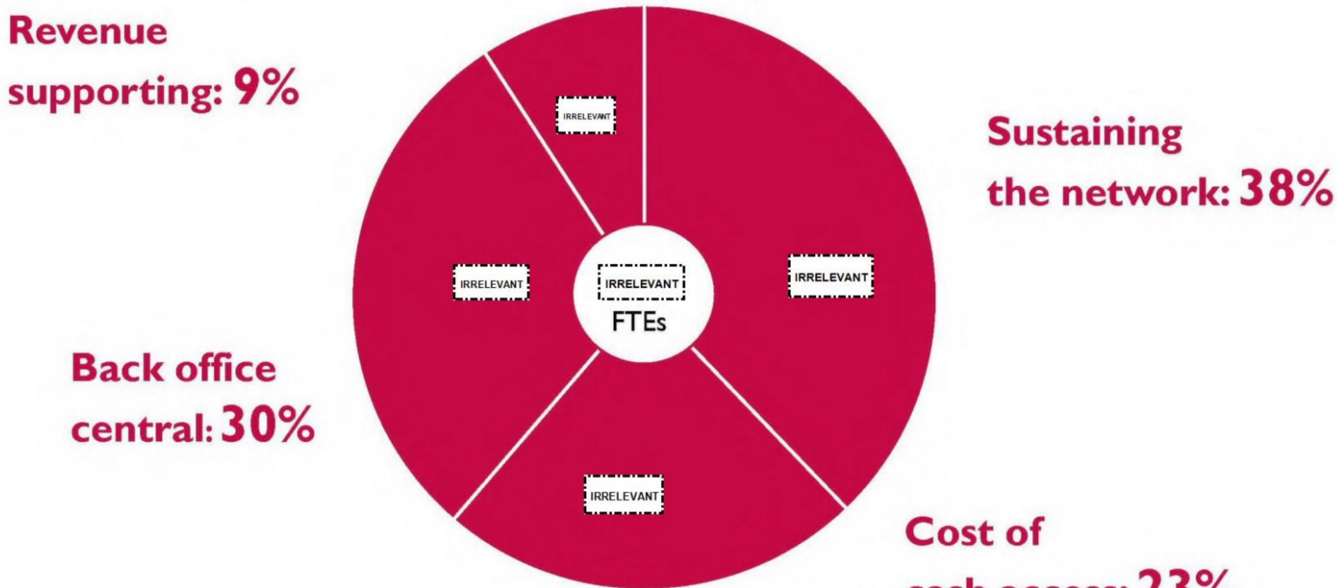
FY24/25 FTE Headcount – by Activity

60% of POL's FTE headcount today are focused on key areas of DBT policy, with 30% working in back office functions

March-25 budgeted Headcount position: IRRELEVANT			
Central POL Employees IRRELEVANT	DMB and Supply Chain IRRELEVANT	PZ and POI IRRELEVANT	Contractors IRRELEVANT



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FY24/25 Budget: Total Operating costs and YoY movement

Operating costs (Non-staff and staff costs) are being held flat on FY23/24, based on c IRRELEVANT of cost increases (of which 21% is driven by inflation and contractual indexation), offset by IRRELEVANT of cost reductions of which IRRELEVANT are actively planned and 'incremental' cost savings.

Opex costs by BU	FY23-24 9+3	FY24-25 Budget	YoY £m	*of which:* Savings (Active)	Reductions (Passive)	Cost increases
Commercial						
Retail						
CIO						
CFO						
People						
LCAS						
Centrally Managed						
Strategy & Transformation						
Communications						
Total POL						

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Notes

- Operating costs of IRRELEVANT are expected to remain flat year on year - driven by IRRELEVANT of gross cost increases offset by IRRELEVANT of gross cost reductions, of which IRRELEVANT could meet the Remco definition of 'incremental' and 'genuine and intended' savings in the sense that they are actively pursued.
- Any cost avoidance or cost saving already achieved in FY23/24 should not be double counted again as a 'cost saving' in FY24/25. Based on this guidance, the remaining IRRELEVANT of budgeted cost reductions are excluded as largely due to one-off costs in FY23/24 not expected to repeat.

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FY24/25 vs FY23/24: Projected Trading Loss of (IRRELEVANT)

The FY24/25 Business Plan is currently projecting a trading loss of IRRELEVANT with a year-on-year decline in commercial profits IRRELEVANT IRRELEVANT as well as projected increases in the operating cost base offset by year on year cost reductions and savings. Opportunities to improve this position through implementing 'efficiency' related actions that reduce the cost base, are set out in this business plan.

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FY24/25 Budget: Comparison to the 3 Year Plan

The current FY24/25 Budget projection of a Trading Loss of IRRELEVANT is a IRRELEVANT improvement to the IRRELEVANT Trading Loss presented in the June-23 3YP. It is largely driven by a IRRELEVANT net improvement in Revenues (which includes assumptions on revenue loss not materializing), a IRRELEVANT reduction in Fixed Rem payments driven by the Network Strategy, offset by a IRRELEVANT increase in Variable PM Rem and a net IRRELEVANT increase in the operating cost base.

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Total Change & Investment Spend

Total Change Spend for FY24/25 is currently projected at IRRELEVANT of which IRRELEVANT relates to DBT funded projects categorized in Replacement of Horizon (incl. SPMP) and Remediation Unit & Inquiry, as well as IRRELEVANT for Other Change Spend, which the Investment Committee has reviewed in February-24.

Total Change Spend

Total Change Spend, £m	FY22/23 Actual	FY23/24 Forecast	FY24/25 DRAFT	3YR Total	FY25/26 Plan
Other Change Spend – Self funded	IRRELEVANT				
Remediation & POHIT Inquiry					
Replacement of Horizon					
Total POL					

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Risks

Risks to **RU/Inquiry change spend** (which will be mandatory if unfunded as opposed to 'options'):

- Administration of £75k payments
- Administration of 1,500 late HSS applications
- Administration of Exoneration impacting Overturned Convictions
- Extension to the Inquiry timelines
- Capture related investigation, legal fees and compensation payments

Risks to **Other Change Spend**:

- **Potential** IRRELEVANT **delayed spend** from FY23/24 into FY24/25 (IRRELEVANT DD and IRRELEVANT across other projects based on current monthly run rates)
- Potential IRRELEVANT estimate for Hard to Place Branches: reflecting IRRELEVANT
- Potential IRRELEVANT accounting reclassification of spend from opex to capex TBC (however opportunity to reduction in opex)

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Other Change Spend: Comparison to Prior Years

The FY24/25 budget of IRRELEVANT for Other Change Spend (net) is comparable to prior years, of which IRRELEVANT is considered 'Maintenance' related and IRRELEVANT 'Efficiency' related to support cost reduction plans. However latest forecasts since the time of writing suggest this could potentially increase by a further IRRELEVANT due to deferral from FY23/24 across multi-year projects – the cashflow impact of which is expected to be limited.

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2021/22A 2022/23A 2023/24F 2024/25B

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Top Other Change Spend Projects by Category

The FY24/25 budget of IRRELEVANT for Other Change Spend includes IRRELEVANT considered to be 'Maintenance' related and IRRELEVANT 'Efficiency' related to support cost reduction plans.

	Top 10 Maintenance Projects	Portfolio	FY24/25 Budget	Description
1	Data Centre Fortification	Technology	IRRELEVANT	IRRELEVANT
2	Copper Stop Sell	Technology		
3	PED Replacement Devices	Technology		
4	Project Test Environment FY23	Technology		
5	Back Office Operational Modernisation	Technology		
6	Cyber Security Maturity	Technology		
7	PCI Compliance	Technology		
8	ATM Banking Strategy	Commercial		
9	POL Data Enablement Programme	Technology		
10	Central Change Team FY24	Central		
11	Multi-Function Devices	Commercial		
12	Network Maintenance 2023/24	Retail		
13	POI Reg & Compliance 24/25	Commercial		
14	Property CAT - Compliance 24-25	Retail		
15	Horizon Continuous Improvement	Technology		
	Other	-		
	Total Maintenance Project Spend	-		

	Top 5 Efficiency Projects	Portfolio	FY24/25 Budget	Description
1	Darwin	Supply Chain	IRRELEVANT	IRRELEVANT
2	IRRELEVANT	Retail		
3	Operational Excellence	Commercial		
4	Network Strategy Acceleration (NSA)	Retail		
5	Network Strategy - Hard to Place Branches	Retail		
	Other	-		
	Total Efficiency Project Spend	-		

Growth Projects	Portfolio	FY24/25 Budget	Description
Mails Strategy – multiple projects	Commercial	IRRELEVANT	IRRELEVANT
Other	Commercial/ Retail		
Total Growth Project Spend			
Total FY24/25 Spend			

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Security Headroom

The Baseline Budget assumes IRRELEVANT RMU/Inquiry contingency funding (subject to ongoing discussions) and IRRELEVANT Horizon replacement funding (subject to receipt of funding letter) resulting in a positive Security Headroom position throughout FY24/25. The lowest point would be IRRELEVANT in Dec-24 (noting a recommended buffer of IRRELEVANT maintained throughout the year). The SH forecast assumes an unfunded variance of c. IRRELEVANT change spend on SPMP (over and above the IRRELEVANT and c. IRRELEVANT of RU/Inquiry spend (over and above the IRRELEVANT contingency) – should this position change this would provide additional SH upside. Equally should additional DBT funding not be approved, this would cause a forecast SH breach in November based on the current spend forecast – however in reality and moreso with regards to SPMP, the programme spend would halt in this scenario.

Funding Assumptions £m	Q1	Q2	Q3	Q4	FY23/24	Q1	Q2	Q3	Q4	FY24/25	2 Year TOTAL
Network Subsidy	IRRELEVANT										
Investment Funding											
RMU/Inquiry Funding											
Total Funding Assumed											
RMU/Inquiry Contingency											
Horizon Replacement											
Total Additional Funding											

IRRELEVANT

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Facility Headroom

The Baseline Budget assumes a WCF of IRRELEVANT throughout the year, and an NRF facility of IRRELEVANT in H1 and IRRELEVANT in H2. There are ongoing discussions regarding increasing the WCF by IRRELEVANT with the NRF permanently reducing down to IRRELEVANT. This would provide faciility upside in H2 based on current assumptions. There are no breaches of Facility Headroom forecast for FY24/25 with the lowest point in Dec-24, which is IRRELEVANT away from entering the IRRELEVANT Board buffer.

IRRELEVANT

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Top 5 Enterprise Risks

IRRELEVANT

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2. Change spend considerations for February Board

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Sustainable affordability: Implications on FY25/26

Based on all considerations of the Business Plan, decisions on the quantum of FY24/25 Change spend must be balanced with a view of sustainable affordability.

IRRELEVANT

Maximum FY24/25 Other Change Spend of IRRELEVANT	Maximum FY24/25 Other Change Spend of IRRELEVANT	Maximum FY24/25 Other Change Spend of IRRELEVANT
Maximum FY25/26 Available Cash of IRRELEVANT	Maximum FY25/26 Available Cash of IRRELEVANT	Maximum FY25/26 Available Cash of IRRELEVANT

IRRELEVANT

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Options for additional investment (1/2): Efficiency and Growth

The below table set out options for additional investment in 'Efficiency' and 'Growth' related investments alongside benefits and implications for both operating cost reduction and revenue growth options. Feedback from the February Investment Committee also suggested 'Innovation' related investment for longer term commercial development as well as investments within 'Digital/ Automation' which would enable sustainable cost reduction.

Efficiency	Investment £'m	Benefits £'m (Opex)	Implications
Organisational Design	IRRELEVANT		Remaining resource does meet quality and delivery requirements for the business increasing risk
FY24/25 DMB Programme Acceleration (deliver 16 more DMBs in 24/25)			IRRELEVANT
IRRELEVANT (exit remaining 90 DMBs)			To deliver the programme with current resource, the programme could be delivered in 4-5 years, at a cost of IRRELEVANT with IRRELEVANT The programme could be delivered within 2-3 years, but there would be an additional cost of c. IRRELEVANT pa for a larger programme delivery team. There will also be early lease exit fees and RM separation costs.
IRRELEVANT **(Branch Assurance visit at all branches)**			Improve ability to identify, investigate and resolve/reduce discrepancies in the network. IRRELEVANT Project could be included as part of SPM programme as it will reduce speed of rollout.
Network Strategy Acceleration			
Customer Journey change - Stationery			Business decision required for build and implementation (based on current resource and consideration of NBIT) Benefits based on a 25% reduction in receipts being printed. Would require ongoing costs for data capture and storage - TBC
TOTAL			

Growth	Investment £'m	Benefits £'m (Revenue)	Implications
Mails Strategy investments IRRELEVANT IRRELEVANT	IRRELEVANT		There is appetite to do more within the Commercial space should there be capacity to do so / funding available, in particular in relation to the Mails Strategy which would enhance the current proposition and longer term commercial prospects. The benefits from these investments are subject to ongoing assessments.
New ATM deployment			
Other			
TOTAL			

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Options for additional investment (2/2): Maintenance

Additional options identified for 'maintenance' related investments where these are either new investments or additional increases in existing investments already included within the IRRELEVANT of change spend. Investing within these areas would reduce risk impacts. Of these risks it is likely that the first and second– relating to Cyber Security Maturity and POL Data Enablement – are likely to have the most material impact on the business's near-term risk position. The risk around Horizon Continuous Improvement is less about scope being removed as a result of the cuts, and more about the availability of any contingency to resolve new issues that might emerge.

Maintenance	Investment	Benefits (Risk reduction)
Cyber Security Maturity	IRRELEVANT	IRRELEVANT
POL Data Enablement Programme		POL's data warehouse infrastructure is considered to be impacted without this additional investment in POL's data and reporting repositories. This additional investment would enable implementation of the Future Data Platform one year sooner than currently planned (reducing risks raised in HIJ findings, as well as a IRRELEVANT annualised benefit through costs avoided under the Accenture contract)
Horizon Continuous Improvement		Without additional investment (including contingency), there is a risk to POL's ability to adequately implement Horizon Matters remediations and deliver improvements to Horizon issues as well as adequately manage any new/unknown issues (which may arise out of the next phases of the Inquiry). IRRELEVANT specific additional investment would enable discrepancy visibility for Postmasters.
Fire Fighting Risk and Resilience		Contingency for unplanned spend e.g. Horizon continuous Improvement (as noted above) or provision for any change costs associated with recommendations stemming from the Grant Thornton Governance Review.
PCI 3.2.1 to 4.0		IRRELEVANT
Network Maintenance		Potential IRRELEVANT retained Trading Profit from newly opened branches
Zorin upgrade		IRRELEVANT
Back Office Operational Modernisation		Current plan spend of IRRELEVANT gives rise to IRRELEVANT unfunded risk.
Other		
TOTAL		

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3. Supporting Analysis: Revenue

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Revenue Assumptions: Volume vs Price

Declining Royal Mail volumes, offset by growth in Non-RM carrier volumes and price. Banking Services revenue to grow 9% YoY, driven largely by inflationary price rises. Insurance revenue to decrease (3%), led by Travel volume reduction due to lower SEO position and reduced aggregator volumes.

Product	Revenue £m				Volumes m				Price £			
	FY24/25 Budget	FY23/24 9+3F	YoY Variance	YoY %	FY24/25 Budget	FY23/24 9+3F	YoY Variance	YoY %	FY24/25 Budget	FY23/24 9+3F	YoY Variance	YoY %
Mails RM (excl. Mailwork & Annual Fee)												
Parcelforce												
Special Delivery												
International Priority & Standard												
Stamps												
Labels												
Home Shopping Returns												
Acceptance												
Other Trading												
Mails Other												
Total Mails RM												
Mails Non-RM												
Click and Collect												
Returns												
Drop-off Purchase												
Online Platform												
Sale in Branch												
Total Mails Non RM												
Banking Services (exc. Framework)												
Deposits												
Withdrawals												
Change Giving												
Banking Other												
Total Banking Services												
Post Office Insurance (POI)												
Travel												
Home												
Motor												
Protection												
Other												
Total POI												

IRRELEVANT

- **Royal Mail** revenues continue to IRRELEVANT
- IRRELEVANT
- **Banking Services** YoY IRRELEVANT IRRELEVANT from increased deposit volumes and inflationary price rises
- **Travel Insurance** volumes are IRRELEVANT IRRELEVANT YoY driven principally by a loss in SEO position from P1 to P2 and 10% RPI increases for aggregators, which we anticipate will reduce Aggregator volumes.
- **Protection** IRRELEVANT up driven by improved mix of distribution channels with increase in contact centre channels which drive higher average premiums

Note the price above is a simplified average 'price' based on revenue and volume, in order to provide a broad sense check of the product areas. This does not consider the multiple price/commission structures in place for each product.

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Revenue Related Opportunities & Risks

IRRELEVANT

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POST OFFICE

4. Supporting Analysis: Postmaster Remuneration

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Variable Postmaster Rem: FY24/25 Budget vs FY23/24 9+3

The exit of Lottery will reduce Variable PM Rem by IRRELEVANT, offset by a IRRELEVANT increase due to the Operational Excellence Incentive Payout. Excluding both of these impacts, on a like for like basis – Variable PM Rem is expected to increase YoY by IRRELEVANT based on an expected Variable revenue increase of IRRELEVANT

IRRELEVANT

Notes

- **Lottery exit** decrease total income by IRRELEVANT and PM Rem by IRRELEVANT
- Despite **Total Mails** income IRRELEVANT by IRRELEVANT, PM Rem is expected to increases by IRRELEVANT due to the Mails product mix. The IRRELEVANT IRRELEVANT that are expected to IRRELEVANT more sharply than the rest of the overall portfolio, attract lower remuneration. This can also be seen in IRRELEVANT that of IRRELEVANT

Mails - RM	Revenue	PM Rem
Product areas where PM Rem % Reveune <50%	IRRELEVANT	
Product areas where PM Rem % Reveune >50%		
Mail Segregation / incentive		
Total		

- The FY24/25 Variable Rem Budget includes an assumption of IRRELEVANT for the **Operational Excellence (OE) Incentive payout**. This is based on an assumption of 62.5% conformance (expected to generate IRRELEVANT of Remuneration for Postmasters), pro-rated for 8 months, with the expectation that the OE initiative will be implemented in August-24.
- A current year assessment against OE criteria suggests 37.5% conformance and so it is expected that this incentive will generate an improvement in best practices to 62.5%.

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Variable Postmaster Rem % of Revenue

In percentage terms Variable Rem is budgeted at 51.6% of Revenue; As a like for like comparison, excluding lottery from FY23/24 and excluding the OE incentive this is 50.7% compared to 50.6% in FY23/24. It is noted that overall Mails rates are expected to increase slightly whilst Banking rates are expected to fall due to product mixes.

	23/24 9+3 Forecast			24/25 Budget			25-26 Plan		
Pillar	**Variable Revenue**	**Variable Rem**	**Var Rem/Rev %**	**Variable Revenue**	**Variable Rem**	**Var Rem/Rev %**	**Variable Revenue**	**Variable Rem**	**Var Rem/Rev %**
Mails - RM									
Mails - Non-RM									
Retail, Lottery & Gift Cards									
Government Services									
Identity Services									
Mails, Retail, GS & ID									
Banking									
ATMs									
Voucher Encashment									
Banking & ATMs									
International Money Transfer									
Travel Money									
Credit Cards									
BOI									
POI									
FS-INS-TM-IMT									
Bill Payments									
Central Commercial									
Variable Total									
Fixed Remuneration									
Total									
Variable (Excl Lottery)									
Variable (LFL: Excl Lottery Exc OE*)									

IRRELEVANT

Notes

Banking Variable PM Rem % is expected to fall from IRRELEVANT in FY23/24 to IRRELEVANT in FY24/25 due to product mix.

In the FY24/25 Budget, Average Transaction Values (ATVs) which is a bigger driver for PM Rem than volumes, are assumed to stay flat – causing a lower overall PM Rem value.

Also PM Rem Rates on ATVs do not attract inflationary increases (apart from Change giving).

A number of factors are considered when looking at PM Rem rates for products, including rem % of income, gross margin, length of time it takes to complete a transaction and market rates (earned by competitors for the same service).

The Rem rates paid are expected to be in line with the market.

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Fixed Postmaster Remuneration

The FY24/25 Budget assumed IRRELEVANT for Fixed PM Rem payments, a IRRELEVANT year on year reduction driven by the cessation of Major Branch Support as OE ramps up, assumed 6% churn with no inflationary increases in reducing Assigned Office payments and lower in-year Strategic Partners payments. This is offset by a IRRELEVANT increase in Other Fixed payments for an unallocated pot to cover an anticipated increase in hardship volumes following the exit of Lottery and Living Wage increase.

	24/25 Budget	9+3	Variance to 9+3	
Assigned Office Payments	IRRELEVANT			o Number of branches recieving AOP's assumed to reduce inline with trend. Inflationary increase not applied in FY24/25 due to the introduction of the Operational Excellence initiative (budgeted for in variable PM Rem). The inflationary increase @ 2.5% would have increased AOP by IRRELEVANT
Exceptional Payments				o Base inline with current run rate, adjusted for 23/24 IRRELEVANT accrual release, and for Network Strategy overlay: 24/25 overlay for Network Strategy IRRELEVANT 25/26 overlay for Network Strategy
Other Fixed Payment				o Budget includes (£IRRELEVANT pot of unallocated spend, it is anticipated this could be needed to support an increase in exceptional payments.
Outreaches				o Base inline with current run rate + inflation (living wage @9.8% (85%) and Fuel (15%) @-8.8% to November 23 = 7%), adjusted for Network Strategy overlay: 24/25 overlay for Network Strategy IRRELEVANT 25/26 overlay for Network Strategy
PMR Suspension				o Inline with current trend
Remote Support Payments				o Inline with current trend
Initial Payment				o Inline with current trend
Corrections				o Inline with current trend
Strategic Partners				o IRRELEVANT Lower YoY IRRELEVANT due to WHS contract extension payment in the PY and front weighting of Henderson contract IRRELEVANT offset by Morrisons and Coop (mid-counties and Lincolnshire) deals that were covered by provisions carried over from 22/23 IRRELEVANT new payment to Coop group.
Holiday and Sick				o Inline with trend + inflation (in line with living wage @9.8%)
NI				o Inline with trend + inflation (in line with living wage @9.8%)
Major Branch Support				o Assumed to be paid out in FY24/25, and then ceases as Operational Excellence ramps up
Total Fixed Remuneration				

Notes

- The Network Strategy programme, which supports the conscious shift away from loss making and poorly used branches and replacing outreaches with Drop & Collect, has saved IRRELEVANT in FY23/24 year to date.
- A further IRRELEVANT of savings has been overlayed in the FY24/25 Budget (reduction to exceptional payments by IRRELEVANT and Outreaches by IRRELEVANT.

24/25 Budget

IRRELEVANT

9+3

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5. Supporting Analysis: Network Shape

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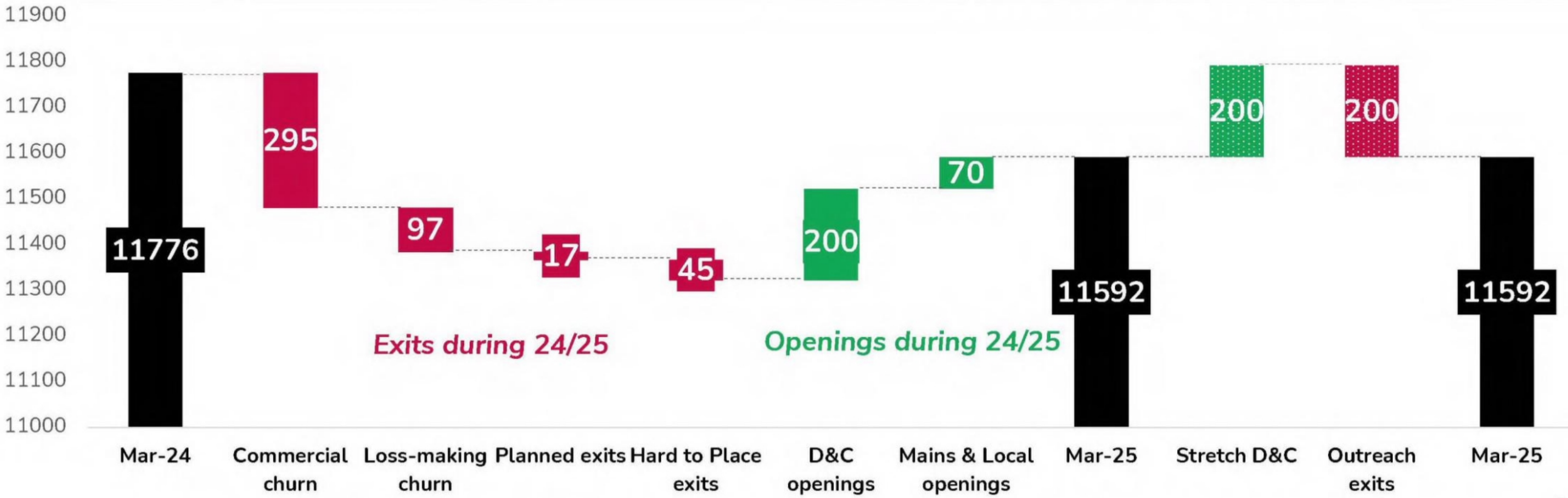
Expected changes in the network from April 2024 to March 2025

This will be managed as a dynamic plan subject to quarterly review, reflecting evolving market & financial conditions

We expect to start the year with 11,776 branches	Churn is forecast at c.3.5%, broadly in line with the rate for 23/24. We are also assuming the planned exit of 7 DMBs*, 10 loss-making branches on exceptional remuneration and 45 'Hard to Place' branches.	Our base case plan assumes 200 net Drop & Collect (D&C) openings	We are targeting 70 Mains & Locals openings, co-funded by postmasters	Subject to carrier agreements, we aim to deliver up to 200 additional D&C, creating the headroom for 200 Outreach exits	**Our network in March 2025 is forecast to be close to 11,600**



* Note: 7 DMB exits include 2 being closed in March-24 with a further 5 planned in FY24/25 as part of the £4m within 'Other change spend'

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Expected changes split by branch format

Format	March '24	March '25	% change '24-'25	Commentary
DMBs	115	IRRELEVANT	IRRELEVANT	• IRRELEVANT
Mains	3,260	3,170	-2.8%	• Funding constraints mean we're only replacing around 15% of exiting Mains, with a dependency on postmaster co-funding. Ideally, we would replace around half of exiting Mains to maintain commercial performance
Locals	4,210	4,065	-3.6%	• Ideally we would be maintaining Locals numbers to protect commercial performance, but funding constraints mean we're only replacing around a quarter, again with a dependency on postmaster co-funding.
Drop & Collect	631	831	+24.1%	• D&C will be our main lever to maintain network numbers and offset churn in full-service branches, while also strengthening our competitive position in the PUDO market in urban areas • Our baseline will be 200 D&C openings, with a stretch target of 400
Traditional	1,780	1,700	-4.7%	• Churn in Community branches continues to run at a higher rate, and this figure also includes an assumption of 45 planned 'Hard to Place' exits agreed with the postmaster
Outreach	1,780	1,720	-3.5%	• We'll continue to work with postmasters to reduce Outreach costs through optimising opening hours and routes. If headroom on network numbers allows we will consider up to 200 additional Outreach exits
Total	11,776	11,592	-1.6%	• Overall, the network is expected to reduce by c.84 next year, but remains well above the 11,500 target

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6. Supporting Analysis: Operating Expenses

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Staff Costs & FTE – by Business Unit

Staff costs of IRRELEVANT in FY24/25 are planned to remain flat from FY23/24 9+3 Forecast. Pay award assumptions reflect 3.75% increase for CWU and Unite employees, with ongoing negotiations with the Unions, and 2.75% for 3A and 4 grades.

BU (£m)	FY23-24 9+3 Forecast	FY24-25 Budget	YoY £m	YoY %	FTE incl. Contractors 31/03/24	FTE incl. Contractors 30/03/25	YoY Mvt in FTE March 25 vs March 24

IRRELEVANT

Of which in FY24/25:	£'m
Contractors	IRRELEVANT
Open Vacancies	
Maternity Leave Backfill	
TOTAL	

Releasing opportunity within these categories should require a consistent POL wide approach

Retail – reduction in FTE YoY largely due to closure of Swindon Supply Chain site, with associated benefit flowing through staff costs.

CIO - YoY FTE increase including 3 x SNOW developers/admin, 4 x cyber security roles, and 14 budgeted senior manager vacancies. Costs reducing YoY due to transfer of Data Governance to S&T, along with cost savings from role reductions and leavers not replaced, outweighing the impact of new roles.

CFO - FTE increase YoY due to new roles for increased ARA support, Payzone activity and maternity cover.

People – FTE increase resulting from people structure review (13 roles removed and 33 new roles added).

Remediation Unit – FTE decrease driven largely by reduction in number of contractors. All RU FTE/contractor spend is project related, hence no staff costs within opex.

Centrally Managed – planning assumption of between 2.75% and 3.75% pay award depending on grade IRRELEVANT. Short term and Long term incentive plan bonus accruals also held here which are assumed flat with FY23/24.

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Non-Staff Costs – by Business Unit and by type

Non-Staff Costs of IRRELEVANT in FY24/25 are flat with FY23/24 9+3 forecast. Further work is being undertaken to understand the contractual nature of these costs, in relation to 3-5 year horizon scanning

BU (£m)	FY23-24 9+3 Forecast	FY24-25 Budget	YoY £m	YoY %
Commercial	IRRELEVANT			
Retail				
CIO				
CFO				
People				
LCAS				
Centrally Managed				
Strategy & Transformation				
Communications				
Total POL				

Non Staff Costs by Type (£m)	FY23-24 9+3 Forecast	FY24-25 Budget	YoY £m	YoY %
Staff & Agent Related Costs	IRRELEVANT			
Consultancy & Advisory Services				
Finance & Losses				
IT Infrastructure & IT Services				
Legal Costs				
Managed Services				
Marketing & Communications				
Postage				
Property & Facilities Management				
Other Operating Costs				
Total POL				

Of which in FY24/25	£'m
Contractual costs	IRRELEVANT
Non-contracted/discretionary	
TOTAL	

Of which in FY24/25	£'m
Fixed	IRRELEVANT
Variable	
TOTAL	

Further work will be continued in assessing the pipeline of these contractual costs in relation to 3-5 year horizon scanning

Of which in FY24/25	£'m
Training	IRRELEVANT
Recruitment	
Travel and Subsistence	
Department Away Days	
TOTAL	

Releasing opportunity within these categories should be based on a consistent POL wide approach.

Further work is being conducted on presenting Non-Staff costs on an 'Activity Based Costing' view.

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FY24/25 'Incremental' Cost Savings – actively pursued

As per the Remco guidance the achievability of 'cost savings' will be assessed on a definition of an 'incremental reduction' on the FY23/24 forecast that is actively pursued. As such any cost avoidance or cost saving already achieved in FY23/24 cannot be double counted again as a 'cost saving' in FY24/25. A draft of this list is presented below totalling IRRELEVANT

BU	Incremental Cost Savings	£'m
Credit Cards	IRRELEVANT	
Mails		
Payment Services		
POI		
POI		
Travel Money		
Total Commercial		
Retail		
Retail		
Retail		
Retail		
Retail		
Retail		
Retail		
Retail		
Retail		
Retail		
Retail		
Retail		
Retail		
Retail		
Retail		
Total Retail		

BU	Incremental Cost Savings	£'m
CIO	IRRELEVANT	
CIO		
CIO		
CIO		
CIO		
Total CIO		
People		
People		
People		
People		
People		
People		
People		
People		
People		
People		
People		
Total People		
LCAS		
S&T		
POL Total Cost savings		

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Risks relating to Opex cost increases and cost savings

Risks not included in the FY24/25 plan relating to cost increases

Risk Area	Risk Items Identified	£m
Staff/Vacancies	IRRELEVANT	
Accounting		
Commercial		
Legal		
Marketing		
Property		
Comms & Engagement		
Network		
Total Risks		

Risks not included in the FY24/25 plan relating to cost savings

Risk Area	
Staff/Vacancies	IRRELEVANT
Commercial	
Legal	
Property	
Network	
Total Risks	

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7. Supporting Analysis: Product Profitability

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Purpose and Methodology: Levels of Profitability

To understand truer profitability at the Trading Profit level for products and services considering direct costs, indirect costs and allocation of central overheads;

To leverage these results as a tool to support, validate and enhance commercial and network decision making across the organisation such as IRRELEVANT IRRELEVANT, validating the commercial decision to exit Lottery and POCA, or discussion around the IRRELEVANT

IRRELEVANT

Product Profitability is assessed at three levels:

Variable Contribution

Notional Profit

Allocated Profit

IRRELEVANT

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Product Profitability: Key findings and Limitations

Based on the FY24/25 Budget, all commercial business units are projected to make a positive variable contribution – where possible these should continue to be benchmarked to competitor products in commercial assessments

At the notional profit level (before the allocation of central overheads)

IRRELEVANT assumed to be due to the following:

i) The network cost base for delivering IRRELEVANT to a revenue base that is declining year on year IRRELEVANT – removing these increasing network costs in line with revenue requires some time and investment.

ii) With the implementation and delivery of the IRRELEVANT are growing but this is expected to take time to ramp up; growth in this area will require investment.

iii) Variable Postmaster Remuneration % on IRRELEVANT is significantly higher than other BUs such as IRRELEVANT - this needs to considered when reviewing the Remuneration Strategy in the Summer.

Further analysis at the product level show two other products are also loss making at the Notional Profit level:

i) IRRELEVANT – for which the long term profitability continues to be reviewed.

ii) IRRELEVANT – for which a continuation of IRRELEVANT Plans will enable co-ordinated revenue opportunities and cost reduction for long term profitability.

Limitations of this analysis:
This analysis centres around an allocation of Trading Profit i.e. EBITDAS level of profitability as a KPI for POL trading performance. However based on Board member feedback there are other elements that could be considered in assessing a 'true' sense of profitability, including:

- The IRRELEVANT **Network Subsidy Payment** from DBT in subsidising the cost of delivering the Network Access Criteria; this sits below Trading Profit and further work on 'branch level profitability' is being carried out to assess the total cost of the uncommercial network in preparation for the FY25/26 Spending Review.
- **Cost of 'change' activity** e.g. cost of product development that sits within Exceptional spend or Capex or the cost of NBIT/ other network technology improvements
- The **Postmaster 'cost to serve'** i.e. the true cost for the Postmaster with an understanding of the PM Rem rate % aligned to time and motion analysis

Based on Board member feedback, this analysis could also be developed further for use as a tool in scenario modelling or investment appraisal, for example in assessing the impact of cost reduction measures such as IRRELEVANT or the potential impact of automation. Ultimately, we recommend an approach that balances the effort in developing this for other uses against the value it could generate.

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Post Office Limited - Document Classification: INTERNAL

Product Profitability: Overview 2024/25 by Business Unit

This is based on a purely mathematical exercise using the FY24/25 Budget Consolidation – it has not been reviewed by Commercial leads for commentary or input.

Business Unit	Revenue & Income	Variable PM Rem	Cost of Sales	Variable contribution	Fixed PM Rem	Staff Costs	Non-Staff Costs	Notional Profit	Allocated overheads	Allocated Profit
Mails RM										
Mails Non RM										
Total Mails										
Banking Services										
ATMs										
Total Banking & ATMs										
Travel Money										
Mortgages, Savings & Loans										
International Money Transfer										
Credit Cards										
POI										
Total FS-INS-TM-IMT										
Payment Services & Payzone										
Total Payment Services & Payzone										
Retail & Gift Cards										
Government Services										
Identity Services										
Total Retail, Government & Identity										
Voucher Encashment										
Supply Chain										
Central Commercial										
Overheads										
Total Other										
Total POL										

IRRELEVANT

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Proposed Reclassification of Non-staff costs to Cost of Sales (1/2)

Based on discussions with Technical and Commercial Finance, c. £16m of Non-Staff Costs have been identified as potential reclassification into Cost of Sales for FY24/25 and beyond. Should these changes be agreed and actioned, the opex % of revenue & income would reduce in 24/25 from 51% to 49%.

BU	Item	FY23-24 9+3 Forecast	FY24-25 Budget	Comments	Status
Banking	IRRELEVANT				
Banking					
Banking					
Government Services					
Payment Services					
POI					
Total					
Total Opex % Revenue & Income - current		IRRELEVANT			
Total Opex % Revenue & Income - after proposed ch					

Notes for consideration

- IFRS doesn't explicitly specify what should / should not be included in COS. It is mentioned briefly in various IFRS agendas/papers but is vague.
- Judgement is therefore involved in classifying COS vs non-COS but must be appropriate and consistent – and we need to be able to justify any judgement.
- Often, reporting entities look to US GAAP which is slightly more detailed. It puts sales / marketing type costs in admin/opex/general type line items.
- Currently, we don't split COS out in the ARA – so the impact at the moment on external reporting is minimal. However, there may be a time when this changes (a new IFRS standard is due to take effect from 2027 which is more explicit in how accounts are presented).

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Proposed Reclassification of Non-staff costs to Cost of Sales (2/2)

The Variable Contribution margin across POL is at 56% based on current reporting structure, IRRELEVANT at IRRELEVANT Reflecting the proposed Opex to CoS reclassifications, IRRELEVANT would reduce by 3 % pts, IRRELEVANT by 10 % pts. It is recommended that these continue to be benchmarked to competitor products in commercial assessments.

Pre Opex to CoS Transfers:

BU - FY24/25 Budget £m	Revenue & FRES Income	Variable PM Rem	Cost of Sales	Variable contribution	Margin %
Mails RM	IRRELEVANT				
Mails - Non RM					
Mails					
Banking Services					
ATMs					
Banking & ATMs					
Travel Money					
Mortgages, Savings & Loans					
International Money Transfer					
Credit Cards					
PO Insurance					
FS-INS-TM-IMT					
Payment Services & Payzone					
Retail, Lottery & Gift Cards					
Government Services					
Identity Services					
Voucher Encashment					
Other					
Total					

Post Opex to CoS Transfers:

Variable contribution	Margin %
IRRELEVANT	

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Allocation of overheads methodology

Overhead costs are allocated to products based on direct usage, relative revenue generation and rational apportionment

- Overheads are allocated based on the following drivers:

Direct cost usage	Revenue	Weighting based on cash usage	Weighting based on resource usage

- Revenue is a common basis for allocation however other metrics are used in conjunction with revenue to derive a rational apportionment that depends on the cost type, for example:
  - Network and Postmaster costs are weighted more heavily towards network products and less towards platform products;
  - Customer Experience, Marketing costs are assigned more towards product groups that take a larger % of the resource.

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8. Appendix

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Commercial-Led Top Strategic Priorities for 2024/25

1 Drive top line revenue growth

2 Retain PO's most profitable customers

3 Reduce cost of service and improve cost margins,

4 Enhance IT & Digital services

5 Reduce commercial and regulatory risk

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Retail-Led Top Strategic Priorities for 2024/25

In order of importance

1	Deliver future formats to support long-term branch profitability
2	Reduce branch discrepancies
3	Reshape the network to support sustainability for POL, PMs & SPs
4	Enhance Branch Hub to drive branch performance & central efficiencies
5	Improve customer profitability by increasing reach & active base

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Relentlessly Championing Excellence for our Network

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CIO Top Strategic Priorities for 2024/25

1	[Improve Service to Postmasters and Strategic Suppliers]	▪
2	[Improve Cyber Controls and Maintain Compliance]	▪
3	[Deliver Branch Automation]	▪
4	[Reduce Technology Operation Costs]	▪
5	[Maintain Lifecyle Management for Technology Infrastructure]	▪

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Product Profitability Analysis: Mails

At a product level IRRELEVANT

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2024/25

Business Unit	Product	Revenue & Income	Variable PM Rem	Cost of Sales	Variable contribution	Fixed PM Rem	Staff Costs	Non-Staff Costs	Notional Profit	Allocated overheads	Allocated Profit
Mails RM	Labels										
Mails RM	Special Delivery										
Mails RM	Home Shopping Returns										
Mails RM	International Priority & Standard										
Mails RM	Acceptance										
Mails RM	Stamps										
Mails RM	Parcelforce										
Mails RM	Other Trading										
Mails RM	Mails Other										
Mails RM	Mailwork										
Total Mails RM											
Mails Non RM	Sale in Branch										
Mails Non RM	Click and Collect										
Mails Non RM	Drop-off Purchase										
Mails Non RM	Returns										
Mails Non RM	Online Platform										
Total Mails Non RM											
Total Mails											

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Product Profitability Analysis: Banking and ATMs

IRRELEVANT *all Banking products are expected to be* IRRELEVANT *supported by the* IRRELEVANT

2024/25

Business Unit	Product	Revenue & Income	Variable PM Rem	Cost of Sales	Variable contribution	Fixed PM Rem	Staff Costs	Non-Staff Costs	Notional Profit	Allocated overheads	Allocated Profit
Banking Services	Deposits	IRRELEVANT									
Banking Services	Withdrawals										
Banking Services	Banking Other										
Banking Services	Change Giving										
Total Banking Services											
ATMs	ATMs										
Total ATMs											
Total Banking & ATMs											

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Product Profitability: FS-INS-TM-IMT

IRRELEVANT *all product areas, with exception* IRRELEVANT

2024/25

Business Unit	Product	Revenue & Income	FRES Profit Share	Variable PM Rem	Cost of Sales	Variable contribution	Fixed PM Rem	Staff Costs	Non-Staff Costs	Notional Profit	Allocated overheads	Allocated Profit
Travel Money	Travel Money - Branch											
Travel Money	Travel Money - Online											
Total Travel Money												
Mortgages, Savings & Loans	Mortgages, Savings & Loans											
Total Mortgages, Savings & Loans												
International Money Transfer	MoneyGram											
International Money Transfer	Postal Orders											
International Money Transfer	Western Union											
Total International Money Transfer												
Credit Cards	Credit Cards											
Total Credit Cards												
POI	Travel Insurance											
POI	Protection											
POI	Home Insurance											
POI	Motor Insurance											
POI	Other Insurance											
Total POI												
Total FS-INS-TM-IMT												

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Product Profitability: Other

POL Bill Payments profit making IRRELEVANT

2024/25

Business Unit	Product	Revenue & Income	Variable PM Rem	Cost of Sales	Variable contribution	Fixed PM Rem	Staff Costs	Non-Staff Costs	Notional Profit	Allocated overheads	Allocated Profit
Payment Services & Payzone	Bill Payments										
Payment Services & Payzone	Payzone										
Total Payment Services & Payzone											

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Retail, Government, Identity: All products profit making at the notional profit level..

2024/25

Business Unit	Product	Revenue & Income	Variable PM Rem	Cost of Sales	Variable contribution	Fixed PM Rem	Staff Costs	Non-Staff Costs	Notional Profit	Allocated overheads	Allocated Profit
Retail & Gift Cards	Gift Cards										
Retail & Gift Cards	Retail										
Total Retail & Gift Cards											
Government Services	DVLA										
Government Services	Home Office										
Government Services	UKVI										
Government Services	Other										
Total Government Services											
Identity Services	Document Certification Service										
Identity Services	Yoti										
Total Identity Services											
Total Retail, Government & Identity											

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Security Headroom Drivers

FY24/25 Baseline:

£m	FY23/24	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	P12	FY24/25
Security Headroom Brought Forward														
Trading profit														
FRES Profit Share (non-cash)														
FRES Dividend														
Interest														
Change Spend														
Remediation Compensation														
Network Subsidy														
Investment funding														
Investment loan														
Movement in payables														
Other														
Security Headroom Carried Forward														

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<Lowest point>

FY24/25 excluding £40m RU/Inquiry contingency and £103m Horizon replacement funding:

£m	FY23/24	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	P12	FY24/25
Security Headroom Brought Forward														
Trading profit														
FRES Profit Share (non-cash)														
FRES Dividend														
Interest														
Change Spend														
Remediation Compensation														
Network Subsidy														
Investment funding														
Investment loan														
Movement in payables														
Other														
Security Headroom Carried Forward														

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<First breach> <Lowest point>