



# Post Office Limited (“POL”)

Quarterly Review

September 2012

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# POL Quarterly Review – Follow-Ups to August Quarterly Review

## MUTUALISATION

- **On 15 August the Post Office Mutualisation Programme Board met for the first time**
  - internal oversight for mutualisation, reporting and making recommendations to a sub-committee of the POL Board
  - chaired by Paula Vennells, with membership drawn from POL senior management and ShEx
  - first meeting focused on a review of key mutualisation workstreams (e.g. Governance, Finance, Culture and Policy) and proposals for the Stakeholder Forum
- **The meeting was constructive, and provided an opportunity for senior management to share views and concerns around the draft workplan that had been proposed**
  - following this it was agreed that some changes would be made to the draft workplan, to emphasise the role of the Stakeholder Forum (and stakeholder engagement more generally) and to integrate – and exploit the synergies between – different workstreams
- **A meeting has also been held with two “Expert Advisers” – David MacLeod and Marjatta Van Boeschoten – who have been asked to support the POL Stakeholder Forum process**
  - discussed the approach being taken to the Stakeholder Forum, including its membership, objectives, sequencing and logistics
- **POL has since developed a structure and timeline for the Stakeholder Forum**
  - individual meetings will be held with stakeholders during September, with the forum expected to convene for the first time after conference season and during the week commencing 15 October
  - the forum will be supported by three working groups, tasked with exploring “a potential vision, purpose and values of the Post Office” from the perspective of (i) POL’s customers; (ii) POL’s direct / indirect employees; and (iii) social, political and environmental interests
  - in parallel with this, other key mutualisation workstreams will also be progressed. ShEx will be closely involved from both a shareholder monitoring perspective and from our position as a key stakeholder

31 Aug. / 3 Sept.

Stakeholder Contact and Announcement

- POL CEO invites stakeholders, and sets out ambition and enthusiasm for the forum

During Sept.

Expert Adviser Meetings with Stakeholders

- One-on-one meetings to discuss proposed forum structure and to identify key issues up front

During Sept.

CWU and NFSP Meeting

- Facilitated meeting to share concerns and to seek to secure their constructive participation in the process and forum

w/c 15 Oct.

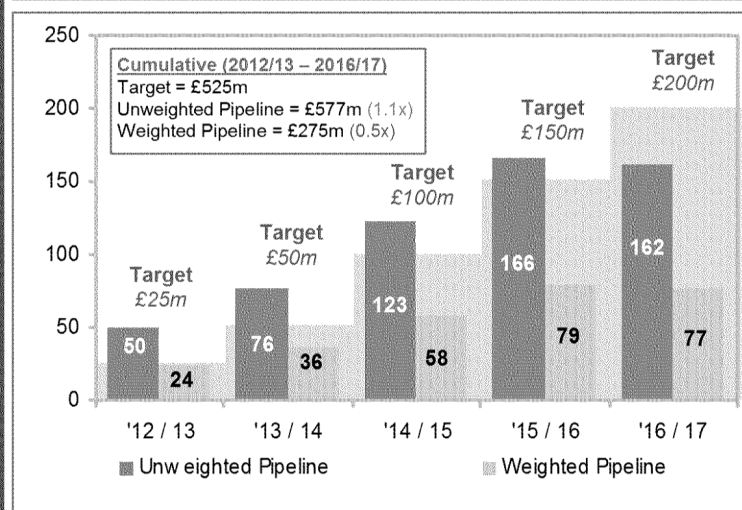
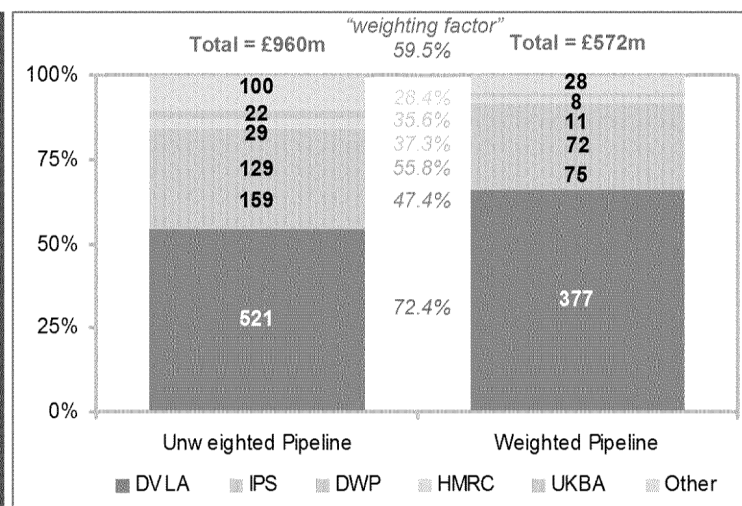
First Meeting of the Stakeholder Forum

- First meeting to focus on structure (e.g. working groups) scope, timescale, parameters / ways-of-working

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# POL Quarterly Review – Follow-Ups to August Quarterly Review (cont'd)

## GOVERNMENT SERVICES PIPELINE



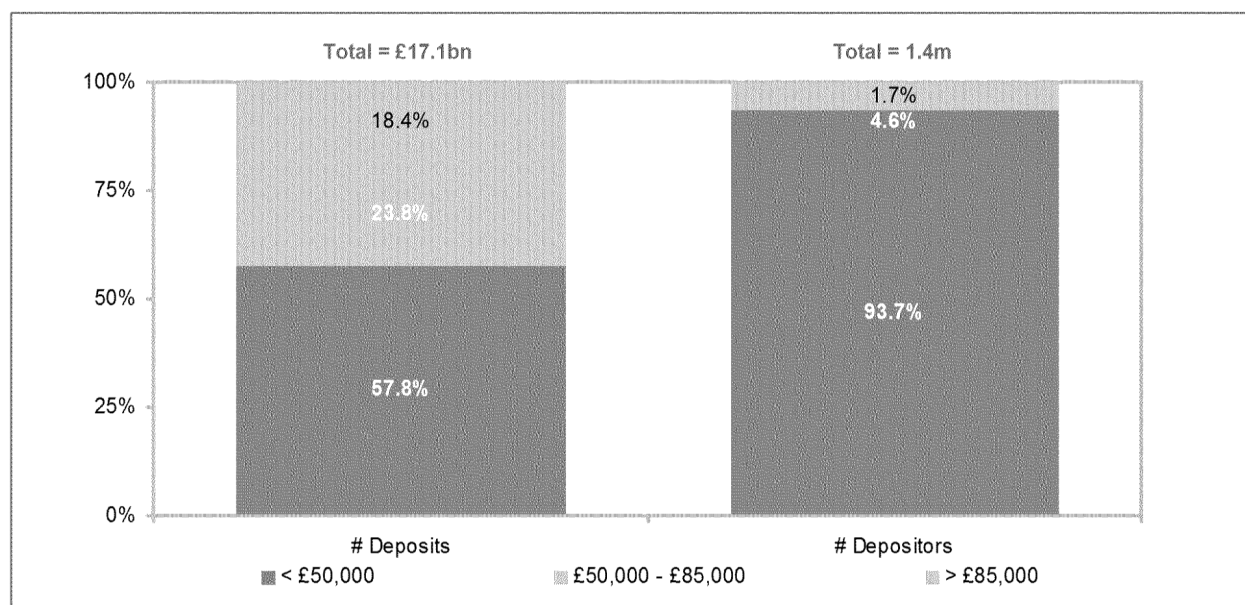
- POL has recently introduced a structured approach to business development in Government Services, which is summarised by its “Prospect List”, or pipeline
  - scope ranges from known tenders to new areas / services where POL is actively marketing to OGDs
  - still in development, with POL continuing to identify new opportunities, and audit aged ones
- POL’s Government Services pipeline is currently valued at £960m unweighted, and £572m weighted
  - split across a number of Government departments, including DVLA (£377m or 66% weighted), IPS (£75m or 13% weighted) and DWP (£72m or 13% weighted)
  - key individual contracts include: DVLA front office services (£240m or 42% weighted); UKBA IPS online passport applications (£55m or 10% weighted)
- For POL to meet the targets set out in its business plan, it needs to deliver new Government Services revenue of £100m p.a. by 2014/15 and £200m p.a. by 2016/17
  - management are conscious that the current pipeline is not sufficient to meet these targets
  - current focus is on increasing the “weighting factor” across the pipeline and not the number of opportunities
  - do not expect to meet this year’s target of £25m revenue, however as a division Government Services is trading in line with budget (i.e. stronger sales in existing areas)
- The pipeline is dynamic, with new wins / losses expected to impact weighting factors and the landscape of future opportunities
  - e.g. benefit of reference projects for customers / technologies, framework agreements available to OGDs



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## POL Quarterly Review – Follow-Ups to August Quarterly Review (cont'd)

### ANALYSIS OF FINANCIAL SERVICES DEPOSITS



	Deposits (£)	Depositors (# customers)	Avg. (mean) (£ '000 per cust.)	Avg. (median) (£ '000 per cust.)
< £50,000	9.9bn	1,336k	7k	2k
£50,000 - £85,000	4.1bn	66k	62k	57k
> £85,000	3.2bn	24k	131k	100k
<b>Total</b>	<b>17.1bn</b>	<b>1,426k</b>	<b>12k</b>	<b>3k</b>

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## POL Quarterly Review – Follow-Ups to August Quarterly Review (cont'd)

- **POL have recently provided us with a reforecast of their 2012/13 budget, based on P1 – P4 trading performance**
  - management remain confident of meeting POL's operating profit target of c.£84m for the 2012/13 year, although based on P1-P4 performance we believe that there is material upside risk to this - both in terms of revenue and cost performance
  - forecasting net income to be c.£6m above budget (representing a c.£1m "gain" on P4 YTD). This is expected to be driven by stronger performance in Financial Services (c.£2m ahead of FY budget and c.£6m ahead of P4 YTD) partially offset by 2Q-4Q results in Mails & Retail (c.£5m below P4 YTD due to unwind of strong Q1 stamp revenues, but still c.£3m ahead of FY budget)
  - forecasting operating costs to be c.£4m above budget (representing a c.£12m "loss" on P4 YTD). This is understood to include c.£5m "contingency" in Staff Costs and c.£2m "contingency" in Non-Staff Costs (i.e. suggesting upside-risk to the FY outturn)
  - project costs, which are currently c.£11m ahead of budget are expected to finish 2012/13 c.£2m ahead of budget. Management expect to reprioritise a number of initiatives in 2Q-4Q emphasising revenue generating projects ahead of internal improvement projects

2012/13 BUDGET  
REFORECAST

	2012 / 13 Budget	2012 / 13 Forecast	Variance F'cast-to-Budget	YTD Performance @ P4 vs. Budget	Gain / (Loss) YTD-to-Forecast
Mails & Retail	403.8	407.2	3.4	8.4	(5.0)
Financial Services	274.7	276.9	2.2	(4.2)	6.5
Government Services	139.9	140.2	0.3	0.2	0.1
Telephony	45.7	45.7	(0.0)	(0.0)	0.0
Other	33.8	33.8	0.0	1.0	(1.0)
<b>POL Net Income</b>	<b>897.9</b>	<b>903.8</b>	<b>5.9</b>	<b>5.3</b>	<b>0.6</b>
<i>Memo: Staff Costs</i>	<i>(268.9)</i>	<i>(269.5)</i>	<i>(0.6)</i>	<i>6.0</i>	<i>(6.6)</i>
<i>Memo: Non-Staff Costs</i>	<i>(166.2)</i>	<i>(169.8)</i>	<i>(3.6)</i>	<i>2.8</i>	<i>(6.3)</i>
<b>POL Operating Profit</b>	<b>(120.9)</b>	<b>(118.8)</b>	<b>2.1</b>	<b>13.8</b>	<b>(11.7)</b>
Financial Services JVs	32.6	32.6	0.0	(0.8)	0.8
<b>Group Operating Profit (pre-POOC)</b>	<b>(88.3)</b>	<b>(86.2)</b>	<b>2.1</b>	<b>13.0</b>	<b>(10.9)</b>
Project One-Off Costs	(37.7)	(39.8)	(2.1)	(11.3)	9.1
<b>Group Operating Profit (post-POOC)</b>	<b>(126.0)</b>	<b>(126.0)</b>	<b>0.0</b>	<b>1.8</b>	<b>(1.8)</b>
Network Subsidy Payment	210.0	210.0	0.0	0.0	0.0
<b>Group Operating Profit (post-NSP)</b>	<b>84.0</b>	<b>84.0</b>	<b>0.0</b>	<b>1.8</b>	<b>(1.8)</b>
<i>Memo: Net Income (incl. NSP)</i>	<i>1,107.9</i>	<i>1,113.8</i>	<i>5.9</i>	<i>5.3</i>	<i>0.6</i>



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## POL Quarterly Review – Follow-Ups to August Quarterly Review (cont'd)

### BOARD AND MANAGEMENT

*Appointment of NED,  
and reshuffle of  
selected management  
roles*

- **POL is currently appointing the final non-Executive Director to its Board**
  - Tim Franklin has been identified (via ShEx - he has recently been appointed to Land Registry)
  - he has financial services experience from Britannia and Co-op Bank (and therefore also a helpful background in mutuals)
  - he met ShEx officials on 16 August, and we have recommended his appointment to Ministers
- **In the past week POL has parted company with its HR Director, Pauline Holroyd, who had been in her position since the start of 2012.** GRO
- **In addition to her day-to-day role, Pauline was leading a number of workstreams related to cultural change, stakeholder relations and finance which have now been reallocated to other members of POL's senior management team**
  - day-to-day talent management and the human resources elements of mutualisation have passed to Susan Crichton, Legal Counsel and Compliance Director
  - stakeholder relations (e.g. CWU, Unite, NFSP) and people engagement have passed to Kevin Gilliland, Network and Sales Director, and members of his team
  - internal audit has passed to Chris Day, Chief Financial Officer, and his Finance team
- **ShEx believes that this reallocation of roles is a satisfactory interim solution, however we will monitor the performance of POL closely to ensure that capability and / or resourcing gaps do not emerge – both in relation to ongoing talent management issues but also key mutualisation and Crown transformation workstreams**

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## POL Quarterly Review – Update on Current Trading

	YTD Actual	YTD Budget	% Variance	YTD Prior Year	% Variance	2011/12 FY Actual	2012/13 FY Forecast	2013/14 FY Forecast
Mails & Retail	136.4	128.0	6.5%	128.3	6.3%	387.5	407.2	407.2
Financial Services	91.1	95.3	(4.5%)	89.7	1.5%	261.5	276.9	262.4
Government Services	49.5	49.3	0.4%	50.3	(1.5%)	135.7	140.2	151.7
Telephony	15.5	15.6	(0.3%)	14.3	8.3%	41.4	45.7	53.7
Other	13.6	12.6	7.9%	12.3	10.5%	39.3	33.8	40.2
POL Net Income	306.1	300.8	1.8%	294.9	3.8%	865.3	903.8	915.3

## General

- Year to date Net Income performance is currently tracking c.2 per cent. ahead of budget for the year to July 2012 (i.e. first four months) and c.4 per cent. ahead of prior year
- The main driver of performance compared to both budget and prior year has been the strong results in Mail & Retail and Other (i.e. High Value Mail, Cash in Transit and “Swindon Stores”). Telephony has performed broadly in line with budget, however it is performing much stronger than prior year

## Mails &amp; Retail (£8.4m ahead of budget)

- c.40 per cent. of the outperformance to budget was driven by 1st and 2nd Class stamps, which benefitted from the April price increases as customers “stockpiled”. This is expected to unwind during the course of the year (management expect the main impact to be seen in the run up to Christmas, although signs have started to emerge in P4 / P5)
- Labels, Special Delivery and Parcels also benefitted from higher than expected volumes, as did retail which experienced a higher than normal number of Lottery rollovers during the period and strong demand for Jubilee and Olympic collectibles

## Financial Services (£4.2m behind budget)

- The delay to the signing of Project Eagle has been the main contributor to the underperformance of Financial Services compared to budget, although with this now signed, BoI will be making a c.£2m settlement payment to POL in September to make up some of the year-to-date net income shortfall
- A small number of other areas also underperformed (e.g. ATM Withdrawals, Moneygram and Postal Orders) although these were more than offset by strong results across much of the rest of the portfolio – and in particular in Bill Payments and Counter Withdrawals

## Government Services (£0.2m behind budget)

- Broadly trading in line with budget and prior year although this masks a mix-effect where strong performances in Motoring Services (benefitting from an early price increase) and Passports (which have seen strong volumes) have been offset by weakness in POCA (due to a fall in the number of accounts compared to budget, and weaker than expected LIBOR) and AEI (where weak DVLA volumes are triggering minimum payments under POL's contract)
- However, despite weakness in the current year, AEI is still trading c.15 per cent. ahead of 2011/12

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## POL Quarterly Review – Update on Current Trading (cont'd)

	YTD Actual	YTD Budget	% Variance	YTD Prior Year	% Variance	2011/12 FY Actual	2012/13 FY Forecast	2013/14 FY Forecast
POL Net Income	306.1	300.8	1.8%	294.9	3.8%	865.3	903.8	915.3
Staff Costs	(86.1)	(92.1)	(6.5%)	(83.7)	2.8%	(251.3)	(269.5)	(265.5)
Agents Costs	(165.2)	(163.7)	0.9%	(167.7)	(1.5%)	(482.9)	(484.9)	(489.4)
Non-Staff Costs	(49.4)	(52.2)	(5.3%)	(48.5)	1.9%	(149.2)	(169.8)	(184.9)
Interbusiness Expenditure	(27.8)	(28.3)	(1.6%)	(29.1)	(4.5%)	(84.9)	(83.1)	(83.8)
Depreciation	(0.3)	(0.3)	19.9%	(0.1)	150.5%	(0.4)	(0.8)	(0.5)
Group Overhead allocations	(5.0)	(5.8)	(13.8%)	(6.8)	(26.7%)	(19.6)	(14.6)	(15.0)
POL Operating Profit	(27.8)	(41.6)	(33.2%)	(41.0)	(32.4%)	(123.0)	(118.8)	(123.9)
Financial Services JVs	13.4	14.2	(5.5%)	12.8	4.7%	30.8	32.6	38.0
Group Operating Profit (pre-POOC)	(14.4)	(27.4)	(47.5%)	(28.3)	(49.1%)	(92.2)	(86.2)	(85.9)
Project One-Off Costs	(18.6)	(7.4)	152.8%	(2.9)	532.8%	(26.5)	(39.8)	(22.1)
Group Operating Profit (post-POOC)	(33.0)	(34.8)	(5.1%)	(31.2)	5.8%	(118.7)	(126.0)	(108.0)
Network Subsidy Payment	71.3	71.3	0.0%	62.3	14.5%	180.0	210.0	200.0
Group Operating Profit (post-NSP)	38.3	36.6	4.8%	31.1	23.2%	61.3	84.0	92.0
Memo: Net Income (incl. NSP)	377.4	372.1	1.4%	357.2	5.7%	1,045.3	1,113.8	1,115.3

## General

- Year-to-date Group Operating Profit (post-NSP) performance is currently tracking c.5 per cent. ahead of budget for the year to July 2012 (i.e. first four months) and c.23 per cent. ahead of prior year (excluding the c.£9m increase in the NSP, it is tracking c.6 per cent. below prior year)
- Compared to budget, this performance is due to a combination of higher than expected sales, and costs coming in below budget, mostly offset by high levels of Project Costs

## Costs

- Year-to-date total costs are currently c.£8m below budget and c.£2m below prior year, with performance compared to budget explained by lower Staff Costs (high number of vacancies in Central and “Strengthening”) and Non-Staff Costs (low Consumables, Legal and IT spend)
- The performance of Agents Costs compared to budget is mainly the result of higher contracted payments to sub-postmasters due to the strong performance in Mails & Retail

## Project Costs

- Project Costs are currently materially ahead of budget, as momentum established behind a variety of initiatives during 2011/12 has continued into 2012/13. However, management are able to control this spending and they expect to reprioritise a number of initiatives, to focus on revenue generating projects, later in the year



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## POL Quarterly Review – Crown Income Statement

	YTD Actual	YTD Budget	% Variance	YTD Prior Year	% Variance	2011/12 FY Actual	2012/13 FY Forecast	2013/14 FY Forecast
Attributable Variable Net Income	35.2	34.0	3.4%	31.4	12.0%	91.4	98.5	n.a.
Staff Costs	(40.1)	(41.1)	(2.4%)	(40.8)	(1.7%)	(119.2)	(117.5)	n.a.
Property Costs	(11.5)	(12.8)	(10.0%)	(13.0)	(11.5%)	(41.8)	(39.0)	n.a.
Non-Staff Costs	(2.0)	(2.3)	(14.7%)	(2.4)	(16.2%)	(6.3)	(6.8)	n.a.
Infrastructure Costs	(9.9)	(9.8)	1.6%	(9.8)	1.0%	(29.0)	(31.8)	n.a.
POL Crown Operating Profit	(28.4)	(31.9)	n.m.	(34.6)	n.m.	(104.9)	(96.6)	n.a.
Financial Services JV Income	3.5	3.7	(5.4%)	3.8	(9.2%)	9.2	9.8	n.a.
Group Crown Operating Profit	(24.9)	(28.3)	n.m.	(30.8)	n.m.	(95.7)	(86.8)	n.a.
Allocated Costs	(2.5)	(2.3)	9.6%	1.4	n.m.	12.6	(7.0)	n.a.
Allocated Fixed Net Income	13.1	12.9	1.9%	13.3	(1.5%)	40.2	42.3	n.a.
Retention Income	2.1	4.2	(50.9%)	1.1	85.2%	(3.5)	11.2	n.a.
Group Crown Operating Profit (pre-POOC, exceps.)	(12.2)	(13.5)	n.m.	(14.9)	n.m.	(46.4)	(40.3)	n.a.

## General

- Year-to-date Group Crown Operating Profit (pre-POOC, exceps.) performance is currently tracking c.£1m ahead of budget for the year to July 2012 (i.e. first four months) and £3m ahead of prior year (*Note: No NSP allocation is made to the Crown P&L*)
- Attributable Variable Net Income (i.e. excluding allocation of Allocated Fixed Net Income, which is accounted for at POL level) is stronger year-on-year, due to increased Mails & Retail revenue and a shift between Allocated Fixed Net Income and Attributable Variable Net Income. This shift has mainly come about due to the terms of the new contract between POL and Royal Mail, which has increased emphasis on variable earnings
- Compared to budget, the performance of Crown Net Income (i.e. Attributable Variable and Allocated Fixed Net Income) is broadly in line with POL Group performance (i.e. c.3 per cent. ahead of budget)
- Costs have been managed carefully with all key categories, excluding Infrastructure spend (due to a marked increase in Network Equipment and Helpdesk Contact costs), coming in under budget. These cost categories were also below the level at the same time in 2011/12

## New Crown Strategy

- ShEx has been working closely with POL to develop its strategy to bring the Crown network to break-even before March 2015. The developing strategy focuses on 5 key areas: new income generation (c.£19m); product retentions / renewals (c.£5m); staff cost savings (c.£18m); property savings (c.£4m); and targeted franchising (c.£6m)

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# POL Quarterly Review – July Key Performance Indicator “Scorecard”

Key Performance Indicators	Current Month			Year to Date			Prior Year	Full Year			2011-12 Outturn
	Act	Target	Var	Act	Target	Var		F'cast	Target	Var	
Growth											
Total Revenue (excluding NSP) £m (Bonus)	96.0	95.8	0.2	346.1	340.5	5.6	334.5	1,023.4	1,015.8	7.6	979.7
Total Net Income (excl NSP) £m	84.2	85.0	(0.8)	306.1	300.8	5.3	294.9	903.8	897.9	5.9	865.3
Operating profit £m (Bonus)	10.2	12.3	(2.1)	38.3	36.6	1.7	31.1	84.0	84.0	(0.0)	61.3
Free cashflow £m	(122.2)	(135.5)	13.4	267.7	215.8	51.9	(59.3)	(85.3)	(85.3)	0.0	(15.0)
Collections & Returns ability to serve RM (Milestones)	0	1	(1)	0	2	(2)	N/A	8	8	0.0	N/A
FOoG bid wins (value won) (Rev £m)	0.7	1.0	(0.3)	2.0	3.9	(1.9)	N/A	10.7	11.7	(1.0)	N/A
Customer											
Customer Satisfaction	86.0%	88.0%	(2.0)%	85.0%	88.0%	(3.0)%	85.2%	88.0%	88.0%	0.0%	86.9%
Queue time % < 5 minutes - Top 1k branches (Bonus)	83.2%	79.5%	3.7%	76.8%	76.7%	0.1%	75.1%	78.9%	78.9%	0.0%	77.8%
Welcome & Farewell - (mystery shopped) - Top 1k branches	79.9%	85.9%	(6.0)%	83.7%	85.9%	(2.2)%	80.6%	85.9%	85.9%	0.0%	81.5%
Call Centres 3D (Bonus)	105.6%	100.0%	5.6%	103.1%	100.0%	3.1%	100.4%	100.0%	100.0%	0.0%	105.5%
Retail Standards (actual) - Top 1k branches	85.8%	84.9%	0.9%	85.8%	84.9%	0.9%	83.4%	84.9%	84.9%	0.0%	84.1%
Horizon availability	99.7%	99.6%	0.1%	99.8%	99.6%	0.2%	99.9%	99.6%	99.6%	0.0%	99.5%
Branch - Compliance (new basket)	96.9%	95.0%	1.9%	97.5%	95.0%	2.5%	N/A	95.0%	95.0%	0.0%	N/A
Modernisation											
Crown Profit £m (Bonus)	(3.9)	(3.1)	-0.8	(12.2)	(13.5)	1.3	N/A	(40.3)	(40.3)	0.0	(46.4)
Engagement Index % (Once a year)	64%	65%	(1.0)%	64%	65%	(1.0)%	58%	65%	65%	0.0%	64%
Network Conversions (Mains & Locals) (Bonus)	14	10	4	225	230	-5	N/A	1200	1200	0	184
IT Transformation (Milestones)	2	1	1	7	8	(1)	N/A	12	12	0	N/A

Bonus worthy metrics

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## POL Quarterly Review – Traffic Light Analysis

Shareholder Relationship	<ul style="list-style-type: none"> <li>There is a good and constructive relationship with the new Chair, and a strong relationship with the CEO who has demonstrated her clear commitment to POL's strategic plan. The new NEDs are challenging management, and this relationship will deepen further once the current recruitment process for a new NED with financial services experience is complete.</li> </ul>
Implementation of Shareholder Model	<ul style="list-style-type: none"> <li>Generally strong application of a shareholder model, with appropriate monitoring structures in place – this includes frequent dialogue with management. However, policy and shareholder roles are combined.</li> </ul>
Quality of Management Team & Board	<ul style="list-style-type: none"> <li>POL's management team have a strong track record of defending revenues and managing costs. However, in order to meet the business plan targets, they will need to deliver a transformational strategy, at scale, which also includes generating considerable new revenues. It is not clear yet whether they have the right skillsets / capabilities to achieve this.</li> <li>ShEx are working closely with management to monitor the performance of the business, and provide support where appropriate / possible. Also, a succession plan is currently being developed by Paula Vennels for areas of POL where there is no clear replacement for senior management.</li> </ul>
Strategy	<ul style="list-style-type: none"> <li>HMG requires that POL maintains a network of 11,500 outlets - significantly in excess of what it would maintain on a commercial basis - which means that the business has to rely on Government subsidy. Without this external funding, and in its current form, POL would not be a going concern.</li> <li>POL's strategy is credible but extremely ambitious, both in terms of its scale (e.g. transformation of the Network) and focus (e.g. growth in new revenues). However ShEx is monitoring the business closely, and is also working with management where appropriate to ensure that it has best possible chance of succeeding.</li> </ul>
Financial Performance	<ul style="list-style-type: none"> <li>The obligations placed on POL by HMG mean that the business is loss making at a net profit level (it is also loss making at an operating profit level, pre-subsidy). As a result it is not considered to be a going concern, ex-subsidy.</li> <li>POL's financial performance is monitored closely by ShEx on a monthly basis, and sessions are held with divisional management (both revenue and cost) to understand current trading and near term outlook in more detail.</li> </ul>
Balance Sheet and Risk	<ul style="list-style-type: none"> <li>POL has a business plan in place, and it is funded to deliver this strategy. However POL is only a going concern due to Government subsidy, and makes losses which means it is unable to pay dividends (both today, and likely in the medium term also). ShEx monitors the business closely to ensure that it is meeting its targets and that any issues are identified and addressed early on.</li> </ul>



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# Provisional Mutualisation Stakeholder Groups

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# POL Quarterly Review – Provisional Mutualisation Stakeholder Groups

## Core Stakeholder Forum

★ Paula Vennels (Chair)	CEO, POL
Mervyn Jones	Commercial Director, NFSP
Andy Furey	Assistant Secretary, CWU
Brian Scott	Assistant National Secretary, Unite
Will Gibson	ShEx
Mike O'Connor	Chief Executive, Consumer Focus
Tom Wright	Chief Executive, Age UK
Nicholas Kroll	Director, BBC Trust
Peter Hunt	Chief Executive, Mutuo
Gillian Guy	Chief Executive, Citizens Advice Bureau
Geoff Mulgan	Chief Executive, NESTA
[tbc]	British Youth Council
Susan Barton	Strategy Director, POL

## Business Design Working Group

★ Susan Barton (Chair)	Strategy Director, POL
★ Mervyn Jones	Commercial Director, NFSP
★ Andy Furey	Assistant Secretary, CWU
★ Brian Scott	Assistant National Secretary, Unite
[tbc]	1 or 2 x Subpostmaster
[tbc]	1 or 2 x POL Managers
James Lowman	Chief Executive, Assoc. of Conv. Stores
Dave Thomas	Director McColls
Neil Blytheway	Director, One Stop
Barry Wallace	Retail Development Controller, Spar UK
Ian Sanders	Comm. Development Director, WH Smith
Patrick Burns	Independent Consultant
Belinda Crowe	Independent Consultant

## Customer Voice Working Group

★ Mike O'Connor (Chair)	Chief Executive, Consumer Focus
★ Tom Wright	Chief Executive, Age UK
★ Gillian Guy	Chief Executive, Citizens Advice Bureau
★ [tbc]	British Youth Council
Kevin Gilliland	Network Director, POL
Peter Couchman	Chief Executive, The Plunkett Foundation
Graham Biggs	Chief Executive, Rural Services Network
Barney White-Spunner	Executive Chairman, Countryside Alliance
Justine Roberts	Chief Executive, Mumsnet
Liz Sayce	Chief Executive, Disability Rights UK
Peter Vacary-Smith	Chief Executive, Which?
[tbc]	Local Government Representative
[tbc]	Central Government Representative

## Other Context Working Group

★ Geoff Mulgan (Chair)	Chief Executive, NESTA
★ Will Gibson	ShEx
★ Nicholas Kroll	Director, BBC Trust
★ Peter Hunt	Chief Executive, Mutuo
Clive Davenport	National Federation of Small Businesses
Peter Couchman	Chief Executive, The Plunkett Foundation
Will Hutton	The Work Foundation
David Erdal	Independent Consultant
Chris Jones	Finance Director, Welsh Water
Graeme Nutall	Independent Consultant
Patrick Lewis	Partners' Counsellor, John Lewis
Ed Mayo	Secretary General, Co-operatives UK
Peter Marks	Chief Executive, The Co-operative Group
John Clough	Director, The Eaga Partnership Trust
Mark Davies	Communications Director, POL

RESTRICTED – POLICY & COMMERCIAL

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# Themes from August Quarterly Review



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# POL Quarterly Review – August Themes

## NETWORK TRANSFORMATION

*POL must introduce 4,000 new "Main" POs and 2,000 PO Locals by March 2015*

## CROWN STRATEGY

*POL must bring its network of Crown POs to break-even by March 2015*

## FRONT OFFICE FOR GOVERNMENT

*POL must deliver £100m new HMG services revenues by March 2015*

## FINANCIAL SERVICES

*A range of initiatives to grow in this market*

- **Management remain confident that the Company is on track to meet its post office conversion targets for 2012/13 and future years**
  - >2,000 visits to post offices have already taken place, with the first on-site conversions expected to commence in September
- **Currently negotiating a MoU with Consumer Focus, who will monitor a community dialogue process for off-site relocations<sup>(1)</sup>**
  - Management have assured us that the risk of this delaying the implementation of the NTP is low
- **ShEx has an active dialogue with POL in relation to the NTP and, as the programme progresses, this will develop further including:**
  - Monitoring the possible impacts of the NTP on POL's mutualisation process and its stakeholders; and
  - Understanding further the financial benefits of the NTP and how it can inform POL's future strategy
- **POL is developing a new strategy to eliminate Crown losses of c£50m pa (RM pay deal and TUPE concerns having forced a rethink)**
  - Five key areas: additional income; product renewals/retentions; lower staff cost; property savings; targeted franchising
- **Currently downside risk on new income growth with some (probably lesser) upside potential around property**
  - Contribution from income growth of c£20m builds on Bank of Ireland pricing renegotiation but may rely on too much volume growth
  - POL is reviewing its property portfolio and is in touch with the VOA (after the last quarterly review) – c£4m saving may be pessimistic
- **POL is currently working on a number of major initiatives to meet its strategic plan revenue growth forecast:**
  - DVLA: c.£60m pa framework tender in advanced stages (currently c.£30m pa) with announcement expected in September; open to OGDs
  - Identity Assurance: Result of first Cabinet Office digital delivery tender, IDA for Universal Credit, expected mid-September
  - LA Pathfinders: Programme run with 25 LAs has had some success but management believe that the LA opportunity is currently limited
  - Assisted Digital: Active dialogue with Cabinet Office regarding assisted digital; DVLA may look to launch a procurement soon
  - POCA / Universal Credit: Uncertainty around POCA given Universal Credit developments; DWP delaying making decision on way forward
- **New business development capability, led by a new sales director and a team of proposition developers / relationship managers**
- **On 4 August POL signed a new contract with Bol which collapses the existing Vetr Contract into a bilateral contractual relationship**
  - New terms include: more favourable commissions (up to £20m pa higher net income); an extension by 3 years to 2023; stronger termination rights; a commitment from Bol to a fixed marketing budget; and a commitment from POL to improve its sales capabilities
- **POL is also developing pilots (expected launch in October), for budgeting, standard, and premium transactional bank accounts**
  - Critical capability for POL to develop, given the role these may play in relation to securing Universal Credit work
- **ShEx has also been supporting POL to strengthen its engagement with HMT and BoE in relation to its Financial Services activities**

(1) Consumer Focus also need to be made aware of on-site conversions although they will be no community dialogue process in relation to these

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# POL Quarterly Review – August Themes (cont'd)

## OTHER COMMERCIAL DEVELOPMENTS

- **Management continue to progress a number of strategic initiatives that formed part of the 2010 plan**
  - New telephony contract with Fujitsu enables POL to offer mobile (and potentially IPTV); sim-only offer expected to launch shortly
  - Competing product to Collect+ (service from Yodel and PayPoint), in collaboration with Royal Mail, scheduled to launch in 2013/14
  - A range of IT programmes, including improved management information reporting and an open-architecture ePOS system

## STRATEGY PLANNING AND “KPI DASHBOARD”

- **POL is expected to initiate the development phase for its new strategic plan in September**
  - ShEx will work closely with management, to ensure POL is developing a credible plan aligned to the needs of the Spending Review and State Aid processes (e.g. outstanding NTP and Crown deliverables, and assessing alternative approaches to targeting funding)
- **As discussed in the last review, the ShEx team has also been working with management to develop a series of “Dashboards”. Appendix 2 sets out the Business Scorecard and Appendix 3 an example of an underlying programme dashboard (for NTP)**

## MUTUALISATION

*HMG's consultation response has been published. Must now build consensus around POL's purpose, define financial stability and foster cultural change*

- **The Government's 4 July consultation response received a broadly positive reception from stakeholders**
  - However some concerns were also raised following publication, including: the need for POL to be financially sustainable; the balance of representation in a mutual POL's membership; and the lack of a firm mutualisation roadmap
- **BIS Select Committee's July report on the Network Transformation Programme (“NTP”) echoed similar concerns**
  - NTP may impact the ownership-mix across POL's network, with implications for an “appropriate” mutualisation model
  - It also called for a “clear road-map for change”
- **The ShEx team is engaging with POL on next steps, with a first meeting of the POL Stakeholder Forum expected in September**
  - This will seek to define POL's “Public Benefit Purpose” and will also engage stakeholders' concerns on other workstreams (e.g. governance, financial stability) being progressed over the summer.

## BOARD AND REMUNERATION

*POL's Board is nearly complete and pay discussions are in progress*

- **POL is currently appointing the final non-Executive Director to its Board**
  - a candidate with financial services experience has been identified (via ShEx - he has recently been appointed to Land Registry)
  - He is meeting ShEx officials on 16 August, following which we hope to recommend his appointment to Ministers.
- **We are also developing the executive remuneration framework – discussions focus on quantum with broad agreement on metrics**
  - Base pay: Norman Lamb has written to POL's Chair suggesting this be held while execs demonstrate a track record post-independence
  - LTIP: Metrics for POL MD's current LTIP are being changed from RM ones to POL ones. Discussions continue over LTIP from 2012.
  - STIP: Discussions over potential payouts for 2012 continue.



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# Supporting Financial Information



## RESTRICTED – POLICY &amp; COMMERCIAL

## POL Quarterly Review – Net Income Breakdown

Mail & Retail	YTD Actual	YTD Budget	% Variance	YTD Prior Year	% Variance	2011/12 FY Actual	2012/13 FY Forecast	2013/14 FY Forecast
Parcelforce	6.2	5.5	12.8%	5.8	5.6%	18.3	18.1	<i>n.a.</i>
Special Delivery	18.1	16.9	6.9%	17.9	1.1%	53.3	51.4	<i>n.a.</i>
International Priority & Standard	11.3	11.5	(1.6%)	9.4	19.9%	29.9	36.8	<i>n.a.</i>
Stamps (1st & 2nd Class)	13.7	10.2	34.1%	9.3	47.1%	31.8	35.4	<i>n.a.</i>
Labels (1st & 2nd Class)	34.4	32.6	5.3%	27.5	25.0%	83.9	100.4	<i>n.a.</i>
RM Mail Fixed	19.7	19.7	0.0%	30.5	(35.5%)	88.1	63.6	<i>n.a.</i>
Retail & Lottery	15.3	13.5	12.7%	14.8	2.9%	42.2	43.1	<i>n.a.</i>
Mails Other	17.7	18.0	(1.3%)	12.9	37.3%	39.9	58.4	<i>n.a.</i>
<b>POL M&amp;R Net Income</b>	<b>136.4</b>	<b>128.0</b>	<b>6.5%</b>	<b>128.3</b>	<b>6.3%</b>	<b>387.5</b>	<b>407.2</b>	<b>407.2</b>

Government Services	YTD Actual	YTD Budget	% Variance	YTD Prior Year	% Variance	2011/12 FY Actual	2012/13 FY Forecast	2013/14 FY Forecast
Motoring Services	12.0	10.7	12.5%	12.4	(2.6%)	32.3	31.6	16.4
Card Account	23.0	23.8	(3.5%)	23.9	(4.1%)	70.2	68.4	63.3
Passport	9.2	8.5	7.9%	8.5	8.3%	18.8	19.5	<i>in other</i>
AEI (DVLA & UKBA)	4.2	5.0	(17.0%)	3.6	15.2%	11.0	17.2	18.8
Other Government Services	1.1	1.3	(10.3%)	1.9	(39.3%)	3.4	3.6	53.2
<b>POL GS Net Income</b>	<b>49.5</b>	<b>49.3</b>	<b>0.4%</b>	<b>50.3</b>	<b>(1.5%)</b>	<b>135.7</b>	<b>140.2</b>	<b>151.7</b>

RESTRICTED – POLICY & COMMERCIAL

# POL Quarterly Review – Net Income Breakdown (cont'd)

Financial Services	YTD Actual	YTD Budget	% Variance	YTD Prior Year	% Variance	2011/12 FY Actual	2012/13 FY Forecast	2013/14 FY Forecast
Bill Payment (incl Ticket & Travel)	14.0	12.6	11.0%	14.3	(2.3%)	40.5	39.6	35.9
Payout	0.2	0.3	(45.4%)	0.1	54.7%	0.2	0.9	<i>in bill paym.</i>
Postal Orders	7.9	8.3	(4.8%)	8.4	(5.9%)	25.6	23.8	24.3
Fin Servs opportunities and projects	0.0	0.4	(100.0%)	0.0	<i>n.a.</i>	0.0	1.2	0.0
MoneyGram	4.9	5.2	(6.2%)	4.9	0.8%	14.4	15.6	15.0
Gift Voucher	0.5	0.5	(11.6%)	0.3	40.0%	0.9	2.9	<i>in bill paym.</i>
Banking Services	9.8	8.8	11.8%	8.5	15.5%	25.3	28.2	24.7
DWP	1.5	1.2	20.8%	2.6	(43.1%)	7.9	4.0	0.0
NS&I	4.6	4.4	2.7%	5.6	(18.1%)	16.6	13.3	5.0
A&L Business Banking	11.8	11.8	(0.1%)	11.9	(0.8%)	34.2	34.3	26.0
ATM	10.3	11.0	(6.5%)	10.2	1.5%	29.3	31.7	32.0
Bureau (excl profit share)	8.9	9.4	(5.2%)	9.0	(1.2%)	24.1	23.5	27.3
Travel Insurance	4.5	4.2	5.1%	5.0	(11.7%)	8.9	8.7	14.9
POFS - Savings	6.3	11.9	(47.2%)	5.1	22.2%	15.7	31.9	<i>n.m.</i>
POFS - Insurance	1.5	1.2	24.3%	1.7	(11.4%)	4.6	4.9	<i>n.m.</i>
POFS - Lending	0.9	1.5	(38.9%)	0.7	32.5%	1.8	4.4	<i>n.m.</i>
POFS Other	2.2	0.8	169.9%	0.8	169.9%	0.0	4.0	52.3
Miscellaneous (A&L - CLS, Debit Card, Bureau kiosks)	1.2	1.5	(15.4%)	0.4	215.1%	11.5	4.0	5.0
POL FS Net Income	91.1	95.3	(4.5%)	89.7	1.5%	261.5	276.9	262.4

RESTRICTED – POLICY & COMMERCIAL

# POL Quarterly Review – Staff and Non-Staff Cost Profile

Staff Costs	YTD Actual	YTD Budget	% Variance	YTD Prior Year	% Variance	2011/12 FY Actual	2012/13 FY Forecast	2013/14 FY Forecast
Central (inc MD's office)	(1.5)	(5.2)	(71.7%)	(1.5)	(2.1%)	n.a.	(17.3)	n.a.
Commercial	(2.1)	(2.2)	(5.0%)	(1.6)	29.1%	n.a.	(6.7)	n.a.
Communications	(0.6)	(0.6)	(2.9%)	(0.2)	224.9%	n.a.	(1.9)	n.a.
Human Resources	(1.6)	(1.7)	(5.9%)	(2.5)	(35.5%)	n.a.	(5.2)	n.a.
HR - Centrally Held Bonus Payments	(5.9)	(5.9)	0.0%	(4.4)	33.3%	n.a.	(17.7)	n.a.
Financial Services	(0.6)	(1.6)	(59.1%)	(0.5)	37.3%	n.a.	(3.5)	n.a.
Finance	(3.2)	(3.3)	(2.3%)	(3.2)	2.6%	n.a.	(9.9)	n.a.
Network	(64.8)	(65.5)	(1.1%)	(64.5)	0.3%	n.a.	(189.2)	n.a.
Supply Chain	(18.9)	(18.9)	(0.1%)	(17.8)	6.4%	n.a.	(54.9)	n.a.
Crowns	(39.3)	(40.5)	(2.9%)	(40.1)	(1.9%)	n.a.	(115.0)	n.a.
Other Network	(6.5)	(6.0)	7.8%	(6.7)	(2.6%)	n.a.	(19.3)	n.a.
Legal	(1.6)	(1.9)	(13.6%)	(1.4)	13.2%	n.a.	(5.4)	n.a.
Programme costs	(0.0)	0.0	n.a.	(0.0)	11.1%	n.a.	0.0	n.a.
Strategy	(4.2)	(4.3)	(2.7%)	(3.9)	6.7%	n.a.	(12.8)	n.a.
C&IS / Managed Services	(4.0)	(4.0)	(2.0%)	(3.7)	7.7%	n.a.	(12.1)	n.a.
Strategy / Programme office	(0.2)	(0.2)	(16.2%)	(0.2)	(9.6%)	n.a.	(0.7)	n.a.
<b>POL Staff Costs</b>	<b>(86.1)</b>	<b>(92.1)</b>	<b>(6.5%)</b>	<b>(83.7)</b>	<b>2.8%</b>	<b>(251.3)</b>	<b>(269.5)</b>	<b>(265.5)</b>

Non-Staff Costs	YTD Actual	YTD Budget	% Variance	YTD Prior Year	% Variance	2011/12 FY Actual	2012/13 FY Forecast	2013/14 FY Forecast
Computers & Telephones	(23.8)	(25.1)	(4.9%)	(25.5)	(6.5%)	n.a.	(84.1)	n.a.
Other Operating Costs	(6.7)	(6.0)	12.0%	(6.5)	2.5%	n.a.	(20.7)	n.a.
Consultancy, Marketing & Legal Fees	(7.6)	(6.3)	20.6%	(3.4)	122.6%	n.a.	(18.4)	n.a.
Skills Group external contractors	(4.0)	(0.7)	510.3%	(0.0)	n.m.	n.a.	(1.4)	n.a.
Remainder	(3.5)	(5.6)	(37.0%)	(3.4)	4.6%	n.a.	(17.0)	n.a.
Finance	(5.7)	(4.7)	20.7%	(5.5)	3.5%	n.a.	(16.7)	n.a.
Property Facilities	(1.9)	(2.3)	(16.6%)	(1.7)	12.7%	n.a.	(7.2)	n.a.
Property Maintenance	(2.1)	(1.8)	15.8%	(1.7)	27.6%	n.a.	(5.5)	n.a.
Vehicles	(0.8)	(0.8)	3.6%	(0.6)	27.6%	n.a.	(2.3)	n.a.
Compensation	(0.4)	(0.3)	6.5%	0.0	n.m.	n.a.	(1.0)	n.a.
Collection, Delivery & Conveyance Charges	(0.4)	(0.3)	28.0%	(0.3)	46.3%	n.a.	(0.9)	n.a.
Staff & Agent Related Costs & Consumables	0.0	(4.6)	(100.4%)	(3.3)	(100.5%)	n.a.	(12.9)	n.a.
Skills Group off-charges to projects	5.1	1.3	286.2%	1.7	200.4%	n.a.	4.4	n.a.
Remainder	(5.1)	(5.9)	(13.8%)	(5.0)	1.1%	n.a.	(17.3)	n.a.
<b>POL Non Staff Costs</b>	<b>(49.4)</b>	<b>(52.2)</b>	<b>(5.3%)</b>	<b>(48.5)</b>	<b>1.9%</b>	<b>(149.2)</b>	<b>(169.8)</b>	<b>(184.9)</b>