



Post Office Board Agenda

Date		Present	In Attendance
24 May 2018		<ul style="list-style-type: none"> Tim Parker (Chairman) Paula Vennells Ken McCall Alisdair Cameron Tom Cooper Tim Franklin Shirine Khoury-Haq Carla Stent 	<ul style="list-style-type: none"> Jane MacLeod (Company Secretary) Veronica Branton (Minute Secretary) Micheal Passmore (Finance Director) (items 4. and 5.) Debbie Smith (CEO – Retail) (item 7.) Martin Kearsley (Banking Framework Manager) (item 7.) Owen Woodley (CEO – FS&T) (item 8.) Rob Houghton (CIO) (items 9. and 10.) Jeff Lewis (IT procurement consultant) (item 9.) Martin Hopcroft (Head of Health and Safety) (item 13.)
Start Time	Finish Time		
11.15hrs	15.45hrs		
Location			
Room 1.19 Wakefield			

Agenda Item	Action Needed	Purpose	Lead	Timings
1. PO Limited Board appointment	Approval	To approve the appointment of Shirine Khoury-Haq as a Non-Executive Director of PO Limited for an initial period of three years effective from 24 May 2018.	Tim Parker	11.15
2. Minutes of previous Board and Committee meetings including Status Report	Approval	Minutes formally agreed.	Jane MacLeod	11.20
3. CEO Report	Noting and input	CEO to update the Board on the report.	CEO	11.30
4. Financial Performance Report	Noting and input	CFOO to update the Board on the report.	CFOO / Micheal Passmore	11.50
5. Post Office Insurance Regulatory Capital	Decision	To approve a £5m capital injection to Post Office Insurance via PO Limited subscribing for £5m of Post Office Insurance shares, in order to maintain Post Office Insurance's FCA solvency requirements in 2018/19.	CFOO / Micheal Passmore	12.10



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Agenda Item		Action Needed	Purpose	Lead	Timing
6.	Annual Report & Accounts	Approval	To seek the Board to approve the ARA in principle and delegate completion and signature to the Chair of the Audit Committee, CEO and CFOO.	Carla Stent/ Al Cameron	12.15
Break					12.30
7.	Future of Banking Framework	Noting and input	To provide an update on the Banking Framework.	Debbie Smith/ Martin Kearsley	13.00
8.	Peregrine update	Noting and input	To provide an update on the negotiations with the Bank of Ireland.	Owen Woodley	13.30
9.	Everest	Noting and input	To provide an update on negotiations with Fujitsu.	Rob Houghton/ Jeff Lewis	14.00
10.	Back office transformation	Noting and input	To provide an update on back office transformation.	Al Cameron/ Rob Houghton	14.20
11.	Contracts 11.1 Print Management Contract Award	Approval	To seek the Board's approval to the award of a two year contract for £5.519m with HH Global.	Jane MacLeod	14.40
12.	Postmaster Litigation	Noting and input	To update the Board on the Postmaster litigation.	Jane MacLeod	14.50
13.	Performance Report - Health and Safety, including review of Robbery Risk and Violence	Noting and input	To update the Board on health and safety performance, including a review of robbery risk and violence in PO's and PO's approach to mitigating these risks.	Al Cameron/ Martin Hopcroft	15.00



Post Office Board Agenda

Agenda Item		Action Needed	Purpose	Lead	Timing
14.	Board Committee Chair updates (verbal) 14.1 Nominations Committee 14.2 Remuneration Committee	Noting	To update the Board.	Chairman Senior Independent Director	15.20
15.	Items for Noting				15.30
	15.1 Sealings	Noting	For the Board to be aware of the affixing of the seal.	Jane MacLeod	
	15.2 Future Meeting dates	Noting	For Board to note future meeting dates for 2018.	Jane MacLeod	
	15.3 Forward agendas	Noting	For Board to note.	Jane MacLeod	
15.	Any Other Business				15.40
CLOSE					

Post Office Limited Board appointment

Author: Veronica Branton, Head of Secretariat Sponsor: Jane MacLeod, Company Secretary
Meeting date: 24 May 2018

Executive Summary

Following a recruitment process supported by Russell Reynolds the Nominations Committee recommends the appointment of Shirine Khoury-Haq as a Non-Executive Director of Post Office Limited.

The Secretary of State for Business, Energy & Industrial Strategy has approved the appointment for recommendation to the Board.

Decision

The Board is asked to RESOLVE to APPROVE:

the appointment of Shirine Khoury-Haq as a Non-Executive Director of Post Office Limited for an initial period of three years with effect from 24 May 2018.

The Board is asked to NOTE:

that, subject to confirmation from the Nominations Committee, Shirine Khoury-Haq will be invited to become a member of the Nominations Committee and the Remuneration Committee.

A list of Committee Membership is attached for information.

Committee Membership (from 24 May 2018)

Audit Risk & Compliance Committee
Carla Stent – Chair Tom Cooper Tim Franklin Ken McCall
Nominations Committee
Tim Parker – Chair <i>Shirine Khoury-Haq</i> Ken McCall
Remuneration Committee
Ken McCall – Chair <i>Shirine Khoury-Haq</i> Tim Parker



**Post Office Limited
Board Meeting**

**MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON
TUESDAY 27th MARCH 2018 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ AT 11.20AM**

Present:	Tim Parker	Chairman (TP)	
	Richard Callard	Non-Executive Director (RC)	
	Tom Cooper	Non-Executive Director (TC)	
	Tim Franklin	Non-Executive Director (TF)	
	Ken McCall	Senior Independent Director (KM)	
	Carla Stent	Non-Executive Director (CS)	
	Virginia Holmes	Non-Executive Director (VH)	
	Paula Vennells	Group Chief Executive (CEO)	
	Alisdair Cameron	Chief Financial and Operations Officer (CFOO)	
In Attendance:	Jane MacLeod	General Counsel & Company Secretary (JM)	
	Veronica Branton	Minute Secretary (VB)	
	Micheal Passmore	Finance Director (MP)	item 5
	Cem Oztoprak	Finance (CO)	item 5
	Mark Ellis	Network Operations Director (ME)	item 6
	Russell Hancock	Supply Chair Director (RH)	item 6
	Owen Woodley	CEO – FS&T (OW)	items 7 & 8
	Colin Stuart	Finance Director, FS&T (CS)	item 7
	Martin Edwards	MD, Identity Services (ME)	item 10
	Elinor Hull	Identity Services (EH)	item 10
	Bryn Robinson	Identity Services (BRM)	Item 10
	Morgan		
	Chrysanthi Pispinis	Head of Post Office Money (CP)	item 8
	Debbie Smith	Chief Executive, Retail (DS)	item 9
	Andrew Goddard	Head of Payment Services (AG)	item 9
	Paul Squire	Programme Manager (PS)	item 9
	Mark Davies	Group Director of Communications, Brand and Corporate Affairs	item 9
	Rob Houghton	Group Chief Information Officer (RH)	item 11
	Catherine Hamilton	IT Business Performance Manager (CH)	item 11

Apologies: None

ACTION

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

- 1.1 A quorum being present, the Chairman opened the meeting.
- 1.2 The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.
- 1.3 Minutes of the meeting of the Board held on 29th January 2018 were **APPROVED** and **AUTHORISED** for signature by the Chairman.
- 1.4 The actions status report was **NOTED** as accurate.

2. POL Board and subsidiary board appointments

- 2.1 The Board **NOTED** the paper from the Company Secretary setting out membership changes to the Boards of POL and POMS and **RESOLVED** to **RATIFY**:
 - a) the appointment of Tom Cooper as a Non-Executive Director of POL with effect from 27 March 2018 and until such as time as the Secretary of State BEIS shall



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determine. It was noted that the contractual terms of appointment remained to be finalised

- b) the appointment of Tim Franklin as a Non-Executive Director of Post Office Management Services for a period of three years from 20 March 2018
- c) the appointment of Andrew Torrance as Senior Independent Director of Post Office Management Services for a period of three years from 20 March 2018
- d) the appointment of Debbie Smith, CEO – Retail, as a POL Director of FRES for the duration of her time in post
- e) the appointment of Owen Woodley, CEO – FS &T, as:
 - a non-independent Non-Executive Director of Post Office Management Services for the duration of his time in post following FCA clearance
 - a POL Director of the FRES Board for the duration of his time in post.

2.2 The Board **RESOLVED** to **APPROVE**:

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

2.3 The Board **NOTED** the resignations of Virginia Holmes and Richard Callard with effect from end of meeting and thanked them for their contribution.

3. **CEO's REPORT**

3.1 The Board **NOTED** the CEO report.

3.2 The CEO updated the Board on a number of recent issues and answered a number of questions:

- a customer had been taken by ambulance from a post office branch in Paisley and had died overnight on Sunday. Two employees from the retail outlet in which the post office was situated has been arrested on a charge of murder; the situation was being monitored
- Conviviality was experiencing financial difficulties and seeking to raise additional funds. The company ran 700 outlets which included 50 post offices for which contracts were being novated; the position was being kept under review
- PV had met with Andrew Griffiths, the new PO minister. The Minister had been well briefed on the PO and had been supportive of progress made in the PO over the past few years
- PV had attended the first Financial Inclusion Policy Forum. The thinking across DWP, HM Treasury and DCMS had been joined up and the three main items discussed had been setting up basic bank accounts, affordable credit and affordable insurance. There had also been discussion on whether insurance could be tied into Housing Association fees and the use of funds from dormant bank accounts. PV had flagged the PO's role in financial inclusion, including the proposed provision of digital identities. PV had written to the Treasury following the meeting to find out what the next steps would be. It was noted that while PO had the potential to play a useful role, the services we delivered needed to be provided on commercial terms
- the decision not to proceed with the second phase of branch technology simplification at this stage was discussed. It was noted that the Board would be considering the broader simplification agenda at its June away day which would include HNGT. It was agreed that it was important not to lose the sight of the main objective to create a simpler system that required fewer resources and less money from PO, even if that required having a different system for small Post Offices. Phase 1 of simplification had focussed on a number of transactional items



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that did not take out cost and had been unpopular with Postmasters. It was now proposed to pause development while considering the overall approach to simplification. A number of points were raised in connection with the simplification agenda:

- it was suggested that it would be helpful to understand better the different types of post offices; how cash was distributed between different types of post offices; the operational relationship between POL and small branch models; the limits to the variable pay approach and the economics of smaller branches. All of these issues fed into the white space discussion on what our ideal network would look like
 - we also needed to consider whether we were leveraging the size of our network sufficiently e.g. the potential opportunities for shared usage. It would be helpful to see a granular analysis of what sharing opportunities there were and what the network would look like over the next 10 years
 - it was noted that the CEO Retail was preparing a paper for the Board away day in June, which would consider this issue.
- it was noted that work was underway to review our data strategy and capability. This work would enable better insight into branch operations, however, it was not yet fully developed.
 - partnering opportunities with RM were discussed and it was noted that an update on Mails Strategy would be discussed at the May Board. It was recognised that whatever opportunities we sought to pursue we needed to be careful not to lose the benefits of exclusivity within our deal with RM.
 - POL Non-Executive Directors would be sent the press cuttings.

VB

4. FINANCIAL PERFORMANCE REPORT

4.1 AC and MP introduced the P11 financial performance report and Scorecard covering February 2018 which the Board **NOTED**. A number of points were highlighted:

- network numbers had been uncomfortably low but there had been a number of branch openings over the last couple of weeks and we were on track to be over 11,500 at the end of March 2018. It was noted that failure to meet 11,500 figure would result in a remediation plan to drive up numbers. Work was underway to enhance branch reporting, as well as reviewing the rules and assumptions around branch numbers
- more audits had been undertaken this year, leading to more suspensions but the position was reasonably stable. We signposted customers to other branches and explored options for temporary Postmasters to be placed in store where this happened; however, this was more difficult to do in retail stores than in stand-alone post offices
- we looked set to exceed the EBITDAS target for 2017/18 even taking into account that £4m of this was the unspent sum from the Growth Fund.

4.2 A number of points were raised:

- it would be preferable to see growth initiatives planned in advance and disappointing that we hadn't managed to spend all of the Growth Fund. With our brand strength we should be able to invest money today in, say, PO Insurance and grow that product well. We should re-consider an acquisition to increase market share. This led to a broader discussion on PO Insurance and it was noted that this was a topic for the June away day.



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PV would consider the issues raised to make sure that the away day delivered the discussions needed on PO Insurance. Directors were asked to feed in any questions /challenges they had to be covered at the away day **PV**
All

- it was suggested that it would be helpful to include standing slots on material projects in the report **AC**
- the continued decline in Government business was noted. The potential to offer other services to Government was discussed and it was agreed that a recap of the ideas we had considered previously (e.g. a prescription collection service) but had decided not to pursue, and why, should be provided for the June away day. It was noted that digital alternatives, including for POCa, were a potential growth area. Other opportunities might be available but we would need to consider which would generate profit and draw on our key assets of distribution and goodwill. We also needed to consider whether to engage a senior business services strategist to get traction on this and whether we needed to link up with senior people in government to discuss growth opportunities
- the development of the banking framework was discussed and whether we should be charging the banks more for use our services. There were some tactical timing issues on charging but the service should offer a medium term profit opportunity.

5. ANNUAL STRATEGIC PLAN 2018/19 & QUARTERLY FUNDING

5.1 The CFOO presented the Annual Strategic Plan 2018/19 which was **NOTED** by the Board. A number of points were raised:

- the EBITDAS target of £50m for 2018/19 was halfway to the objective of achieving a £100m EBITDAS profit; this was encouraging, however, we needed to look at growth opportunities at the away day in June as well as continuing to drive cost out of the business. It was noted that costs would reduce as the number of DMBs reduced; however, we were not driving big opex savings this year because we needed to move off POLSAP and did not have bandwidth to drive major cost savings in tandem. More resource was being secured in the finance area in the short term but in future years we would be seeking to digitise more of the finance function where possible to drive cost savings
- there had been discussions with UKGI about whether it was appropriate to exclude Peregrine and Panther from the Annual Strategic Plan. The rationale for these exclusions was that Panther would need to go through the CMA process and that the deal for Peregrine had not been concluded. The figures in the plan would be adjusted on conclusion of these deals
- we had not experienced a significant disruption to our market but agents' pay was a potential issue for us. We had a framework in place that allowed us to pay over scale where we had difficulty appointing Postmasters; however, these individual decisions were not part of a strategy
- our forecasting appeared to be robust but we faced the challenge of the pace of change within the business. Focus needed to be given to executing our key projects successfully. Planned changes included IT migrations and we also carried key person risks
- the scope to expand PO services within the community was discussed. Leveraging our goodwill and getting Government buy-in to do more within communities would be beneficial. Part of the purpose of having a profitable PO was being able to plough money back into communities. We needed to make sure that we were socialising what we did already, such as putting money into community schemes; having a UKGI appointed Board director gave us a beneficial feedback channel.



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The Board **APPROVED** the Annual Strategic Plan for 2018/19 for submission to Government.

The Board thanked the executive for a very good piece of work.

- 5.2 The CFOO presented the Quarterly Funding Request which was **NOTED** by the Board and approved for submission to UKGI.

The Board **APPROVED** that a request of £35m of funding from Government be submitted for Q1.

6. CASH EFFICIENCY

- 6.1 The CFOO introduced the paper which was **NOTED** by the Board. A significant reduction in the amount of cash held in branch had been achieved over a short period of time. The Board congratulated the executive on this achievement.

A number of points were raised:

- we were looking at how to drive down the amount of cash held in branches. There were longer term technical solutions that would enable us to reduce the handling of cash significantly and minimise the risks of fraud and error. It was a question of finding the right and most cost effective technical solutions for PO
- from July branches would have to make a cash declaration to be able to log on to the system each morning. This change required amendments to the "back end" of Horizon which took time. We were also explaining to branches the impact of holding too much cash in branch and what they needed to do to help avoid that happening
- it was noted that the numbers of identified frauds had increased through the increased number of audits. The PO's inherent risk profile was growing as access to cash decreased generally. This made reducing the opportunities for fraud and theft even more important
- it was noted that there were some threats and uncertainties to the business that meant seeking to tighten the headroom was not currently an objective.

It was proposed that we explore developing a small number of post offices "of the future" in which we could pilot new technology solutions.

**DS/RH –
to do**

7. FS&T PERFORMANCE

- 7.1 OW introduced the paper which the Board **NOTED**. The format of the paper was being developed and now included an individual P&L view to give more visibility of what the businesses were delivering.

OW highlighted a number of points from the report:

- there had been good growth in mortgages recently and telecoms sales had increased. The strategic direction of FRES and TravelMoney was under discussion and the decline in MoneyGram had led to a drag on performance. The overall position was slightly above forecast
- Customer Hub was on-track for launch in May. It was proving an effective way of introducing agile working into the organisation and the Board would be shown the app once it had been launched



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- the relationship with BoI was developing and we were likely to come back to Board in May with a revised deal. BoI's position had shifted a long way, including on exclusivity

A number of points were raised, including:

- the strategic options on the PO Insurance business. OW was requested to consider what would drive a step change in ambition and this should feed into the thinking and preparation for the June away day discussions.

OW

8. INTERNATIONAL REMITTANCES

- 8.1 OW and CP introduced the paper, noting that the recommendation to extend the contract with MoneyGram by two years had been finely balanced. The deal included additional guaranteed payments totalling £6m gross to the end of the contract extension in September 2021. MoneyGram would also remove its exclusivity requirement from purely digital offerings.

A key driver was being able to develop a digital offering quickly. The digital market had grown significantly over the last three years and it was important to move into that space quickly. It would also make PO a more interesting partner for future bidders when we went out to a request for proposal (RFP). The main potential downside of extending the contract would be if we then failed to develop a digital offering quickly. Management was requested to explore market options and come back to Board with proposals.

The Board was advised that the contract was profitable and that there was an existing £8m mutual indemnity within the extension of the contract would not change.

The Board **RESOLVED** to **APPROVE** the extension of our existing agreement with MoneyGram through to September 2021 and noted the next steps, as set out in the paper.

9. PROJECT PANTHER

- 9.1 DS introduced the paper. It was noted that KPMG had reconfirmed the valuation of the Payzone business. Heads of Terms had been agreed and work was underway on the CMA submissions. The communications plan was being developed and we expected to be in a position to exchange contracts by late April.

A number of points were raised:

- the Shareholder view of the acquisition was discussed. It was noted that the Shareholder had wanted reassurance that we had a walk away right after phase one if the CMA findings meant a deal was not viable. Tom Cooper reported that the Shareholder was supportive of the transition, however, he had suggested that the Subcommittee should have a session with the lawyers and transaction specialists before agreeing that the contract be signed to ask them directly if they had any issues to flag
- integration requirements were discussed and it was noted that the physical estates would remain separate but there were integration issues are around elements like bank accounts. The synergies we sought from the deal were revenue driven rather than cost driven



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- it was noted that the utility companies' reaction to the deal was important and, ideally, we would like to be able to advise British Gas about the Payzone deal as part of their tender process.

The Board **NOTED** the progress made in planning and negotiating the deal and

RESOLVED to **APPROVE** setting up a Board Subcommittee to which it delegated the authority to approve an exchange of contracts for the Payzone deal. The CEO and CFOO would confirm the membership of the Subcommittee.

PV/AC

10. IDENTITY

- 10.1 ME and BRM introduced the paper which the Board **NOTED**. ME explained how the product would work.

A number of points were raised:

- the process PO used to create a digital identity was discussed and it was noted that the criticism of Verify had been that the bar was set too high as not everyone could comply with the system's requirements
 - the points that differentiated PO's digital identity service were discussed. It was noted that PO did not sell its data and would be able to keep adding more sources of identity. PO was a trusted brand and would be adding in the ability to set up a digital identity in branch with an end-to-end verification process
 - the risks associated with providing the service were discussed. The principal risk was seen as process failure. If an individual used a digital identity to claim to be somebody else PO would not accept liability any more than DVLA would accept liability for someone using a stolen or faked driving licence. The position could be different if we had failed to follow our own processes when setting up an account so we needed to be able to have robust process and be evidence compliance with these
 - the current service provision was discussed. PO had a white label service from Digidentity but had worked with them to develop the service as we wanted it
- Verify had been a good market entry point, both low cost and low risk. It was noted that DWP was interested in using digital identity for universal credit
- the development of the service was discussed. This year we planned to get more control over our data to be able to own the customer interface. More could be plugged into the system but to make that work we needed to be a customer facing brand and market that. We needed to develop the architecture and product, then allow the customer to use the service as they wished, on-line or in branch, and be able to use their digital identity in a range of situations (e.g. when needing to prove age). This kind of service was not yet offered in the UK but digital services were being used widely in the Nordic countries, including across Government
 - the advantage of speed was discussed. Early development would create first mover advantage. We would need to market the advantages of the service effectively, including security¹, time savings and the ability to use a digital identity multiple times in multiple situations. Education and marketing would be needed on both the client and consumer side. PO had the advantage of providing a digital identity service and needing to make use of digital identity services
 - the scope for generating profit was discussed. It was noted that customers would not pay for their digital identity as this was provided by Government without charge but there was a significant client market, for example in providing

¹ PO had the advantage that it had not sold customer data which had tarnished the reputation of some providers.



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employment checks. Banks were seen as a significant source of new digital identity business for PO.

The Board encouraged the executive to continue the work outlined in the paper and to bring a recommendation to the Board on the investment required, covering supplier engagement and the value model. To be convinced of the investment potential the Board would need to receive robust assessments of where value could be created, where PO could add value and how profit would be generated. Expert assessments would be needed on how to ensure first mover advantage. Reasonable objectives would be needed on value and market share.

11. MICROSOFT ENTERPRISE AGREEMENT RENEWAL

- 11.1 The Board **RESOLVED** to **APPROVE** the renewal of POL's 3 year Microsoft Enterprise Software Agreement at c. £2.5m per annum, noting the associated risks and accepting the mitigations set out in the report.

12. POSTMASTER LITIGATION

- 12.1 The Board **NOTED** that the Subcommittee established at the previous meeting had met the previous day and had been updated on the case.
- 12.2 The Board **RESOLVED** to **APPROVE** the terms of reference for the Postmaster Litigation Subcommittee.

13. Board Governance items

13.1.1 Delegated Authorities and Authorised Signatories

The Board **RESOLVED** to **APPROVE** the following delegated authorities:

- CEO (£5m); CFOO (£4m); other GE members (£2m). GE members are able to determine sub-delegations up to their individual limits
- the delegated authorities as set out in the Treasury Risk Framework Policy (as approved by ARC on 27/03/2018 and as summarised in appendix 4 of the Board paper)
- that the company may enter into unlimited indemnities and liabilities which cannot be limited either as a matter of law or by market practice ("standard practice"). Where there are contracts that require unlimited indemnities or liabilities that are not standard practice, the CFOO together with the Group Director of LRG be authorised to approve such clauses save for those exceptions set out in the Board paper, which would need to be approved by the Board.

13.1.2 Terms of Reference

The Board **NOTED** the review of performance against terms of reference for the ARC, Remuneration and Nominations Committee in the 2017/18 financial year.



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13.1.3 Register of Interests and Conflicts of Interest

The Board **NOTED** the register of interests for directors and changes advised at the meeting would be made.

VB

14. Items of Noting

14.1 Sealings

It was **RESOLVED** that the affixing of the Common Seal of the Company to documents numbered 1637 to 1657 inclusive in the seal register was confirmed.

14.2 Health & Safety

The Board **NOTED** the report. Health and Safety audit had been very positive. The only point raised was whether we did enough to protect staff from abuse.

14.3 Meeting Dates and Forward Agenda

The Board **NOTED** the future meeting dates and May's draft agenda.

15. AOB

15.1 The Chairman thanked Richard Callard and Virginia Holmes for their excellent contribution to Post Office.

15.2 There being no further business the Chairman declared the meeting closed at 15:30 pm.

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Chairman

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Date

PO Limited Board Actions as at 17.05.18

	REFERENCE	ACTION	ACTION OWNER (GE)	DUE DATE	STATUS	OPEN/CLOSED
Board meeting 29/01/2018						
1.	CEO'S REPORT	To bring an update on the further development of the Banking Framework to the May Board.	Debbie Smith (Martin Kearsley)	24 th May 2018	Slot included on May Board agenda.	To close
2.	FINANCIAL PERFORMANCE REPORT					
	(a)	To include the value of talking to manufacturers and a review of location strategy as part of the paper on cash strategy coming to the May Board.	Debbie Smith (Martin Kearsley)	24 th May 2018	Paper on the Banking Framework included on May Board agenda.	To close
	(b)	To cover the issue of "trapped Postmasters" and "white space" strategy within the review of retail strategy at the June strategy session.	Debbie Smith	26 th & 27 th June 2018	Noted for inclusion in the June Strategy paper.	Open
3.	ANNUAL BUDGET 2018/19					
	(a)	To provide an update on the PO Insurance acquisition strategy (it was suggested that it would be helpful to include wider background briefings from insurance experts).	Owen Woodley	26 th & 27 th June 2018	PO Insurance will be presenting strategic growth options at the Strategy day in June, including potential acquisition options.	Open
	(b)	The CEO noted that the Mails strategy was being reviewed by the new Chief Executive, Retail, and would be covered in June at the away days; however an update would also be provided at the March Board.	Debbie Smith	27 th March 2018	Retail strategy coming to June away day and regular performance report to July Board.	Open

PO Limited Board Actions as at 17.05.18

4.	CE PERFORMANCE REPORT – RETAIL SBU	To look at agents' pay and come back with a strategy to the Board in June 2018.	Debbie Smith	26 th & 27 th June 2018	Noted for inclusion in the June Strategy paper.	Open
Board meeting 27/03/2018						
5.	FINANCIAL PERFORMANCE REPORT					
	(a)	PO Limited Non-Executive Directors to be sent copies of the press cuttings.	Veronica Branton	24 th May 2018	Access to press cuttings arranged.	To close
	(b)	The CEO to consider the issues raised in discussion to ensure that the away day delivered the discussions needed on PO Insurance.	Paula Vennells	26 th & 27 th June 2018	To be reflected in the June Strategy paper.	Open
	(c)	Directors to feed any questions / challenges they had to be covered at the away day.	All	26 th & 27 th June 2018	Questions/ challenges to be feed in as required.	Open
	(d)	Standing slot on material projects to be included in the Financial Performance report.	Alisdair Cameron	31 st July 2018	A section on material projects will be included in the Financial Performance Report in P2 as the spend becomes more material and we are past year-end.	Open
6.	FS&T PERFORMANCE	A point regarding the strategic options for the PO Insurance business was raised. OW was requested to consider what would drive a step change in ambition and this should feed into the thinking and preparation for the June away day discussions.	Owen Woodley	26 th & 27 th June 2018	To feed into the June Strategy day.	Open

PO Limited Board Actions as at 17.05.18

7.	PROJECT PANTHER	The CEO and CFOO to confirm that membership of the Subcommittee being set up to approve an exchange of contracts for the Payzone deal.	Paula Vennells / Alisdair Cameron		The Subcommittee was established and at its meeting on 15 May 2018 delegated authority to the Chairman, Group CEO and Group CFOO for exchange of contracts for the acquisition of PZ's bill payments business, commencement of preliminary, confidential discussions with the CMA, and initiation of communications activities.	To close
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CEO's Report

Author: Paula Vennells Meeting date: 24th May 2018

Executive Summary

Context

Our target for 2018/19 is to achieve EBITDAS of £50m. Our areas for future focus will be:

Our key market ambitions

- To remain **number one in letter and parcels**
- To build our position as a major challenger brand in **financial services and telecoms**
- To be **the UK's main provider of cash services** and remain **#1 in travel money**
- To lead the market for **digital identity services**

Our key measures of success

- **Grow our network**, doubling the number in town and city centres
- Become the **partner of choice for convenience retailers**
- Demonstrate **digital innovation in every transaction**
- Deliver **£100m profit** to reinvest in our business and communities

Our five priorities to deliver these outcomes

1. **Simplify** the retailer proposition
2. Build **flexible and secure** IT
3. **Modernise our products and services**
4. **Digitise and optimise** the business
5. **Trust our people** to find the best way to do their jobs and help our customers

Input Sought

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

The Report

Looking Back

WHAT HAS GONE WELL?

- **Financial Performance**

- A positive start to the year delivering a favourable variance to budget on EBITDAS, driven by strong trading across all business units. Revenue was £88.4m, £1.2m favourable to budget and represented 3.8% YoY growth.

- **FS&T**

- We have had a strong start to the year in Insurance, ahead of budget and growing versus last year.
- The launch of the new mortgages campaign has been successful with 23 pieces of national coverage and supportive messaging in The Daily Mail and The Sun. We had c20k visits last week to the mortgages homepage which is over double the average and leads have increased 4x to c800 per week. As a result, we expect to see a significant uplift in applications next month.

- **Network –Customer satisfaction, new openings & branch numbers**

- Customer Service Performance "Ease of Doing Business" score was 82.2% vs LY 81% (data captured from 2 touch points, VoC and directly requesting customer feedback where a customer has given permission to be contacted)
- This month saw two important milestones within our network, with the first branch opening for a new Multiple partner (Motor Fuel Group, the UK's largest forecourt operator) and the 100th branch for Blakemore, which trades as Spar. Forecourt is a major potential growth area for Post Office and we are already planning more openings with MFG (the first was in St Albans, the next will likely be near Newcastle).
- Our Network numbers have increased to 11,547 branches.

- **Banking Framework**

- Following an exchange with the Economic Secretary to the Treasury, we recently announced an agreement with UK Finance on a five point action plan to raise the profile of banking services available through the Post Office. The plan will promote awareness of day-to-day banking services, including paying in and withdrawing cash. Later this year, we will be launching a series of activities including media campaigns, local community events and enhanced support for vulnerable customers across the UK.
- Our plans around our banking framework continue at pace and current proposals could result in Post Office taking on c.30% of banking transactions starting in 2019, and maturing over 3 years. More detail to be discussed at this meeting.
- We continue to work closely with UK Finance and HM Treasury as we implement our plans.

- **IT branch deployment**

- Branch Counter deployment has accelerated now that we have transitioned the branch network from Fujitsu to Verizon. We are scheduling 70 branches a day with 10600 counters now complete, which is >40% of the targeted total we will achieve by September 2018.

- **The Times – Top 50 Employer**

- Post Office has been included in the list of the Times' top 50 employers for women – for the third year in a row. Post Office's inclusion on the list follows a successful 12 months for the business: it was recognised as a Disability Confident Leader in 2017 and earlier this year, also won the Diversity and Inclusion award at the Employee Engagement Awards.

WHAT HAS NOT GONE WELL?

- **IT network incident**

- There was a major network service outage on 9th May which resulted in c.4000 branches being unable to connect to the network. Branches were able to connect using their secondary wireless connections and the issues steadily declined from 08:30hrs, with the majority of services restored by 09:30hrs and confirmed as fully restored by 10:43hrs. The cause of the issue was related to a network failover test by Verizon. As a precaution, any such changes impacting on the branch network are currently being confined to the weekend to avoid a recurrence. Verizon is failing to deliver a robust network solution and we are pursuing remediation plans with them, requiring an additional 1 or 2 further data/DR centres to spread the load.

- **Telecoms Contact Centre data breach**

- One of our agents at our Telecoms contact centre, inadvertently disclosed the address of one of our vulnerable customers to the person alleged inflicting domestic abuse on her.
- Since the breach, our priority has been to ensure the customer is well supported. The customer and her family have been moved, temporarily, to a safe refuge whilst the authorities and support services work out a more permanent solution. We have remained in contact with her and will continue to be engaged and provide support (e.g. reasonable expenses) during this difficult time.
- Additional training and communications with all call centres and colleagues was put in place immediately.
- As this is a data breach the ICO has been notified of the event but no further information is available yet on reactions and next steps. However, it is likely that we will face some sort of sanction but to what scale is difficult to judge at this stage.

- **McColls**

- McColls have raised concerns around the viability of their Post Office branches with us and our Minister, Andrew Griffiths. We have written to Postmasters to let them know we will not be implementing a number of planned cuts to remuneration under simplification (as per our revised strategy) but will still be undertaking most of the simplification measures to increase efficiency in branch. We have an agency automation pilot about to trial which will save costs; we have received confirmation from the Coop that our productivity work with them has been well received. These are best practices to share across other partners and we will continue to work closely with McColls. (We currently have 600 Post Offices with McColls, our largest partner.)

Looking Ahead

FUTURE FOCUS**• Government Affairs**

- I recently hosted a parliamentary dinner in the House of Commons. It was a good opportunity to reposition the Post Office with MPs and stakeholders and was exceptionally well received. Two successful entrepreneurial Post Masters spoke at the event – their evidence spoke volumes.
- Al met with Simon Clarke MP who raised the issue of business rates with us: pressures on small businesses/ retailers continue and with the continued decline of the high street, we are keen to support.

• Bestway

- Bestway announced its acquisition of Conviviality's entire retail operation on 6 April and have indicated that they will continue to run all Conviviality brands (with existing management team in place).
- The 130+ Post Offices previously operated by, or in connection with, Conviviality have remained open throughout.
- Bestway is not currently one of the Post Office's Commercial Partners and have no 'company owned' retail estate. However, we do have some Post Offices operating in a number of Best-One branded stores (also owned by Bestway), and feedback from those Postmasters is very positive.
- Our initial take is that Post office and Bestway should be a good 'fit' as commercial partners.

• GDPR – new legislation from 25th May

- Internal Audit and PWC have concluded their review of our GDPR programme. The objective of this review was to assess the programme's confidence to achieve Post Office's goal of 'effective compliance' with GDPR by 25 May 2018, when the legislation comes into force.
- PWC concluded that having reviewed the progress made between October 2016 and February 2018, Post Office is significantly more progressed compared to its peers, and the wider industry as a whole, putting the business in a good position.
- Nonetheless, we are rated 'Needs Improvement', reflecting the risk that not all of the remaining planned activities will be achieved by 25 May 2018. As discussed at the ARC, appropriate actions are in place to reduce any risks, which are considered low.

• IR update

- Unite: We have agreed a 'negotiators agreement' over a two year pay deal for 2018/19 and 2.5% 2019-20. Brian Scott has recommended acceptance to his members in a consultative ballot which closes on 23 May.
- CWU: POL recently received ACAS notification that the CWU intend to support an employment tribunal claim to establish worker rights for at least 120 Postmasters. Any claim is expected late June/early July 2018. (See Project Starling below.)
- We met with CWU and Unite on 15 May to discuss a proposal from CWU for a Collective Defined Contribution pension scheme. The meeting was informative and interesting. No commitments could be made. We have agreed to arrange a further meeting involving members of the GE in the near future.

• Graduate proposals

- Each year I ask our 'grads' to tell me one thing they would improve if they were CEO. We have had three exceptional responses this year - I hope we will share them with you at the away day or July Board:
- Group one has already changed and improved our graduate recruitment process.
- A second group is working on proposals to increase Post Office's appeal to a younger customer audience in financial services.
- The third group has embraced the challenge to drive digital and agile working across the organisation.

• Project Starling

- We have created a new project to oversee our responses to a number of linked activities that may have implications for our business model: gig economy challenges in the courts; responding to the Taylor review; a group of 120 postmasters sponsored by the CWU seeking assessment of whether they should be categorised as workers; HMRC audit of our compliance with the National Minimum Wage. The project will be initially sponsored by Jane MacLeod given the potential legal implications.
- The work may lead us to consider changing aspects of our operating model, to reflect on what ethical 'red lines' we have, and on strategic implications as we evolve different post office models.

• Project Panther

- On May 15th, a Board subcommittee approved the Panther business case and granted delegation to CEO/CFOO for the formal exchange of acquisition contracts and the issuance of documentation for the competition regulators (planned for w/c 28/5). An extensive communications programme is being finalised for an early July announcement, and subject to CMA clearance, the Retail team is planning for completion by the end of the summer.

• Identity Services

- Work is continuing with the Passport Office (HMPO), Gemalto and Accenture to launch an assisted digital passport renewal service through our 730 branches with an AEI booth. HMPO are concurrently undertaking a complex migration of their back office system which has delayed the project by around 1 month. Subject to any further delays on their side we are planning a phased roll-out of the new service during the second half of June, reaching all 730 branches in July.
- We then intend to progress further passport innovations during the second half of 2018, including extending the range of application types and number of branches and linking to our digital identity service (which amongst other things would make it easier for customer to renew or replace their passport in the future and access other travel services from the Post Office).
- As discussed with the Board last October, the Home Office have been undertaking a procurement exercise to outsource all visa processing in the UK for the next five years. This new contract subsumes the existing service we provide to capture biometrics from customers in 115 branches, but also extends into back office processing of the applications (including TUPE of Home Office staff). As such, the new contract goes beyond our core competencies and the Home Office confirmed in October that we would not be short listed to provide the new service. They have now completed the procurement and will shortly be announcing the appointment of Sopra Steria. Our existing contract is due to end in November of this year, although we may be asked to extend by a number of months in order to

give Sopra sufficient time to implement their solution. We are also progressing direct sub-contracting discussions with Sopra about providing a premium service through some of our branches for customers willing to pay a premium for the convenience, although we will only pursue this if the financial benefits are clear.

- There are a number of broader opportunities with the Home Office in the identity space. They are very keen for us to progress the work on passport innovations noted above, we could potentially provide a solution to support the registration of the ~3.5 million EU nationals post Brexit, and the new Home Secretary (unprompted) raised the prospect of us playing a role in relation to the Windrush follow-up at a session with the Home Affairs Select Committee on 15th May. I have written to Sajid Javid, who we worked with previously when he was SofS at BIS, to congratulate him on his new role and outline these opportunities. A constructive dialogue is continuing with senior officials.
- We will be presenting a full update to the Board on our strategy for identity services in July, including the outcome of the work currently underway to develop a more detailed commercial business plan for private sector expansion and our recommendation on how to proceed with our preferred lead technology supplier.

- **HNGT**

- HNGT, our new counter software, is proving more complicated than initially thought. We will present a Business Case to the Board in July, following the Retail Strategy discussion. We are flagging today that we may exceed the £5m approved spend before July (current forecast £4.9-£5.2m) and will update in June.

RISKS OR CONCERNS?

- **Postmaster Litigation**

- A verbal update will be provided in the Board meeting.

- **Mails**

- The Post Office requirement for online sales in the future contract has been acknowledged and will be discussed at the RM June strategy day. With Moya Greene retiring, it is likely RM will take a pause to review strategy. I am due to meet with Rico Back, who replaces Moya Green as Group CEO and Tim and I will meet Sue Whalley, recently promoted to UK CEO of Royal Mail next month.
- We will bring mails back to the September Board to discuss future strategy and negotiation approach.

April 2018 (P1) - Performance

Author: Cem Oztoprak

Sponsor: Alisdair Cameron

Meeting date: 24 May 2018

Executive Summary

Context

Approved 2018/19 budget aims to deliver £965m Revenue (1% growth YoY) and £50m EBITDAS (38% YoY growth).

EBITDAS delivery is underpinned by £40m benefit realisation from change spend.

At the end of 2017/18, Cash in the Network was £645m and balance sheet headroom was £127m.

P1 had budgeted revenue of £87.2m and EBITDAS of £5.7m

Questions this paper addresses

1. What is the financial performance in P1?
2. What are the key areas of over and underperformance against budget?
3. Does the performance highlights create any concerns for the future?
4. What scorecard do we want for 2018-19?

Conclusions

A positive start to the year delivering a favourable variance to budget on EBITDAS, driven by strong trading across all business units.

Revenue was £88.4m, £1.2m favourable to budget, showing 3.8% YoY growth.

EBITDAS was £6.8m, £1.1m ahead of budget and £7.3m ahead of prior year. The year-on-year movement was driven by income growth (£4.5m) and cost reductions (£2.8m).

Balance sheet headroom in P1 was £239m above the minimum target of £200m. Headroom has increased from 2017/18 P12 by £112m as cash was brought back from branches after Easer, reducing barrowing.

Network numbers (March) were 11,547, 47 above the contractual commitment.

Change spend (Capex and Exceptional) was in line with budget but underlying spend was £7.1m, being £8.5m below budget, due to delays in project mobilisation.

Input sought

The Board is asked to note the financial performance and provide feedback on the Scorecard for 2018/19.

The Report

Period 1 Financial Performance

£m	Period 1				Full Year		
	Actual	Budget	Variance	YoY	Budget	FY17/18	YoY
Retail	51.5	51.1	0.4	0%	568.6	563.5	1%
FS&T (incl. Insurance)	30.0	29.5	0.6	10%	334.7	325.3	3%
Identity	5.7	5.4	0.3	-3%	47.3	53.3	-11%
Supply Chain/Other	1.2	1.3	(0.1)	74%	14.5	16.3	-11%
Revenue	88.4	87.2	1.2	4%	965.1	958.4	1%
Cost Of Sales	(10.9)	(11.0)	0.1	-2%	(127.3)	(121.2)	5%
Net Income	77.4	76.2	1.3	5%	837.8	837.2	0%
Agents Pay	(32.6)	(32.6)	(0.0)	-3%	(366.8)	(372.6)	-2%
Staff Cost	(16.5)	(16.4)	(0.0)	-1%	(182.6)	(188.0)	-3%
Non staff Cost	(26.2)	(25.8)	(0.3)	-5%	(284.1)	(280.1)	1%
FRES	3.3	3.3	0.0	10%	33.8	34.4	-2%
Other Income	1.3	1.0	0.2	n/a	12.0	5.3	126%
EBITDAS	6.8	5.7	1.1	n/a	50.0	36.2	38%
Network Subsidy	5.8	5.8	0.0	-14%	60.0	70.0	-14%
EBITDA	12.6	11.4	1.1	102%	110.0	106.2	4%
Depreciation	(5.9)	(4.3)	(1.6)	n/a	(66.8)	(56.8)	18%
Interest	(0.8)	(0.5)	(0.3)	53%	(6.0)	(5.2)	15%
Change Spend	(7.2)	(11.4)	4.3	n/a	(95.0)	(105.6)	-10%
Investment Funding	11.7	13.5	(1.8)	100%	168.0	70.0	140%
Profit On Asset Sale	0.7	0.0	0.7	94%	0.0	0.8	n/a
Profit Before Tax	11.1	8.6	2.5	14%	110.2	9.4	n/a

Summary P1 Performance Overview

1. Retail revenue was £0.4m better than budget, (Appendix 1) predominantly driven by increased lottery sales as a result of lottery rollovers.
2. FS&T (incl. PO Insurance) revenue performance was £0.6m and EBITDAS performance was £1.3 favourable to budget. (Appendix 2) The P1 performance upside was mainly delivered through an increase in telephony customers and higher life and motor insurance sales, along with a favourable mix change in Agents pay.
3. Identity EBITDAS performance was £0.2m favourable to budget. (Appendix 3) The in-month over performance was revenue driven, due to HMPO Check and Send volumes being 25,000 higher than budgeted albeit the volumes are decreasing YoY by 85,000 due to migration to HMPO Digital Check and Send.
4. Staff and Non-Staff costs (Operating Expenses) were £42.6m which was 4% lower than previous year.
5. Other income represents the interest income on POCA accounts and swap gain on interest rate hedging.
6. Profit before tax is £2.5m favourable to budget, delivering £11.1m to the bottom line. P1 last year excluded depreciation charges of c.£5m. Adjusting for depreciation, the underlying growth is more than double.

Balance Sheet & Cash Position

7. Net Asset increased by the retained profit of £11m.

Balance Sheet

£m	Period 1	Period 12 FY17	Movement	Movement %
Fixed Assets	485	479	5	1%
Debtors	353	333	20	6%
Cash	567	656	(90)	-14%
Creditors	(628)	(588)	(40)	7%
Pension Surplus	3	3	0	2%
Provisions	(62)	(66)	4	-6%
Other	10	9	0	4%
Loan	(511)	(623)	112	-18%
Net Assets / (Liabilities)	215	204	11	6%

Net Funding Position

£m	Period 1	Period 12 FY17	Movement	Movement %
Government Loan	(511)	(623)	112	-18%
Demonetisation - NCS	(257)	(238)	(20)	8%
Cash at Bank - POL	1	0	1	225%
Net Funding Position	(767)	(860)	93	-11%

8. Included in £567m cash balance is £552m of network cash, a reduction of £92m (14%) from P12. The reduction in network cash delivers a corresponding reduction in the Loan balance.
9. Balance sheet headroom has increased by £112m due to less cash being required in the network after Easter. Balance sheet headroom is nearly back to the same level as security headroom.

Balance Sheet Headroom

£m	Period 1	Period 12 FY17	Movement	Movement %
Government Loan - Available Amount	950	950	-	0%
Government Loan - Drawn Amount	(511)	(623)	112	-18%
Headroom	439	327	112	34%
Target Minimum Headroom	200	200	-	0%
Headroom Above/(Below) Target	239	127	112	88%

Security Headroom

£m	Period 1	Period 12 FY17	Movement	Movement %
Network Cash	552	644	(92)	-14%
Cash at Bank - POL *	1	0	1	225%
Client Debtors	140	132	8	6%
Trade & Other Debtors - Business Debtors	193	173	20	11%
Total Security	887	950	(64)	-7%
Government Loan	(511)	(623)	112	-18%
Santander	(104)	(100)	(3)	3%
Total Obligations	(615)	(723)	109	-15%
Headroom	272	227	45	20%

Change Spend

	Period 1		
	Actual	Budget	Variance
Retail	7.0	4.2	2.8
Financial Services & Telecoms	1.7	1.8	(0.1)
POMS	0.0	0.6	(0.6)
Identity	0.0	1.1	(1.1)
IT & Digital	5.6	5.8	(0.2)
Finance & Ops	0.4	1.0	(0.6)
Human Resources	0.1	0.3	(0.2)
Legal Risk & Governance	0.3	0.3	(0.0)
Central Adjustments	0.5	0.6	(0.0)
Grand Total	15.7	15.6	0.1

10. Programme spend for P1 is in line with the budget, however, £8.6m of the total £15.7m is carry forward from previous year. £30m carry forward from last fiscal year to this was anticipated but the P1 didn't reflect this anticipation.
11. Therefore, the underlying spend is lower at £7.1m and the main variances are as following:
 - A. DMB spend has been pulled forward into FY17/18 (£1.9m)
 - B. Identity projects are delayed due to business case preparation (£1.1m)
 - C. Project Everest delayed while the cloud business case is being finalised (£1.0m)
 - D. Low demand for Risk and Resilience investment (£1.2m)
 - E. Various small projects delayed due to project mobilisations
12. The newly formed Investment Committee is overseeing the change spend and reviewing the major projects, delivery status and spend profiles on a monthly basis. Currently, there no implications on in-year benefit delivery target based on P1 underspend.
13. As per the agreement in the March Board Meeting, Q1 spend report will be discussed at July Board including updates on major programme deliveries and Q2 forecast along with an update on future cash requirement from investment fund.

Scorecard

GE is currently working on a revised scorecard for 2018/19, reporting measures that we believe are significant to the development of the business.

Apart from tracking our bonus related measures that are targets: meeting the national access criteria in the network - having more than 11,500 branches; achieving EBITDAS of £50m; having two vertical businesses trading on Customer Hub; and removing HNGX, HRSAP and POLSAP from Post Office.

We are considering the other measures we should incorporate with a preference for leading other than lagging indicators where we can measure them. Ideas currently under review include:

- Trading income
- Trading income from Customer Hub
- Trading income from new, growth businesses – insurance and identity
- Customers trading on Customer Hub
- New Customers signed up on Customer Hub
- Safety of our people: LTIFR
- Diversity: proportion of new appointments at senior levels that are women and or BAME
- New customer satisfaction measure developed in Retail
- Regulatory compliance basket in FS (as now)
- Roll-out of HNGA
- Number of branches not trading for IT or cash failures
- Cash efficiency

The board's views would be appreciated.

A P1 scorecard is included in Appendix 4.

POST OFFICE

Appendices

1. Retail
2. Financial Services & Telecoms
3. Identity Services
4. P1 Scorecard

1. Retail

£m	Period 1				Full Year		
	Actual	Budget	Variance	YoY	Budget	FY17/18	YoY
Mails Trading	25.4	25.3	0.0	6%	289.1	274.1	5%
Mailwork	0.8	0.8	0.0	11%	10.0	10.0	0%
Fixed Fee	4.3	4.3	(0.0)	-9%	45.8	49.8	-8%
Gift Cards	0.3	0.3	0.0	12%	6.6	5.9	11%
Lottery	3.0	2.6	0.3	-6%	27.8	31.2	-11%
POCa *	2.6	2.4	0.2	-30%	29.7	40.4	-26%
Payment Services	2.6	2.5	0.1	-3%	26.8	27.0	-1%
ATMs	2.8	3.0	(0.3)	-11%	31.2	30.0	4%
Banking Services	9.2	9.4	(0.2)	20%	97.0	87.8	10%
Other Retail	0.5	0.4	0.1	-58%	4.7	7.3	-37%
Total Revenue	51.5	51.1	0.4	0%	568.6	563.5	1%
Cost Of Sales	(1.7)	(1.7)	0.1	36%	(19.3)	(25.9)	26%
Net Income	49.8	49.3	0.5	2%	549.2	537.6	2%
Agents Pay	(27.8)	(27.7)	(0.1)	17%	(314.6)	(372.6)	16%
Staff Cost	(7.3)	(7.4)	0.1	2%	(74.4)	(82.4)	10%
Non staff Cost	(2.8)	(2.6)	(0.2)	-50%	(42.9)	(30.8)	-39%
Other Income	1.3	1.0	0.2	325%	12.0	5.3	126%
EBITDAS	13.1	12.7	0.4	115%	129.3	57.1	127%

14. Mails trading performance was in line with budget with 6% YoY growth. Strong performance on labels and home shopping returns offset lower performance in stamps.
15. Lottery delivered £0.3m favourable revenue to budget due increased sales from rollovers during the period.
16. POCA was £0.2m ahead of budget with 4% more accounts than budgeted.
17. Bill Payments has made a solid start to the year delivering £2.6m income in the period against budget of £2.5m. This was driven by favourable performances in both the reseller (Allpay and Santander) and direct channels.
18. ATMs revenue was (£0.3m) unfavourable to budget due to reduced volumes (-8%) driven by availability rate at 93.9%.
19. Agents Pay was (£0.1m) adverse mainly due to increased lottery sales.
20. Operating expenses were broadly in line with budget.

* POCA Revenue for previous year has been adjusted to reflect the change of accounting treatment and make revenue figures like for like comparable

2. Financial Services & Telecoms (incl. PO Insurance)

£m	Period 1				Full Year		
	Actual	Budget	Variance	YoY	Budget	FY17/18	YoY
PO Money	8.8	8.7	0.1	7%	99.3	112.0	-11%
Telephony	15.0	14.8	0.2	12%	165.1	152.0	9%
Postal Orders	1.3	1.2	0.1	-16%	12.3	14.7	-16%
Insurance	4.9	4.8	0.1	17%	57.9	47.8	21%
FS Income Stretch	0.0	(0.0)	0.0		0.1	(1.2)	-106%
Total Revenue	30.0	29.5	0.6	10%	334.7	325.3	3%
Cost Of Sales	(8.7)	(8.8)	0.1	-6%	(102.9)	(91.6)	-12%
Net Income	21.3	20.7	0.7	12%	231.8	233.8	-1%
Agents Pay	(3.4)	(3.8)	0.4	-97906%	(43.8)	(0.0)	-1267369%
Staff Cost	(1.2)	(1.3)	0.1	14%	(16.8)	(15.3)	-10%
Non staff Cost	(5.7)	(5.8)	0.1	6%	(67.5)	(63.5)	-6%
FRES	3.3	3.3	0.0	10%	33.8	34.4	-2%
EBITDAS	14.3	13.0	1.3	-2%	137.5	189.4	-27%

21. PO Money delivered £0.1m better revenue than budget due to improved trading. A 7% YoY improvement, versus a full year expected decline of 11%.
22. Telecoms has grown by 12% YoY on the back of the New Call acquisition and delivered £0.2m more revenue compared to budget as a result of higher number of customers on the back of growth fund activity in 17/18
23. Insurance delivered £0.1m higher than planned income due to a combination of higher Protection product sales; higher Car Insurance revenues due to improved retention and management of aggregator costs; offset by lower Travel insurance revenues due to a channel mix variance. Total Protection product sales were 30% above budget and combined with increases in income per policy have led to a 75% year-on-year growth in total Protection income in P1.
24. Agents Pay was £0.4m favourable mainly due to lower travel insurance sales and mix.
25. Operating expenses were 0.2m adverse vs. budget. This is due to delayed marketing spend £0.3m offset by £0.4m costs which will be transferred to capex/exceptional in due

3. Identity

£m	Period 1				Full Year		
	Actual	Budget	Variance	YoY	Budget	FY18	YoY
Home Office	3.0	2.8	0.3	-19%	23.1	31.6	-27%
DFT/DLA	0.7	0.6	0.0	-9%	6.2	7.0	-11%
Identity Services	0.5	0.4	0.0	32%	4.4	4.2	4%
Verify	1.3	1.3	0.1	94%	12.9	9.6	34%
Environment Agency	0.2	0.3	(0.1)	-41%	0.7	0.9	-23%
Total Revenue	5.7	5.4	0.3	-3%	47.3	53.3	-11%
Cost Of Sales	(0.5)	(0.5)	(0.0)	63%	(5.1)	(3.6)	40%
Net Income	5.1	4.9	0.3	-7%	42.3	49.6	-15%
Agents Pay	(1.2)	(1.1)	(0.1)		(8.4)	0.0	
Staff Cost	(0.1)	(0.1)	0.0		(1.8)	0.0	
Non staff Cost	(0.4)	(0.4)	(0.0)	-37%	(4.8)	(4.5)	9%
EBITDAS	3.4	3.2	0.2	-29%	27.2	45.2	-40%

26. Identity has performed ahead of budget in the month and delivering £5.7m revenue. Revenue has declined 3% YoY mainly due to Home Office's new pricing structure favouring the Digital Check and Send service.
27. The positive revenue variance against budget was driven by Home Office products with higher volumes on non-digital HMPO check and send. Overall customer migration to the HMPO digital channel has increased, but remains behind expected levels.
28. UKVI volumes are also up by 7,000 improving revenue by £0.1m over budget. The increase in enrolment volumes is understood to be due to customers applying for residence earlier, it remains too early to assess if this is an effect of BREXIT.
29. Verify delivered £0.1m ahead of budget driven by high volumes of registrations from Disclosure and Barring Service (to get a copy of criminal record) and Universal credit retaining higher volumes.
30. Agent's Pay moved in line with the increased revenue.

4. Scorecard

Key Performance Indicators	P1			Full Year
	Act	Target	Var.	Target
Growth				
Total Gross Income (excl NSP) £m	88.4	87.2	1.2	965.1
EBITDAS (excl. GLC) £m	6.8	5.7	1.1	50.0
Headroom £m (vs Board minimum limit)	439	> 200	239	> 200
Net profit £m ¹	11.1	8.6	2.5	110.2
Customer				
Customer Effort	82%	76%	6%	76%
Net Promoter score Financial Service (one month in arrears)	26	25	1	25
Acceptable Wait Time %	95%	95%	0%	95%
Branch Compliance (FS - basket of 11 measures)	80	<=50	(30)	<=50
People				
Representation (Senior Managers) - Gender	39%	37%	1.7%	37%
Attendance ²	98.0%	96.7%	1.3%	96.7%
IT Lost Time (Number of Sev1/Sev2 IT incidents)	6	6	0	<156
Safety LTIFR	0.270	TBD	N/A	TBD
Modernisation				
Number of branches (one month in arrears)	11,547	11,500	47	TBD
NT and ND Branches Transformed in Year	67	51	16	400
HNGA Network Only Rollout	N/A	TBD	N/A	4,000
IT Transformation (% of IT controls implemented)	90%	TBD	N/A	TBD

Customer

1. Branch compliance was rated amber. The key issues raised relate to non-provision of the 'summary box' information for savings applications and colleagues not following approved introductory conversations and out of date literature. The team is deploying a series of activities to help improve summary box conformance. FS&T Risk & Network Gateway have agreed to formalise the literature checklist into a standard monthly check.

Customer

2. **Attendance Reporting:** Work has been undertaken on Success Factors to fix technical issues that were identified and there is renewed confidence in the available hours reported. The number of absences reported are lower than expected possibly due to the collision between sick leave and annual leave on success factors and a requirement to update weekly in some cases.
3. **Safety LTIFR:** There were 6 employee related accidents on PO during P1 v 8 last year. There were 4 employee related accidents in DMS, 1 in Supply Chain and 1 accident reported across Network Operations and Support teams

Modernisation

4. **Network:** Network numbers reported (March) were 11,547, 47 above the contractual minimum.
5. **NT and DD Transformation:** 67 Branches have been transformed in P1, 14 NT conversions and 53 ND, the ND new network location is ahead of plan as a result of clearing some of the back log caused by the Verizon issues at the end of the year.
6. **HNGA Branch Counter Rollouts:** P1 information is not available
7. **IT Transformation (% of IT control implemented):** A review of the TrAction tool shows 100% of controls in operation have been assessed as working effectively. Targets for 2018-19 have not been set.

Capital Injection

Author: Michael Passmore Sponsor: Alisdair Cameron Meeting date: 24 May 2018

Executive Summary

Context

Post Office Management Services Limited (POI) is a wholly owned subsidiary of Post Office Limited (POL) and undertakes the business of insurance intermediation. POI is regulated by the FCA and is required to maintain a minimum amount of capital at all times. As a result of planned investments, a capital injection of £5m is required.

Questions addressed in this report

1. What is context to the POI capital requirement?
2. What is the quantum of the capital requirement for 18/19?
3. What is the preferred mechanism to meet this requirement?

Conclusion

To maintain POI's FCA solvency in 2018/19, a £5m capital injection is required. We are recommending that POL acquires £5m of new POI share capital.

Input Sought

The Board is invited to consider and, if thought fit, pass the following resolutions:

1. Grant written consent to the allotment by Post Office Management Services Limited of 5,000,000 ordinary shares of £1.00 each.
2. Approve the subscription of 5,000,000 ordinary shares of £1.00 each in POI, for a total consideration of £5,000,000.
3. Authorise any one Director or the Secretary to execute on behalf of the Company any documentation in connection with the allotment of the shares.

Input Received

There has been extensive discussion with POI senior management and via POL's representation on POI's Board.

The Report

What is the need or opportunity and why now?

1. POI is an FCA regulated insurance intermediary. It is required to maintain a regulatory capital balance above the minimum level required by the FCA. POI has a policy of maintaining a "buffer" of twice the FCA requirement. Key features of the FCA capital formula is that annual profits after tax can only be included once audited and that there is a £1 per £1 deduction for capitalised intangible assets e.g. software.
2. In the 2018/19 budget ("Plan") there is substantial intangible capital spend of £11.3m (of which £5.7m is Nemesis) versus £3.2m in 17/18. This level of capital spend creates a strain on regulatory capital in 18/19 requiring a capital injection to maintain solvency.
3. The POI Board approved the 5 year Strategy in January. The first year of the 5 year plan (subject to certain adjustments e.g. Mortgage specialist income) was submitted to POL as part of the group planning process. The consolidated 2018/19 Plan (including POI) was approved by the POL Board in March. This has triggered the process of seeking a capital injection.
4. POL was aware that the execution of the POI strategy would require capital injections in 18/19 and 19/20. This is followed by considerable capital surpluses in subsequent years as capitalised costs reduce and profits increase.
5. Maintaining POI capital is a regulatory requirement. Failure to do so is a regulatory breach resulting to FCA sanction and possible loss of licence to trade. £5m is required in 18/19 followed by £2.5m in 19/20.

What do we propose to do and why?

6. It is proposed that the Company subscribe for 5,000,000 ordinary shares of £1.00 each in POI for a total consideration of £5,000,000.00. Under section 4.3(A) of the Articles of Association of POI, the issue or allotment of any shares or granting of any share rights by POI requires the prior written consent of POL.

The business case

7. A quarterly summary of POI 2018/19 Plan cash and regulatory capital (prior to any injection) is shown below:

£m	<u>Cumulative / Period End</u>			
	P3	P6	P9	P12
<u>Regulatory Capital</u>				
POMS Regulatory Capital	4.1	2.0	(0.1)	(2.1)
FCA requirement	1.0	1.0	1.0	1.0
POMS Target	2.0	2.0	2.0	2.0
Surplus (Short Fall)				
V FCA	3.1	1.0	(1.1)	(3.1)
V POMS	2.1	(0.0)	(2.1)	(4.2)
<u>Cashflow ^</u>				
B/F	7.6	5.9	3.7	1.2
Cashflow	(1.7)	(2.2)	(2.6)	(2.3)
C/F	5.9	3.7	1.2	(1.1)

^ Excluding Trust Account

8. Due to the lagging effects of the FCA regulatory capital formula the strain on regulatory capital leads that of cash.

What options did we consider?

9. Assuming on Plan performance the only option is around the mechanism to make the capital injection. In addition to the subscription of shares two other options were considered: Subordinated Loan which would increase cost and complexity; or a variation to the POI 30% sales commission to POL which would confuse trading performance.

What do we need to do next to progress?

10. At a meeting held on 22 May 2018, the Board of POI shall resolve to allot 5,000,000 ordinary shares of £1.00 each to the Company, subject to receipt from the Company of prior written consent to the allotment, a letter of subscription and payment. A request for written consent to allot the shares shall then be made by POI to the Company.
11. In order to proceed, the Board is required to provide written consent to the allotment of shares, and to approve the subscription of 5,000,000 ordinary shares of £1.00 each in POI for a total consideration of £5,000,000.00. A draft letter from the Company to the directors of POI providing consent to the allotment of shares, and subscribing for the shares, is attached as Appendix 1.

The Directors
Post Office Management Services Limited
Finsbury Dials
20 Finsbury Street
London
EC2Y 9AQ
United Kingdom

XX May 2018

Dear Sirs

Post Office Management Services Limited

We consent to the proposed allotment of shares as detailed in your letter of XX May 2018 and hereby apply for the allotment to us of five million ordinary shares of £1.00 each in Post Office Management Services Limited, fully paid, for a total consideration of £5,000,000.00, on XX May 2018.

We undertake to pay the sum of £5,000,000.00 by transfer to the bank account you have nominated.

Yours faithfully

.....
Paula Vennells
Group Chief Executive
For and on behalf of Post Office Limited

Future of Banking Framework

Author: Martin Kearsley Sponsor: Debbie Smith Meeting date: 24th May 2018

Executive Summary

Context

1. Conversations with Tier 1 banks in summer 2017 led to strong engagement from Lloyds and others regarding migrating significant further volumes of transactions to Post Office to support their branch closure and restructuring strategies.
2. Lloyds will lead the change, offering a 'mixed' model for their future customer service – continued branch closures, some branch restructuring (to become cashless) and others offering full service. This could result in Post Office taking on c.30% of their transactions starting in 2019, and maturing over 3 years. Other banks will follow.
3. Based on this direction, taking on 30% of all bank transactions has been assessed, as all banks are raising public awareness of Post Office banking services in response to Government pressure.
4. Several scenarios of this combined accelerated growth have now been modelled by KPMG and Post Office to ensure all existing systems, processes and capabilities can cope with the increase profitably, securely and sustainably over the longer term.

Questions addressed in this report

1. What growth scenarios have been explored?
2. What is the impact of this growth on every area of the business?
3. What is the EBITDAS impact of that additional growth?

Conclusion

1. Post Office IT, back office and treasury systems can support the projected continued growth of the Banking Framework through to 2023.
2. Additional revenue can be profitably achieved from existing assets without major structural or investment challenges.
3. Formal discussions with Lloyds (initially) to take on extra volume should begin, as part of a wider renegotiation of Banking Framework fees for 31.12.18.
4. Supply chain investment will be required in transportation and operations for BAU growth and under both banking growth scenarios. Under an 'all bank' scenario structural changes and/or partnerships would be required.
5. Limited, revenue-funded and balanced investments are required in supporting areas.

Input Sought

1. To note the positive NPV in all tested scenarios and the evaluation process used to assess the impact of accelerated growth in the Banking Framework.
2. To note the linkage of ATM and POca evolving cash strategies, the mutual interest and benefit of having brought these areas together within Retail.
3. To endorse positive engagement with the banks to develop the growth opportunities.
4. To note that the Note Recirculation Facility is fully supported as investment is made in Supply Chain infrastructure in outer years to cope with increased volumes.
5. To note a further KPMG spend of c. £131k to refine and model detailed LBG transaction data with the Lloyds team.
6. To note formal renegotiation of pricing for Framework2 to be completed by 31.12.18

Input Received

7. GE, IC and CAG and DA have all reviewed these linked 'Future of Cash' documents.
8. All business areas have been engaged in a 3 month process to evaluate the impact of growth. Key colleagues formed a Steerco from which direction and nominated Subject Matter Experts were deployed to contribute.
9. KPMG were engaged to model the impacts using previously proven techniques (from Project Iris) to ensure cash flows, volume impacts and process challenges can be accommodated.
10. PA were engaged to review the end to end IT stack to model and test capacity.

The Report

What is the need or opportunity and why now?

1. The Banking Framework has been well received by all stakeholders. With every major bank and almost all others now participants in the Framework, the profitable delivery of continued solid growth, increased revenues and profitability is the major strategic focus.
2. Continued disruption and closures in the Bank branch estate will see significant volume growth in the Banking Framework. With these closures, an identifiable strategic theme became evident through summer 2017 in conversation with the tier 1 banks. On completion of the current closure programmes, they all plan to change their remaining branch estate into a mixed model - some branches becoming cashless, others being full service.

3. The mixed model will be most prevalent in the outlying, more rural areas, as the banks consolidate into town and city centres.
4. With these plans being implemented in 2018-20, and as we head towards the end of Framework1 (December 31st 2019) into Framework2, our opportunity is to re-price the Framework by the end of 2018. Our commercial strategy will reflect transaction trends and the movement of much larger sums of cash.
5. Lloyds supplied us with their annual counter transaction records to aid analysis, from which we agreed a headline migration figure of 30% of that volume – customers assumed to move to using Post Offices for cash banking service by 2023. We then modelled an additional migration scenario of 30% of 'all bank' transactions following on from Lloyd's lead.
6. The cross-company assessment of all affected areas was undertaken to ensure that the increased volume could be effectively handled by each department as it materialises, and any investment has been factored into the emerging commercial strategy.

What do we propose to do and why?

The proposal

7. Engage with Lloyds first, then other tier 1 banks, to migrate customer groups (by geography as well as by account type) to use Post Office branches for daily cash services.
8. Ensure the impact of the migration is clearly understood and the following areas are fully incorporated:
 - a. The Note Recirculation Facility (NRF)
 - b. The emerging ATM and Future of POca strategies
 - c. The total cash inflow/outflow position from 2019 onwards – ensuring that areas such as Supply Chain, Treasury, Network, Security, IT, and FSC are all scaled to handle the volume
 - d. The Retail Strategy (for June Board) incorporates the assessed security, remuneration and branch model changes to accommodate the increase in cash volumes
 - e. The commercial strategy for Framework 2 incorporates additional revenue from the banks for:
 - i. Increasing Business Deposits as a proportion of total transactions
 - ii. Increasing cash in the short/medium term, eventual decline as cash in the economy begins to decrease post 2025.
9. Hold off any commitment to invest further funds until:
 - a. Clear evaluation of Supply Chain requirements to support BAU banking growth
 - b. Further proposals to Lloyds is completed and agreed
 - c. Lloyds have contracted to increase the volumes
 - d. Programme team is put in place to implement changes effectively

*The business case***What growth scenarios have been explored?**

10. Using full year records provided by Lloyds of all 60m counter transactions in 2016/17 in their network, the below scenarios were agreed with them and modelled.

- a. If POL were to take 30% of Lloyds cash transactions, the branch impact would be:-
 - i. 2567 (26% of our 9731) branches will be impacted by allocating 11.2m Lloyds transactions. These impacted branches include 60 Crowns, 781 Mains and 1726 other including Locals. Approx. £7.5bn deposits and £1.4bn withdrawals are apportioned.
- b. If POL were to take 30% of all banks transactions the branch impact would be:-
 - i. 4181 (41% of our 9731) branches will be impacted by allocating 28.2m of all banks transactions. These impacted branches include 68 Crowns, 1259 Mains and 2854 other including Locals. Approx. £20bn deposits and £3.5bn withdrawals are apportioned.

What is the impact of this growth on every area of the business?**Horizon Architecture and capacity review**

11. The concluding assessment by PA Consulting of the Horizon IT platform is that no IT changes are required to support the proposed additional volume.

12. The key findings are;

- a. Architecture – the platform is designed for scalability, resilience and robustness and can support the proposed transaction volumes.
- b. Capacity – there is sufficient capacity within the Horizon system and connectivity to Vocalink to deliver the uplift in volumes. Capacity management processes are robust on an on-going basis.
- c. Testing – functional testing is thorough and catches issues/defects before full deployment. Enhanced Disaster Recovery testing needs to continue to prove the processes and design support the Recovery Point Objective (RPO)/ Recovery Time Objective (RTO) requirements.
- d. Service Management – Fujitsu's operating model is fit for purpose in the key areas of service operations, capacity management (including proactive monitoring) and release management.

Supply Chain capacity

13. Post Office will continue to see volumes increase through BAU growth in the Banking Framework (between 5-7% p.a). This will happen irrespective of any new

agreements with the banks and investment will be needed within the Supply Chain, which has previously assumed a lower level of transactions.

14. Modelling for current SC operations suggests the routing and scheduling are well optimised with a 1.2% potential improvement identified. These types of opportunities are directly competing for SC resource against other on-going SC projects such as the targeted reduction in network cash inventory levels.
15. Under a Lloyds scenario, additional banking volumes result in increased operating costs of c. £5m annually, with 88 extra staff required and a capital investment of c. £2.7m (extra 28 vehicles). The increased annual managed value of £30bn presents no structural challenges.
16. Under an All Bank scenario operating costs will increase c. £14m annually (potential 312 extra staff), and an £8.7m one off capital investment (extra 81 vehicles). Assuming higher customer deposits, the value of inward processed cash increases by c.260%, breaching maximum processing capacity. A move to 24x7 processing would increase site capacity by c.200% meaning structural changes would be required.
17. The speed of change in the market is inexact and therefore Post Office needs to be able to adapt quickly to changes in the most cost effective way without over investing in a short-term solution, noting that lead times on vehicles are estimated between 10-15 months.
18. Further work will continue to assess whether 3rd party resource (Loomis, G4S) can be effectively used to support volume above c. 80%. This would ensure that PO fixed and variable SC costs can be augmented by external flexible support.

Branch Security

19. The potential increase in cash, combined with the fact there will be fewer other cash targets on the high street, means an increased Robbery and Burglary risk.
20. Branch safes could in theory hold much more cash than the level set as per the safe grading, requiring enhanced security protection investment is needed.
21. Based on these a likelihood vs risk calculation, the level of potential investment to ensure branches are equipped to the right standard has been assessed across the entire branch network.
22. Branches requiring safe works will require the most work – 91 branches will require physical enabling works to upgrade.
23. The outcome of the security assessment shows:
 - 140 Branches need Monitored Alarm + Safe Timelocks + TDLC + Fogging
 - 29 Branches need the above plus IP Camera
 - 129 Branches require safe upgrades, and cost assessments have been made for each site.

Network

24. Banking, both business and personal, is an increasingly important part of all Post Office models. Banking stretches far 'deeper' into the network than other products and is one of the few products showing growth in the network.

25. The majority of Post Office traditional products are in structural decline - most individual post offices have the capacity to take on the extra transactions that banking is creating. Post Office Card Account withdrawals are half the value they were in 2012, and in spite of the growth in the value of business deposits recently, cash levels in the network are still lower than they were then.
26. The network can absorb significantly higher banking levels in line with the current growth.
27. Individual branches will need assessing as the local volume increases, depending on their unique circumstances and what happens to banks around them. This is particularly true for Locals models, where without dedicated staffing and queueing there is a limit to the level of extra volume that can be absorbed.
28. Many SME customers are 'located' to an individual Post Office (at the request of the SME's bank), so Post Office has direct control over how and where high-volume SME customers can be best served. This has helped spread any 'local load' that might stretch the smaller local branches.

Remuneration

29. The original Banking Framework business case proposed that the Framework Fee made banking services profitable for Post Office Limited – replacing any reliance on Government subsidy. The Transaction Rate then makes each transaction individually profitable, and the overall business is therefore highly scalable.
30. None of that Framework Fee was allocated to remuneration, and Post Office Limited maintained the then existing remuneration rate.
31. Banking currently accounts for 10.5% of Post Office's footfall, and 11.5% of income, but pays only 7.8% of agents' remuneration.
32. This imbalance has caused many Postmasters to question the value (and deter further custom) from Business Deposits. This situation is impacting growth of Business Banking deposits.
33. The remuneration challenge for our Postmasters has been addressed in this business case.
34. The revised product timings for deposits indicates an additional £2m required for enhanced, balanced remuneration above the existing rate of £13.6m, the increase being funded from transaction revenue and cash handling charges to the banks.

Financial Service Centre

35. The transaction types will remain the same as the current banking framework and the transaction complexity will gradually simplify (with the removal of paper etc) therefore the modelled increase in transactions can be covered by redeploying existing resources in the short-term and a maximum of two additional resources required in the medium/long-term.
36. The additional staff would be required to cover a linear anticipated increase in enquiries received.
37. It is anticipated that there will be no impact on the completion of settlements and associated client accounts unless additional clients are taken on.

Appendix 1

What is the EBITDAS impact of that additional growth?

£k	Sunk costs	Investment						Total
		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
Capex	0	0	0	1,289	1,857	1,857	1,138	6,141
Exceptional	0	0	0	0	0	0	0	0
Opex	941	0	131	979	1,411	1,411	864	5,738
Client Funded	0	0	0	0	0	0	0	0
Total POL Investment	941	0	131	2,268	3,269	3,269	2,002	11,879

£k	Approved Prior years	Drawdown Request			Total
		Approved 17/18	New 17/18	New 18/19	
Capex	0	0	0	0	0
Exceptional	0	0	0	0	0
Opex	0	0	0	131	131
Client Funded	0	0	0	0	0
Total Drawdown Request	0	0	0	131	131
Total New Request				131	131

£k	Impact on EBITDAS							Total
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
Net Income		0	0	3,891	13,509	24,734	32,699	74,834
Direct Product Costs		0	0	(2,874)	(10,671)	(19,074)	(25,493)	(58,112)
Cost Saving		0	0	0	0	0	0	0
Recurring Costs		0	0	0	0	0	0	0
Total Impact on EBITDAS		0	0	1,016	2,839	5,660	7,206	16,721
Other cash items		0	0	0	0	0	0	0
Total Cashflow	(941)	0	(131)	(1,251)	(430)	2,391	5,204	4,842

Economics	NPV @ 12% over 5 years £m	Payback years	EBITDAS	Recurring EBITDA	Steady State – Yr
Hurdle Rate	+ve	3 years	>£2m pa incremental @steady state	N/A	N/A
Business Case	0.1	3.8	13.5		FY25/26

Appendix 2

Security Impact - Methodology

1. Existing and potential safe capacity has been compared to the average overnight cash holdings (N TONCH) in branch under each of the Lloyds and All Bank scenarios, to assess where security upgrades will be required.
2. For each scenario the additional holdings and Safe limits have been assessed.
3. Additionally, assumptions have been made that where local branches are impacted there is potential requirement for further upgrades:
 - a. Fortress - 30% of impacted local branches at an estimated average cost of £15k
 - b. Relocation (where upgrades are not possible) - 10% of impacted local branches, at an estimated average cost of £35k

Outputs

Fig. 2 Security Impact output

Risk Score	Cost*	Lloyds 30% scenario		All bank 30% scenario	
		# impacted branches	Cost	# impacted branches	Cost
0		1747	-	3103	-
1		-	-	-	-
3		230	-	517	-
5		38	-	86	-
15	£3,750	79	£296,250	140	£525,000
25	£5,000	15	£75,000	29	£145,000
Safe Issue	£12,500	52	£650,000	129	£1,612,500
Sub Total		2,161	£1,021,250	4,004	£2,282,500
Local branches impacted		178		433	
30% Fortress		59	£890,000	144	£2,165,000
10% Relocation		18	£623,000	43	£1,515,500
Total Cost			£2,534,250		£5,963,000

*(includes a 25% contingency)

Appendix 3

All Banks End State	£m	#	Comments
INVESTMENT			
Capex	7.8	82	82 additional supply chain vehicles at average unit price of c£96k (18 month lead time due to design specifications).
Opex	5.7		Sunk costs (£0.9m) and additional implementation team costs (£0.1m) for consultants, PM and Business Analyst and £4.7m of security upgrades.
Total POL Investment	13.6		

Peregrine Update – Current State of Play

Authors: Chrysanthy Pispinis & Colin Stuart

Sponsor: Owen Woodley

Meeting date: 24th May 2018

Executive Summary

Context

1. At the September 2017 Board Meeting, it was agreed to reject Bank of Ireland's ("BoI") long-awaited proposal to address our commercial concerns. The Board agreed that the proposal was too far away from acceptability to be worth negotiating and therefore we should confirm to BoI that we wanted to focus on operating under the terms of the FSJVA as effectively as possible for our customers.
2. BoI Group appointed a new Group CEO in October, Francesca McDonagh, who requested that a new effort be made to reach long term agreement – promising flexibility in BoI's negotiating position. This latest process started in December.
3. POL's original expectation was that BoI would submit a formal proposal, ahead of the May Board meeting, with a view to the parties agreeing to Heads of Terms ahead of BoI's investor day on 18th June. BoI subsequently indicated it could only submit a full, firm proposal if it had reasonable certainty that it would be accepted by POL.
4. This paper is an update on the material developments from the ongoing negotiations, and tactics to consider moving forward in light of the FS strategy.

Questions addressed in this report

1. What does Post Office want to achieve in retail Financial Services (FS)?
2. What could this ambition look like? What is the role of the BoI relationship?
3. What position have we reached in the BoI negotiations to date?
4. What are our potential routes in the context of the current negotiations? What are the implications (financial and other) of each of these routes?
5. What are our proposed negotiating tactics and next steps?

Conclusion

1. Owning and driving value from its customer relationships is the key way in which POL will derive competitive advantage and grow value in FS. The customer-centric and digital first model is supported by the development of our Customer Hub, allowing POL to interface with 'best of breed' providers, leveraging new industry standards such as Open Banking and PSD2, and building on the trust in our brand.
2. On balance, a focused, more-limited BoI relationship, with equitable and aligned commercial returns, could fit with and benefit our wider FS strategy.
3. Whilst negotiations have not advanced as quickly as we would like, we have made significant progress in a number of areas; in particular, BoI's position on FRES has shifted towards us.
4. There are a number of specific options that could be pursued with BoI in the context of the current negotiations, and new opportunities available to us.
5. Given that BoI's position has continued to shift gradually towards addressing our original concerns, we recommend continuing the discussions, acknowledging the process could take a few more months. We may also wish to consider sequencing our approach to the negotiations.

Input Sought

The Board is asked to:

- give its steers and challenges
- give us more time to conclude this process
- give us a mandate to agree a 9-month value share
- support further advisory firm engagement

The Report

FS Strategy

1. Owning and driving value from its customer relationships is the key way in which POL will drive competitive advantage and grow value in FS. To that end, we continue developing targeted, distinctive propositions, which will be increasingly underpinned by customer lifetime management.
2. This customer-centric and digital-enabled model is supported by the development of our Customer Hub capabilities; the model allows POL to interface with 'best of breed' providers, leverage new industry standards (e.g. Open Banking, PSD2), and build on the trust in our brand – modernising customer perceptions of POL and driving increased brand relevance.

What does it look like? What is the role of the BoI relationship in the FS strategy?

3. The FS strategy is aligned to our North Star ambition and will help to ensure that the Post Office matters even more tomorrow than today. In particular, it drives more profitable, sustainable growth, partly by reducing our reliance on third-party provider pricing strategies.
4. We have set out below a number of alternatives for how POL's FS strategy could be delivered going forward. Some of these assume POL pursues a partnership model leveraging its brand, distribution and improved digital capabilities (as previously laid out). We have also included an 'aggregator' and a 'manufacturer' scenario. We have presented a high-level, illustrative financial snapshot for POL under five long term scenarios and assessed the qualitative aspects of each of these scenarios. The financial snapshot and associated assumptions are notional and intended to give a rough order of magnitude to help compare the respective benefits of each route.

Table 1: Scenario description

Scenario	Description
Status Quo	<ul style="list-style-type: none"> ▪ Current arrangements between POL and BOI remain in place for the FSJVA ▪ Current rate card for lending volumes and deposit balances ▪ Credit cards and investments remain within scope of FSJVA ▪ Current arrangements of FRES remain in place
New BOI Package	<ul style="list-style-type: none"> ▪ New package agreed between POL and BOI based on latest negotiations with a term extension to 2035 ▪ New rate card plus value share payments to POL ▪ Credit cards and investments taken outside scope of FSJVA ▪ FRES economics resolved through commission uplift for POL

Illustrative Alternatives	Banking partner(s) model	<ul style="list-style-type: none"> ▪ New arrangements between POL and new partner(s) ▪ New rate cards agreed assumed to be 25% higher than the current BOI rates ▪ Originations of mortgages and loans assumed to be double vs. status quo ▪ Deposit balances assumed to be 25% higher vs. status quo ▪ Credit cards and investments outside scope of FSJVA ▪ Current arrangements of FRES remain in place
	Aggregator model	<ul style="list-style-type: none"> ▪ POL refers customers to product providers through a mainly online offering ▪ Rate card assumes POL earns a fixed fee per application <ul style="list-style-type: none"> – Estimated based on current rate card between POL and MSM ▪ Assumed increase in volumes vs. current arrangements - 60k of mortgage apps, 100k of loan apps and c.500k of deposit applications (equivalent to doubling volume in mortgages, loans and cards) ▪ Assumed run-rate Cost:Income (C:I) ratio of 65% for POL (per MSM as best-in-class) ▪ Current arrangements on FRES remain in place
	Manufacturer model	<ul style="list-style-type: none"> ▪ POL pursues a manufacturer model via a banking licence ▪ Assumed loan book size of c.£12bn with matched deposits ▪ Interest margin on products based on current market rates ▪ Operating costs based on c.60% C:I ratio (vs BOI UK's 70% C:I ratio) ▪ Assumed credit card portfolio written on POL balance sheet ▪ Current arrangements on FRES remain in place

Table 2: Financial analysis, Illustrative P&L of each scenario (run-rate snapshot, 2022/23 and excluding capital requirements for a Manufacturer model):

Component (2022)		Illustrative Alternatives				
		Status Quo	New BOI package	(a) Banking partner(s)	(b) Aggregator model ⁽¹⁾	(c) Manufacturer model
Core retail banking (currently FSJVA)	Mortgages	£4.6m	£3.0m	£11.5m	£4.8m	£255.9m
	Personal loans	£1.8m	£2.2m	£4.5m	£7.5m	£58.9m
	Deposits	£42.3m	£20.0m	£66.2m	£18.7m	£58.9m
	Value share	£0.0m	£32.8m	n.a.	n.a.	n.a.
	Income	£48.7m	£58.0m	£82.1m	£31.0m	£255.8m
	Costs ⁽²⁾	£23.0m	£23.0m	£27.9m	£20.1m	£173.2m
	Net profit	£25.8m	£35.0m	£54.3m	£10.8m	£82.6m
New Products	Prime credit cards ⁽²⁾	£1.4m	£0.5m	£0.5m	£2.9m	£4.7m
	Investments	£0.0m	£2.5m	£2.5m	£2.5m	£2.5m
FRES	Commission income from FRES	£34.0m	£50.0m	£34.0m	£34.0m	£34.0m
	Costs incurred outside of FRES	£48.9m	£48.9m	£48.9m	£48.9m	£48.9m
	50% of FRES post-tax profits	£36.6m	£30.1m	£36.6m	£36.6m	£36.6m
	FRES Total	£21.7m	£31.2m	£21.7m	£21.7m	£21.7m
Grand Total		£46.1m	£69.3m	£79.0m	£37.9m	£111.5m
Difference vs. Scenario 1			+£23m	+£33m	-£8m	+£65m

Notes:

(1) Aggregator model could be expanded to other products however existing retail banking focus assumed for the purposes of this analysis

(2) Costs / net profit figures include allocation of POL fixed overheads

Table 3: Summary of key Attractions and Considerations

Scenario	Key Attractions	Key Considerations
New BOI Package	<ul style="list-style-type: none"> ✓ Execution certainty over the longer term and uplift in commissions earned from FSJVA ✓ Re-alignment of interests in FSJVA ✓ Resolve imbalance on FRES 	<ul style="list-style-type: none"> ? Significant term extension, reducing optionality for POL over the long term ? Substantial portion of income from FSJVA is variable and contingent on performance ? Framework for value share includes items that are outside of POL's control (e.g. BOI's operating costs, costs of capital)

Banking partner(s) model	<ul style="list-style-type: none"> ✓ Opportunity to seek new partners who may help to deliver increased mortgage and loan originations and deposits ✓ Potential to launch other products outside FSJVA 	<ul style="list-style-type: none"> ? No resolution on imbalance of FRES economics on an evergreen basis ? Significant execution risk associated with seeking new arrangements ? Need to believe no adverse change in market conditions & improved financial terms
Aggregator model	<ul style="list-style-type: none"> ✓ Broader offering for customers across a spectrum of providers ✓ Potential to increase number of FS customers in POL 	<ul style="list-style-type: none"> ? Likely to require one-off investment in POL's digital capabilities and higher on-going marketing spend ? No ownership of customer relationships
Manufacturer model	<ul style="list-style-type: none"> ✓ POL would own customer relationship ✓ Able to develop new products / services for customers ✓ Operating efficiencies 	<ul style="list-style-type: none"> ? Significant on-going capital requirements associated with a banking licence ? POL would require substantial investment to set up in-house banking capabilities ? May be challenging to secure UKGI support ? POL would incur loan losses

5. The above would suggest there may be a role for BoI to play in our strategy, through a focused, more limited relationship, with equitable and aligned commercial returns.
6. The anticipated new BoI package outlined, and the current joint effort in developing distinctive, customer-centric propositions, support this:
 - a. The two new mortgage propositions launched in April 2018 are strong evidence of a more customer-centric and digital-enabled model. In the 5 weeks since launch, leads have increased 4x.
 - b. BoI are now supporting similar proposition work for unsecured lending and savings – all balance sheet areas where BoI's capabilities are broadly aligned to the market's and customers' expectations.

Position reached in the negotiations

7. Whilst negotiations have not progressed as quickly as anticipated, we have made significant progress in a number of core areas.
8. Notably, BoI's position on **FRES** has continued to shift towards us through this process. Specifically, BoI is now acknowledging the level of the FRES imbalance (requiring an £8m p.a. transfer from BoI to POL). Discussions are still in progress to agree mechanics:
 - a. POL's position is to move some of its existing costs into FRES and seek a fixed annual amount for the balancing number
 - b. BoI's position is to link the balancing number to performance metrics
 - c. We remain in discussions to ensure that whatever mechanism is agreed, it addresses the cost imbalance in a permanent way
9. In addition, BoI has indicated it would be open to an offer from POL for its 50% share in FRES at this point in time.
10. There is a Russian Roulette clause in the current FRES agreement which could allow POL to buy out BoI's 50% stake at a reduced valuation based on FRES's 5-year business plan *without* a terminal value. However, preliminary legal advice suggests this would be very challenging to apply; it would drive a breakdown in the POL/BoI relationship and could lead to extended legal action.
11. On **credit cards**, BoI is exploring a sale of its whole credit card portfolio in the UK and NI (in part triggered by our request to remove cards from exclusivity). BoI has appointed external advisors on this process, and we believe it now wishes to proceed with the sale process regardless of our wider ongoing discussions.

12. Discussions are ongoing around the commercial terms of the sale; POL's current position is not to have any downside exposure but only share in the upside above a 'buffer' over the net premium achieved (i.e. over one-off and migration costs).
13. Other credit card sale principles include:
 - a. POL jointly driving the process and choice of new partner(s), and having the right to negotiate its own financial terms with a new partner(s)
 - b. POL and BoI having the right to step away from the transaction, in which case credit cards revert to the FSJVA
14. On the **FSJVA economics**, BoI has now outlined an alternative proposal of a value share mechanism to incentivise POL for achieving lower cost of funds for BoI, compensating POL on a 'stock' basis for assets and liabilities. We require further detail and clarification from BoI in order to fully assess the proposed mechanism; high-level estimates would suggest higher income flows to POL vs. current arrangements (see Table 2 above).
15. In the interim, and as clear evidence of their desire to keep us engaged in these conversations, BoI has also outlined a 9-month Savings value share deal for 2018/19, which it is making conditional on POL agreeing to issue RFPs to the market on the sale of credit cards by mid-June. Subject to base rate movements, this could drive c.£2m-£3.4m benefit vs. budget.
16. On **exclusivity**, BoI has moved in our direction, now accepting the principle of only defining what is within scope of exclusivity. Moreover, BoI has conceded Investments will not be in scope (along with cards); discussions on current accounts and non-retail balance sheet products (incl. SME banking and deposits) are ongoing.
17. In parallel to these negotiations, BoI has also expressed its desire to exit the current ATM agreement with POL earlier. This is likely to be attractive to us.

Potential routes in the current negotiations, impact and consequences

18. There are a number of specific options that could be pursued with BoI in the context of the current negotiations. Below, we have considered three realistic outcomes for the remaining period of the current arrangements (2019 – 2023)
19. The outcome we achieve will require a clear implementation plan, which we will consider as we firm up the commercial position.

Table 4: Description of realistic outcomes in negotiations

Option 1	Option 2	Option 3
<ul style="list-style-type: none"> ▪ Continue with current arrangements between POL and BoI ▪ Pessimistic view that BOI winds down asset and liability books as POL tests the market for new partners from 2020 <ul style="list-style-type: none"> – Loan book reduced from c.£8bn to c.£4bn – Deposit book reduced from c.£13bn to c.£6bn ▪ No resolution on imbalance of FRES economics 	<ul style="list-style-type: none"> ▪ Agree a strategic package deal with BOI ▪ New rate card agreed for the FSJVA based on current proposal including value share mechanism ▪ Credit cards and investments moved outside of the scope of BOI relationship ▪ Imbalance in FRES economics resolved 	<ul style="list-style-type: none"> ▪ Agree a tactical package deal with BOI ▪ Short term value share mechanism agreed for 2018/19 ▪ Credit cards and investments moved outside the scope of BOI relationship ▪ No resolution on imbalance of FRES economics

Table 5: Financial analysis – Illustrative total undiscounted profits of each scenario (2019-23):

Component of Total Profits (2019 - 2023)		Status Quo	Option 1	Option 2	Option 3
FSJVA	Mortgages	£20m	£2m	£20m	£20m
	Personal loans	£8m	£1m	£8m	£8m
	Deposits	£207m	£125m	£207m	£207m
	Value share	£0m	£0m	£47m	£3m
	FSJVA Income	£236m	£128m	£282m	£239m
	FSJVA Costs	-£112m	-£94m	-£112m	-£112m
	FSJVA net profit	£123m	£34m	£170m	£126m
Other	Credit cards	-£7m	-£11m	-£3m	-£3m
	Investments	£0m	£0m	£6m	£6m
FRES	Commission income from FRES	£162m	£162m	£242m	£162m
	Costs incurred outside of FRES	-£245m	-£245m	-£245m	-£245m
	50% of FRES post-tax profits	£177m	£177m	£145m	£177m
	FRES Total	£95m	£95m	£142m	£95m
	Grand Total	£211m	£118m	£315m	£224m
Difference vs. Status Quo:			-£93m	+£104m	+£13m

*Status Quo as per Table 1

Table 6: Key outcome observations:

Option 1	Option 2	Option 3
<ul style="list-style-type: none"> Pessimistic outcome assuming BOI winds down FSJVA book Potential to mitigate downside through management actions on cost reductions Short term downside to profitability vs. status quo, however would allow POL to potentially access higher profits in the under new arrangements with one or more partners 	<ul style="list-style-type: none"> Illustrative position based on current negotiations with BOI Short term gain in profitability for POL and long-term upside vs. status quo However, POL would lose the ability to explore alternative arrangements in 2021, which might deliver further upside vs. BOI's new package 	<ul style="list-style-type: none"> Possible outcome if POL/BOI reach agreement on credit cards, investments, short term value share with wider FSJVA and FRES discussions paused However, need to believe that BOI does not wind down the FSJVA book Some upside over the short term vs status quo Allows POL to potentially access higher profits in the future

20. We recommend continuing with Option 2, whilst exploring Option 3 in the short term.
21. As part of the negotiations with BOI, POL has been asked to consider a buy-out of BOI's 50% stake in FRES, which would give POL 100% ownership of FRES.
22. Substantial further work is required in order to conclude on the attractiveness of this option – and the fit with the wider Peregrine negotiations.
23. There is a brief preliminary assessment in Appendix 2 and we propose to engage advisors to work with us on detailed recommendations to Board in due course.
24. We believe there may be significant potential benefits in this option at the right acquisition price. It would move POL further up the value chain and would drive synergies but needs to be balanced against the long-term potential of cash forex.

Proposed negotiating tactics and next steps

25. Our original proposal to BoI in 2016 had four pillars, aimed at giving a balanced outcome for POL and BoI. These pillars remain our main objectives, namely:

- a. Realigning interests for mortgages and savings with clear evidence from BoI of an appetite to grow their UK balance sheet.
- b. Removing exclusivity restrictions for products that are not part of BoI's core expertise or strategy e.g. investments, credit cards etc.
- c. Aligning the core economics of FRES to deliver appropriate returns to POL.
- d. In turn, providing greater balance sheet certainty to BoI by offering a significant extension to the current agreement term for mortgages and savings.

26. Over recent months, **BoI's position has continued to shift towards us, gradually addressing our main objectives.**
27. As such, **we recommend continuing the discussions** (Option 2 above), acknowledging that the process could take a few more months. We do not propose allowing an open-ended conclusion to these discussions and will continue to apply pressure to BoI, but POL's negotiating position is strengthening, not least given the urgent desire for BOI to progress certain items.
28. It has become very clear that the pace has been hindered by BOI Group's heavy involvement and the linkage to the wider Group strategy work there. To drive momentum, **we propose to now insist on formal face-to-face engagement with the Group in Dublin to seek a conclusion.**
29. Whilst this remains a discussion about an overall package of measures, there may be value in POL progressing some areas sequentially. Specifically, agreeing to proceed with the RFP on credit cards in exchange for a short-term value share deal on Savings gives us the potential for near-term financial benefit and potentially increases our leverage. We will not be committing to the commercial terms on the sale of the book until later in the process.
30. In parallel, **we will explore the FRES buy-out option in more detail**, and revert to the Board in due course.

Appendix 1: Detailed Financial Analysis for Table 2

Component			Scenario 1: "As is"			Scenario 2: New BOI deal			Scenario 3: Alternative models									
			Expected volumes in 2022	Current Rate Card	Current Economics	Expected volumes in 2022	New Rate Card	Pro forma Revised Economics ⁽¹⁾	(a) Banking partner(s) model			(b) Aggregator model			(c) Manufacturer model			
	Key Drivers of Value	Basis of POL Commissions	Expected volumes in 2022	Current Rate Card	Current Economics	Expected volumes in 2022	New Rate Card	Pro forma Revised Economics ⁽¹⁾	Expected volumes in 2022	New Rate Card	Pro forma Economics	No. of apps	New Rate Card	Pro forma Economics ⁽²⁾	Balance sheet (2022)	Interest Margin	Pro forma Economics	
Core banking products (currently FSJVA)	Lending	Mortgage completions	bps on completions	£3.0bn	15.3bps	£4.6m	£3.0bn	[5-15bps]	£3.0m	£6.0bn	19.1bps	£11.5m	60,000	£80 / app	£4.8m	£11.0bn	2.33%	£255.9m
		Personal loans written	bps on new loans written	£0.4bn	45.0bps	£1.8m	£0.4bn	[55bps]	£2.2m	£0.8bn	56.3bps	£4.5m	100,000	£75 / app	£7.5m	£0.8bn	7.40%	£58.9m
						£6.4m		£5.2m			£16.0m			£12.3m		£11.8bn		£314.7m
	Deposits	Branch variable	bps on deposit balance	£3.1bn	53.0bps	£16.5m	£3.1bn			£3.9bn	66.3bps	£25.8m						
		Online variable	bps on deposit balance	£6.5bn	26.0bps	£16.8m	£6.5bn			£8.1bn	32.5bps	£26.3m						
		Fixed	bps on deposit balance	£6.4bn	14.0bps	£9.0m	£6.4bn			£8.0bn	17.5bps	£14.0m						
			£16.0bn	26.5bps	£42.3m	£16.0bn	[10-15 bps]	£20.0m	£20.0bn	27.7bps	£66.2m	533,333	£35 / app	£18.7m	£11.8bn	0.50%	£58.9m	
	Value share	Net interest and fee margin achieved by BOI vs. target			n.a.	£0.0m	TBC	£32.8m			n.a.			n.a.				n.a.
				FSJVA total Income	£48.7m	FSJVA Total Income	£58.0m	Total Income	£82.1m	Total Income	£31.0m	Net interest income	£255.8m					
				FSJVA total costs	£23.0m	FSJVA Total Costs	£23.0m	Total Costs	£27.9m	Total Costs	£20.1m	Operating costs	£173.2m					
			FSJVA net profit	£25.8m	FSJVA net profit	£35.0m	Net profit	£54.3m	Net profit	£10.8m	Net profit	£82.6m						
New Products	Prime credit cards	Prime credit cards net profit/ (loss)			£1.4m		£0.5m		£0.5m		£2.9m		£4.7m					
	Investments	Investments net profit/ (loss)			£0.0m		£2.5m		£2.5m		£2.5m		£2.5m					
FRES	Commission income from FRES	Transaction volumes, No. of POL branches, Travel Money card sales & uploads			£34.0m		£50.0m		£34.0m		£34.0m		£34.0m					
	Costs incurred outside of FRES	Agent fees, FX product costs, overhead cost allocations			£48.9m		£52.5m		£48.9m		£48.9m		£48.9m					
	50% of FRES post-tax profits				£36.6m		£30.1m		£36.6m		£36.6m		£36.6m					
			FRES Total	£21.7m	FRES Total	£27.7m	FRES Total	£21.7m	FRES Total	£21.7m	FRES Total	£21.7m						
			Grand Total	£46.1m	Grand Total	£65.7m	Grand Total	£79.0m	Grand Total	£37.9m	Grand Total	£111.5m						

Notes:

- (1) Calculation of pro forma revised economics based on mid-point value of range provided by BOI
 (2) Aggregator model could be expanded to other products however existing retail banking focus assumed for the purposes of this analysis
 (3) Manufacturer model does not include ongoing capital requirement costs

Appendix 2: FRES buy-out preliminary assessment

	Attractions	Considerations
Strategic	<ul style="list-style-type: none"> ✓ Gives POL control over FRES, and is aligned to strategic intent to move up the value chain 	<ul style="list-style-type: none"> ? Future growth of FRES may be challenging to achieve over the longer term <ul style="list-style-type: none"> – E.g. reduced importance of physical currency FX
Financial	<ul style="list-style-type: none"> ✓ Access full value chain ✓ POL receives 100% of the profits from FRES ✓ Value creation opportunities through cost synergies in areas of overlap with POL's existing operations <ul style="list-style-type: none"> – Initial estimates of £10m annual net savings – One-off costs to achieve of c.£7m 	<ul style="list-style-type: none"> ? Need to consider POL's ability to fund an acquisition <ul style="list-style-type: none"> – Work is being performed to determine a value range for BOI's 50% stake – Range of funding options and their feasibility will need to be explored
Operational	<ul style="list-style-type: none"> ✓ POL is familiar with the operations of FRES as an existing 50% shareholder 	<ul style="list-style-type: none"> ? Need to enter into third party arrangements with a bank to support wholesale currency supply to FRES, relationships with central banks, trading systems, etc. <ul style="list-style-type: none"> – Estimated additional cost of £1m p.a. included in net synergies ? Consider target operating model post acquisition ? Consider any separation issues following 100% acquisition by POL

Update on Project Everest

Author: Jeff Lewis Sponsor: Rob Houghton Meeting date: May 24 2018

Context

Everest is the Fujitsu renegotiation strategy constituting a revenue swap agreement which reduces operating expenses in return for committing our cloud and digital development strategy for the upgrade of the Horizon platform with Fujitsu. A Memorandum of Understanding (MoU) was signed with Fujitsu, November 2017. The MoU enables Post Office to break the fixed price nature of the Horizon Agreement, reduce operating expenses and reinvest the savings in strategic cloud and digital technology. This paper details the progress on implementation of the MoU principles, the anticipated benefits from the workstreams and associated implementation costs, including investment

Questions addressed in this report

1. What has been achieved since signing the MoU?
2. What is the do nothing situation?
3. How does the Everest plan deliver operating expense savings?
4. What investment is required to deliver the savings?
5. What are the risks and how are these to be mitigated?

Conclusion

Contract Change Notes have been signed which embed the overarching principles of the MoU into the Horizon Agreement. Initial changes have also been agreed which enable the first ongoing opex reduction from June 2018. The challenges identified in Fujitsu's cloud and digital capability are being addressed and the foundation and parameters for the next phase of negotiations has been agreed. In order to deliver the aggressive opex reductions identified in this paper Post Office will have to contract for new capex investments or new services in line with the "revenue switch" mechanisms. These new services could include leveraging potential additional spend with Fujitsu within the Telecoms contract. The potential savings on the like for like operating expenses for 2018 – 2023 are more than 30%. We believe the relationship has matured and improved to a place where achievement of this objective is possible.

Input Sought

In order to secure net operating expense reductions of £30m over the period 2018/19 to 2022/23, approval is requested to negotiate the following:

1. sign contract change notes, in June, with Fujitsu to "switch" £30m of operating expenses to capital investment and
2. sign incremental contracts change commitment of up to £10m (subject to telecoms review and negotiation)

The Report

What has been achieved since signing the MoU?

1. Contract Change Notes have been signed which have built on the MoU and delivered the objectives set out in March 2017 (see Appendix B).
2. Specifically the following contract change Notes have been signed:
 - Intellectual Property Rights - all new IPR created by Fujitsu for Horizon since October 2017 belongs to Post Office, as per new IPR provisions agreed with Fujitsu. Where pre-existing IPR is being used with Post Office's express agreement (e.g. Open Source code), the new IPR provisions help ensure that Post Office has sufficient rights to use such IPR going forward independent of Fujitsu;
 - Invest to Save – a reprofiling of the implementation of the mechanism to accelerate operational savings;
 - Revenue Switch – the overarching mechanism which allows Post Office to redirect committed contractual spend out of operating expenses into new capital expenditure for development of the Horizon platform on strategic technologies, whilst protecting Fujitsu's total existing contractual revenues;
 - Variabilisation - Altering the current financial model of predominantly fixed price to demand driven, consumption based pricing; and
 - Application Support (AS&M) – implementation of the revenue switch principles into AS&M service, to generate a switch from Opex to Capex for development capacity within the existing BAU charges.
3. The relationship with Fujitsu has improved. Both management teams have championed a more collaborative approach to challenges, reducing the number of escalations.
4. Key challenges remain with respect to digital technology capabilities and contractual terms for the operation of Fujitsu cloud, although progress has been made in these areas.

What happens if we do not proceed to implement the MoU?

5. If Post office does not proceed with this investment, existing fixed price operating expenses continue for Belfast data centres and associated services.
6. The technology refresh HDCR2 (Horizon Data Centre Refresh) of £15m would still be required. It should be noted that HDCR 1 cost significantly more than this (c£32m).
7. The total Fujitsu base costs are in Table 1 below¹:

Contractually Committed	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
	£m	£m	£m	£m	£m	£m	£m
Contracted Opex	24.6	24.4	23.6	22.9	22.6	22.6	141.0
Contracted Capex	6.4	6.3	12.5	12.0	3.7	13.7	54.7
Total Fujitsu (Horizon) Spend	31.3	30.7	36.1	34.9	26.3	36.3	195.7

¹ All financials exclude VAT

8. Post Office would also need a new procurement for an alternative cloud provider. The procurement, build and migration would likely take longer than the planned 22 month project. The cost would be higher than the Fujitsu migration from Belfast, as Fujitsu would still need to be engaged on top of new cloud provider. This cost would be £20 -30m Capex plus additional operating expenses.
9. Similarly, a new digital development provider would be required. Subject to PCR review, it may be compliant to commission some development work with another Post Office IT services provider, however both routes would require time to effect and cost of development would be new investment.
10. Points 8 and 9 are represented in Table 2 below

Non Everest Option	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
	£m	£m	£m	£m	£m	£m	£m
Contracted Opex	24.9	24.4	23.6	22.9	22.6	22.6	141.0
Contracted Capex	6.4	6.3	12.5	12.0	3.7	13.7	54.7
Total Fujitsu (Horizon) Spend	31.3	30.7	36.1	34.9	26.3	36.3	195.7
Estimated New Supplier Spend	-	10.0	15.0	15.0	5.0	5.0	50.0
Revised Total	31.3	40.7	51.1	49.9	31.3	41.3	245.7

How will the Everest implementation affect operating expenses?

11. Everest enables Post Office to reduce its operating expenses by
 - investing in new technology to drive lower cost of service;
 - moving from fixed price to variable consumption based pricing; and
 - Identifying, with Fujitsu, more efficient delivery of service, through standardising services and removing bespoke resource intensive activities.
12. The collaborative approach has already enabled the AS&M revenue switch reducing operating expenses by approximately £3m per year from June 2018. The equivalent capital expenditure will be used to deliver service related improvements in the Horizon platform which would otherwise require new investment.
13. Another element of the forecast Everest savings are through the move to Cloud Technology. The exact reductions are dependent on the K5/Azure cloud solution and the extent to which Post Office can utilise a standard shared service model, including off-shoring (see risks.) This will generate between £14-20m over the Agreement.
14. Negotiations are ongoing to reduce the remaining element of the AS&M annual charges. The fee paid by Post Office is in effect an insurance premium, and not calculated based on costs of service. We will target aggressive restructuring of the service which would accelerate further savings in operating charges.
15. This would mean that as new services are brought live (HNGT, Agents' Portal and Operational Control Centre (OCC)) the overall operating charges would still be significantly lower than pre-Everest.

Table 3 – Pre-negotiation Target Opex Profile

Everest Target Opex	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
	£m	£m	£m	£m	£m	£m	£m
Contracted Opex	24.9	24.4	23.6	22.9	22.6	22.6	141.0
AS&M Opex to Capex (signed)	-	(2.5)	(3.0)	(3.0)	(3.0)	(3.0)	(14.4)
Cloud Savings (Post Office Model)	-	(0.2)	(2.5)	(3.8)	(4.1)	(4.1)	(14.8)
Aggressive AS&M Savings	-	(2.0)	(2.0)	(3.0)	(3.0)	(3.0)	(13.0)
Existing Services Sub Total	24.9	19.7	16.1	13.1	12.5	12.5	98.8
HNGT	-	0.5	1.5	1.5	1.5	1.5	6.5
Agents Portal	-	-	1.0	1.0	1.0	1.0	4.0
OCC	-	-	0.5	0.5	0.5	0.5	2.0
Forecast Opex All Services	24.9	20.2	19.1	16.1	15.5	15.5	111.3

16. If all negotiations are successful the like for like reduction will be over £40m over the term of the Agreement. Appendix A has a waterfall graph showing a more detailed picture of the Opex movements.

What capital expenditure is required to deliver these savings?

17. The MoU enables Post Office to reallocate contractually committed Capex and savings from reductions in Opex to support the delivery of strategic technology developments on the Horizon platform.

18. The potential capital commitment increases by £40m, of which £30m is offset from the Opex savings.

Table 4 – Pre-negotiation Target Capex Profile²

Pre-Negotiation Target Capex	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
	£m	£m	£m	£m	£m	£m	£m
Contracted Capex	6.4	6.3	12.5	12.0	3.7	13.7	54.7
Increase for Opex reductions	-	20.0	3.0	3.0	2.0	2.0	30.0
Additional increase for aggressive savings	-	2.0	2.0	2.0	2.0	2.0	10.0
Revised target Capex	6.4	28.3	17.5	17.0	7.7	17.7	94.7

19. Contracted Capex includes Invest to Save, test rigs, hardware refresh (HDCR2), HNGA core team and the IP Licence payment.

Table 5 – Known Projects³

Known Projects	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
	£m	£m	£m	£m	£m	£m	£m
Pivot to Cloud/Belfast Exit	1.1	16.9	7.8	-	-	-	25.9
HNGT/DDS	3.9	5.0	3.0	3.0	3.0	3.0	20.9
Agents Portal	-	3.0	2.0	2.0	-	-	7.0
IPR	-	-	-	-	-	10.0	10.0
Test Infrastructure	2.2	1.6	1.2	0.9	0.9	0.9	7.7
Core Team/HNGA/Invest to Save	4.3	1.0	1.0	1.0	1.0	1.0	9.3
Service Risk & resilience	-	2.4	3.0	3.0	3.0	3.0	14.4
Projects Forecast	11.5	29.9	18.0	9.9	7.9	17.9	95.1

² Belfast Exit, HNGT, Agents Portal, OCC all subject to individual business cases

³ 2017/18 spend only includes categories included in the Everest "Church Fund"

20. The estimated costs for the Belfast Exit and migration is £15-£20m. In addition it is necessary to do a major Oracle Database upgrade, which would have been required to maintain service irrespective of the Belfast exit, at a cost of £3-4m.
21. Fujitsu have addressed the Post Office concerns over the maturity of the full Fujitsu K5 solution by recommending a Fujitsu managed solution using Microsoft Azure. The operating cost reductions generated by this alternate approach will be no worse and potentially more than the data shown in Table 3 above. The revised capital costs are still to be validated but not anticipated to be significantly different to the value indicated in Table 5.
22. The AS&M revenue switch investment will be focussed on service risk and resilience, and will drive cost avoidance and potentially further cost reductions.
23. The HNGT and Agent's Portal projects will be the first to be delivered through the new agile digital development service (DDS). Post Office will need to commit to a minimum base capacity to create the core competency required and secure competitive pricing. Each investment (HNGT, Agent's Portal and other future developments) will have their own business case and formal investment approval.

What other actions are required to implement the MoU and secure the Operating expense reductions

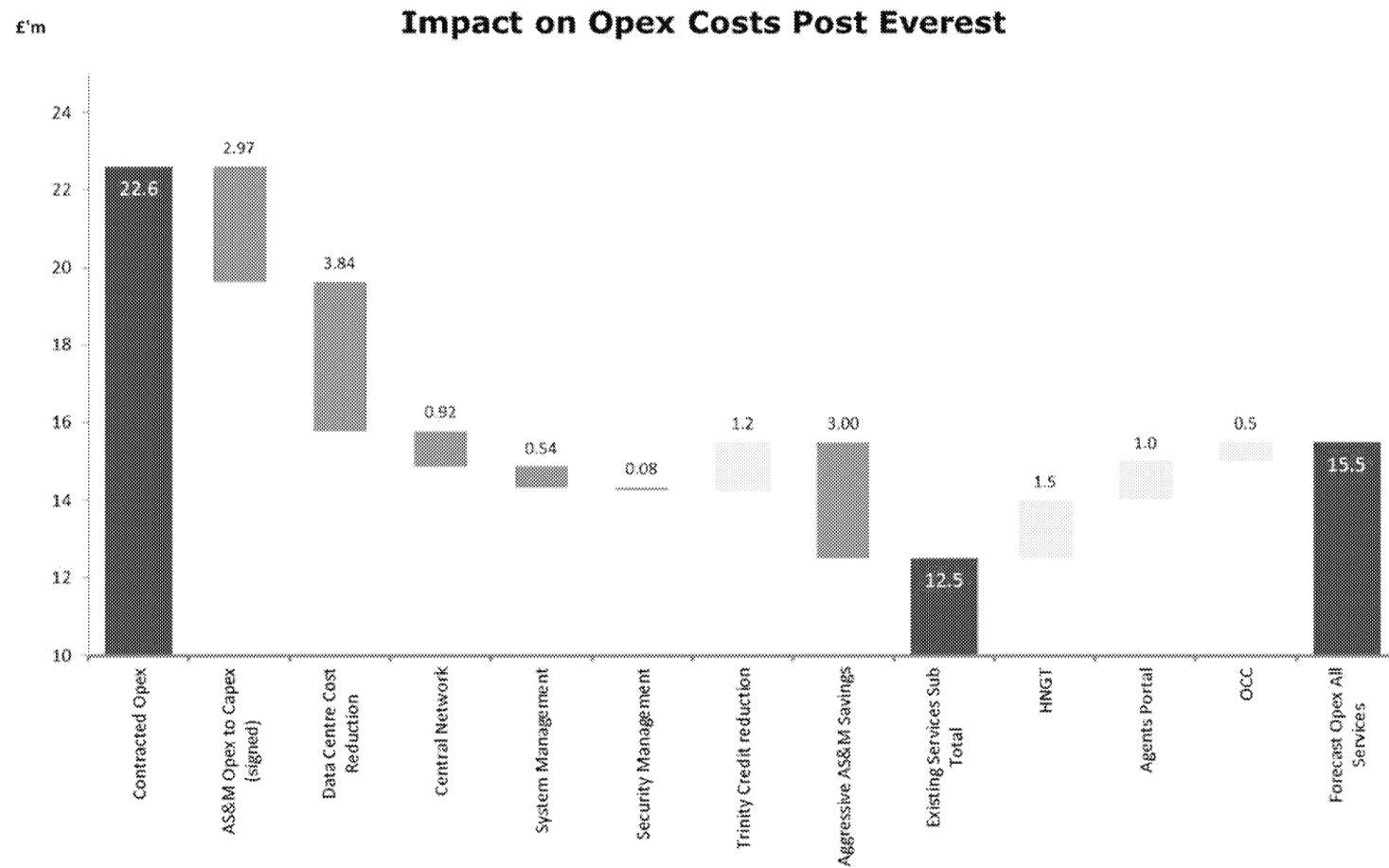
24. In order to negotiate the aggressive AS&M reductions identified in paragraph 14 above, Post Office would need to offer additional value to Fujitsu.
25. Option 1 would be to work within the existing Horizon framework and increase the value of DDS or other services ordered in 2018/19 by up to £10m. :
26. Option 2 would be to leverage discussions on Home Phone and Broadband and conduct a joint negotiation. Historically these relationships have been separate but consideration is being given to whether Telecoms and IT could benefit from this approach.
27. We are still investigating option 2 which is more complex and we are requesting negotiation approval for option 1 and this is included in Table 4 above.

What are the risks for Post Office and how are these to be mitigated?

Risk	Mitigation	Owner
Post office are unable to utilise standard K5 / Azure service as it requires offshore support and potentially transfers of Post office data out of the UK/EEA. Implementing a more bespoke on-shore support model	<ul style="list-style-type: none"> Joint team to analyse the data and information impact (VM/ Legal / InfoSec) Present to Post Office business any requirements for changes to existing product contracts which will need to be negotiated with Government / Banking Framework and other customers 	Mick Mitchell Jeff Lewis
There is a risk that Post Office is unable to fully utilise the AS&M service risk and resilience fund, which would increase the operating expenses	<ul style="list-style-type: none"> The process for identifying and managing projects has been established with Fujitsu. Service and commercial management of the spend will be on a quarterly basis. 	Mick Mitchell

	<ul style="list-style-type: none"> • Transition to a devops AS&M model (post HNGT) will reduce risk further as it ties to the new DDS service 	
Fujitsu will have insufficient Cloud capability and competence to meet Post Office demand for aggressive and accelerated Transition to Cloud	<ul style="list-style-type: none"> • Use 3rd party to validate Fujitsu proposal • Microsoft Azure recommended as alternative to K5 • Executive engagement to maintain pressure at Fujitsu EMEA level 	Jason Black
Fujitsu cost of Belfast migration erodes potential business case	<ul style="list-style-type: none"> • Fujitsu investment in process being discussed to share some costs • Delivery of the Belfast migration project will include commercial risk for Fujitsu • Implementation will be phased to allow tighter Post Office management and proving of migration processes. <p>NOTE The move from Belfast onto modern and transferable technology funded through the revenue switch mechanisms is a core benefit of Everest.</p>	Jason Black
Fujitsu UK has insufficient digital capacity and experience to deliver DDS projects at value for money to Post Office	<ul style="list-style-type: none"> • Fujitsu have proposed partnering with a specialist agile firm to supplement its existing capability. • HNGT development for Booker pilot will be used to validate the approach. • Executive engagement to maintain pressure at Fujitsu EMEA level 	Andy Garner
Post Office does not have sufficient agile experience to support the new DDS delivery model	<ul style="list-style-type: none"> • We will leverage Fujitsu's specialist agile firm to identify gaps and make recommendations 	Andy Garner
There is a risk that the K5 terms and conditions with regards to IP indemnity exclusions will be unacceptable to the Post Office.	<ul style="list-style-type: none"> • Continue to negotiate. Fujitsu have indicated a willingness to compromise. • Investigate the cost of insuring against any claim against Post Office. • A move to Microsoft Azure would limit any exposure to the transition period. However this will likely create additional legal challenges as we expect Fujitsu to flow down Azure standard terms which will have limited ability to be amended and which will conflict with existing Horizon Agreement terms. 	Jeff Lewis
There is a risk that there will be insufficient additional spend to cover the savings made to operational expenditure, as required under the Revenue Switch provisions.	<ul style="list-style-type: none"> • The calculated reprofiling of spend as indicated above is sufficient to cover this risk. • The contract management forums will monitor spend on a six monthly basis providing guidance to executives of any possible shortfall. • Possibility to pay the "IP Licence" early 	Jeff Lewis / Alistair Roman

APPENDIX A



Appendix B: Achievement of Post Office Objectives

Post Office Objective - March '17 GE Paper		Current Position	
Title	Description/ Comment	Extent Achieved Blue=complete and CCN signed Green= principles agreed Amber = patially achieved Red = not agreed / covered	Comment
Assisted Transformation	Re-directing future probable spend on discretionary CapEx into strategy CapEx investment to deliver thin client and cloud technology		Revenue Switch Contract Change Note (CCN) signed delivering the ability to switch Opex to Capex whilst protecting Fujitsu's existing total contractually committed revenue.
Thin Client version of front end	Subject to Proof of Concept work and agreeing ways of working for agile development		Creation of agile delivery capability is delivering HNGT. Full service will be contracted in June 2018.
Cloud hosting with utility based pricing	Subject to final architecture and commercial pricing model against market benchmark		This approach will be delivered in conjunction with new digital architecture. Recommendation is a Fujitsu managed service using Azure platform.
Move from fixed to variable pricing	This is inherent in utility pricing. The degree of the variable pricing component as a percentage of total pricing is subject to negotiation.		This principle has been agreed in a CCN.
Effective Relationship at all levels	There is commitment on both sides to improve relationships. Fujitsu acknowledge some Fujitsu behaviours had been driven by the "sun-set" status of the Post Office account. Fujitsu's willingness to address issues of transparency and perceived duplication of charges will be essential in promoting trust at all levels in Post Office.		Improved relationships demonstrated through reduced escalations and collaborative working on BAU and programmes.
Faster change process	Subject to Post Office clearly specifying the processes it needs to be adopted.		The introduction of new Digital Development Services will include mechanism for faster implementation of change.
Reduced Operating expenses (BAU)	The re-architecture and cloud hosting will reduce operating expenses, but the extent to which Post Office is able to meet its objectives is to be determined by other service and contractual considerations		Initial Reduction in AS&M operating expenses already achieved and CCN signed. Cloud related savings have been modelled and further aggressive AS&M reductions under discussion.

Post Office Objective - March '17 GE Paper		Current Position	
Title	Description/ Comment	Extent Achieved Blue=complete and CCN signed Green= principles agreed Amber = patially achieved Red = not agreed / covered	Comment
Protection of Post Office IP in new development work	All new work must be completed under the correct IP provisions in the existing contract. The risk is that Fujitsu may try to link to software for which it owns IP. Notwithstanding this the licence payment for Fujitsu IP will remove residual risk at the time of exit from the contract.		A CCN has been signed creating a new category of IP for digital software development. In addition to owning all new software there are improved licencing provisions and a new IPR indemnity protection for Post Office.
Improved contract governance	The tower model has introduced additional complexity in managing service and project change. Negotiations will look to simplify as far as possible and potentially reduce Fujitsu costs of service.		Improvements have been implemented through existing vendor and finance teams.
Benchmarking	It will be difficult to remove existing limitation on Post Office's ability to benchmark. Clear articulation of revised charging structure will enable benchmarking / market testing prior to signature of a revised agreement.		Restructuring of the operating expenses has enabled Post Office to market test pricing prior to agreeing the contract changes. Use of Azure in the cloud services will also drive a more competitive price. However existing restrictions on contractual benchmarking remain.
Acceptable PCR Risk	See statement below		An initial assessment has been made with legal (internal and CMS) and the MoU approach does not add any additional significant PCR risk. Reviews have taken place for each CCN which have not altered this position. This process will continue until all CCNs have been signed.
Meets the CCN 1600 legal / procurement position that will enable Post Office to remove its long term dependency on Fujitsu	As part of the compliance review legal will assess the extent that any contemplated changes are PCR compliant and fit with the PCR advice and technical arguments Post Office relied on for signature of CCN1600 (Trinity.)		
No Belfast exit fees	The Trinity change included explicit provisions relating to stranded costs for the Belfast data centres. As the pivot to cloud programme will not complete prior to the end of the existing Belfast lease in December 2018 Post Office is negotiating that the length and terms of any extension Fujitsu negotiates does not leave Post Office with any stranded costs that it must pay on final exit from Belfast.		The Revenue Switch CCN confirmed that the only Belfast Exit fees which apply are decommissioning of equipment. The lease extension will be agreed with the Belfast Exit programme to align to the end date of the programme.

Back Office Transformation

Authors: Michael Clements **Sponsor:** Alisdair Cameron **Meeting date:** 24 May 2018

Executive Summary

Context

Back Office Transformation comprises the following projects:

- Agent Remuneration – moving agent payment processes from HRSAP to CFS, automating the process, improving data accuracy and visibility
- Cash Processing Transformation – moving cash processing from POLSAP to CWC improving ordering, inventory management, vault and stock management and forecasting processes
- POLSAP Process Migration - migrating the Post Office back office sales and finance processes onto CFS, delivering settlement, billing and reporting from a single set of data and providing a system based view of product profitability

The purpose of this paper is to provide an update on the progress of Back Office Transformation since the January update and a request for further funding.

The strategic importance of the transformation is defined in four key areas:

- **Risk avoidance** – To remove POLSAP before it stops working. Spare parts are increasingly unavailable for our POLSAP system. If it fails, we cannot trade.
- **Improvements in information and control** – A single view of financial activity that will give us one version of the truth; sales data that is accurate and reliable.
- **Reduce OPEX** – The bulk of the benefits from getting off POLSAP is an IT OPEX reduction of £3m with £0.4m business simplification.
- **Simplification of systems and processes** – fewer systems and simpler processes will reduce manual data processing in spreadsheets and improve controls.

In January, the Board approved a cumulative investment of £21.2m to enable the programme to deliver a June Go Live.

Questions addressed in this report

- 1) What progress has been made since January?
- 2) What lessons have we learned from other back office IT change and from the recent TSB experience?
- 3) What is the impact on the timescales and cost of Back Office Transformation?
- 4) Can we continue trading until we deliver?
- 5) What comfort do we have that progress will not deteriorate further?

Conclusions

1. The programme has completed its key deliverables since January: agent remuneration is off POLSAP and functioning well, we have exited our contract with DXC and have launched cash management on new systems in Belfast. However, both the DXC and cash changes were late and problematic.
2. Other back office IT changes have been consistently late and over budget including, as the Board is aware, Success Factors and Transition. Internal Audit has reported on lessons learned from these programmes to the ARC.
3. We have sought to understand the lessons for the remainder of Back Office Transformation, recognising that because cash management, sales reporting and settlement are so fundamental to our business we cannot afford a "TSB moment".
4. Critical lessons are about the degree and scope of testing and the importance of front line user testing. We have re-baselined our plan. We have increased the number of test cycles; created space to demonstrate a "clean run" of the solution; introduced more rigour in design control; allowed for significantly more time to prepare for and complete User Acceptance Testing; added comparison tests between POLSAP and CFS for settlement, billing and cash forecasting processes; increased the performance testing at scale in POLSAP Process Migration and Cash Processing and added resources to ensure we adequately prepare for and execute the systems cutover.
5. As a result, we are now recommending go-live on 23 September, a three month delay and with no contingency. The total cost of Phase 1 is now estimated at £26.1m, an increase of £4.9m. Internal Audit is currently assessing this plan to ensure we do everything we can now to prevent further delay. If a further delay of one month takes place the additional cost would be £1.7m.
6. We are confident that the current infrastructure will be robust for this period. This does, however, mean that full testing of Belfast disaster recovery must be postponed again to Spring 2019.
7. We are working through contingency plans to avoid going beyond Christmas even if further issues emerge during testing, because the risk of remaining on POLSAP into 2019 becomes too great.

Input Sought

The Board is asked to approve the additional £4.9m drawdown plus a potential £1.7m to enable the completion of Phase 1.

The Report

What progress has been made since January?

1. We have delivered all of the promised proof-points due between January and March:
 - Agent Remuneration process transformation and data migration from HRSAP to CFS
 - HRSAP system migrated as a read only archive to the Accenture data centre
 - Cash Processing functionality migrated from POLSAP to TransTrack for Belfast cash centre (soft launch)
 - Supported the transition of services and associated business activities from the Safe Haven (DXC) contract to Accenture. However, printing and the end user transition were later than planned because of testing and user engagement issues.
2. We have set out a high level view of the stages of the programme in Appendix 2.

What lessons have we learned from Back Office change and from the recent TSB experience?

3. We have sought to learn the lessons of recent back office projects, including the Internal Audit review of Back Office Transition and Success Factors which was report to the Audit Committee. Back Office programmes have consistently delivered late due to our lack of documented understanding of the legacy systems. This has, in every case, caused testing to overrun significantly against the plan and led to more defects emerging after Go Live. Another key factor common to all was having too few dedicated business SME knowledge into design and testing scenarios.
4. Specific lessons include:
 - SuccessFactors – Multiple challenges delaying Go Live by 6 months. Problems included building the design based on a lack of legacy documentation and requirements; no formal design review structure; poor change management skills; incomplete testing with migrated data leading to post Go Live defects; data migration disrupted by poor data quality/cleansing.
 - Back Office Transition – The original strategy was far harder to implement than was foreseen, including defects emerging at Go Live. Causes of the problems include lack of business understanding of the data held in Credence and not testing comprehensively.
 - DXC exit – delayed transition with significant defects found at Go Live. This led to business disruption. This was caused by missed requirements, incomplete testing with migrated data and limited end user engagement.
 - Belfast soft launch – 4 month delayed transition off POLSAP due to many significant defects found during testing, which doubled the test effort. This was

caused by incomplete planning rigour and partial end user engagement in test execution. Incomplete communications and engagement led to confusion at Go Live.

- TSB – an unfolding crisis for the Bank. Seemingly, they had not tested the system sufficiently with migrated data nor tested system performance at scale. Given that rollback to the legacy system was infeasible by the end of day 1, testing was insufficient. The business recovery scenario for this was badly handled by TSB.

What is the impact on the timescales and cost of Back Office Transformation?

5. In the light of the above, we have reassessed the programme including: a full bottom up review of current activity, a root cause analysis of testing delays for both Cash Processing and POLSAP Process Migration and reviewed all known risks and issues. The plan now takes into account:
 - A revised Test Strategy with multiple test cycles, allowing more time to prepare and to fix defects and the demonstration of a “clean run” of the solution. This has doubled the overall test effort.
 - Created integrated teams from business process SME, systems configuration and testing resources that are held accountable for the joint delivery of test progress.
 - Tight control of the scope and design change through the rigour of a new Technical Design Authority.
 - A greater emphasis on business readiness testing, with significantly more time to prepare for and complete User Acceptance Testing. This includes more emphasis on real world scenarios and negative testing of the solution.
 - Added SME resources in Finance and Cash Processing in order to close the open design issues and complete outstanding business process documents.
 - A more comprehensive business change strategy. This includes a dedicated communications resource, greater leadership engagement in change activities and a new learning strategy incorporating computer based learning modules, video playbacks and quick reference guides.
 - Comparing the calculations from the new system over multiple months to the legacy system in settlement, billing and cash forecasting processes.
 - New phases of performance testing in POLSAP Process Migration and Cash Processing to ensure the system is sized to perform correctly and meet the business’ expectations.
 - Additions to the team in order to increase test capacity, perform new phases of testing.
 - A focus on existing manual scenarios/ workarounds that exist around POLSAP to ensure the test scenarios are comprehensive.
 - A Deployment workstream will coordinate the planning, preparation, rehearsal and final cutover. This will prove the migration approach, detailed steps and actions of every individual multiple times before final execution, including the rollback plan, timings and detailed activities across the cutover

weekend. Dependent on this, additional effort has been provided to ensure we minimise the open item data we have to migrate on the cutover weekend.

- a. Governance changes including a revised Steering Group that has moved to fortnightly updates on programme progress, risks and issues.
6. The consequence is a delay, taking into account summer holidays, of three months to a 24th September Go Live. The total cost of Phase 1 is now estimated at £26.1m, an increase of £4.9m (see Appendix 1). This includes the costs of early life support (September-November) and de-commissioning of POLSAP. This revises the NPV to -£16.6m with a payback period of 8.3 years. The increase is broken down into: the 3 month delay of the programme - 3,800 man days or £3.5m; additional test phases / capacity increase - 1,550 man days or £0.6m; infrastructure costs of the delay - £0.5m; and additional resource for cutover preparation - £0.3m

Can we continue trading until we deliver?

7. We continually review the risks and support arrangements for POLSAP. Based on the current rate of usage, we have checked with Fujitsu and have sufficient spare blades to cope with this delay. This situation is continually reviewed.
8. One key impact of the move to September is it does mean we cannot run a DR test again in the data centre as this was planned for the August bank holiday weekend, right in the middle of our cutover preparation activities. The next DR would have to be Easter 2019.

What comfort do we have that progress will not deteriorate further?

9. Whilst the entire programme team is confident in our re-baselined plan and committed to 24th September, we have commissioned an independent audit of our detailed programme plan in order to validate our planning assumptions and resources. We will also be monitoring this situation monthly at the SteerCo to provide early indications of our confidence in holding to 24th September.
10. Although we have doubled the testing effort, it is still possible we could encounter a testing issue. If this has a material impact on the design, the fix to could require us to re-run completed tests. Should we encounter such an unforeseen delay in testing, it is possible to Go Live on 29th October. As we cannot yet guarantee 24th September, we seek a delegated level of authority to delay by an additional month if this circumstance arises. The effect of this would be a further £1.7m increase to our budget to complete.

11. We have considered the implementation options if an October Go Live proved impossible. In looking at an end November date, the major constraint is Supply Chain, who could not accommodate that alongside normal seasonal business volumes. This would suggest a go live at the end of January but this simply represents too much risk on POLSAP. We are therefore working through a contingency plan to enable Supply Chain to support the change in November while delivering cash and stock for Christmas.

What funding is the programme requesting to complete Phase 1?

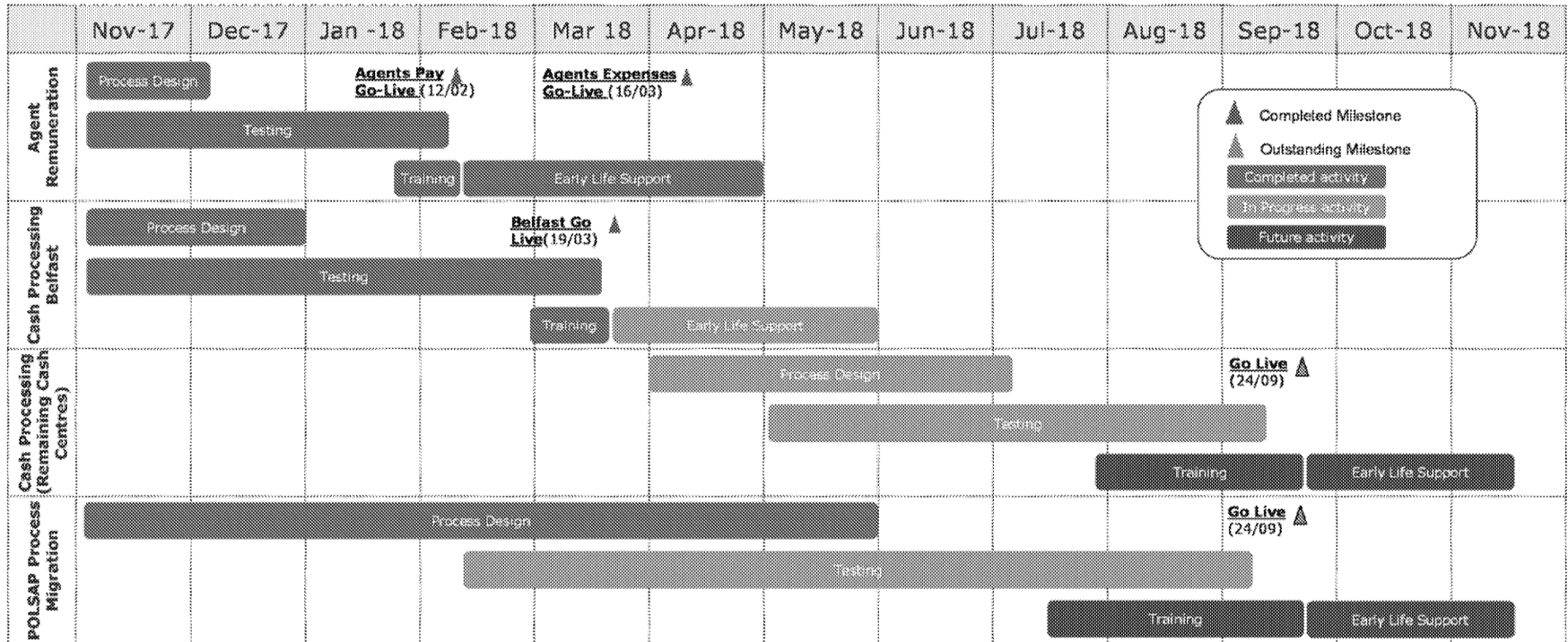
12. The programme is asking for additional funding to deliver the replacement for POLSAP in September and in doing so will remove the trading risk POLSAP represents to the business. We are asking approval for £4.9m of additional funding drawdown, taking the cumulative investment to £26.1m. In addition we seek a delegated level of authority to increase this by a further £1.7m if we encounter un-forecasted issues that drive our Go Live to 29th October.

Appendix 1**Cost and Benefits - Summary**

Project	Business Case Budget Approved	GE Update	Board	Option 1	Option 2
		Go Live Jun 18 (Sept 17 Update)	Go Live Jun 18 (Jan 18 Update)	Go Live Sept 18	Go Live Oct 18
Underlying programme	20.0	20.9	21.2	21.2	26.1
Delay cost	-	-	-	3.5	1.2
Additional testing	-	-	-	0.6	0.2
Infrastructure costs	-	-	-	0.5	0.3
Cutover preparation	-	-	-	0.3	-
Total	20.0	20.9	21.2	26.1	27.8
Annualised Direct Benefits (£m)	3.5	3.9	3.1	3.1	3.1
NPV (£m)	(12.7)	(13.4)	(15.5)	(16.6)	(17.8)
Payback	5.7 yrs.	6.0 yrs.	6.8 yrs.	8.3 yrs.	8.9 yrs.
Cost Movement (£m)			0.3	4.9	1.7
NPV Movement			15.5%	6.9%	7.3%
Payback Movement			13.0%	22.8%	6.5%

Appendix 2

Programme timelines



Print Management Contract Award

Author: Susy Page Sponsor: Owen Woodley Meeting date: 24 May 2018

Executive Summary

Context

The Post Office contract for the provision of printed materials for marketing and branch expires on 30 July 2018. This has been tendered using a CCS Framework and won by the incumbent HH Global. All six vendors on the panel were invited to bid and four responded. This paper asks the Board to approve the award of a two year contract with a compliant option to extend for two further one year periods with an expected value of £5.519m ex VAT over Initial Term of two years. It is anticipated there will be significant savings over the contract duration (estimated at up to 28% based on 2017 spend) but these are currently difficult to quantify. Savings are driven by a new rate card for an expanded range of marketing products, however the savings are dependent on demand / usage by POL over the contract period and funding from POL partners. Additionally, Marketing will need to implement changes to operating model resulting in on-site supplier staff reductions over time. Procurement would therefore recommend that £100k of this anticipated saving is ring fenced for the recruitment of an administrative resource in Marketing.

Questions addressed in this report

1. How did we select the new supplier of this requirement?
2. What is the new supplier proposing to do and why?
3. What do we need to do next to progress this?

Conclusion

1. A tender was conducted against a CCS Framework and HH scored the highest marks against the evaluation criteria of Quality and Price.
2. The supplier is proposing more rate card driven pricing utilising an online catalogue of frequently purchased materials which allows for reduction of the HH account management team and delivers up to 28% savings during year one dependent on POL product demand over that year.
3. To establish a new call off contract before 30 July 2018 Board approval of the award of the contract to HH Global is required.

Input Sought

The Board is asked to approve the award of a two year contract for £5.519m with HH Global including ring fencing £100k of the saving for the recruitment of additional resource in Marketing.

Input

Received

Procurement
Marketing

The Report

What is the need or opportunity and why now?

The Post Office has a requirement for the provision of printed materials. The spend last year (2017/18) was £3.89m of which about 70% was for marketing materials that appear in branches including those for campaigns and 20% on Managed Goods which are the printed items that the Post Office Distribution Centre in Swindon orders for branches. The remaining spend is for Direct Mail, POCA, Network Transformation, Network Transformation Marketing, Opening Hours, Transactional (HR) and Security Print (see Appendix 1 for the spend is per area).

Currently, Managed Goods and Network Transformation have a catalogue, rate card and online proofing in place for their goods but Marketing does not. The Marketing team have been obtaining bespoke quotes for each purchase.

There is an onsite account management team provided by the supplier currently consisting of 4 staff. This is included in the cost of the print items and is not shown as a separate cost.

The current print management contract is with HH Global and there is a noncompliant four month extension to the existing contract to allow for the completion of the tender process, which expires on 30 July 2018. To bring POL back into compliance, a tender was issued in February 2018 inviting the six suppliers on the CCS Framework RM3785 for Managed Print and Digital Solutions to participate.

How did we select the new supplier of this requirement?

Four suppliers responded to the tender – HH Global, Williams Lea, Granby Marketing and Xerox.

The responses were evaluated by Marketing, Supply Chain and Procurement against the criteria of Quality and Price with 50% of the marks going to each. HH, the incumbent supplier, achieved the highest marks (see Appendix 2 for a summary of tenderers and scores).

What is the new supplier proposing to do?

There is no commitment to a minimum level of spend or volumes. The spend is completely demand driven.

HH Global are offering pricing that is fixed for 2 years even if paper costs increase.

Based on no change in current volumes, the new prices achieved will deliver an anticipated 28% saving however the savings are demand driven and therefore savings achieved will be variable across departments depending on usage.

The saving also takes into account a Managed Goods increase in price as a new fixed price rate card is introduced. This was forecast in 2017 and a project commenced with HH to help mitigate this increase through a product and specification review. This

project is still being delivered so HH has shown the full impact of the unmitigated increase in their tender response.

In addition HH are offering an additional 3% saving in year two.

Year	Saving Percentage
Year One (2018/19)	Up to 28% across the whole portfolio based on product demand
Year Two (2019/20)	An additional 3% reduction against Year One spend
Total Potential Two year Spend	£5,519,138

What do we need to do next to progress this?

The current contract ends on 30 July 2018 and we need to agree a new call off contract against the CCS Framework contract RM 3785 before this date.

To progress this, we need Board approval to award a two year contract with the option to extend for two further one year periods to HH Global. This will allow Legal to commence work on the call off contract and ensure it is in place before 30 July. There is also an intention to negotiate capped pricing for the two one year extensions.

The forecast savings are only achievable via a change in working practices within Marketing, moving to a rate card and self-service quotation model across a range of standardised frequently purchased material types.

Therefore, Procurement would recommend that Marketing make provision for additional support in using the new tools provided by HH as the account management is reduced, ring-fencing £100k of the savings to recruit an additional resource to support Marketing not just on print but also creative and media in relation to ordering, systems admin, billing etc.

Appendix

1. Appendix item 1 : Print Spend by Area 2017/18
2. Appendix item 2 : Summary of Tenderers and Scores
3. Appendix item 3 : Savings Delivery Mechanisms

Appendix Item 1: Print Spend by Area 2017/18

Area	Print Spend 2017/18
POS and Internal Comms	£2,715,643
Managed Goods	£783,452
Direct Mail	£127,464
Security	£1,724
Transactional (HR)	£12,533
POCA	£33,866
NT Marketing	£76,705
Network Transformation	£129,455
Opening Hours	£8,242
Totals	£3,891,102

Appendix Item 2 : Summary of Tenderers and Scores

Scoring		Marks	Marks	Marks	Marks
	Weighting	HH	Williams Lea	Granby	Xerox
Quality					
Account Management	15%	12.00	11.06	6.84	6.38
Provision of Services	15%	11.81	10.88	7.88	6.09
Delivery, Packaging and Lead Times	10%	8.31	6.75	5.63	3.50
Quality Assurance	7.50%	5.72	5.53	4.50	2.16
Management Information	2.50%	2.34	1.78	1.38	1.06
Quality Total		40.19	36.00	26.23	19.19
Price					
Price against indicative volumes	25%	24.83	23.71	16.08	20.73
Price against volume bands	15%	11.00	12.00	12.00	7.00
Gainshare	10%	8.00	7.00	6.00	6.00
Price Total		43.83	42.71	34.08	33.73
Overall		84.02	78.71	60.31	52.92

Evaluators :

Procurement : Susy Page
Marketing : Mick di Stazio
Barbara Kuhr
Simon Phillips
Tim Dixon
Emma Partridge
Supply Chain : Cheryl Wingfield
Vanessa Nicholson

Appendix Item 3 : Savings Delivery Mechanisms

Introducing rate card pricing for up to 80% of the current product lines ordered by Marketing for use in branch	<p>This allows HH to:</p> <ul style="list-style-type: none"> • Drive more spend with fewer suppliers, • Hedge paper cost increases • Offer fixed pricing for two years. • Improve lead times.
Introducing a catalogue and rate card pricing for POCA items	<p>This will :</p> <ul style="list-style-type: none"> • reduce time in obtaining quotes • Give fixed pricing for two years.
Reduction of HH account management team by 2 account managers (out of 4) during the two year contract.	<p>This is achieved through the introduction of :</p> <ul style="list-style-type: none"> • Quick quote tool to obtain budgets and quotes for marketing campaigns • Catalogues and rate cards to order for commonly used Marketing items and the POCA items. • Online proofing allowing better compliance and version control. <p>These tools reduce the amount of account management time required as currently quotes are obtained by the account management team on a job by job basis to establish budget and for purchase of the items and this can take time (24 hours whereas using the tools can reduce this to under 3 hours) but Marketing may need support in using the tools.</p>
Increase in Managed Goods prices	<p>These goods are already catalogued and rate carded. Points to note :</p> <ul style="list-style-type: none"> • Pricing will increase as a new rate card is established but the pricing will be fixed for two years • In 2017 it was anticipated that an increase would occur in Managed Goods prices at retender so a project was established with HH to help mitigate this – this is still being delivered and is not included in the tender costs. • HH will undertake a full review of all rate card products at the end of year one to check if any need to be changed or removed. • HH did offer the most competitive pricing for these goods in their tender response

Performance Review – Health & Safety and Review of Robbery Risk & Violence

Authors: Martin Hopcroft, Steve Norris, Mark Ellis

Sponsor: Al Cameron

Meeting date: 24 May 2018

Executive Summary

Context

Keeping our employees healthy and safe is our legal responsibility and is fundamental to our success.

Our Health & Safety performance has improved significantly over the past 6 years. We have a rolling 3-year plan to drive compliance, targeting a reduction in safety metrics including accidents; lost time accidents (LTIFR); days lost; and personal injury claims.

Our H&S reporting and safety management system is measured against the externally recognised standard, OHSAS 18001.

This paper includes a response to the request for a review of violence in our business.

Questions addressed in this report

1. What was the outcome of the HSL audit?
2. How did we perform in 2017/18?
3. How much violence are we seeing, how does that compare with other retailers, is it getting worse and what are we going to about it?
4. What are the priorities for 2018-19?

Conclusion

At our request, the commercial function of the Health & Safety Executive, HSL undertook an independent audit of our approach to safety management. The full report has been placed in the Reading Room. Its conclusion is that we have a robust Safety Management System with strong governance, leadership and compliance and a maturing safety culture. We perform well when benchmarked against similar businesses. We have agreed that we have further work to do and a full set of management actions will be agreed during May and tracked to completion.

In 2017/18 we had 112 accidents, fewer than in previous years. However, our accidents/100 employees and the Lost Time associated (LTIFR) increased, although they remained below 2015/16.

The increase largely took place in H1 in Supply Chain, possibly associated with bedding down new ways of working. While this improved again in H2, driving a safety culture that ensures people take care is a priority.

We generally see fewer robberies and less violence than other retailers, both as a result of our activity and because we have fewer trigger points.

Threats of violence are rising while injuries have fallen, reflecting better outcomes from open plan branches and better security. In c. 1/3rd of cases where a member of staff is injured, our person fought back.

We are looking to improve our intelligence sharing, rollout body cameras on CViT staff in city centres, give further guidance on fighting back and seek funding to improve the use of fogging and other technology in higher risk branches.

Input Sought

The Post Office Board is asked to comment on the report.

The Report

What was the outcome of the HSL audit?

1. Formal feedback has been received from HSL / HSE following their audit of the Post Office Safety Management System. Their conclusion is that we have a strong safety culture and governance with effective procedures in place. There are a few areas we can strengthen and we will work on these during 2018/19:
 - Recognition - we should celebrate where we do well and there should be more discussion and visibility in 1-2-1 meetings.
 - Broader training to raise competence across the business, aligned to level of risk.
 - Greater awareness of policy and procedures for dealing with verbal abuse and violence in stores.
 - Investment in digital tools to simplify reporting of incidents and near misses.
 - Develop a proactive 'hearts and minds' safety culture.

How did we perform in 2017-18?

2. In 2017/18, we had 112 accidents, 15% fewer than in 2016/17 and 43% lower than 2015/16. However, we also had fewer people working less hours. Accidents/000 employees and Lost Time/hours worked (LTIFR) both increased last year compared to 2016/17 although they remained lower than in 2015/16 (see Appendix 1 – Table 1).
3. Although LTIFR increased across the business, the sharpest increase took place in Supply Chain which suffered 78 accidents / 000 employees compared to 48 the previous year. Supply Chain's LTIFR increased to 0.820 (0.586). There was no systemic pattern or cause other than a general tendency not to pay attention, especially in cash centres and in the stock centre. The slightly better news is that

- the number of accidents falling from 65 in H1 to 47, lower than H2 2016/17. LTIFR fell in Supply Chain from 1.03 in H1 to 0.612 in H2. We believe 0.3 is world class.
4. Whilst there has been progress during H2, there have also been some serious near misses and a member of staff is facing a charge of gross misconduct for his failure to follow policy. We are concerned there has been a loss of focus on day to day safety management and as a result we are making the following interventions: the introduction of local Safety Champions, local safety forums planned for May and June, more training on investigating and reporting accidents and a review of local risk assessments.
 5. Elsewhere we have seen a reduction in road traffic accidents in line with the 41% fall in fleet size. We are hoping to see further improvement through the introduction in Supply Chain of Telemetry which is now in place (tracking and analysis of driving performance) and Alcolock (breathalyser integration with key management). Online awareness training has been issued via Success Factors for those driving for work. A draft overarching Road Risk Policy is being developed.
 6. A recent risk has emerged in respect of the Company Car Vauxhall fleet with concerns that a safety mechanism in the engine management system creates unacceptable risk for drivers whose cars lose power, sometimes at high speed. Vauxhall has investigated and provided reassurance, however, confidence still remains low and diagnostic checks are being arranged by Leaseplan for all Vauxhall vehicles. Other manufacturers are also being considered for future replacements or even an early transition.
 7. The overall level of Property risk is predominantly low. An Independent Audit of Property Statutory Compliance is being arranged for 2018/19. Current property statutory compliance is good at 96.70%. An Independent Assessment of high risk building fabric and follow up remedial work has been completed. There were two high risk near miss incidents. Following the gas explosion at Harold Hill DMB, all gas cookers have now been removed from our branch premises.

How much violence are we seeing, how does that compare with other retailers, is it getting worse and what are we going to do about it?

8. The Board has asked for a focus on violence and details of incidents are set out in Appendix 2. Overall, we are seeing more attempted robberies with similar levels of violence and fewer injuries.
9. Our robberies/attempts per 000 stores increased year on year to 2.19% in 2017-18 compared to 1.97% and 1.47% from the previous two years. We forecast an increase to 2.6% (2018/19) based on this trend.
10. Violence with and without injury, with the target of violence including both people and property, is broadly flat at around 0.22%. Violence with injury has seen a 36% decrease over the last 3 years of all robberies committed. About one-third of injuries can be associated with staff fighting back.

11. The level of general, aggressive behaviour is inconclusive and certainly under-reported. As guided by HSL we are considering how to tackle this. There were 35 cases of 'harassment by customers' reported by Directly Managed Branches in 17/18. This compares to 24 (16/17) and 33 (15/16).
12. This contrasts with other retailers. The British Retail Consortium (BRC) reported a national increase in violence / abuse of 40% in 2015/16 with violence without injury increasing from 1.4% to 2.8% and marginal increase in violence with injury 0.2% to 0.3%.
13. Overall the amount of violence experienced in POs appears to be significantly less than in other retailers: 0.22% for violence compares to 2.8% in the BRC figures.
14. While some of this is due to our security procedures, we are also less likely to experience the factors that trigger violence elsewhere. The Association of Convenience Stores (ACS) note the top causes of abuse and aggressive behaviour as; age restricted sales, refusal to serve people 'under the influence of alcohol,' and preventing shop theft.
15. Our performance has been affected by branch changes, with the move to open plan counter formats, where far less cash is out of the safe, considered the primary reason for a reduction in injuries. We have also seen a reduction of guns being carried (27% 2014/15 down to 17% 2017/18). However we are seeing an increase in knives being carried (31% 14/15 to 49% 17/18). Whilst easier to obtain, like guns they are rarely used, but simply carried to intimidate as evidenced in the reducing level of injuries.
16. This favourable position could come under pressure as a result of increasing risk as we become the last provider of increasing amounts of cash with longer opening hours.
17. Our risk models focus on current risk informed by lag measures. There is no industry standard for risk modelling. We utilise risk models developed by UCL/ Jill Dando Institute, and crime mapping provided by KIS (Kings Intelligence Services).
18. Intelligence is additionally gathered from:
 - a. In-house experts in the security field and bespoke analysis and reporting.
 - b. CPNI (Centre for the Protection of National Infrastructure), the UK's government authority that provides protective security advice to businesses.
 - c. Continuous news scanning on keywords to create immediate threat alerts and intelligence sharing with retailers through Grapevine to determine trends, patterns and emerging threats as well as law enforcement social media.
 - f. Harassment by Customer incidents reported via POL incident database.
19. The branch risk assessment models inform what mitigations are required. There are a number of standard security items such as safes, alarms and cash funding units, however the models identify more enhanced solutions on a bespoke basis. For example, at our highest risk branches, a fortress would be our recommended solution, this is c.57 branches (0.5%). Fogging, IP cameras, CCTV, endgates and flip top tills are deployed for medium risk branches. (See Appendix 3).

20. We plan to improve the insight into the level of aggressive behaviour and enhance risk assessments with a 2-3 years horizon scan by engaging with third party agencies BRC, BSIA (including banks), and ASC and Kings Intelligence Service 'KIS' (Grapevine) to obtain a dynamic overview of all incidents and instances of aggression, allowing analysis and better response activities.
21. We will request funding of up to £2.6m to extend some of the stronger security measures such as fogging to more branches in higher risk categories.
22. We will roll-out the body worn camera trial to all high risk CViT routes at a cost of £50K, extend remote vehicle monitoring and extend the roll out of cameras in high risk branches to alert Grapevine and enable real time monitoring when aggressive behaviour is detected.
23. We will also review, update and reissue 'Harassment by Customers' training for employees and signpost Agents to HSE guidance and our best practice and provide guidance on not fighting back.

What are the priorities for 2018-19?

24. To develop the Safety Plan for Supply Chain with an introduction of Safety Champions and a Safety Forum to develop a 'hearts and minds' culture, share best practice, videos and visuals.
25. To continue the development of DMB Branch Managers, Area Managers, BDMs and Network Ops managers to ensure compliance with safety calendar activities and completion of training, local risk assessments and hazard checks.
26. To progress the recommendations from the Robbery and Violence review and the HSL audit.

Appendix 1

Summary of Safety Performance – Year on Year Comparison

TABLE 1

Year/KPI	15/16	16/17	17/18
All accidents	198	129	112
All accidents/1000	29.3	21.0	22.0
Absence accidents	38	16	21
Absence Accs/1000	5.62	2.61	4.13
LTIFR	0.367	0.168	0.271
Days lost due to accidents	792	259	480
Days lost/1000	117	36	43
RIDDOR	14	9	14

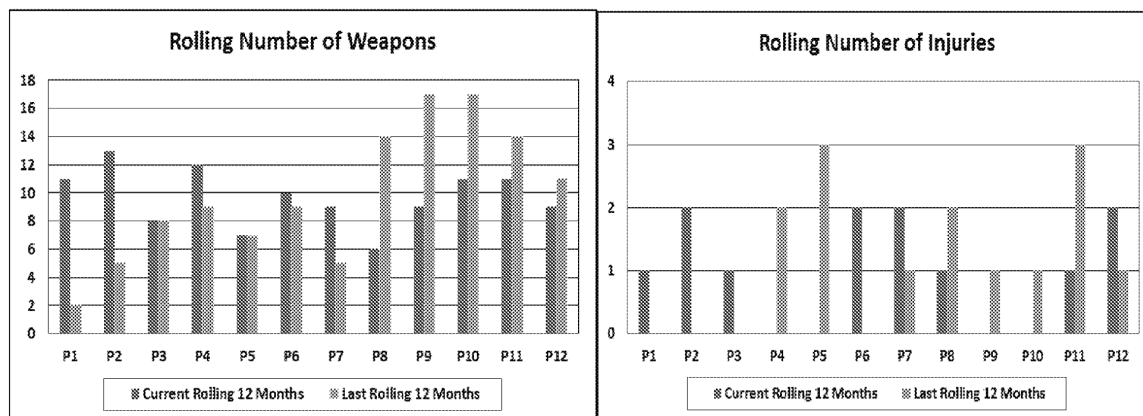
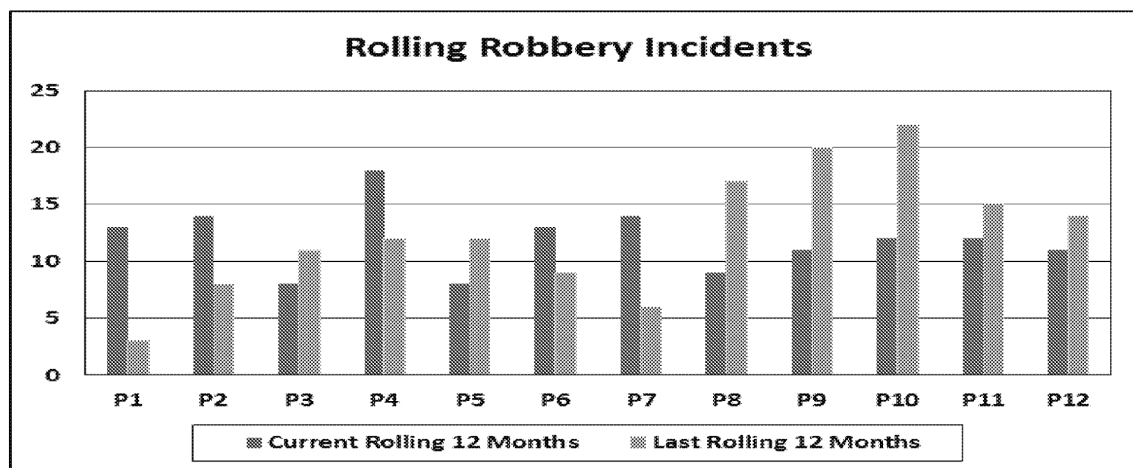
Supply Chain

All accidents	104	60	64
All accidents/1000	74.8	48.4	78.8
Absence accidents	24	12	11
Absence Accs/1000	17.26	9.68	13.54
LTIFR	1.04	0.586	0.82
Days lost due to accidents	470	157	219
Days lost/1000	338	140	270
Days lost trauma	288	144	4

DMBs

All accidents	84	62	44
All accidents/1000	23.1	19.0	15.6
Absence accidents	13	4	8
Absence Accs/1000	3.58	1.22	2.84
LTIFR	0.307	0.103	0.206
Days lost due to accidents	316	96	250
Days lost/1000	86.91	14	89

Appendix 2

**Post Office Robberies – 2017/18**

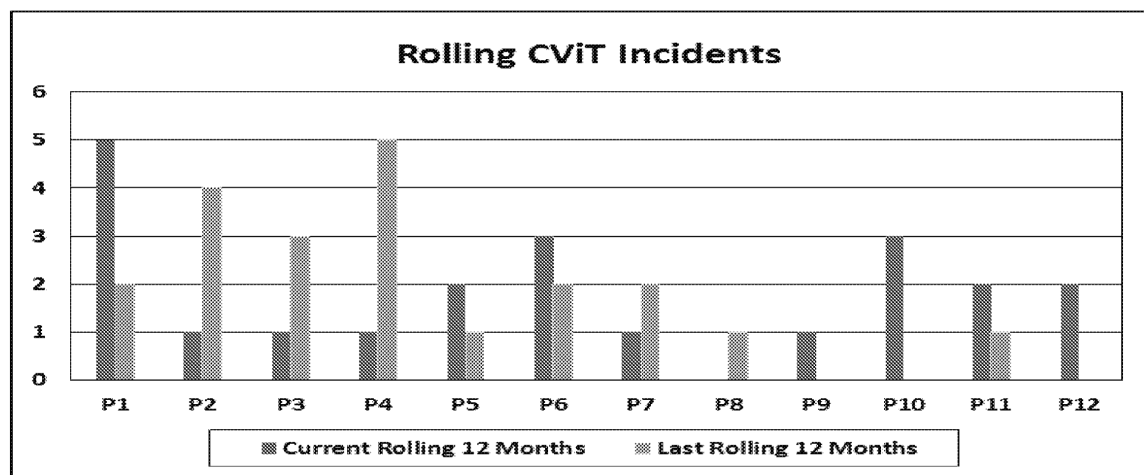
1. There were 252 robberies (POL and Retail) in 2017/18 vs an historic average of 198 (2015/16 to 2016/17). The 2018/19 forecast is 299, a 16% increase.
2. The average nightly cash held in the network increased from £530m 2015/16 to £674m in 2016/17. Despite a 27% increase, this has not been reflected to the same scale in the number of robberies and attempts.
3. There were:
 - o 142 robberies in Post Office 2017/18 v 149 in 2016/17.
 - o 12 injuries in Post Office in 2017/18 v 14 in 2016/17.
 - o 116 incidents involved weapons (59 blades) v 118 (60 blades) in 16/17.
4. Trend is downwards over last quarter with 33 incidents v 50 incidents in 16/17.
5. Furthermore injuries show favourable downward trends over the past 4 years.
 - o 7.5% incidents resulting in injury in both 2017/18 & 16/17 compared to 11.8% during 2015/16 and 14% 2014/15 (Retail and POL incidents).
 - o Of the 75 incidents resulting in injuries from the past 4 years, only one branch has suffered a repeat robbery, illustrating incident response procedures are effective.

6. Incidents involving blades are increasing. If this trend continues, 53% of the robberies will involve a blade next year (18/19). Although injuries sustained are on a downward trend, further procedural or physical mitigation will need to be considered to combat such a (blade) threat.
7. The percentage of attacks targeting open plan remains at a similar level to last year, 55% vs 60% and 76% of these involving weapons. Although the number of robbery incidents involving weapons has dropped slightly, weapons have been reported in more robbery incidents. Of the 142 robbery incidents weapons were reported in 116. This equates to 81% against 79% the previous year.
8. Of the 12 incidents of injury year to date 4 were due to staff fighting back, 4 were due to staff being directly attacked by the offender, 2 due to staff resisting.

TABLE 2

Injury Type	Post Office	Retail
Staff Fighting Back	4	5
Customer Fighting Back	0	1
Staff Resisting (preventing access through the secure door which was left open)	2	0
Staff Assaulted (Hit for no reason)	4	2
Other (Staff fell over or banged an arm etc. with no direct contact with assailant)	2	1
Total Injury	12	9

Post Office CViT Robberies – 2017/18



1. CViT robbery incidents have reduced by 60% from 52 in 2012/13 to 22 in 17/18.
2. Trend is being monitored closely.
3. Violence has been used in 7 incidents this year with 4 injuries incurred. 8 used weapons v 6 in 2017/18 YTD.
4. Within the CViT area, the incidences of blades are low, with 3 occurring in 17/18 (no change from 16/17) and no knife related injuries.

Appendix 3

Physical solutions deployed by POL to mitigate risk.

1. There is a minimum security equipment standard for every branch which is outlined in the various policy and process documents for each branch format. Ordinarily, these will include safes, safe timelocks, monitored alarms and cash funding units (if open plan), as a minimum.
2. In addition to the Robbery & Burglary Risk Model, the Security team deploys two additional dynamic statistical models to determine proactive security equipment measures for future branch refurbishment, including Whitespace and a repeat incident model. Both use up to the minute crime levels in determining the most appropriate crime response.
3. The following are examples of some of the equipment deployed by the Security team, both reactively and proactively;
 - a) **IP Camera** - Upon activation, Grapevine can view remotely live footage (in addition to all footage being streamed to the cloud). Additionally, successful extensions of the IP Camera include the use of software analytics to spot loitering outside an ATM for example (4 arrests to date using this method), and more recently automatically activate based upon aggression levels being increased in branch.
 - b) **Fogging** - Connected to the panic alarm (PA), when activated creates a curtain of fog to immediately break eye contact between Operator and criminal, causing them (in theory) to flee. Designed not to disorientate or trap criminal or customers. 3 successful activations to date, no injury, no loss.
 - c) **SILF** - This is a polycarbonate screen that can be retrospectively fixed to an open plan counter, although was initially designed to prevent jump-over attacks (and extend across both retail and POL counter). Incredibly robust and effective, and retains the open counter ambience.
 - d) **Compact Safe** - This is designed for Whitespace locations, but will doubtless be used elsewhere due to the flexibility of operation it provides. It incorporates a drop safe straight into the safes main compartment for deposits / remittances, and a time delayed drawer for outward remittances, thereby keeping the bulk cash secure without the need for a fortress.

Post Office Limited Sealings

Author: Jane MacLeod Meeting date: 24 May 2018

Executive Summary

Context

The Directors are invited to consider the seal register and to approve the affixing of the Common Seal of the Company to the documents set out against items number 1658 to 1681 inclusive in the seal register.

Input Sought

For the Directors to resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1658 to 1681 inclusive in the seal register is hereby confirmed.

POST OFFICE LIMITED
Register of Sealings

Date
17.05.2018

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1658 / Deed of Novation	15/03/2018	15/03/2018	Deed of novation dated 1st March 2018 between Post Office Limited and BBA FCAS Limited and NewTA Limited trading as UK Finance. - CAF no 911 - CT no 986	Jane MacLeod, Company Secretary	CoSec
1659 / Deed of Settlement	16/03/2018	15/03/2018	Deed of Settlement between Breilis Limited (the freehold proprietor), Peter Flemin Jackson McDonnell (the former landlord) and Post Office Limited (the tenant).	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1660 / Underlease	22/03/2018	21/03/2018	Underlease of whole of whole relating to Ground Floor Shop and Mezzanine Floor 234/236 Walworth Road, London SE17 1JE. POL = Landlord. OM SAI Enterprise (London) Limited = tenant.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1661 / License to Underlet	22/03/2018	21/03/2018	Underlet relating to Ground Floor Shop and Mezzanine Floor 234/236 Walworth Road, London SE17 1JE. POL = Landlord. OM SAI Enterprise (London) Limited = tenant.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1662 / Supplemental Lease	22/03/2018	21/03/2018	Supplemental lease relating to Ground Floor Shop and Mezzanine Floor 234/236 Walworth Road, London SE17 1JE. POL = Landlord. OM SAI Enterprise (London) Limited = tenant.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1663 / License to alter	22/03/2018	21/03/2018	License to alter relating to Ground Floor Shop and Mezzanine Floor 234/236 Walworth Road, London SE17 1JE. POL = Landlord. OM SAI Enterprise (London) Limited = tenant.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1664 / Underlease of whole	27/03/2018	23/03/2018	Underlease of whole relating to 5 Towngate, Ossett, WF5 9AA between Post Office Limited and Mohammed Jassat. 1664x2	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1666 / Transfer of whole reg title	27/03/2018	23/03/2018	Transfer of whole registered title: title numbers of property 243394, 241202 and 242607 relating to 223m 225 and 227, Bethnal Green Road, Bethnal Green, London E2 6AF. Between Post Office Limited (Transferor) and Rajan Sood (Transferee for the register).	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1667 / License to Alter	28/03/2018	27/03/2018	License to alter in relation to 290 and 292 Seven Sisters Road Finsbury park London N4 2AB. The Ancient Order of Foresters Friendly Society Limited is the landlord. Post Office Limited is the Tenant. Rizwan Salahuddin is the under tenant. Chaudhry Zulfiqar Ali Cheema and Vasantikumari Daman Patel are the under tenants guarantors.	Veronica Branton, Head of Secretariat	Jean Reynolds
1668 / Lease Assignment	29/03/2018	29/03/2018	Agreement for the Assignment of an existing lease and Grant of New Until with Landlord's Works and Tenant Carrying Out Fit-Out Works. Parties are Post Office Limited, Chrisp Street Developments Limited and Chrisp Street Management Limited.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1669 / Lease	29/03/2018	29/03/2018	Lease between Chrisp Street Developments Limited and Post Office Limited.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1670 / TR1 in relation to lease	29/03/2018	29/03/2018	TR1 in relation to Post Office Limited and Chrisp Street Developments Limited.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1671 / Renewal Lease by Ref	04/04/2018	03/04/2018	Renewal of Lease by Reference of 9 Austhorpe Road Crossgates Leeds LS15 8QS. Landlord = Dyson Properties Limited. Post Office Limited = tenant.	Jane Fahey, Deputy Company Secretary	Jean Reynolds

POST OFFICE LIMITED**Register of Sealings****Date**

17.05.2018

Company Number

21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1672 / Counterpart Lease	11/04/2018	09/04/2018	Counterpart lease of Suite GB, Ground Floor (Rear Wing) Coleshill House, 1 Station Road Coleshill, B46 1 HT. Loxton Developments Limited is the landlord. POL is the tenant.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1673 / License for alterations	11/04/2018	09/04/2018	License for Alterations in relation to Ground Floor of 44 Sydenham, Lewisham, London, SE26 5QX between the Mayor and Burgesses of the London Borough of Lewisham and Post Office Limited.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1674 / Lease	11/04/2018	09/04/2018	Lease relating to Ground Floor of 44 Sydenham Road, Lewisham London, SE26 5AQ between the Mayor and Burgesses of London Borough of Lewisham and Post Office Limited.	Jane Fahey, Deputy Company Secretary	Jean Reynolds
1675 / Deed of Confirmation	16/04/2018	13/04/2018	Deed of Confirmation between Post Office Limited and the Wardens and Commonality of the Mystery of Goldsmiths of the City of London in relation to 5-7 London Street, Basingstoke, RG21 7AB	Jane MacLeod, Company Secretary	Jean Reynolds
1676 / Deed of Surrender	16/04/2018	13/04/2018	Deed of Surrender relating to Malvern Post Office, 1 Abbey Road, Malvern between Post Office Limited and Nigel Morris.	Jane MacLeod, Company Secretary	Jean Reynolds
1677 / Lease	16/04/2018	13/04/2018	Lease relating to The Post Office forming part of the premises known as 1 Abbey Road, Malvern, Worcestershire WR14 3HJ between Post Office Limited and Caters Malvern Ltd and Mohammed Chand and Rukshana Chand.	Jane MacLeod, Company Secretary	Jean Reynolds
1678 / Capital Allowances Election	19/04/2018	01/03/2018	Capital Allowances Election relating to Galatea House, 1 Narvick Road, Kingston Upon Hull.	Jane MacLeod, Company Secretary	Jean Reynolds
1679 / Lease	19/04/2018	18/04/2018	Lease between Castlecroft Securities Limited and Post Office Limited in relation to Suite A, Riverview House, Friarton Road, Perth, PH2 8DF.	Jane MacLeod, Company Secretary	Jean Reynolds
1680 / Renewal Lease	15/05/2018	09/05/2018	Renewal lease in respect of 3-5 Bridgegate, Cascades Centre, Rotherham S60 1PJ between Post Office Limited and Mr Jagir Singh Athwal, Mr Amarjit Singh Athwal, Mrs Bakhsho Kaur Athwal and Mrs Santinder Kaur Athwal.	Jane MacLeod, Company Secretary	Jean Reynolds
1681 / Tenancy Agreement	15/05/2018	08/05/2018	Tenancy Agreement relating to 138 Stoke Newington High Street, London, N16 7JN between Post Office Limited and Universal Office Equipment (UK) Limited.	Jane MacLeod, Company Secretary	Jean Reynolds

Post Office Limited Board Meetings

Author: Jane MacLeod Meeting date: 24 May 2018

Executive Summary

Context

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

Input Sought

The Board is requested to note the future meeting dates.

The Report

2018

Date			Time	Notes
Tuesday	26 June	2018	From 12 noon	Board Away Day
Wednesday	27 June	2018	Due to finish at lunchtime	Board Away Day
Tuesday	31 July	2018	11.45 – 16.30	
Tuesday	25 September	2018	11.45 – 16.30	
Tuesday	30 October	2018	11.45 – 16.30	
Tuesday	27 November	2018	11.45 – 16.30	

Draft Board Agenda for meeting on 31st July 2018

Description of Item	Timings	Origin	GE Sponsor	Presenter	Required Outcome
Minutes of previous Board and Committee meetings including Status Report	5	Board action from previous meeting	Jane MacLeod	Jane MacLeod	For noting
CEO Report	20	Standing item	CEO	Paula Vennells, CEO	For Noting
Financial Performance Report	20	Standing item	CFOO	Al Cameron, CFOO	For Noting
UKGI Quarterly Report	20	Quarterly	CFOO	Al Cameron, CFOO	For Decision
CE Performance Report - Retail	30	Standing item	Debbie Smith	Debbie Smith	For Noting
Digital identity	30	Board action from previous meeting		Martin Edwards	For Decision
Everest (including Belfast Business case)	30	Reserved decision	Rob Houghton		For Decision
Postmaster Litigation	10	Standing item	Jane MacLeod	Jane MacLeod	For Noting
Noting items: - Health & Safety - Sealings - Future meeting dates - Forward agenda	10	Standing item			For Noting
Total No Minutes	175				



= holding slot. Timeline subject to change.