



# Post Office Board Agenda

Date	
25 September 2018	
Start Time	Finish Time
11.45hrs	16.00hrs
Location	
1.19 Wakefield	

Present	In Attendance
<ul style="list-style-type: none"> <li>• Tim Parker (Chairman)</li> <li>• Paula Vennells</li> <li>• Ken McCall</li> <li>• Alisdair Cameron</li> </ul>	<ul style="list-style-type: none"> <li>• Tom Cooper</li> <li>• Tim Franklin</li> <li>• Shirine Khoury-Haq</li> <li>• Carla Stent</li> </ul>
	<ul style="list-style-type: none"> <li>• Jane MacLeod (Company Secretary)</li> <li>• Veronica Branton (Minute Secretary)</li> <li>• Owen Woodley (CEO, FS&amp;T)</li> <li>• Debbie Smith (CEO - Retail)</li> <li>• Tom Moran (Network Development Director)</li> </ul>
	<ul style="list-style-type: none"> <li>• Martin Kearsley (Banking Framework Director)</li> <li>• Rob Houghton (CIO)</li> <li>• Mark Siviter (Director of Mails)</li> </ul>

Agenda Item	Action Needed	Purpose	Lead	Timings
1. Welcome and conflicts of interest	Noting	To note any new declarations of conflicts of interest.	Chairman	11.45 – 11.50
2. Minutes of previous Board and Committee meetings including Status Report	Approval	Minutes formally agreed.	Jane MacLeod	11.50 – 11.55
3. CEO Report	Noting and Input	Group CEO to update the Board on the report.	CEO	11.55 – 12.15
4. Financial Performance Report	Noting and Input	CFOO to update the Board on the report.	CFOO	12.15 – 12.35
5. Government Spending Review	Discussion	To discuss the Government Spending Review.	Al Cameron	12.35 – 12.55
6. FS&T Performance Report	Noting and Input	To update the Board on FS&T performance.	Owen Woodley	12.55 – 13.15
Lunch				13.15 – 13.45
7. Banking Framework 2	Noting and input	To update the Board on the Banking Framework. <i>Additional papers are located in the reading room.</i>	Debbie Smith / Martin Kearsley	13.45 – 14.45
8. Project Solar	Approval	To seek the Board's approval of the Project Solar Business Case	Debbie Smith / Tom Moran	14.45 – 15.00
9. Mails Strategy Update	Noting and Input	To update the Board on the Mails Strategy.	Debbie Smith / Mark Siviter	15.00 – 15.15
10. Back Office Transformation	Approval	To seek the Board's approval of the additional drawdown.	Al Cameron/ Rob Houghton	15.15 – 15.35
11. Modern Slavery Act	Approval	To seek the Board's approval of PO Limited's statement on the Modern Slavery Act.	Jane MacLeod	15.35 – 15.45



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12.	Postmaster Litigation (Verbal)	Noting and Input	To update the Board on the Postmaster Litigation, including contingency planning.	Jane MacLeod	15.45 – 15.50
13.	Items for Noting				15.50 – 15.55
	13.1. Sealings	Noting	For the Board to be aware of the affixing of the Seal.	Jane MacLeod	
	13.2. Health & Safety	Noting	To update the Board on Health & Safety.	Al Cameron	
	13.3. Future Meeting Dates	Noting	For the Board to note the future meeting dates for 2018.	Jane MacLeod	
	13.4. Forward Agendas	Noting	For Board to note.	Jane MacLeod	
14.	Any Other Business				15.55 – 16.00
CLOSE					



## POST OFFICE LIMITED BOARD MEETING

### MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 31 JULY 2018 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 11.45 AM

Present:	Tim Parker	Chairman <b>(TP)</b>
	Paula Vennells	Group Chief Executive <b>(PV)</b>
	Ken McCall	Senior Independent Director <b>(KM)</b>
	Tom Cooper	Non-Executive Director <b>(TC)</b>
	Tim Franklin	Non-Executive Director <b>(TF)</b>
	Shirine Khoury-Haq	Non-Executive Director <b>(SK)</b>
	Carla Stent (by phone)	Non-Executive Director <b>(CS)</b>
	Alisdair Cameron	Chief Financial and Operations Officer <b>(AC)</b>
In Attendance:	Jane MacLeod	General Counsel & Company Secretary <b>(JM)</b>
	Veronica Branton	Minute Secretary <b>(VB)</b>
	Cathy Mayor	Finance Director, Retail <b>(CM)</b> (items 8&9)
	Roger Gale	Network & Sales Director <b>(RG)</b> (item 8)
	Martin Kearsley	Banking Director <b>(MK)</b> (item 9)
	Ben Foat	Legal Director <b>(BF)</b> (item 10)
	Jonathan Hill	Compliance Director <b>(JH)</b> (item 10)
	Angela Van-Den-Bogerd	LRG <b>(A VDB)</b> (item 11)
	Owen Woodley	CEO – FS&T <b>(OW)</b> (item 12)
	Jeff Lewis	IT <b>(JL)</b> (item 13)

Apologies: None

**ACTION**

### INTRODUCTION AND CONFLICTS OF INTEREST

- a) A quorum being present, the Chairman opened the meeting.
- b) 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. BOARD RE-APPOINTMENT

The Board **NOTED** the decision of the Department of Business, Energy and Industrial Strategy (BEIS) to re-appoint Tim Parker as Chair of Post Office Limited for a four year term until 30 September 2022.

The Board congratulated Tim on his reappointment.

### 2. ANNUAL REPORT AND ACCOUNTS 2017/18 (ARA):

- a) Report from the Audit, Risk and Compliance Committee (ARC)

## POST OFFICE LIMITED BOARD MEETING

Tim Franklin provided an overview of the discussion at the ARC meeting held earlier in the day. Three adjustments had been approved and the EBITDAS figure for 2017/18 had been confirmed as £35.46m. The wording of the group litigation statement had been discussed and a slightly shortened CEO statement had been received. Discussions had taken place with the auditors in the meeting and in the closed session.

The Board **RESOLVED**, on the recommendation of the ARC, to **APPROVE** the ARA 2017/18, subject to finalisation of the CEO's report and other minor changes, and to delegate signing authority to the Chairman, Group CEO and CFOO.

### b) Report from the Remuneration Committee ('Remco')

Ken McCall provided an overview of the discussion at the Remco meeting held earlier in the day. The Committee had discussed the outturn of the annual (Short Term Incentive) bonuses for 2017/18; outturn of the LTIP payments for 2015/18; and LTIP measures and targets for the 2018/21 performance period noting the proposed EBITDAS "on target" figure for 2020/21 was £90m. The Committee had agreed also to submit the proposed base pay increase (2.5%) for the CEO and CFOO to UKGI.

The Board

- NOTED the annual bonus outturn for 2017/18 and performance under the LTIP 2015/18 and the resulting payments for the Executive Directors based on an EBITDAS figure for 2017/18 of £35.46m (rounded up to £35.5m)
- **RESOLVED**, on the recommendation of Remco:  
to **APPROVE** the LTIP measures and targets for the 2018/21 performance period.

### 3. APPOINTMENT OF EXTERNAL AUDITORS

AC reported that EY had not participated in the tender process. Only PwC and Deloitte had bid and based on the scoring criteria, PwC had ranked highest on both service quality and cost. The Board noted the following potential conflicts and proposed mitigations:

- PwC were remuneration advisers to Remco – based on the advice of the Chairman of Remco this was not considered to be a material conflict;
- The lead partner in the PwC team was also the lead partner at Morrisons where Paula Vennells was a Non-Executive Director. To ensure that PwC retained sufficient independence it had been agreed that an additional partner would attend some PO Limited ARC meetings. PwC were also the auditors for each of Bol and FRES (where Paula Vennells was the Chairman of the Board). It was noted that each of those audits was undertaken by a separate team and accordingly the Board considered that although there was a potential conflict, this could be managed.

It was reported that PwC were not on the government framework so potential conflicts with other advisory work were limited.

The Board **RESOLVED**, on the recommendation of the ARC, to **APPROVE** the appointment of PwC as the provider of Post Office Limited external audit services and to delegate authority to the CFOO and Micheal Passmore, Finance Director, to resolve the minor outstanding contractual issues prior to signing the contract, and authorised the signing of the Engagement Agreement.

### 4. MINUTES OF PREVIOUS BOARD AND COMMITTEE MEETINGS INCLUDING STATUS REPORT

The minutes of the meeting of the Board held on 24<sup>th</sup> May 2018 were **APPROVED** and **AUTHORISED** for signature by the Chairman and the notes taken of the discussions at the

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## POST OFFICE LIMITED BOARD MEETING

Strategy Day were **NOTED**.

## 5. CEO's REPORT

a) Paula Vennells updated the Board on of the following recent issues:

- the deployment of branch counter hardware was due to be completed in September 2018 in line with the current 95%+ roll-out success rate. Jason Black had driven through much of this work and the Board and asked for their thanks to be conveyed to him
- the Everest discussions had moved forward and change control notices were being prepared for signature. Work was underway to operationalise these changes.
- a meeting had taken place with the CEO of Verizon who had agreed service credits for delivery failures
- performance for Travel products was behind plan largely due to the warm weather resulting in increased 'staycations'. Performance in August was not expected to be impacted to the same extent as much of the business in that month related to pre-booked family holidays
- we had advised Bol that we would not discuss the sale of the credit card book until we had agreed the wider negotiations. Bol had agreed that we needed to have signed off a deal by the end of October 2018
- Kelly Tolhurst MP had formally taken on the PO brief
- PV had met Andy Furey from CWU last week. CWU were keen to agree a pay deal and, while they disagreed with DMB franchising, this was not the primary focus of their current discussions with PO Limited.

b) A number of points were raised, including:

- The extent to which underperformance in Travel was linked to disruptors in the market and whether Post Office could challenge market insurgents sufficiently. It was reported that we did adjust rate to be competitive in identified branches. We did not seek to adjust online rates to match firms like Revolut which had very low often zero profit margins. However, our pricing was dynamic and we could adjust quickly when required. This marketplace was changing rapidly and it was requested that the background information provided for the away day should be updated and circulated to the Board.
- next steps for the negotiations with RM. It was reported that Paula Vennells was going to have a follow up meeting<sup>1</sup> with the new Chief Executive of RM to discuss opportunities for developing the contract. PV was also meeting Sue Whalley, the UK Chief Executive of RM, in the next week. RM had its next Board meeting in September 2018 and were keen to have made progress with contract negotiations by then
- Mo Kang's CV would be circulated to those Board Members who were not Members of the Nominations Committee
- Martin Edwards should be invited to give a half hour demonstration on the digital identity developments before the next Board Dinner
- whether there had been a full shut down test of the Belfast data centre. It was reported that there had not been a full shut down test and that we did not wish to do this until we had migrated off POLSAP. Shirine Khoury-Haq would discuss our hot back-up arrangements with Rob Houghton
- an item on cyber security would be added to the Board agenda in October or November 2018

**OW**

**VB**

**VB to  
liaise  
with ME**

**RH  
VB to  
liaise  
with RH**

<sup>1</sup> The Chairman and Chief Executive had meet the Chief Executive of RM following his appointment to the role.

## POST OFFICE LIMITED BOARD MEETING

- c) The Board **NOTED** the CEO's report.

## 6. FINANCIAL PERFORMANCE REPORT

- a) The CFOO introduced the report and highlighted a number of issues:
- trading figures were on target taking account of the Telco budgeting error. Mails were holding up well. FS&T should come back on plan. The higher fees for POca had only just been triggered. Verify was trading well but Government had flagged it wanted to reduce the fee. The main concern was IT costs where it had proved harder to drive costs out than we had initially estimated.
- b) The Board **NOTED** the Financial Performance Report.

## 7. UKGI QUARTERLY REPORT

- a) The CFOO introduced the report and highlighted a number of issues:
- we were around £8m underspent against funding in the last quarter. We had involved the Finance Directors from across the business in planning for the next quarter. The nature of the portfolio was changing and we were aware of the need to improve our change planning processes now that much of the work was cross silo
  - funding for Payzone would come out of trading profit and not funds provided by UKGI.
- b) The Board **APPROVED** the submission of a request for £50m of Q2 funding from UKGI.

## 8. CE PERFORMANCE REPORT - RETAIL

- a) The Chairman welcomed Cathy Mayor and Roger Gale to the meeting. CM introduced the report on behalf of Debbie Smith, Chief Executive Retail. The following were reported:
- b) It was reported that overall Retail performance was holding up well. The following issues were raised:
- POca numbers had now reduced below the threshold at which higher fees were triggered<sup>2</sup>.
  - RMG had previously flagged that as a result of GDPR they expected mail volumes to reduce (with a consequential impact on their UK trading profit) and it was queried whether this had eventuated?
  - the Competition and Markets Authority (CMA) continued to raise questions in relation to the panther acquisition, although the formal Merger Clearance process had not yet been triggered. We continued to believe that the earliest we would receive clearance would be towards the end of September 2018<sup>3</sup>. Market rumours suggested that Paypoint was likely to challenge the acquisition on state aid grounds;
  - Discussions with RMG continued and the focus was on loosening exclusivity. It was noted that it would be helpful for the Board to understand what the opportunities might be if this were to happen (for example, what we could do with Payzone, where there other brands/products that may become available that we couldn't engage with today etc.
  - there was significant competition in the international mails market and we were watching this closely
  - the Board was pleased to see very positive customer feedback. The target had been increased from 78% last year to 82% this year and were running slightly ahead of the new target. Feedback was collected primarily through Voice of the Customer, a service which was managed for us. 36,000 individual pieces of customer feedback had been collected but there was also some focus group feedback. Post Masters were encourage to listen to what customers were telling them and respond to that.

<sup>2</sup> It was reported that we had done an interest rate swap in the Spring so that around 50% of the impact of a rate change was hedged; therefore, we would not gain as much from an interest rate rise as we would have done previously.

<sup>3</sup> provided that we were not required to proceed to stage 2 of their process.

POST OFFICE LIMITED BOARD MEETING

c) The Board **NOTED** the report.

9.

a)

b)

**IRRELEVANT**

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POST OFFICE LIMITED BOARD MEETING

**IRRELEVANT**

- c) The Board **NOTED** the report.

10. **CORPORATE STRUCTURES I**

- a) The Chairman welcomed Ben Foat and Jonathan Hill to the meeting. Jane MacLeod provided an overview of the rationale for changing the corporate structure and how this might evolve. The proposal to set up a holding company above Post Office Limited was pre-emptive to facilitate known strategic developments (such as Peregrine). Two parallel work streams were proposed:
- 1) getting approvals to set up the holding company. This would be required from the Special Shareholder, as would FCA approval because establishing a holding company would lead to a technical change of control for PO Insurance
  - 2) analysis of options for both the development of the group structure and the future group operating model
- b) A number of points were raised, including:
- whether there were any alternatives to setting up a holding company. It was reported that theoretically Post Office's current business operations could be hived down into one or more subsidiaries or Post Office Limited itself could, in theory, become regulated, but both of these options was less attractive
  - the importance of ensuring that any resultant structure was 'simpler to run'
  - the need to replicate the protections the Special Shareholder currently had in place under the current corporate structure and it was **AGREED** that this would be added to our design principles. Oversight of group activities had to remain with the holding company
  - ensuring that the current VAT arrangements remained in place was critically important
- c) The Board **RESOLVED** to **APPROVE**, in principle:
- the creation, of a Holding Company above PO Limited, noting that further approval would be sought before putting into operation the new structure, e.g. transferring / restructuring employees, assets, governance, subsidiaries etc.

BF/ JH

11. **POSTMASTER LITIGATION (including contingency planning) –Subject to Legal Privilege**

a) **Redacted**

In relation to the Postmaster Litigation, the GC provided the following update:

- witness statements were being gathered and were due to be exchanged during early August
- Following receipt and review of the witness statements our QCs would be able to update the Merits Opinion
- The application for Security for Costs (arising from our view of the flawed terms in the Claimants' insurance policy) continued. We expected that this issues would be addressed during September 2018

## POST OFFICE LIMITED BOARD MEETING

- the two IT experts continued to review documents relating to the issues to be addressed for the Horizon trial. We expected the scope of the Horizon trial to be agreed in the next month.

# Redacted

The GC referred to the development of a contingency planning paper – an example of which was shown to the Board. This categorised four potential areas of response to each risk identified: contractual changes; communications; operational changes (e.g. training); and system changes (e.g. Horizon). The contingency planning would identify what responses could and should be implemented ahead of receipt of the trial judgement irrespective of its outcome, as well as those that would only be implemented following receipt of an adverse judgement. The Board would be provided with updates at subsequent meetings.

c) The Board **NOTED** the update.

12. **FRES UPDATE**

a)

b)

# IRRELEVANT

c) The Board **NOTED** the update and next steps.

13. **EVEREST**

a) The Chairman welcomed Jeff Lewis to the meeting. JL introduced the report and highlighted the following:

- The objectives for Project Everest (being the re-negotiation of the Fujitsu relationship) had been delivered and were now being operationalised. In particular:
- g the decision to move from Fujitsu's proposed K5 platform to Microsoft Azure. Change notes had been signed which would begin to deliver savings

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## POST OFFICE LIMITED BOARD MEETING

- an update on the move from the Belfast Data Centre would come to the September Board
- Fujitsu had agreed to move £3m spend from opex to capex although we had been aiming for £5m.

b) The following points were discussed:

- JL explained that we were working together with Fujitsu to develop digital delivery capability. Fujitsu were not advanced in this area but were developing quickly and bringing in new people with expertise in agile
- JL reported that we were having workshops with Fujitsu regarding the Belfast exit plan. We had received a proposal from Fujitsu which set out a very cautious approach with a long delivery time. We had asked to look at other options.
- The current contract continued until 2023 but the moving to cloud architecture and our ownership of the intellectual property gave us much greater scope to choose a different path in the future.
- whether the penalty measures for any failure by Fujitsu to deliver were appropriate and sufficiently onerous. JL reported that we had built in penalty measures/ service credits but that these were not perfect; however, we were in a good position on intellectual property rights. The risk of non-renewal would become a more effective bargaining chip over time
- whether we were ensuring a modular build such that we would transition more easily to one or more new suppliers over time, and whether there were exit provisions that allowed this. It was noted that the exiting the Belfast data centre and moving onto the cloud was a critical component of being able to move to a new provider in the longer term.

JL

c) The Board **NOTED** that we would:

- close Everest as a project, complete transition and embed the new service models and operating processes
- separate out the Belfast data centre refresh/transition to cloud, and run this as a programme for which would seek separate approval from the Board.

The Board had already agreed the principle of moving to variable cost and migration to cloud architecture and the Belfast exit programme would set out how and when this should take place.

#### 14. BACK OFFICE TRANSFORMATION

a) AC introduced the report and highlighted a number of issues:

- we had said at the May Board that September 2018 was the earliest feasible migration date from POLSAP and we were now targeting October 2018
- integration testing was underway. Some elements including agents' pay and cash processing had already been transitioned from POLSAP and were now being run on different systems. Issues identified in the internal audit report were being addressed. DMW had not identified any red items and most 'amber' items were turning green. We would be testing against 120% of our peak volumes. Prior to go-live we would be getting additional assurance from Accenture's QA team over the deployment plans and would ask DMW to validate test results against our go/no-go criteria. The go live plan has several roll back opportunities.
- Contingency planning was being addressed. POLSAP was not customer facing and would not impact Horizon performance. There were already known manual work arounds in place already to deal with specific types of failures. We therefore anticipated that operational activity could continue through manual interventions and these would allow key processes to continue albeit via labour intensive processes. Cash reconciliations

## POST OFFICE LIMITED BOARD MEETING

across the Network would become more challenging and in all likelihood we would need to further fund the network on a temporary basis in the event of issues. Increased resources in the Bristol cash centre were also being considered, and we were working with Accenture to review whether we could use their offshore resources to build a reconciliation team

- Should it be determined that we could not safely migrate in October, it would be most likely that migration would be delayed until January or February 2019. This was an unattractive proposition as it would cost a further c£5m to run the project that long. We had POLSAP spares for a period of time but would have to look at building more if we were run to February 2019 and this would cost a further £5-6m.
- the report would be circulated to the Board.

RH/ AC

b) The Board **NOTED** the report.

**15. ITEMS FOR NOTING****15.1 Sealings**

The Board **RESOLVED** that the affixing of the Common Seal of the Company to the documents set out against items numbered 1682 to 1696 inclusive in the seal register was confirmed.

**15.2 Health and Safety**

The Health and Safety report was **NOTED**.

**15.3 Future Meeting Dates**

The future meeting dates were **NOTED**.

**15.3 Forward Agenda**

The forward agenda was **NOTED**. An update on the Banking Framework would also be included on the September agenda and Mails Strategy would be covered under the Retail Strategy item.

Meeting closed at 3.30 pm.

.....  
**Chairman**

.....  
**Date**

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# CEO's Report

Author: Paula Vennells Meeting date: 25<sup>th</sup> September 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**

- P5 revenue was £73.9m, £0.6m favourable to plan in the month. Underlying revenue is £0.5m adverse in period and £2.5m adverse YTD.
- P5 trading resulted in a profit of £3.1m, £1.6m better than plan. These have been partially offset by one-off costs in the period of c. £1.3m. YTD trading profit of £20.2m is £4.7m ahead of plan.
- Overall, we remain ahead of plan with underlying performance broadly in line. A formal 2018-19 re-forecast will be completed in October. The challenges will be Telco customer numbers, Verify re-pricing and H2 IT costs.

- **Annual report and accounts**

- We published our Annual report and accounts on 13<sup>th</sup> September which confirmed we have made a profit for the second year running, increasing our year on year trading profit in 2017/18 to £35m from £13m in 2016/17. We have increased turnover by £4m over the prior year, moving from £957m in 2016/17 to £961m in 2017/18.

- **Retail**

- Post Office has retained its title as the 'service that has the most positive impact on the local area' in the 2018 Local Shop Report, which was published this month by the Association of Convenience Stores (ACS). We were voted into the top three 'most wanted services', a useful reference point for us as we seek locations for new Post Offices. (Specialist food shops were voted 1<sup>st</sup> choice followed by banks as 2<sup>nd</sup>)

- **Identity Services**

- Identity has had a positive start to the year +5% on prior year.
- Verify YOY volumes have more than doubled, primarily driven by Universal Credit applicants who can now use Verify. Post Office continues to be the market leader with 53% market share. See below for emerging pricing issue.

- **IT – Investing in digital capabilities**

- We have completed a deal with Fujitsu resulting in £19m operational saving, over 5 years. This will be channelled into capex to invest in strengthening our cloud and digital services.

- **IT / Branch network roll out**

- The Branch Counter programme has now deployed 23,053 counters in 9,519 branches and remains on schedule for completion by the end of September, with over 90% of the network now complete.

**• ATMs**

- ATM availability has been consistently improving – target is 96% (industry standard). Our fleet has struggled to achieve better than 94%, but with focussed attention in the past quarter, that has improved to 95%, and in recent weeks has shown consistent daily figures at 96% showing continued progress.
- Discussions with Bank of Ireland to move to a new partner are continuing, likely outcome will be an OJEU tender in Q4 to seek potential new partners to take over our estate and help us move to a new strategic model and relationship.
- Continued change in the wider ATM market (reduced interchange now having an impact) is seeing many ATM's now charging for withdrawals, which will lead to more volume in our estate as we remain free to use.

**WHAT HAS NOT GONE WELL?****• PCI**

- Nettitude QSA raised concerns regarding our PCI data security as a result of auditing Fujitsu and Comptercentre approaches. We have initiated a further PCI data audit and review as a matter of urgency to explore and rectify any security exposures. A joint IT & Business Steering Committee for PCI is working through the recommendation for the ARC in October.

**• Verfiy price reduction**

- On Friday 14<sup>th</sup> September, GDS issued their new pricing for Verify to take effect from 1<sup>st</sup> October: our current payment of £25 per customer falls to £6.79. While we can still deliver our budget for this year as a result of strong performance in H1, it creates significant challenges for the 2019/20 budget. We are assessing a number of options to mitigate the impact. We will provide a full update on the implications to the Board next week.

**• Chesterfield – water leak**

- Due to a Seven Trent water board issue in Chesterfield, our office was without water for 2-3 days. During the incident we arranged for colleagues to work remotely where possible, and had a skeleton staff working in the building. Colleagues displayed great resilience throughout and our business continuity plans worked well with no visible impact on operations across all areas. I spent a day there to show support, which was well received.

**• Back Office/POLSAP**

- Our testing and planning around the migration continues - we are not in a position to migrate at present. Although initial testing has been encouraging, there are still issues to be addressed for a seamless switch. This will be discussed further in the board meeting.



Looking Ahead

FUTURE FOCUS

• **Government Affairs**

- I met with Kelly Tolhurst, our new Minister, on 3rd September. The Minister was engaged and showed interest in championing our interests in Government and beyond.
- At the request of BEIS, there is a meeting with the Minister and the Permanent Secretary on 17<sup>th</sup> October to provide an update on the Group Litigation Order (GLO). Jane MacLeod will provide more detail in the Board meeting.

**IRRELEVANT**

• **Retail Updates**

- Our DMB strategy is on track to deliver 80 exits this year as planned. We are currently in negotiations with WH Smith (Project Edgware) and we have an opportunity to secure a deal for further franchising which would deliver significant P&L benefit through our DMB Programme and also address our concerns regarding customer service across the WH Smith Post Office estate. These negotiations are moving quickly and we will provide a verbal update in the Board meeting.
- We have strengthened the Retail Leadership through recent new external appointments to include: Retail CIO, Liz Robson, (previously at Shop Direct and Halfords); Network & Sales Director, Amanda Jones, (was COO at Conviviality having also been at Nisa, John Lewis and Waitrose); Retail HR Director, Lisa Cherry (formerly at Wyevale Garden Centres, WH Smith and Sainsbury); and Head of Automation, Lisa Watkins, (who led the roll-out of self-service for Tesco). We are also in the process of hiring for the new role of Franchise Director.
- Payzone: We have completed 8 weeks of pre-notification dialogue with CMA. Key questions focused on mobile top market and parcel drop off/returns. This has now progressed into Phase 1 which ends on 19 Oct. There will be 3 potential outcomes; i) unconditional approval, ii) conditional approval, iii) request to progress to Phase 2. We have received positive endorsement from

key bill payment clients and retailers, and the team remain confident in receiving unconditional approval to the acquisition.

- Payzone trading performance is slightly behind 2018 forecasts with P10 YTD (July) EBITDA at £2.9m (-1.8% / -£54k). This is driven by slightly lower than planned mobile top-up revenue. Costs are in line with forecasts. In dialogue with Payzone senior management, an additional 800 agents have been added to the network and they anticipate performance to full year end (Sept) in line with full year forecasts. The core program team are focused on Day 1 readiness and all major work-streams are on track.

#### • **Industrial Relations**

- Pay talks with CWU are on-going. The pay anniversary date for non-managers was 1<sup>st</sup> April 2018. Initially, their request was for an "RPI plus" pay award over 2 years. They are now proposing a 1 year deal at 3.2% (Indications are that they would settle for 3%).
- Our position has been to offer the same 2 year deal we have agreed with Unite for middle managers. (18/19 – 2.6% / 19/20 – 2.5%). We have been open about considering flexing the proposed increase over the two year period but working within the overall quantum that is on offer.
- In the event we are unable to reach a collective bargaining agreement we are taking legal advice regarding the risks associated with imposing the deal. Imposition of pay would lead to a ballot for industrial action.
- CWU also continue to encourage us to sign up to a Collective Defined Contribution pension scheme, having made conference policy to deliver such an agreement with PO. This proposed scheme has not yet been passed as legislation; we are working with our Actuaries to understand how the CDC scheme would operate in the Post Office before giving a full response to CWU.
- It is likely that CWU will attempt to join up issues over pay, pensions and franchising. The IR team's assessment is that CWU will want to cause maximum PR damage to coincide with the Group Litigation in November.
- Should CWU ballot for Industrial Action (IA) it is unlikely to have too detrimental an effect upon customers and the network; contingency plans are currently in place to mitigate sporadic and discontinuous IA.
- If necessary and reluctantly, I would consider a different deal to avoid significant IA during the GLO: protection of the overall business being most important. At present, this is not looking necessary.

# IRRELEVANT

# IRRELEVANT

- **New Leadership group & Strategic view**

→ As part of the work started on culture, we have brought together the senior leaders of the Post Office to form a small subset group of 50 comprising of some of the direct reports of the Group Executive. Recognising the importance of this group to delivering our North Star strategy, we initially plan to focus efforts on this group to develop their Leadership capabilities and ensure that they have a cohesive view of the business strategy and agenda. Some of the activity we have already initiated with them includes regular leadership huddles, 360° feedback process and our first two day Leadership event on 2/3<sup>rd</sup> October, where we will look at future disrupters, a customer first culture, talent and resource requirements, digital and data focus. Mo Kang will be leading subsequent GE work on organisational shape.

## RISKS OR CONCERNS?

- **Group Litigation Order (GLO)**

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

- **Brexit**

→ Work is underway to assess impact of Brexit– particularly in light of the possibility of a 'hard Brexit'. This is being undertaken via a series of business wide workshops coordinated through the Risk team and is considering strategic, operational and financial risks as well as commercial opportunities. We are liaising and sharing information with government, and taking advantage of the work of other commercial organisations such as the CBI. The output from these workshops will be incorporated into the Budget planning cycle for 2019-20, and we will provide an update to the ARC in October on key risks that have been identified, although assessment and planning work will continue as greater detail emerges from government.

# August 2018 (P5) – Financial Performance

Author: Micheal Passmore

Sponsor: Alisdair Cameron

Meeting date: 25 September 2018

## Executive Summary

### Context

The purpose of this paper is to summarise our financial performance in P5, highlighting issues and implications. A more detailed slide-deck, used across the Finance community, is attached.

### What is our financial performance in P5 and YTD?

£m	Period 5				Year to Date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Retail	43.1	41.5	1.6	3%	229.9	229.0	0.9	0%
FS&T (incl. Insurance)	25.1	26.7	(1.7)	-4%	135.6	140.1	(4.4)	5%
Telco overstatement	0.0	0.4	(0.4)	n/a	0.0	2.1	(2.1)	n/a
Identity	4.7	3.5	1.2	37%	25.1	22.3	2.8	10%
Supply Chain/Other	1.0	1.1	(0.0)	-1%	5.5	5.8	(0.4)	-6%
<b>Total Revenue</b>	<b>73.9</b>	<b>73.2</b>	<b>0.6</b>	<b>2%</b>	<b>396.1</b>	<b>399.2</b>	<b>(3.1)</b>	<b>2%</b>
Cost Of Sales	(9.6)	(10.0)	0.4	-1%	(52.3)	(53.3)	1.0	5%
<b>Net Income</b>	<b>64.2</b>	<b>63.2</b>	<b>1.1</b>	<b>2%</b>	<b>343.7</b>	<b>345.8</b>	<b>(2.1)</b>	<b>2%</b>
Agents Pay	(27.4)	(28.0)	0.6	-4%	(147.7)	(150.6)	2.9	-5%
Staff Cost	(16.3)	(14.5)	(1.7)	12%	(78.2)	(76.4)	(1.8)	3%
Non staff Cost	(23.3)	(24.4)	1.1	3%	(121.9)	(126.6)	4.7	3%
FRES	4.6	4.2	0.4	60%	18.5	18.0	0.5	35%
Other Income	1.2	1.0	0.2	n/a	5.7	5.2	0.6	n/a
<b>Trading Profit</b>	<b>3.1</b>	<b>1.5</b>	<b>1.6</b>	<b>n/a</b>	<b>20.2</b>	<b>15.4</b>	<b>4.7</b>	<b>n/a</b>
Network Subsidy Payment	4.6	4.6	0.0	-14%	25.4	25.4	0.0	-14%
<b>EBITDA</b>	<b>7.7</b>	<b>6.1</b>	<b>1.6</b>	<b>37%</b>	<b>45.6</b>	<b>40.8</b>	<b>4.7</b>	<b>36%</b>
Depreciation	(8.1)	(5.2)	(3.0)	n/a	(29.4)	(23.6)	(5.9)	n/a
Interest	(0.7)	(0.5)	(0.2)	84%	(3.5)	(2.6)	(0.9)	121%
Change Spend	(4.0)	(3.8)	(0.2)	-78%	(28.6)	(40.6)	12.0	-30%
Investment Funding	16.9	16.9	0.0	n/a	73.1	73.1	0.0	n/a
Profit On Asset Sale	0.0	0.0	0.0	n/a	0.8	0.0	0.8	-55%
<b>Profit Before Tax</b>	<b>11.7</b>	<b>13.5</b>	<b>(1.8)</b>	<b>n/a</b>	<b>58.0</b>	<b>47.1</b>	<b>10.8</b>	<b>n/a</b>

P5 revenue was £73.9m, £0.6m favourable to plan in the month. This was driven by a one-off accrual release of £1.5m following the successful conclusion of the RMG SSK negotiations. Underlying revenue, when you also exclude the Telco budget understatement, is £0.5m adverse in the period and £2.5m adverse YTD but 2% up year on year; the main yoy growth areas are Banking, Mails, Telephony (New Call acquisition timing) and Verify, with the key decline items being in POCa and Home Office.

P5 trading profit was £3.1m, £1.6m better than plan. As with revenue, the result was helped by the accrual release but we also saw one off costs including bonus catch up within staff costs. YTD trading profit of £20.2m is £4.7m ahead of plan, despite the £2.1m telco budget error.

YTD Mails is in line with budget and YoY growth expectations.

Travel money continues to track behind budget as Travel Money Online sales were 28% short of budget. Although Travel Money Card shows a slight positive YoY trend in value



terms, the 18/19 budget included a planned 22% increase in new card sales which has not been achieved.

Travel insurance has suffered from the same trends, leaving PO Insurance trading profit £0.5m adverse in the period in spite of lower marketing spend. Volumes from sales, digital and branch combined were 23k adverse to plan; aggregators were 6k favourable but attract higher costs of sale. A deep dive review is planned given the long term plan is for Insurance to grow margin through marketing.

The Telco performance is under pressure. Underlying ARPU is down contributing to £0.5m adverse variance in period; £2.1m YTD. Customers are now 11k behind plan at 497K: competitors are increasingly effective at saving customers we think we have won. A price increase is planned in November to mitigate the ARPU gap but this could increase pressure on customer numbers.

Banking services was adverse to plan in the period but remains favourable YTD due to continued strong deposit growth (+18% on plan).

POCa revenue has started to recover as the higher price has been triggered.

Verify has continued its strong growth, exceeding budget by £0.6m in the month, and £1.6m YTD. YoY volumes have more than doubled, primarily driven by Universal Credit applicants who can now use Verify, and which commands the higher Level of Assurance (LoA2) fee. Post Office continues to be the market leader with market share now at 53% and a conversion rate of 54% for LoA2s. However, we have now received the re-pricing from GDS and it is very severe. We are reviewing the implications.

Non-staff costs was £4.7m favourable YTD and this was a result of reduced Post office Insurance marketing spend and earlier delivery of IT cost saving initiatives which were budgeted for in the second half.

Network numbers (July) were 11,561, being 61 above the commitment and an increase of 14 compared to year end. The reduction of 31 from June driven by 63 temporary closures, 23 re-openings and 9 new network locations. The scale of drop was greater than expected by c. 10 as a result of higher audit closures and a mobile van off-line (6 branches).

Depreciation is higher than budgeted due to IT projects going Live following delivery, earlier than expected. The full year impact is being assessed.

YTD Change spend (Capex and Exceptional) was £84.5m, £2.2m ahead of forecast (£33.6m behind budget). Although the change spend was more or less in line with the latest forecast, there was a delay of DMB provision calculation and accounting offset by higher than expected spend in EUC branch deployment following settlement with Computercenter.

Net funding position has increased by £70m from year end due to delay in £55m Q2 investment funding and FX growth for the summer campaign.

## Conclusion

Overall, we remain ahead of plan with underlying performance broadly in line. However, given the headwinds in Insurance and Identity and the expectation that Project Everest will not deliver the planned reductions in IT costs, we now expect the ahead of plan performance to reverse in H2. We will do a full re-forecast after the P6 results.

## Input sought

The Board is asked to note the financial performance.





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# **Period 5 FY18/19 Financial Performance**

**25 September 2018**

## P5 Scorecard

Pressure emerging on network numbers, change benefits and IT performance



Post Office Business Scorecard - FY18/19

Key Performance Indicators						Period 5				Year to Date				Full Year
Measures	BU	Actual	Target	Var	RAG	Actual	Target	Var	RAG	Actual	Target	Var	RAG	Target FY18/19
<b>Deliver Profit</b>														
Total Gross Income (excl NSP) £m	All	73.9	73.2	0.6	●	396.1	399.2	(3.1)	●					965.1
Trading Profit £m	All	3.1	1.5	1.6	●	20.2	15.4	4.7	●					50.0
Headroom £m (vs Board minimum limit)	All					269	200	69	●					> £200m
Change benefit delivery £m (WIP)	All	1.3	2.3	(1.0)	●	11.8	13.0	(1.2)	●					40.2
Mails - Total Labels Volume m	Retail	13.6	13.9	(0.3)	●	75.4	76.4	(1.0)	●					193.0
Mails - Home Shopping Returns Volume m	Retail	3.7	3.2	0.5	●	20.4	17.5	2.9	●					45.0
Banking Volume (m)	Retail	9.5	9.7	(0.1)	●	54.1	53.9	0.2	●					130.2
Closing Telecoms Customer Base (#)	FS&T	497,707	508,802	(11,095)	●									494,823
<b>Grow our Network - Customer</b>														
Number of Branches (mth in arrears)	Retail	11,561	11,500	61	●									11,500
Branch Availability	F&O/IT	TBC	TBC			TBC	TBC							TBC
<b>Become the Partner of Choice - Customer</b>														
Ease of Doing Business with (Effort)	Retail	84.4%	82.0%	2.4%	●	83.0%	82.0%	1.0%	●					82%
No. of Horizon Customer Sessions	Retail	39.9	0.0			219.9	0.0							0.0
# of Sev1/Sev2 Incidents (Rolling average)	IT					11	8	(3)	●					<8
Overall IT Supplier SLA Achievement (mth in arrears)	IT	97.0%	99.0%	(2.0%)	●	97.6%	99.0%	(1.4%)	●					99%
Actual Incident Volumes (Rolling average to July)	IT					11,109	10,000	(1,109)	●					<10,000

**Change benefit delivery** – YTD variance in delivered benefits is mainly driven from DMB (£0.7m) delays in onerous provision along with phasing of Network Delivery savings and POI (£0.5m) delay in projects delivering. All programmes are committed to full benefit delivery in the year.

**No. of Horizon Customer Sessions** – there is currently no target set and historical data only available for last 90 days. Exploring possibility of retrieving archived data in order to set appropriate target.

**# of Sev1/Sev 2 Incidents** – 12 high severity incidents in July; decrease of 6 from June.

**Actual Incident Volumes** have increased to 10,356 in July from 10,283 in June.

## P5 Scorecard

Digital sales channel remains behind, absence has improved



### Post Office Business Scorecard - FY18/19

Key Performance Indicators						Period 5				Year to Date				Full Year
Measures	BU	Actual	Target	Var	RAG	Actual	Target	Var	RAG	Actual	Target	Var	RAG	Target FY18/19
<b>Digital Innovation - Customer</b>														
Trading income from customer Hub (£m)	FS&T	0.0	0.1	(0.1)	●	0.0	0.5	(0.5)	●					1687
# of Registered customers on app	FS&T	27800	42579	(14,779)	●	42674	99220	(56,546)	●					
# of All Product pages website visits	All	2,845,968	2,071,137	774,831	●	11,043,019	9,644,070	1,398,949	●					20,461,075
Website Conversion ratio	All	8.1%	10.7%	(2.6%)	●	9.8%	10.1%	(0.3%)	●					10.0%
<b>Care for our People</b>														
Line Manager Index <sup>1</sup>	All				●	69%	62%	7%	●					62%
Female Representation in Senior Roles (3a & above) <sup>2</sup>	All				●	40.4%	41.0%	(0.6%)	●					43.0%
BAME Representation in Senior Roles (3a & above) <sup>3</sup>	All				●	9.0%	9.3%	(0.3%)	●					11.1%
Senior Vacancies filled by Internal Talent	All	12.5%	50.0%	(37.5%)	●	49.3%	50.0%	(0.7%)	●					50.0%
Absence	All	3.2%	3.3%	0.1%	●	3.2%	3.3%	0.1%	●					3.3%
Safety LTIFR	F&O	0.000	0.200	0.200	●	0.143	0.200	0.057	●					0.200

1. Line manager Index calculation is based on the weighted average results

2. Our ambition is to achieve 50% by 2020. Full year target of 43% is based on a linear increase over 3 years; this equates to replacing 16 Males with Females in Year 1 based on 460 population. Discussion to be held over changing Senior Roles to Level 4 and above (population would decrease 250 and female ratio would be 30%).

3. c.14% is the percentage of people in the UK who describe themselves as BAME. (Source: Most recent ONS Census, 2011). Our ambition is to achieve 14% by 2020. Full year target of 11.1% is based on a linear increase over 3 years; this equates to replacing 11 white to BAME in Year 1 based on 460 population. Discussion to be held over changing Senior Roles to Level 4 and above.

**Absence** – P5 absence split by short term (0.71%) and long term (2.47%). Monthly absence has reduced from 3.36% in P4. YTD absence remains under target at 3.23%.

**Safety LTIFR** - There were 5 employee related accidents in Post Office during P5 compared to 11 during P5 in prior year. There were zero lost time accidents in P5 and there have been a total of 5 YTD against 10 YTD in FY17/18.



## P5 Trading Profit +£1.6m v Budget; YTD +£4.7m

£m	Period 5				Year to Date				P5 YTD Variance Analysis		
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY	Timing	One-off	Underlying
Retail	43.1	41.5	1.6	3%	229.9	229.0	0.9	0%		1.5	(0.6)
FS&T (excl. Telco overstatement)	20.7	21.5	(0.8)	-5%	111.5	114.0	(2.5)	4%			(2.5)
Telco overstatement	0.0	0.4	(0.4)	n/a	0.0	2.1	(2.1)	n/a			(2.1)
PO Insurance	4.3	5.2	(0.9)	-3%	24.1	26.1	(2.0)	11%			(2.0)
Identity	4.7	3.5	1.2	37%	25.1	22.3	2.8	10%			2.8
Supply Chain/Other	1.0	1.1	(0.0)	-1%	5.5	5.8	(0.4)	-6%			(0.4)
<b>Total Revenue</b>	<b>73.9</b>	<b>73.2</b>	<b>0.6</b>	<b>2%</b>	<b>396.1</b>	<b>399.2</b>	<b>(3.1)</b>	<b>2%</b>	<b>0.0</b>	<b>1.5</b>	<b>(4.6)</b>
Cost Of Sales	(9.6)	(10.0)	0.4	-1%	(52.3)	(53.3)	1.0	5%	0.3		0.7
<b>Net Income</b>	<b>64.2</b>	<b>63.2</b>	<b>1.1</b>	<b>2%</b>	<b>343.7</b>	<b>345.8</b>	<b>(2.1)</b>	<b>2%</b>	<b>0.3</b>	<b>1.5</b>	<b>(3.9)</b>
Agents Pay	(27.4)	(28.0)	0.6	-6%	(147.7)	(150.6)	2.9	-8%			2.9
Staff Cost	(16.3)	(14.5)	(1.7)	10%	(78.2)	(76.4)	(1.8)	2%	(0.7)	(1.5)	0.4
Non staff Cost	(23.3)	(24.4)	1.1	3%	(121.9)	(126.6)	4.7	3%	1.1	(0.1)	3.7
FRES	4.6	4.2	0.4	60%	18.5	18.0	0.5	35%			0.5
Other Income	1.2	1.0	0.2	n/a	5.7	5.2	0.6	n/a			0.6
<b>Trading Profit</b>	<b>3.1</b>	<b>1.5</b>	<b>1.6</b>	<b>n/a</b>	<b>20.2</b>	<b>15.4</b>	<b>4.7</b>	<b>n/a</b>	<b>0.7</b>	<b>(0.1)</b>	<b>4.1</b>

£1.6m variance to budget driven by income one-off of £1.5m with RMG, offset by one-off costs of £1.3m.

Agents pay continues to benefit from new understanding on the system.

# Retail Scorecard

Mails volumes are holding up



	Period 5				Year to Date				Full Year
	Actual	Budget	Variance	RAG	Actual	Budget	Variance	RAG	Budget
Gross Income £m	43.1	41.5	1.6	●	229.9	229.0	0.9	●	568.6
Trading Profit £m	11.6	7.9	3.7	●	54.8	48.6	6.2	●	128.2
Mails - Priority Volume m	8.6	8.9	(0.3)	●	48.3	49.6	(1.3)	●	121.0
Mails - Total Labels Volume m	13.6	13.9	(0.3)	●	75.4	76.4	(1.0)	●	193.0
Mails - Click & Collect Volume m	0.3	0.3	0.0	●	1.6	1.4	0.2	●	4.1
Mails - Home Shopping Returns Volume m	3.7	3.2	0.5	●	20.4	17.5	2.9	●	45.0
Banking All Transactions Volume m	9.5	9.7	(0.1)	●	54.1	53.9	0.2	●	130.2
Payments Volume m	0.0	0.0			0.0	0.0			0.0
No. of Horizon Customer Sessions	39.9	0.0			220	0.0			0.0
No. of Retail Transactions per session	1.6	0.0			0.0	0.0			0.0
Ease of Doing Business with (Effort)	84.4%	82.0%	2.4%	●	83.0%	82.0%	1.0%	●	82.0%
Customer Drivers	88.0%	0.0%			87.0%	0.0%			0.0%
No. Complaints*	3,318	0.0			10,975.0	0.0			0.0
Number of Branches (mth in arrears)	11,561	11,500	61	●					11,500
NNL Builds	18	6	12	●	115	113	2	●	338
Branch standards - Losses Identified in Audit*	0.8	0.0			2.9	0.0			0.0

\*month in arrears





**Retail: P5 Trading Profit £3.7m favourable to budget; YTD +£6.2m**  
£1.5m SSK accrual release; POCa continues to recover; DMB pay award accrual catch up

£m	Period 5				YTD			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Mails Trading	20.5	20.4	0.1	5%	112.6	113.5	(0.9)	4%
Mailwork	0.8	0.8	0.0	0%	4.2	4.2	(0.0)	0%
Mails Other	1.5	0.0	1.5	① n/a	1.5	0.0	1.5	n/a
RM Annual Fee & Count	3.6	3.5	0.1	-7%	19.7	19.0	0.7	-7%
Gift Cards	0.3	0.2	0.0	18%	1.6	1.7	(0.1)	11%
Lottery	2.4	2.1	0.3	6%	12.9	11.5	1.3	-3%
POCa	2.8	2.6	0.1	-21%	12.8	13.4	(0.6)	-29%
Payment Services	1.7	1.9	(0.2)	② -18%	10.1	10.5	(0.3)	-10%
ATMs	2.1	2.4	(0.2)	③ -8%	12.3	13.2	(0.8)	-7%
Banking Services	7.2	7.2	(0.1)	5%	40.8	40.2	0.6	14%
Other Retail	0.2	0.3	(0.1)	④ -63%	1.4	1.8	(0.4)	-57%
<b>Total Revenue</b>	<b>43.1</b>	<b>41.5</b>	<b>1.6</b>	<b>3%</b>	<b>229.9</b>	<b>229.0</b>	<b>0.9</b>	<b>0%</b>
Cost Of Sales	(1.7)	(1.8)	0.1	-26%	(8.8)	(9.2)	0.4	-25%
<b>Net Income</b>	<b>41.4</b>	<b>39.7</b>	<b>1.7</b>	<b>4%</b>	<b>221.1</b>	<b>219.8</b>	<b>1.3</b>	<b>1%</b>
Agents Pay	(21.6)	(23.3)	1.7	-24%	(124.1)	(126.6)	2.5	-20%
Staff Cost	(6.6)	(5.8)	(0.8)	⑤ -4%	(33.0)	(32.2)	(0.8)	-6%
Staff & Agent Related Costs	(0.2)	(0.2)	0.0	-32%	(0.9)	(1.0)	0.1	1%
Brand & Marketing	(0.1)	(0.2)	0.1	-63%	(0.4)	(0.9)	0.5	-13%
Consultancy & Advisory Services	(0.0)	(0.0)	0.0	15948%	(0.2)	(0.1)	(0.1)	-75%
IT Infrastructure & IT Services	(0.4)	(0.2)	(0.2)	-97%	(1.4)	(0.8)	(0.6)	-88%
Managed Services - Penalties	(0.4)	(0.4)	(0.0)	-100%	(2.0)	(2.0)	(0.0)	-100%
Postage	(0.6)	(0.5)	(0.0)	-61%	(2.7)	(2.7)	(0.0)	-60%
Finance & Losses	(0.8)	(1.4)	0.6	⑥ 67%	(5.4)	(6.6)	1.2	7%
Change Opex	0.0	(0.4)	0.4	n/a	0.0	(2.0)	2.0	n/a
Other Non-Staff Cost	(0.3)	(0.3)	(0.0)	-18%	(1.8)	(1.5)	(0.3)	-19%
Other Income	1.2	1.0	0.2	n/a	5.7	5.2	0.6	n/a
<b>Trading Profit</b>	<b>11.6</b>	<b>7.9</b>	<b>3.7</b>	<b>n/a</b>	<b>54.8</b>	<b>48.6</b>	<b>6.2</b>	<b>n/a</b>

- ① SSK accrual release.
- ② Payment services was adverse in period due to Co-op volumes which were expected to come through other resellers not materialising.
- ③ ATMs' performance adverse to budget driven by below budget volumes (-0.8m) and availability rates below budget at 94.4%.
- ④ Banking services adverse in period due to seasonal activity. YTD remains favourable due to continued strong deposit volumes (+18% on plan).
- ⑤ Staff costs are adverse to budget in period due to catch up of DMB pay award accrual. YTD staff cost variance relates to timing of efficiency savings in network and sales.
- ⑥ Non staff costs are favourable due to release of card processing fee accrual due to lower than anticipated average transaction value.

**FS&T Scorecard**

Telco and Travel Money under pressure



	Period 5				Year to Date				Full Year	
	Actual	Budget	Variance	RAG	Actual	Budget	Variance	RAG	Budget	
Value of Mortgage Applications (£m)	229	287	(58)	●	787	1,050	(263)	●	3,050	
Value of Mortgage Completions (£m)	66	201	(136)	●	365	735	(370)	●	2,135	
Total value of Savings balances (£m)	14,300	14,100	200	●	14,300	14,100	200	●	TBC	
Number of new Credit Card applications	7,916	7,044	872	●	27,631	38,740	(11,109)	●	91,568	
Credit Card application accept rate	77%	58%	19%	●	73%	58%	16%	●	58%	
Number of new Loan applications	5,902	5,404	498	●	34,535	29,724	4,811	●	71,608	
Loan application accept rate	52%	58%	(5)%	●	58%	58%	1%	●	58%	
Travel Money On Demand sales transaction volume	TBC	TBC			TBC	TBC			7,016	
Travel Money On Demand sales transaction ATV	306	266	40	●	306	266	40	●	266	
Number of MoneyGram Send transactions	196,109	209,096	(12,987)	●	1,155,974	1,169,811	(13,837)	●	2,895,484	
Closing Telecoms Customer Base (#)	497,707	508,802	(11,095)	●	497,707	508,802	(11,095)	●	494,823	
Telecoms ARPU	25.16	25.64	(0.48)	●	25.16	25.64	(0.48)	●	27.10	
Telecoms Customer Churn	(1.9)%	(1.6)%	(0.3)%	●	(8.7)%	(7.4)%	(1.3)%	●	(17.8)%	
Net Telecoms customer additions	(722)	1,776	(2,498)	●	(8,868)	9,389	(18,257)	●	(4,590)	
Net Promotor Score (Telecoms)	TBC	TBC			TBC	TBC			TBC	
Number of Postal Orders sold	213,270	217,096	(3,826)	●	1,217,126	1,241,126	(24,000)	●	2,800,000	
Policies Sold: Post cooling off period (k)	109	121	(12)	●	545	558	(13)	●	997	
Policies Renewed (k)	22	22	0	●	123	123	0	●	275	
Policies in-Force "live" (k)	689	704	704	●	689	704	704	●	684	
Net Promotor Score (Post Office Insurance)	36	36	36	●	36	36	36	●	36	

**FS&T: P5 Trading Profit (£2.0m) adverse to budget; YTD (£2.1m)**

Travel money and Telephony continue to track below budget due to lower value of sales and reduced customer numbers



£m	Period 5				Year to Date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
PO Money (Savings, Loans)	3.4	3.2	0.2	-11%	18.1	17.9	0.2	-4%
Travel Money	2.9	3.3	(0.5)	① 6%	13.6	14.8	(1.2)	9%
MoneyGram	1.9	2.1	(0.1)	② -1%	11.0	10.9	0.2	0%
Telephony	11.6	12.0	(0.5)	-5%	63.3	65.3	(2.1)	9%
Telephony Overstatement	0.0	0.4	(0.4)	n/a	0.0	2.1	(2.1)	n/a
Postal Orders	1.0	0.9	0.0	-14%	5.5	5.1	0.4	-15%
<b>Total Revenue</b>	<b>20.7</b>	<b>21.9</b>	<b>(1.2)</b>	<b>-5%</b>	<b>111.5</b>	<b>116.1</b>	<b>(4.6)</b>	<b>4%</b>
Cost Of Sales	(6.7)	(7.1)	0.4	③ 5%	(36.6)	(38.1)	1.5	12%
<b>Net Income</b>	<b>14.0</b>	<b>14.8</b>	<b>(0.8)</b>	<b>-8%</b>	<b>74.9</b>	<b>77.9</b>	<b>(3.0)</b>	<b>1%</b>
Agents Pay	(5.2)	(4.1)	(1.0)	④ n/a	(19.2)	(19.7)	0.5	n/a
Staff Cost	(1.1)	(0.8)	(0.3)	⑤ 25%	(4.4)	(4.0)	(0.4)	-8%
Staff & Agent Related Costs	0.0	0.0	(0.0)	69%	(0.3)	(0.1)	(0.2)	-17%
Brand & Marketing	(0.7)	(0.7)	0.0	-49%	(3.9)	(3.5)	(0.4)	-28%
Consultancy & Advisory Services	(0.1)	(0.4)	0.2	76%	(0.9)	(1.7)	0.8	-96%
IT Infrastructure & IT Services	0.2	(0.1)	0.2	136%	(0.3)	(0.4)	0.1	123%
Managed Services	(2.4)	(2.2)	(0.3)	-12%	(10.9)	(11.4)	0.5	-9%
Postage	(0.2)	(0.2)	(0.0)	39%	(1.4)	(1.3)	(0.1)	24%
Finance & Losses	(0.7)	(0.3)	(0.4)	⑥ 03%	(1.5)	(1.4)	(0.2)	-4%
Other Non Staff Cost	(0.0)	(0.0)	(0.0)	-181%	(0.1)	0.1	(0.2)	64%
FRES	4.6	4.2	0.4	⑦ 60%	18.5	18.0	0.5	35%
<b>Trading Profit</b>	<b>8.3</b>	<b>10.3</b>	<b>(2.0)</b>	<b>-43%</b>	<b>50.4</b>	<b>52.5</b>	<b>(2.1)</b>	<b>-24%</b>

- ① Travel money continues to underperform due to lower value of sales.
- ② MoneyGram Average Rate per Transaction continues to come in below plan which is driving a potential risk to income.
- ③ Cost of sales favourable in period due to reduced take up of Galaxy offer together with lower Telecoms customer number than expected.
- ④ Agent's Pay includes remains favourable YTD, reflecting the lower value of sales than expected.
- ⑤ Permanent staff costs are on budget. Staff costs also includes skills group contractors which is driving adverse variance.
- ⑥ Operating expenses adverse in period to due foreign exchange revaluation.
- ⑦ FRES profit share reflects FRES' actual position.

## Post Office Travel App

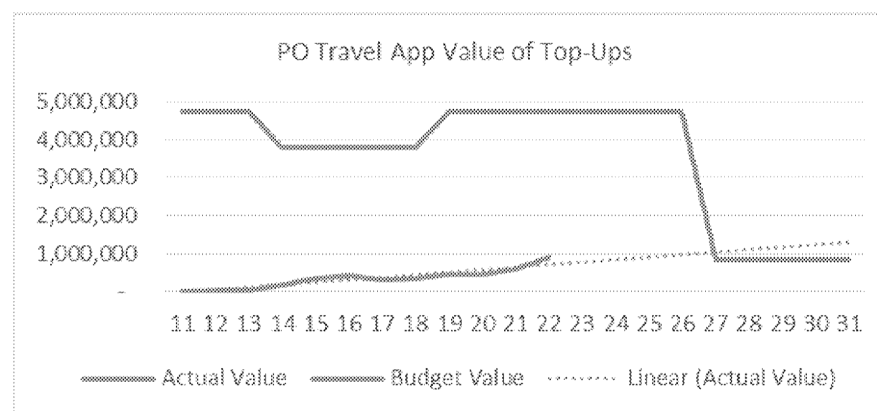
YTD income from Travel App top-ups £330k below budget; extrapolated at current rate YTG risk of £770k although revised targets are being worked on



Period	Week	Top-Up Volume			Top-Up Value			Top-Up Revenue			Agent's Pay		
		Top-Up Volume	Bud	Var	Act	Bud	Var	Act	Bud	Var	Act	Bud	Var
<b>3</b>	<b>Total</b>	<b>233</b>	<b>78,203</b>	<b>(77,970)</b>	<b>59,716</b>	<b>18,925,170</b>	<b>(18,865,453)</b>	<b>373</b>	<b>118,282</b>	<b>(117,909)</b>	<b>(746)</b>	<b>0</b>	<b>(746)</b>
<b>4</b>	<b>Total</b>	<b>6,053</b>	<b>78,203</b>	<b>(72,150)</b>	<b>1,523,405</b>	<b>18,925,170</b>	<b>(17,401,765)</b>	<b>9,521</b>	<b>118,282</b>	<b>(108,761)</b>	<b>(19,043)</b>	<b>0</b>	<b>(19,043)</b>
5	19	1,785	19,551	(17,766)	452,558	4,731,292	(4,278,734)	2,828	29,571	(26,742)	(5,657)	0	(5,657)
5	20	1,858	19,551	(17,693)	456,559	4,731,292	(4,274,733)	2,853	29,571	(26,717)	(5,707)	0	(5,707)
5	21	2,443	19,551	(17,108)	593,512	4,731,292	(4,137,780)	3,709	29,571	(25,861)	(7,419)	0	(7,419)
5	22	3,781	19,551	(15,770)	883,979	4,731,292	(3,847,313)	5,525	29,571	(24,046)	(11,050)	0	(11,050)
<b>5</b>	<b>Total</b>	<b>9,867</b>	<b>78,203</b>	<b>(68,336)</b>	<b>2,386,608</b>	<b>18,925,170</b>	<b>(16,538,562)</b>	<b>14,916</b>	<b>118,282</b>	<b>(103,366)</b>	<b>(29,833)</b>	<b>0</b>	<b>(29,833)</b>
	<b>YTD</b>	<b>16,153</b>	<b>234,610</b>	<b>(218,457)</b>	<b>3,969,729</b>	<b>56,775,509</b>	<b>(52,805,780)</b>	<b>24,811</b>	<b>354,847</b>	<b>(330,036)</b>	<b>(49,622)</b>	<b>0</b>	<b>(49,622)</b>

①

①



### Financial Performance

The Post Office Travel App was launched on 21<sup>st</sup> June. To date (3/9) there are 45k unique registered users with 65k linked cards and 900 Travel Insurance policies sold.

There were 10k TMC top-ups in P5 with a value of £2.3m, earning POL commission of £15k.

A weekly Hub trading committee has been set up and initiatives have been identified to increase traffic, downloads and sales. The main focus is to increase the app download ratio which is currently 27% vs the old TMC app.

① Customers are still referred in branch so there is agents pay due on the Top ups. Revenue is earned at 0.625% of top up value; agents pay is paid at 1.25%.

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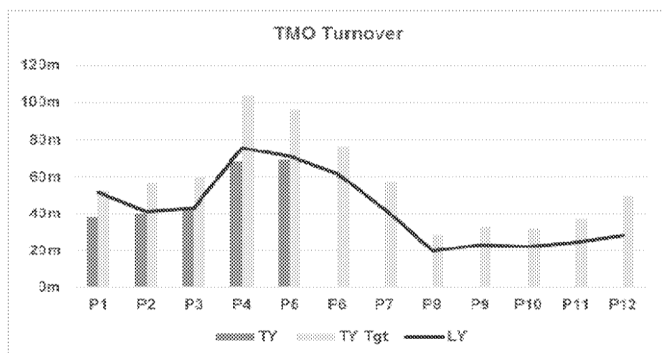
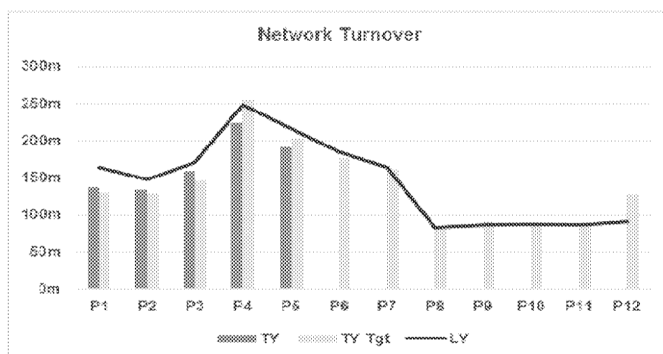


## Travel Money Sales

TMO sales short of target; TMC positive YoY trend but remains below budget



	P5					P5 YTD				
	Actual	Target	%	FY17/18	TY v LY %	Actual	Target	%	FY17/18	TY v LY %
TMC	£53m	£58m	92%	£49m	109%	£198m	£238m	83%	£188m	105%
On Demand	£192m	£203m	94%	£216m	89%	£846m	£863m	98%	£947m	89%
TMO	£69m	£96m	72%	£71m	98%	£258m	£369m	70%	£282m	91%
<b>Total</b>	<b>£314m</b>	<b>£357m</b>	<b>88%</b>	<b>£335m</b>	<b>94%</b>	<b>£1,301m</b>	<b>£1,474m</b>	<b>88%</b>	<b>£1,416m</b>	<b>92%</b>



### Sales Performance

The assumed growth of TMC and revived growth of TMO sales continue to fall short of expectations and as a result P5 turnover is currently short of budget by £10m (13%)

Although TMC shows a slight positive YoY trend in value terms, the 18/19 budget included a planned 22% increase in new card sales. We are currently tracking 9% behind YTD value target and 62k below in new cards volumes.

TMO sales were £36m, or (28)% short of target so far in P5 with turnover currently trending c.31% behind target. The full year target assumed a 25% increase in turnover from £497m to £618m, however volumes are tracking 6% down YoY.

Note: Network sales figures include Click & Collect, however C&C targets are included in Online.





## Telephony Analysis

Customer gap is expanding; potential YTG risk of c. £285k

	P1	P2	P3	P4	P5	YTD
<b>Actual</b>						
end of period customer	502,996	501,222	499,367	498,429	497,707	
Avg. customer	504,785	502,109	500,295	498,898	498,068	847,715
ARPU	25.7	23.7	25.0	24.5	25.2	24.8
Revenue	14,939,259	10,976,713	11,518,232	14,079,313	11,535,746	63,049,264
P1 impact (adjusted in P2, P4)	(754,000)	600,000	0	177,889	0	23,889
Underlying Revenue	14,185,259	11,576,713	11,518,232	14,257,202	11,535,746	63,073,152
Underlying ARPU	24.4	25.0	25.0	24.8	25.2	24.8
<b>Budget</b>						
end of period customer	501,588	502,652	504,617	507,026	508,802	
Avg. customer	498,205	502,120	503,635	505,821	507,914	851,908
ARPU	25.6	26.5	26.5	26.6	26.4	26
Revenue	14,696,979	12,246,631	12,275,725	15,456,042	12,357,584	67,032,961
Impact in budget	(432,499)	(360,174)	(375,550)	(488,817)	(406,504)	(2,063,543)
Restated Revenue	14,264,480	11,886,457	11,900,176	14,967,225	11,951,080	64,969,417
Restated ARPU	24.9	25.7	25.7	25.7	25.6	25.4
<b>Underlying customer Gap</b>	1,408.0	(1,430.2)	(5,250.0)	(8,596.9)	(11,094.7)	(4,192.8)
<b>Underlying ARPU Gap</b>	0.8	(2.0)	(0.7)	(1.2)	(0.4)	(0.6)
<b>Underlying Revenue gap</b>	(79,221)	(309,744)	(381,943)	(710,022)	(415,334)	(1,896,265)
<b>o/w volume</b>	40,314	(33,857)	(124,050)	(254,381)	(261,056)	(633,029)
<b>o/w rate</b>	(119,535)	(275,887)	(257,893)	(455,642)	(154,278)	(1,263,236)

P5 gap predominantly from volume – c. 11k customer gap (£260k)

YTD gap predominantly from rate – c. £1.3m

YTG risk of c. £285k based on underlying customer gap at P5 and restated budget ARPU (11,094 x £25.6)

Planned pricing increase to mitigate ARPU could accelerate the widening customer number gap

## Telephony Base Summary

Improved acquisitions and retention rates has slowed base decline



P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	P12	P1	P2	P3	P4	P5
Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
464.7K	463.1K	461.5K	472.4K	518.0K	514.1K	510.4K	508.8K	508.2K	507.1K	506.8K	506.2K	504.4K	501.5K	500.1K	498.7K	498.1K

Average Base Size Since April 17

- In July last year the Post Office acquired the Fuel Telecoms base of 57k customers\*
- Since migration to the Post Office we have lost 18k Fuel Telecoms customers leaving 39k remaining on the base
- In late Q3 & Q4 17.18 the introduction of growth fund allowed us to stabilise the base by increasing adds
- Galaxy and Price rise has had further negative impacts on base volumes of around 4k to 5k
- In the last three months the base has stabilised and is now only marginally declining... but still declining
- **Further investment may be requested to grow the base.**

\*51k customers were paid for.



## Telephony Acquisitions

Orders up 27% YOY but adds up only 18% due to competitor retention activity



	Q1	Q2	H1		Q1	Q2	H1
Order Volumes	25K	32.0K FC	57.0K	Adds Volumes	20.9K	23.0K FC	43.9K
Budget	35.1K	35.6K	70.6K	Budget	27.5K	27.6K	55.1K
17.18 Performance	20.6K	21.0K	41.6K	17.18 Performance	17.9K	18.3K	36.2K
Variance to Budget	-10.0K	-3.6K	-13.6K	Variance to Budget	-6.6K	-4.6K	-11.2K
YOY Variance	4.4K	11.0K	15.4K	YOY Variance	3.0K	4.7K	7.7K
vs Budget	-29%	-10%	-19%	vs Budget	-24%	-17%	-20%
vs YOY	18%	34%	27%	vs YOY	14%	20%	18%

Order volumes are up 27% YOY (34% in Q2) but adds are only up by 18% YOY.

The variance in uplift from our gross orders and net adds position is due to increased competitor retention activity from the likes of Sky, Talk Talk and Plus Net (BT). This has meant we have lost between 4k to 5k of adds in H1.

At a channel level:

- **Contact Centre:** conversion is running 65% higher YOY but calls are down 17% YOY.
- **Online:** conversion nearly double YOY and traffic up 30% YOY
- **Branch:** adds are down 30% YOY but we have seen improvements since we introduced 'managers specials'

Overall a strong YOY performance but work to do to get back to budgeted levels

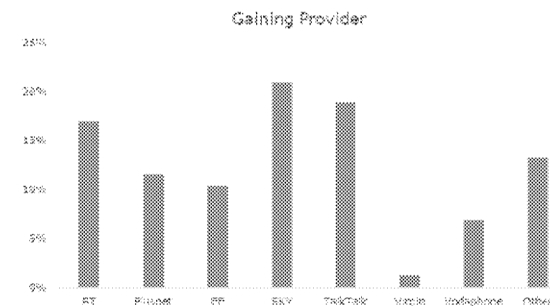


## Telephony Churn

H1 churn 15% down on budget but flat YOY, for which price rise was the key contributor



	Q1	Q2	H2
Churn Volumes	27.3K	23.8K	51.1K
Budget	19.3K	25.0K	44.3K
17.18 Performance	21.8K	28.3K	50.1K
Variance to Budget	8.1K	-1.2K	-6.7K
YOY Variance	5.5K	-4.5K	-1.0K
vs Budget	42%	-5%	15%
vs YOY	20%	-19%	2%



Galaxy and price rise have been key contributors to the churn miss YOY (circa 5k) of the remaining 1.7k deficit we are closing through improved contact centre conversion (up 12% YOY)

40% of our customers are moving to the major triple play providers (Sky, BT & Virgin), however only 1% move to Virgin which perhaps suggests that TV is the driver rather than Fibre or price.

The remaining 60% are moving to value players who are not major players in the TV space although may have an offering. In terms of product We believe that it will be a like for like product in the main but with fibre pricing coming down we would expect to see more customers move to fibre.

Our key point of leverage in this space is price which we hope to take advantage of through the new toolkit design.





# Telephony Q3 Core Trading Plan



23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	
September				October					November					December			
				Outbound Telemarketing Launch Phase 1 HGS – WK27 Cross Sell													
Direct Mail to Existing Post Office Customers WK23 Cross Sell																	
				Phix Flow– WK28 New Analytics platform (Gross to net)					Prop 2 Phase 2 – WK33 Launch of new product platform								
				No Match - WK27 Update to no match rules										New Product Test – WK36 Credit Declines			
				New Retention Toolkit– WK27 Newly designed toolkit to reduce in life churn													
Growth Fund TBC Aiming to Pitch for funds in September.																	
									Price Rise WK32 Base price rise								





## PO Insurance: P5 Trading Profit (£0.5m) adverse to budget; YTD (£0.1m)

Poor travel insurance performance; reduced brand and marketing spend but trading profit loss in period



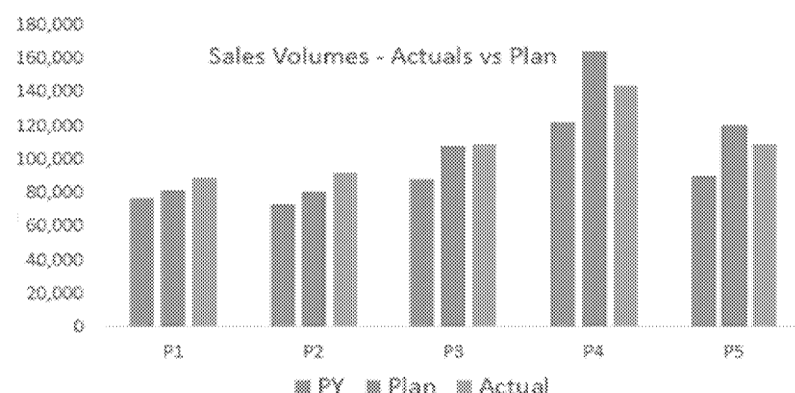
£m	Period 5				Year to Date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Travel Insurance	1.9	2.7	(0.8)	① -11%	10.0	12.3	(2.3)	19%
Car Insurance	0.8	0.8	0.0	-13%	4.6	4.4	0.2	-10%
Van Insurance	0.2	0.2	0.0	2%	1.1	1.1	0.0	7%
Home Insurance	0.8	0.8	(0.0)	8%	4.0	4.1	(0.1)	4%
Life - Over 50s	0.4	0.5	(0.1)	22%	3.2	3.2	(0.0)	43%
Life - SLI	0.2	0.2	(0.0)	99%	1.0	1.0	(0.0)	20%
Other Insurance	0.0	0.0	0.0	-11%	0.3	0.1	0.2	1%
<b>Total Revenue</b>	<b>4.3</b>	<b>5.2</b>	<b>(0.9)</b>	<b>-3%</b>	<b>24.1</b>	<b>26.1</b>	<b>(2.0)</b>	<b>11%</b>
Cost Of Sales	(0.8)	(0.7)	(0.0)	12%	(4.4)	(3.8)	(0.6)	19%
<b>Net Income</b>	<b>3.6</b>	<b>4.5</b>	<b>(0.9)</b>	<b>-6%</b>	<b>19.8</b>	<b>22.3</b>	<b>(2.5)</b>	<b>10%</b>
Staff Cost	(0.5)	(0.6)	0.1	88%	(2.7)	(3.1)	0.4	48%
Brand & Marketing	(0.3)	(0.6)	0.3	② 20%	(2.2)	(3.5)	1.2	(30%)
Consultancy & Advisory Services	(0.1)	(0.1)	0.0	130%	(0.4)	(0.3)	(0.0)	43%
IT Infrastructure & IT Services	(0.2)	(0.2)	(0.1)	(37%)	(0.7)	(0.9)	0.2	13%
Managed Services	(0.8)	(0.8)	0.0	2%	(4.0)	(4.3)	0.3	5%
Other	(0.2)	(0.2)	0.0	1%	(0.5)	(0.9)	0.3	21%
<b>Trading Profit</b>	<b>1.4</b>	<b>1.9</b>	<b>(0.5)</b>	<b>-22%</b>	<b>9.2</b>	<b>9.3</b>	<b>(0.1)</b>	<b>9%</b>

- ① P5 underperformance predominantly from Travel Insurance due to a combination of volume (60%), mix and margin (40%).

Volumes from sales, digital and branch combined are 23k adverse to plan; aggregators are 6k favourable but attract higher cost of sale, hence lower income per policy (IPP). Travel margins are lower as a result of the increase discount supporting the summer campaign.

Total volumes for all products of 109k were 16k (17%) higher than prior year.

- ② Non staff costs favourable due to reduced brand and marketing spend. Risk of ineffective marketing spend hindering future growth.





## Identity Scorecard

	Period 5				Year to Date				Full Year
	Actual	Budget	Variance	RAG	Actual	Budget	Variance	RAG	Budget
Gross Income £m	4.7	3.5	1.2	●	25.1	22.3	2.8	●	47.3
Trading Profit £m	2.7	2.1	0.7	●	15.2	12.7	2.5	●	27.0
Paper Passport Volumes	108,280	73,249	35,031	●	892,218	709,273	182,945	●	1,325,118
Paper Passport Market Share					31%	28%	3%	●	26%
UKVI Volumes	42,963	36,730	6,233	●	237,962	203,695	34,267	●	402,998
Secure Collect Volumes	24,469	23,336	1,133	●	110,675	100,775	9,900	●	301,080
Tax Renewal volumes	577,106	566,146	10,960	●	3,279,536	3,136,843	142,693	●	6,957,814
10yr Renewal Volumes	29,464	30,359	(895)	●	137,491	159,592	(22,101)	●	289,504
Service Penalties £	65,363	41,000	24,363	●	215,661	205,000	10,661	●	500,000
LoA 2 Volumes	57,601	30,220	27,382	●	271,168	190,988	80,181	●	390,408
LoA 2 Market Share	55%	50%	5%	●	53%	50%	3%	●	50%
LoA 2 Conversion rate	54%	55%	(1%)	●	54%	55%	(1%)	●	55%
LoA 1 Volumes	9,598	12,395	(2,797) <sup>*</sup>	●	35,422	61,461	(26,039) <sup>*</sup>	●	180,211
LoA 1 Market Share	28%	40%	(12%)	●	34%	40%	(6%)	●	40%
LoA 1 Conversion rate	78%	74%	4%	●	73%	74%	(1%)	●	74%
Re-Registration Volumes	3,000	1,346	1,654	●	19,659	7,246	12,413	●	30,790
Services Live	19	20	(1)	●	19	20	(1)	●	20

**Identity: P5 Trading Profit £0.7m favourable to budget; YTD +£2.5m**  
Verify continues strong growth; passport volumes above budget



£m	Period 5				YTD			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Home Office	1.7	1.6	0.1	15%	12.0	11.3	0.8	-18%
DFT/DLA	0.8	0.5	0.2	40%	3.0	2.9	0.1	-6%
Identity Services	0.4	0.4	0.1	32%	2.3	2.0	0.2	30%
Verify	1.5	0.9	0.6	n/a	7.1	5.5	1.6	n/a
Environment Agency	0.3	0.1	0.2	n/a	0.7	0.5	0.1	26%
<b>Total Revenue</b>	<b>4.7</b>	<b>3.5</b>	<b>1.2</b>	<b>37%</b>	<b>25.1</b>	<b>22.3</b>	<b>2.8</b>	<b>10%</b>
Cost Of Sales	(0.5)	(0.4)	(0.1)	19%	(2.6)	(2.2)	(0.5)	65%
<b>Net Income</b>	<b>4.2</b>	<b>3.2</b>	<b>1.0</b>	<b>40%</b>	<b>22.5</b>	<b>20.1</b>	<b>2.4</b>	<b>6%</b>
Agents Pay	(0.7)	(0.6)	(0.0)	n/a	(4.3)	(4.2)	(0.1)	n/a
Staff Cost	(0.2)	(0.2)	(0.0)	0%	(0.8)	(0.8)	0.0	0%
Managed Services - Penalties	(0.3)	(0.1)	(0.2)	0%	(0.3)	(0.3)	0.1	0%
Postage	(0.3)	(0.2)	(0.0)	12%	(1.4)	(1.4)	0.0	40%
Other Non Staff Cost	(0.1)	(0.0)	(0.0)	-89%	(0.4)	(0.6)	0.1	9%
<b>Trading Profit</b>	<b>2.7</b>	<b>2.1</b>	<b>0.7</b>	<b>34%</b>	<b>15.2</b>	<b>12.7</b>	<b>2.5</b>	<b>8%</b>

① Passport volumes are running 10% higher than budget, overall income is just £0.05m ahead, as they are derived wholly from the paper channel which carries a lower fee than digital. YoY, volumes have dropped by 30% and market share has dropped 12% (to 31%) as HMPO Digital Channel volumes continue to grow. PO Digital Check & Send is set to launch in Q3 to address this area.

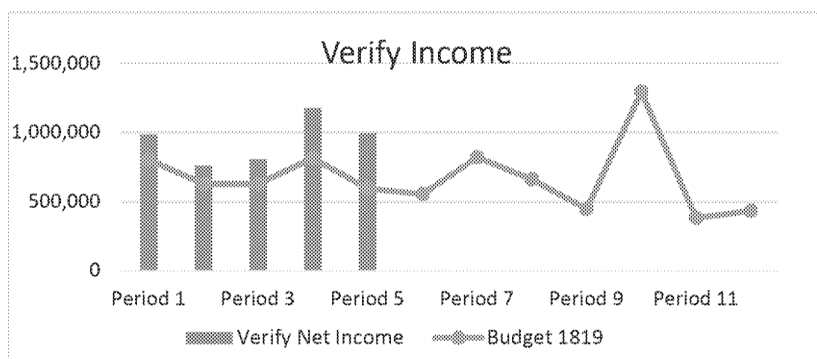
② Verify YoY volumes have more than doubled, primarily driven by Universal Credit applicants who can now use Verify, and which commands a the higher Level of Assurance (LoA2) fee. Post Office continues to be the market leader with 53% market share and a conversion rate of 54% for LoA2s. Marketing and User Experience activities are being implemented to enhance performance further.

Recent discussions with GDS have highlighted Treasury's endorsement for the Verify service, which should help drive volume, but alongside expected downward pressure on price, as the service matures. We are working on pushing back in any price reduction for the current financial year. Any further developments are expected in P6.

③ DVLA penalties reclassified to non-staff costs hence adverse in period (£nil trading profit impact).



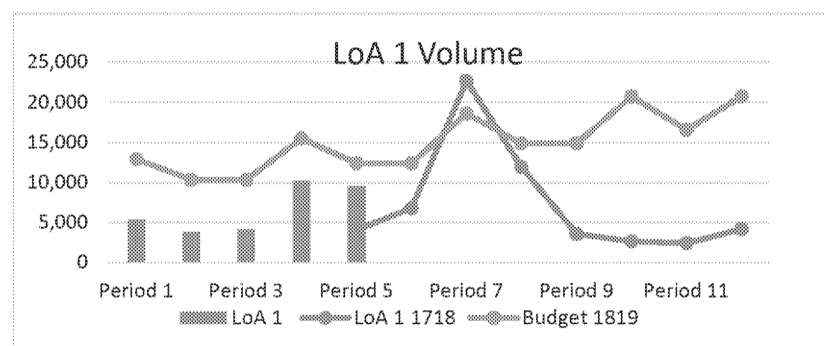
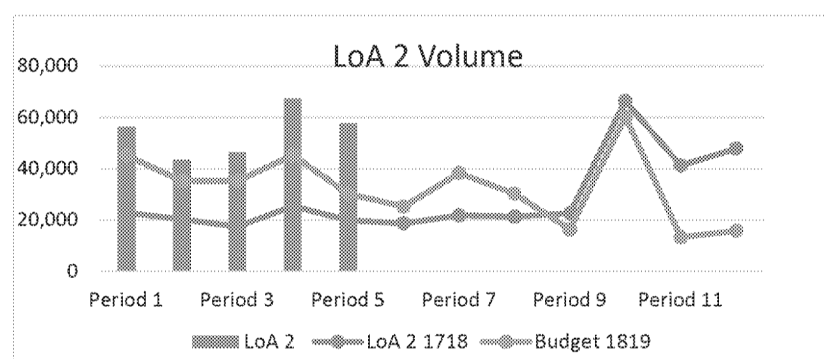
## Verify: Income & Volumes



Verify is performing strongly against budget (£0.4m). This is a result of LoA2 (£0.4m) volumes continuing to be above budget by 33%. YoY volumes have more than doubled (165%) and are driven by Universal Credit applicants who can now use Verify. Also DBS users are contributing towards this uplift. Through social media, we will be running a Universal Credit campaign to remind people that using Verify reduces the amount of time needed in branch and will be followed up with more awareness campaigns and a refreshed POL website in order to help capitalise on the new volumes.

Post Office continues to be the market leader with 53% Market share and a conversion rate of 54% for LoA2s. The strong YTD performance (£1.2m) will be offset after P6 when the new Call off with GDS will be signed. GDS have stated that they will pursue a significant price reduction in order to achieve savings in accordance to Treasury guidelines. The actual effect on the Verify numbers is being looked into and more clarity will be available after initial feedback from GDS.

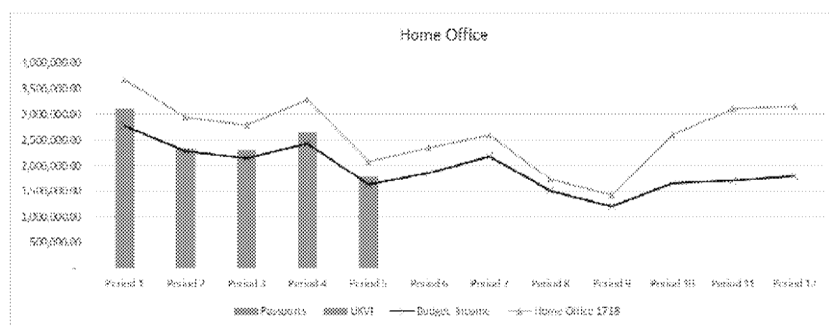
LoA1 volumes are not performing as expected (-£0.01m), as there are not so many outages at DVLA. We are hoping for more information from GDS on further outages. Get your state pension has gone live as a new service, but GDS estimate only 4% of service users will use the Verify route (LoA1 service). The impact from this set back is not significant compared to LoA2 as net price is 1/3 of LoA2s and volumes just 25% of LoA2.





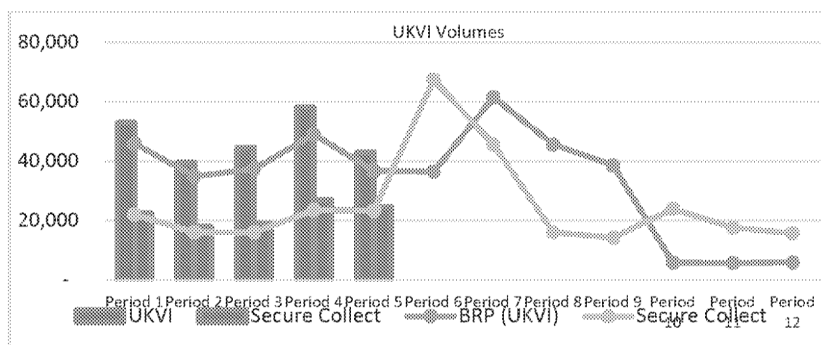
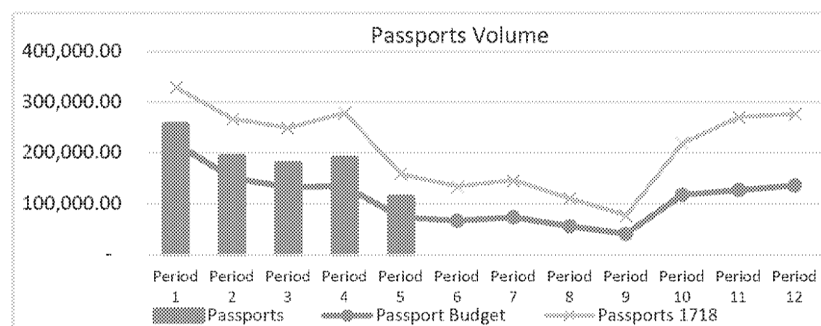


## Home Office: Income & Volumes



Period 5 income for all Home Office and related services was £0.1m ahead of Budget. This positive variance was driven by the UKVI BRP service (£0.05m). BRP services is seeing the early signs of BREXIT with applications through the Home Office slightly ahead of the same period last year and the Home Office seeking to clear backlogs in advance of student surge. YTD UKVI is ahead of budget by £0.54m but the contract with Home Office will expire in P9 creating a risk of £0.9m (EBITDAS £0.8m) which might be partially offset by higher than budget volumes continuing in Q2 and Q3.

Passports are marginally higher than budget for P5 (£0.05m). Volumes are higher than budget (8%), but due to them coming from our Paper Channel rather than both Digital and Paper our overall income is flat (due to £4 price difference). YoY volumes have dropped by 30%. The price differentiation that Home Office implemented earlier this year to its Digital Channel has lifted its market share YoY by 22%\* (YoY, YTD figure) whilst Post Office Paper channel has dropped to 31%\* (YoY/YTD drop 12%). PO Digital Check and send is set to launch in Q3.





## Finance & Operations: P5 Trading Profit (£0.4m) adverse to budget; YTD (£1.3m)

YTD trading profit adverse by £0.7m excluding one-off costs for £0.3m EY audit fees overruns and £0.3m customer compensation



£m	Period 5			
	Actual	Budget	Variance	YoY
Revenue	0.8	0.8	(0.0)	0%
Cost Of Sales	0.0	0.0	0.0	n/a
<b>Net Income</b>	<b>0.8</b>	<b>0.8</b>	<b>(0.0)</b>	<b>1%</b>
Staff Cost	(4.2)	(4.2)	(0.0)	-4%
Staff & Agent Related Costs	(0.2)	(0.2)	(0.0)	168%
Property & Facilities Management	(2.5)	(3.0)	0.5	① -3%
Postage	(0.6)	(0.6)	0.0	-25%
Stationery	(0.4)	(0.3)	(0.1)	② -11%
Finance & Losses	(0.8)	(0.7)	(0.1)	-112%
Vehicles	(0.2)	(0.3)	0.1	67%
Other	(1.2)	(0.5)	(0.8)	-93%
<b>Trading profit</b>	<b>(9.4)</b>	<b>(9.0)</b>	<b>(0.4)</b>	<b>20%</b>

	Year to Date			
	Actual	Budget	Variance	YoY
	4.0	4.3	(0.3)	-6%
	0.1	0.0	0.1	n/a
	<b>4.1</b>	<b>4.3</b>	<b>(0.2)</b>	<b>-3%</b>
	(21.3)	(21.4)	0.1	2%
	(1.1)	(1.1)	(0.1)	7%
	(15.5)	(15.8)	0.3	13%
	(3.0)	(3.0)	(0.0)	(12%)
	(2.1)	(1.5)	(0.6)	(15%)
	(4.3)	(3.8)	(0.4)	③ (32%)
	(1.3)	(1.5)	0.2	10%
	(2.8)	(2.1)	(0.7)	(27%)
	<b>(47.2)</b>	<b>(45.9)</b>	<b>(1.3)</b>	<b>2%</b>

- ① Rent & rates favourable - some one off credits, various rent reviews not seen an increase and have exited properties (not onerous lease)
- ② Printer cartridges £0.4m this month; £0.8m YTD also from 24% price increase for paper and delayed benefits from receipt reduction initiative
- ③ Former agents losses that continue to be identified - full year risk as there is as yet no detailed assessment of what is as yet unidentified - provision release could cover this



## Operating expenses: IT

£1.2m YTD favourable variance will be used to offset cost challenges in future periods

IT	Period 5				YTD			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	0.7	0.5	(0.2)	(46%)	2.4	2.5	0.1	(32%)
Staff & Agent Related Costs	0.0	0.0	(0.0)	(71%)	0.2	0.3	0.1	(85%)
IT Infrastructure & IT Services	6.9	7.6	0.7	18%	35.9	38.5	2.6	15%
Managed Services	0.2	0.3	0.1	136%	1.9	1.6	(0.3)	(2%)
Consultancy & Advisory Services	(0.0)	0.1	0.1	1085%	0.6	0.5	(0.1)	(86%)
Other	0.0	(0.4)	(0.4)	80%	0.0	(1.1)	(1.2)	160%
<b>Total Operating Expenses</b>	<b>7.9</b>	<b>8.2</b>	<b>0.3</b>	<b>13%</b>	<b>41.0</b>	<b>42.2</b>	<b>1.2</b>	<b>9%</b>

### P5 Variances:

Fujitsu savings £0.16m due to ceased services (branch network services)

Security savings due to SOC delay £0.15m

Staff cost savings due to catch up on recoveries of project recharges and vacancies not filled

ATOS higher volumetrics (£0.05m).

ATOS prior year accrual released on disputed invoices not required £0.1m offset by cost challenge not met

### YTD Variances:

FJ savings from ceased BNS - £0.36m

CTO Arch Staff costs recovery from projects £0.1m

CVM £0.3m savings in recruitment and vacancies.

Licences underspend of £0.4m

Gemalto negotiated lower variable service management costs £0.17m

Safehaven £0.38m savings;

Security SOC delay £0.43m



## Operating Expenses: HR, Communications, LRG, Central

HR staff costs adverse variance relates to net impact of FY17/18 bonus.

	Period 5			
	Actual	Budget	Variance	YoY
<b>HR</b>				
Staff Costs	2.2	1.4	(0.8)	(34%)
Staff & Agent Related Costs	0.1	0.2	0.1	(267%)
Finance & Losses	0.2	0.3	0.0	54%
Other	0.1	0.1	0.0	(35%)
<b>Total Operating Expenses</b>	<b>2.6</b>	<b>1.9</b>	<b>(0.7)</b>	<b>(37%)</b>

	YTD			
	Actual	Budget	Variance	YoY
Staff Costs	8.1	7.2	(0.9)	(6%)
Staff & Agent Related Costs	0.9	1.1	0.2	(20%)
Finance & Losses	1.3	1.3	0.0	(34%)
Other	0.4	0.3	(0.0)	5%
<b>Total Operating Expenses</b>	<b>10.7</b>	<b>10.0</b>	<b>(0.7)</b>	<b>(11%)</b>

	Period 5			
	Actual	Budget	Variance	YoY
<b>LRG</b>				
Staff Costs	0.6	0.6	0.0	(20%)
Staff & Agent Related Costs	0.0	0.0	0.0	344%
Consultancy & Advisory Services	0.0	0.0	0.0	959%
Legal Costs	0.3	0.1	(0.1)	(63%)
Other	0.1	0.0	(0.0)	30%
<b>Total Operating Expenses</b>	<b>0.9</b>	<b>0.8</b>	<b>(0.1)</b>	<b>(8%)</b>

	YTD			
	Actual	Budget	Variance	YoY
Staff Costs	2.9	2.9	0.0	(21%)
Staff & Agent Related Costs	0.1	0.3	0.2	79%
Consultancy & Advisory Services	0.2	0.4	0.1	55%
Legal Costs	0.5	0.7	0.2	37%
Other	0.3	0.2	(0.0)	(61%)
<b>Total Operating Expenses</b>	<b>4.0</b>	<b>4.5</b>	<b>0.5</b>	<b>(10%)</b>

	Period 5			
	Actual	Budget	Variance	YoY
<b>Communications</b>				
Staff Costs	0.2	0.2	0.0	(63%)
Staff & Agent Related Costs	0.0	0.0	0.0	217%
Brand & Marketing	0.0	0.3	0.2	(34%)
Other	(0.0)	(0.2)	(0.1)	(172%)
<b>Total Operating Expenses</b>	<b>0.2</b>	<b>0.3</b>	<b>0.1</b>	<b>(27%)</b>

	YTD			
	Actual	Budget	Variance	YoY
Staff Costs	0.7	0.8	0.0	(7%)
Staff & Agent Related Costs	0.1	0.0	(0.0)	72%
Brand & Marketing	1.5	1.6	0.2	(23%)
Other	0.1	(0.3)	(0.4)	(57%)
<b>Total Operating Expenses</b>	<b>2.3</b>	<b>2.1</b>	<b>(0.2)</b>	<b>(17%)</b>

	Period 5			
	Actual	Budget	Variance	YoY
<b>Central</b>				
Staff Costs	(0.1)	0.3	0.5	(64%)
Finance & Losses	(0.3)	(0.3)	0.0	(172%)
Growth Fund	0.8	0.8	(0.0)	(100%)
Brand & Marketing	0.0	0.0	0.0	0%
Other	(0.1)	0.0	0.1	(2782%)
<b>Total Operating Expenses</b>	<b>0.3</b>	<b>0.8</b>	<b>0.5</b>	<b>643%</b>

	YTD			
	Actual	Budget	Variance	YoY
Staff Costs	1.6	1.6	(0.0)	(25%)
Finance & Losses	(0.8)	(1.3)	(0.4)	(37%)
Growth Fund	4.0	4.0	(0.0)	(100%)
Brand & Marketing	0.3	0.3	(0.0)	(2%)
Other	0.4	0.1	(0.4)	656%
<b>Total Operating Expenses</b>	<b>5.4</b>	<b>4.6</b>	<b>(0.8)</b>	<b>(22%)</b>

# Change Spend

YTD spend £2.2m ahead albeit £15m DMB spend has been missed by 1 month



	Period 5		YTD		Commitment Total (incl. open PO's)	Full Year Forecast	Benefits		
	Actual	Vs Forecast	Actual	Vs Forecast			YTD Actual	Vs Budget	Budget FY 1819
<b>Retail</b>	<b>2.3</b>	<b>(4.4)</b>	<b>21.2</b>	<b>(18.8)</b>	<b>33.0</b>	<b>96.9</b>	<b>4.2</b>	<b>(0.7)</b>	<b>12.3</b>
Mails Programmes	0.0	(0.1)	0.4	(0.1)	0.5	2.6	-	-	-
Cash & Banking Services	-	-	-	(0.3)	0.1	0.3	-	-	-
Bill Payments Projects	(0.0)	(0.6)	1.7	(0.6)	2.8	5.2	-	-	-
Automation	0.1	(0.1)	1.3	(0.2)	1.4	5.2	-	-	0.1
DMB	0.9	(1.7)	5.2	(14.8) <sup>1</sup>	7.7	44.7	3.5	(0.7)	9.7
Network Development	1.1	(0.3)	6.0	(0.4)	7.8	18.9	0.7	0.0	2.0
Network Transformation	0.1	(1.0)	4.1	(1.3) <sup>2</sup>	9.1	13.8	-	-	-
Other Retail	0.2	(0.7)	2.7	(1.1) <sup>3</sup>	3.5	6.1	-	-	0.5
<b>Financial Services &amp; Telecoms</b>	<b>1.6</b>	<b>0.1</b>	<b>11.1</b>	<b>2.8</b>	<b>14.9</b>	<b>19.9</b>	<b>6.2</b>	<b>0.3</b>	<b>12.5</b>
Eagle	0.1	(0.1)	0.1	(0.2)	0.7	1.1	-	-	-
Telecoms	0.3	(0.3)	4.8	0.9	5.4	9.0	6.2	0.5	11.6
Other	1.2	0.4	6.2	2.1 <sup>4</sup>	8.9	9.8	0.0	(0.3)	0.9
POI	0.3	(0.7)	1.2	(0.2)	2.0	12.3	-	(0.5)	4.6
<b>Identity</b>	<b>0.1</b>	<b>(0.9)</b>	<b>0.9</b>	<b>(0.8) <sup>5</sup></b>	<b>1.1</b>	<b>8.9</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>IT &amp; Digital</b>	<b>9.5</b>	<b>(0.5)</b>	<b>38.3</b>	<b>4.8</b>	<b>56.1</b>	<b>89.9</b>	<b>-</b>	<b>(0.3)</b>	<b>7.3</b>
EUC Branch Deployment	3.1	0.7	11.1	3.9 <sup>6</sup>	14.8	12.2	-	-	0.6
IT Back Office	2.0	0.1	8.9	0.7	13.4	15.2	-	-	0.5
IT Networks	(0.4)	(0.8)	(0.5)	(0.9)	0.9	0.4	-	-	-
Other IT	1.9	(0.3)	3.9	0.0	8.3	21.8	-	-	1.3
Project Everest	0.3	0.2	2.2	0.1	2.8	14.2	-	(0.3)	4.0
R&R	1.1	0.1	5.6	2.2 <sup>7</sup>	7.6	9.4	-	-	-
Replacement of Counter Receipt Slip	-	(1.0)	3.2	(1.3) <sup>8</sup>	3.9	5.7	-	-	0.5
Solar	1.5	0.5	3.8	(0.1)	4.4	11.1	-	-	0.4
<b>Finance &amp; Ops</b>	<b>0.8</b>	<b>(0.5)</b>	<b>2.2</b>	<b>(0.7)</b>	<b>7.8</b>	<b>27.1</b>	<b>-</b>	<b>-</b>	<b>-</b>
Finance	0.1	(0.0)	1.0	0.1	1.4	6.5	-	-	-
Operations	0.7	0.0	1.1	(0.1)	1.5	6.6	-	-	-
Property	0.2	(0.2)	0.4	(0.5)	4.7	5.6	-	-	-
Supply Chain	(0.3)	(0.3)	(0.3)	(0.3)	0.3	8.4	-	-	-
<b>Human Resources</b>	<b>0.0</b>	<b>(1.2)</b>	<b>2.1</b>	<b>(0.6)</b>	<b>3.1</b>	<b>5.8</b>	<b>1.5</b>	<b>-</b>	<b>3.5</b>
<b>Legal Risk &amp; Governance</b>	<b>1.5</b>	<b>(3.0)</b>	<b>7.3</b>	<b>0.2</b>	<b>8.0</b>	<b>14.3</b>	<b>-</b>	<b>-</b>	<b>-</b>
Central	0.3	0.2	0.3	0.1	0.3	1.9	-	-	-
<b>Grand Total</b>	<b>16.3</b>	<b>(10.9)</b>	<b>84.5</b>	<b>(13.3)</b>	<b>126.2</b>	<b>277.1</b>	<b>11.8</b>	<b>(1.2)</b>	<b>40.2</b>
Anticipated savings or slippages to FY19/20	7.7		15.4			(22.1)			
<b>Total Change FY 2018/19</b>	<b>16.3</b>	<b>(3.1)</b>	<b>84.5</b>	<b>2.2</b>	<b>126.2</b>	<b>255.0</b>	<b>11.8</b>	<b>(1.2) <sup>9</sup></b>	<b>40.2</b>
o/w									
Capex	12.3	(2.1)	55.9	6.0		160.1			
Exceptional	4.0	(1.1)	28.6	(3.9)		95.0			

- ① Variance is mainly driven from DMBs provision recalculation one-off cost expected to be signed off in July but postponed for later in Q2
- ② YTD underspend against forecast is mainly driven by the redundancy provision and bonus payment release and partially driven by phasing/cost saving opportunities
- ③ Underspend is mainly driven from EUM project which is behind plan in the month and now behind YTD target and partially driven from general phasing underspend with saving option to be investigated
- ④ YTD overspend is mainly driven from project Travel Hub tracking ahead against forecast (due to PO 's reviewed & GR'ed) which is now in line with the latest view and P12 balance sheet review adjustments for Project Peregrine
- ⑤ Underspend is due to the wider Identity Business case submission being rescheduled for September rather than August according to the original planning
- ⑥ Overspend relates to accrual for final Computacenter milestone payments and payment of settlement in the month
- ⑦ Overspend against forecast relates to catching up in previous months on cloud platform project costs
- ⑧ Project is underspending YTD with no cost in month as final costs and roll out is being agreed with Computacenter, catch-up is expected in next month
- ⑨ YTD variance in delivered benefits is mainly driven from DMB delays in onerous provision along with phasing of Network Delivery savings and POI delay in projects delivering. All programmes committed to full benefit delivery.



## Balance Sheet & Cash Position

Net funding position up by £70m from year end

### Balance Sheet

£m	Period 5	P12 FY17	v P12	Period 5 FY17	v PY
Fixed Assets	528	478	50	429	100
Debtors	343	336	7	326	17
Cash	644	655	(11)	790	(145)
Creditors	(529)	(589)	60	(618)	89
Pension Surplus	3	3	0	1	2
Provisions	(48)	(66)	17	(74)	26
Other	10	9	1	9	1
Loan	(681)	(623)	(58)	(669)	(12)
<b>Net Assets / (Liabilities)</b>	<b>270</b>	<b>204</b>	<b>66</b>	<b>193</b>	<b>77</b>

### Net Funding Position

£m	Period 5	P12 FY17	v P12	Period 5 FY17	v PY
Government Loan	(681)	(623)	(58)	(669)	(12)
Demonetisation - NCS	(252)	(238)	(14)	(265)	13
Cash at Bank - POL	2	0	2	30	(28)
<b>Net Funding Position</b>	<b>(931)</b>	<b>(861)</b>	<b>(70)</b>	<b>(904)</b>	<b>(27)</b>

Net funding position has increased by £70m from year end due to delay in investment funding and FX growth for the summer campaign. Network cash after demonetisation has reduced £138m from P5 in prior year; £23m reduction from year end.

Balance sheet headroom of 69m, £58m decrease from P12 and £12m down on prior year P5.

### Balance Sheet Headroom

£m	Period 5	P12 FY17	v P12	Period 5 FY17	v PY
Government Loan - Available Amount	950	950	-	950	-
Government Loan - Drawn Amount	(681)	(623)	(58)	(669)	(12)
<b>Headroom</b>	<b>269</b>	<b>327</b>	<b>(58)</b>	<b>281</b>	<b>(12)</b>
Target Minimum Headroom	200	200	-	200	-
<b>Headroom Above/(Below) Target</b>	<b>69</b>	<b>127</b>	<b>(58)</b>	<b>81</b>	<b>(12)</b>

### Security Headroom

£m	Period 5	P12 FY17	v P12	Period 5 FY17	v PY
Network Cash	621	644	(23)	760	(138)
Cash at Bank - POL *	2	0	2	30	(28)
Client Debtors	165	132	32	170	(5)
Trade & Other Debtors - Business Debtors	174	188	(14)	152	23
<b>Total Security</b>	<b>962</b>	<b>964</b>	<b>(2)</b>	<b>1,112</b>	<b>(149)</b>
Government Loan	(681)	(623)	(58)	(669)	(12)
Santander	(99)	(100)	2	(116)	17
<b>Total Obligations</b>	<b>(780)</b>	<b>(723)</b>	<b>(57)</b>	<b>(785)</b>	<b>5</b>
<b>Headroom</b>	<b>182</b>	<b>241</b>	<b>(59)</b>	<b>327</b>	<b>(144)</b>



# FS&T Board Report - Sept 2018

Author: Owen Woodley

Meeting Date: 25<sup>th</sup> September 2018

## Executive Summary

### Context

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

### Questions this paper addresses

1. How is the FS&T strategy evolving?
2. What is the progress in Customer Hub?
3. How is our balance sheet product set performing?
4. How is our transactional product set performing?
5. How is our Telecoms business performing?
6. How is our Insurance business performing?

### Conclusion

Gross income is £6.6m adverse to budget at P5 YTD – this includes the £2.1m overstatement in the budget due to the Telecoms FIN11 report error. Direct profit is £2.2m adverse to budget YTD P5, and full year out-turn is currently forecast to be £1.8m behind budget. Without the Fin11 report error, the profit out-turn estimate would be £3.9m ahead but further action will be required to address the Telco-related gap.

	Gross Income (£m)					
	Period 5 YTD			Full Year		
	Actual	Budget	Var	Out-turn	Budget	Var
FS&T	111.4	113.7	(2.2)	268.3	271.0	(2.7)
PO Insurance	24.1	26.1	(2.0)	58.0	57.9	0.1
Telco Fin11	0.0	2.1	(2.1)	0.0	5.7	(5.7)
Other Income	0.0	0.3	(0.3)	0.1	0.1	0.0
<b>Total</b>	<b>135.5</b>	<b>142.1</b>	<b>(6.6)</b>	<b>326.4</b>	<b>334.7</b>	<b>(8.3)</b>

	Profit Contribution					
	Period 5 YTD			Full Year		
	Actual	Budget	Var	Out-turn	Budget	Var
FS&T	56.9	56.3	0.6	131.8	129.0	2.9
PO Insurance (Group Contbn)	7.9	8.1	(0.2)	18.3	18.1	0.2
Telco Fin11	0.0	2.1	(2.1)	0.0	5.7	(5.7)
Other	0.1	0.9	(0.8)	(0.9)	(1.7)	0.8
Central Marketing	(5.3)	(5.6)	0.3	(12.2)	(12.2)	0.0
<b>Total</b>	<b>59.6</b>	<b>61.8</b>	<b>(2.2)</b>	<b>137.0</b>	<b>138.8</b>	<b>(1.8)</b>

### Input Sought

The Board is requested to review and note the report.

## The Report

### How is the FS&T strategy evolving?

Our competitive landscape is evolving rapidly with digital innovators like Revolut and Monzo becoming increasingly prominent and aggressive in the financial services market. We therefore need to ensure that our business is orientated relentlessly around changing customer needs and service expectations and our approach to our markets needs to continually leverage the unique attributes of the Post Office brand. That demands a strategic vision for FS&T which is much more integrated and joined up at a customer level than the previously more federal strategic positioning of the FS&T product lines.

We are therefore now in the middle of a programme of work to define a new strategy for the FS&T business. This will include a specific (external) piece of work on the strategic options for our Telco business. The outputs will be brought to GE and, as appropriate, to the Board for discussion and challenge. That will include the identification of a clear set of critical capabilities to underpin the delivery of the strategy and our proposed approach to building those capabilities over the next three years. The early emerging view of the key themes is as follows:

- Fewer activities at greater scale to have genuine market impact
- A drive to take more control of the value chain in each of our business areas to enable more control over the customer proposition and experience
- A culture that has continual innovation and digitisation at its heart
- A business that uses brand heritage and trust to be a real market disruptor
- Being significantly more relevant to younger audiences
- Focusing continuously on efficiency, ease and pace

A critical part of our success will be the development of our people and the attraction of new talent in every part of our business. As a start to that journey, we have now appointed a new Group Marketing Director who brings deep experience and credibility to the Post Office and we will shortly be implementing organisational changes to significantly increase the depth and focus of our digital activities for customers. We also have activity in train to increase the talent bench strength in some other parts of the FS&T business portfolio as well.

# IRRELEVANT

## How is our Balance Sheet product set performing?

### 1. The Market

Competitive pressures in the retail banking market remain. The continuing low interest rate environment (notwithstanding recent base rate increases) and the BoE funding schemes have put major pressure on mortgage margins and kept savings rates depressed.

### 2. Product P&L P5 YTD

Gross Income (£m)						
	Period 5 YTD			Full Year		
	Actual	Budget	Var	Out-turn	Budget	Var
Mortgages	0.9	0.8	0.2	2.0	1.8	0.3
Cards & Lending	0.9	0.8	0.1	2.1	1.9	0.1
Savings	16.2	16.3	(0.1)	40.6	39.3	1.3
<b>Balance Sheet Products</b>	<b>18.1</b>	<b>17.9</b>	<b>0.2</b>	<b>44.6</b>	<b>42.9</b>	<b>1.7</b>

Profit Contribution						
	Period 5 YTD			Full Year		
	Actual	Budget	Var	Out-turn	Budget	Var
Mortgages	0.8	0.7	0.1	1.8	1.6	0.2
Cards & Lending	0.8	0.7	0.1	1.8	1.6	0.1
Savings	13.6	13.6	(0.0)	36.6	35.9	0.7
<b>Balance Sheet Products</b>	<b>15.2</b>	<b>15.0</b>	<b>0.2</b>	<b>40.1</b>	<b>39.1</b>	<b>1.0</b>

# IRRELEVANT

### 4. Customers

There are four key customer projects underway in Post Office Money:

- Customer Advocacy Programme which aims to enhance end to end customer journey experiences – NPS continues positive upwards trend
- External Benchmarking Survey to highlight areas for improvement vs peer group – results due later this year
- Customer Research Panel to support new product markets & innovation
- Post Office Money 'North Star' Metric to identify a customer centric indicator of performance that fits across both 'Customer' and 'Commercial' metrics.

### 5. Year End Outlook

We expect to exceed full year income and profit targets.

## How our Transactional product is set performing?

### 1. The Market

The good weather this summer has had a significant impact on UK "staycations", by c40% based on the top two UK holiday providers (Hoseasons and Parkdean). The UK travel money market has been running c9% down YoY based on competitor feedback and so whilst our numbers are lower than expected, they appear to be in line with the market. The predicted natural decline in Postal Orders in 18/19 has not been as sharp as initially thought, running at c.18% YoY vs 21% in 17/18.

### 2. Product P&L P5 YTD

	Gross Income (£m)					
	Period 5 YTD			Full Year		
	Actual	Budget	Var	Out-turn	Budget	Var
Travel Money	13.6	14.8	(1.2)	29.3	30.9	(1.6)
MoneyGram	11.0	10.6	0.5	26.8	25.5	1.3
Postal Orders	5.5	5.1	0.3	12.9	12.3	0.6
<b>Transactional Products</b>	<b>30.1</b>	<b>30.5</b>	<b>(0.4)</b>	<b>69.0</b>	<b>68.7</b>	<b>0.3</b>

	Profit Contribution					
	Period 5 YTD			Full Year		
	Actual	Budget	Var	Out-turn	Budget	Var
Travel Money	1.0	2.2	(1.1)	2.9	3.8	(0.9)
FRES Profit Share	18.5	18.0	0.5	34.4	33.8	0.6
MoneyGram	6.1	5.4	0.7	14.6	13.0	1.6
Postal Orders	4.2	3.8	0.3	9.9	9.2	0.6
<b>Transactional Products</b>	<b>29.8</b>	<b>29.4</b>	<b>0.4</b>	<b>61.7</b>	<b>59.8</b>	<b>1.9</b>

### 3. Review of Performance

Travel Money gross income has fallen behind budget for the reasons set out above. The MoneyGram contract has been re-negotiated resulting in £6m additional fixed income for the remainder of the contract (£2.4m in 18/19 of which £1m has been recognised P5 YTD). Postal Orders are a profitable product with a low level of costs. Volumes are declining but as stated, less steeply than predicted.

### 4. Customers

MoneyGram customers are holding but Revenue Per Transaction ("RPT") remains under pressure. New pricing for India to drive transactions was introduced in July as were local advertising campaigns in key markets like Romania to drive Post Office awareness as a destination to send/receive. Postal Orders are paper based with associated increasing AML risks and therefore interest from some areas is declining. The MoJ has indicated they will stop accepting Postal Orders but are yet to confirm a date.

### 5. Year End Outlook

We expect the renegotiated deal with MoneyGram to provide an upside to the overall full year Travel Money & MoneyGram results. However MoneyGram revenue is currently missing budgeted RPT values by 14% causing a risk of £1.1m before the additional commissions. TMC & TMO value of sales are currently £172m behind budget, posing a year-end profit risk of £(0.9)m. Postal Orders are on track to outperform 18/19 budget profit.



## How is our Telecoms business performing?

### 1. The Market

The industry continues to focus on Fibre with BT Openreach (the main network provider) looking to incentivise further uptake on this product, enabling the long term strategy of retiring the ADSL (Broadband) network. There are a number of small challengers in the market (e.g. Cityfibre, Hyperoptic, GigaClear) who are working with partners to rollout a competing high speed network (up to 1Gbps) based on a Fibre to the Premise (FTTP) technology. Post Office is working to secure a long term competitive pricing position on fibre to ensure continued relevance.

### 2. Product P&L P5 YTD

	Gross Income (£m)					
	Period 5 YTD			Full Year		
	Actual	Budget	Var	Out-turn	Budget	Var
<b>Telecoms</b>	<b>63.3</b>	<b>65.3</b>	<b>(2.1)</b>	<b>154.6</b>	<b>159.4</b>	<b>(4.8)</b>

	Profit Contribution					
	Period 5 YTD			Full Year		
	Actual	Budget	Var	Out-turn	Budget	Var
<b>Telecoms</b>	<b>12.0</b>	<b>12.0</b>	<b>0.0</b>	<b>30.0</b>	<b>30.0</b>	<b>0.0</b>

### 3. Review of Performance

The above P&L shows the underlying Telecoms performance, with the Fin11 budget overstatement having been moved to the Other Income line in our P&L. Gross revenue is behind budget expectations due to both lower ARPU than expected, partly driven by less calls being made over the summer period, and lower customer numbers. We are launching more aggressive acquisition and retention offers in October to address the market and mitigate leakage. Cost of Sales are favourable to budget due to the take up of Project Galaxy and overall, direct profit is in line with budget excluding Fin11.

### 4. Customers

Customer Satisfaction ("CSAT") is showing a positive trend and is now embedded in the Customer First Programme. Month to date score is 77% overall CSAT which is our best-ever level. Consistent improvements are being seen with tNPS and the latest Ofcom numbers show a best-ever performance on published Landline complaints.

### 5. Year End Outlook

Customer numbers are behind where we expected them to be. ARPU is also lagging behind the budget, even after adjusting the budget for the FIN11 overstatement. Plans are underway to implement a price increase in H2 which will partly mitigate the downward ARPU trend.

## How is our Insurance business performing?

### 1. The Market

The Travel Insurance market is expected to shrink over the next 5 years, leading to the continuation of intensified price competition from a crowded market (current market share is 7.6%). There is market uncertainty in relation to Brexit, with the outcome potentially impacting on how the EHIC operates, foreign exchange and passporting, all of which could

have positive or negative impacts on the market. The Motor Insurance market is expected to grow 1%pa to 2020, with POI current market share 0.4%. The short term outlook for this market is favourable with a short/shallow drop in rates expected as some providers move for growth. The Home Insurance market is expected to fall by 2%pa over the next three years driven by changes in home ownership.

## 2. Product P&L P5 YTD

	Gross Income (£m)					
	Period 5 YTD			Full Year		
	Actual	Budget	Var	Out-turn	Budget	Var
Travel Insurance	10.0	12.3	(2.3)	23.4	23.6	(0.2)
Life & Over 50s	4.1	4.2	(0.1)	12.5	11.3	1.2
Home, Van, Car & Other	10.0	9.6	0.4	22.1	23.0	(0.9)
<b>PO Insurance</b>	<b>24.1</b>	<b>26.1</b>	<b>(2.0)</b>	<b>58.0</b>	<b>57.9</b>	<b>0.1</b>

	Profit Contribution					
	Period 5 YTD			Full Year		
	Actual	Budget	Var	Out-turn	Budget	Var
Travel Insurance	5.7	7.1	(1.4)	14.0	14.5	(0.5)
Life & Over 50s	2.0	2.2	(0.2)	5.9	5.9	0.0
Home, Van, Car & Other	5.4	4.2	1.2	11.2	10.3	0.9
Agent's Pay	(1.3)	(1.2)	(0.1)	(2.2)	(2.2)	0.0
Other Operating Costs	(3.9)	(4.2)	0.3	(10.6)	(10.4)	(0.2)
<b>PO Insurance</b>	<b>7.9</b>	<b>8.1</b>	<b>(0.2)</b>	<b>18.3</b>	<b>18.1</b>	<b>0.2</b>

## 3. Review of Performance

Travel Insurance is currently running 14% behind with trading impacted by Post Office Travel App performance and market conditions. Despite this, total travel sales are up 27% on 2017/18 and digital sales up 13% on prior year following investment in SEO. Protection trading is 5% ahead following two successful branch offer weeks. A DRTV campaign will run from week 26. We are also expanding distribution of protection products to price comparison websites during Period 6. General Insurance outlook is favourable, driven by particularly strong renewals performance for Car, Van & Home.

## 4. Customers

Net Promoter Score is currently running ahead of plan at 38 and Customer Effort Score is currently at 80, slightly below plan but on an upward trajectory.

## 5. Year End Outlook

The PO Insurance 3+9F projected group profit stands at £20.5m (before Agent's Pay), up £0.2m on budget. PO Insurance is progressing its 6+6F for finalisation and submission in early October alongside the rest of the business.

**IRRELEVANT**

**IRRELEVANT**



In H1 2018/19 we launched our most competitive Standard Broadband (ADSL) price point at £17pm and improved Fibre retail prices to £31pm on our most popular tariffs (supported through wholesale cost reductions negotiated with TalkTalk).

**Travel Insurance** Revenue is earned through commission, with 84% from single trip policies with one-off revenue. The remaining revenue comes from Annual Multi-Trip (AMT) policies which builds annuity income. AMT retention is c.18%. There is also an underwriting profit share, returned as revenue or rate reduction.

**Life & Over 50s** Revenue is earned through commission, reflecting the lifetime value of the sale to POI and is subject to clawback for policies cancelling within the indemnified period (up to 48 months). An annuity income stream is received monthly for all policies that continue beyond the indemnity period and a monthly income stream of 2.5% of premiums is paid to POI as commission on these policies.

**Home, Car & Van** Revenue is generated through a combination of commission, add-on margins (eg legal expenses, roadside assistance etc), service fees, instalment income and First Notification of Loss income. Policies generate an annuity income stream from both new sales and renewals, plus a profit share.

# Funding beyond 2021

Author: Patrick Bourke

Sponsor: Al Cameron

Meeting date: 25 September 2018

## Executive Summary

### Context

We have been contacted by BEIS and UKGI ahead of an anticipated Government Comprehensive Spending Review (CSR) in 2019 that may extend beyond 2021. In principle, our funding cycle needs to be aligned to the CSR, in which Departmental allocations are negotiated with HMT. Our own experience in securing funding to 2021 showed that misalignment with the CSR creates substantial difficulty and unpredictably, to the satisfaction of no-one. We are therefore working with BEIS Finance and UKGI to make this happen.

One of the more challenging consequences of this work is that the 2019 CSR is currently anticipated to cover a 4 year period to 2023, taking us substantially beyond our current funding settlement and, critically, our current forecasts. While BEIS Finance/HMT's immediate requirement of us is to paint a picture for them of our critical path to 2021, which we are clearly able to do on the basis of our current planning, they are keen that we rapidly sketch out our likely funding requirements beyond 2021. Our current funding agreements are as follows:

- We have a BEIS working capital facility enabling us to borrow up to £950m subject to us demonstrating via a formula that we use this money for funding the network's cash needs. This is committed until March 2021.
- We have an annual Network Subsidy payment from BEIS. That is agreed at £60m this year and £50m in each of 2019-20 and 2020-21. We are required to demonstrate each year that the cost of providing the Services of General Economic Interest (SGEIs) exceeds the value of the payment.
- We have investment funding of up to £210m provided it is spent this year and next year: no investment funding is available in 2020-21.
- We have a facility with the Bank of England to borrow under the Note Circulation Scheme arrangements, through which we can borrow more based on the value of cash distributed from cash centres. This has no end date but its value is reducing as we get more cash coming in rather than going out (POCA falling, deposits increasing faster than withdrawals, more recycling of Polymer notes).

We did not make specific commitments for the period beyond 2021 at the time of our last funding round. However, there was a clear shared perspective that having completed major network transformation and IT programmes, and we were delivering £100m plus of EBITDAS, we should be able to fund our BAU investments from free cash flow and would not therefore need systemic, annual, investment funding. In addition, there was discussion during the funding round that we might waive a request for additional borrowing in exchange for an extension of the NSP for a further three years at £50m pa. In the event, neither was forthcoming.

## Questions addressed in this report

1. Despite the obvious difficulty in looking beyond 2021 with any degree of certainty, are we comfortable that we provide BEIS/HMT with some broad indications in relation our investment funding and network subsidy requirements beyond our current funding envelope?
2. Are we right not to be seeking further traditional investment funding?
3. Will a Network Subsidy Payment continue to be required beyond 2021 and, if so, at what level?
4. What are the major risks and opportunities to our current three year plan?
5. Assuming that our forecast EBITDA will remove the need for any systemic, annual, Government investment funding, what further flexibility in our ability to raise investment finance should we be seeking?
6. Should we take steps now to redress the falling value of the Notes Circulation Scheme facility we have in place with the Bank of England?
7. What information are we planning to share now and what are the next steps?

## Conclusion

There are clear advantages to being aligned with the CSR, provided that we can agree a flexible set of arrangements in respect of what the business may need. However, there is considerable uncertainty: we are only five months into the current three-year period; and we may be landed with a rationing that may prove unsustainable later. We therefore recommend working closely with UKGI and BEIS Finance to secure sensible arrangements with HMT, recognising that we may have to call out the dangers and uncertainties in any settlement imposed on BEIS.

In principle, we are still expecting to exit this three-year period on c. £100m EBITDAS. In the light of the request from Government, we have kicked off work across the business to establish whether the free cash flow arising from £100m EBITDAS is sufficient to fund the typical needs of a self-sustaining business. So, for example, assuming that Belfast is exited and on the Cloud, how much would it cost to upgrade, support and reinvent the IT estate, and what budget will we need for digital and future innovation? Similarly, there will be a continuing need to refresh our branches to sustain our brand profile, and maintain/improve customer experience: a 5-7 year refresh cycle is typical in the retail sector.

Our expectation, without having done the work, is that we will still be supporting loss-making branches and that the cost of doing so will undermine our commercial sustainability unless we have an ongoing Network Payment of some sort. We briefly explored with BEIS moving the current arrangement to a straight payment for services but they were not enthusiastic about the work that might involve for them. It seems likely that we will therefore align around some continuation of the current arrangements. In response to their hope that the value of that payment would be in the range of £0-25m, we responded that this was unlikely and that we should assume an ongoing £50m based on what we have seen in the retail strategy. Since we have to prove that the costs exceed the payment, there is an in-built protection for them in this in any event.

Customer innovation, changes to the markets we are operating in, partnership changes, Brexit, and evolving technology all create enormous uncertainty for 2021-23

if that does prove to be the period under consideration. More specifically, the risks in our Three-Year Plan we would now call out would include the Group Litigation and its potential impacts, Insurance growth, the future of Identity (especially with the very aggressive Government fee cut), delivery of the DMB programme, and the future shape of agents' pay. The latter may prove to be an opportunity, alongside Banking Framework 2 and the potential for the Payzone acquisition if completed.

Even if we can sensibly estimate and agree a level of EBITDA, including Network Subsidy, that should sustain us, every commercial business would in addition expect to have arrangements in place that would support us in the event of contingencies and enable us to borrow to take advantage of commercial opportunities. This would in no way give us "freedom" in the conventional sense: Government approves our plans, approves material spend etc. But without some flexible borrowing arrangement, we know that opportunities would be lost because of the time-lag involved in securing out of cycle approval. The simplest approach might be to agree an amount held as a recognised contingency subject to drawdown approval – of, say, £300m. However, we would also consider viewing this as a loan, not funding, swapping it for the commercial freedom to borrow from the market, or encouraging Government to convert debt to equity and open up a potential future dividend stream in exchange for the future funding of commercial opportunities. We have started to raise these possibilities. However, only Government and especially HMT can determine what may be possible or desirable from their point of view.

We are kicking off a piece of work to re-forecast the value of the Note Circulation Scheme under different scenarios and have already signalled to the Bank of England that we will be recommending changes. Fundamentally, we would like to shift the driver of the value we can borrow away from the volume and denomination of notes sent out from cash centres to the number of locations where we provide cash as this is a greater driver of financial inclusion. The Bank is open to starting a conversation but we are not the only members and no start date or commitment has been set.

The other question we were asked by BEIS Finance was the money that could be saved by shutting uncommercial branches. We agreed that we could provide analysis – it is essentially the work that underpins the Network Subsidy. However, we did indicate that closing branches would be extraordinarily controversial politically. In this context, the appetite for, and likelihood of, any discussion over potential alternative ownership models also seem remote.

We have now begun work developing appropriate materials to be shared with BEIS Finance, indicating the journey to 2020-21, with our current appreciation of principal risks and opportunities. Our immediate next step is validating the assumptions around EBITDA.



## Input Sought

1. The Board is asked to support us in having open conversations with BEIS and HMT to seek longer term alignment around future government support while recognising that this may prove impossible. The timing of any cabinet paper may be helpful in setting out our broader value and case. We will continue to keep the Board informed of our work and the conversations with Government.

# Banking Framework 2

Author: Martin Kearsley

Sponsor: Debbie Smith

Meeting date: 25 September 2018

## Executive Summary

### Context

1. The Banking Framework (BF) is a rolling contract covering counter-based transactions, with a single re-pricing point by the end of November 2018, giving a termination right by the end of 2018 prior to continuing beyond 1/1/20 giving a 12 month notice period should Banks wish to withdraw.
2. Deposit transaction growth is placing increased strain upon existing PO infrastructure and all banking transactions now represent c.18% of counter workload but only 10% of postmaster fees.
3. Automation of cash services to ease pressure on branch counters requires investment, which needs to be coordinated with all other branch automation programmes to ensure that a coherent, aligned and detailed plan can be presented to the banks.
4. A negotiation strategy has been developed to ensure Banking Framework 2 (BF2) pricing gives POL options regarding what and how to invest in automation, either with or on behalf of banks.

### Questions addressed in this report

5. The value the BF counter services deliver to the Banks.
6. The alternatives that Banks are developing and what limitations they might impose on our ability to maximise our revenue.
7. What range of BF2 fee options are available, what incremental income do they raise and what impacts do they have on participating banks.
8. How forecast transaction growth affects income and trading profit growth
9. Approach to cash automation and self-service and integration into POL wide automation discussions.
10. The resources and team structure required.
11. The time frame for completion of the repricing exercise.
12. Our proposed BF2 negotiating approach with the Banks.

### Conclusion

13. BF2 re-pricing scenarios will generate between £141m and £171m per annum from 1.1.20 based on FY18/19 volumes not including growth (vs baseline of £97m in FY18/19).

14. When considering likely growth scenarios the resulting Revenue and Trading Profit could deliver c.£244m and c.£106m p.a. respectively in 2022, and provides a base for investment and agent remuneration change.
15. A negotiation strategy and team structure is recommended.

### Input sought

16. Discussion regarding BF2 pricing and points at which we should be prepared to walk away or modify our approach with the Banks.
17. Discussion on timing of negotiating meetings with the banks and potential to give banks until 31/3/19 to confirm or terminate.

## The Report

### The value of the Banking Framework to the Banks

18. The sustainable fee level for BF2 has been assessed from three perspectives:
  - a. Bank's annual savings from existing and future branch closures
    - i. Since 2014 the UK branch network of the big 5 banks has shrunk by 3800 (42%) to circa 5170. Estimated savings to Banks of circa £950m p.a.
    - ii. Optimising their networks to a maximum of 600 branches per brand could see another 1169 closures by 2025 and further savings of up to £290m p.a.
    - iii. Banks fully loaded costs, per transaction, are between £4 and £5
  - b. The feasibility and cost of alternative channels
    - i. Three possible competitor channels to the Post Office banking proposition have been identified:
      1. Mobile van branches - which have limited reach and high associated costs and are therefore discounted
      2. Alternative counter services such as the PayPoint/LINK tie up.
        - a. Enables cash withdrawals and deposits using Chip & Pin, currently under trial at 15 locations and could provide a ready-made network with reach exceeding the Post Office.
        - b. Mainly small scale and incomplete banking service proposition unsuitable for Business customers. Useful 'convenience cash' role for ad hoc personal

sector withdrawals, and could therefore draw some volume from Post Office counters

3. A 'shared service' automated offer in dedicated premises such as:
  - a. Cardtronics and Vaultex (collaborating with RBS, LBG and Barclays) to pilot a self-service branch capability for businesses. Concept due to pilot January 2019
  - b. Banks have ring fenced capital for up to 750 locations. Estimated cost up to £250k / site (£187.5m total) with annual operating costs per site up to £200k p.a. (£150m p.a. total)
  - c. Cardtronics are also proposing to set up a parallel network in conjunction with Retail partners
- c. The transactions fees Banks charge their own customers:
  - i. Transaction charges are rarely applied to mainstream personal accounts; often waived for new Business customers; and larger Commercial and Corporate customers negotiate individual arrangements.
  - ii. Published fee tariffs remain the benchmark against which BF2 fees are compared despite those fee levels often being disconnected from cost to serve
  - iii. Most current BF fees align with Bank tariffs but the variable (ad valorem) elements for cash withdrawals and deposits are set at levels far below published bank tariffs.

## Framework 2 fee options

19. A range of potential fee levels for each category have been considered against the constraints identified (Major fees only detailed in table below):
  - a. Aggressive – a supportable starting point for presentation (6x increase)
  - b. Target – an acceptable negotiated end point (4x increase)
20. Both potential fee levels feature substantial increases in deposit fees
  - a. Ad valorem rates move from 65p per £1000 to £2.60 (target) or £3.90 (aggressive)
  - b. Fixed fee rates move:
    - i. manual deposit transaction from 74p to £1.14 (target) or £1.24 (aggressive)
    - ii. card deposit from 74p to 76p (target) or 77p (aggressive)
21. There are wide variances in income between key parties in the deposit transaction

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DEPOSITS			
Example transaction values	Bank charges to business customer	PO charges to banks	PO pays agent (non-main)
£200	£2.05 (£0.75 fixed plus £1.30 ad valorem)	£0.87 (£0.74 fixed plus £0.13 ad valorem)	£0.18
£1000	£7.25 (£0.75 fixed plus £6.50 ad valorem)	£1.39 (£0.74 fixed plus £0.65 ad valorem)	£0.37
Impact of suggested increases			
£1000	£7.25	£3.34 (target)	£0.37
£1000	£7.25	£4.64 (aggressive)	£0.37

22.The resultant incremental fees, based on 2018 transaction volumes for each scenario would be:

Total Impact By Bank	2018 fees (£)	Target	Aggressive	Increase based on Target option (£)	Increase based on Aggressive option (£)	Increase based on Target option (%)	Increase based on Aggressive option (%)
Santander	£30.8m	£56.8m	£74.4m	£26.0m	£43.6m	85%	142%
Lloyds/Halifax/BoS	£13.3m	£16.0m	£17.5m	£2.7m	£4.2m	20%	32%
RBS/NatWest/Ulster	£11.9m	£15.8m	£18.5m	£3.9m	£6.6m	33%	56%
Barclays	£10.6m	£12.9m	£14.6m	£2.3m	£4.0m	21%	37%
HSBC/First Direct	£9.9m	£13.6m	£16.4m	£3.7m	£6.5m	38%	66%
Clydesdale/Yorkshire/Virgin	£4.8m	£6.6m	£7.8m	£1.8m	£2.9m	36%	60%
Co-op	£4.3m	£6.1m	£7.2m	£1.7m	£2.9m	39%	67%
Nationwide	£3.3m	£3.6m	£3.7m	£0.3m	£0.4m	8%	12%
TSB	£2.2m	£2.4m	£2.5m	£0.2m	£0.3m	11%	15%
BOI	£1.2m	£1.7m	£2.0m	£0.5m	£0.8m	41%	67%
Other banks	£4.8m	£5.8m	£6.6m	£1.1m	£1.8m	22%	38%
<b>Total</b>	<b>£97.0m</b>	<b>£141.1m</b>	<b>£171.0m</b>	<b>£44.2m</b>	<b>£74.1m</b>	<b>46%</b>	<b>76%</b>

23.Over 80% of the fee increase comes from cash deposit transactions. This reflects the need to address an historic under-pricing of the transaction

	Fee Increase Scenarios (£m)			
	Aggressive £'m	Aggressive % increase	Target £'m	Target % increase
Membership Fee	£6.2	28%	£4.1	18%
Cash withdrawal	£2.5	8%	£1.6	6%
Cash deposit	£62.2	207%	£37.7	126%
Other fees	£3.2	30%	£0.8	8%
<b>TOTAL</b>	<b>£74.1</b>	<b>76%</b>	<b>£44.2</b>	<b>46%</b>

24.Without a substantial deposit fee rate increase it is likely that our fee for a counter transaction will be less than the cost of providing self-service transactions.

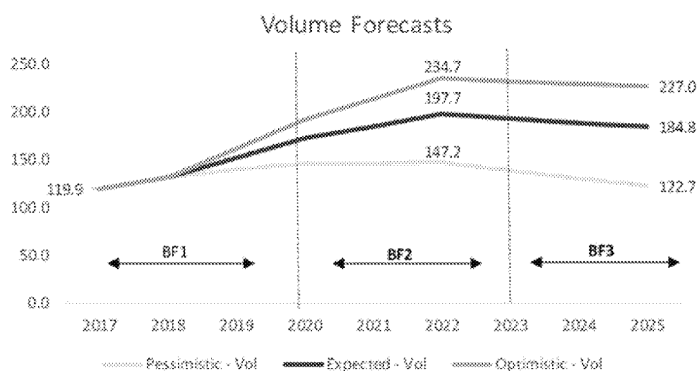
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25. Without the implementation of self-service and further cash automation we will be unable to efficiently manage increasing SME deposit volumes as the network, customers and the supply chain are adversely impacted as:
- Postmasters workload at branch counters (and back office) increases – primarily driven by high value cash deposits
  - Customer service experience in branch suffers if queues are created behind time consuming BF transactions
  - Supply chain capacity and efficiency is stretched as increased cash deposit volumes turn branches cash positive
26. The cost implications from these issues was addressed in the May 2018 Future of Cash board paper

### Impact of growth on framework income

27. Framework volumes are forecast to increase over the next 5 years before starting to decline. The forecast is primarily driven by four elements
- Contactless and online driving out cash
  - Alternative channels displacing Post Office
  - Continuing Bank branch and counter closures
  - Automation of LBG and RBS deposit transactions
28. Three scenarios have been modelled; Expected; Optimistic and Pessimistic

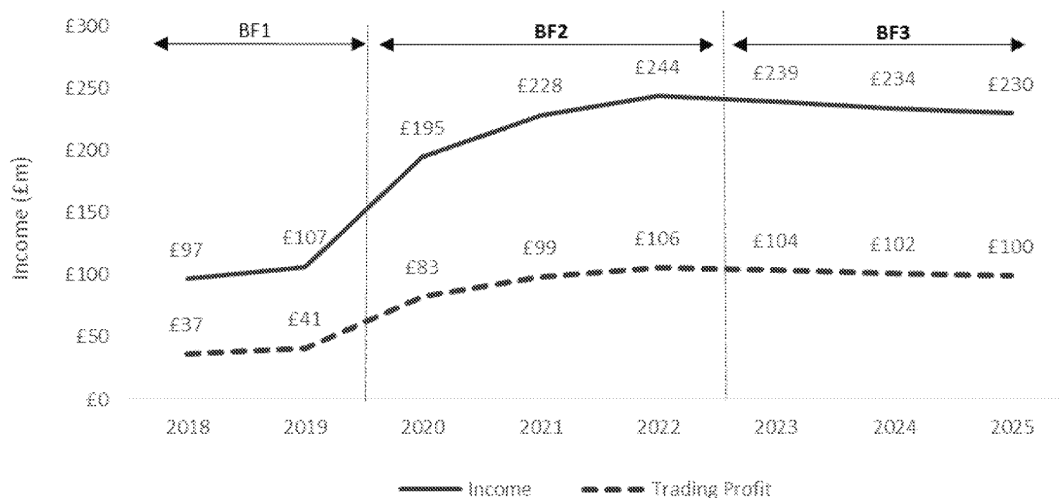


29. When volume increases are combined with framework fee increases, in the:
- most optimistic scenario income would peak at £352m in 2022
  - most pessimistic scenario income would peak at £115m in 2022
  - expected scenario income would peak at £243m in 2022

Scenarios	Vol/Inc. (m)	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Pessimistic</b>	Volumes	119.9	131.9	140.0	145.5	146.3	147.2	139.0	130.8	122.7
	<u>Income</u>									
	Baseline Rates		£97.0m	£100.1m	£109.4m	£115.1m	£115.6m	£110.5m	£105.0m	£99.4m
	Target Rates		£141.6m	£147.2m	£168.1m	£184.1m	£185.1m	£176.3m	£166.6m	£157.2m
<b>Expected</b>	Aggressive Rates		£171.5m	£175.0m	£203.4m	£226.0m	£227.2m	£216.2m	£204.1m	£192.5m
	Volumes	119.9	131.9	152.1	172.0	184.8	197.7	192.6	188.7	184.8
	<u>Income</u>									
	Baseline Rates		£97.0m	£106.5m	£125.0m	£140.2m	£148.6m	£145.9m	£143.0m	£140.7m
<b>Optimistic</b>	Target Rates		£141.6m	£157.4m	£194.5m	£228.3m	£243.6m	£239.1m	£234.1m	£230.0m
	Aggressive Rates		£171.5m	£187.6m	£236.1m	£281.1m	£300.2m	£294.5m	£288.2m	£283.1m
	Volumes	119.9	131.9	161.2	191.9	213.3	234.7	232.1	229.6	227.0
	<u>Income</u>									
	Baseline Rates		£97.0m	£110.9m	£136.6m	£157.8m	£172.0m	£171.6m	£170.0m	£168.5m
<b>Optimistic</b>	Target Rates		£141.6m	£165.4m	£214.9m	£260.2m	£285.2m	£284.8m	£281.9m	£279.0m
	Aggressive Rates		£171.5m	£197.2m	£261.2m	£321.1m	£352.2m	£351.4m	£347.7m	£344.2m

30. At expected volumes and target BF2 pricing income peaks at £244m and trading profit at £106m in 2022 – assumes all costs fixed/variable

Income and Trading Profit at Target BF2 rates - Expected volumes forecast



31. Trading profit forecasts above exclude the cost of additional supply chain capacity fixed investment, network security upgrades, cash automation and additional increases in agent remuneration

#### Approach to Self-service and cash automation

32. Adoption of branch automation technology, either as automated cash handling at the counter or as full self-service mail and banking, is under strategic review and will provide output and strategic direction by Q2'19

33. POL will not have a single, coherent view of Branch automation in time for the bank automation component of that to be included into BF2 pricing presentation at the level of detail that every bank will require.

- 34. It is therefore recommended that any negotiations around providing banking self-service functionality are separated from the BF2 fee repricing.
- 35. We will indicate to the Banks our intent to engage them in a mutually beneficial proposition by middle of 2019 with a set of transactions fees that reflect the operational benefits self-service brings to all parties.

#### Project team structure and resources required

- 36. An internal team comprising of Martin Kearsley, Nigel Bascombe and Nicole Calder (Finance analyst) lead the analysis work. Supported in negotiation by Andrew Clatworthy. Full engagement with Retail Strategy, Supply Chain and Automation work streams to ensure integrated approach.

#### Project timeframe

- 37. BF2 repricing
  - a. Work in progress to define new BF2 fees to banks by end of October
  - b. Engage banks now, with delivery of final BF2 pricing by end November
  - c. Banks responses – accept or terminate by end of Dec
  - d. New BF2 terms apply 1/1/2020
- 38. Self-service / automation proposals
  - a. Complete POL-wide automation strategy by end Q1 2019
  - b. Develop detailed pricing, service SLA and proposition details for banking automation through Q2 2019
  - c. Detailed Banking cash automation and self-service proposition proposals to Banks by end Q2 2019

#### Proposed negotiating approach

- 39. Between now and end of October:
  - a. Engage with Banks' operational teams to prepare way for BF2
  - b. Use high level connections within banks to socialise proposals and gauge response at C-level.
  - c. Corporate Affairs to galvanise governmental support to reinforce the universality of PO offer and its community support role, social inclusion agenda, and continued access to cash in every High St.
- 40. Post October (based on assumed agreement on BF2 pricing at PO Board):
  - a. Declare formal pricing to banks
  - b. Maintain communication channels as above on responses and progress
  - c. Amend BF2 proposals if deemed necessary during negotiation

# Solar – Building an integrated EPOS

Authors: Tom Moran    Sponsor: Rob Houghton/Debbie Smith

Meeting date: 25<sup>th</sup> September 2018

## Executive Summary

### Context

We have identified 'Solar' (aka HNGT) as a critical part of developing our Retail and IT Strategies. With it, we can have the flexible, open IT architecture we need to become a more attractive retail proposition for our customers and our agents, respond quickly to threats and opportunities and, in due course, reduce our IT costs by replacing the need for counters with services integrated on retailers' tills, self-service or deliver through customers' own devices.

### Questions addressed in this report

1. What is Solar and why is it important?
2. What has the cost been so far and what have we delivered?
3. What are the risks?

### Conclusion

1. Project Solar is a strategic initiative to deliver greater access to Post Office products and services through a range of devices owned and operated by retailers, customers and the Post Office. Successful deployment is a key enabler of the Retail Strategy and North Star aims – we need it to be better for customers, be a partner of choice for retailers, grow our network and to digitise and optimise our business.
2. Our development so far has cost just under £6m and we are therefore raising this as we need to secure Board endorsement to be within governance. With this funding we have developed the essential microservices needed as foundations for product development, a Bill Payment pilot and are currently developing a Lottery Transaction Tracking product on retailers' tills, an initiative that has a clear business case and is a priority for agents.
3. Our new approach to joint working with Fujitsu and close working with Retail product owners and agents in developing Solar are designed to mitigate the key risks of a) failing to deliver to time, cost & quality, and b) retailers not taking up the new proposition(s).

### Input Sought

1. The Board is asked to approve the money spent to date and note the plan to return to Board with a fuller, costed paper once the product roadmap has been more fully developed.

### Input Received

2. Each stage of Solar has been approved by the Group Executive in the last year following extensive input from Retail and IT. The business case has been reviewed and validated independently by KPMG, and Solar has been endorsed from a strategic perspective by the Board at the June Away Day.



## The Report

What is Solar and why does the Post Office need it?

1. Our current Post Office transaction engine, 'Horizon', is highly robust, monolithic and over 20 years old. It is based on a 'thick client' running on Windows counter hardware, with business logic and reference data downloaded to the client. Transaction workflow takes place at the branch, with real time interaction with back-end systems before committal takes place. It is a 'one size fits all' solution.
2. We have nearly completed the substantial task of replacing end-of-life 'HNGX' hardware (Windows NT4) with a newer 'HNGA' system running on Windows 10. The renewal programme is over 90% complete and we will have installed the new equipment in all branches by mid-October. Architecturally, HNGX and HNGA are the same.
3. HNGA/X is designed as a stand-alone system and does not lend itself to integration on third-party IT. This requires us to own and maintain a large IT estate on behalf of Agents and Partners. In the vast majority of our estate (all c3700 Locals, the vast majority of our c3400 Mains and most of our c2700 Community branches) this results in separate Post Office and retailer POS equipment, with consequences for retail space, training and rostering of staff and the need for customers to queue twice for Post Office and grocery baskets.<sup>1</sup>
4. The core of Project Solar is the 'Horizon Integration Hub' (HIH). HIH uses a Web-Services architecture to connect browser-based, 'thin client', end user devices such as a retailers' till, via a common service interface or 'API', to Horizon. Each microservice performs a specific role in fulfilling the basic 'basket-building' process that is common to e-commerce systems. The generic basket-build process in Horizon, exposed through HIH, is shown below.



5. HIH gives Post Office the ability to innovate, develop and deploy new and existing products more rapidly and at lower cost than would ever be possible with the current HNGA/X system. As such it is critical to the future sustainability of our Retail network as it enables the new formats we need to develop and roll-out, reduces our IT operating costs and increases our ability to change products and services quickly, as other retailers do (see paragraph 8 below).

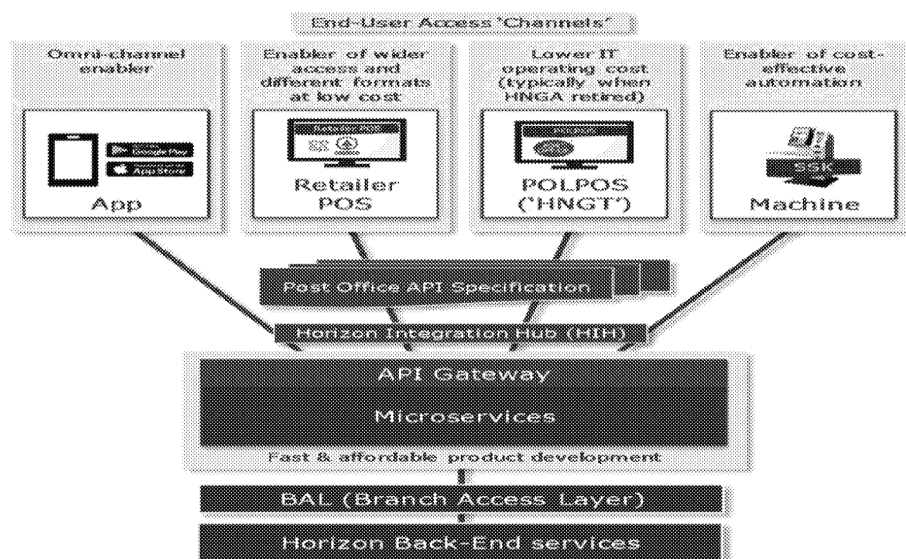
### BROWSER-BASED ACCESS

6. Having the business logic, reference data and transaction workflow in HIH, rather than in the client as in HNGA/X, allows the use of a simple browser to connect user devices, minimising the integration effort by third-party IT developer teams.

<sup>1</sup> This is the customer journey we demonstrated, along with the planned new one, to the Board at the June 2018 Away Day.



Figure 1: How Solar will allow us to link our Horizon system to multiple channels



7. This makes Retailer-POS integration an attractive proposition which should allow Post Office to increase accessibility (for example in PO Express) at low cost and at a high velocity.

#### WHY POST OFFICE NEEDS SOLAR

8. Solar will allow us to do the following, none of which are possible through HGNA:
- access Post Office services on an omnichannel basis through a range of devices owned/ operated by retailers, by customers and by the Post Office;
  - segment product offer by branch type, location, time of day, operator skill or other factors; and
  - innovate and deploy new products rapidly, including those for new strategic partners, as well as to change or improve existing products (for example, price changes).
9. The Retail Strategy describes a segmented customer proposition which moves away from the existing and limited Locals and Mains offers, which are not sufficient to meet customer or agent expectations. Our Retail Strategy stated that *"without mitigating action, our 3YP could potentially be negatively impacted by up to £22m EBITDAS...due to the challenges we are finding in recruiting agents...[which would result in more outreach and temporary-managed branches]."* Solar is needed to enable the new formats set out in the table below and is particularly critical to developing the new proposed 'Kiosk' and 'Express' formats.
10. The approach of the Integration Hub and Post Office retaining the IPR of the development gives us future sourcing options away from Fujitsu. The proprietary HNGA/X application and the Horizon back-end systems are complex and make it impossible for Post Office to access Category procurement savings from the market.

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## USE OF PAYZONE

11. We are working closely with colleagues responsible for 'Panther' to ensure we are aligned, as acquiring Payzone would give us a new capability and bill payment and other simple 'scan a bar code' transactions could be developed within the Payzone mobile device and systems.
12. Payzone already has a similar target architecture with regards to its development of bill payment microservices and it is expected that these can be integrated into the Post Office architecture in the future through a single API Gateway.
13. The integration planning of the two IT eco-systems continues, with the most cost effective and efficient outcome likely to be an integration of both existing microservice assets rather than one technology replacing the other.

What has the cost been so far and what have we delivered?

1. The work to date (previously referred to as 'HNGT Lite') developed the key foundation components – known as microservices – of the new HIH (Horizon Integration Hub) architecture. This has been critical work which we had to do before developing the new product journeys, which can then be developed using our Agile delivery approach.
2. This foundation development represents 90% of the £5,995m expenditure in HNGT Lite, and forms the essential basis for development of the roadmap in the coming Programme Increments. This funding has been approved in stages over the last 12 months through our Investment Committee, which the Group Executive uses to review and approve strategic investments. As the total now exceeds the £5m for which Board approval is required, we are requesting approval for the £5,995m through this paper.
3. We are not requesting funding for subsequent 'increments' or for Solar as a whole in this paper. We will be returning to Board with a fuller, costed explanation of the programme once we have developed the product roadmap more fully over the next few months. We will ensure all future business cases are subject to the relevant governance approval processes in future.
4. Our partners for this work are Fujitsu (as well as Retail Data Partnerships, EPOS specialists who operate in the Booker network) and, up to August, we were under the terms of the previous contractual arrangement with Fujitsu. The new Lottery increment is the first major initiative to be delivered as part of the new approach agreed through Project Everest and is intended to set a new standard in joint working and Agile delivery.

## SUMMARY OF ROADMAP TO DATE – LOTTERY, BILL PAYMENT AND MAILS

5. Having developed the necessary microservices to start adding products, we have started our product roadmap. The current work (Increment 1) is developing and deploying Lottery Transaction Tracking in all c1200 Multiple retail partner branches and which will improve the management of Lottery through Post Office to align with contracting direct with Camelot. This will protect £4.1m of at-risk EBITDAS and prove our credibility to our network for reasons set out below. We are working closely with McColls on this (as our largest partner with over 600

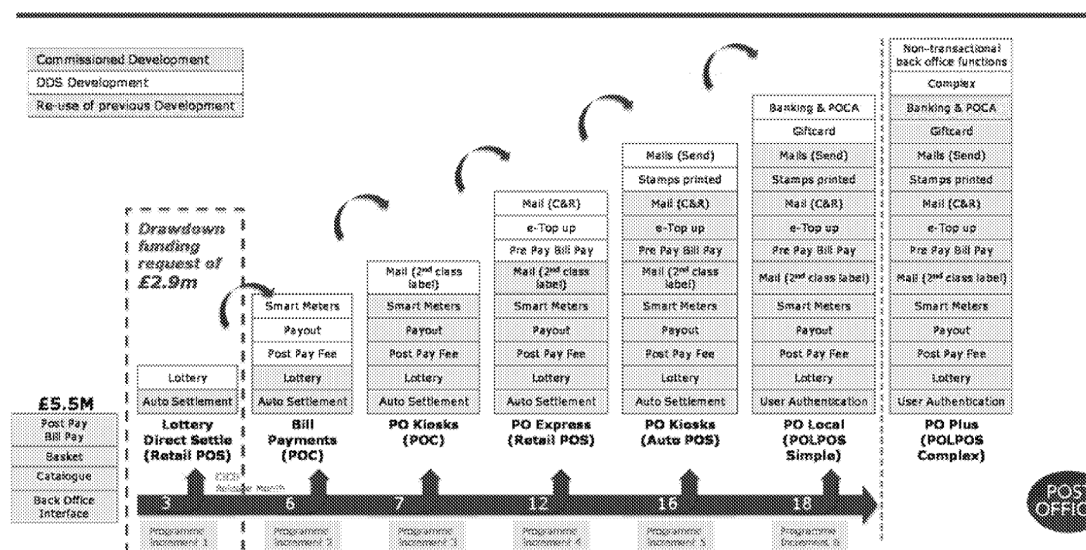
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Post Offices, McColls have consistently called for EPOS integration and securing their support, which we have done, is crucial to our wider credibility).

- The prioritisation of products is a business decision driven by our key senior product owners in Retail to align with commercial priorities and our Retail Strategy. The current product roadmap, which we fully expect to be modified on a regular basis, as we review it over the coming months, is below. We have also set out the business case we have identified for each increment at Appendix A.

Figure 2: Solar Product Roadmap as at 17 September 2018

## Roadmap



- Mails products appear later in the product roadmap (see above) as the full Mails suite already exists in the current Mains and Local format which, supported by the deployment of HNGA, satisfies the requirement of the new PO Local and PO Plus model referred to in the Retail Strategy. However, we continue to review the opportunity to bring forward the Collects component, as a minimum.
- We are also developing the 'Mails App' demonstrated to the Board in June through the Customer Hub. This complements the Solar work and means we can deliver to market quicker – the ambition is to launch Version 1 of the Mails App through Customer Hub prior to peak season whilst in parallel developing further enhancements for launch in Q4.

## What are the risks?

- The Post Office becomes locked into the current Horizon architecture* – this would be likely if we do not deliver Solar and would make us increasingly inflexible, increase costs and make us less attractive as a partner. Solar is designed to open up our architecture to 3<sup>rd</sup> parties and devices such as retailer tills and tablets to increase our options.



2. *Partners will not take up the new technology* – we are confident there is a clear need from partners, particularly Multiples and Symbols, for EPOS integration and for the new formats it will enable. Developing this with them is crucial to avoid wasted effort and we are involving them in the development (to date principally Spar on Bill Payment, McColls on Lotto and a range of agents in developing our microservices).
3. *Fujitsu will be unable to deliver to the time and cost we need* – our new contractual position incentivises Fujitsu to deliver through Agile quickly and efficiently. We must also accept our part as a partner and develop the product requirements needed to deliver.
4. *Solar will result in a GDPR-related issue or incident* – we need to consider GDPR in our design approach to be both compliant and mitigate against any potential re-work together with its partners. We have not identified any major issues to date and will keep this under close review.

## Conclusion

1. We have identified 'Solar' (aka HNGT) as a critical part of developing our Retail and IT Strategies. With it, we can have the flexible, open IT architecture we need to become a more attractive retail proposition, respond quickly to threats and opportunities and, in due course, reduce our IT costs by replacing the need for counters with services integrated on retailers' tills, self-service or deliver through customers' own device.
2. So far we have developed the essential microservices needed as foundations for product development, a Bill Payment pilot and are currently developing a Lottery Transaction Tracking product on retailers' tills, an initiative that has a clear business case and is a priority for agents. Feedback from independent and Multiple agents has been very positive, giving us confidence we are taking the right approach. Our next increments will focus on Bill Payment and Mails, these being the priority products to address customer and agent needs.
3. As the total now exceeds the £5m for which Board approval is required, we are requesting approval for the £5,995m through this paper. The Board is asked to approve the money spent to date and note the plan to return to Board with a fuller, costed paper once the product roadmap has been more fully developed.

## Appendix A: High-level business cases for future Solar Product Increments

Use case/business case driver/benefit	OPEX reduced	EBITDAS increased	EBITDAS maintained	CAPEX avoided	Timing
UC1: Enable PO Express format on Retailer POS	-	-	-	£4.0-13.0m in total	Full benefits achieved over 5 years starting FY2020
UC2: Displace PayPoint from multiples/ symbols	-	£1.2-4.5m p.a.	-	-	Full run rate achieved over 3 years starting Sep 2019
UC3: Reduce cost of Automation	£4.5-9.0m p.a.	-	-	-	Roll out start in FY2021 and full run rate achieved by FY27
UC4: Enable Digital mail back end integration	-	-	-	£2.5-5.0m in total	CAPEX avoided in FY19
UC5: Enable direct settlement of lottery transactions	-	-	£4.1m p.a.	-	Excludes £1m OPEX saving for multiples partners. EBITDAS estimate is for FY2020 assuming FY2018 EBITDAS of £5.1m and 10% yoy decline
<b>TOTAL</b>	<b>£4.5-9.0m p.a.</b>	<b>£1.2-4.5m p.a.</b>	<b>£4.1m p.a.</b>	<b>£6.5-18.0m in total</b>	



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## Appendix B: Solar benefit map linked to Retail Strategy

### Our Customers

*I can do my "transactional" services at the Retailers POS in my Post Office*

*I can use the Self serve machine on my own*

*I can do my "transactional" services at the Retailers POS at my local store*

### Our Agents

*I can save my operating cost from Lottery*

*I can give a better service to my customers at lower cost*

*I use lower skill staff to operate My Post Office counters*

### Post Office

*We can talk to our multiple partners with a live POC in place*

*We can integrate our App products*  
*We can evaluate the benefit of RPOS*

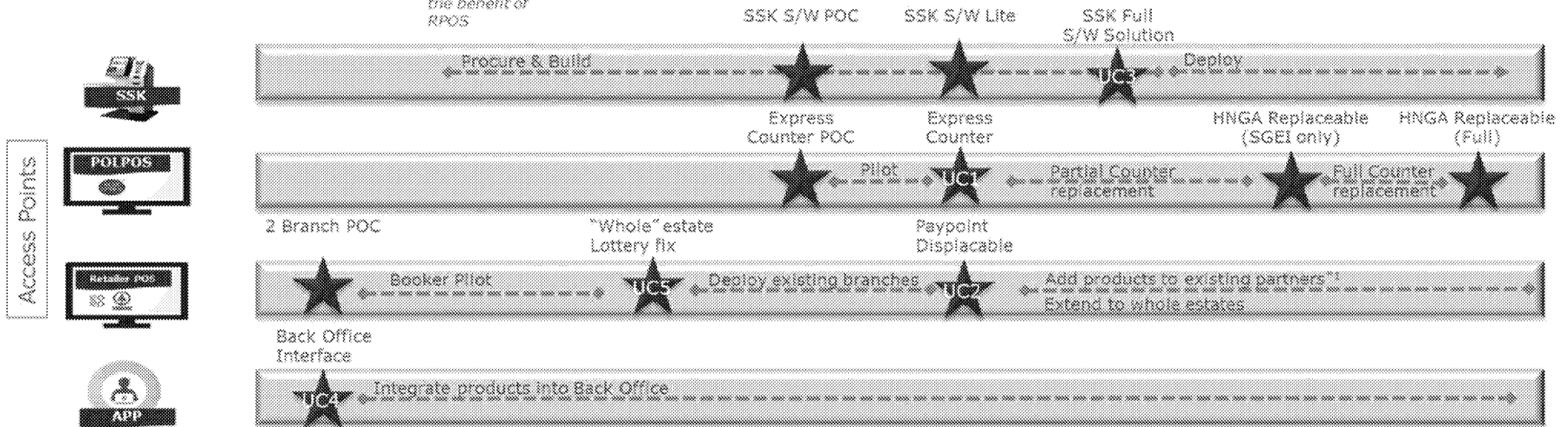
*We can save our operating cost from Lottery*

*We can get our first service integrated into Retailer POS's*

*We can add our transactional products into Retailer POS's*

*We can extend our network into whole estates*

*We can remove the cost of operating HNGA*



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UPDATE PAPER

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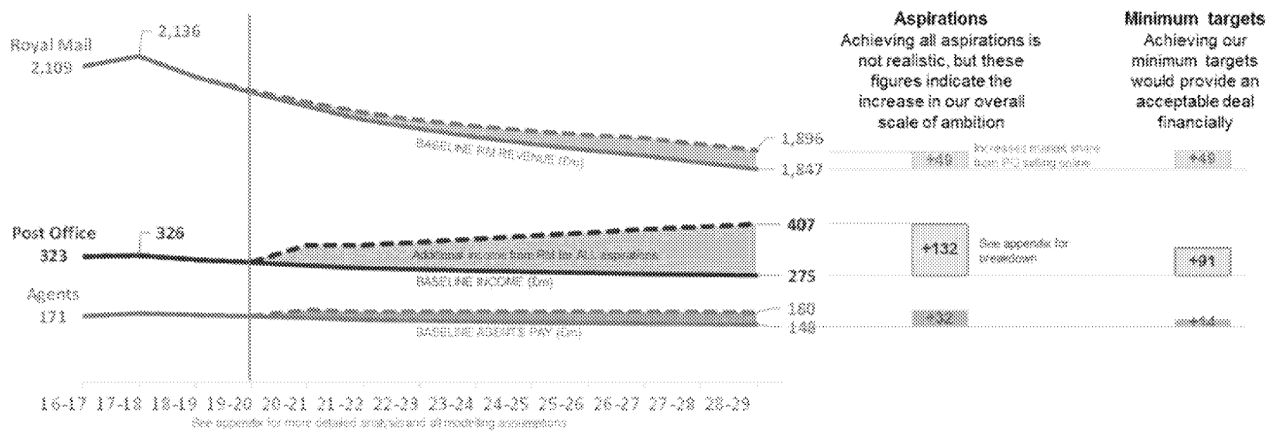
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**IRRELEVANT**

## Annex 1. Financial projections of very ambitious asks

The cumulative effect of our very ambitious aspirations adds significant value over the current projected baseline income, although our minimum targets would see some reduction the increase in contract cost to RM would need to be supported by clear benefits from our market leading network.



The value of relaxing restrictions in e-commerce are minimal in the initial years as the market values remain relatively small and time will be required to increase our market share significantly. They do represent a source of new income as RM's volumes decline reflecting continued e-substitution and loss of market share by RM.

# IRRELEVANT

# Back Office Transformation

**Authors:** Michael Clements   **Sponsor:** Alisdair Cameron   **Meeting date:** 25 September 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 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 May, the Board approved a cumulative investment of £26.2m to enable the programme to deliver a September Go Live or £27.9m for an October Go Live. In July we confirmed that October was the first possible go-live date.

### Questions addressed in this report

- 1) What has happened since the last update?
- 2) What Go Live date are we recommending?
- 3) What is our confidence level?
- 4) Can POLSAP last?
- 5) What does this mean for contingency plans?
- 6) What are the financial implications?

## Conclusions

1. The completed agents pay process is operating effectively. The Belfast cash processing trial is stable and operating efficiently. All master data changes and integration are live. We have completed a full dress-rehearsal of Go Live. POLSAP Process Migration has almost completed its 3<sup>rd</sup> integration test, run higher than x-mas volumes through the sale-settle-bill process and were it a stand-a-lone project, we would have been confident taking it live in October.
2. In Cash Processing, testing and correcting defects is taking longer than expected. In Transtrack, system changes that we require (there is no off the shelf system that meets our needs) are changed in the core product available to all customers. While this means we avoid a bespoke solution with future upgrade complexity, changes are slow. We are also continuing to create the Cash Forecasting solution. We cannot therefore complete full integration testing or testing Forecasting at volume by October, hence reviewed November and January go-live dates.
3. The additional cost of delaying go-live from November to January is £1.3m. However, for November we would go-live having compromised testing at volume for Cash Processing, with less well designed and delivered training in Supply Chain, and with a less effective Cash Forecasting solution than we have today. In total, November go-live is likely to require an additional £300m of cash outside the vaults, stretching our borrowing facilities to their limits.
4. We are recommending go-live on 28<sup>th</sup> January, a further three-month delay. The total cost of Phase 1 is now estimated at £37.3m, an increase of £9.4m on the October value of £27.9m. The difference between November and January is smaller than pro-rata because it covers the Christmas period and requires work to be delayed post go-live.
5. We are confident that January can be delivered and that the current infrastructure will be robust for this period.

## Input Sought

The Board is asked to approve the additional £9.4m drawdown.

# The Report

## What has happened since last update?

1. In the last update we flagged three issues preventing a September Go-Live: Horizon interfaces, CFS high volume performance and Cash Forecasting. Two resolved as hoped:
  - **Horizon interfaces:** All interfaces delivered to test broadly on their revised schedule but the delay has affected Cash Processing and Cash Forecasting.
  - **CFS high-volume performance:** Our original design was to operate a monthly billing process. This has proved to be infeasible due to our data volumes. We therefore developed a daily billing process and have subjected that to both integration and volume testing. Having added two more testing cycles, the Sale-Settle-Bill process is in the final stages of testing at peak volumes and will now complete well before morning settlement deadlines.
2. Unfortunately the 3<sup>rd</sup> remains a challenge, and an accumulation of issues caused a 4<sup>th</sup> challenge:
  - **Cash Forecasting:** The logic behind the new TransTrack forecasting module is widely used but significantly different to how we currently operate. Whilst the technical delivery and new functionality is comprehensive, there were some key areas where a late change was needed. This required changes to the Horizon interfaces. As a result of this delay, we are unable to confirm performance, or ensure we will not have a branch cash out nor any increases in inventory. While we finalise the solution, the project is concurrently building a "Plan B" forecasting tool that replicates the current approach. Whilst Plan B does not add value over our current forecasting solution this ensures we can allow the rest of the project to go-live without degradation to our ability to manage Network cash. This de-risks January go-live.
  - **Cash Processing:** We have made significant progress with defect resolution times in conjunction with TransTrack. However, as we want to avoid a bespoke solution, this does mean we encounter delays as TransTrack test the fixes with other clients. As noted the Horizon interfaces were delivered 2 months later than originally planned (due to incorrect requirements) and the forecasting components are as a result still undergoing unit testing. The technical integration of Transtrack to our high speed note counters (fundamental to all in-bound cash scripts) contained critical defects resolved 8 weeks late and Transtrack to SAP integration suffered due to late (but mandatory) design specification changes.



3. As a result of the delayed integration testing in Cash Processing (new target 28<sup>th</sup> September), we do not have sufficient elapsed time to complete user acceptance testing, prepare the training materials and deliver the training the full Supply Chain organisation by 26<sup>th</sup> October.
4. Whilst it is still possible to Go Live with POLSAP Process Migration, we have re-confirmed that we cannot separate the projects. Whilst theoretically possible, it would require a number of interim interfaces to ensure the ongoing systems alignment. These would require substantial testing and mean a longer delay than for a joint go-live.

### What Go Live date are we recommending?

5. In the last update we were evaluating Go-Live dates from October to January. October is no longer feasible. The steering committee recently reviewed detailed options for November and January.
6. We are recommending Back Office Transformation Go Live in January. Across the programme there was unanimous support for January rather than November, reflecting more certainty on cash processing, a better cash forecasting solution, better training for Supply Chain and a reduction in cash usage of some £300m at peak.

	November	January
<b>CAPEX</b>	£36.0m	£37.3m
<b>Benefit Impact</b>	£0.2m reduction for 2019	£0.2m reduction for 2019
<b>Cash impact</b>	Additional £300m in borrowing	Expected nil impact year on year
<b>Quality of training - PPM</b>	Delivered as planned to the user base	Delivered as planned to the user base
<b>Quality of training - Cash Processing</b>	Lower quality as training is delivered before user testing is completed. Delivered during capacity peak, will require 40 FTE backfill	Higher quality as training is delivered after user testing ended. Delivered in January quiet period, may require 20 FTE backfill
<b>Process readiness - PPM</b>	All processes ready to implement. Workarounds in Billing	All processes ready to implement. Fewer workarounds in Billing
<b>Process readiness - Cash Processing</b>	All Cash Processing processes ready Backfill required to process delayed collections and maintain Christmas output after Go Live Cash Forecasting uses temporary and basic standard replenishment process	All Cash Processing processes ready Backfill required to process any collections before Go Live Full Cash Forecasting process either by TransTrack or alternative Plan B solution

## What is our confidence level?

7. The full Back Office Transformation Steering Committee unanimously agreed the January Go Live option based on the following:
  - We will implement a full-capability Cash Forecasting solution (either from TransTrack or from the alternative "Plan B") that we expect to have a minimal impact on service or network funding.
  - Volume testing and POLSAP comparison of the full Cash Forecasting solution will be complete.
  - Training materials for Cash Processing will be ready and we will have the maximum possible attendance
  - It has the lowest overall cash impact with the minimum of borrowing and does not require us to delay cash collections during the Go Live period

In summary we are:

- Very confident of achieving January for Sales & Finance
- Very confident of achieving January for Cash Processing
- Hopeful of achieving January for improved Cash Forecasting, confident of a solution similar to POLSAP in its outcome, and very confident of a workable but not optimal solution that would allow the remainder of the project to Go-Live whilst forecast testing continued.

## Can POLSAP last until January?

8. We continually review the risks and support arrangements for POLSAP. We had a hardware failure on 11<sup>th</sup> September. This was reasonably expected based on the volume and age of equipment. It does not lead us to believe the failure rate is accelerating. POLSAP is now running at marginally reduced resilience until the part is swapped and the service is failed back in a planned change window. The failed part will then be returned, internationally, for attempted repair. Our suppliers have confirmed that we are not seeing any systematic deterioration.

## What does this mean for contingency plans?

9. Contingency plans largely remain similar to those submitted in last month's board paper. DMW are returning to review our plans with business continuity, project deployment and departmental heads over the coming month.
10. The most significant difference of moving to January is the change in approach to cash collection processing around Go Live. We were (for October or November) going to postpone collections for 3 days which had a temporary borrowing impact of approximately £140m. For January, this is not required and we will work in the first two weeks of 2019 to clear all collections from the network.

11. We will deploy additional support staff between the Supply Chain and Finance teams so that we have sufficient capacity to execute transaction corrections between TransTrack and CFS as a direct learning from the Belfast Go Live.

### Financial and other implications?

12. As a result of the plan updates and recommendations per commentary in this paper, an approval of an additional £9.4m of additional funding taking the cumulative investment to £37.3m. The 2019 benefits will reduce by £0.2m as a result of the delayed decommissioning of POLSAP. This £9.4m increase from October is comprised of:

<b>£m</b>	<b>Description</b>	<b>Comments</b>
<b>£2.8m</b>	Cash Processing	Introduction of Agile Forecasting workstream,, Arrow Plan B Forecasting solution, Optimising Cash Forecasting, Cash Processing Training (by Vaultex) and Transtrack additional testing resources
<b>£5.8m</b>	Programme Resources	Additional resource the programme has added predominately due to the accelerating September delivery plans. Resources added for integration and performance testing, business intelligence and change management. Monthly run-rate will reduce from a £2m peak from December to under £1.5m
<b>£0.4m</b>	SAP Buyback	Contractual obligations under discussion; Provision to buy back order form 9 if termination / negotiation is on plan
<b>£0.4m</b>	Infrastructure and Application support	Delay costs from going live with new services opex. Downsizing of project environments Performance Testing uplift
<b>£9.4m</b>	Total	

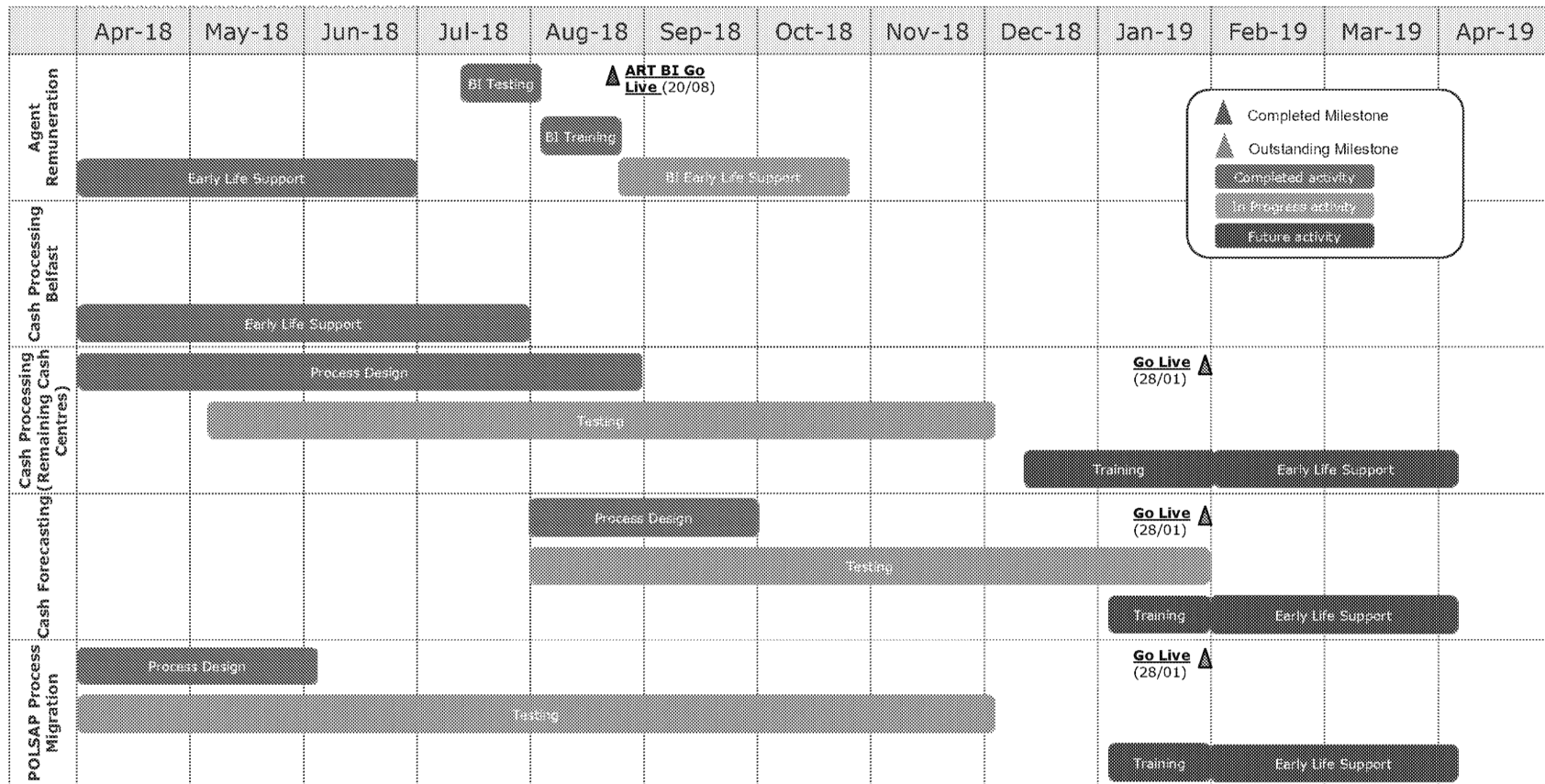
**Appendix 1 (Waterfall sent separately)**

		GE Update	Board June	Board June	Board June	Current	Current
Project	Business Case Budget Approved	Go Live June 18 (Sept 17 Update)	Go Live June 18	Go Live Sept 18	Go Live Oct 18 [DLA]	Go Live Nov 18	Go Live Jan 19
<b>Total</b>	<b>20.0</b>	<b>20.9</b>	<b>21.2</b>	<b>26.2</b>	<b>27.9</b>	<b>36.0</b>	<b>37.3</b>
<b>Annualised Direct Benefits (£m)</b>	3.5	3.9	3.1	3.1	3.1	2.9	2.9
<b>NPV (£m)</b>	(12.7)	(13.4)	(15.5)	(16.7)	(17.9)	(23.3)	(24.1)
<b>Payback</b>	5.7 yrs	6.0 yrs	6.8 yrs	8.4 yrs	8.9 yrs	12.6 yrs	13.0 yrs
<b>Cost Movement (£m)</b>			0.3	5.0	1.7	8.2	9.4
<b>NPV Movement</b>			15.5%	7.6%	7.2%	30.3%	34.6%
<b>Payback Movement</b>			13.0%	23.5%	6.4%	41.8%	46.1%
					Movement to Oct DLA		



## Appendix 2

### Programme timelines



# Modern Slavery Act Statement

Author: Janene Mellor & Laurence O'Neill

Sponsor: Mohinder Kang

Meeting date: 25th September

## Executive Summary

### Context

The Modern Slavery Act 2015 (the Act) challenges slavery, domestic servitude, forced and compulsory labour and human trafficking. Post Office is required to produce an annual slavery and human trafficking statement (Statement) setting out what steps have been taken to ensure its business and supply chains are slavery free. This paper attaches the second Statement which documents progress on our previous year's commitments and outlines the actions that we commit to take in the year ahead.

### Questions addressed in this paper

1. Why do we need a Statement?
2. What are the key points to note about our Statement?
3. What are the implications for the board and the business?

### Conclusion

1. Post Office has undertaken due diligence on its business and supply chains to identify any risk areas.
2. Post Office has prepared a new Statement for 2017/2018 in line with the Act. The Statement must be published on Post Office's website within 6 months of year end.
3. A steering group was appointed in January 2016 and is responsible for proposing actions, creating relevant project plans and continuing to develop and monitor our approach to the Act.
4. The steering group identified that the highest level of risk is within our Agency network. We have already begun to take action to address this risk including amending our contracts with Postmasters to require compliance with the Act and issuing Postmaster guidelines.
5. The nature of the Act allows for Post Office to build a robust approach to tackling modern slavery. The Act requires that a statement is published which records the steps taken to tackle modern slavery in the previous financial year, although it is common practice for organisations to publish its commitments to tackle modern slavery in the financial year ahead.
6. Although the legal requirement is only to publish a statement, the desire to clearly show the material commitment we are making to tackling modern slavery comes from the scrutiny to which our statement will be subject from the public, the media and from pressure groups.

**Input Sought**

The ARC are asked to approve the 2017/2018 Statement and endorse the proposed actions for the business to take forward in the 2018 /2019 financial year.

**Input Received**

We consulted all members of the MSA Steering Group which comprises of representatives across functions including Legal, Postmaster Contracts, Procurement, Risk, Employee Relations and Learning and Development.

## The Report

### Why do we need Modern Slavery Act Statement?

1. The requirement to publish a Statement applies to “commercial organisations” which (a) supply goods or services and (b) have a total turnover of not less than £36 million. It will therefore not apply directly to Postmasters if their annual turnover is less than £36 million. As Postmasters are part of the Post Office supply chain Post Office must state what steps it has taken to ensure that slavery and human trafficking is not taking place in any of its supply chains or its business.
2. Post Office is required under s.54 of the Act to produce an annual slavery and human trafficking statement listing the steps taken to ensure its business and supply chains are slavery free. This paper attaches the second Statement (Appendix 1) which records what steps we have taken in 2017/2018 and outlines the actions we commit to take in 2018/2019. The Statement must be approved by the Post Office Board and signed by a Director.
3. The due diligence undertaken so far indicates that there is a potential risk of non-compliance within our agency network. This is because there are a large number of people employed by Postmasters (including multiple partners) who are not employees of Post Office or POMS. They work directly for the Postmasters. We do not have visibility on how they are engaged. We have already taken action to begin to address this risk including reviewing our contracts with our Postmasters to require compliance with the Act and raising awareness of their responsibility by communicating Postmaster guidelines on Modern Slavery during December 2017.

### What are the key points to note about our updated Modern Slavery Act Statement?

1. Our 2017/2018 statement records the progress we have made against those commitments and lists our commitments to tackle modern slavery across POL and POI for the financial year 2018/2019. The commitments were developed by the MSA Steering Group which includes representatives from Legal, Postmaster Contracts, Procurement, Risk, Employee Relations and Learning and Development. Our commitments are:
  - Raise awareness of Modern Slavery across our supply base.
  - Improve the due diligence assessment for onboarding new suppliers to our systems.
  - Raise awareness of Modern Slavery across Post Office, its suppliers and within the agency network.
  - Educate field teams out in the agency network on spotting the signs of Modern Slavery.
  - Review our supply base and revise our supplier management processes.

2. In formulating our commitments for 2018/2019 we reviewed the commitments made by other organisations in this area and looked at a variety of statements to ensure our approach is consistent. By way of an example:

**ACAS [for 2018/2019]**

1. Continue to develop a staff awareness strategy for the Act and reporting mechanisms if a case of slavery or human trafficking is suspected.
2. Develop measures (e.g. KPI, assurance) to evidence our commitment to the principles of the Act.
3. Embed the Act into our Whistleblowing Policy and processes.
4. Incorporate the finding and guidance from the UKSBS and BEIS supplier assessment pilot into our procurement process.
5. There are no significant costs identified in fulfilling our commitments for 2018-19.

What are the implications for the board and the business?

1. Aside from the statutory sanctions, one consequence that may result if a business fails to comply or reports in its statement that it has taken no steps to ensure that slavery is not taking place, is damage to the organisation's reputation and brand.
2. Provided our annual statement continues to show a material commitment to tackling modern slavery, we should ensure that we minimise the risks of modern slavery occurring within our business or supply chain and safeguard our reputation.
3. We are confident that the detail in our 2017/2018 statement recording our progress on last year and our proposed actions for the financial year 2018/2019 are appropriate. We will monitor developments, and keep the adequacy of the Statement under review.



## Appendix

### 1. Modern Slavery Statement 2017/2018

#### **MODERN SLAVERY ACT TRANSPARENCY STATEMENT 2017/18**

Post Office Limited (Post Office) & Post Office Management Services Limited (POMS).

This statement is made pursuant to section 54(1) of the Act. It sets out the steps taken by Post Office & POMS during year ending 31<sup>st</sup> March 2018 to prevent modern slavery and human trafficking in its business and supply chains.

Post Office and POMS are committed to combating the risk of modern slavery or human trafficking in our supply chain and business operations. We are committed to taking appropriate steps to ensure that everyone who works for Post Office in any capacity, benefits from a working environment in which their fundamental rights and freedoms are respected.

While this is only the second statement in which we report on our efforts to prevent modern slavery in line with the requirements of the Act, we have focused on the rights and wellbeing of the people who work for Post Office and for our suppliers for many years. Our statement provides details of our policies, our approach and the actions we have taken in the 2017/18 financial year to strengthen our programme and commitment to respect and uphold people's fundamental rights and freedoms.

#### **OUR BUSINESS AND SUPPLY CHAIN**

Post Office is the UK's largest retail network and the largest financial services chain in the UK. We have provided services for more than 370 years and currently supply more than 170 products and services Post Office directly manages around 2% of the Network branches. The remainder of the branches are managed on an agency basis by Postmasters and multiple partners. We operate throughout the UK, however our supply chains connect with suppliers with a global reach.

##### *Banking services*

Post Office banking services are provided in Post Office branches on behalf of the customers of UK banks.

##### *Postmasters*

Postmasters can operate one or more branches. As agent's they have control over how their branches are run on a daily basis. All those working in an agency Post Office branch are employed directly by the Postmaster. The Postmaster is self-employed and typically takes on a Post Office as an adjunct to their own retail business.

##### *Multiple partners*

A large proportion of the agency part of our network is run by multiple partners – corporate retail organisations who themselves have a multiple number of high street stores, some with Post Offices.

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*Trade Unions*

In our directly managed branch network, we work closely with the Communications Workers Union (CWU) and Unite (CMA) Communications Managers Association.

*Third Party Suppliers*

We also procure products and services from a wide range of suppliers, ranging from small and medium enterprises to large multinationals, each one of which has its own supply chain. The majority of the purchasing is controlled centrally by the Procurement team who also set the Supplier Relationship Management standards to ensure our teams maintain a consistent approach to supplier management across Post Office.

**OUR BELIEFS AND PRINCIPLES**

Respect for the dignity of the individual and the importance of each individual's human rights form the basis of the behaviours we expect in every workplace and are communicated through our Code of Business Standards. We will not accept any form of discrimination, bullying or harassment. We require all our managers to implement policies designed to ensure equality of opportunity and inclusion for all Post Office employees.

**OUR POLICIES**

We operate a number of policies to ensure we are conducting business in an ethical and transparent manner. These include:

**CODE OF BUSINESS STANDARDS**

We have a Code of Business Standards which underpins everything we do. The Code is mandatory and extends to everyone employed by Post Office. It requires all of us to act ethically and comply with legal requirements at all times, putting our principles into practice in everything we do. The Code of Business Standards was updated during the 2017 financial year to include references to Modern Slavery.

**WHISTLEBLOWING**

We operate a Whistleblowing Policy so that all employees know how to raise concerns regarding wrongdoing or dangerous practices. The policy was updated during the 2017 financial year to include references to concerns about Modern Slavery.

There are a number of ways people can report any concerns regarding slavery or human trafficking within Post Office, by either contacting the Whistleblowing Officer or via our anonymous external confidential reporting service 'Speak Up' which is regularly communicated to all employees, suppliers and contractors. This is overseen by our General Counsel (Whistleblowing Officer). Every report submitted is assessed and investigated.

**RECRUITMENT POLICY**

Our recruitment policy sets out the overarching principles and controls to be followed and applied to ensure that personnel resourcing is conducted in a fair, open and transparent manner, including conducting eligibility to work in the UK checks for all employees.

**DUE DILLIGENCE PROCEDURES IN RELATION TO SLAVERY AND HUMAN TRAFFICKING IN OUR BUSINESS AND SUPPLY CHAIN.**

Post Office/POMS employs solely within the UK.

Our recruitment procedures ensure that all prospective employees are legally entitled to work in the UK. All successful applicants must produce, on their first day, one of the following: their original passport, driving license or birth certificate. Additionally, to comply with the Asylum and Immigration Act 1996 requirements, if they are from a non-European Economic Area (EEA) country, evidence of a right to reside and work in the UK must be produced.

We carry out reasonable and practical due diligence in the sourcing of goods and services and ensuring that the Act's obligations form part of the procurement process. As part of this process we have conducted a review of the criteria used by Post Office to evaluate whether suppliers meet Post Office's minimum tendering requirements. We have also reviewed our standard form procurement contracts to ensure that they make explicit reference to the Act. Additionally our supplier pre-qualification process requests information from potential suppliers to assess their suitability as a supplier and provide evidence of their compliance with the Act, as well as covering other areas of company information, policies and procedures. This enables the procurement team to assist Business Units to identify and assess any potential risks relating to the goods or services being procured.

**IDENTIFYING, ASSESSING AND MANAGING RISK****WHERE ARE THE RISKS OF MODERN SLAVERY AT POST OFFICE/POMS**

Post Office understands that our third party supply chains carry with it the risk of modern slavery and human trafficking.

The due diligence we have undertaken so far indicates that there could be a risk of non-compliance within our agency network as there are a large number of people employed by Postmasters (including multiple partners) who are not employees of Post Office or POMS. They work directly for the Postmasters. During 2017 we reviewed the Postmaster Contract of Engagement and have written Guidelines to assist them in complying with MSA legislation. These guidelines were issued December 2017.

**GOVERNANCE**

We have established a cross-functional steering group through which we develop and coordinate our approach to addressing modern slavery risks within our operations and supply chain. This group consists of expertise from the legal, procurement, compliance and operational functions in Post Office.

**TRAINING**

We provide annual Compliance Awareness Training to all our employees and postmasters, which is tailored to ensure an appropriate level of understanding of issues such as modern slavery and the Act's requirements.

**WHAT DID WE DO THIS YEAR**

<b>Proposals from 2017 Statement</b>	<b>Progress on 2017 proposals</b>
Update Postmaster selection and appointment process to address MSA requirements.	We reviewed the Postmaster contract and believe it is robust enough to cover the Act. We also supplemented the contract process with a set of Guidelines for Postmasters.
Amend our standard form procurement contracts.	We reviewed our standard form procurement contracts and believe our 'applicable laws' clause covers POL for breaches of MSA. Our PQQ process has also been amended to take account of MSA and suppliers must confirm that they comply with their obligations under the MSA and provide a copy of their MSA Statement.
Develop a communication plan to ensure our suppliers, staff and agents are aware of Post Office's obligations in relation to Modern Slavery and informing them about the Modern Slavery Helpline.	<p>We sent multiple communications regarding Modern Slavery during 2017/18, including communications to Postmasters.</p> <p>The MSA is referenced in our Whistleblowing Policy and was added to our Code of Business Standards during 2017.</p>
Review of audit and compliance, to develop a relevant Training Plan.	<p>A training plan remains under development. This year, our commitments are focussed on raising awareness. The Steering Group anticipate the training requirement to increase as we move towards 2019/20 as we begin to build a suitable due diligence and compliance capability.</p> <p>We do however provide annual Compliance Awareness Training to all our employees and postmasters, which is tailored to ensure an appropriate level of understanding of issues such as modern slavery and on the requirements of the Act.</p>

**WHAT COMMITMENTS ARE WE MAKING TO TACKLE MODERN SLAVERY IN THE YEAR AHEAD**

As part of our initiative to identify and mitigate risk throughout 2018/19 we are committed to:

- Improve the due diligence assessment for onboarding new suppliers to our systems
- Review our supply base and revise our supplier management processes
- Raise awareness of Modern Slavery across our supply base
- Raise awareness of Modern Slavery across Post Office, its suppliers and within the agency network.
- Educate field teams out in the agency network on spotting signs of Modern Slavery.

## **REMEDIATION PROCESSES**

If you have any concerns about the issues raised in this statement or if you think you have identified signs of Modern Slavery then please contact us on the below contacts:

- Post Office's Whistleblowing Officer: [whistleblowing@postoffice.co.uk](mailto:whistleblowing@postoffice.co.uk) or by telephone on: 07900 216851.
- The Government's Modern Slavery Helpline on 0800 0121 700.

We encourage any individual who has concerns about unethical behaviour in any part of our business or operations to speak up and to do so without fear of retaliation. We will review all instances of non-compliance, on a case-by-case basis and will implement appropriate remedial action.

## **REVIEW**

This statement shall be reviewed and published annually



# Post Office Limited Sealings

Author: Veronica Branton

Sponsor: Jane MacLeod

Meeting date: 25 September 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 1697 to 1710 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 1697 to 1710 inclusive in the seal register is hereby confirmed.

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

Date  
18.09.2018

Company Number  
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1697	01/08/2018	31/07/2018	Licence to Occupy - Post Office, 3 Crown Buildings, Billingham	Jane MacLeod, Company Secretary	Legal
1698	01/08/2018	30/07/2018	Sale of 131 Brent Street, London	Jane MacLeod, Company Secretary	Legal
1699	03/08/2018	01/08/2018	Sale of freehold - 16-18 East Street, Ilminster, TA19 0AJ	Jane MacLeod, Company Secretary	Legal
1700	20/08/2018	20/08/2018	Agreement for surrender relating to part ground floor, basement floor and mezzanine floors, 7/8 St Martin's Place, London between Best Effort Ventures Limited (Landlord) and Post Office Limited (Tenant).	Jane MacLeod Company Secretary	Jean Reynolds
1701	20/08/2018	20/08/2018	Deed of surrender and release relating to part ground floor, basement floor and mezzanine floors, 7/8 St Martin's Place, London between Best Effort Ventures Limited (Landlord) and Post Office Limited (Tenant). GROUD FLOOR SURRENDER DEED.	Jane MacLeod, Company Secretary	Jean Reynolds
1702	20/08/2018	20/08/2018	Deed of surrender and release relating to part ground floor, basement floor and mezzanine floors, 7/8 St Martin's Place, London between Best Effort Ventures Limited (Landlord) and Post Office Limited (Tenant). BASEMENT FLOOR SURRENDER DEED.	Jane MacLeod, Company Secretary	Jean Reynolds
1703	20/08/2018	20/08/2018	Deed of variation relating to part ground floor, basement floor and mezzanine floors, 7/8 St Martin's Place, London between Best Effort Ventures Limited (Landlord) and Post Office Limited (Tenant).	Jane MacLeod, Company Secretary	Jean Reynolds
1704	04/09/2018	04/09/2018	Agreement for sale relating to 117-121 High Street, Bromsgrove, B61 8AA	Al Cameron, Group Chief Financial Operating Officer	Legal
1705	04/09/2018	04/09/2018	Transfer of whole of registered titles relating to 117-121 High Road, Bromsgrove, B61 8AA	Al Cameron, Chief Financial Operating Officer	Legal
1706	04/09/2018	04/09/2018	Notice of an election to use an alternative apportionment relating to 117-121 High Street, Bromsgrove, B61 8AA	Al Cameron, Chief Financial Operating Officer	Legal
1707	11/09/2018	11/09/2018	Deed of release of dilapidations relating to Barry Crown Post Office (3-5 Holton Road, Barry, Glamorgan, CF63 4ZZ)	Jane MacLeod, Company Secretary	Legal
1708	11/09/2018	11/09/2018	Deed of surrender and release relating to a lease of premises known as Great Dunmow Crown Post Office, High Street, Great Dunmow, CM6 1AL	Jane MacLeod, Company Secretary	Legal
1709	13/09/2018	13/09/2018	Deed of surrender and release relating to a sub-underlease of premises known as Ground Floor, 377 Harrow Road, London, W9 3ND. Seal x 2	Jane MacLeod, Company Secretary	Legal
1710	13/09/2018	13/09/2018	Transfer of whole of registered title relating to 377 Harrow Road, London, W9 3ND	Jane MacLeod, Company Secretary	Legal

# Performance Review – Health & Safety

Author: Martin Hopcroft

Sponsor: Al Cameron

Meeting date: 25<sup>th</sup> Sept 2018

## Executive Summary

### Context

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

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 has been externally audited and we also recognise the importance that wellbeing can play in creating engaged and motivated employees.

### Questions addressed in this report

What are the trends on accidents and on violence across Post Office?

### Conclusion

The prevention of accidents has improved materially year in year. However, we are seeing a recent increase in robberies, especially around CViT in Liverpool and in ATM rip-outs. Most worryingly we have seen two recent attacks on Post Offices with a machete and a gun respectively. One was foiled with fogging technology.

There is a 47% reduction in accidents reported YTD to P5 (Aug) compared to 2017/18 (33 v 62) mainly due to a 69% decrease in Supply Chain (11 v 35). Accidents per 1000 employees have reduced by 55% with Supply Chain reducing to 13.5 from 42.9 (69%). Lost time accidents have also reduced and the P5 YTD LTIFR is 0.143 compared to 0.303 in 2017/18. Total lost days are 68 compared to 276 in 17/18, a reduction of 75%.

The Supply Chain safety plan is progressing well with the introduction of safety champions, safety forums and a review of local risk assessments and safe systems of work. Further workshops are planned to support development and share best practice.

Additional Health & Safety training workshops have been provided to DMB and Supply Chain Managers and a plan is being developed to provide similar training and support to Network Operations and Retail support teams.

We have seen a reduction in road traffic accidents in line with the 41% fall in fleet size. Support is being provided to teams adopting the mobile phone whilst driving policy and online driver safety training. Advice and guidance to alleviate fatigue whilst driving is being pulled together for our drivers,

CViT attacks have increased with 24 incidents occurring over the last rolling 12 months compared to 15 during the previous 12 months. There was 1 incident in August with no injury. A review meeting has been held with all parties across supply chain, physical, intel and security operations to deal specifically with the increased risk to CViT in Merseyside. Unfortunately there is little intelligence from Police, who believe that numerous gangs are responsible. The Serious Crime Group NW Police are attending Chester to address crew and management.

Whilst Post Office robberies have been lower over the most recent 12 mths at 117 (v 170), there has been a very recent spike (10 successful and 3 unsuccessful, 5 using fire arms, 2 blades including a machete and 3 blunt instrument with one injury, bruising and cuts to head) and ATM crime (there have been 3 very recent cases that have used vehicle ram raids to access the ATMs). We are about to assess a business case on rolling out additional fogging in branches. We have now introduced an ATM risk model and early indications suggest a positive impact.

The overall risk for property statutory compliance risk assessments remains low at 96.95%.

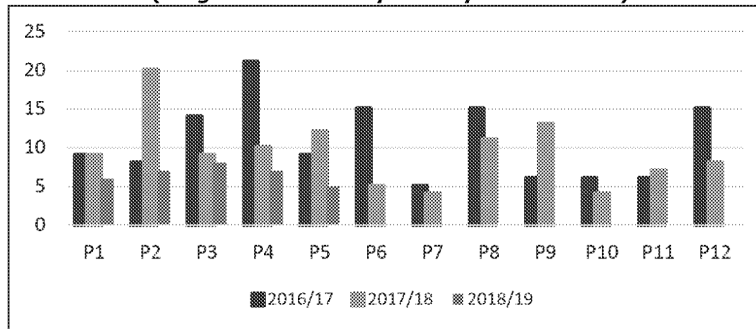
External Fire Risk Assessments have been completed for 2018 and actions are in the process of being closed out. The risk profile has reduced significantly when compared with the number of identified actions reducing by 71%.

## Input Sought

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

## Appendix 1

## The Report – H&amp;S Metrics – P5 (August) 2018/19

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

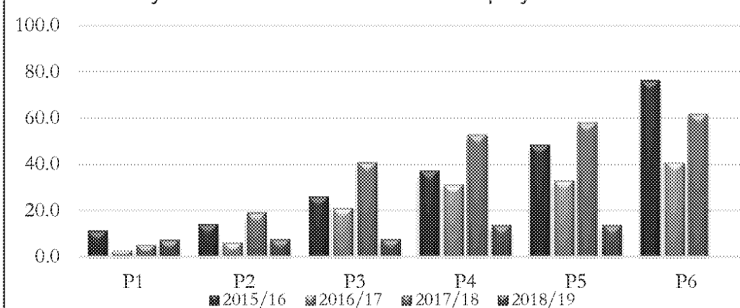
There were 5 employee accidents in P5 18/19 compared to 11 in P5 17/18

**DMBs** – There has been a 17% reduction in DMB accidents to 19 YTD 2018/19. Causation is due to stepping/striking objects. However, there has been a marked reduction in lifting / handling related accidents and falls on the premises.

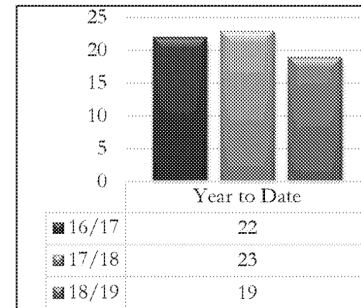
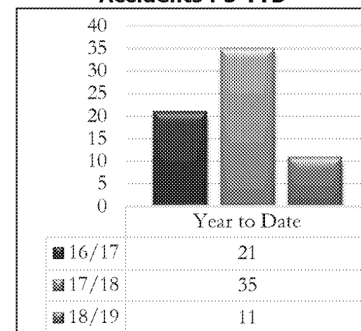
**Supply Chain** – There has been a marked reduction in Supply Chain accidents to 11 YTD 2018/19 from 35 in 17/18, a reduction in vehicle related accidents (non RTA) and stepping/striking related accidents with a slight increase in lifting/handling related incidents and injuries following attack. The H&S and L&D teams are updating the H&S training modules, inc Manual handling for issue to Supply Chain colleagues from Q3.

The Supply Chain Safety Plan is also progressing and 3 workshops have been attended by Safety Champions to share best practice, lessons learnt and promote safety culture. IOSH Managing Safely training courses are being attended in Q2 and self-audit tools are being developed for champions to use to support their local PiCs. A number of improvement opportunities have been identified by the Champions eg tail lift and loading and unloading.

Overall, there have been 5 lost time accidents in POL in 2018/19, incurring a total of 68 lost days, a 75% reduction when compared with 2017/18.

**Days lost due to accident / 000 employees - Cumulative**

**NEAR MISSES** – A total of 6 in P5 (Aug). **DMBs** – Nil reported  
**Supply Chain** – 6 near misses recorded in Aug. These are occurring in bullion and coin sorting areas where we are using lifting equipment and moving cages. Action taken: management action, H&S team have updated Vehicle Tail Lift SSOW and all crew retrained, briefing to all Managers and staff at London CVIT and Swindon Stock Centre. Faulty items removed for repair by engineers.

**Directly Managed Branch  
Accidents P5 YTD****Supply Chain  
Accidents P5 YTD****Road Risk  
P5 18/19 – A total of 5 RTCs**

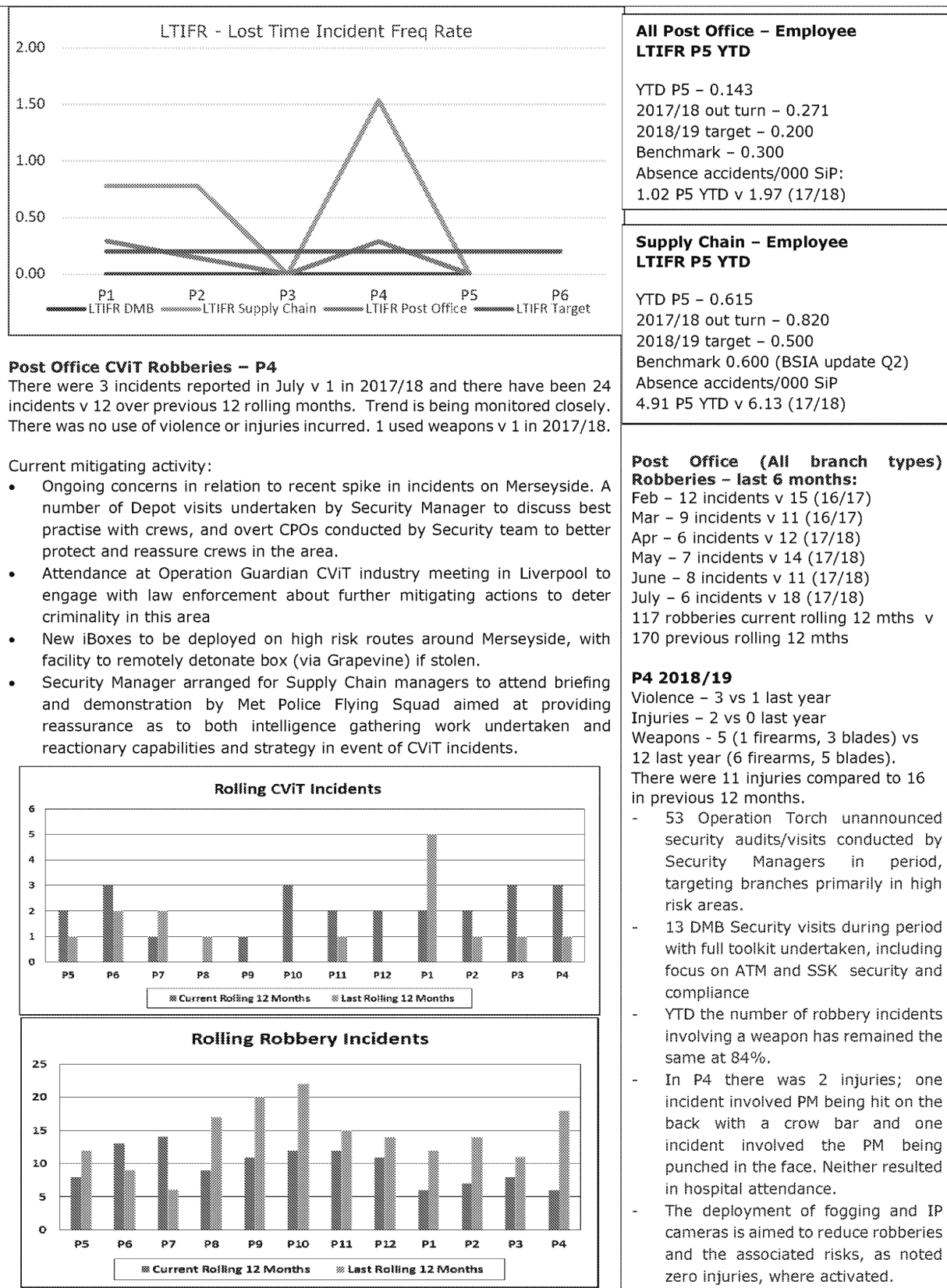
**Blameworthy** – 2  
There has been a 35% reduction in blameworthy road traffic collisions in 18/19 compared to 17/18

**Non Blameworthy** – 3

**Initiatives include:**

- A new overarching Road Risk Policy is being developed, with improved training and compliance checks and maintenance checks to cover Commercial Fleet, Business Cars & Personal Car use.
- Road Risk and H&S teams are scoping products to alleviate fatigue and improve journey planning.
- Online driver training has been provided to employees who drive on business with ongoing support from the H&S BPs.
- Crash investigation courses have been provided to Transport Managers and H&S BPs.





# Post Office Limited Board Meetings

Author: Veronica Branton

Meeting date: 25 September 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

2018/2019

Date			Time	Notes
Tuesday	30 October	2018	11.45 – 16.30	
Tuesday	27 November	2018	11.45 – 16.30	
Tuesday	29 January	2019	11.45 – 16.30	
Tuesday	26 March	2019	11.45 – 16.30	
Tuesday	28 May	2019	11.45 – 16.30	
Tuesday	25 June	2019	13.00 – 18.00	Away Day*
Wednesday	26 June	2019	08.30 – 16.00	Away Day*
Tuesday	30 July	2019	11.45 – 16.30	
Tuesday	24 September	2019	11.45 – 16.30	
Tuesday	29 October	2019	11.45 – 16.30	
Tuesday	26 November	2019	11.45 – 16.30	

\* The away day will be moving to July

**Draft Board Agenda for meeting on 30<sup>th</sup> October 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	Decision
CEO Report	20	Standing item		CEO	For Noting
Financial Report	20	Standing item		CFOO	For Noting
UKGI Quarterly Report	20	Standing item	Al Cameron	Cem Oztoprak	Approval
Retail Performance Report	30	Standing item	Debbie Smith	Cathy Mayor	For Noting
Postmaster Litigation	10	Update	Jane MacLeod		For Noting
Conflicts of Interest Policy	5	For Noting	Jane MacLeod		For Noting
Corporate Structures II	30	Decision	Jane MacLeod	Ben Foat/Jono Hill/David Gemmell	Decision
Belfast Exit Business Case	30	Reserved decision	Rob Houghton	CIO	Decision
Peregrine Proposals	30	Decision	Owen Woodley		Decision
Health and Safety	10	Standing item	Al Cameron		For Noting
ATM and Cash Strategy	30	Standing item	Debbie Smith	Martin Kearsley	For noting
<b>Total No Minutes</b>	<b>195</b>				

 Holding slot
*Strictly Confidential*