



Post Office Board Agenda

Date		Present		In Attendance	Apologies
24 th November 2016		- Tim Parker (Chairman) - Richard Callard - Tim Franklin - Virginia Holmes - Ken McCall - Carla Stent - Paula Vennells - Alisdair Cameron		- Alwen Lyons - Martin Edwards (item 4 & 6) - Martin George (item 6) - Mark Siviter (item 6) - Nick Kennett (item 7) - Angela Van Den Bogerd (item 8) - Rob Houghton (item 8)	None
Start Time	Finish Time				
11.15hrs	15.15hrs				
Location					
Room 1.19 Wakefield					

Agenda Item	Action Needed	Purpose	Lead	Timing
1. Minutes of previous Board and Committee meetings including Status Report	Decision	Minutes formally agreed.	Alwen Lyons	11.15 – 11.20
2. CEO Report Including IR update and Christmas Campaign	For noting	CEO to update the Board on the report.	CEO	11.20 – 11.50
3. Financial Report	For noting	CFO to update the Board on results.	CFO	11.50 – 12.10
4. Update on Funding Process (verbal)	For noting	CFO to update Board on latest progress	CFO / Martin Edwards	12.10 – 12.30
5. Board Effectiveness Review Introduction	For noting	To familiarise the Board with the Board Effectiveness review process.	Alwen Lyons / Ken McCall	12.30 – 12.50
LUNCH				12.50 – 13.20
6. Mails Update	For noting	To update the Board on progress made since June on Post Office and Royal Mail joint strategy, next best alternative, negation preparation and strategy.	Martin George / Mark Siviter / Martin Edwards	13.20 – 14.05
7. Update on Project Peregrine and report from POMS Board	For noting	To update Board on Project Peregrine and provide a half year POMS performance and strategy update.	Nick Kennett	14.05 – 14.20
8. Back Office Transformation	For approval	For Board to review / approve the Back Office Transformation Business Case.	Angela Van Den Bogerd / Rob Houghton	14.20 – 14.45



Post Office Board Agenda

Agenda Item	Action Needed	Purpose	Lead	Timing
9. The acquisition of Broadband Customers from New Call	For ratification	To ratify the decision taken by correspondence.	Alwen Lyons	14.45 – 14.50
10. Items for noting				14.50 – 14.55
10.1 Sealings	For noting	Board aware of the affixing of the seal.		
10.2 Health & Safety	For noting	To update Board		
10.3 Date of next meetings	For discussion	To confirm Board dates for future meetings		
11. Board Committee Chair verbal updates - ARC, NomCo, RemCo & POAC	For noting	To update Board	Committee Chairman	14.55 – 15.10
12. AOB				15.10 – 15.15
CLOSE				15.15

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POLB 16(8th)
POLB 16/62 – 16/71

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a Board meeting held at 9.30am on 25 October 2016
at 20 Finsbury Street, London EC2Y 9AQ.

Present:

Tim Parker	Chairman
Richard Callard	Non-Executive Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Ken McCall	Senior Independent Director
Carla Stent	Non-Executive Director
Paula Vennells	Chief Executive
Alisdair Cameron	Chief Financial Officer

In Attendance:

Alwen Lyons	Company Secretary
Martin Edwards	Director of Strategy (<i>Minute</i> POLB 16/66 and POLB 16/67)
Mark Davies	Corporate Affairs Director (<i>Minute</i> POLB 16/66)
Nick Kennett	Group Financial Services Director (<i>Minute</i> POLB 16/67)
Rob Houghton	Chief Information Officer (<i>Minute</i> POLB 16/67)
Jonathan Hill	Head of Risk, Banking, Regulation and Strategy, Financial Services (<i>Minute</i> POLB 16/67)
Owen Woodley	Sales Director (<i>Minute</i> POLB 16/67)
Chrysanthi Pispinis	Financial Services Corporate Development & Governance (<i>Minute</i> POLB 16/76)
Neil Hayward	Group People Director (<i>Minute</i> POLB 16/68)
Natasha Wilson	Director of Reward and Pensions (<i>Minute</i> POLB 16/68)

Apologies:

None

POLB 16/62

INTRODUCTION

- (a) The Chairman noted that a quorum was present and 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.

POLB 16/63

MINUTES OF THE PREVIOUS BOARD AND COMMITTEE MEETINGS INCLUDING STATUS REPORT

Minutes

- (a) The minutes of the Board meeting held on 29th September 2016 were approved as an accurate record and the Chairman was authorised to sign them.
- (b) The Board noted the Action Status Report.

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- (c) The Board discussed Action POLB15/50 (b) and the effect of classifying the closure of the Supply Chain external work as discontinued business and therefore an exceptional item in the accounts. The Board recognised that the work had been discussed at the time of budget setting and acknowledged that it would have been inappropriate to include it in any budget before the consultation with employees had been concluded.
- (d) The Chair of the Remuneration Committee stressed the need for transparency when setting the bonus targets and assessing performance against those targets. The CFO would continue to disclose the exceptional charges at the ARC and he assured the Board that any effect on the EBITDAS would be transparent to the Remuneration Committee.

POLB 16/64**CEO REPORT**

- (a) The CEO introduced the CEO Report, focusing on the following key points:
- (b) Period 6 Results: Performance continued to be challenging and although the CEO remained reasonably confident that the full year EBITDAS target would be delivered, the gross income trend remained a concern.
- (c) Pensions: The CEO updated the Board on the decision of the Pensions Trustee to accept the proposal to close the Post Office Section of the RMPP on the 31st March 2017. She thanked Virginia Holmes for her support.
- (d) Industrial Relations: The CEO reported that the CWU and Unite unions had called for strike action on the 31st October. The Board was assured that contingency plans were in place to ensure there would be as little adverse effect on customers as possible. The CEO explained that discussion continued with the unions but that there would likely be further strikes in the run up to Christmas.
- (e) POca: The CEO explained that the details of the supplier contract would be presented at the November Board meeting. The Board asked the CEO to ensure that a wide range of options for payment provider be considered.
- (f) Apprentices and Graduates: The CEO updated the Board on the presentations she had received from the apprentices and graduates who had recently joined the Business. The standard was excellent and she was excited by both their enthusiasm and their focus on the commercial and social purpose.
- (g) Mails: The CEO explained that the Mails team was continuing to engage with the RMG whilst looking at the next best alternative strategy. The Board was nervous about the RMG delaying the discussions and the CEO assured them that should deadlines be missed she would escalate the matter with the CEO of the RMG. Ken McCall reported his meeting with the Mails team and the need

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to test the viability of alternative solutions. It was understood that the Mails strategy would be discussed at the next Board meeting.

Transformation Report

- (h) The Board noted the Transformation Report. Transformation risk would now be included as a standard agenda item for the ARC and the Board asked that the ARC specifically consider:

ACTION:
David Hussey

- The aggregated cost and burn rate compared with business cases and budgets; and
- The impact of IR35, 'off payroll' working, the impact and risk mitigation.

- (i) The Board noted the CEO report.

POLB 16/65

FINANCIAL REPORT AND UPDATE ON THE DEVELOPMENT OF THE P6 RESULTS.

- (a) The CFO introduced the Financial Performance Report for Period 6, September 2016. The CFO was forecasting that the Business would hit the EBITDAS target for the year, but good Christmas trading would be key to delivering the £-10 million.
- (b) Cash flow headroom had not improved as predicted in P6 as additional cash had remained in the network after the strike contingency planning. However this position had been recovered during P7.
- (c) The Board discussed the Working Capital Facility and the opportunity to reduce the cash strain on the Government as part of the funding negotiation. The CFO explained that the most difficult areas to manage were coin distribution and Foreign Exchange cash. However if postmasters were incentivised to change their behaviour this could facilitate another change in supply chain demand and free up cash to use elsewhere.
- (d) The CFO explained the additional pressure on the 2017/18 target of £28m, which would flow into the baseline for the strategy and funding plan. The Board agreed that it was important to have a realistic baseline for the plan, and asked the **CFO to provide trend income analysis in the Financial Reports to enable the Board to monitor the income streams**. The Board recommended that the 2017/18 budget should be realistic and based on flow through from the 2016/17 operational outturn, with initiatives to deliver the contingency to get back to the £28m target.
- (e) The Board approved the P6 Income Statement, Balance Sheet, Cash, Headroom and Forecast positions
- (f) The Board noted that external supply chain activities have been reclassified as discontinued operations subject to Ernest Young's (EY) agreement.
- (g) The Board agreed that from P7 Actuals v Forecast comparisons would be monitored.

ACTION: CFO

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POLB 16/66

STRATEGIC PLAN TO 2020/21 AND FUNDING REQUEST

- (a) The Chairman welcomed Martin Edwards, Director of Strategy and Mark Davies, Corporate Affairs Director, to the meeting.
- (b) Martin Edwards presented an overview of the 2020/21 strategy, explaining the financial consequences of the counterfactual case as opposed to achieving commercial sustainability through funding a major cost base restructure.
- (c) The Board discussed the proposals and stressed the need to strengthen the explanation and narrative behind the counterfactual case and to include ranges within the projections.
- (d) The CEO recognised that because of the good work done to date in delivering Network Transformation, and the current stability of the network, it would potentially be difficult to persuade Ministers that there was still a cost base crisis which needed to be addressed.
- (e) The Board asked for assurance that the necessary evidence was available to support the funding case. The CFO explained that the Group Executive had worked through and agreed the assumptions in the plan, which were supported by market analysis and business cases. The BEIS team had employed KPMG to review the funding request and Martin Edwards would work closely with Richard Callard and his team to present the case.
- (f) The Board discussed the revenue projections and agreed that the business had to aim to be sustainable without relying on FS growth. **The Board asked Martin Edwards to consider how the size of the network could be used to deliver income through an access fee, similar to that for paid for the banking framework or identity products.**
- (g) The Board recognised the uncertainty within the income projections included in the plan, but stressed that the cost base remained more in the control of the business. The funding narrative needed to make it clear that it would be impossible to change legacy IT systems and reduce the cost base without funding support from the Government.
- (h) The Board discussed the segmentation of the network into commercial and social branches and possible changes to how these could be funded. It recognised that product simplifications and a reduction in postmaster remuneration would put pressure on some postmasters, but believed that there could be an opportunity to restructure the franchise to sell it more as a footfall generator.

ACTION:
Martin Edwards

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- (i) The Board agreed with the four success criteria set out in the narrative document, namely that by supporting funding the Government would secure:
- A growing, flourishing network – although not with any binary network number to hit;
 - Permanently lower funding;
 - Indispensable service to customers and communities; and
 - Options on ownership – without referring to a mutual option.
- (j) It was recognised that there would need to be more detail in the funding request with analysis on £320m investment and the resulting deliverables. The Board advised that the funding request had different audiences and would require different explanations to align with their priorities accordingly. The Board recommended that greater focus be given to SME customers.
- ACTION:**
Martin Edwards
- (k) **The Board supported the direction and funding proposal and asked for more information on the investment and returns to be presented at the next Board meeting.**
- ACTIONS:**
Martin Edwards
- (l) **The CEO suggested that Martin Edwards could provide additional information on a one to one basis if any Board member required.**
- (m) The Board approved the strategic plan to 2020/21 and funding request prior to submission to the Government in early November.
- (n) Mark Davies left the meeting.

POLB 16/67

FINANCIAL SERVICES GROWTH STRATEGY

- (a) The Board welcomed Nick Kennett, Group Financial Services Director, Jonathan Hill, Head of Risk, Banking and Strategy Financial Services, Chrysanthi Pispinis, Financial Services Corporate Development and Governance, Owen Woodley, Sales Director, and Rob Houghton CIO to the meeting.
- (b) Nick Kennett reminded the Board of the strategic direction for Post Office Money (POM) approved at the June meeting, with the interdependent key components of:
- The New Normal customer proposition;
 - The 'Strong Integrator' business model; and
 - The re-negotiation with the Bol.
- (c) Nick Kennett stressed that the FS strategy meant a change to focus on the customer relationship and lifetime value, and a move away from the primary delivery in branch to a digital channel. He added that the delivery of the strategy required a significant change in how the business was run, with enhanced capabilities, risk management and governance structures, changed relationships with suppliers and partners, supported by agile technology.

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- (d) Nick Kennett explained that investment, which had been included in the wider 2020/21 strategy plan and funding, would be required for IT development in support of the new model. The CIO stressed that the investment should focus on delivering one product at as low a cost as possible to test the proposition with both customers and revenue earning protection. Further products could then be added incrementally. The CIO believed that the initial investment could be around £8-10m but needed further definition as it depended on the product chosen and the level of systems integration required with the product provider. The Board supported this initial investment.
- (e) Nick Kennett confirmed that the overall funding request was £72.3m over five years, of which £37.4 related to capex. This investment was targeted to deliver gross income in 2020/21 of £156m and EBITDAS of £68m, an increase of £30m. The overall NPV was £181m over five years.
- (f) The Board asked for assurance that the development would not complicate the IT transformation currently underway. The CIO assured the Board that the system would be developed separately and only integrated into the Post Office systems if tests proved it could be incorporated without causing issues.
- (g) The Board agreed to plan to make the full investment as proposed, depending on the success of the initial investment, and discussed the most appropriate structure and governance for its delivery.
- (h) Nick Kennett advised that the paper did not include recommended changes to the organisation structure and regulatory position as this had not been discussed at GE. CS explained that, based on her experience with FinTech companies and major banks, for this new business to work effectively the Board and management should think in a new way, enabling a separate innovation hub supported by people and a new governance environment. Ring-fencing the team working on the business development would assist faster change, particularly if the project deployed a compartmentalised, “test and learn” methodology. There was support of this from across the Board.
- (i) The Board discussed the FS sales model and the move from Financial Specialists in Directly Managed branches to a CRM model training postmasters’ staff to use a portal and tablet to capture customer data. Owen Woodley explained that the CRM model was underway as a trial which would need to prove it was profitable for the business and the postmaster.
- (j) The Board supported the recommended options and direction of travel principles in relation to technology structure, the distribution model and the shape of the funding and emphasised to the executives that it would be important to build momentum into the change programme.
- (k) Nick Kennett, Martin Edwards, Owen Woodley, Jonathan Hill, Chrysanthi Pispinis and Rob Houghton left the meeting.

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POLB 16/68

PENSIONS VERBAL UPDATE

- (a) The Chairman welcomed Neil Hayward, Group People Director, and Natasha Wilson, Director of Reward and Pensions, to the meeting.
- (b) Neil Hayward updated the Board on the decision taken by the Pension Trustee to accept the proposal to close the DB pension plan on the 31st March 2017. He reported that the approach to the consultation had been validated by the Pension Regulator.
- (c) Face to face briefings were now planned to explain to DB scheme members the summary of the consultation; what would happen to the surplus after the current valuation; what the move to the DC scheme would mean to members; and the next steps in the process. A pensions' website was also being launched where members could access information.
- (d) Natasha Wilson reported that the scheme valuation should be available in the first two weeks of November and this would help to make the position clearer for members.
- (e) Natasha Wilson explained that a Governance Committee was being set up to give oversight to the DC scheme and that she was working with the Chairman of the DB Trustees to identify an independent trustee to invite onto this committee. **Richard Callard asked to be kept updated on the establishment of the Governance Committee.**
- (f) The Chairman thanked Natasha Wilson on behalf of the Board.
- (g) Neil Hayward and Natasha Wilson left the meeting.

ACTION:
Natasha Wilson

POLB 16/69

UPDATE FROM BOARD COMMITTEE

- (a) Remuneration Committee (RemCo)
The Chair of the RemCo updated the Board on the meeting held on the 29th September 2016.
 - He reported that PwC had been appointed as the new Remuneration Committee Advisor.
 - The CEO had recommended that the Group Executive should receive a pay award of 1.9% similar to the rest of the Business, which the RemCo had noted.
 - The STiP target for the CEO and CFO bonuses, which had been agreed with the last Government Minister, had now been further delayed by the Ministerial change. Because of this delay the RemCo had decided that it would not be advisable to ask for a recalibration of the LTiP target for 2016/17 as it was now too late to do so.
 - Neil Hayward would be presenting the timetable for future bonus target submission at the November Committee.
- (b) Nomination Committee (NomCo)
The Chair of the NomCo updated the Board on the meeting held on the 29th September 2016, at which the Committee had discussed the Group Executive succession plan.

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POLB 16/70

ITEMS FOR NOTING

Sealings

- (a) The Directors resolved that the affixing of the Common Seal of the Company to the documents numbered 1451 to 1453 inclusive in the seal register was confirmed.

(b) **Future Meeting Dates**

The Board noted the future meeting dates.

(c) **Health and Safety**

The Board noted the Health and Safety report.

POLB 16/71

CLOSE

- (a) There being no further business, the Chairman declared the meeting closed.
- (b) The Board attended a session presented by Linklaters covering, 'The changing regulatory environment – The impact of the senior manager and certification regime, on the Financial Services sector.'

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Chairman

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Date

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POLARC 16(6th)
POL ARC 16/41 – 16/53**POST OFFICE LIMITED**
(Company no. 2154540)
(the 'Company')

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE COMMITTEE
held at 2.30 pm on 28th September 2016 at 20 Finsbury Street, London EC2Y 9AQ

Present:

Carla Stent	Chair
Richard Callard	Non-Executive Director (RC)
Tim Franklin	Non-Executive Director (TF)
Ken McCall	Non-Executive Director (KM)

In Attendance:

Paula Vennells	Chief Executive, (CEO)
Alisdair Cameron	Chief Financial Officer (CFO)
Jane MacLeod	General Counsel (GC)
Nick Kennett	Financial Services Director and CEO of POMS (NK)
Alwen Lyons	Company Secretary (CoSec)
Mike Morley-Fletcher	Head of Risk and Assurance (MMF)
Paul Hemsley	Financial Controller (PH)
Peter McIver	Ernst & Young (PM)
Elena Belyaeva	Ernst & Young (EB)
Kevin Gilliland	Network and Sales Director (KG) (Minute POLARC 16/42 to 16/44)
Jonathan Hill	Head of Risk, Governance and Development (JH) (Minute POLARC 16/42 to 16/44)
Owen Woodley	Sales Director (OW) (Minute POLARC 16/42 to 16/44)
Amanda Bowe	POMS, Non-Executive Director and Chair of POMS ARC (AB) (Minute POLARC 16/42)
Susie Hayward	POMS, Head of Risk and Compliance (SH) (Minute POLARC 16/42)
Gordon Gourlay	Bol, Managing Director of Post Office Businesses (GG) (Minute 16/43)
Alec Hughes	Bol, Head of Post Office JV Compliance (AH) (Minute 16/43)
Rob Houghton	Chief Information Officer (RH) (Minute POLARC 16/48)
Tim Parker	Post Office Chairman (TP) (Minute POLARC 16/43 to 16/50)

POLARC 16/41 INTRODUCTION

- (a) A quorum being present, the Chair opened the meeting. 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.

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- (b) The Chair welcomed attendees from Post Office (POL) and Post Office Management Services (POMS) who had joined for the Financial Services discussion.

FINANCIAL SERVICES**POLARC 16/42****POMS**

- (a) POMS ARC Report. AB presented the report from the POMS ARC and highlighted the good progress made over the last year to put in place a Risk Management Framework, the high level policies, and a process for reporting any incidents or breaches. Going forward, POMS would focus on deploying the Risk Management Framework.
- (b) The POMS ARC recognised the importance of the relationship between POMS and POL as its Appointed Representative (AR) and the need to ensure both entities worked together to deliver the required improvements and compliance.
- (c) The Committee noted the report from the POMS ARC dated 13 September 2016.
- (d) POMS as Principal
NK reported the recent FCA thematic review on ARs in General Insurance and its applicability to POMS' oversight of POL.
- (e) He explained the role of POMS as a regulated entity and its regulatory responsibility for POL as AR regarding the sale of General Insurance products. Travel Insurance and over 50's Life Insurance were the products carrying the greatest conduct risk as these were sold across the wider branch network.
- (f) NK explained that the compliance risk of the POL Network was the highest risk on the POMS Risk Register and rated adverse to appetite. While there had been no indication of systemic customer detriment from sales through the POL network, it was a regulatory requirement that POMS should be able to provide evidence and quality assurance from POL in relation to POL's own compliance with contractual and regulatory requirements and its conduct risk framework. This included evidence that agents and those of their staff who sold POMS products had been appropriately vetted and trained. A new Horizon IT control, which would enable POL to limit user access, and which had been anticipated for delivery by POL in January, would be delivered later.
- (g) KG supported the introduction of the user access control.
- (h) The ARC recognised the obligations and responsibilities of POL as AR and the challenges of providing evidence of compliance when selling the product through a large network.

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ACTION: NK

- (i) The ARC stressed the importance of implementing the new control to manage user access and the Chair asked the POMS CEO to provide a report setting out the timeline and actions to deliver the requirement.
- (j) The Chair thanked AB for her report and assured her that the ARC would continue to monitor delivery of the AR accountabilities.
- (k) AB and SH left the meeting.

POLARC 16/43

ACTION: OW

IRRELEVANT

ACTION: JH

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appropriately structured to encourage the right colleague behaviours.

- (g) The ARC noted that Jane MacLeod, the GC was the 2nd and 3rd lines of defence for the branch network. The GC explained that this was not inappropriate in an immature business and could be helpful in developing the appropriate culture. The Chair suggested this be reviewed in the longer term.

ACTION: GC

A review the 2nd and 3rd lines of defence in the Post Office Money branch distribution model to be undertaken in autumn 2017/18.

- (h) The Chair thanked GG and AH for attending the meeting and recognised how well the relationship had developed.
- (i) GG and AH left the meeting.

POLARC 16/44

POL Financial Services

- (a) NK recognised the long term strategic relationship with Bol and the joint work on risk and compliance. This had been particularly focused on the oversight of the Financial and Mortgage Specialists; the compliance performance of these teams had improved considerably over the past two years from a position where Bol had been very concerned and had threatened to withdraw sales unless improvement could be demonstrated.
- (b) NK stated that he was less comfortable with the compliance position in the agency Network, where inevitably there was limited direct oversight. This was of particular concern for POMS as Travel Insurance and Over 50s Life Assurance were sold over the counter in the wider Network. While there was no data that would indicate that customers were not receiving appropriate products or guidance, the nature of the network and the lack of user identification did not enable POMS to have the level of comfort that it required – hence the concerns raised by the POMS Board and ARC.
- (c) NK explained that to reduce the risk POMS has decided to sell Over 50s Life Insurance from only c.1,000 branches as part of the implementation of a new product supplier in January. He further explained that if POL was unable to deliver end-user identification, the POMS Board would need to consider whether travel insurance should also be withdrawn or at least restricted – a position that would significantly reduce customer benefits and POMS'/POL's financial outcomes.
- (d) **The ARC asked POMS to consider developing a similar dashboard to that produced by Bol to facilitate POL's reporting to the ARC on the KPIs POL should monitor in regard to its role as AR to POMS. Ideally this reporting would be quarterly.**
- (e) KG, JH and OW left the meeting.

ACTION: NK

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POLARC 16/45 MINUTES OF THE MEETINGS HELD ON 25TH JULY 2016

- (a) The minutes of the meetings held on 25th July 2016 were approved as presented and the Chair of the Committee was authorised to sign them as a true record.

POLARC 16/46 POLICIES FOR APPROVAL

- (a) Investigations
The ARC approved the Investigations Policy.
- (b) Physical Security
The ARC approved the Physical Security Policy.
- (c) Financial Crime Policy
The ARC approved the Financial Crime Policy subject to the alteration to include 'possible prosecution' as an outcome for failure to comply.
- ACTION: MMF Amend the Financial Crime Policy to include possible prosecution as an outcome for failure to comply.**

POLARC 16/47 INSURANCE RENEWAL FOR RECOMMENDATION TO THE BOARD

- (a) PH explained that the cover being proposed included a high level of deductibles which meant that POL self-insured up to that level. The ARC asked if consideration had been given to complete self-insurance. PH explained that this had been considered and would be considered every year before renewal. NK suggested that once POMS was more established it could look at offering insurance to POL.
- (b) The Committee recommended the renewal as set out in the brokers' report, for submission to the Board for its approval.

BOUNDARY/PERIMETER CONTROLS**POLARC 16/48 FINANCIAL REPORTING UPDATE**

- (a) The Chair welcomed Rob Houghton, Chief Information Officer to the meeting.
- (b) Financial Control Framework (FCF)
The CFO updated the ARC on the progress being made to develop the FCF. He said that the methodology being deployed was entirely appropriate to financial reporting and could be extended to other areas. The CFO explained that the majority of finance processes had now been mapped and gaps identified. The ARC asked for priority to be given to remediating the higher risk gaps disclosed in the CFO report, such as segregation of duties, and the CFO concurred. By year-end gaps would have been mitigated, at least on a work-around basis, controls self-assured and testing undertaken.

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- (c) The CFO reported to the ARC that after discussion with the Chair, the Shareholder and the External Auditors, a decision had been taken not to produce Interim Accounts for the current year. The resource saved would be used to focus on ensuring that relevant controls were in place by the year end. EY audit work would be accelerated but without duplication. EY and POL were considering the need to repeat additional year-end routines as the controls would not have been in place for the full financial year.
- (d) The CFO noted that the controls and assurance of the accuracy of the declared cash in the Network was under review.
- (e) The CFO explained the Finance System upgrade currently being scoped relied on SAP for income reporting and would eliminate the need to use multiple spreadsheets and feeder systems. A detailed paper and business case for this investment in SAP would be presented to the Board in November. The ARC recognised the improvement that this change could bring but were concerned about the time and investment required and stressed that the implementation of the new system would be key.

**ACTION:
PM/CFO**

- (f) **The proposed External Audit plan would be presented to the November ARC meeting.**
- (g) The Committee noted the progress made.

Controls Assurance

- (h) The CFO reported on the controls in place to give assurance to the budget and funding requirement. He explained that UKGI had engaged KPMG to provide assurance as to the funding application. PM reported that EY had been approached to bid for the work but that they would decline due to conflicts of interest.

Risk Management Framework

- (i) MMF presented the Risk Profile and explained the changes since the last report. The Industrial Action risk had improved significantly despite the strike called by the unions. The CEO explained that the effect of the strike had been well managed and the Group Executive supported the reduced risk.
- (j) The ARC were surprised that the risk associated with IT transformation and its effect on the flexibility to change systems and controls was not included in the risk profile.
The ARC requested that this risk be added in the future.

**ACTION:
MMF/RH****ACTION:
David Hussey**

- (k) **The ARC agreed that Transformation risk needed more scrutiny and asked that it be included in future agendas and reports.**
- (l) The Committee approved the 2016/17 Half Year Group Risk Profile.

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POLARC 16/49

IT CONTROLS

**ACTION: Rob
Houghton**

- End to End Control Framework and Cyber/IT Security
- (a) RH explained his plans to create an end to end control framework for IT and the work underway to map the IT landscape. This work would map the current state against the necessary controls and required protections.
A paper would be presented at the November ARC outlining the proposed IT control framework and the plans for its implementation.
- (b) RH recognised the need to strengthen the IT team and introduce people with expertise in IT security operations. He assured the ARC that these appointments were underway. This would bring the skill necessary to develop an IT security operations centre with the right detection systems and capability to monitor any IT security issues.
- (c) RH recognised that the current status of Cyber Security and Information Assurance were outside the Board risk appetite in three key areas as described in the paper. He admitted that he would remain nervous until he could see the whole IT environment in one place rather than being fragmented between suppliers.
- (d) The Chair updated RH on the ARC discussion on system changes required by POMS to introduce controls to limit Horizon user access. RH assured the ARC that he was aware of the required IT changes and was working with the network and training team to deliver them as soon as possible.
- (e) The ARC noted the paper on Cyber/IT Security.
- Horizon Lessons Learned
- (f) The CFO explained that Fujitsu and Oracle had been unable to determine the root cause of the Horizon systems failure but the same failover/failback exercise which had caused the initial failure had now been replicated successfully. It was believed that the problem had been caused by the memlock processes which had now been reconfigured.
- (g) The ARC was concerned that the root cause of the Horizon failure had not been identified, and that the business incident escalation processes had not worked. The GC explained that changes had been made to address the deficiencies in business continuity and a Business Protection team was now in place with ongoing training and testing for different scenarios. The incident escalation process would continue to be developed and tested.
- (h) One of the issues highlighted by the Horizon failure was the inability to communicate quickly with the Network. Standard communications had now been prepared with a separate communications channel should the Horizon system become unavailable.

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- (i) The Committee noted the paper and commented on the lessons learned.
- (j) RH left the meeting.

POLARC 16/50**BRANCH CONTROLS**BCV Lessons Learned

- (a) The CFO introduced the lessons learned paper and highlighted the actions taken since the fraud had been reported to the ARC. He stressed that management actions had already been taken concerning the BCV fraud before it was reported to the ARC but recognised that enhanced reporting was required and was now in place. Greater transparency would mean more issues would be reported but these issues were usually caused by non-compliance or unintentional mistakes. The tighter controls being put in place would help reduce the losses through early intervention and, where possible, recovery.
 - (b) The ARC applauded the transparency and recognised the work underway to enhance reconciliations and increase interventions. However they asked if those responsible for the lack of escalation had been made accountable. The CEO reported that changes to the senior leadership had taken place.
 - (c) The Committee noted the paper and the verbal update.
 - (d) TP left the meeting.
- AML/CTF Framework
- (e) The GC updated the ARC on the HMRC AML/CTF audit. The work had been slightly delayed and would be reported to the November ARC along with finalised actions, dates and accountabilities.
 - (f) The Committee noted the status of the HMRC audit and the initial draft findings of the Risk Assessment work.
- Policies for Board Approval (AML and ABC)
- (g) The ARC recommended the Anti-Money Laundering and Counter Terrorist Financing Policy, for submission to the Board for approval
 - (h) The ARC recommended the Anti-Bribery and Anti-Corruption ("ABC") Policy, for submission to the Board for approval.

POLARC 16/51**QUATERLY AUDIT REPORT**

- (a) MMF presented the Quarterly Audit report and explained that although the audit programme was slightly behind plan it was expected to catch up during the remainder of the year.
- (b) The ARC asked MMF to prioritise the review of IT governance.

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- (c) The ARC noted the paper.

POLARC 16/52 ITEMS FOR NOTING

- (a) The ARC noted the report on Business Continuity planning.
- (b) The ARC noted the Contact Management paper.
- (c) The ARC noted the Horizon Scanning paper.
- (d) The ARC noted the Property paper.

POLARC 16/53 ANY OTHER BUSINESS

- (a) The CFO reported that Postal Services Holdings Company Limited (PSH) was planning to sign its report and accounts on the 3rd October. The accounts would contain a subsequent event note on IRIS and would note that a letter before action had been received on 22nd September in relation to notice of termination which had been given in respect of a 3rd party contract in Supply Chain.
- (b) The GC explained that a letter before action claim had been received relating to the Supply Chain withdrawal from the external market. The letter claimed an abuse of a dominant market position, and alleged that withdrawal could have an adverse impact on Somali communities. The legal team was dealing with the letter, however there was a risk of adverse publicity.
- (c) There being no further business the Chairman closed the meeting.

GRO
Chairman

17.11.2016

Date

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Status Report as at: 17/11/2016

Post Office Limited Board

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
July 2016 POLB 16/41 (h)	<u>Post Office Card Account (POCa) Procurement Division</u> MG assured the Board that the work on digital wallet would be accelerated and aligned with the wider digital strategy promised to keep Board updated.	Martin George	January 2016 POL Board	POCa to return to the Board in January.	Open
July 2016 POLB 16/41 (i)	<u>Post Office Card Account (POCa) Procurement Division</u> ARC to pick up the risks concerned with the transfer of POCa accounts (Court order part 7) and CYSC8.	Carla Stent	POL ARC on 17th November	On the agenda for November ARC.	Closed
July 2016 POLB 16/47 (g)	<u>Technology Strategy</u> The Board asked the CIO to update the principles highlighted in the paper to ensure they were business focussed; based on reducing costs; were clear on security; and improving customer journeys.	CIO	January 2017		Open
July 2016 POLB 16/50 (b)	<u>Update from Board Committees (verbal) - Remuneration Committee</u> Rigour would be needed to ensure the accuracy of the 2016/17 EBITDAS outturn, as it would drive the LTIP & STIP bonuses. The Chair of RemCo asked if the external auditors should be asked to sign off that bonuses had been earned. It was agreed that the CFO would prepare a RemCo paper on this issue.	CFO	POL RemCo in November	Following discussions at September Board and with the ARC and RemCo Chairs, the year-end process is clear.	Closed
September 2016 POLB 16/54 (f)	<u>CEO Report: FRES Acquisition of AMEX</u> FRES strategy to be presented to the Board in January.	Nick Kennett	January 2017 POL Board		Open
September 2016 POLB 16/57 (i)	<u>Network Strategy and Funding 2017-21</u> The CEO agreed to look at an opportunity to offer a service to the NHS for drug distribution through post offices in rural communities.	Martin George	November 2016 Board	The Government Services team has asked UKGI / BEIS for support to identify a suitable contact with the NHS team leading this initiative to better understand the transformation plan and assess a potential role for POL. See annex 1 to actions for full update.	Closed

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
25 October 2016 POLB 16/64 (h)	<u>Transformation Report</u> Transformation risk would now be included as a standard agenda item for the ARC and the Board asked that the ARC specifically consider: • The aggregated cost and burn rate compared with business cases and budgets; and • The impact of IR35, 'off payroll' working, the impact and risk mitigation.	David Hussey	November 2016 POL ARC	On the agenda for November ARC.	Closed
25 October 2016 POLB 16/65 (d)	<u>Financial Report and Update on the Development of the P6 Results - Strategy and Funding Plan</u> The CFO to provide trend income analysis in the financial reports to enable the Board to monitor the income streams.	Al Cameron	January 2017 Board		Open
25 October 2016 POLB 16/66 (f)	<u>Strategic Plan to 2020/21 and Funding Request</u> The Board asked Martin Edwards to consider how the size of the network could be used to deliver income through an access fee, similar to that paid for the banking framework or identity products.	Martin Edwards		Will be considered as part of future contract negotiations including with RMG. Banking framework already includes a fixed fee component.	Closed
25 October 2016 POLB 16/66 (k)	<u>Strategic Plan to 2020/21 and Funding Request</u> The Board supported the direction and funding proposal and asked for more information on the investment and returns to be presented at the next Board meeting.	Martin Edwards	November 2016 Board	Verbal update on the funding process at the November meeting. Additional briefing papers available in POL Board reading room on Boardpad.	Closed
25 October 2016 POLB 16/68 (e)	<u>Pensions Verbal Update</u> Richard Callard asked to be kept updated on the establishment of the Governance Committee.	Natasha Wilson			Open

POST OFFICE
BOARD

Action Update

Author: Martin George Meeting date: 24 November 2016

Executive Summary

Context

This update supplements the information provided in the Board action list, specifically in relation to the following matter:

September 2016 POLB 16/57 (i)	<u>Network Strategy and Funding 2017-21</u> The CEO agreed to look at an opportunity to offer a service to the NHS for drug distribution through post offices in rural communities.	Martin George
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Input Sought

The Board is requested to note the update.

The Report

The Government Services team has worked with the Network team to review this opportunity.

Background

The NHS currently has a plan to deliver £22bn in the period from now to 20/21. Within that is approximately £1bn of savings relating to rationalising the pharmacy network throughout the UK, reducing the number of pharmacies (which are heavily funded by the NHS) from the current 11,600 by approximately 1,500-3,000.

The key components of the NHS transformation programme are:

- to increase uptake of digital services to provide more direct to the door delivery of repeat prescriptions from pharmaceuticals companies and click and collect services at pharmacies; and
- to integrate the health system, moving many pharmacies into GPs surgeries and care homes, and to rationalise the current pharmacy network model into a local hub and spoke model where hospital pharmacies act as a hub for local GPs surgeries and pharmacies.

This proposed integrated hub and spoke model with delivery to door/click and collect certainly offers opportunities to logistics/courier firms, but at the moment NHS has not indicated any desire to step outside its own estate for the click and collect solution.

It is worth noting that any move by POL to deliver a click and collect solution for pharmaceuticals would involve:

- investment in suitable refrigerated secure storage;

Board November 2016

1. Minutes of previous Board and Committee meetings

- introduction of a new compliance/regulatory regime around handling of pharmaceuticals and potentially provision of advice as they are dispensed and investment in related training; and
- a potential increase in risk of robbery.

Next Steps

The Government Services team has asked UKGI/BEIS for support to identify a suitable contact with the NHS team leading this initiative to better understand the transformation plan and assess potential role for POL.

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POST OFFICE BOARD

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CEO's Report

Author: Paula Vennells Meeting date: November 2016

Executive Summary

Context

Our goal for 2016–17 is to achieve EBITDAS of (£10m).

Our 3 year goals are:

1. To accelerate the transformation of Post Office.
2. To secure commercial sustainability for the long term
3. To establish a business that can ultimately fund investments and the social purpose from profits rather than subsidy.

In summary, our strategy is to secure our position as the UK's number one parcels and letters retailer, grow in financial services and protect our network and social purpose – all supported by a much leaner central organisation.

Questions this paper addresses

1. What is on my mind? (*successes, challenges, opportunities and risks*)
2. What are the implications for our outlook and plans?

Conclusion

1. EBITDAS in P7 was £(1.1)m, £1.4m favourable to budget. EBITDAS YTD was £(14.3)m, £1.6m favourable to budget. However, gross income in P7 was £0.3m adverse to budget reflecting challenging trading conditions.
2. Discussions with Government on our funding proposals continue and we are seeking ministerial engagement.
3. We are also continuing to discuss the current dispute with our trade unions. However, it is unlikely that we will be able to resolve the dispute with the CWU in particular in the near future. We are planning for further industrial action before Christmas.

Input Sought

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

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The Report

Looking Back

WHAT HAS GONE WELL?

- Financial Performance – P7
 - P7 EBITDAS was £(1.1)m; £1.4m favourable to budget. YTD EBITDAS was £(14.3)m; £1.6m favourable to budget.
 - Income in P7 from Mails and Financial Services was £0.5m and £0.8m favourable to budget respectively.
 - Expenditure in P7 of £(82.1)m was £0.5m favourable to budget. YTD expenditure of £(531.8)m was £4.8m favourable to budget.
- Customer Measures
 - All of our customer measures performed at or ahead of target in P7. Specifically:
 - Effort scores continued to perform well achieving 75%, in line with YTD performance and 7pp ahead of target.
 - NPS was +66, in line with YTD performance and 1 point ahead of target.
 - Customer Satisfaction was 84%, in line with YTD performance and target.
 - Wait Time Acceptability was 93%, 1pp ahead of YTD performance and 4pp ahead of target.
 - FS NPS was +30, 1 point ahead of YTD performance and ahead of target (+28).
- Supply Chain
 - Phase 1 of the implementation of Project Iris progressively covering 10 sites went live on 24 October.
 - The project is on track and on budget with routes and duties agreed; equipment and vehicles in place; 291 Settlement Agreements signed (15 pending); and work underway on exiting sites due for closure.
 - Service performance against revised routes is monitored daily and all depots are performing well, achieving standards in excess of 90% consistently with some achieving 100% from the outset.
 - Phase 2 covering a further 14 sites will go live on 30th January 2017.
- Industrial Relations
 - As previously reported, our contingency plans for the day of industrial action on 31 October worked well.
 - Turnout was again much lower than historical turnout in previous strikes by either Union (22% of represented employees).

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- 99% of the Post Office network was open for business. We opened 218 out of 299 Directly Managed Branches (up from 187 on 15 September) and all our supply chain depots bar one (Glasgow CVIT) were open.
- Media coverage was very low key.
- All industrial action is regrettable and we are conscious that changes we are implementing are difficult for affected colleagues. However, we believe the rationale for change is understood and that our regular, direct communication with colleagues is having a positive impact.
- Charity Ball
 - The 2016 Post Office Charity Ball took place on 3 November. Over 1,000 people attended including suppliers, partners, Post Office heroes, POAC members and colleagues.
 - We are awaiting the final total but we know that over £140,000 was raised for BBC Children in Need.

WHAT HAS NOT GONE WELL?

- Financial Performance – P7
 - Gross Income in P7 of £88.0m was £0.3m adverse to budget. Gross income YTD of £560.1m was £7.5m adverse to budget.
 - Some long term negative trends continued through P7, including Lottery which was £1.0m adverse to budget.
- Power Outage (Chesterfield)
 - Our office in Chesterfield - Future Walk - experienced a significant power failure on Tuesday 8th November and was forced to run on emergency back-up for over 24 hours; including some loss of service in our contact centres while the issues were addressed.
 - Our operational response was good and a repair to key components of the electricity supply to the building (including the 11,000 volt transformer) was completed on 11 November. An assessment of whether a full replacement is required is being undertaken.
 - Nonetheless, we are conducting a review of our response and how we could improve in areas including communication to other parts of the business.

Looking Ahead

OPPORTUNITIES?

- Funding
 - Discussions with UKGI on our funding proposal are continuing.

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- An outline timetable for official level discussions has been agreed for the various stages of the process including conversations with the European Commission; and discussions with KPMG (covering e.g. the baseline proposition and strategy overlays) commenced this week and are expected to go on for a fortnight.
- In addition, I have written to Margot James seeking an early meeting to discuss our proposals. I will keep the Board informed of progress.
- Christmas Marketing Campaign
 - The marketing team have developed an innovative digital marketing campaign which has been rolled out and will continue through the Christmas peak.
 - I have invited them to share this with you at the Board meeting.
- Parliamentary Activity
 - There is a debate on 17 November in Westminster Hall on the future of the Post Office. Margot James will be responding for the Government.
 - Although the debate is inspired by the CWU, we have been working with the team in UKGI to turn it into an opportunity to highlight the progress the business has made since separation; our importance to communities across the country; and raise awareness of our future strategy.
 - In addition, we are planning to hold a drop-in session for MPs in Parliament on 30 November focussed on raising awareness and support for our strategy and the banking framework in particular.
- Network Consultation
 - BEIS launched its 'Network Consultation' on 8 November with a request for responses by 21 December.
 - The consultation is designed to assist the Government to '*understand consumers' and businesses' expectations for what the network should look like*' in order to inform its work on the '*future funding of the Post Office network*'. Undertaking this exercise now will also assist in ensuring clearance of EU State Aid requirements for any future funding.
 - The consultation exercise asks whether respondents agree that the current network access criteria should be generally retained; seeks views on provision in remote communities; and asks about future service offers together with the role that communities can play in the Post Office network.
 - At the same time, BEIS also published a report from YouGov and London Economics on 'The Social Value of the Post Office Network'. This academic study (based on a 5000 responses from households and 750 from SME's) confirms the significant and ongoing social value that these groups ascribe to the network and its services (the lowest of three valuations calculated yields a figure over £4bn per year).

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RISKS OR CONCERNS?**• Industrial Relations**

- Although the business managed the last day of industrial action well, there is little sign that we will be able to resolve the dispute with the CWU in the near future. We are anticipating further industrial action before Christmas.
- Nonetheless, we continue to have discussions with both Terry Pullinger and Andy Furey in an attempt to find a way through the current impasse.
- I have also written to Terry Pullinger to invite him and other CWU representatives to come to the GE meeting on 22 December to talk about our strategy and vision; and for them to share their vision for the future of the business. We await a response.
- More positively, discussions with Brian Scott (Unite) suggest that there may be scope to resolve the dispute with them. They have presented us with a broad range of requests that would allow them to settle the dispute. Whilst we could not agree to them all, there does appear to be scope for negotiation and compromise without diverting from our strategy. I will keep the Board informed of progress.

• POca

- Further to the update in last month's report, we have continued to investigate the options for addressing TSB's withdrawal from the procurement process.
- As part of our working through the detail of the proposed e-money solution HPE's banking partner, TrustPay Global (TPG) has recently presented their solution to the FCA, who have objected to a number of aspects of the solution.
- They were particularly concerned about the classification of the accounts as 'payment accounts'. Reclassifying the accounts would require £40m in capital adequacy to be set aside. HPE are considering other aspects of the FCA's response and are due to come back to us shortly with a re-assessment of the feasibility of the e-money solution.
- It now seems most likely that we will need to contract with JPM to provide the service to be co-terminus with our contract with DWP. JPM are contractually obliged to continue to deliver the service and will be under pressure from the regulator to continue to provide the service to customers.
- JPM are able to update their prices if we extend. They have agreed to provide us with detailed pricing for this option in December. We have shared the new services contract with them, as both parties have agreed that it would be preferable to update the terms under which the service is delivered. It is likely that negotiations will continue into the New Year.

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In Conclusion

CONFIDENCE?	IMPLICATIONS?
The business remains ahead of target for the year. However, trading conditions are challenging and we will need to carry the momentum from P7 into the Christmas Peak. The business responded well to the latest day of industrial action and support amongst colleagues was relatively low. However, resolution with the CWU appears no closer. More positively, discussions with Unite suggest that there may be scope to resolve the dispute with them.	Significant challenges lie ahead in achieving our financial targets especially given the impact of external factors on our income projections. We will also continue to face challenges in managing our industrial relations. However, our approach of engaging colleagues directly and supporting them through change is working. We will continue to invest time and resource on engagement activities.

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October 2016 Financial Performance

Al Cameron
24 November 2016



P7 and YTD Performance ahead of Budget

Context

- P6 EBITDAS £(2.0)m off budget (YTD £0.2m ahead) highlighting a difficult income trend.
- Forecasting £(10)m EBITDAS for full year
- P6 £235m additional cash in Network, balance sheet headroom £36m.

Questions

- How is our scorecard performance in P7 and YTD?
- What is the financial performance of the business in P7 and YTD?
- Are we forecasting year-end outturn to be on budget?
- Are we appropriately funded?

Conclusions

- EBITDAS was £1.4m ahead of budget in P7 (YTD £1.6m).
- Of this £0.7m was underlying performance, £0.5m was due to one offs mainly Telco and the remaining £0.2m was related timing.
- We are forecasting to meet our £(10)m full year EBITDAS target before discontinued operations, subject to Christmas trading.
- Balance sheet headroom improved in P7 by £107m to £143m, returning half of the contingent cash from the network.

Input Sought

The Board is asked to note the financial performance.

The Executive Scorecard is largely positive notwithstanding pressures on income, footfall and attendance



Key Performance Indicators	P7			YTD			Full Year Target	2015-16 Audited
	Act	Target	Var.	Act	Target	Var.		
Growth								
Total Gross Income (excl NSP) £m	88.0	88.3	(0.3)	560.1	567.6	(7.5)	984.0	981.1
EBITDAS £m (100% bonus)	(1.1)	(2.5)	1.4	(14.3)	(16.0)	1.6	(10.0)	(24.0)
Headroom £m (vs Board minimum limit)~	343	200	143	343	200	143	200	485
Digital Net Income £m (digital team)	3.3	3.6	(0.3)	23.0	22.4	0.6	39.9	21.8
Customer								
Customer Effort	75%	68%	7%	75%	68%	7%	68%	67%
Net Promoter score	66	65	1	66	65	1	65	63
Acceptable Wait Time %	93%	89%	4%	92%	89%	3%	89%	79%
Branch Compliance - Financial Services - basket of 11 measures	20	<=50	-	21	<=50	-	<=50	26
Footfall (weekly) m (customer sessions from Horizon)	10.60	11.06	(0.5)	10.52	10.92	(0.4)	11.14	11.14
People								
Line Manager Engagement Index % (Once a year March) *	YTD Score			68%	68%	-	68%	68%
Internal senior manager appointments (3A and above)	63%	50%	13%	38%	50%	(12)%	50%	14%
Representation (Senior Managers) - Gender	35%	37%	(2)%	35%	37%	(2)%	37%	35%
Attendance	95.9%	96.7%	(0.8)%	96.6%	96.7%	(0.1)%	96.7%	96.8%
Modernisation								
Number of branches (one month in arrears)	Same as YTD			11,645	11,500	145	>=11,500	11,643
NT Branches Transformed In Year (Bonus Gateway 900)	135	77	58	848	777	71	1,075	1,904

~ Actuals include £200m retained for prudence.

* Measured annually in March with a 'Pulse survey' due in September.

Attendance – in period impact across Supply Chain and Crowns



P7 showed an improved performance £1.4m ahead of budget

£m	P7		YTD		Full Year
	Period Actual	Variance to Budget	YTD Actual	Variance to Budget	Budget
Gross Income	88.0	(0.3)	560.1	(7.5)	984.0
Cost of Sales	(10.2)	1.1	(66.4)	4.6	(120.0)
NET INCOME	77.8	0.8	493.8	(2.9)	864.0
Expenditure	(82.1)	0.5	(531.8)	4.8	(909.8)
FRES - Share of profits	3.2	0.1	23.7	(0.3)	35.8
EBITDAS	(1.1)	1.4	(14.3)	1.6	(10.0)

- Versus prior year, EBITDAS was £1.6m ahead (YTD £11.5m).
- This includes no change of accounting for discontinued operations (slide 7).
- Of the period net £1.4m:
 - £0.5m one off, mainly Fujitsu cost of sales rebate,
 - £0.2m is net timing (favourable non staff and agents pay offset by averse staff cost), and
 - £0.7m was therefore period performance and relates to lower agents pay and cost of sales.

Favourable trading in Mails and Financial Services offset by weaker Lottery and Supply Chain.



	P7		YTD		Full Year
	Period Actual	Variance to Budget	YTD Actual	Variance to Budget	Budget
Gross Income (£m)					
Mails	31.0	0.5	189.9	1.7	329.6
Retail & Lottery	4.1	(1.0)	24.5	(4.0)	49.2
Financial Services	27.0	0.8	177.1	(2.7)	313.9
Government Services	9.6	(0.3)	70.2	2.7	116.0
Telecoms	13.5	0.2	78.8	(4.7)	141.1
Supply Chain	2.3	(0.8)	16.5	(1.2)	29.8
Other	0.6	0.2	3.2	0.6	4.3
Total Gross Income	88.0	(0.3)	560.1	(7.5)	984.0
Cost of Sales	(10.2)	1.1	(66.4)	4.6	(120.0)
Net Income	77.8	0.8	493.8	(2.9)	864.0

- YTD performance continued to be strong in Mails, weak in Retail & Lottery.
- Financial Services had a stronger performance in Insurance and Savings, close to budget on an underlying basis and supported by £0.9m of phasing benefits in banking and payments.
- Telco after one-off cost of sales saving, arising from Fujitsu rebate.
- Discontinued Supply Chain income starting to show the (unbudgeted) impact of Iris.



Cost favourable overall with headcount reduced by 605 (10%) YTD

	P7		YTD		Full Year
£m	Period Actual	Variance to Budget	YTD Actual	Variance to Budget	Budget
Staff Costs	(20.5)	(0.9)	(135.7)	0.6	(226.4)
Agents Pay	(35.3)	0.8	(227.0)	1.2	(391.1)
Non-Staff Costs	(26.3)	0.6	(169.1)	3.0	(292.3)
Total Expenditure	(82.1)	0.5	(531.8)	4.8	(909.8)

- Staff Cost increases are driven by phasing and the YTD figure remains favourable.
- Agents Pay savings reflect lower income through the network, with lottery shortfalls having a particular impact and some phasing.
- Non staff Costs – underlying £1.2m favourable, some phasing benefits from Christmas marketing, offset by additional provisions on losses and HMRC AML issue of £2m.
- Headcount of 6,000 is 257 lower than P6 and 605 lower than the start of the financial year.



Against forecast we had a good month with favourable phasing

£m	P7		YTD		Full Year
	Period Actual	Variance to F'cast	YTD Actual	Variance to F'cast	Q2 Forecast
Gross Income	88.0	2.5	560.1	0.6	964.5
Cost of Sales	(10.2)	0.8	(66.4)	1.2	(117.5)
NET INCOME	77.8	3.4	493.8	1.8	846.9
Expenditure	(82.1)	(0.3)	(531.8)	2.2	(892.3)
FRES - Share of profits	3.2	0.1	23.7	(0.3)	35.4
EBITDAS	(1.1)	3.2	(14.3)	3.7	(10.0)
Discontinued adjustment (Subject to E&Y)	1.1	1.1	7.5	7.5	12.9
Potential EBITDAS	0.0	4.4	(6.8)	11.2	2.9

- Of the £3.2m, £2.0m was trading largely in Government Services, £0.9m was phasing in Financial Services and £0.5m is one time Fujitsu credits in Telco, offset by £(0.3)m in net expenditure. Overall £1.7m trading benefit in the period.
- We are on target to meet £(10.m) EBITDAS subject to Christmas trading in particular.
- A detailed technical paper has been provided to E&Y to assess the accounting treatment for Iris.



We continue to underspend on CAPEX and exceptionals

£m	P7		YTD		Full Year
	Period Actual	Variance to Budget	YTD Actual	Variance to Budget	Q2 Forecast
EBITDAS	(1.1)	1.4	(14.3)	1.6	(10.0)
Depreciation	(0.0)	0.1	(0.3)	0.3	(0.8)
Network Payment	7.7	(0.0)	47.7	0.0	80.0
EBIT pre exceptionals items	6.6	1.5	33.1	1.9	69.2
Interest	0.4	(0.0)	0.9	(1.4)	3.8
Discontinued Operations	0.0	0.0	0.0	0.0	0.0
Impairment	(7.8)	6.7	(56.0)	51.3	(180.0)
Exceptionals (incl BT & VR)	(12.8)	7.7	(85.3)	20.0	(173.0)
Government Grant Utilisation	11.7	0.0	81.7	0.0	140.0
Profit/(Loss) On Asset Sale	0.0	0.0	1.7	1.7	0.0
Total Profit/(Loss) Before Tax	(2.0)	15.9	(23.8)	73.6	(139.9)

- Interest costs YTD have increased reflecting the increased levels of network cash.
- We are underspending in period and YTD due to the timing of programme delivery.



Network cash has reduced by £121m from P6 but remains £185m higher than year end

Balance Sheet

£m	Oct 2016	March 2016	Variance
Fixed Assets	144	120	23
Debtors	294	419	(126)
Cash	850	712	138
Creditors	(648)	(684)	36
Pension (deficit)/surplus	195	196	(1)
Provisions	(162)	(167)	5
Other	7	7	0
Loan	(607)	(465)	(142)
Net Assets	73	138	(65)

Capital and Reserves	73	138	(65)
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Network Cash

£m	Sept 2016	Oct 2016	March 2016	Variance
Retail, Cash Centres	783	689	534	155
Bureau	123	105	74	31
Cheques, debit cards	53	45	45	(0)
Network Cash	959	838	653	185
Cash not in Network	20	12	59	(47)
Total Cash	979	850	712	138

Balance Sheet Headroom

	Sept 2016	Oct 2016	March 2016
Loan facility	950	950	950
Loan drawdown	(714)	(607)	(465)
Headroom	236	343	485
Target minimum	200	200	200
Headroom above target	36	143	285

The P7 Balance Sheet variances to March 2016 year end are:

- Debtor variance of £126m comprises decreases of £62m in the card account and ATM client debtors.
- Network cash has increased by £185m since March 2016 but reduced from £959m in P6 to £838m in P7. £121m of contingency funding has been returned, leaving c.£110m of contingency and c.£4m seasonal supply in the Network.
- Creditor balances have decreased by £36m, client creditors decreasing by £70m and business creditors increased by £34m.
- While the agents' compensation liability has reduced by payments made, there are new provisions in relation to the discontinuing of the external Supply Chain business.
- The loan balance movement is consistent with the cash flow in month, net of bank deposits.
- Balance Sheet Headroom has reduced from March 2016 due to the Loan balance increasing to fund the comparatively higher Network cash. Balance sheet Headroom has improved £107m since P6 from cash returned from the network.



P7 Cash outflow of £(188)m and Net Debt of £595m driven by higher Network Cash

Cashflow £m	Oct 2016			March 2017
	Actual	Budget	Variance	
EBIT after discontinued operations	41	31	10	(10)
Working Capital	(11)	15	(27)	5
Client Balances	1	23	(22)	21
Network Cash	(185)	(71)	(114)	(32)
Capital Expenditure	(56)	(107)	51	(180)
Government funding	172	172	0	220
Exceptional Items	(140)	(164)	24	(268)
Other (including interest and tax)	(11)	15	(26)	6
Operating Cashflow	(188)	(85)	(104)	(238)

Cash outflow of £(188)m for P7 is £(104)m adverse to budget YTD.

- Network cash is £(114)m adverse entirely due to retained contingency prefunding the network.
- Client balances are £(22)m adverse to budget due to a number of smaller variances across our client portfolio the largest of which were Santander, UKPA and Bank of Ireland.
- The £35m FRES Joint Venture dividend was budgeted for P7 but was actually received on 31 October which falls into P8. This adverse variance is in other items.
- These adverse movements were partially offset by capex which is £51m favourable and exceptionals £24m as spending plans track behind budget.

Net Debt £m	Oct 2016	Audited March 2016
Net increase/(decrease) in cash and cash equivalents	138	(109)
Add/(deduct) movement in cash in the network	(185)	55
Deduct proceeds of borrowing from BIS	(142)	(155)
Net increase in net debt	(189)	(209)
Net debt brought forward at the beginning of the year	(406)	(197)
Total net debt carried forward at the end of the period	(595)	(406)

Net debt consists of:

BIS loan	(607)	(465)
Cash (excluding cash in the Post Office network)	12	59
Total net debt carried forward at the end of the period	(595)	(406)

Increase in cash and cash equivalents of £138m equates to the balance sheet variance on Page 9.

Net debt of £595m is £189m higher than the start of the year, largely driven by funding higher network cash.

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BOARD

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NOTING PAPER

Board Effectiveness Review (BER)

Author: Alwen Lyons Sponsor: Ken McCall

Meeting date: 24 November 2016

Executive Summary

Context

In last year's Annual Report and Accounts, a commitment was made to carry out an external BER in the financial year 2016/17. This was discussed at the Board and delegated to the Nomination Committee to deliver.

The work has been procured from Lintstock Ltd., a company recommended by Ken McCall, Senior Independent Director, and will take place between the November 2016 and January 2017 Board meetings.

Lintstock Ltd., will use an online questionnaire to produce both a quantitative and qualitative review, which will be available for the January 2017 Board meeting. Each Board member will receive a customised questionnaire, depending on their Committee membership and Lintstock will be available to take verbal input if anyone requires. The questionnaires will be circulated at the end of November 2016, with full instructions on how to complete.

The questionnaire relevant to the Board is included after this paper for your information.

The Group Executive will also be asked to complete their own questionnaires, which will be included in the review.

Input Sought

The Board members are asked to note the Board Effectiveness Review in which they will be asked to participate in December 2017.

Input Received

The Chairs of the Board, ARC, Nominations and Remuneration Committees have all signed off the questions for respective sections of the review.

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Board Review 2016: Overview**Board Composition****Q1 How appropriate is the Board's composition?**

Please comment if you feel there are any additional skills which ought to be added to the Board.

Excellent - Good - Adequate - Poor

Q2 Please describe the key changes that ought to be made to the profile of the Board over the next 3 years to match the company's strategic goals.

Free Text Question

Board Expertise**Q3 How well does the Board understand the views and requirements of the following key stakeholders?**

Please comment if you feel the Board's understanding of one or more stakeholder group(s) ought to develop further.

Multiple numeric scale: rate each of the following from 1 ('Very Poor') to 5 ('Very Good'):-

- *The Government*
- *Customers*
- *Employees*
- *Sub Postmasters*

Q4 How would you rate the Board's understanding of the company's product pillars?

Please identify any specific areas in which you feel the Board's understanding ought to develop further.

Multiple numeric scale: rate each of the following from 1 ('Very Poor') to 5 ('Very Good'):-

- *Mails and Retail*
- *Personal Financial Services*
- *Payments*
- *Government Services*
- *Telephony*
- *FRES*
- *POMS*

Board Dynamics

Q5 On a scale of 1 to 5 (where 3 is 'appropriate') how would you rate the level of involvement of Non-Executives in the affairs of the company outside Board meetings?

Please comment if you do not feel the balance of Non-Executive involvement is appropriate, or if you have any suggestions for improving the engagement of the Non-Executives.

Too Little Involvement ← 1 - 2 - 3 - 4 - 5 → Too Much Involvement

Q6 How would you rate the quality of the relationships between individual Board members?

Excellent - Good - Adequate - Poor

Q7 How would you rate the Non-Executive Directors' engagement with management in:

Multiple numeric scale: rate each of the following from 1 ('Very Poor') to 5 ('Very Good'):-

- Providing effective support

- Providing effective challenge

Q8 How would you rate the quality of the relationship between the Board and the Post Office Advisory Council?

Please comment if you have any suggestions for improving the relationship or communication between the Board and the Post Office Advisory Council.

Excellent - Good - Adequate - Poor

Q9 How, if at all, could the atmosphere in the boardroom further encourage equal contribution, candid discussion and critical thinking?

Free Text Question

Time Management

Q10 How would you rate the planning of the annual cycle of work of the Board?

Please comment if you do not feel that all important issues are covered during the year.

Excellent - Good - Adequate - Poor

Q11 How would you rate the Board's agenda?

Please comment if you don't think that it covers the key issues and/or that the items are not well prioritised.

Excellent - Good - Adequate - Poor

Q12 How well does the Board review the effectiveness of past decisions and capture any lessons or actions required?

Excellent - Good - Adequate - Poor

Q13 What, if anything, do you feel the Board spends too much time focusing on?

Free Text Question

Q14 What, if anything, do you feel the Board spends too little time focusing on?

Free Text Question

Board Support**Q15 How would you rate the frequency of presentations made to the Board by management?***Too Few ← 1 - 2 - 3 - 4 - 5 → Too Many***Q16 How would you judge the quality of the presentations made by management to the Board?****Please comment if you have any feedback for those presenting at meetings.***Excellent - Good - Adequate - Poor***Q17 How would you rate the following aspects of the Board packs?**

Multiple numeric scale: rate each of the following from 1 ('Inappropriate') to 5 ('Appropriate'):-

- Length
- Use of Summaries
- Structure
- Timeliness

Q18 Please detail any recommendations for improving the content and format of the various management reports contained in the Board packs.*Free Text Question***Board Committees****Q19 How would you rate the performance of the Committees of the Board?****Please comment if you feel that the performance or reporting of one or more Committee(s) ought to improve.**

Multiple numeric scale: rate each of the following from 1 ('Very Poor') to 5 ('Very Good'):-

- ARC
- NOMCO
- REMCO
- POAC

Strategic Oversight**Case Study: June Strategy Day****Q20 How would you rate the agenda for the strategy day?****Please comment if you don't think that it covered the key issues and/or that the items were not well prioritised.***Excellent - Good - Adequate - Poor*

Q21 How would you judge the quality of the presentations made to the Board during the strategy day?

Please detail any recommendations you may have with respect to the quality of the presentations, or the balance between presentation and discussion during the strategy day.

Excellent - Good - Adequate - Poor

Q22 How would you rate the clarity and articulation of the conclusions reached during the strategy day?

Excellent - Good - Adequate - Poor

Q23 What would be your top 3 priorities for improving the Board's next strategy day?

Free Text Question

Wider Strategic Oversight

Q24 On a scale of 1 to 5 (where 3 is 'appropriate') how would you rate the involvement of the Board in determining the strategic direction of the company?

Please comment if you do not feel the Board's involvement in determining the strategic direction is appropriate, or if you have suggestions for improving engagement in this area.

Not Involved Enough ← 1 - 2 - 3 - 4 - 5 → Too Involved

Q25 How effective has the Board been in testing and developing the company's strategy?

Excellent - Good - Adequate - Poor

Q26 In what specific ways do you feel the Board could contribute further to testing and developing the company's strategy?

Free Text Question

Q27 How good is the Board's understanding of the company's performance relative to its main competitors in the following areas?

Multiple numeric scale: rate each of the following from 1 ('Very Poor') to 5 ('Very Good'):-

- Mails & retail
- Financial Services
- Telephony
- Government Services

Q28 What do you feel are the top 3 strategic issues facing the company over the next 3 years?

Free Text Question

Risk Management and Internal Control

Q29 How would you rate the Board's focus on risk?

Please comment if you have any suggestions for improving the Board's focus on risk or the structure of risk discussions at meetings.

Too Granular ← 1 - 2 - 3 - 4 - 5 → Too High Level

Q30 How would you rate the level of detail provided on risk and reward in papers submitted to the Board?

Too Little Detail ← 1 - 2 - 3 - 4 - 5 → Too Much Detail

Q31 How good is the Board at considering risk when making strategic and operational decisions?

Excellent - Good - Adequate - Poor

Q32 How can the Board improve its performance in risk management / oversight?

Free Text Question

Succession Planning and Human Resource Management

Q33 How would you rate the appropriateness of the structure of the company at Group Executive level?

Excellent - Good - Adequate - Poor

Q34 Are there any key positions which you think the company lacks or ought to be strengthened?

Free Text Question

Q35 How effective is the Board's oversight of succession plans for the following members of management?

Please comment if you have any observations relating to the development or succession plans for management, or suggestions for improving the role of the Board in this area.

Multiple numeric scale: rate each of the following from 1 ('Inappropriate') to 5 ('Appropriate'):-

- The Chief Executive

- The Chief Financial Officer

- The Group Executive

Priorities for Change

Q36 If there was one practice you could bring to the Post Office Board from another Board upon which you serve, or have served, what would it be?

Free Text Question

Q37 In terms of improving the Board's performance, what would be your top 3 priorities for the coming year?

Free Text Question

Mails strategy update

Author: Mark Siviter Sponsor: Martin George Meeting date: 24TH November 2016

Executive Summary

Context

The crucial exclusivity provisions which underpin our MDA contract with Royal Mail (RM) expire in Q4 of FY19/20. This is earlier than the horizon of our five year strategic and financial plan, which we are setting out to Government together with its associated funding request. Uncertainty around the cost of securing our long-term sustainability in Mails is the biggest swing factor in the business' five year profit projections. It is essential to secure a sustainable long-term model for our Mails business well before the exclusivity provisions with RM expire but our optionality reduces and our negotiating position weakens the later we renegotiate.

In June, the GE and Board endorsed our strategy for securing our long-term future with RM. We set out the plan to engage RM in a joint strategy project this financial year to reinforce to them why we are better together and why we must act to renew the relationship for the long-term. Our intent remains to drive a renegotiation with RM next financial year. In June we also set out how we would develop a business plan for our next best alternative, as leverage and contingency, and deliver "no regret" moves within the bounds of the MDA to improve our position.

Questions addressed in this report

1. How have we progressed with Royal Mail since we set out our approach at June's Board meeting? What have we learned and how does that impact our plan?
2. What have we done since June regarding development of our next best alternative? What have we learned and how will this influence our strategy towards Royal Mail?
3. How are we improving the chances of our desired outcomes with Royal Mail? What is our timeline, when are the key decision points, and what are our next steps?

Conclusions

1. Our Mails business is currently trading ahead of budget and Royal Mail have been actively engaged with us in a joint strategy project since September. This is the first collective review of our joint strategy in the Mails market since 2012. It has so far established a common baseline and by the end of this financial year it will establish a joint, market-relevant, vision of the future together. This is positive but simultaneously, and of concern, RM are not committing to renegotiate early on a deal extending beyond 2022, and have tried to limit focus of any changes in the relationship to the "second half" of the current MDA term. Our chances of securing an acceptable long-term (i.e. post-2022) relationship before our self-imposed deadline of March 2018 are currently low. We lose optionality for implementation of acceptable alternatives the later we conclude a deal with RM. We are therefore doing everything we can to increase chances of striking a deal next financial year. This will involve exploiting the contractual right we have under the MDA to engage RM in a "mid-term review" of the agreement, commencing in May 2017.

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2. We have assessed in much more detail the two “next best alternative” business models we set out in June. We are now more confident that there is a viable alternative model for our Mails business, our customers and our postmasters, without such a close dependency on RM. This will increase the leverage we need and provide contingency. We are on a critical path to being able to implement this and we anticipate a major go/no-go decision in November 2017. A “go” decision would have profound ramifications for both us and RM and so we must exhaust all opportunities with RM before then.
3. We must use the rest of this financial year to: complete a compelling joint strategy with RM; keep delivering on “no regret” moves which strengthen our position within the boundaries or silent areas of the existing MDA; further develop our next best alternative; gather further intelligence on RM’s likely asks in return for a longer term deal; and model a fully costed negotiating mandate. Our overall timeline remains unchanged. The next decision point is the March 2017 Board where we will provide a full progress update on all elements of our strategy, and this is when we expect to formally recommend a negotiating mandate. Approval of this mandate will involve choices on the extent of concessions we could be prepared to trade in order to ensure the long-term security of our Mails business. The position with RM reinforces the importance of the strategic priorities as set out in the five-year plan to FY20/21 and the associated funding request. These priorities ensure we keep reducing the costs and complexity of Post Office Ltd whilst enhancing our distributional capabilities and strengthening profitable non-Mails income streams.

Input Sought Does the Board endorse our approach and the next steps as set out in this paper?	Input Received GE & Board endorsement of our strategy (June 2016). Ongoing supervision thereafter from the Mails Strategy Steering Committee and the GE.
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The Report

How have we progressed with Royal Mail since we set out our approach at June's Board meeting? What have we learned and how does that impact our plan?

1. At the end of H1, our Mails net income is trading £1.3 million ahead of budget and on track to hit a full year reforecast of £332.6m (versus budget of £329.6m). On a like-for-like basis that outturn will represent a trading income decline of c-1.6% year-on-year, which is just ahead of the combined Post Office and Royal Mail view that the domestic and export mails market is in a slow decline at approximately -2% CAGR.
2. Since June's Board meeting, we have launched the Drop & Go proposition online to defend small business market share. A MDA Variation agreement has also been signed with RM. This has delivered us access to discounted pricing for our Drop & Go proposition; additional protections for Post Office from RM switching volume to their online channel; and a mutually-agreed rollout of parcels barcoding.
3. Royal Mail have engaged in joint strategy development and since June we have baselined the scope, plan and governance of this project and fully mobilised it. This is a crucial mechanism for us to establish a new cross-organisation vision, a competitive value proposition and a proposed operating model that is sustainable and relevant in the market. From our perspective, we also see this work as an important mechanism for Royal Mail to internally prove the case for our "better together" stance, to influence them away from their own next best alternatives, and to act as a precursor to a meaningful renegotiation of our long-term future. It also allows us to understand RM's likely negotiating position, and for us to set out a "burning platform" and why awaiting the MDA-mandated 2019/20 full renegotiation window is too late for either party.
4. This work has got us to an agreement on: a mutually-validated baseline of the market, the competition, and other relevant external factors; a common set of customer definitions; and a common view of our combined Mails business' strengths, weaknesses, opportunities and threats. Royal Mail are taking the work seriously. They have committed resource and are attending at least twice-weekly workshop sessions. They have also appointed their Strategy Director and Chief Customer Officer to the project's steering committee. The project commenced in September, two months later than we had wished. It took time for Royal Mail to resource up and for us to negotiate the full breadth of the scope we desired and baseline a plan with the right level of buy-in across both organisations. The project is now progressing well and will formally complete in April 2017, however we anticipate that our most relevant findings will be available in advance of our March 2017 GE and Board meetings. An executive summary of the outputs to date is available in Appendix 1. Further detail is available upon request.
5. We have also been working with Royal Mail to study lessons we can learn from other winning organisations in the postal and logistics sectors. For example the US Postal Service's mobile proposition which allows customers to transact in advance either for

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scanning into self-service kiosks in branch or to shorten the time required at a branch counter. We have also considered successful but unrelated retailers where physical attendance in branch remains a fundamental part of the purchasing journey. For example, 21% of Starbucks purchases in the U.S. are now made via their loyalty programme app. This has attained over 11 million users, with high levels of customer intimacy generated from low value purchases, and it crucially offers footfall growth and queue reduction for the franchisees of Starbucks' branches.

6. Our view is that the MDA contract form and the behaviours it drives have made it difficult to enable innovation in the product set, customer journeys, business simplification or interdependent cost reductions on either side during the "first half" of the MDA (2012-16). The relatively benign market environment which allowed this no longer exists. The MDA has a provision for a "mid-term review" to commence in May 2017. This contractual opportunity falls almost immediately subsequent to completion of the joint strategy project. It is our intent to use this provision to its fullest extent. The provision requires both organisations to meet in good faith, review the agreement and its operation, and enter into discussions with a view to agreeing amendments to the MDA and to take into account changes in market dynamics. Discussions have now commenced with RM on how we set the scope, boundaries, duration, and people involved for this mid-term review process. We are also taking detailed legal advice to prepare for this process.
7. Royal Mail have indicated their preference to use the outputs of the joint strategy work solely as a precursor to setting the scope and terms of the "second half" of the MDA (2017-22). So far, Royal Mail do not recognise a need to open negotiations early about any relationship beyond their own strategic planning timeframe (2022), and have positively declined the option to do so. Although not confirmed, we expect they could be considering a short term extension on exclusivity arrangements (e.g. to 2022 rather than 2020), but with price conditions. Whilst we agree there is ample opportunity to facilitate a better "second half" of the MDA, such a short and conditional extension would fall well short of our desired outcomes. It would not provide the long term security that we and our postmasters need.
8. We have seen no indications that Royal Mail are considering or developing some of their more radical alternative options. Our view of their alternatives remains as we set out in June and these remain a serious risk to our success. Their alternatives include:
 - Stretching the MDA to the fullest extent by shifting volume away from Post Offices to lower cost channels. We have already learned that RM is developing a mobile app targeted at the consumer market. This is focused on receiving rather than sending customers but if it were to eventually enable sales as well it could establish the start point towards further disintermediation of Post Office and a future accept-only proposition being available from RM to other retailers. We believe RM are also giving consideration to eBay integration which would represent a threat to our own parcel volumes. We are also under pressure from Royal Mail to support the introduction of delivery confirmation into more of the product portfolio. If unchallenged, the eBay and delivery confirmation projects

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alone could cannibalise our existing revenues to the order of £16m p.a. While we meaningfully engage with RM on the topics, we are naturally resisting change on their desired terms.

- More overt and aggressive moves to shift volume from us. These could include acquisition of PayPoint, or preparation to introduce doorstep sales by postmen or more direct sales via delivery offices.
9. There are lots of reasons to believe that it is both Royal Mail's and our interests that the Post Office relationship is renegotiated next year. We believe Royal Mail will need to take on an increasing risk appetite in terms of improving their domestic cost position. Relatively stagnant domestic growth and Deutsche Post's recent acquisition of UK Mail (September 2016) will further stress Royal Mail's position in the highly competitive B2C segment of the domestic market. We anticipate Royal Mail's medium term strategy to focus on growth via further acquisitions in overseas parcels markets; domestic operational efficiency; and an increased focus on the domestic consumer proposition. Post Office has the power to be either an enabler or a threat to the latter two objectives; our goal is to establish a mutually value-accretive basis to help Royal Mail achieve both.
10. Our initial conversations and research indicate RM's propensity to engage in a Joint Venture with us is likely to be low. Culturally, RM favour more transactional contracts, even in mission-critical relationships such as running their sortation technology. When they see strategic value in other organisations, they are increasingly making acquisitions as a means of integrating rather than entering equity partnerships. RM do not perceive acquisition of Post Office Ltd as a realistic or attractive proposition for them. Our final contract format, be it transactional, more strategic, or an equity partnership, will be a key element in negotiation. We intend to use the "operating model" phase of the joint strategy project to help us persuade Royal Mail of additional value which could be unlocked via an equity partnership model.
11. We will continue with our plan of seeking a mandate to negotiate from the GE and Board in March 2017 by which point the joint future vision and value proposition will have been developed from the strategy project. The critical success factors for any new deal will be one that:
- a) Offers the best in class proposition for our customers.
 - b) Supports the long-term sustainability of the network and our agent proposition.
 - c) Delivers profitable income over the long-term for Post Office Ltd; and
 - d) Adds value to our brand equity.
12. When it happens, we expect a renegotiation to be a trade across at least seven major dimensions of the relationship as set out below:

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- ① Duration
Contract format and expiration
- ② Price, Margin and Exclusivity
 - a) Fixed, transactional and financial treatments – e.g. VAT
 - b) Protect against cannibalisation / disintermediation of revenues
- ③ Investment levels
 - a) One-off and/or continuing investments
 - b) Post Office versus Royal Mail contributions
 - c) Potential structure and vehicle for joint investment
- ④ Ability to simplify the businesses
 - a) Breadth of scope of mutual initiatives
 - b) Ease of doing business and combined agility
- ⑤ Ownership of the consumer brand
 - a) Supporting the rest of Post Office
 - b) Online
 - c) Customer data
- ⑥ Defence of footfall, the network, the agent value proposition
 - a) Volumes, value of footfall and attractiveness to franchisees
 - b) Ability to cannibalise / disintermediate network footfall
- ⑦ Market relevance of our joint customer proposition
Ability to innovate together to beat the competition

13. Our request for a negotiating mandate will set out a costed position and our start points, zones of potential agreement, and walk-away triggers. It will also set out our best understanding of Royal Mail's likely starting position, zones of potential agreement, and walk-away triggers. We are already gathering intelligence to build this understanding, and will continue to do so over the remainder of this financial year. An approval of this mandate in March 2017 will involve choices on the extent of concessions we would be prepared to trade in order to ensure the long-term security of our Mails business.
14. We need to reserve our option to offer early, time-limited, financial incentives in a partnership opportunity to Royal Mail in order to achieve our objective of an early renegotiation on a long-term deal. We believe it would be wrong to deploy this tactic yet, but believe it more likely than not that we will need to do so early next financial year, once the joint strategy is completed and when it can be tied to a compelling vision of our long term future together. Implementation of any such incentive would be from FY18/19. The affordable level of such an incentive, its conditions (most likely associated with cost savings), and the context of it within our wider set of deal objectives, would be brought to the GE and Board for endorsement as part of the wider approval process for the negotiating mandate.
15. In conclusion, our overall strategy towards Royal Mail has not changed from the path we set out to the Board in June. Whilst we cannot mandate that Royal Mail enter into a renegotiation next year regarding the post-2020 relationship, we are using the tools we have to influence their position. Some of these are already in use and further tools are still available to be deployed (such as external stakeholder influencing) to influence them towards our desired outcomes.

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What have we done since June regarding our next best alternative plan? What have we learned and how will this influence our strategy towards Royal Mail?

16. We have worked with expert advisors from the logistics market to further investigate the two alternative business models we set out for assessment:
- Offering other providers access to our sales channel as a “mail supermarket”
 - Becoming a provider of mails products in our own right, with our own product set and contracts let for collection, sortation and delivery services.
17. We believe we could have the most credible and sustainable alternative strategy by becoming a mails provider in our own right. Implementation would require significant business change and would not be without risk. It could make Post Office a serious threat to Royal Mail. Further detail is available in Appendix 2, but in summary our growing confidence in such a model is driven by our two key conclusions that:
- There is adequate supplier capacity and capability in the UK to absorb our volumes with a much reduced reliance on RM. In letters for example, our total volume would represent just 10% of either of Whistl or UK Mail’s current volumes. Both organisations process, sort, trunk and then inject letters into RM for final mile delivery via the regulated Downstream Access market. In parcels, the current level of market overcapacity is increasing faster as Amazon expands its own logistics operation and removes volume from other providers. We could expect to have to work with more than one parcel provider to handle our market-changing 250m annual parcels volume, or we could need one to invest to accommodate these volumes. In capacity terms, the three largest players outside Royal Mail already handle 570m parcels p.a. (MyHermes 250m, Yodel 170m, DPD 150m).
 - Our initial indicative economics, at the most conservative assumptions, demonstrate a positive direct product contribution for Post Office of c£100m p.a. from revenues of £1.0bn-£1.2bn. This compares favourably with the counterfactual case of reduced RM income in a new deal and a Mails direct product contribution nearer to £50m p.a. The business would incur new fixed costs in the region of £25m p.a. while all other costs would be volume-variable, with agents’ pay rates maintained at current levels. These figures do not reflect upside opportunities, for instance new product and revenue streams from the greater freedoms we would have to directly partner with Amazon, eBay and other online retailers. However, implementation planning and risk planning for this strategy is at a very early stage and will require significant further development before a final recommendation could be made.
18. We have assessed potential outcomes against the same four success factors that we will assess any future deal with Royal Mail:

Success factor:	Anticipated outcome
Offer the best in class proposition for our customers	• We could continue to offer a full spectrum of mails products, with market-leading features. • We could continue to price at levels competitive with Royal Mails’ rates across Letters, Large Letters and Parcels, though in some instances with greater service quality (e.g. tracking).

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Success factor:	Anticipated outcome
	- We could take commercial control of product design and pricing, allowing our own response to customer needs. - We could reduce customer journey complexity and improve in-branch experience through our own product design. - However, Royal Mail could take a mutually-damaging approach towards stamp or first class letter and large letter product journeys. Estimates are ranged to account for this risk.
Support the long-term sustainability of the network and our agent proposition	- Agents could have a strong mails product portfolio to retain footfall, even in the face of likely competition from RM. - Low value, high-workload, Royal Mail accept-only volumes could reduce as Royal Mail set up alternative acceptance channels. - Branch collections could continue to be made by a single (prime) provider, with equivalent or fewer segregation requirements. - Overall complexity could reduce and agents could gain greater ability to influence the products for their customers' needs. - Total agents pay could be maintained at current levels should we choose to, despite reduced overall volume and complexity. - Transitioning to the new arrangements would be highly challenging however, requiring new processes, training and ways of working.
Deliver profitable income over the long-term for Post Office Ltd	- We anticipate indicative Post Office Mails revenue of £1.0-£1.2bn and a direct product contribution of c£100m p.a. after taking into account an initial assessment of the downside risks from Royal Mail's response. This is the biggest single uncertainty. - The Royal Mail response would be powerful, and we could anticipate them to take overt and aggressive actions to defend their position (e.g. poaching agents, acquiring PayPoint). - There are also further upside opportunities which remain to be assessed including accessing more SME customers and through working with Amazon or eBay on new propositions.
Add value to our brand	- We could continue to operate as the trusted postal retailer on the high street. - We could have more control over the relationship of our brand with the mails products we sell. - However, we could be involved in an ugly, and protracted, public relations battle with Royal Mail. - Similarly, we could face direct competition with Royal Mail on the high street.

19. If we wanted to be in a position to deploy such a model in time for a FY20/21 rollout, we would need to have commenced a process of public procurement with logistics providers by January 2018. This is after the joint strategy project and MDA mid-term review window. Moving into a procurement could only ever be considered after having exhausted all other attempts to secure an acceptable long-term deal with RM.
20. Running such a procurement process is not without legal challenges under the terms of the existing MDA and we are engaging expert legal advice on this point. We believe the act of us revealing an intent to the market would cause share price damage to Royal Mail. That would be certain to provoke an aggressive commercial and legal response.
21. We have also taken expert advice to help assess the feasibility of Post Office taking on the Universal Service Obligation (USO) in its own right and if this could be

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advantageous to us in any scenario. We have concluded that Post Office is very unlikely to become the Universal Service provider in whole or part. This is because:

- There is no opportunity for any change in Universal Service provider until 30 September 2021 and this would be subject to an OFCOM determination.
- We do not have an end to end delivery network, so would not be in a position to persuade OFCOM beforehand of our ability to deliver the USO requirements.
- It would be financially unfavourable to us, even despite the ability to price products with VAT exemptions.

22. Our other alternative- to offer access to our network to a range of providers as a "mail supermarket"- is not ruled out as a contingency but is considered a less attractive long-term option. We consider this more likely to be damaging for the agent value proposition and it would be likely to reduce consistency of the customer proposition across our network. Not all products could be available in all branches and we would gain no commercial control over our product set. We would also be beholden to other parties with low margins who control larger sections of the value chain. Further detail is available in Appendix 2, where this option has also been assessed against the same four success factors as above. Our modelling indicates this option as materially less sustainable with an expected direct product contribution of £25m p.a. compared to the baseline counterfactual of £50m p.a.

23. Desk-based modelling and external expert challenge has refined our thinking since June and increased our confidence in the viability of the option to become a mails provider in our own right. However, we will need to do much more work in order to confirm its credibility, deliverability, and to develop a fully costed and mature business case. Transitioning to such an option would be ground-breaking and challenging. We would need a greater level of confidence in a) our view of the possible Royal Mail and market reaction and our resulting volumes from 2020, b) supplier market appetite and c) the implementation plan and its risks before we could recommend to the GE and Board to enact such a plan, or even to recommend we reveal any such plans in development as a negotiating leverage towards Royal Mail.

24. We also recognise that further development of this business plan could expose further implementation challenges, or that strategic or market conditions for potential logistics partners could affect the ability for us to secure partners at the right price. Either way, further planning and preparation will be essential to preserve optionality and provide contingency. There is urgency here as we are already close to the implementation critical path, should we ever wish to implement such a plan.

25. In conclusion, since June we have significantly increased our understanding of our alternatives. With further work we expect this to become a) useful leverage and a way to increase our negotiators' confidence with RM, b) a mechanism to set a more demanding walkaway position in our negotiating mandate, and c) a genuine contingency to keep the Post Office in business in the event of failing to secure an acceptable deal with Royal Mail. We must invest in further development of this business plan and associated implementation plan.

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How are we improving the chances of our desired outcomes with Royal Mail? What is our timeline, when are the key decision points, and what are our next steps?

26. Our desired outcomes with RM, as set out in June, have not changed. These involve: moving from transactional fees to greater collaboration and value sharing; an income stream sufficient to ensure our long-term viability and that of our agents; pricing structures that incentivise RM to maximise volumes through our network; a relationship over the long-term, preferably perpetual; positive incentives for us to deliver market leading service; and a product set which provides a breadth of range and value-added features to help defend against commoditisation.
27. To improve our chances of achieving these outcomes with RM we must now:
- a) Complete the joint strategy project between now and April 2017. This is the best available vehicle to prove the "better together" case, establish the need to act early, and establish the basis for the long term relationship we would then negotiate. We will also much better understand the positions Royal Mail will take, areas of likely agreement and areas of contention prior to formal negotiation.
 - b) Establish a more direct influencing relationship towards Moya Greene (RM CEO). We have now agreed with Royal Mail that review checkpoints together with both CEOs should be introduced during and at the end of the joint strategy project.
 - c) Develop the full business plan and the implementation plan for the next best alternative between now and March 2017, in order to ensure we have credible leverage and a better understanding of its costs, benefits and risks in order to help set our walk-away position in any negotiation mandate with Royal Mail.
 - d) Fully document, internally challenge, and align on our primary deal objectives when taking into consideration the business' medium term funding position. We expect more clarity on the funding position over the course of this financial year.
 - e) Develop a detailed, costed, negotiating mandate between now and March with a deeper understanding of Royal Mail's likely starting position, areas of potential agreement, and our walk-away triggers with respect to our desired outcomes.
 - f) Exploit opportunities above and beyond executive interactions in order to influence Royal Mail and their own stakeholders towards our primary deal objectives. This may require opening a more detailed dialogue with external stakeholders, including Government, to help influence RM's position.
 - g) Continue activities to deliver "no regret" actions which stretch or extend the MDA in ways that change the landscape from which we will then renegotiate. This means: further development of our Drop & Go proposition to grow loyalty and customer insight from small business customers; development of new propositions to gain greater share in the Click and Collect market; devising a market-leading returns proposition; and developing the business case for a mails product proposition unavailable from Royal Mail (e.g. international time-definite delivery) in order to demonstrate an ability for us to partner with other providers in the market where doing so is permissible in the MDA.
 - h) Continue across the whole business to deliver on the strategic priorities as set out in the five-year plan to FY20/21. This means investing to reduce the costs and complexity of Post Office Ltd whilst enhancing our distributional capabilities. Aside

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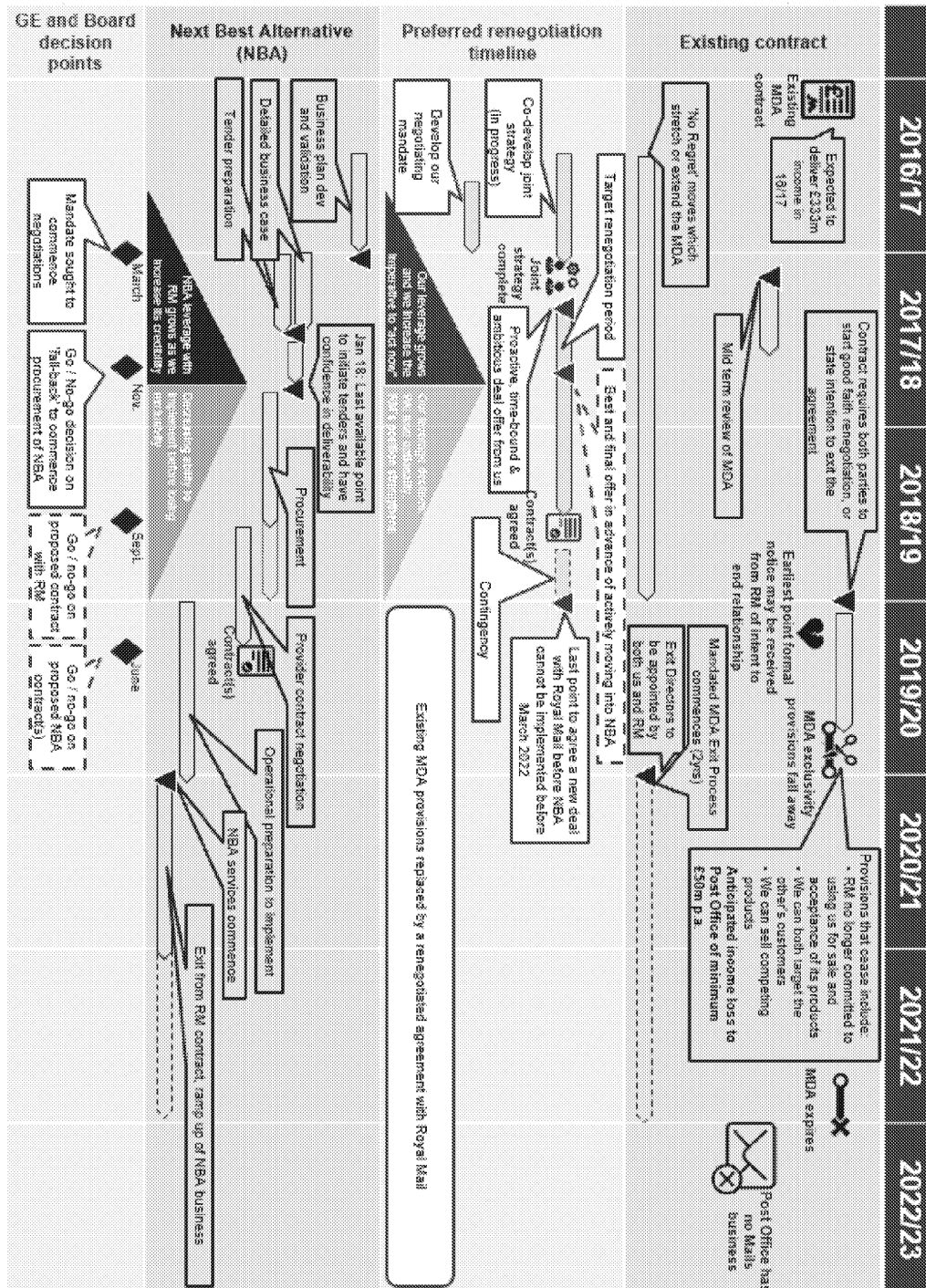
from its wider business objectives, this specifically: further improves our attractiveness to RM as a partner above their other alternatives; further improves our ability to move to an alternative Mails business model in the event of being unable to secure an acceptable long-term arrangement with RM; and further strengthens other business lines such as Financial Services and Identity to help mitigate downside risks in Mails and grow other profitable income streams. We will need to ensure that ministers are aware of the critical link between our funding request and our time-limited opportunities to prepare for negotiations with RM.

28. We also have the power to generate leverage through antagonistic actions in the current MDA, for example refusal to work constructively together on assessing or implementing Royal Mail change requests. That would develop a mutually-destructive working dynamic and we are not at the point of needing to consider this.
29. There is no material timeline change from that we set out in June. As previously stated, we expect to return to the GE and Board in March 2017 to seek a negotiating mandate, and our objective remains to commence a renegotiation with Royal Mail early next financial year. We anticipate May 2017 to November 2017 to be the window of our maximum negotiating strength towards Royal Mail. We have the scheduled contractual mid-term review in May 2017, we expect to have a combined strategy completed and bought into by both organisations by April 2017 and we will have gathered additional intelligence of RM's likely intentions through our work in the interim. Beyond January 2018, our next best alternative options would lose credibility (and indeed become un-implementable in the timescales we need) without commencing any procurement exercise. We can now provide a more detailed view of our decision path than we did in June, and this is set out in the schematic on Page 12.
30. The most complex decision point that we can see over the next two years is a November 2017 "go" / "no go" decision on launching a procurement exercise for logistics partners to support our next best alternative:
- To recommend a "go" decision in November 2017, we would need to have revealed both our "carrot" and our "stick" to Royal Mail and still have not secured entry into a meaningful negotiation with confidence in the outcomes we need. This would mean both time-limited final incentivisation to buy a longer duration partnership, as well as some element of disclosure to Royal Mail about a "Plan B" to become a mails provider in our own right, directly competing with them.
 - To recommend a "no go" decision to the GE and Board in November 2017, we would need to have established, and entered, meaningful negotiations regarding a long term deal. The terms of negotiations and their end point would need to be set in such a way that we face no erosion of our ability to implement our Plan B.
31. In conclusion, our timeline remains on track but the task ahead is of high challenge and high complexity. We must deliver a compelling joint strategy together, increase the scope and pace of development of our next best alternative, deliver on our no regret moves, widen our influencing strategy towards RM in order to increase our

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chances of a desirable settlement in our timelines, and deliver against the wider business objectives set out in our five-year plan.

Timeline and Decision Path

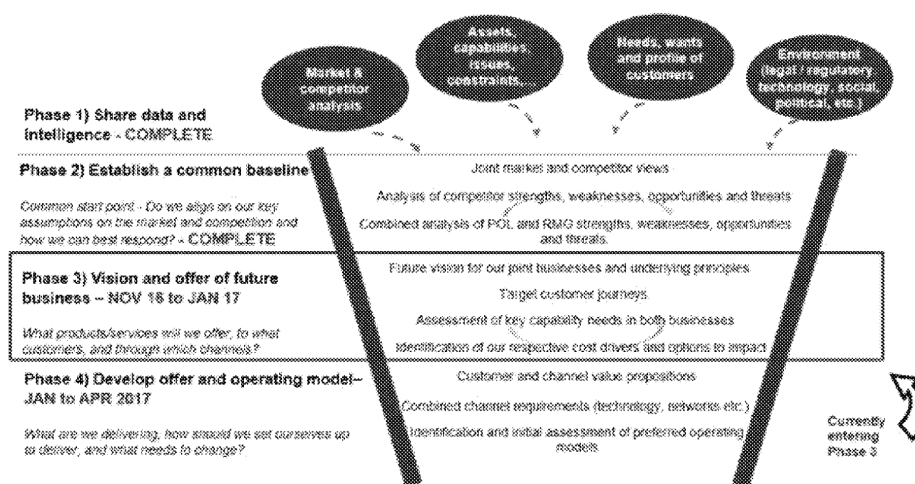


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Appendix 1: Joint strategy project outputs

The following slides form an executive summary of outputs from the joint strategy project work to date. Further supporting detail is available in the reading room if required.

Joint strategy: scope and progress



Royal Mail Group

Market overview

The addressable letters and parcels market is in gradual decline



The overall letters and parcels market is in slow decline
Approximately -2% CAGR across the full UK and export postal market.

Addressable letters and parcels market is also forecast to decline at the same level
Expect to also see c. -2% CAGR change across overall letters and parcels for the addressable combined POL and RMG market.



Decline in both overall and addressable market is driven by reduction in letters
The overall core source of decline is letters with a -4.6% CAGR due to e-substitution and technical innovation. While some overall growth is forecast in parcels (1.3% CAGR¹), this does not offset the impact of the letters decline.

Growth forecast in parcels – but in a competitive landscape



Online B2C sales driving growth

- Increase in online Retail and Marketplace selling represents growth opportunity for parcels (3% CAGR¹), returns (c.20% CAGR²) and Click and Collect
- Major growth forecast in overall Click and Collect (<32% CAGR² total overall) but this is a small segment of the market (c. 144m by 2018). The addressable market (i.e. out of store/PUDO click and collect) rate of growth is slower at 18% CAGR (2016-2021)³ – while this is strong, it is currently only 1% of the total e-retail delivery market, and will still be less than 2% by 2021



Over-capacity in the market driving increased competition

- POL/RMG has a large market share in Large Letters and Small Parcel categories (e.g. c. 70% volume of Marketplace Sellers for these products), but MyHermes is the strongest in Medium and Large Parcels (these products represent 56% of Marketplace Seller volume vs 5% for POL/RMG).⁴
- Over-capacity causing competition on pricing and margin squeeze. Historically, RM and POL have moved away from the Medium / Large Parcel sector due to inability to compete on price in these segments. As competitors seek to move into the LL and SP segments, these areas will also become increasingly challenging



Royal Mail Group

1. Source: Internal views based on recent trends
2. Source: BMRB Click and Collect report 2016
3. Source: Verdix 'True Value of Stores' July 2016
4. Source: Marketplace Seller Report, Wave 5 July/August 2016. POL/RMG Customer Forum August 2016.

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Competitor overview

Competitor threat comes not from a single organisation but multiple layers of threat from different competing models

- Royal Mail and Post Office as combined businesses have a large market share in the parcel and delivery market for consumer and sub-account level small business customers. This is a legacy from the monopoly position and competitors are looking to erode this share in all segments.
- Competitor landscape is evolving primarily due to technology innovation enabling:
 - More efficient processes – and therefore better able to compete on price.
 - More rapid adaption to market changes – so can keep pace/stay ahead to maintain competitive advantage.
 - Better customer experience – which drives increased expectations from a more online focused customer base.

Type	Overview	Impact on POL/ RMG	Potential scale of impact
Challenger	 	- Disintermediation to control full customer experience. - Targeting key profitable POL/ RMG segments. - Erosion of RMG/ POL brand via commoditisation of postage.	 Material, revolutionary change if mandating own services.
Traditional	  	- Network based, similar model to RMG/ POL. More agile and technologically innovative. - Better customer knowledge.	 Continued gradual erosion.
Disruptor	 	- Innovative organisations operating an alternative business model to disrupt the existing market. - Focus on part of the value chain or a particular market segment.	 Less predictable. Could be disruptive in impacted areas. Multiple viable disruptors in different areas could have material impact.



Royal Mail Group

Customer overview

Our customer expectations are evolving and competition is seeking to deliver a better customer experience. We need to improve understanding of our customers to better meet their needs and keep pace in a changing market landscape.

Segmentation overview focused on customers using Post Offices for:

- Purchase or drop-off
- Primarily consumers and micro SMEs
- Small Professional Firm and SME supplementary purchases and drop-off for businesses that don't get a collection.

General customer context



Customer expectations are increasing

Customers exposed to improved online capabilities across industries. Growth in postal industry is driven by online shopping so this demographic is particularly used to managing activities 'on the move' with increased expectations of immediacy. These expectations are being applied to both sending and receiving parcels, and are reinforced by competitors raising the bar on customer offer and experience e.g. through improved tracking capability.



POL/ RMG brand is strong but this is a legacy strength and being eroded

- Customers increasingly familiar and satisfied with other brands, commoditising postal services – POL/RMG seen as less relevant
- Competitors improving their quality of service.



We have very limited customer data compared to competitors

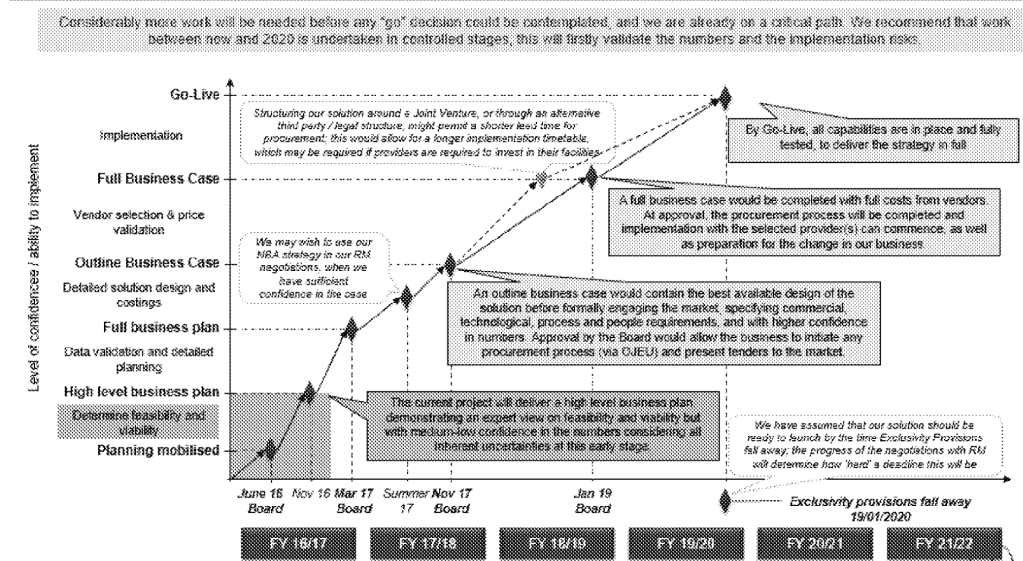
Competitor models by default capture more customer information enabling improved customer insights. POL/ RMG has insufficient capability in this space when data intelligence provides a competitive advantage.



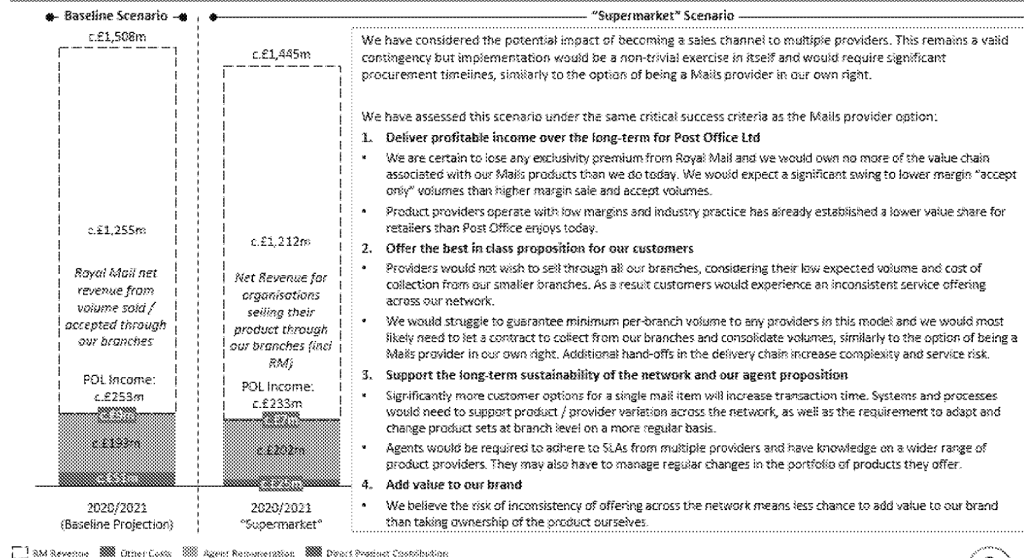
Royal Mail Group

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Delivering the Next Best Alternative Mails Strategy: Where we are on the scale of maturity and our readiness to implement



Offering other providers access to our sales channel as a "mail supermarket" is a contingency but less likely to be a sustainable strategy



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POST OFFICE MANAGEMENT SERVICES LIMITED
REPORT TO POST OFFICE LIMITED BOARD

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H1 2016/17 Report to the Shareholder

Presented by: Nick Kennett, CEO POMS

Executive Summary

Context

Post Office Management Services Limited ("POMS") is a subsidiary of Post Office Limited ("POL"); it undertakes insurance intermediation and is regulated by the Financial Conduct Authority. Under its Articles of Association, POMS submits a performance report every half year to its shareholder. This paper is the report for the first half of 2016/17.

Questions this paper addresses

- What are POMS' strategic objectives, shorter term goals and Plan?
- Is POMS delivering what it said it would do?
- What are the key constraints in delivering the short and long term plans?

Conclusion

POMS is on track to deliver its long term ambitions and strategies, confirming the benefits and opportunities of operating as a standalone, regulated business within POL; there are, however, a number of risks and dependencies:

Financials:

- While EBITDA was £(1.0)m to Plan at £4.9m, mainly due to weak branch travel insurance sales (income £3.3m behind Plan), margin management and cost reduction should result in a full year EBITDA of £7.9m (£1.2m adverse).
- POMS' regulatory capital is above that required by the FCA.
- POMS is, however, concerned that changes to POL's branch sales model, in particular the removal of Financial Specialists, will impact life assurance sales/income from Q4.

Building the future model:

- In May 2016 the POMS Board approved a five year growth plan aligned to POL FS' New Normal; it is targeting an EBITDA of £17m in 2020/21 and a contribution to Group profit of £43m. This is on track against the original POMS business case.
- The achievement of the strategy is depends on POL's delivery of services, including marketing, digital delivery and data analytics. These are not governed by SLAs or service contracts; discussions are underway to establish accountabilities, incentives and delivery requirements.
- The "Hawk" business acquired in 2015 is outperforming the business case.
- The new strategic technology platform (Zeus) is on track for delivery; this is pivotal for POMS to integrate other general insurances and expand in the value chain.

Governance and compliance:

- Risk and governance structures are in place and being embedded.
- The most significant risk issue remains the operational oversight by POL of its branches, as discussed at the Post Office ARC in September 2016.

7. Update on Project Peregrine and report from POMS Board

POST OFFICE MANAGEMENT SERVICES LIMITED

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Input Sought

The Board is requested to note the report.

POST OFFICE MANAGEMENT SERVICES LIMITED
REPORT TO POST OFFICE LIMITED BOARD

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The Report

1. Financial delivery in the first half and outlook for the Full Year

£m	YTD Actual	YTD Var to Plan	Forecast	FY Plan	Var to Plan
Net Income	20.4	(3.9)	39.4	42.4	(3.0)
People Cost	(1.4)	0.6	(3.4)	(4.1)	0.7
Marketing Costs	(1.9)	(0.5)	(3.0)	(2.6)	(0.4)
Non Staff Costs	(5.8)	1.5	(12.5)	(13.2)	0.7
IB Costs	(6.4)	1.2	(12.6)	(13.3)	0.7
Total Expenditure	(15.5)	2.9	(31.5)	(33.3)	1.8
EBITDA	4.9	(1.0)	7.9	9.1	(1.2)
Other	(0.1)	0.1	(0.5)	(0.8)	0.3
EBT	4.8	(1.0)	7.4	8.3	(0.9)
Capex	(2.7)	0.7	(5.1)	(4.9)	(0.2)

* "IB costs" are Inter-business amounts paid to POL for commissions and services

1.1. Half year to September 2016

POMS trading profit ("EBITDA") YTD was £4.9m, £(1.0)m adverse to Plan. Income was £(3.9)m lower than Plan, principally due to weak Travel insurance sales in branch £(3.3)m:

- The Travel insurance performance was a result of lower sales volumes in branches in Q1. This was reversed in Q2 by the introduction of a promotional discount aligned to the purchase of travel money. While volumes recovered, this impacted on margins, which were c20% below Plan.
- POMS partially mitigated the trading impact through various cost initiatives.
- Since the promotion ended in mid-September, travel insurance volumes have remained at c115% of Plan; average commission per policy has recovered to c95% of Plan.

Staff costs are £0.6m lower than Plan due to release of bonus provision for 2015/16 and vacancies not being filled.

Marketing costs are £(0.5)m higher than Plan due to higher Travel spend associated with the promotional activity, while non-staff costs (excluding Marketing) are £1.5m lower than Plan mainly due to contact centre being £0.8m lower than Plan.

Commissions payable to POL (Inter-business costs) are £1.2m lower due to lower travel insurance sales.

1.2. Outlook for the rest of the year:

The forecast projects a shortfall in EBITDA of £(1.2)m versus Plan, implying a £(0.2)m shortfall in H2. The main factors contributing to this are Travel insurance income which is forecast to be £(0.1)m lower than Plan in H2, and a stretch target in the Plan for Motor and Home insurance.

There are a number of risks and opportunities to the forecast and we continue to work to reduce the gap versus Plan.

A potentially significant risk is the impact of potential changes to the branch sales model. Further details are set out below in 2.4.

1.3. Regulatory capital

POMS is regulated by the FCA and is required to maintain at least a minimum £0.7m of qualifying capital at all times. As at September 2016, POMS's qualifying regulatory capital is £6.5m more than the minimum required by the FCA.

The year-end forecast is for qualifying regulatory capital to be £5.7m higher than the minimum required. This figure includes an estimated £2.1m post-tax profit tax to be earned in the second half of the year.

A current balance sheet is set out at Appendix 1.

1.4. Cash

POMS had £17.2m in cash at bank at the end of the half year. This is balanced by £5.9m due to POL for commissions, £1.7m due to insurance third parties, £5.5m of reserves and £4.1m for working capital.

2. Building the future model

2.1. POMS' strategic objectives

- To deliver operational efficiency, product and pricing flexibility resulting in greater control of, and access to, the value chain.
- To establish direct control of customer management, policy conditions and retail pricing.
- To build directly or enter into agreements with Underwriters, TPAs and other suppliers to procure and develop the capabilities required to support the chosen business model.
- To build a profitable asset for the Post Office whilst optimising returns.

2.2. The 5 year Growth Plan

The 5 year Growth Plan was approved by the POMS Board in May 2016. It is founded on new business and operating models, and is aligned to the POL FS "New Normal". This will provide the environment to enable POMS to provide its customers with enhanced service, control, trust and value by:

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

The delivery of the plan will increase POMS' EBITDA to £17m in 2020/21, making a contribution to POL Group's profits in that year of £43m.

2.3. Significant progress has been made towards these objectives in H1

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

Internal risk and compliance capability and processes have been developed.

The development of the strategic technology platform is on-track for delivery in December 2016, enabling further expansion of POMS' participation in the general insurance value chain.

The retendering for the provider of POMS' protection business has been undertaken and contracts are targeted for signing by January.

2.4. There are challenges ahead

While the financial performance is broadly in line with the trajectory set out in the 5 Year Growth Plan, there are significant delivery challenges/risks, including:

Market and Sales

- Managing the impact of political and economic change, particularly:
 - The impact on travel, and hence travel insurance demand, of Brexit;
 - The decline in Sterling;
 - The impact from further interest rate falls on protection products.
- Ensuring that Post Office is able to deliver anticipated sales and service levels as it manages its strategic priorities. At present the majority of life assurance sales are concluded in face-to-face conversations by Financial Specialists. POL is considering eliminating this team and concurrently building a sales team in agency branches ("CRMs"). While this will reduce POL's operating costs, the CRMs will not be qualified to complete life sales, referring the opportunity to contact centres. This risks both reducing POMS' income and increasing call centre costs; the potential impact has not yet been included in POMS' year end forecast or 2017/18 plans while full details are assessed.

AR and Other Risk Management

- Managing the impact of regulatory change, particularly relating to conduct risk and the implementation of the Senior Manager's Regime in insurance in 2018;
- Ensuring that Post Office is able to deliver the level of branch oversight and management required under its AR obligations.

Services from POL

- POMS does not have its own Marketing, Digital Delivery or Data Analytics capabilities, but instead relies POL to provide these. However, the arrangements are currently not governed by SLAs or service contracts. The POMS and POL teams are working together to put appropriate capacity and governance in place, but there is a near term risk around capacity in POL.

POMS' resources

- Having the necessary staff resources, technology and operational and risk management processes in place to acquire and integrate the Junction GI business in 2018/19.

POMS Management and the Board monitor these risks and seek to implement strategies and investments to manage them.

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

In November 2015, POMS acquired Bank of Ireland's interests in the general insurance business that it had with POL (Project Hawk).

Since acquisition, the business has performed ahead of the business cas:

<u>Benefits £m</u>	2015/16	2016/17	Total
Actual/Forecast	1.6	4.4	6.0
Business case	0.3	3.8	4.1
Surplus/(Deficit)	1.3	0.6	1.9

The business case also incorporated further benefits in the years past 2016/17. A review of those further benefits showed:

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

Overall, the review showed incremental NPV of £25m versus the original £29m. This reduction in incremental NPV is a result of the very conservative approach the review took to valuing the benefits, particularly those from new and existing products. If, for example, the valuation had recognised 50% of those benefits then the incremental NPV would be £35m. Noting this, POMS is happy that the acquisition is on track to deliver at least the business case benefits.

2.6. Project costs

The key projects in 2016/17 are:

- The new strategic technology platform (Zeus) is on track for delivery; this is pivotal for POMS to integrate other general insurances (including the integration of the general insurance business from Junction in 2018) and expand in the value chain.
- Putting the new life assurance relationship in place (Project Hera) – on track for delivery in early 2017
- Delivering the new MI system (Project Sequel) - delivered.

Costs are forecast to be on Plan, other than Project Zeus which is expected to be £0.3m over Plan at £4.2m. This additional expenditure will be recovered in later years.

2.7. Governance

Board, ARC and executive committees are in place and fully operational, in accordance with structures set out in our authorisation submission.

An in-depth Board effectiveness review is underway and will report in January; the results will be included in the full year report.

3. Risk management

Risk management framework and governance structures are in place and are being embedded.

The relationship with POL as both AR and service provider is in place; the most significant issue, however, remains the operational oversight of branches, as discussed at the Post Office ARC in September 2016.

Significant progress has been made to improve the systems and controls. Actions are being developed by POL and POMS to improve the levels of conduct risk.

At its meeting in January, the POMS Board will assess the progress made, or anticipated, and will assess whether it is comfortable to allow POL to continue to sell POMS' products in agency branches.

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

4. Conclusion

POMS is now well established and performing broadly in line the expectations. The key building blocks are being built or are in place and being embedded. The five year plan forecasts income and profit that exceed the original business case, confirming the significant opportunity that POMS provides to its shareholder. However there are a number of risks and constraints that may restrict POMS' ability to deliver its Plan. The POMS Board and management are actively monitoring these risks.

Appendix 1: POMS Balance Sheet

£k	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
Non-current assets						
Intangible assets	46,008	45,994	46,979	47,089	48,571	48,369
	46,008	45,994	46,979	47,089	48,571	48,369
Current assets						
Amounts owed by group undertakings	225	386	381	525	0	0
Other debtors	197	73	126	189	150	293
Accrued income	5,386	5,350	4,830	3,845	4,571	4,250
Prepayments	32	27	23	18	155	130
Cash at bank and in hand	15,999	11,497	13,483	17,815	17,928	17,170
	21,839	17,333	18,844	22,392	22,804	21,843
Total assets	67,847	63,328	65,823	69,482	71,376	70,212
Creditors: amounts due within one year						
Trade creditors	(550)	(473)	(663)	(718)	(1,101)	(1,203)
Amounts owed to group undertakings	(7,888)	(2,345)	(3,231)	(4,529)	(4,900)	(5,853)
Other creditors	(1,374)	(1,515)	(1,859)	(2,749)	(2,442)	(1,880)
Accruals	(4,296)	(4,305)	(5,054)	(5,234)	(5,912)	(3,537)
Provisions	(1,033)	(1,063)	(1,121)	(1,125)	(1,131)	(1,182)
Tax Creditor	(195)	(379)	(432)	(678)	(831)	(965)
	(15,335)	(10,079)	(12,361)	(15,034)	(16,317)	(14,619)
Total assets less current liabilities	52,512	53,248	53,462	54,447	55,059	55,593
Creditors: amounts due in more than one year						
Amounts owed to group undertakings	(500)	(500)	(500)	(500)	(500)	(500)
	(500)	(500)	(500)	(500)	(500)	(500)
Net assets	52,012	52,748	52,962	53,947	54,559	55,093
Capital and reserves						
Share capital	50,000	50,000	50,000	50,000	50,000	50,000
Retained earnings	2,012	2,748	2,962	3,947	4,559	5,093
Total equity	52,012	52,748	52,962	53,947	54,559	55,093

Back Office Transformation

Authors: Rob Houghton/Angela Van Den Bogerd Sponsor: Alisdair Cameron Meeting date: 24 November 2016

Executive Summary

Context

In 2015, the Board approved a "Transition" project to reduce operational risk and stabilise Back Office hardware. An update was provided in September, which reminded the Board that, in line with the IT Strategy, a further stage of development (Transformation) would be required. The purpose of this paper is to agree the proposal for that Transformation. The Board has not previously approved funding for this element of Transformation, although the Three Year Plan has included a place-holder of £11m.

Today our Back Office systems enable POL to run the Supply Chain operation, settle with clients, pay agents and employees and report financially and operationally. If these systems fail, we cannot trade. Some £60b of transactions are processed over a year, affecting all locations and over 50k people.

The September Board paper highlighted that, "We cannot continue to exist in the transitioned state...." IT cannot commit to appropriate service levels across these key business processes and we have now received a written confirmation from SAP that its support for HR SAP and POLSAP will cease permanently in December 2017. This is not a theoretical risk: that support was used in February to resolve a three day POLSAP outage, which had Supply Chain working manually while we were unable to report the Bank of England's cash position and teams spent weeks re-inputting and reconciling. It is not been uncommon for the settlements team to pay clients based on estimated values, adjusting to actuals later.

The legacy complexity of these systems and the processes that work around them requires manual working, spreadsheets and multiple interfaces. It is hard to maintain strong control, as evidenced in the financial controls work, and limits our ability to report and analyse our results. The resultant complexity has led to a prohibitive cost of change, preventing improvements that should occur in business as usual, and higher run costs.

Questions addressed in this report

1. Which transformation options have been considered?
2. What is our recommended approach?
3. What are the key risks to a successful delivery?

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Conclusions

The back office application estate cannot stay as is. The minimum spend is £8-12m to upgrade and stabilise the systems, without delivering any improvements in the cost of change, IT run costs, control or future flexibility.

We have assessed three other options: removing the older systems; incrementally improving the way we work; and replacing everything with a completely new ERP system.

We are recommending Option 3 as representing the right balance of financial benefit, operational control, flexibility and risk. The cost increases to £16-20m to gain £3.5m lower operating costs and enabling a further £3m to be realised across other programs, with improvements in controls and ways of working.

The risks are significant, although substantially less than for a full ERP replacement. We know from experience that any change to Back Office will be a journey of discovery. We have a 17% contingency in the plans, which had already been adjusted by 7% following Wipro's independent review.

More importantly, we have developed the project in stages. We can progress Option 3 while retaining Option 2 as a viable alternative until we have proven the full concept. The next significant decision date is April 2017. The only spending commitment at this stage, approved by the Group Executive, is for £1.54m on top of the £0.2m spent to date.

Input Sought

The Board is asked to:

- Support the preferred Option 3, budgeting for costs of £20m
- Note the approved spend to April 2017
- Require an update and any future funding requests in March-April 2017.

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The Report

Which transformation options have been considered?

4. Four approaches are summarised below.

Option	Cost (£m)	IT OPEX Benefit (£m)	IT Risk (inc. DR)	Dept. OPEX Benefit (£m)	NPV (£m)	Payback Yrs	Enabled OPEX Benefit for other programmes (£m)	Audit & Controls	Business Efficiency / Fit to Strategy	Project Risk & Delivery Complexity
1. The "No Transformation Scenario"	8 – 11	0.4	✓	0	-8.63	26.46	0	X	X	Medium /High
2. Remove Old Systems	13-16	3.0	✓	0	-9.0	4.6	2.1m	X	X	Medium /High
3. Transform	16-20	3.0	✓	0.4	-11.9	5.74	3.1m	✓	✓	High
4. Transform to new ERP	24-30	3.0	✓	0.4	-24.2	8.62	3.1m	✓	✓	Very High

5. The first option enables no movement in improving control or flexibility and derives no benefits. The fourth option is substantially more expensive and riskier with no guaranteed additional benefit. Neither are therefore recommended.
6. Options 2 and 3 represent more nuanced choices. In both cases, we would remove POLSAP, HR SAP and our old warehousing systems. Option 3 additionally adopts industry standard processes, changes ways of working and will give us the flexibility to support future change quickly and cheaply.

What is our recommended approach?

7. We are recommending option 3 Transform, with a number of checkpoints enabling a fall back to option 2 – "Remove Old Systems" should costs/risks escalate. Option 3 is in line with the IT Strategy:
- **Simplify, Standardise, Reduce Cost:** adopt industry norms; configure systems not customise. This makes it easier and cheaper to outsource should we choose to.
 - **Build in Traceability:** Transact sales in ERP allowing onward transactions and reporting to flow from a single view of sales. This will give us one version of the truth; sales data that is accurate and reliably so. Improves auditability, reduces report creation and validation time, changes employee focus to analysis and action.

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- **Create Capability:** Invest internally, ensure end-to-end process knowledge and technical skills are in-house and enables cheaper change delivered without third parties.
- **Deliver Small, Deliver Regularly:** Break down large goals into achievable pieces of work, build momentum, hit targets.

8. Key building blocks include:

- Designing out POLSAP and HR SAP migrating processes to other existing systems simplifying the IT landscape
- Processing sales transactions in ERP, enabling settlements, invoicing, agent remuneration, profitability analysis and sales reporting to occur using standard SAP functionality – with auditable linkage.
- Replacing 3 old warehouse management systems with a single modern solution enabling process savings and online ordering for all branches.
- Improving retail cash management, linking directly into our core finance system and enabling online ordering for Post Masters

9. The diagram below summarises the planned delivery scope for this program.

PROCESSES	CHANGE & PEOPLE	DATA	TECHNICAL
➤ Settlements and invoicing ➤ Agents Remuneration ➤ Agent Debt ➤ Cash Processing and Treasury ➤ Procurement ➤ Cost Accounting ➤ Product & Channel Profitability Analysis ➤ Warehousing	➤ Journey from admin & report creation to data set up and analysis ➤ Client engagement and standardised settlement/invoicing interaction ➤ Reduction of staff and overtime	➤ Product Master & Hierarchies ➤ Agent master and channel hierarchy ➤ Agent Contracts ➤ Sales Organisation ➤ Sales transactional flows ➤ Client Contracts ➤ Chart of Accounts, Cost & Profit Centers	➤ Online cash & stock ordering for Post Masters ➤ Decommission POLSAP & HR SAP ➤ Implement SAP IS-Retail & ICM ➤ New warehousing system ➤ Migrate functionality to Transtrack ➤ Remove or adapt 56 interfaces

10. Future flexibility: Using more of our ERP's features requires embedding core processes in system steps. This can lead to reduced flexibility and the impact on our business has been considered. The following are core to the system:

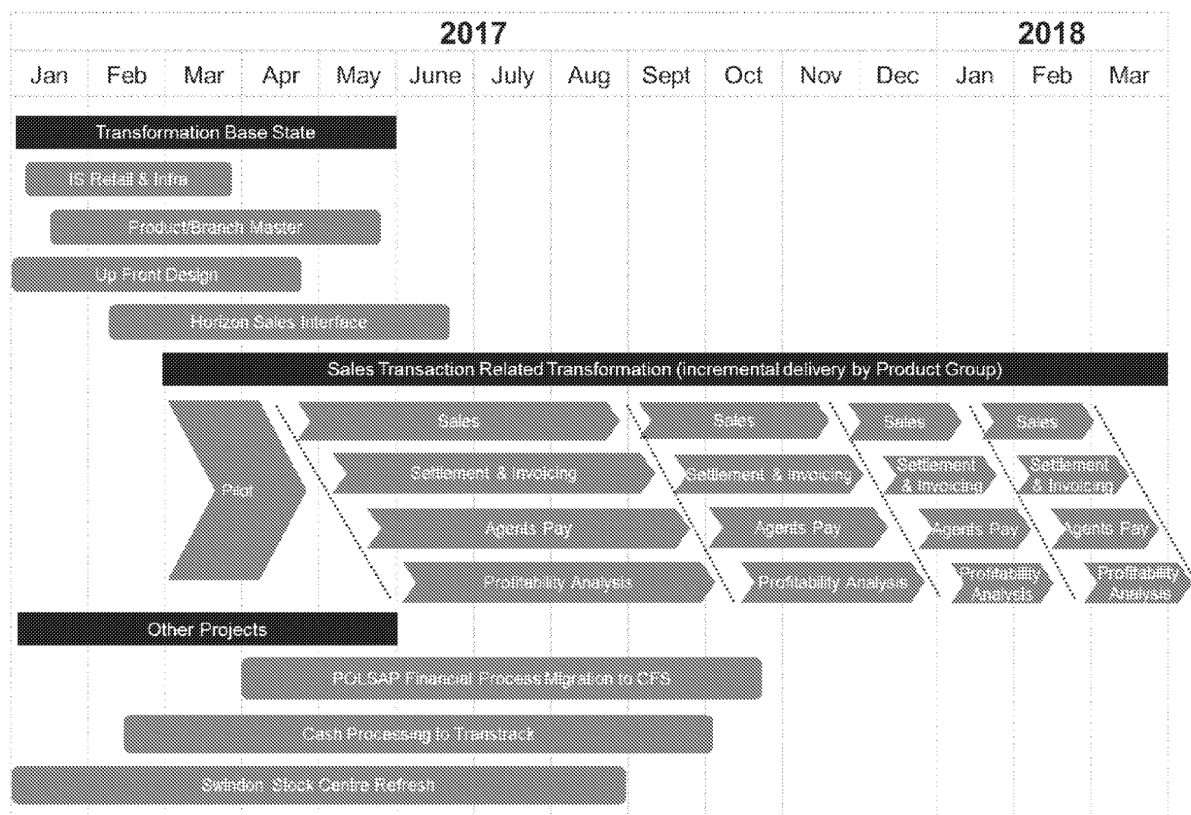
- **Organisation Structure** – Post Office's divisions and channels will be created as core structure. These are simple to add to, remove or group, but difficult to split or completely redesign. Upfront design needs to gauge the level at which these are created carefully.
- **Financial Principles** – One challenge currently is that the financial principles (e.g. what is our definition of a profit centre?) are not consistent. Once these are established, they are difficult to change.

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- **Detail** – The detailed list of profit centres (or other elements) can be added to and modified simply. Multiple product hierarchies can be created and channel reporting can be available by a number of selection criteria.
11. The highest impact process being tackled is client settlements. KPMG recently conducted a detailed review of our 440 client contracts detailing our approach to reconciling and validating each back into our accounts. The settlements team has been involved setting the high-level direction for our approach and will be instrumental throughout implementation. Approach to key areas are:
- **Client Contact:** Clients rely on access to Horizon data for detailed transactional information, this access will remain. The settlements team daily provide one of five template word documents with summarised volume and value. These are emailed (or faxed) to clients alongside the bank transfers. This part of the process will simply be replicated and improved as the process moves to our CFS system.
 - **Settlement Data:** Almost 80% of the 440 clients settle based on Post Office data, hence will successfully migrate into our proposed standard process. Some of larger clients, by value, require upfront payment (e.g. predicted Santander account transactions) or using their data (e.g. Camelot); in these cases, our approach will be to engage and move them to our new process with manageable exceptions. These are the expected areas of concern as there are some case where a win-win improved process won't be found and we will have to determine mitigation plans.
 - **Fall Back Plan:** In all cases it is possible to migrate the current settlement process as-is. The current process involves creating payments that are not system-linked to sales then reconciling manually to demonstrate that accounts are balancing. In the case that we cannot move to a more automated process for some contracts, they can continue to run on a similar approach in CFS as they do today in POLSAP.
12. The program will be governed by the Post Offices' "One Best Way" methodology and in line with the IT strategy focus on incremental delivery, retaining control, avoiding large spend commitments and building skills into the retained team.
13. The delivery plan shown below provides an initial view on the projects required and their timelines.
- **Transformation Base State** – up front technical prerequisites, basic master data and design principles
 - **Sales Transaction Related** – the transformational changes dependant on first processing sales transactions: settlements, invoicing, agent remuneration, profitability analysis and reporting. Planned to be delivered incrementally over time by business unit / product group / type of sales process e.g. we may first tackle sales of Mortgages, then bill payments etc

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- **Other Projects** – projects required to deliver the overall transformation aims and cost reduction but able to run with minimal dependency on the overall program including: moving financial processes from POLSAP to CFS (e.g. agents' debt), moving cash processing functionality from POLSAP to Transtrack, refreshing our warehouse systems.



14. The initial budget drawdown request for 2016/17 is £1.532m (£217k has already been authorised). Further funds will be requested when the deliverables below for a project complete and submission is made to move to the next phase.
15. In April 2017 the program will report back on the extent to which we intend to transform, seeking approval for further funding. Outputs will include the results of a study into our client agreements and the extent to which we can standardise the back end processing. And the results of a pilot modelling a truly transformed back office using SAP to process sales transactions generating settlements, invoices, Agents' pay and product profitability. At this checkpoint we will decide whether to proceed with option 3, or revert to option 2.

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16. Program costs have been modelled with resource and material plans created for each area of work. In order to validate expected costs Wipro were engaged to provide an independent view and indicated that the program may cost 5-8% more than our pre-contingency view: we provided for 25% in the £20m recommended budget.

Phase	Cost (£m)
Transformation Base State	2.5 - 3
Agents Remuneration	1.5 - 2.5
Sales Processing	2 - 2.5
Financial Operations and Procurement and Reporting Improvements	2 - 2.5
Settlements Re-design	1.5 - 2
Supply Chain Cash Systems	3.5 - 4
Warehouse Refresh	3 - 3.5

17. Benefits are as set out below:

Benefit Generator	Amount	Calculation
Remove POLSAP	£1,167,686	POLSAP Infra, Support Licence = +£1,890,163 Increased CFS Infra, Support & Licence = -£475,334 Increased Transtrack Support & Licence = -£247,143
Remove SAP Common Services	£1,130,000	Removal of CSC common services (printing, authorisations, portal) required to manage multiple SAP environments. With only CFS left these are not required, and there is no additional OPEX to replace.
SAP extended Maintenance Charges	£359,067	SAP extended maintenance charge = +£224,529 SAP Active Embedded support = +£269,076 (Partial reduction of £134,538)
Transtrack moves off Citrix	£75,000	Remove Citrix licence costs = +£75k Microsoft alternative included in current licencing.
Warehouse licence and support reduction	£310,331	Mercia Licence = +£55,000 WCS Licence = +£128,375 Galaxy = +£466,956

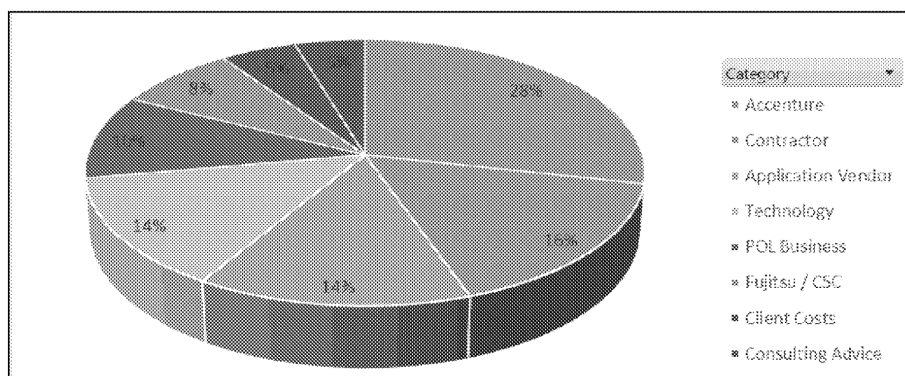
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Benefit Generator	Amount	Calculation
		New WMS system = -£300,000 Front end App = £-40,000
Improved Warehouse processing	£443,500	Non staff costs (£30k paper / £20k postage) = +£50k Fixed staff costs (2 x PO) = +£58.5k Variable staff costs (2 x SO1 equivalent) = +£45k Remove Capricorn engineers = +170k Increase pick efficiency = +120k
Total	£3,485,584	

18. In addition to the benefits above directly attributable to the Back Office Transformation business case, there is a further **£3,089,586** of claimed benefits in other programs dependent on option 3 being delivered:

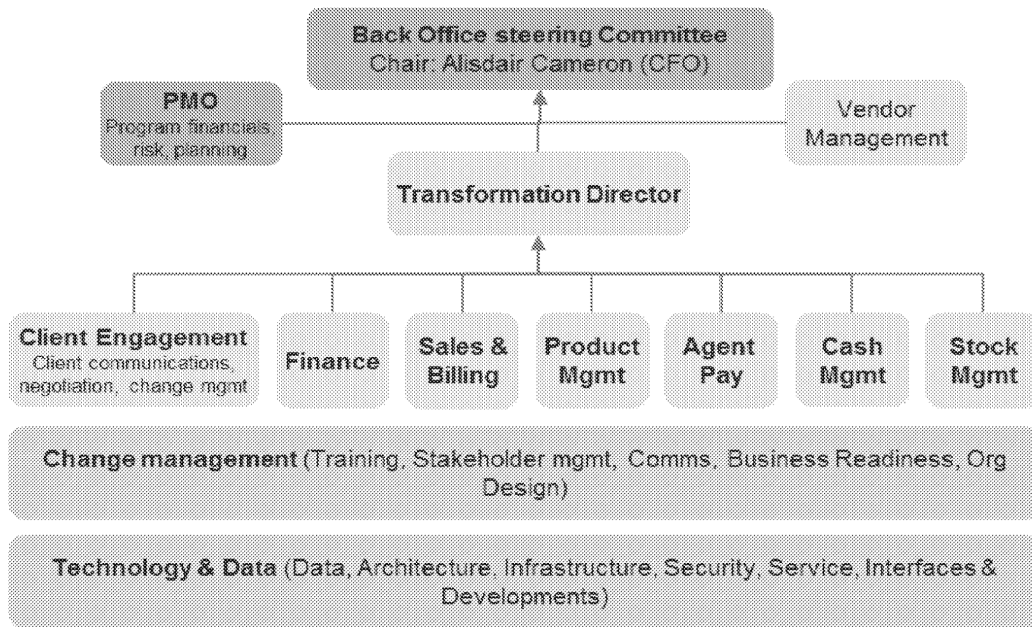
- Online Cash Ordering replaces call centre = £400k headcount reduction
- Decommissioning HR SAP = £2,056,586 licence, infrastructure and support cost reduction
- FSC process simplification = £633,000 headcount reductions

19. The program will be delivered using the contracted Back Office partner (Accenture). We will also spend on backfilling Post Office resources and supplementing them with skilled contractors.



20. The diagram below shows the proposed program organisation grouped by process and capability. An early deliverable (in progress) is a resource plan highlighting capability gaps for discussion on where we should hire, contract or buy-in skills.

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21. Wipro recently conducted a review of the detailed approach, resource plans and budget for the program. Their report concludes:

- The approach for the program, desire to simplify through consolidating into systems already in our landscape and use standard processes is a good one.
- Internal change management should not be underestimated and requires focus throughout
- The timelines provided were suitable for the program of this size and complexity, however Wipro believed they could be accelerated (something we believe would not be possible within the Post Office for our tasks). However they recommended some additional technical steps and overall believed costs may increase by 5-7%, which has been taken into account in our figures.

22. The Post Office has faced significant challenges in recent programs and is implementing a number of the lessons learned from these in this approach.

Lesson	Learned
Incumbent vendor costs should not be underestimated.	Costs have been budgeted using current program actuals as a guide. Key vendors (inc. Fujitsu, Accenture) have been involved in the approach and budgeting.
Fixed Price Contracts are not suitable for large scale change where Post Office is accountable for external deliveries	The team will be led by Post Office resources backfilled, with specific capabilities brought in to support. The majority of delivery will be time and materials against a

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Lesson	Learned
	delivery plan. Fixed price will be used only for items work entirely within a single vendor's control.
Large delivery projects are prone to failure and lack of oversight	Whilst to achieve the overall aims, a number of projects are required, these are being broken down into their smallest component parts, with an approach of incremental delivery.

What are the key risks to a successful delivery?

39. The tables below contain a brief description of the key risks identified and our plans to overcome them.

Title	Description	Mitigation	Owner
Client Impact	The Post Office currently settles and invoices clients in a multitude of fashions, providing bespoke information in many cases. There is a risk that as we try to standardise we come into conflict with client contract, either jeopardising our relationships or reducing the effectiveness of the program.	Communicate early, take feedback and consult with client senior stakeholders, to ensure that the operation teams are instructed to work with us where possible. Re-negotiate contracts/ways of working with key customers (condition that we need to provide clients a decent or better experience).	Angela Van Den Bogerd/Martin George/Nick Kennett
Concurrent Financial Systems	It is essential to bring core sales into CFS, this can either be completed as a big bang (meaning all contracts and settlements move together) or incrementally. Our view is that an incremental approach is overall lower risk for our organisation. However, this gives a risk that Post Office will be running the same financials in POLSAP and CFS, increasing the potential of double reporting revenue, or mis-settling.	The Finance team will need to outline a plan for dealing with this challenge early in the project. During project the financial reporting team will need to demonstrate each month that errors are not occurring. To ensure the approach is solid there is a plan to engage our auditors early to agree the approach.	Financial Controller
Product Data	There are multiple Product Master data definitions and groupings (e.g. for Horizon, for Stock, for Agents Remuneration, for reporting) and questions	An entire work stream for the program will be dedicated to Product and Branch master data, offshore support for data cleansing and manipulation is budgeted.	James D'Souza

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Title	Description	Mitigation	Owner
	about the master data quality. Work will be required in order to create a clean Product Hierarchy. There is a risk that this will be more challenging and expensive than planned.	Should the team be unable to tie together all the product threads in the organisation a fall back is to revert to receiving values/products/volumes into SAP from sales systems, with reduced controls and checks, leaving multiple product definitions and hierarchies in our organisation. Product master governance will be updated alongside the project to ensure on-going adherence to the updated approach.	
Cost/Time	There is a risk that the budget and timeline are not accurate.	As outlined in the transformational principles section the program is delivering where possible in incremental chunks, hence timeline and cost slippage will be visible early enabling corrective action to be taken. Wipro reviewed our detailed cost estimate and resource plan of £16m. During the sessions (workshops with Accenture, SAP, our back office departments and technology teams) it became clear that additional technical steps would be required. Overall Wipro's view including upsides and downsides was that our total costs would be 5-8% higher, this is included within our requested 25% contingency.	Ben Cooke
Resource capability and Business Focus	The Post Office is undergoing significant change with a high number of projects going on e.g. FS Digital Transformation, EUC Admin etc. There is a risk that the required resources for the program are not available, or focus is distracted.	The Back Office team & applications are largely distinct from front office and FS/POMs activity, hence digital and Horizon related projects are not considered to be a major threat (pre-planning has occurred with Fujitsu for the Horizon interface and resource will be available Jan-Mar) Joint planned has occurred with the departments heavily involved and the other back office programs (SSTP for FSC and Successfactors for HR). In Supply Chain where key resources could potentially have their roles changed through Iris early discussions have occurred to earmark critical resource & will be picked up once the program is funded. Currently all essential team members identified are remaining within the Post Office.	Alisdair Cameron

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POST OFFICE
BOARD

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DECISION PAPER

Broadband Customer Acquisition

Author: Alwen Lyons

Sponsor: Alwen Lyons

Meeting date: 24 November 2016

Executive Summary

Context

The Board were asked by email on 4 November 2016, to delegate authority to the Chief Executive and Chief Financial Officer to proceed with negotiations and sign a contract for the acquisition of 78,000 Broadband customers from New Call, who trade under "Fuel Broadband".

The Board approved this request by email response and the negotiations have started.

The Board's delegation now requires formal ratification.

Input Sought

The Board is asked to ratify the decision by the Board to delegate authority to the Chief Executive and Chief Financial Officer to proceed with negotiations and sign a contract for the acquisition of 78,000 Broadband customers from New Call, who trade under "Fuel Broadband".

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POST OFFICE
BOARD

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Post Office Limited Sealings

Author: Alwen Lyons Meeting date: 24 November 2016

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 1454 to 1461 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 1454 to 1461 inclusive in the seal register is hereby confirmed.

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POST OFFICE LIMITED
Register of Sealings**Date**
24.11.2016**Company Number**
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1454 / Deed of Surrender	21/10/2016	19/10/2016	Deed of Surrender and Release relating to a lease of premises known as 9 Higher Road, Urmston M31 1AA. Robert Graham Trustees Limited and Post Office Limited.	Jane MacLeod	Jean Reynolds
1455 / TR1	31/10/2016	26/10/2016	TR1 - 35 The Broadway, London, NW7 3DA	Jane MacLeod	Jean Reynolds
1456 / Licence	31/10/2016	27/10/2016	License to Install Air Conditioning Equipment relating to Land at the Rear of 113 Baker Street London W1.	Jane MacLeod	Jean Reynolds
1457 / Surrender of Lease - TR1	02/11/2016	28/10/2016	Deed of Surrender of Lease: Post Office, Market Place, Chesterfield S40 1TL - TR1 Transfer of whole registered title (Title no. of property DY410908) Full title guarantee. Transferor is POL and Transferee is Trillium (RMF) Limited.	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1458 / Lease Renewal	02/11/2016	01/11/2016	Lease Renewal of 72 High Street Hoddesdon, Hertfordshire, between Nicola Trigg and Graeme Ross Atkinson as Executors for Elizabeth Fowler (1) and Post Office Limited (2) for a further 5 years. (Underlease)	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1459 / Reversionary Lease	10/11/2016	08/11/2016	Reversionary Lease by reference to an existing lease relating to Ground Floor and Basement, 354 and 356 Edgware Road, London W2 1BG between Simpsons Paints Limited (Landlord) and Post Office Limited (Tenant).	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1460 / Deed of Variation	10/11/2016	08/11/2016	Deed of Variation relating to Ground Floor and Basement, 354 and 356 Edgware Road, London W2 1BG between Simpsons Paints Limited (Landlord) and Post Office Limited (Tenant).	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1461 / Renewal lease	14/11/2016	11/11/2016	Renewal lease by reference to an existing lease between Makan Investments Limited (a company registered in Jersey 76832) (Landlord) and Post Office Limited (Tenant) in respect of basement and ground floor premises at 124 Deansgate, Bolton (as per the existing lease dated 9 May 2006). Term: 5 years with effect from 9 May 2016. Rental: £40,000 per annum exclusive of rates and VAT to be paid quarterly in advance	Alwen Lyons	Jean Reynolds

Performance Review – Health and Safety

Author: Martin Hopcroft

Sponsor: Martin Kirke

Meeting date: 24th November 2016

Executive Summary

Context

- 1.1 Keeping our employees healthy and safe is fundamental to Post Office success. This is reflected in the Post Office Board's legal responsibilities – directors can be personally liable when health & safety duties are breached and members of the board have both collective and individual responsibility for health and safety.
- 1.2 Our Health & Safety performance has improved significantly in the past 5 years and we have a rolling 3-year plan to drive health and safety compliance and risk reduction. The key risks of driving and robberies are the subject of mitigating activities. Our reporting and safety management system is measured against the externally recognised health and safety standard – OHSAS 18001. We recognise the importance that wellbeing can play in creating engaged and motivated employees and have developed and implemented an extensive wellbeing plan.
- 1.3 The aim for 2016/17 is to continue the year-on-year improvement by targeting a reduction in four key safety metrics: accidents; lost time accidents; days lost; and personal injury claims.

Questions this paper addresses

- 2.1 What is going well across health and safety and what is not going so well?
- 2.2 What are we doing to mitigate the key risks, including driving and robberies?
- 2.3 Are there any significant emerging risks?

Conclusion

1. Performance continues to remain strong against all four of the key **health and safety metrics**, including absence accidents and lost days (see Appendix).
2. There is an appetite from the Group Executive and across the business as a whole to improve **awareness of health and safety** performance, management responsibilities and compliance. The Health & Safety Team and Property Management Team are attending many meetings and workshops to support and provide guidance and training.
3. Mitigating actions are working to reduce **road risk** and the risk of robberies. (see Appendix)
4. Recent environmental training has highlighted that POL may not be following best practice in the way we address environmental issues across the business and that Post Office **Environmental Strategy and Policy could be strengthened**. The Head of Health & Safety has set up a focus group, also involving Property team, the Social, Action and Inclusion Manager, and legal team to address ownership, governance and best practice. A report, with recommendations, will be provided to the GE H&S Sub Committee and Risk and Compliance Committee.
5. Following a recent Property Compliance review, it has been highlighted that additional training is required for '**Person in Charge**' (**PICs**) in Directly Managed branches to improve their competence and awareness. Managers are completing basic online PIC training with additional **training workshops** being arranged between Jan - Mar 2017 by the Head of H&S and Property Compliance Manager.
6. Following a 'deep dive' H&S session with the GE, it was agreed that the Director of Employee Relations & Engagement and Head of H&S provide **executive awareness training** to GE Members during Nov and Dec 2016.

Input Sought

We ask that the Board to **note** the current safety and wellbeing performance, risks highlighted and mitigating activity.

What has gone well across Health & Safety

- **'Accident' and 'lost time'** incidents have reduced at P6 2016/17 when compared to September 15/16 and are meeting the continuous improvement target of 5% year on year reduction. (see appendix)
- Current **road risk performance** has also improved when compared to 2015/16 with 'at fault' incidents remaining 32% lower than 2015/16.
- Whilst the number of CVIT **violent incidents** have increased compared to 2015/16, robberies have remained low in August and September (following the slight increase in July). 2 out of 15 incidents have incurred injury.
- The risk profile of **Supply Chain** will change due to the current restructure and changes in workload, delivery routes and relocation will potentially increase risk through change management activity resulting in distraction. The Health & Safety team are attending the weekly Iris programme and work stream meetings to provide support, including risk assessments, training and support visits to sites.
- **Accidents involving customers** at Crown and hosted branches are investigated, reviewed to identify any preventative measures and benchmarked. Current volume remains very low with fewer claims from customers. Analysis is being undertaken and will be shared at the December GE H&S Sub Committee meeting.
- The volume and value of **personal injury claims** has reduced with provision for known unsettled claims also reducing to £602k at Period 7 (October).
- **Mental health** related conditions are the single most common cause of longer term absence with 17% of occurrences and 31% of total absence days, a slight increase at P6 2016/17. Analysis is being undertaken to understand which areas of the business may benefit from additional 'mental health awareness' training. There has also been an increase in the number of users of the online 'Help' Employee Assistance and Lifestyle Online websites possibly in response to recent increases in absence but also awareness of resources. (See Appendix)
- **Attendance levels** have reached 96.8% YTD at P6 (September 2016/17) and remain on target. However, there has recently been an increase in the level of absences in Crowns but a decrease in Supply Chain. (See appendix)
- Three **Wellpoint™ health check** kiosks have been utilised across all largely populated sites (>25) during the first half of the year with very positive feedback. *Mobile health checks* will be offered by the Health & Safety team to Crown branch and Network Field team colleagues from November.
- **Property** - Health and safety related risk and facilities management have been assessed as medium risk, reducing to low by year end. This follows a programme of checks, inspections and closure of risk assessment actions in accordance with Health and Safety at Work Act and is now virtually complete.

Overall property risk has reduced from high to medium and expected to be low by year end, mainly due to the recent focus on completion of technical risk assessments by CBRE and completion of actions by the Crown Office and Supply Chain lead and area management teams, supported by H&S and Property teams. Additional training will be provided in workshops to Persons in Charge (PICs) from January 2017.

- **Hosted Sites** – we have a duty of care to our employees working within 'hosted' premises eg. WH Smiths. A trial is under way to involve Trade Union H&S Reps in site meetings prior to transfer date, to support the local managers / project managers in respect of planning and advice. The Head of Health & Safety is in contact with the WH Smiths H&S Manager to develop relationships, understanding of the H&S processes and support available to local Post Office Managers.

What has not gone so well?

- **Property** - The most significant area requiring improvement has been managing fire risk, as reported by CBRE to the Property Compliance Board as a finding from their risk assessments. High *risk fire actions* have been closed with medium and low actions planned to be closed by November.
- **Customer Harassment** - Concern was raised by the Westminster local authority regarding Post Office Policy for dealing with violence and abuse by customers, especially in London where there is a growing problem with the homeless population and their presence in our branches.
Positive recognition has been received from the Environmental Health Officer in Westminster for the way Post Office has effectively managed this emerging risk in the London Crown branches. Consideration is currently being given for sharing with Postmasters and signposting them to the Health & Safety Executive for support and guidance.

2.2 What are we doing to mitigate the key risks, including driving and robberies?

- **Road Risk:** Driving activities have the potential for high impact/loss and therefore remains one of the more significant residual risk which is successfully being mitigated through a number of ongoing initiatives. Following a restructure of the Fleet Management Team, Head of H&S and National Fleet Manager are continuing to support the Road Risk Consultation Forum to ensure appropriate plans and actions in place to mitigate emerging trends and risks eg. initiative to capture signatures from all colleagues who drive for work that they have received and understood the policy and instruction alongside licence checks.
- **Robbery Risk:** Robberies have the potential for high impact/loss and remain a significant residual risk. We are successfully mitigating this through a number of initiatives and best practice. Ongoing monitoring of the risk profile will inform the assessment of the need, or otherwise, of body armour.
- **Safety Risk:** Concern raised with GE at the deep dive session that **mobile phones** are being used by Business drivers, including joining conference calls.

Policy and guidance issued via a communication in August, reiterated by Senior Management during September. There needs to be strong leadership and empowerment for employees to challenge anyone on a call who may be driving and further discussion is planned for the GE Exec Coaching sessions in November.

- **Property Risk:** Remedial work for all identified high risk items has been completed and plans for addressing medium risk electrical, asbestos, building fabric and legionella have been built and are being undertaken.

Health and Wellbeing: We recognise the benefits that wellness can bring to the organisation and therefore there is an extensive programme of healthcare interventions to all areas of the business.

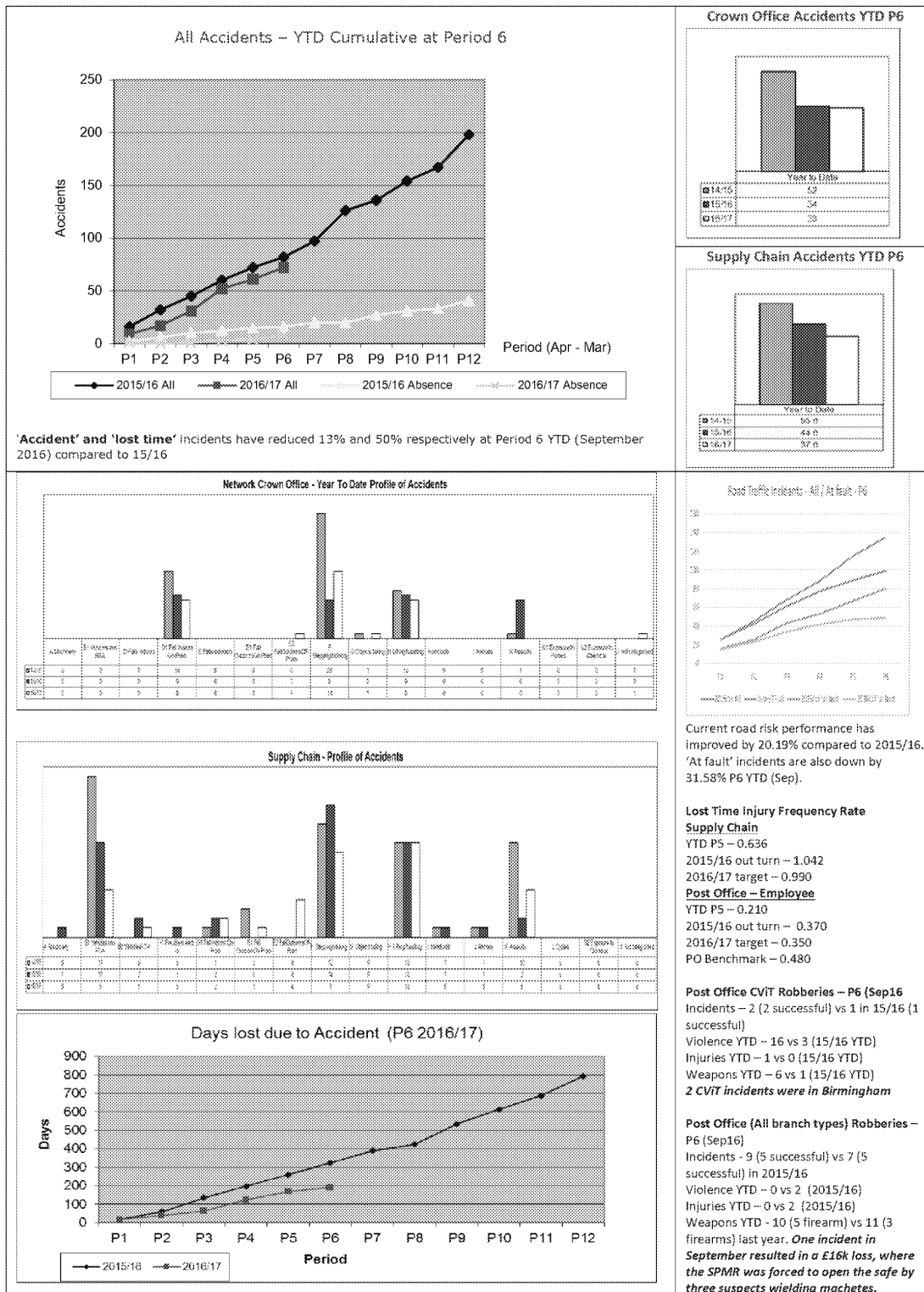
- The Health & Safety team are working closely with the **Communications team** to support a plan of activity to further raise awareness of the resources available to colleagues, including comms, blogs, video and face to face workshops.
- A programme of **wellbeing activity**, including raising awareness of mental health conditions, symptoms and the support available has been updated.
- The roll-out of a second programme of **health checks** to all employees via face-to-face clinics and stand-alone digital wellbeing kiosks will continue from Nov.
- Work is currently being undertaken to evaluate the link between local engagement scores with Wellbeing, analysing absence data and the **engagement index and wellbeing scores**, with focus on mental health related absence in particular. Conclusions and a proposed plan of action will be shared with the GE H&S Sub Committee in December.

2.3 Are there any significant emerging risks?

- The **Environmental Policy**, plan and level of reporting is currently under review. A Strategy Tactical Group has been set up by the Heads of H&S and Property, the Compliance Manager and CSR Manager, supported by legal and FM provider guidance to review strategy. The first group meeting took place on Nov 1st. POL directors will be made aware of the significance of **environmental reporting**, how it is affecting our brand image, the potential for personal liability with further discussion at the GE H&S Sub Committee in December.
- A significant gap has been identified in the competence of managers to carry out their **Person in Charge** (PiC) responsibilities and a revised on-line training product has been developed and issued by the H&S Team, with a requirement that all PiCs complete this by September. Follow up H&S training workshops will be provided to PiCs and deputy PiCs, covering Premises H&S, Site Log Books, Fire Extinguishers.

(Appendix Attached – Performance Charts)

APPENDIX - Summary of Safety Performance - YTD Period 6 (2016/17)



Strictly Confidential

Health & Safety Report Oct 2016

APPENDIX - Summary of Wellbeing Performance - YTD Period 6 (2016/17)

2016 / 2017	Sick Absence %ge							Gross Hours Target
	April Period 01	May Period 02	June Period 03	July Period 04	Aug Period 05	Sep Period 06	Y.T.D Totals	
FINANCE	3.5%	3.2%	3.4%	3.5%	2.9%	2.8%	3.2%	3.5%
FIN: SUPPORT SERVICES (ALL)	4.6%	3.3%	3.2%	3.0%	2.8%	3.1%	3.3%	3.8%
FIN: SS FSC	3.9%	2.6%	2.4%	2.8%	3.4%	1.6%	2.7%	3.4%
FIN: SS CONTACT CENTRES	8.4%	4.5%	4.2%	3.6%	2.2%	3.6%	4.3%	6.7%
FIN: SS HRSC	2.4%	3.4%	3.8%	3.1%	3.9%	4.8%	3.5%	2.6%
FIN: SUPPLY CHAIN	3.4%	3.4%	3.6%	3.9%	3.2%	3.0%	3.4%	3.7%
SALES & NETWORK	3.3%	3.0%	3.1%	3.6%	4.0%	4.2%	3.5%	3.2%
SN: CROWN SALES	3.7%	3.4%	3.3%	4.0%	4.4%	4.6%	3.9%	3.5%
SN: SALES DIRECTOR	3.9%	2.5%	3.2%	3.0%	2.5%	2.6%	3.0%	2.9%
PEOPLE & ENGAGEMENT	1.6%	1.7%	1.3%	1.1%	0.6%	1.9%	1.6%	1.1%
PE: COMMUNICATIONS & CORP AFFAIRS	0.0%	3.4%	3.1%	3.1%	0.2%	0.0%	2.0%	0.3%
GENERAL COUNSEL	0.3%	0.4%	0.0%	2.9%	1.3%	0.6%	0.8%	1.8%
GC: SECURITY	0.2%	0.1%	0.0%	2.4%	2.5%	1.2%	1.1%	1.9%
FINANCIAL SERVICES	0.6%	2.1%	2.2%	2.1%	1.6%	1.6%	1.7%	2.8%
Post Office Ltd	3.2%	2.9%	3.0%	3.4%	3.4%	3.5%	3.2%	3.3%

Trends - Attendance levels have reached 96.8% YTD at P6 (September 2016/17) and remains on target. However, there has been a recent increase in the level of absence in Crowns but a decrease in Supply Chain which has helped the overall business performance. (See chart above)

Network & Sales absence levels have increased over the last quarter and risen above target (overall sick absence 3.5% v 3.2%). We have seen an increase in Crown Office long term absences (2.2% LTS up to 3.3% in recent months). Analysis is being undertaken with the Occupational health partner to understand underlying trend by geographical areas.

Supply Chain absence reduction is mainly due to a reduction in long term absences wither by a return to work or exit from the business. (2.2% LTS down to 1.6%).

Activity -

- **Mental health** conditions remain the single most common cause of longer term absence with 17% of occurrences and 31% total absence days, a slight increase at P6 2016/17. Awareness training continues to be rolled out to all teams.
- There has also been an increase in the number of users of the online '**Help' Employee Assistance and Lifestyle Online** websites possibly in response to recent increases in absence but also due to improved awareness of resources.

POST OFFICE
BOARD

Post Office Limited Board Meetings

Author: Alwen Lyons Meeting date: 24 November 2016

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

Date			Time	Notes
Tuesday	31 January	2017	09.30 – 14.00	
Tuesday	28 March	2017	09.30 – 14.00	
Thursday	25 May	2017	11.15 – 15.30	
Tuesday	27 June	2017	TBC	Board Away Day 1
Wednesday	28 June	2017	TBC	Board Away Day 2
Tuesday	25 July	2017	11.15 – 15.30	
Tuesday	26 September	2017	09.30 – 14.00	
Tuesday	31 October	2017	09.30 – 14.00	
Thursday	23 November	2017	11.15 – 15.30	



POST OFFICE ADVISORY COUNCIL MINUTES
Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ
Thursday 3rd November 2016

Attending: Tim Franklin, Chair POAC
Paula Vennells, Chief Executive, Post Office Limited

Council Members: Andrew Moys
Ben Lucas
Brian Scott
Chris Feliciello
Claudio Pollack
David Foley
Elizabeth Armstrong
Farida Iqbal
Ismail Loonat
Jenna Khalfan
Katie Evans
Kevin Twynholm
Lynn Simpson
Marc Kidson
Marcus Buck
Maxine Stone
Nick Stuart
Nilesh Joshi
Pardeep Duggal
Rebecca Glenapp
Theo Bertram
Tim Coomer

Post Office Limited: Paula Vennells, Chief Executive
Alwen Lyons, Company Secretary
Mark Davies, Communications and Corporate Affairs Director
Jane Hill, Head of Public Affairs
Martine Munby, Public Affairs
Martin Kearsley, Banking Director
Angela Van den Bogerd, Director of Support Services

Welcome Tim Franklin

The Chair welcomed the members of the Council and thanked them for attending the meeting, passing on apologies for those who were absent. He welcomed the new council members:

11. Board Committee Chair updates (verbal)

- Jena Khalfan - the Communications Director of the NFSP who has been working alongside members of the Post Office Communications team on communications to subpostmasters.
- Claudio Pollack - the interim Director of Post and Telecomms at Cita. (The Chairman explained that Any Burrows had left Cita and thanked him for his contribution to the Council).
- Katie Evans - from the Money and Mental Health Policy Institute; and
- Maxine Stone - the Branch Manager from Scarborough Directly Managed Branch who would take over the role of representing that part of the post Office network.

The Chairman explained the plan to extend the membership further by recruiting two more subpostmasters, a WHSmith representative and a person to champion disability and access issues.

Existing Council members described the work of the Council to date and recognised that the Post Office had responded well to the challenges from the Council.

The Chairman welcomed the CEO.

Business Update: Paula Vennells, Chief Executive (CEO)

Paula Vennells POAC Speaking Note

Firstly I'd like to echo Tim's welcome to Maxine, Jenna, Claudio and Katie – I really value the role of the Post Office Advisory Council to our business and it's fantastic to see new members with fresh perspectives to add to those who've been contributing so brilliantly over the last three years. **The CEO promised to circulate the report by Katie Evans on digital development. ACTION: MM**

The CEO explained that the business had just started a new piece of work on Brand and asked Marcus Buck if **Martin George the Commercial Director could contact him to use his expertise in this area. Marcus Agreed. ACTION: MG**

L300 Event

A couple of weeks ago, leaders from all over the Post Office got together for a full day to talk through our strategy, progress and agree what we need to do more of, or less of - or differently.

We invited postmasters and engagement champions to join our discussions for part of the day. This was a watershed moment for the business when we recognized the priority we must place on supporting our postmasters – so their businesses, and our own, can flourish.

So what did we learn?

- We have come a long way. Talking with postmasters from across the country underlined that. We are now genuinely in a position where we can talk not just about a proud heritage, but the future we are creating together, too.
- However, for all we have achieved through our transformation, I heard from all our postmasters that we have so much more to do.

11. Board Committee Chair updates (verbal)

- They told us that, whilst we are Simpler to Run than we once were, we are still far from being *really* simple.
- We need to make our systems and processes quicker and easier to operate so that we give a better, faster and more accurate service to our customers.
- A couple of examples:
 - Labels that are too big for small parcels and obliterate part of the address, so Post Office colleagues have to try to wrap them around the corner of the parcel, which then doesn't help Royal Mail scanning. We worked with Royal Mail to produce the (small) stamps for self-service kiosks (SSKs), surely we can help here.
 - Or actions that take three forms, or four conversations, when they could be one click
- This is all so important. That's why the main session today will look at how we can become simpler to run.
- We also learned that to become Better for Customers, we should be more purposeful in setting their expectations. For example
 - Letting customers know what products are available and in which branches which is a challenge
 - Shouting more loudly about the big improvements we have made to network environments and opening hours (this is something that you highlighted during the session on the future of the network in March)
 - Thinking how we maintain the unique relationship between our postmasters and their customers when increased automation helps us provide a good service.

We are moving to calling our Crown Branches Directly Managed Branches as a better description for this part of the network as ownership is irrelevant to our customers. Directly Managed Branches are still important but we will continue with the franchise programme when opportunities arise.

So, while we've achieved so much over the last few years, there's still a long way to go until we have a business that really is simple to run; and the best it can be for customers and a great place to work.

And this is a journey we are making in a world that feels very different to a year ago:

- A new Prime Minister, cabinet and ministerial team
- A reshaped opposition party
- The prospect of a new relationship with the EU

There's no sign of this change relenting and the uncertainty in the British and Global economy as we exit the EU.

We are about to enter into our own funding negotiations with Government as well as contending with continued shifts in consumer needs and demands.

It's a potentially unsettling time. So it is more important than ever to be clear on our strategic goals.

- Strengthening our branch network
- Driving growth in Financial Services
- Safeguarding our position as the UK's number 1 letters and parcels retailer

- Delivering a lean and competitive cost base

Period 6

- Latest financial results show how the external environment is getting tougher and Post Office benefits as a wide portfolio business.
- Our key EBITDAS measure is just still positive to target year to date, with Mails performing well up year on year. Brexit has had an effect on the FS sales, and Government Services continues to decline.
- Digital income is a brighter spot – positive to target and so are our customer measures – effort, net promoter score are all performing strongly.
- And Network Transformation has exceeded its half year targets – over 700 branches modernised, over 25 a week on average, - a further impressive performance illustrating the pace of the investment into change we are making in the network.
- So the picture is mixed at the half year – we have put in some good performances and moved the business forward but we do have clear risks with income which are leading to risks in EBITDAS .
- We do have the momentum to get back on track. That means a real focus on sales, on income and product profitability. We have the busy winter and Christmas period ahead and we need to plan and maximise our performance and income from this time.

Disciplines of tight cost control and a firm approach to discretionary spend are needed at all times – but the income position at the present time does mean a specific focus. This is why we remain focussed on costs and we recognise that we need to change the shape of the cost base.

The Post Office needs to move beyond breaking even, we need to not only start making a profit, but to make enough of a profit to invest back into the Business which means c£100m a year.

Questions from the Council for Paula Vennells, Chief Executive (CEO)

1. Why do you think the Mails business continues to do well in the market whilst FS is doing less well?

Customer research shows that customers like to use the PO to drop and collect parcels, security and knowledge are considered to be strengths. Home-shopping returns have seen significant growth. The CEO was still frustrated that digital sales were not developing quickly enough. However because of growth in parcels and returns the mails income was holding up despite the competition in the market.

Financial Services growth depended on the Bank of Ireland managing its balance sheet and with low interest rates and little money to make on savings this was having an effect on the Post Office position in the market.

2. Can the Post Office make the £50-100m operating profit required to invest?

Three years ago the PO was making an operating loss of £120m. There is a long way still to go but the progress has been exceptional and we will start making an operating profit next

year. Most businesses would have the ability to borrow externally to invest, but our Government ownership makes this difficult.

3. Although the Government are our shareholder the DWP, a Government department is sending out letters to customers to move away from the Post Office Card Account?

The CEO stated that this was DWP strategy as they want benefits paid into bank accounts and have been very clear that this is their policy. So we are working with the Government to see if we can provide a simple bank account, a 'jam jar' account to help people compartmentalise their money for paying bills.

4. Where does the Post Office relate to the pos- Brexit Government narrative? In the past it was seen as the community hub in the big society debate. How will it be seen in an environment focussed on economic reform?

Still an important part of society helping make life work for people. The CEO believed that to sustain a community required 3 things; a Postal Services; Banking Services and a retail shop. The PO could provide all three. 5000 community shops, without POs were only just surviving and 2000 of these might be the place to put a new PO, so there may be an expansion plan going forward.

Mark Davies explained that the narrative was about the PO making life easier for people by developing essential services in a community hub, with retail, cash and postal services.

5. With all the changes going on employee engagement and employee morale were both low and some of the choices made for relocating Directly Managed branches into the basement of WHSmiths had produced press criticism. Was the CEO seeing things through rose tinted glasses?

The CEO acknowledged that for communities within the PO the changes had been very tough. The pension scheme closure had had a significant effect on people but following the advice from the actuaries the proposal put to the Trustees was believed to be the right one. The last scheme valuation had been done in 2012, but another was underway at the moment.

The CEO did not believe she saw things through rose tinted glasses although she remained an optimist, never forgetting the effect change was having on colleagues in the Business.

6. Could the Post Office offer receipts to email addresses so collecting customer contact details?

The CEO thought this was an excellent idea and would pursue it with the Commercial Director.

ACTION: MG

The Chairman thanked the CEO for her contribution to the meeting.

The Chairman welcomed Martin Kearsley, Banking Director to the meeting.

Martin Kearsley (MK): Update on the Banking Services

MK explained the significance of the Banking Services Framework and the move from bespoke bank contracts to one overarching framework. Old contracts forbade any marketing as banks did not want customers to use the PO. So took the step to terminate all the bank contracts and offer the banking services frame work in place of the old contracts.

This contract is important because banks are closing as the requirements for cash reduce, so PO will provide these services but only through a contract which makes commercial sense. So from January this will increase the footfall for POs as banks move out of rural and market towns. This could be difficult for POs and could increase queues which is why it is also important to simplify and standardise the transaction, moving them away from paper to chip and pin.

Local advertising campaigns will be run where banks close, and a wider national campaign also be run possibly showing a Sunday bank transaction in a PO.

The Banking Framework will take effect from 2017 and more services will be added through the year. An App for businesses to find their nearest bank branch will be launched within the next 9-12 months.

A council member suggested that the Business look to provide a PO in the 24 enterprise zones to offer banking services. Specific case of the Pfizer site in sandwich was raised as an example. **Look to see if there is an opportunity to provide banking services through a PO at the Pfizer site in Sandwich**
ACTION: MK/KG

What banking services could be provided for SME? Could the Business work with the Institute of Small Businesses?
ACTION: MK

MK explained the restrictions in the contract, to stop 'poaching' bank customers by offering PO accounts. When products are offered PO will need to make it clear they are PO products.

There is a limit to the size of cash deposits which locals can transact, will this £1000 be increased? The £1000 is increasing to £2000 and this will capture 95% of deposits. If the services is standardised and simplified it will make it easier for all branches including locals.

The Chairman thanks Martin Kearsley for his presentation.

The Chairman welcomed Angela Van den Bogerd, Director of Support Services,(AVDB) to the meeting.

Angela Van den Bogerd: Making the Post Office 'Simpler to Run' for customers, postmasters and colleagues

AVDB thanked the Council for their time and explained that she would like to get their input into how the PO could be Simpler to Run.

AVDB explained her role and the work she had undertaken to rationalise 8 support services sites on 2, reducing duplication and improving communication between teams. She believed that Simpler to

11. Board Committee Chair updates (verbal)

Run meant getting things right first time, by consolidation, standardisation and automation. The changes would take 3 years to deliver and the project was at the half way stage.

AVDB believed there was still a lot to achieve through product and process simplification to reduce the amount of paper used in transactions and to automate the processes.

The Council were split into 4 syndicates and asked to consider:

1. Postmasters - how can we make it simpler to get the right support at the right time?
2. Employees - how can we encourage employees to innovate and/or challenge barriers to make ways of working simpler
3. Customers/SME - how can we make the customer's experience simpler and better?
4. Business experts - as a business going through change, how can we make the change process simpler?

Syndicate Feedback

1. Postmasters

- Make communication timely and relevant
- Explain processes in more detail – why is something done
- 'one network' welcome still developing
- Publicise common issues, honestly and give the solution
- Simplify Horizon as a tool especially for locals
- Simplify back office processes
- Integrate everything onto one till
- Training a bit earlier too much to take on whilst doing the job
- Better lead in time for products, give people time to get ready

2. Employees

- Engagement does not mean people are happy with what is going on
- Works well where there is good two way communication and accountability both ways
- Leaders need to be held to account by the shareholder but also the employees
- Ownership is an issue for those in DMB as it means their jobs
- Communication to encourage people give them a reason to believe
- Celebrate when we do take ideas on board and it changes things
- Broaden successes, focus on changing what you can don't give up.
- Tell people what is getting on the way

3. Customers/SMEs

- Important how we digitally capture data and make it easier to do business
- Want to interact in different ways, online, telephone, face to face.
- Tell SMEs when to come in, good service times, times to avoid.
- Email receipts
- Bookable time slots

11. Board Committee Chair updates (verbal)

- Automate print forms at home then bring in
- Do as much as possible before the visit, eg parcels make it easier to come in prepared

4. Business Experts

- Clarity about the critical pillars going into change
- Clarity about progress being made
- Involve those impacted by the change
- 2 or 3 things trying to achieve eg 50% of customers self-serve.
- Moving toward what customers want not just stripping cost out.

Angela thanked the Council for their input which would be fed into the 'Simpler to Run' project. She explained that she was using a blended approach to her change project involving change experts and the teams involved, so people were doing change to themselves. Middle managers need to be the conduit for their team's ideas, and the feedback loop to their teams.

The Chair thanked **Angela who promised to feedback what actions had been taken to a future Council meeting.**

ACTION: AVDB

Summary and Conclusions: Tim Franklin

The Chairman thanked the POAC members for their contributions especially the new members who had found the debate interesting.

The Council asked that future agendas include more information to enable Council members to prepare for the debates.

ACTION: JH

It was agreed that the new time slot starting with lunch and meeting in the early afternoon was more convenient for Council members.

Martine would re-launch the POAC portal where members could feedback their branch experiences

ACTION:MM

The Council asked for an update on the Digital session held at the last meeting ACTION: MM

The date of the next meeting was confirmed as March 15th 2017, to which the CIO would be invited.

The Chairman closed the meeting, thanking the Council for their input and asking for any feedback to be sent to Martine Munby.

Appendix A – Flip Chart Feedback

Syndicate 1

- No incentive for agents to push people on line
- More support for agents on professional website design
- Live information on branches – eg status of AEI, queues etc
- Ability to rate and feedback on POs
- Free Wi-Fi in branch
- Capturing customer data electronically
- Click and collect drives people in branch – promote this and look for other opportunities
- Clarify ID verification services
- Consistent and clear branch information
- On line community based around Postmasters
- Better management of branch finder
- Central v local information

Syndicate 2

- Postmasters share best practice/tips
- Attribution
- Collect discount
- Data/customer
- Classified
- Remuneration
- Footfall drivers – click and collect
-

NB Syndicate 3 gave verbal feedback

Syndicate 4

Agents:

- Database for agents to see when policy renewal dates come up
- Shared database of customer info
- Mobile enabled/simple/apps
- Wi-Fi hub

Customers:

- Simple
- Profile of customer data
- Scheme of data capture
- Loyalty scheme with incentives
- Provide info on products and services
- Post Office advertising notice boards
- Feed from feedback
- Bank with Post Office – get free advertising on our website
- Web page per area

11. Board Committee Chair updates (verbal)

Communities

- Link journey on line to branch
- End to end, drop product off on line
- Parcel check service
- Digital barcode created on app and then take parcel to the Post Office

11. Board Committee Chair updates (verbal)

Annex B

Syndicate 1

Branch Finder design:

Design Access:

- Opening hours
- Content
- Services
- Education/digital/apps

Social:

- Recruitment – Postmaster, Apprentices
- Connecting – Postmasters (social and collaborative)
- Small ideas and lessons
- Events
- Blogs

Training

- WiFi
- Module based
- Show and tell

Innovation

- Insight
- Self Drive
- Engagement

Marketing

- Promotions
- Footfall
- Big opportunity
- Engage
- Community
- Brand
- Progressive

Postmaster at the heart of digital:

- Listen
- Engagement and feedback with Postmasters
- Impact of solutions
- Automation – SSKs
- Education
- Incentive
- Horizon – process

Digital

- Engagement/communications
- Transact – device – customer experience and access
- Internal digitisation

11. Board Committee Chair updates (verbal)

- Technologs

Syndicate 2

Branch Finder:

- Geo location based map
- Opening times based in time/day “open now until 6pm”
- Individual Postmaster data

Branch search:

- Search term and Post Office
- Location
- Opening hours
- Branch phone number
- Google reviews
- Business ownership

Syndicate 3

Branch Finder:

- Centrally managed
- Use existing resource (eg IMAPs)
- Link through to local branch website
- Map based and interactive
- Hover button to reveal products and services and opening times

Main site

- Products
- Opening hours
- Contact details
- Click through:
- Customer/feedback
- Option to buy service
- On line (postmaster incentive)
- Cluster products and cross sell

Two Way traffic

- le collect travel money in branch
- Customer contacted via branch finder

Syndicate 4

Branch Finder

- Identify nearby Post Offices via individual's location
- Information on local branches:
- Hours
- Address
- Postmaster

11. Board Committee Chair updates (verbal)

- Phone no
- Accessibility/parking
- Busy times
- Click through to community info hub
- Products and services (drop down list with other branches)
- Products (drop down)
- Click through to the main Post Office site, banking site and Postal app

Post Office Ltd
Post Office Board
24 November 2016

Location:

Room 1.19 Wakefield, Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ, United Kingdom

ATTENDANCE LIST

ATTENDEES	SIGNATURE
Parker, Tim	
Callard, Richard	
Cameron, Alisdair	
McCall, Ken	
Paula, Vennells	
Stent, Carla	
Tim, Franklin	
Virginia, Holmes	

Also in attendance

Alwen, Lyons	
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Additional access

MacLeod, Jane	
Wechsler, Tom	



Post Office Board Agenda

Date	
24 th November 2016	
Start Time	Finish Time
11.15hrs	15.15hrs
Location	
Room 1.19 Wakefield	

Present	In Attendance	Apologies
• Tim Parker (Chairman) • Richard Callard • Tim Franklin • Virginia Holmes • Ken McCall • Carla Stent • Paula Vennells • Alisdair Cameron	• Alwen Lyons • Martin Edwards (item 4 & 6) • Martin George (item 6) • Mark Siviter (item 6) • Nick Kennett (item 7) • Angela Van Den Bogerd (item 8) • Rob Houghton (item 8)	None

Agenda Item	Action Needed	Purpose	Lead	Timing
1. Minutes of previous Board and Committee meetings including Status Report	Decision	Minutes formally agreed.	Alwen Lyons	11.15 – 11.20
2. CEO Report Including IR update and Digital Christmas Campaign	For noting	CEO to update the Board on the report.	CEO	11.20 – 11.50
3. Financial Report	For noting	CFO to update the Board on results.	CFO	11.50 – 12.10
4. Update on Funding Process (verbal)	For noting	CFO to update Board on latest progress	CFO / Martin Edwards	12.10 – 12.30
5. Board Effectiveness Review Introduction	For noting	To familiarise the Board with the Board Effectiveness review process.	Alwen Lyons / Ken McCall	12.30 – 12.50
LUNCH				12.50 – 13.20
6. Mails Update	For noting	To update the board on progress made since June on Post Office and Royal Mail joint strategy, next best alternative, negation preparation and next steps.	Martin George / Mark Siviter / Martin Edwards	13.20 – 14.20
7. Report from POMS Board	For noting	To update Board on half year performance and strategy.	Nick Kennett	14.20 – 14.35
8. Back Office Transformation	For approval	For Board to review / approve the Back Office Transformation Business Case.	Angela Van Den Bogerd / Rob Houghton	14.35 – 15.00



Post Office Board Agenda

Agenda Item	Action Needed	Purpose	Lead	Timing
9. The acquisition of Broadband Customers from New Call	For ratification	To ratify the decision taken by correspondence.	Alwen Lyons	15.00 – 15.05
10. Items for noting				15.05 – 15.10
10.1 Sealings	For noting	Board aware of the affixing of the seal.		
10.2 Health & Safety	For noting	To update Board		
10.3 Date of next meetings	For discussion	To confirm Board dates for future meetings		
11. AOB				15.10 – 15.15
CLOSE				15.15

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POLB 16(8th)
POLB 16/62 – 16/71

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a Board meeting held at 9.30am on 25 October 2016
at 20 Finsbury Street, London EC2Y 9AQ.

Present:

Tim Parker	Chairman
Richard Callard	Non-Executive Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Ken McCall	Senior Independent Director
Carla Stent	Non-Executive Director
Paula Vennells	Chief Executive
Alisdair Cameron	Chief Financial Officer

In Attendance:

Alwen Lyons	Company Secretary
Martin Edwards	Director of Strategy (<i>Minute</i> POLB 16/66 and POLB 16/67)
Mark Davies	Corporate Affairs Director (<i>Minute</i> POLB 16/66)
Nick Kennett	Group Financial Services Director (<i>Minute</i> POLB 16/67)
Rob Houghton	Chief Information Officer (<i>Minute</i> POLB 16/67)
Jonathan Hill	Head of Risk, Banking, Regulation and Strategy, Financial Services (<i>Minute</i> POLB 16/67)
Owen Woodley	Sales Director (<i>Minute</i> POLB 16/67)
Chrysanthi Pispinis	Financial Services Corporate Development & Governance (<i>Minute</i> POLB 16/76)
Neil Hayward	Group People Director (<i>Minute</i> POLB 16/68)
Natasha Wilson	Director of Reward and Pensions (<i>Minute</i> POLB 16/68)

Apologies:

None

POLB 16/62

INTRODUCTION

- (a) The Chairman noted that a quorum was present and 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.

POLB 16/63

MINUTES OF THE PREVIOUS BOARD AND COMMITTEE MEETINGS INCLUDING STATUS REPORT

Minutes

- (a) The minutes of the Board meeting held on 29th September 2016 were approved as an accurate record and the Chairman was authorised to sign them.
- (b) The Board noted the Action Status Report.

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- (c) The Board discussed Action POLB15/50 (b) and the effect of classifying the closure of the Supply Chain external work as discontinued business and therefore an exceptional item in the accounts. The Board recognised that the work had been discussed at the time of budget setting and acknowledged that it would have been inappropriate to include it in any budget before the consultation with employees had been concluded.
- (d) The Chair of the Remuneration Committee stressed the need for transparency when setting the bonus targets and assessing performance against those targets. The CFO would continue to disclose the exceptional charges at the ARC and he assured the Board that any effect on the EBITDAS would be transparent to the Remuneration Committee.

POLB 16/64**CEO REPORT**

- (a) The CEO introduced the CEO Report, focusing on the following key points:
- (b) Period 6 Results: Performance continued to be challenging and although the CEO remained reasonably confident that the full year EBITDAS target would be delivered, the gross income trend remained a concern.
- (c) Pensions: The CEO updated the Board on the decision of the Pensions Trustee to accept the proposal to close the Post Office Section of the RMPP on the 31st March 2017. She thanked Virginia Holmes for her support.
- (d) Industrial Relations: The CEO reported that the CWU and Unite unions had called for strike action on the 31st October. The Board was assured that contingency plans were in place to ensure there would be as little adverse effect on customers as possible. The CEO explained that discussion continued with the unions but that there would likely be further strikes in the run up to Christmas.
- (e) POca: The CEO explained that the details of the supplier contract would be presented at the November Board meeting. The Board asked the CEO to ensure that a wide range of options for payment provider be considered.
- (f) Apprentices and Graduates: The CEO updated the Board on the presentations she had received from the apprentices and graduates who had recently joined the Business. The standard was excellent and she was excited by both their enthusiasm and their focus on the commercial and social purpose.
- (g) Mails: The CEO explained that the Mails team was continuing to engage with the RMG whilst looking at the next best alternative strategy. The Board was nervous about the RMG delaying the discussions and the CEO assured them that should deadlines be missed she would escalate the matter with the CEO of the RMG. Ken McCall reported his meeting with the Mails team and the need

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to test the viability of alternative solutions. It was understood that the Mails strategy would be discussed at the next Board meeting.

Transformation Report

- (h) The Board noted the Transformation Report. Transformation risk would now be included as a standard agenda item for the ARC and the Board asked that the ARC specifically consider:

ACTION:
David Hussey

- The aggregated cost and burn rate compared with business cases and budgets; and
- The impact of IR35, 'off payroll' working, the impact and risk mitigation.

- (i) The Board noted the CEO report.

POLB 16/65

FINANCIAL REPORT AND UPDATE ON THE DEVELOPMENT OF THE P6 RESULTS.

- (a) The CFO introduced the Financial Performance Report for Period 6, September 2016. The CFO was forecasting that the Business would hit the EBITDAS target for the year, but good Christmas trading would be key to delivering the £-10 million.
- (b) Cash flow headroom had not improved as predicted in P6 as additional cash had remained in the network after the strike contingency planning. However this position had been recovered during P7.
- (c) The Board discussed the Working Capital Facility and the opportunity to reduce the cash strain on the Government as part of the funding negotiation. The CFO explained that the most difficult areas to manage were coin distribution and Foreign Exchange cash. However if postmasters were incentivised to change their behaviour this could facilitate another change in supply chain demand and free up cash to use elsewhere.
- (d) The CFO explained the additional pressure on the 2017/18 target of £28m, which would flow into the baseline for the strategy and funding plan. The Board agreed that it was important to have a realistic baseline for the plan, and asked the **CFO to provide trend income analysis in the Financial Reports to enable the Board to monitor the income streams**. The Board recommended that the 2017/18 budget should be realistic and based on flow through from the 2016/17 operational outturn, with initiatives to deliver the contingency to get back to the £28m target.
- (e) The Board approved the P6 Income Statement, Balance Sheet, Cash, Headroom and Forecast positions
- (f) The Board noted that external supply chain activities have been reclassified as discontinued operations subject to Ernest Young's (EY) agreement.
- (g) The Board agreed that from P7 Actuals v Forecast comparisons would be monitored.

ACTION: CFO

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POLB 16/66

STRATEGIC PLAN TO 2020/21 AND FUNDING REQUEST

- (a) The Chairman welcomed Martin Edwards, Director of Strategy and Mark Davies, Corporate Affairs Director, to the meeting.
- (b) Martin Edwards presented an overview of the 2020/21 strategy, explaining the financial consequences of the counterfactual case as opposed to achieving commercial sustainability through funding a major cost base restructure.
- (c) The Board discussed the proposals and stressed the need to strengthen the explanation and narrative behind the counterfactual case and to include ranges within the projections.
- (d) The CEO recognised that because of the good work done to date in delivering Network Transformation, and the current stability of the network, it would potentially be difficult to persuade Ministers that there was still a cost base crisis which needed to be addressed.
- (e) The Board asked for assurance that the necessary evidence was available to support the funding case. The CFO explained that the Group Executive had worked through and agreed the assumptions in the plan, which were supported by market analysis and business cases. The BEIS team had employed KPMG to review the funding request and Martin Edwards would work closely with Richard Callard and his team to present the case.
- (f) The Board discussed the revenue projections and agreed that the business had to aim to be sustainable without relying on FS growth. **The Board asked Martin Edwards to consider how the size of the network could be used to deliver income through an access fee, similar to that for paid for the banking framework or identity products.**
- (g) The Board recognised the uncertainty within the income projections included in the plan, but stressed that the cost base remained more in the control of the business. The funding narrative needed to make it clear that it would be impossible to change legacy IT systems and reduce the cost base without funding support from the Government.
- (h) The Board discussed the segmentation of the network into commercial and social branches and possible changes to how these could be funded. It recognised that product simplifications and a reduction in postmaster remuneration would put pressure on some postmasters, but believed that there could be an opportunity to restructure the franchise to sell it more as a footfall generator.

ACTION:
Martin Edwards

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- (i) The Board agreed with the four success criteria set out in the narrative document, namely that by supporting funding the Government would secure:
- A growing, flourishing network – although not with any binary network number to hit;
 - Permanently lower funding;
 - Indispensable service to customers and communities; and
 - Options on ownership – without referring to a mutual option.
- (j) It was recognised that there would need to be more detail in the funding request with analysis on £320m investment and the resulting deliverables. The Board advised that the funding request had different audiences and would require different explanations to align with their priorities accordingly. The Board recommended that greater focus be given to SME customers.
- ACTION:**
Martin Edwards
- (k) **The Board supported the direction and funding proposal and asked for more information on the investment and returns to be presented at the next Board meeting.**
- ACTIONS:**
Martin Edwards
- (l) **The CEO suggested that Martin Edwards could provide additional information on a one to one basis if any Board member required.**
- (m) The Board approved the strategic plan to 2020/21 and funding request prior to submission to the Government in early November.
- (n) Mark Davies left the meeting.

POLB 16/67

FINANCIAL SERVICES GROWTH STRATEGY

- (a) The Board welcomed Nick Kennett, Group Financial Services Director, Jonathan Hill, Head of Risk, Banking and Strategy Financial Services, Chrysanthi Pispinis, Financial Services Corporate Development and Governance, Owen Woodley, Sales Director, and Rob Houghton CIO to the meeting.
- (b) Nick Kennett reminded the Board of the strategic direction for Post Office Money (POM) approved at the June meeting, with the interdependent key components of:
- The New Normal customer proposition;
 - The 'Strong Integrator' business model; and
 - The re-negotiation with the Bol.
- (c) Nick Kennett stressed that the FS strategy meant a change to focus on the customer relationship and lifetime value, and a move away from the primary delivery in branch to a digital channel. He added that the delivery of the strategy required a significant change in how the business was run, with enhanced capabilities, risk management and governance structures, changed relationships with suppliers and partners, supported by agile technology.

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- (d) Nick Kennett explained that investment, which had been included in the wider 2020/21 strategy plan and funding, would be required for IT development in support of the new model. The CIO stressed that the investment should focus on delivering one product at as low a cost as possible to test the proposition with both customers and revenue earning protection. Further products could then be added incrementally. The CIO believed that the initial investment could be around £8-10m but needed further definition as it depended on the product chosen and the level of systems integration required with the product provider. The Board supported this initial investment.
- (e) Nick Kennett confirmed that the overall funding request was £72.3m over five years, of which £37.4 related to capex. This investment was targeted to deliver gross income in 2020/21 of £156m and EBITDAS of £68m, an increase of £30m. The overall NPV was £181m over five years.
- (f) The Board asked for assurance that the development would not complicate the IT transformation currently underway. The CIO assured the Board that the system would be developed separately and only integrated into the Post Office systems if tests proved it could be incorporated without causing issues.
- (g) The Board agreed to plan to make the full investment as proposed, depending on the success of the initial investment, and discussed the most appropriate structure and governance for its delivery.
- (h) Nick Kennett advised that the paper did not include recommended changes to the organisation structure and regulatory position as this had not been discussed at GE. CS explained that, based on her experience with FinTech companies and major banks, for this new business to work effectively the Board and management should think in a new way, enabling a separate innovation hub supported by people and a new governance environment. Ring-fencing the team working on the business development would assist faster change, particularly if the project deployed a compartmentalised, “test and learn” methodology. There was support of this from across the Board.
- (i) The Board discussed the FS sales model and the move from Financial Specialists in Directly Managed branches to a CRM model training postmasters’ staff to use a portal and tablet to capture customer data. Owen Woodley explained that the CRM model was underway as a trial which would need to prove it was profitable for the business and the postmaster.
- (j) The Board supported the recommended options and direction of travel principles in relation to technology structure, the distribution model and the shape of the funding and emphasised to the executives that it would be important to build momentum into the change programme.
- (k) Nick Kennett, Martin Edwards, Owen Woodley, Jonathan Hill, Chrysanthi Pispinis and Rob Houghton left the meeting.

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POLB 16/68

PENSIONS VERBAL UPDATE

- (a) The Chairman welcomed Neil Hayward, Group People Director, and Natasha Wilson, Director of Reward and Pensions, to the meeting.
- (b) Neil Hayward updated the Board on the decision taken by the Pension Trustee to accept the proposal to close the DB pension plan on the 31st March 2017. He reported that the approach to the consultation had been validated by the Pension Regulator.
- (c) Face to face briefings were now planned to explain to DB scheme members the summary of the consultation; what would happen to the surplus after the current valuation; what the move to the DC scheme would mean to members; and the next steps in the process. A pensions' website was also being launched where members could access information.
- (d) Natasha Wilson reported that the scheme valuation should be available in the first two weeks of November and this would help to make the position clearer for members.
- (e) Natasha Wilson explained that a Governance Committee was being set up to give oversight to the DC scheme and that she was working with the Chairman of the DB Trustees to identify an independent trustee to invite onto this committee. **Richard Callard asked to be kept updated on the establishment of the Governance Committee.**
- (f) The Chairman thanked Natasha Wilson on behalf of the Board.
- (g) Neil Hayward and Natasha Wilson left the meeting.

ACTION:
Natasha Wilson

POLB 16/69

UPDATE FROM BOARD COMMITTEE

- (a) Remuneration Committee (RemCo)
The Chair of the RemCo updated the Board on the meeting held on the 29th September 2016.
 - He reported that PwC had been appointed as the new Remuneration Committee Advisor.
 - The CEO had recommended that the Group Executive should receive a pay award of 1.9% similar to the rest of the Business, which the RemCo had noted.
 - The STiP target for the CEO and CFO bonuses, which had been agreed with the last Government Minister, had now been further delayed by the Ministerial change. Because of this delay the RemCo had decided that it would not be advisable to ask for a recalibration of the LTiP target for 2016/17 as it was now too late to do so.
 - Neil Hayward would be presenting the timetable for future bonus target submission at the November Committee.
- (b) Nomination Committee (NomCo)
The Chair of the NomCo updated the Board on the meeting held on the 29th September 2016, at which the Committee had discussed the Group Executive succession plan.

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POLB 16/70

ITEMS FOR NOTING

Sealings

- (a) The Directors resolved that the affixing of the Common Seal of the Company to the documents numbered 1451 to 1453 inclusive in the seal register was confirmed.

(b) **Future Meeting Dates**

The Board noted the future meeting dates.

(c) **Health and Safety**

The Board noted the Health and Safety report.

POLB 16/71

CLOSE

- (a) There being no further business, the Chairman declared the meeting closed.
- (b) The Board attended a session presented by Linklaters covering, 'The changing regulatory environment – The impact of the senior manager and certification regime, on the Financial Services sector.'

.....
Chairman

.....
Date

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POLARC 16(6th)
POL ARC 16/41 – 16/53**POST OFFICE LIMITED**
(Company no. 2154540)
(the 'Company')Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE COMMITTEE
held at 2.30 pm on 28th September 2016 at 20 Finsbury Street, London EC2Y 9AQ**Present:**

Carla Stent	Chair
Richard Callard	Non-Executive Director (RC)
Tim Franklin	Non-Executive Director (TF)
Ken McCall	Non-Executive Director (KM)

In Attendance:

Paula Vennells	Chief Executive, (CEO)
Alisdair Cameron	Chief Financial Officer (CFO)
Jane MacLeod	General Counsel (GC)
Nick Kennett	Financial Services Director and CEO of POMS (NK)
Alwen Lyons	Company Secretary (CoSec)
Mike Morley-Fletcher	Head of Risk and Assurance (MMF)
Paul Hemsley	Financial Controller (PH)
Peter McIver	Ernst & Young (PM)
Elena Belyaeva	Ernst & Young (EB)
Kevin Gilliland	Network and Sales Director (KG) (Minute POLARC 16/42 to 16/44)
Jonathan Hill	Head of Risk, Governance and Development (JH) (Minute POLARC 16/42 to 16/44)
Owen Woodley	Sales Director (OW) (Minute POLARC 16/42 to 16/44)
Amanda Bowe	POMS, Non-Executive Director and Chair of POMS ARC (AB) (Minute POLARC 16/42)
Susie Hayward	POMS, Head of Risk and Compliance (SH) (Minute POLARC 16/42)
Gordon Gourlay	Bol, Managing Director of Post Office Businesses (GG) (Minute 16/43)
Alec Hughes	Bol, Head of Post Office JV Compliance (AH) (Minute 16/43)
Rob Houghton	Chief Information Officer (RH) (Minute POLARC 16/48)
Tim Parker	Post Office Chairman (TP) (Minute POLARC 16/43 to 16/50)

POLARC 16/41 INTRODUCTION

- (a) A quorum being present, the Chair opened the meeting. 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.

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- (b) The Chair welcomed attendees from Post Office (POL) and Post Office Management Services (POMS) who had joined for the Financial Services discussion.

FINANCIAL SERVICES**POLARC 16/42****POMS**

- (a) POMS ARC Report. AB presented the report from the POMS ARC and highlighted the good progress made over the last year to put in place a Risk Management Framework, the high level policies, and a process for reporting any incidents or breaches. Going forward, POMS would focus on deploying the Risk Management Framework.
- (b) The POMS ARC recognised the importance of the relationship between POMS and POL as its Appointed Representative (AR) and the need to ensure both entities worked together to deliver the required improvements and compliance.
- (c) The Committee noted the report from the POMS ARC dated 13 September 2016.
- (d) POMS as Principal
NK reported the recent FCA thematic review on ARs in General Insurance and its applicability to POMS' oversight of POL.
- (e) He explained the role of POMS as a regulated entity and its regulatory responsibility for POL as AR regarding the sale of General Insurance products. Travel Insurance and over 50's Life Insurance were the products carrying the greatest conduct risk as these were sold across the wider branch network.
- (f) NK explained that the compliance risk of the POL Network was the highest risk on the POMS Risk Register and rated adverse to appetite. While there had been no indication of systemic customer detriment from sales through the POL network, it was a regulatory requirement that POMS should be able to provide evidence and quality assurance from POL in relation to POL's own compliance with contractual and regulatory requirements and its conduct risk framework. This included evidence that agents and those of their staff who sold POMS products had been appropriately vetted and trained. A new Horizon IT control, which would enable POL to limit user access, and which had been anticipated for delivery by POL in January, would be delivered later.
- (g) KG supported the introduction of the user access control.
- (h) The ARC recognised the obligations and responsibilities of POL as AR and the challenges of providing evidence of compliance when selling the product through a large network.

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ACTION: NK

- (i) The ARC stressed the importance of implementing the new control to manage user access and the Chair asked the POMS CEO to provide a report setting out the timeline and actions to deliver the requirement.
- (j) The Chair thanked AB for her report and assured her that the ARC would continue to monitor delivery of the AR accountabilities.
- (k) AB and SH left the meeting.

POLARC 16/43

ACTION: OW

IRRELEVANT

ACTION: JH

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appropriately structured to encourage the right colleague behaviours.

- (g) The ARC noted that Jane MacLeod, the GC was the 2nd and 3rd lines of defence for the branch network. The GC explained that this was not inappropriate in an immature business and could be helpful in developing the appropriate culture. The Chair suggested this be reviewed in the longer term.

ACTION: GC

A review the 2nd and 3rd lines of defence in the Post Office Money branch distribution model to be undertaken in autumn 2017/18.

- (h) The Chair thanked GG and AH for attending the meeting and recognised how well the relationship had developed.
- (i) GG and AH left the meeting.

POLARC 16/44

POL Financial Services

(a)

IRRELEVANT

- (b) NK stated that he was less comfortable with the compliance position in the agency Network, where inevitably there was limited direct oversight. This was of particular concern for POMS as Travel Insurance and Over 50s Life Assurance were sold over the counter in the wider Network. While there was no data that would indicate that customers were not receiving appropriate products or guidance, the nature of the network and the lack of user identification did not enable POMS to have the level of comfort that it required – hence the concerns raised by the POMS Board and ARC.
- (c) NK explained that to reduce the risk POMS has decided to sell Over 50s Life Insurance from only c.1,000 branches as part of the implementation of a new product supplier in January. He further explained that if POL was unable to deliver end-user identification, the POMS Board would need to consider whether travel insurance should also be withdrawn or at least restricted – a position that would significantly reduce customer benefits and POMS'/POL's financial outcomes.

(d)

IRRELEVANT

ACTION: NK

- (e) KG, JH and OW left the meeting.

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POLARC 16/45 MINUTES OF THE MEETINGS HELD ON 25TH JULY 2016

- (a) The minutes of the meetings held on 25th July 2016 were approved as presented and the Chair of the Committee was authorised to sign them as a true record.

POLARC 16/46 POLICIES FOR APPROVAL

- (a) Investigations
The ARC approved the Investigations Policy.
- (b) Physical Security
The ARC approved the Physical Security Policy.
- (c) Financial Crime Policy
The ARC approved the Financial Crime Policy subject to the alteration to include 'possible prosecution' as an outcome for failure to comply.

ACTION: MMF
Amend the Financial Crime Policy to include possible prosecution as an outcome for failure to comply.

POLARC 16/47 INSURANCE RENEWAL FOR RECOMMENDATION TO THE BOARD

- (a) PH explained that the cover being proposed included a high level of deductibles which meant that POL self-insured up to that level. The ARC asked if consideration had been given to complete self-insurance. PH explained that this had been considered and would be considered every year before renewal. NK suggested that once POMS was more established it could look at offering insurance to POL.
- (b) The Committee recommended the renewal as set out in the brokers' report, for submission to the Board for its approval.

BOUNDARY/PERIMETER CONTROLS**POLARC 16/48 FINANCIAL REPORTING UPDATE**

- (a) The Chair welcomed Rob Houghton, Chief Information Officer to the meeting.
- (b) Financial Control Framework (FCF)
The CFO updated the ARC on the progress being made to develop the FCF. He said that the methodology being deployed was entirely appropriate to financial reporting and could be extended to other areas. The CFO explained that the majority of finance processes had now been mapped and gaps identified. The ARC asked for priority to be given to remediating the higher risk gaps disclosed in the CFO report, such as segregation of duties, and the CFO concurred. By year-end gaps would have been mitigated, at least on a work-around basis, controls self-assured and testing undertaken.

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- (c) The CFO reported to the ARC that after discussion with the Chair, the Shareholder and the External Auditors, a decision had been taken not to produce Interim Accounts for the current year. The resource saved would be used to focus on ensuring that relevant controls were in place by the year end. EY audit work would be accelerated but without duplication. EY and POL were considering the need to repeat additional year-end routines as the controls would not have been in place for the full financial year.
- (d) The CFO noted that the controls and assurance of the accuracy of the declared cash in the Network was under review.
- (e) The CFO explained the Finance System upgrade currently being scoped relied on SAP for income reporting and would eliminate the need to use multiple spreadsheets and feeder systems. A detailed paper and business case for this investment in SAP would be presented to the Board in November. The ARC recognised the improvement that this change could bring but were concerned about the time and investment required and stressed that the implementation of the new system would be key.

**ACTION:
PM/CFO**

- (f) **The proposed External Audit plan would be presented to the November ARC meeting.**
- (g) The Committee noted the progress made.

Controls Assurance

- (h) The CFO reported on the controls in place to give assurance to the budget and funding requirement. He explained that UKGI had engaged KPMG to provide assurance as to the funding application. PM reported that EY had been approached to bid for the work but that they would decline due to conflicts of interest.

Risk Management Framework

- (i) MMF presented the Risk Profile and explained the changes since the last report. The Industrial Action risk had improved significantly despite the strike called by the unions. The CEO explained that the effect of the strike had been well managed and the Group Executive supported the reduced risk.
- (j) The ARC were surprised that the risk associated with IT transformation and its effect on the flexibility to change systems and controls was not included in the risk profile.
The ARC requested that this risk be added in the future.

**ACTION:
MMF/RH****ACTION:
David Hussey**

- (k) **The ARC agreed that Transformation risk needed more scrutiny and asked that it be included in future agendas and reports.**
- (l) The Committee approved the 2016/17 Half Year Group Risk Profile.

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POLARC 16/49

IT CONTROLS

**ACTION: Rob
Houghton**

- End to End Control Framework and Cyber/IT Security
- (a) RH explained his plans to create an end to end control framework for IT and the work underway to map the IT landscape. This work would map the current state against the necessary controls and required protections.
A paper would be presented at the November ARC outlining the proposed IT control framework and the plans for its implementation.
- (b) RH recognised the need to strengthen the IT team and introduce people with expertise in IT security operations. He assured the ARC that these appointments were underway. This would bring the skill necessary to develop an IT security operations centre with the right detection systems and capability to monitor any IT security issues.
- (c) RH recognised that the current status of Cyber Security and Information Assurance were outside the Board risk appetite in three key areas as described in the paper. He admitted that he would remain nervous until he could see the whole IT environment in one place rather than being fragmented between suppliers.
- (d) The Chair updated RH on the ARC discussion on system changes required by POMS to introduce controls to limit Horizon user access. RH assured the ARC that he was aware of the required IT changes and was working with the network and training team to deliver them as soon as possible.
- (e) The ARC noted the paper on Cyber/IT Security.
- Horizon Lessons Learned
- (f) The CFO explained that Fujitsu and Oracle had been unable to determine the root cause of the Horizon systems failure but the same failover/failback exercise which had caused the initial failure had now been replicated successfully. It was believed that the problem had been caused by the memlock processes which had now been reconfigured.
- (g) The ARC was concerned that the root cause of the Horizon failure had not been identified, and that the business incident escalation processes had not worked. The GC explained that changes had been made to address the deficiencies in business continuity and a Business Protection team was now in place with ongoing training and testing for different scenarios. The incident escalation process would continue to be developed and tested.
- (h) One of the issues highlighted by the Horizon failure was the inability to communicate quickly with the Network. Standard communications had now been prepared with a separate communications channel should the Horizon system become unavailable.

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- (i) The Committee noted the paper and commented on the lessons learned.
- (j) RH left the meeting.

POLARC 16/50

BRANCH CONTROLS

BCV Lessons Learned

- (a) The CFO introduced the lessons learned paper and highlighted the actions taken since the fraud had been reported to the ARC. He stressed that management actions had already been taken concerning the BCV fraud before it was reported to the ARC but recognised that enhanced reporting was required and was now in place. Greater transparency would mean more issues would be reported but these issues were usually caused by non-compliance or unintentional mistakes. The tighter controls being put in place would help reduce the losses through early intervention and, where possible, recovery.
- (b) The ARC applauded the transparency and recognised the work underway to enhance reconciliations and increase interventions. However they asked if those responsible for the lack of escalation had been made accountable. The CEO reported that changes to the senior leadership had taken place.
- (c) The Committee noted the paper and the verbal update.
- (d) TP left the meeting.
- AML/CTF Framework
- (e) The GC updated the ARC on the HMRC AML/CTF audit. The work had been slightly delayed and would be reported to the November ARC along with finalised actions, dates and accountabilities.
- (f) The Committee noted the status of the HMRC audit and the initial draft findings of the Risk Assessment work.
- Policies for Board Approval (AML and ABC)
- (g) The ARC recommended the Anti-Money Laundering and Counter Terrorist Financing Policy, for submission to the Board for approval
- (h) The ARC recommended the Anti-Bribery and Anti-Corruption ("ABC") Policy, for submission to the Board for approval.

POLARC 16/51

QUATERLY AUDIT REPORT

- (a) MMF presented the Quarterly Audit report and explained that although the audit programme was slightly behind plan it was expected to catch up during the remainder of the year.
- (b) The ARC asked MMF to prioritise the review of IT governance.

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- (c) The ARC noted the paper.

POLARC 16/52 ITEMS FOR NOTING

- (a) The ARC noted the report on Business Continuity planning.
- (b) The ARC noted the Contact Management paper.
- (c) The ARC noted the Horizon Scanning paper.
- (d) The ARC noted the Property paper.

POLARC 16/53 ANY OTHER BUSINESS

- (a) The CFO reported that Postal Services Holdings Company Limited (PSH) was planning to sign its report and accounts on the 3rd October. The accounts would contain a subsequent event note on IRIS and would note that a letter before action had been received on 22nd September in relation to notice of termination which had been given in respect of a 3rd party contract in Supply Chain.
- (b) The GC explained that a letter before action claim had been received relating to the Supply Chain withdrawal from the external market. The letter claimed an abuse of a dominant market position, and alleged that withdrawal could have an adverse impact on Somali communities. The legal team was dealing with the letter, however there was a risk of adverse publicity.
- (c) There being no further business the Chairman closed the meeting.

GRO

Chairman

17.11.2016

Date

POST OFFICE
POST OFFICE BOARD

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CEO's Report

Author: Paula Vennells Meeting date: November 2016

Executive Summary

Context

Our goal for 2016–17 is to achieve EBITDAS of (£10m).

Our 3 year goals are:

1. To accelerate the transformation of Post Office.
2. To secure commercial sustainability for the long term
3. To establish a business that can ultimately fund investments and the social purpose from profits rather than subsidy.

In summary, our strategy is to secure our position as the UK's number one parcels and letters retailer, grow in financial services and protect our network and social purpose – all supported by a much leaner central organisation.

Questions this paper addresses

1. What is on my mind? (*successes, challenges, opportunities and risks*)
2. What are the implications for our outlook and plans?

Conclusion

1. EBITDAS in P7 was £(1.1)m, £1.4m favourable to budget. EBITDAS YTD was £(14.3)m, £1.6m favourable to budget. However, gross income in P7 was £0.3m adverse to budget reflecting challenging trading conditions.
2. Discussions with Government on our funding proposals continue and we are seeking ministerial engagement.
3. We are also continuing to discuss the current dispute with our trade unions. However, it is unlikely that we will be able to resolve the dispute with the CWU in particular in the near future. We are planning for further industrial action before Christmas.

Input Sought

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

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The Report

Looking Back

WHAT HAS GONE WELL?

- Financial Performance – P7
 - P7 EBITDAS was £(1.1)m; £1.4m favourable to budget. YTD EBITDAS was £(14.3)m; £1.6m favourable to budget.
 - Income in P7 from Mails and Financial Services was £0.5m and £0.8m favourable to budget respectively.
 - Expenditure in P7 of £(82.1)m was £0.5m favourable to budget. YTD expenditure of £(531.8)m was £4.8m favourable to budget.
- Customer Measures
 - All of our customer measures performed at or ahead of target in P7. Specifically:
 - Effort scores continued to perform well achieving 75%, in line with YTD performance and 7pp ahead of target.
 - NPS was +66, in line with YTD performance and 1 point ahead of target.
 - Customer Satisfaction was 84%, in line with YTD performance and target.
 - Wait Time Acceptability was 93%, 1pp ahead of YTD performance and 4pp ahead of target.
 - FS NPS was +30, 1 point ahead of YTD performance and ahead of target (+28).
- Supply Chain
 - Phase 1 of the implementation of Project Iris progressively covering 10 sites went live on 24 October.
 - The project is on track and on budget with routes and duties agreed; equipment and vehicles in place; 291 Settlement Agreements signed (15 pending); and work underway on exiting sites due for closure.
 - Service performance against revised routes is monitored daily and all depots are performing well, achieving standards in excess of 90% consistently with some achieving 100% from the outset.
 - Phase 2 covering a further 14 sites will go live on 30th January 2017.
- Industrial Relations
 - As previously reported, our contingency plans for the day of industrial action on 31 October worked well.
 - Turnout was again much lower than historical turnout in previous strikes by either Union (22% of represented employees).

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- 99% of the Post Office network was open for business. We opened 218 out of 299 Directly Managed Branches (up from 187 on 15 September) and all our supply chain depots bar one (Glasgow CVIT) were open.
- Media coverage was very low key.
- All industrial action is regrettable and we are conscious that changes we are implementing are difficult for affected colleagues. However, we believe the rationale for change is understood and that our regular, direct communication with colleagues is having a positive impact.
- Charity Ball
 - The 2016 Post Office Charity Ball took place on 3 November. Over 1,000 people attended including suppliers, partners, Post Office heroes, POAC members and colleagues.
 - We are awaiting the final total but we know that over £140,000 was raised for BBC Children in Need.

WHAT HAS NOT GONE WELL?

- Financial Performance – P7
 - Gross Income in P7 of £88.0m was £0.3m adverse to budget. Gross income YTD of £560.1m was £7.5m adverse to budget.
 - Some long term negative trends continued through P7, including Lottery which was £1.0m adverse to budget.
- Power Outage (Chesterfield)
 - Our office in Chesterfield - Future Walk - experienced a significant power failure on Tuesday 8th November and was forced to run on emergency back-up for over 24 hours; including some loss of service in our contact centres while the issues were addressed.
 - Our operational response was good and a repair to key components of the electricity supply to the building (including the 11,000 volt transformer) was completed on 11 November. An assessment of whether a full replacement is required is being undertaken.
 - Nonetheless, we are conducting a review of our response and how we could improve in areas including communication to other parts of the business.

Looking Ahead

OPPORTUNITIES?

- Funding
 - Discussions with UKGI on our funding proposal are continuing.

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- An outline timetable for official level discussions has been agreed for the various stages of the process including conversations with the European Commission; and discussions with KPMG (covering e.g. the baseline proposition and strategy overlays) commenced this week and are expected to go on for a fortnight.
- In addition, I have written to Margot James seeking an early meeting to discuss our proposals. I will keep the Board informed of progress.
- Christmas Marketing Campaign
 - The marketing team have developed an innovative digital marketing campaign which has been rolled out and will continue through the Christmas peak.
 - I have invited them to share this with you at the Board meeting.
- Parliamentary Activity
 - There is a debate on 17 November in Westminster Hall on the future of the Post Office. Margot James will be responding for the Government.
 - Although the debate is inspired by the CWU, we have been working with the team in UKGI to turn it into an opportunity to highlight the progress the business has made since separation; our importance to communities across the country; and raise awareness of our future strategy.
 - In addition, we are planning to hold a drop-in session for MPs in Parliament on 30 November focussed on raising awareness and support for our strategy and the banking framework in particular.
- Network Consultation
 - BEIS launched its 'Network Consultation' on 8 November with a request for responses by 21 December.
 - The consultation is designed to assist the Government to '*understand consumers' and businesses' expectations for what the network should look like*' in order to inform its work on the '*future funding of the Post Office network*'. Undertaking this exercise now will also assist in ensuring clearance of EU State Aid requirements for any future funding.
 - The consultation exercise asks whether respondents agree that the current network access criteria should be generally retained; seeks views on provision in remote communities; and asks about future service offers together with the role that communities can play in the Post Office network.
 - At the same time, BEIS also published a report from YouGov and London Economics on 'The Social Value of the Post Office Network'. This academic study (based on a 5000 responses from households and 750 from SME's) confirms the significant and ongoing social value that these groups ascribe to the network and its services (the lowest of three valuations calculated yields a figure over £4bn per year).

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RISKS OR CONCERNS?

- **Industrial Relations**

- Although the business managed the last day of industrial action well, there is little sign that we will be able to resolve the dispute with the CWU in the near future. We are anticipating further industrial action before Christmas.
- Nonetheless, we continue to have discussions with both Terry Pullinger and Andy Furey in an attempt to find a way through the current impasse.
- I have also written to Terry Pullinger to invite him and other CWU representatives to come to the GE meeting on 22 December to talk about our strategy and vision; and for them to share their vision for the future of the business. We await a response.
- More positively, discussions with Brian Scott (Unite) suggest that there may be scope to resolve the dispute with them. They have presented us with a broad range of requests that would allow them to settle the dispute. Whilst we could not agree to them all, there does appear to be scope for negotiation and compromise without diverting from our strategy. I will keep the Board informed of progress.

- **POca**

- Further to the update in last month's report, we have continued to investigate the options for addressing TSB's withdrawal from the procurement process.
- As part of our working through the detail of the proposed e-money solution HPE's banking partner, TrustPay Global (TPG) has recently presented their solution to the FCA, who have objected to a number of aspects of the solution.
- They were particularly concerned about the classification of the accounts as 'payment accounts'. Reclassifying the accounts would require £40m in capital adequacy to be set aside. HPE are considering other aspects of the FCA's response and are due to come back to us shortly with a re-assessment of the feasibility of the e-money solution.
- It now seems most likely that we will need to contract with JPM to provide the service to be co-terminus with our contract with DWP. JPM are contractually obliged to continue to deliver the service and will be under pressure from the regulator to continue to provide the service to customers.
- JPM are able to update their prices if we extend. They have agreed to provide us with detailed pricing for this option in December. We have shared the new services contract with them, as both parties have agreed that it would be preferable to update the terms under which the service is delivered. It is likely that negotiations will continue into the New Year.

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In Conclusion

CONFIDENCE?	IMPLICATIONS?
The business remains ahead of target for the year. However, trading conditions are challenging and we will need to carry the momentum from P7 into the Christmas Peak. The business responded well to the latest day of industrial action and support amongst colleagues was relatively low. However, resolution with the CWU appears no closer. More positively, discussions with Unite suggest that there may be scope to resolve the dispute with them.	Significant challenges lie ahead in achieving our financial targets especially given the impact of external factors on our income projections. We will also continue to face challenges in managing our industrial relations. However, our approach of engaging colleagues directly and supporting them through change is working. We will continue to invest time and resource on engagement activities.

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October 2016 Financial Performance

Al Cameron
24 November 2016



P7 and YTD Performance ahead of Budget

Context

- P6 EBITDAS £(2.0)m off budget (YTD £0.2m ahead) highlighting a difficult income trend.
- Forecasting £(10)m EBITDAS for full year
- P6 £235m additional cash in Network, balance sheet headroom £36m.

Questions

- How is our scorecard performance in P7 and YTD?
- What is the financial performance of the business in P7 and YTD?
- Are we forecasting year-end outturn to be on budget?
- Are we appropriately funded?

Conclusions

- EBITDAS was £1.4m ahead of budget in P7 (YTD £1.6m).
- Of this £0.7m was underlying performance, £0.5m was due to one offs mainly Telco and the remaining £0.2m was related timing.
- We are forecasting to meet our £(10)m full year EBITDAS target before discontinued operations, subject to Christmas trading.
- Balance sheet headroom improved in P7 by £107m to £143m, returning half of the contingent cash from the network.

Input Sought

The Board is asked to note the financial performance.

The Executive Scorecard is largely positive notwithstanding pressures on income, footfall and attendance



Key Performance Indicators	P7			YTD			Full Year Target	2015-16 Audited
	Act	Target	Var.	Act	Target	Var.		
Growth								
Total Gross Income (excl NSP) £m	88.0	88.3	(0.3)	560.1	567.6	(7.5)	984.0	981.1
EBITDAS £m (100% bonus)	(1.1)	(2.5)	1.4	(14.3)	(16.0)	1.6	(10.0)	(24.0)
Headroom £m (vs Board minimum limit)~	343	200	143	343	200	143	200	485
Digital Net Income £m (digital team)	3.3	3.6	(0.3)	23.0	22.4	0.6	39.9	21.8
Customer								
Customer Effort	75%	68%	7%	75%	68%	7%	68%	67%
Net Promoter score	66	65	1	66	65	1	65	63
Acceptable Wait Time %	93%	89%	4%	92%	89%	3%	89%	79%
Branch Compliance - Financial Services - basket of 11 measures	20	<=50	-	21	<=50	-	<=50	26
Footfall (weekly) m (customer sessions from Horizon)	10.60	11.06	(0.5)	10.52	10.92	(0.4)	11.14	11.14
People								
Line Manager Engagement Index % (Once a year March) *	YTD Score			68%	68%	-	68%	68%
Internal senior manager appointments (3A and above)	63%	50%	13%	38%	50%	(12)%	50%	14%
Representation (Senior Managers) - Gender	35%	37%	(2)%	35%	37%	(2)%	37%	35%
Attendance	95.9%	96.7%	(0.8)%	96.6%	96.7%	(0.1)%	96.7%	96.8%
Modernisation								
Number of branches (one month in arrears)	Same as YTD			11,645	11,500	145	>=11,500	11,643
NT Branches Transformed In Year (Bonus Gateway 900)	135	77	58	848	777	71	1,075	1,904

~ Actuals include £200m retained for prudence.

* Measured annually in March with a 'Pulse survey' due in September.

Attendance – in period impact across Supply Chain and Crowns



P7 showed an improved performance £1.4m ahead of budget

£m	P7		YTD		Full Year
	Period Actual	Variance to Budget	YTD Actual	Variance to Budget	Budget
Gross Income	88.0	(0.3)	560.1	(7.5)	984.0
Cost of Sales	(10.2)	1.1	(66.4)	4.6	(120.0)
NET INCOME	77.8	0.8	493.8	(2.9)	864.0
Expenditure	(82.1)	0.5	(531.8)	4.8	(909.8)
FRES - Share of profits	3.2	0.1	23.7	(0.3)	35.8
EBITDAS	(1.1)	1.4	(14.3)	1.6	(10.0)

- Versus prior year, EBITDAS was £1.6m ahead (YTD £11.5m).
- This includes no change of accounting for discontinued operations (slide 7).
- Of the period net £1.4m:
 - £0.5m one off, mainly Fujitsu cost of sales rebate,
 - £0.2m is net timing (favourable non staff and agents pay offset by averse staff cost), and
 - £0.7m was therefore period performance and relates to lower agents pay and cost of sales.

Favourable trading in Mails and Financial Services offset by weaker Lottery and Supply Chain.



	P7		YTD		Full Year
	Period Actual	Variance to Budget	YTD Actual	Variance to Budget	Budget
Gross Income (£m)					
Mails	31.0	0.5	189.9	1.7	329.6
Retail & Lottery	4.1	(1.0)	24.5	(4.0)	49.2
Financial Services	27.0	0.8	177.1	(2.7)	313.9
Government Services	9.6	(0.3)	70.2	2.7	116.0
Telecoms	13.5	0.2	78.8	(4.7)	141.1
Supply Chain	2.3	(0.8)	16.5	(1.2)	29.8
Other	0.6	0.2	3.2	0.6	4.3
Total Gross Income	88.0	(0.3)	560.1	(7.5)	984.0
Cost of Sales	(10.2)	1.1	(66.4)	4.6	(120.0)
Net Income	77.8	0.8	493.8	(2.9)	864.0

- YTD performance continued to be strong in Mails, weak in Retail & Lottery.
- Financial Services had a stronger performance in Insurance and Savings, close to budget on an underlying basis and supported by £0.9m of phasing benefits in banking and payments.
- Telco after one-off cost of sales saving, arising from Fujitsu rebate.
- Discontinued Supply Chain income starting to show the (unbudgeted) impact of Iris.



Cost favourable overall with headcount reduced by 605 (10%) YTD

£m	P7		YTD		Full Year
	Period Actual	Variance to Budget	YTD Actual	Variance to Budget	Budget
Staff Costs	(20.5)	(0.9)	(135.7)	0.6	(226.4)
Agents Pay	(35.3)	0.8	(227.0)	1.2	(391.1)
Non-Staff Costs	(26.3)	0.6	(169.1)	3.0	(292.3)
Total Expenditure	(82.1)	0.5	(531.8)	4.8	(909.8)

- Staff Cost increases are driven by phasing and the YTD figure remains favourable.
- Agents Pay savings reflect lower income through the network, with lottery shortfalls having a particular impact and some phasing.
- Non staff Costs – underlying £1.2m favourable, some phasing benefits from Christmas marketing, offset by additional provisions on losses and HMRC AML issue of £2m.
- Headcount of 6,000 is 257 lower than P6 and 605 lower than the start of the financial year.

Against forecast we had a good month with favourable phasing



£m	P7		YTD		Full Year
	Period Actual	Variance to F'cast	YTD Actual	Variance to F'cast	Q2 Forecast
Gross Income	88.0	2.5	560.1	0.6	964.5
Cost of Sales	(10.2)	0.8	(66.4)	1.2	(117.5)
NET INCOME	77.8	3.4	493.8	1.8	846.9
Expenditure	(82.1)	(0.3)	(531.8)	2.2	(892.3)
FRES - Share of profits	3.2	0.1	23.7	(0.3)	35.4
EBITDAS	(1.1)	3.2	(14.3)	3.7	(10.0)
Discontinued adjustment (Subject to E&Y)	1.1	1.1	7.5	7.5	12.9
Potential EBITDAS	0.0	4.4	(6.8)	11.2	2.9

- Of the £3.2m, £2.0m was trading largely in Government Services, £0.9m was phasing in Financial Services and £0.5m is one time Fujitsu credits in Telco, offset by £(0.3)m in net expenditure. Overall £1.7m trading benefit in the period.
- We are on target to meet £(10.m) EBITDAS subject to Christmas trading in particular.
- A detailed technical paper has been provided to E&Y to assess the accounting treatment for Iris.



We continue to underspend on CAPEX and exceptionals

£m	P7		YTD		Full Year
	Period Actual	Variance to Budget	YTD Actual	Variance to Budget	Q2 Forecast
EBITDAS	(1.1)	1.4	(14.3)	1.6	(10.0)
Depreciation	(0.0)	0.1	(0.3)	0.3	(0.8)
Network Payment	7.7	(0.0)	47.7	0.0	80.0
EBIT pre exceptionals items	6.6	1.5	33.1	1.9	69.2
Interest	0.4	(0.0)	0.9	(1.4)	3.8
Discontinued Operations	0.0	0.0	0.0	0.0	0.0
Impairment	(7.8)	6.7	(56.0)	51.3	(180.0)
Exceptionals (incl BT & VR)	(12.8)	7.7	(85.3)	20.0	(173.0)
Government Grant Utilisation	11.7	0.0	81.7	0.0	140.0
Profit/(Loss) On Asset Sale	0.0	0.0	1.7	1.7	0.0
Total Profit/(Loss) Before Tax	(2.0)	15.9	(23.8)	73.6	(139.9)

- Interest costs YTD have increased reflecting the increased levels of network cash.
- We are underspending in period and YTD due to the timing of programme delivery.



Network cash has reduced by £121m from P6 but remains £185m higher than year end

Balance Sheet

£m	Oct 2016	March 2016	Variance
Fixed Assets	144	120	23
Debtors	294	419	(126)
Cash	850	712	138
Creditors	(648)	(684)	36
Pension (deficit)/surplus	195	196	(1)
Provisions	(162)	(167)	5
Other	7	7	0
Loan	(607)	(465)	(142)
Net Assets	73	138	(65)

Capital and Reserves	73	138	(65)
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Network Cash

£m	Sept 2016	Oct 2016	March 2016	Variance
Retail, Cash Centres	783	689	534	155
Bureau	123	105	74	31
Cheques, debit cards	53	45	45	(0)
Network Cash	959	838	653	185
Cash not in Network	20	12	59	(47)
Total Cash	979	850	712	138

Balance Sheet Headroom

	Sept 2016	Oct 2016	March 2016
Loan facility	950	950	950
Loan drawdown	(714)	(607)	(465)
Headroom	236	343	485
Target minimum	200	200	200
Headroom above target	36	143	285

The P7 Balance Sheet variances to March 2016 year end are:

- Debtor variance of £126m comprises decreases of £62m in the card account and ATM client debtors.
- Network cash has increased by £185m since March 2016 but reduced from £959m in P6 to £838m in P7. £121m of contingency funding has been returned, leaving c.£110m of contingency and c.£4m seasonal supply in the Network.
- Creditor balances have decreased by £36m, client creditors decreasing by £70m and business creditors increased by £34m.
- While the agents' compensation liability has reduced by payments made, there are new provisions in relation to the discontinuing of the external Supply Chain business.
- The loan balance movement is consistent with the cash flow in month, net of bank deposits.
- Balance Sheet Headroom has reduced from March 2016 due to the Loan balance increasing to fund the comparatively higher Network cash. Balance sheet Headroom has improved £107m since P6 from cash returned from the network.



P7 Cash outflow of £(188)m and Net Debt of £595m driven by higher Network Cash

Cashflow £m	Oct 2016			March 2017
	Actual	Budget	Variance	
EBIT after discontinued operations	41	31	10	(10)
Working Capital	(11)	15	(27)	5
Client Balances	1	23	(22)	21
Network Cash	(185)	(71)	(114)	(32)
Capital Expenditure	(56)	(107)	51	(180)
Government funding	172	172	0	220
Exceptional Items	(140)	(164)	24	(268)
Other (including interest and tax)	(11)	15	(26)	6
Operating Cashflow	(188)	(85)	(104)	(238)

Cash outflow of £(188)m for P7 is £(104)m adverse to budget YTD.

- Network cash is £(114)m adverse entirely due to retained contingency prefunding the network.
- Client balances are £(22)m adverse to budget due to a number of smaller variances across our client portfolio the largest of which were Santander, UKPA and Bank of Ireland.
- The £35m FRES Joint Venture dividend was budgeted for P7 but was actually received on 31 October which falls into P8. This adverse variance is in other items.
- These adverse movements were partially offset by capex which is £51m favourable and exceptionals £24m as spending plans track behind budget.

Net Debt £m	Oct 2016	Audited March 2016
Net increase/(decrease) in cash and cash equivalents	138	(109)
Add/(deduct) movement in cash in the network	(185)	55
Deduct proceeds of borrowing from BIS	(142)	(155)
Net increase in net debt	(189)	(209)
Net debt brought forward at the beginning of the year	(406)	(197)
Total net debt carried forward at the end of the period	(595)	(406)

Net debt consists of:

BIS loan	(607)	(465)
Cash (excluding cash in the Post Office network)	12	59
Total net debt carried forward at the end of the period	(595)	(406)

Increase in cash and cash equivalents of £138m equates to the balance sheet variance on Page 9.

Net debt of £595m is £189m higher than the start of the year, largely driven by funding higher network cash.

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BOARD

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NOTING PAPER

Board Effectiveness Review (BER)

Author: Alwen Lyons Sponsor: Ken McCall

Meeting date: 24 November 2016

Executive Summary

Context

In last year's Annual Report and Accounts, a commitment was made to carry out an external BER in the financial year 2016/17. This was discussed at the Board and delegated to the Nomination Committee to deliver.

The work has been procured from Lintstock Ltd., a company recommended by Ken McCall, Senior Independent Director, and will take place between the November 2016 and January 2017 Board meetings.

Lintstock Ltd., will use an online questionnaire to produce both a quantitative and qualitative review, which will be available for the January 2017 Board meeting. Each Board member will receive a customised questionnaire, depending on their Committee membership and Lintstock will be available to take verbal input if anyone requires. The questionnaires will be circulated at the end of November 2016, with full instructions on how to complete.

The questionnaire relevant to the Board is included after this paper for your information.

The Group Executive will also be asked to complete their own questionnaires, which will be included in the review.

Input Sought

The Board members are asked to note the Board Effectiveness Review in which they will be asked to participate in December 2017.

Input Received

The Chairs of the Board, ARC, Nominations and Remuneration Committees have all signed off the questions for respective sections of the review.

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Board Review 2016: Overview

Board Composition

Q1 How appropriate is the Board's composition?

Please comment if you feel there are any additional skills which ought to be added to the Board.

Excellent - Good - Adequate - Poor

Q2 Please describe the key changes that ought to be made to the profile of the Board over the next 3 years to match the company's strategic goals.

Free Text Question

Board Expertise

Q3 How well does the Board understand the views and requirements of the following key stakeholders?

Please comment if you feel the Board's understanding of one or more stakeholder group(s) ought to develop further.

Multiple numeric scale: rate each of the following from 1 ('Very Poor') to 5 ('Very Good'):-

- The Government
- Customers
- Employees
- Sub Postmasters

Q4 How would you rate the Board's understanding of the company's product pillars?

Please identify any specific areas in which you feel the Board's understanding ought to develop further.

Multiple numeric scale: rate each of the following from 1 ('Very Poor') to 5 ('Very Good'):-

- Mails and Retail
- Personal Financial Services
- Payments
- Government Services
- Telephony
- FRES
- POMS

Board Dynamics

Q5 On a scale of 1 to 5 (where 3 is 'appropriate') how would you rate the level of involvement of Non-Executives in the affairs of the company outside Board meetings?

Please comment if you do not feel the balance of Non-Executive involvement is appropriate, or if you have any suggestions for improving the engagement of the Non-Executives.

Too Little Involvement ← 1 - 2 - 3 - 4 - 5 → Too Much Involvement

Q6 How would you rate the quality of the relationships between individual Board members?

Excellent - Good - Adequate - Poor

Q7 How would you rate the Non-Executive Directors' engagement with management in:

Multiple numeric scale: rate each of the following from 1 ('Very Poor') to 5 ('Very Good'):-

- Providing effective support

- Providing effective challenge

Q8 How would you rate the quality of the relationship between the Board and the Post Office Advisory Council?

Please comment if you have any suggestions for improving the relationship or communication between the Board and the Post Office Advisory Council.

Excellent - Good - Adequate - Poor

Q9 How, if at all, could the atmosphere in the boardroom further encourage equal contribution, candid discussion and critical thinking?

Free Text Question

Time Management

Q10 How would you rate the planning of the annual cycle of work of the Board?

Please comment if you do not feel that all important issues are covered during the year.

Excellent - Good - Adequate - Poor

Q11 How would you rate the Board's agenda?

Please comment if you don't think that it covers the key issues and/or that the items are not well prioritised.

Excellent - Good - Adequate - Poor

Q12 How well does the Board review the effectiveness of past decisions and capture any lessons or actions required?

Excellent - Good - Adequate - Poor

Q13 What, if anything, do you feel the Board spends too much time focusing on?

Free Text Question

Q14 What, if anything, do you feel the Board spends too little time focusing on?

Free Text Question

Board Support**Q15 How would you rate the frequency of presentations made to the Board by management?***Too Few ← 1 - 2 - 3 - 4 - 5 → Too Many***Q16 How would you judge the quality of the presentations made by management to the Board?****Please comment if you have any feedback for those presenting at meetings.***Excellent - Good - Adequate - Poor***Q17 How would you rate the following aspects of the Board packs?**

Multiple numeric scale: rate each of the following from 1 ('Inappropriate') to 5 ('Appropriate'):-

- Length
- Use of Summaries
- Structure
- Timeliness

Q18 Please detail any recommendations for improving the content and format of the various management reports contained in the Board packs.*Free Text Question***Board Committees****Q19 How would you rate the performance of the Committees of the Board?****Please comment if you feel that the performance or reporting of one or more Committee(s) ought to improve.**

Multiple numeric scale: rate each of the following from 1 ('Very Poor') to 5 ('Very Good'):-

- ARC
- NOMCO
- REMCO
- POAC

Strategic Oversight**Case Study: June Strategy Day****Q20 How would you rate the agenda for the strategy day?****Please comment if you don't think that it covered the key issues and/or that the items were not well prioritised.***Excellent - Good - Adequate - Poor*

Q21 How would you judge the quality of the presentations made to the Board during the strategy day?

Please detail any recommendations you may have with respect to the quality of the presentations, or the balance between presentation and discussion during the strategy day.

Excellent - Good - Adequate - Poor

Q22 How would you rate the clarity and articulation of the conclusions reached during the strategy day?

Excellent - Good - Adequate - Poor

Q23 What would be your top 3 priorities for improving the Board's next strategy day?

Free Text Question

Wider Strategic Oversight

Q24 On a scale of 1 to 5 (where 3 is 'appropriate') how would you rate the involvement of the Board in determining the strategic direction of the company?

Please comment if you do not feel the Board's involvement in determining the strategic direction is appropriate, or if you have suggestions for improving engagement in this area.

Not Involved Enough ← 1 - 2 - 3 - 4 - 5 → Too Involved

Q25 How effective has the Board been in testing and developing the company's strategy?

Excellent - Good - Adequate - Poor

Q26 In what specific ways do you feel the Board could contribute further to testing and developing the company's strategy?

Free Text Question

Q27 How good is the Board's understanding of the company's performance relative to its main competitors in the following areas?

Multiple numeric scale: rate each of the following from 1 ('Very Poor') to 5 ('Very Good'):-

- Mails & retail
- Financial Services
- Telephony
- Government Services

Q28 What do you feel are the top 3 strategic issues facing the company over the next 3 years?

Free Text Question

Risk Management and Internal Control

Q29 How would you rate the Board's focus on risk?

Please comment if you have any suggestions for improving the Board's focus on risk or the structure of risk discussions at meetings.

Too Granular ← 1 - 2 - 3 - 4 - 5 → Too High Level

Q30 How would you rate the level of detail provided on risk and reward in papers submitted to the Board?

Too Little Detail ← 1 - 2 - 3 - 4 - 5 → Too Much Detail

Q31 How good is the Board at considering risk when making strategic and operational decisions?

Excellent - Good - Adequate - Poor

Q32 How can the Board improve its performance in risk management / oversight?

Free Text Question

Succession Planning and Human Resource Management

Q33 How would you rate the appropriateness of the structure of the company at Group Executive level?

Excellent - Good - Adequate - Poor

Q34 Are there any key positions which you think the company lacks or ought to be strengthened?

Free Text Question

Q35 How effective is the Board's oversight of succession plans for the following members of management?

Please comment if you have any observations relating to the development or succession plans for management, or suggestions for improving the role of the Board in this area.

Multiple numeric scale: rate each of the following from 1 ('Inappropriate') to 5 ('Appropriate'):-

- *The Chief Executive*

- *The Chief Financial Officer*

- *The Group Executive*

Priorities for Change

Q36 If there was one practice you could bring to the Post Office Board from another Board upon which you serve, or have served, what would it be?

Free Text Question

Q37 In terms of improving the Board's performance, what would be your top 3 priorities for the coming year?

Free Text Question

POST OFFICE BOARD

DECISION PAPER

Mails strategy update

Author: Mark Siviter Sponsor: Martin George Meeting date: 24TH November 2016

Executive Summary

Context

The crucial exclusivity provisions which underpin our MDA contract with Royal Mail (RM) expire in Q4 of FY19/20. This is earlier than the horizon of our five year strategic and financial plan, which we are setting out to Government together with its associated funding request. Uncertainty around the cost of securing our long-term sustainability in Mails is the biggest swing factor in the business' five year profit projections. It is essential to secure a sustainable long-term model for our Mails business well before the exclusivity provisions with RM expire but our optionality reduces and our negotiating position weakens the later we renegotiate.

In June, the GE and Board endorsed our strategy for securing our long-term future with RM. We set out the plan to engage RM in a joint strategy project this financial year to reinforce to them why we are better together and why we must act to renew the relationship for the long-term. Our intent remains to drive a renegotiation with RM next financial year. In June we also set out how we would develop a business plan for our next best alternative, as leverage and contingency, and deliver "no regret" moves within the bounds of the MDA to improve our position.

Questions addressed in this report

1. How have we progressed with Royal Mail since we set out our approach at June's Board meeting? What have we learned and how does that impact our plan?
2. What have we done since June regarding development of our next best alternative? What have we learned and how will this influence our strategy towards Royal Mail?
3. How are we improving the chances of our desired outcomes with Royal Mail? What is our timeline, when are the key decision points, and what are our next steps?

Conclusions

1. Our Mails business is currently trading ahead of budget and Royal Mail have been actively engaged with us in a joint strategy project since September. This is the first collective review of our joint strategy in the Mails market since 2012. It has so far established a common baseline and by the end of this financial year it will establish a joint, market-relevant, vision of the future together. This is positive but simultaneously, and of concern, RM are not committing to renegotiate early on a deal extending beyond 2022, and have tried to limit focus of any changes in the relationship to the "second half" of the current MDA term. Our chances of securing an acceptable long-term (i.e. post-2022) relationship before our self-imposed deadline of March 2018 are currently low. We lose optionality for implementation of acceptable alternatives the later we conclude a deal with RM. We are therefore doing everything we can to increase chances of striking a deal next financial year. This will involve exploiting the contractual right we have under the MDA to engage RM in a "mid-term review" of the agreement, commencing in May 2017.

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2. We have assessed in much more detail the two “next best alternative” business models we set out in June. We are now more confident that there is a viable alternative model for our Mails business, our customers and our postmasters, without such a close dependency on RM. This will increase the leverage we need and provide contingency. We are on a critical path to being able to implement this and we anticipate a major go/no-go decision in November 2017. A “go” decision would have profound ramifications for both us and RM and so we must exhaust all opportunities with RM before then.
3. We must use the rest of this financial year to: complete a compelling joint strategy with RM; keep delivering on “no regret” moves which strengthen our position within the boundaries or silent areas of the existing MDA; further develop our next best alternative; gather further intelligence on RM’s likely asks in return for a longer term deal; and model a fully costed negotiating mandate. Our overall timeline remains unchanged. The next decision point is the March 2017 Board where we will provide a full progress update on all elements of our strategy, and this is when we expect to formally recommend a negotiating mandate. Approval of this mandate will involve choices on the extent of concessions we could be prepared to trade in order to ensure the long-term security of our Mails business. The position with RM reinforces the importance of the strategic priorities as set out in the five-year plan to FY20/21 and the associated funding request. These priorities ensure we keep reducing the costs and complexity of Post Office Ltd whilst enhancing our distributional capabilities and strengthening profitable non-Mails income streams.

Input Sought Does the Board endorse our approach and the next steps as set out in this paper?	Input Received GE & Board endorsement of our strategy (June 2016). Ongoing supervision thereafter from the Mails Strategy Steering Committee and the GE.
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The Report

How have we progressed with Royal Mail since we set out our approach at June's Board meeting? What have we learned and how does that impact our plan?

1. At the end of H1, our Mails net income is trading £1.3 million ahead of budget and on track to hit a full year reforecast of £332.6m (versus budget of £329.6m). On a like-for-like basis that outturn will represent a trading income decline of c-1.6% year-on-year, which is just ahead of the combined Post Office and Royal Mail view that the domestic and export mails market is in a slow decline at approximately -2% CAGR.
2. Since June's Board meeting, we have launched the Drop & Go proposition online to defend small business market share. A MDA Variation agreement has also been signed with RM. This has delivered us access to discounted pricing for our Drop & Go proposition; additional protections for Post Office from RM switching volume to their online channel; and a mutually-agreed rollout of parcels barcoding.
3. Royal Mail have engaged in joint strategy development and since June we have baselined the scope, plan and governance of this project and fully mobilised it. This is a crucial mechanism for us to establish a new cross-organisation vision, a competitive value proposition and a proposed operating model that is sustainable and relevant in the market. From our perspective, we also see this work as an important mechanism for Royal Mail to internally prove the case for our "better together" stance, to influence them away from their own next best alternatives, and to act as a precursor to a meaningful renegotiation of our long-term future. It also allows us to understand RM's likely negotiating position, and for us to set out a "burning platform" and why awaiting the MDA-mandated 2019/20 full renegotiation window is too late for either party.
4. This work has got us to an agreement on: a mutually-validated baseline of the market, the competition, and other relevant external factors; a common set of customer definitions; and a common view of our combined Mails business' strengths, weaknesses, opportunities and threats. Royal Mail are taking the work seriously. They have committed resource and are attending at least twice-weekly workshop sessions. They have also appointed their Strategy Director and Chief Customer Officer to the project's steering committee. The project commenced in September, two months later than we had wished. It took time for Royal Mail to resource up and for us to negotiate the full breadth of the scope we desired and baseline a plan with the right level of buy-in across both organisations. The project is now progressing well and will formally complete in April 2017, however we anticipate that our most relevant findings will be available in advance of our March 2017 GE and Board meetings. An executive summary of the outputs to date is available in Appendix 1. Further detail is available upon request.
5. We have also been working with Royal Mail to study lessons we can learn from other winning organisations in the postal and logistics sectors. For example the US Postal Service's mobile proposition which allows customers to transact in advance either for

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scanning into self-service kiosks in branch or to shorten the time required at a branch counter. We have also considered successful but unrelated retailers where physical attendance in branch remains a fundamental part of the purchasing journey. For example, 21% of Starbucks purchases in the U.S. are now made via their loyalty programme app. This has attained over 11 million users, with high levels of customer intimacy generated from low value purchases, and it crucially offers footfall growth and queue reduction for the franchisees of Starbucks' branches.

6. Our view is that the MDA contract form and the behaviours it drives have made it difficult to enable innovation in the product set, customer journeys, business simplification or interdependent cost reductions on either side during the "first half" of the MDA (2012-16). The relatively benign market environment which allowed this no longer exists. The MDA has a provision for a "mid-term review" to commence in May 2017. This contractual opportunity falls almost immediately subsequent to completion of the joint strategy project. It is our intent to use this provision to its fullest extent. The provision requires both organisations to meet in good faith, review the agreement and its operation, and enter into discussions with a view to agreeing amendments to the MDA and to take into account changes in market dynamics. Discussions have now commenced with RM on how we set the scope, boundaries, duration, and people involved for this mid-term review process. We are also taking detailed legal advice to prepare for this process.
7. Royal Mail have indicated their preference to use the outputs of the joint strategy work solely as a precursor to setting the scope and terms of the "second half" of the MDA (2017-22). So far, Royal Mail do not recognise a need to open negotiations early about any relationship beyond their own strategic planning timeframe (2022), and have positively declined the option to do so. Although not confirmed, we expect they could be considering a short term extension on exclusivity arrangements (e.g. to 2022 rather than 2020), but with price conditions. Whilst we agree there is ample opportunity to facilitate a better "second half" of the MDA, such a short and conditional extension would fall well short of our desired outcomes. It would not provide the long term security that we and our postmasters need.
8. We have seen no indications that Royal Mail are considering or developing some of their more radical alternative options. Our view of their alternatives remains as we set out in June and these remain a serious risk to our success. Their alternatives include:
 - Stretching the MDA to the fullest extent by shifting volume away from Post Offices to lower cost channels. We have already learned that RM is developing a mobile app targeted at the consumer market. This is focused on receiving rather than sending customers but if it were to eventually enable sales as well it could establish the start point towards further disintermediation of Post Office and a future accept-only proposition being available from RM to other retailers. We believe RM are also giving consideration to eBay integration which would represent a threat to our own parcel volumes. We are also under pressure from Royal Mail to support the introduction of delivery confirmation into more of the product portfolio. If unchallenged, the eBay and delivery confirmation projects

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alone could cannibalise our existing revenues to the order of £16m p.a. While we meaningfully engage with RM on the topics, we are naturally resisting change on their desired terms.

- More overt and aggressive moves to shift volume from us. These could include acquisition of PayPoint, or preparation to introduce doorstep sales by postmen or more direct sales via delivery offices.
9. There are lots of reasons to believe that it is both Royal Mail's and our interests that the Post Office relationship is renegotiated next year. We believe Royal Mail will need to take on an increasing risk appetite in terms of improving their domestic cost position. Relatively stagnant domestic growth and Deutsche Post's recent acquisition of UK Mail (September 2016) will further stress Royal Mail's position in the highly competitive B2C segment of the domestic market. We anticipate Royal Mail's medium term strategy to focus on growth via further acquisitions in overseas parcels markets; domestic operational efficiency; and an increased focus on the domestic consumer proposition. Post Office has the power to be either an enabler or a threat to the latter two objectives; our goal is to establish a mutually value-accretive basis to help Royal Mail achieve both.
10. Our initial conversations and research indicate RM's propensity to engage in a Joint Venture with us is likely to be low. Culturally, RM favour more transactional contracts, even in mission-critical relationships such as running their sortation technology. When they see strategic value in other organisations, they are increasingly making acquisitions as a means of integrating rather than entering equity partnerships. RM do not perceive acquisition of Post Office Ltd as a realistic or attractive proposition for them. Our final contract format, be it transactional, more strategic, or an equity partnership, will be a key element in negotiation. We intend to use the "operating model" phase of the joint strategy project to help us persuade Royal Mail of additional value which could be unlocked via an equity partnership model.
11. We will continue with our plan of seeking a mandate to negotiate from the GE and Board in March 2017 by which point the joint future vision and value proposition will have been developed from the strategy project. The critical success factors for any new deal will be one that:
- a) Offers the best in class proposition for our customers.
 - b) Supports the long-term sustainability of the network and our agent proposition.
 - c) Delivers profitable income over the long-term for Post Office Ltd; and
 - d) Adds value to our brand equity.
12. When it happens, we expect a renegotiation to be a trade across at least seven major dimensions of the relationship as set out below:

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- ① Duration
Contract format and expiration
- ② Price, Margin and Exclusivity
 - a) Fixed, transactional and financial treatments – e.g. VAT
 - b) Protect against cannibalisation / disintermediation of revenues
- ③ Investment levels
 - a) One-off and/or continuing investments
 - b) Post Office versus Royal Mail contributions
 - c) Potential structure and vehicle for joint investment
- ④ Ability to simplify the businesses
 - a) Breadth of scope of mutual initiatives
 - b) Ease of doing business and combined agility
- ⑤ Ownership of the consumer brand
 - a) Supporting the rest of Post Office
 - b) Online
 - c) Customer data
- ⑥ Defence of footfall, the network, the agent value proposition
 - a) Volumes, value of footfall and attractiveness to franchisees
 - b) Ability to cannibalise / disintermediate network footfall
- ⑦ Market relevance of our joint customer proposition
Ability to innovate together to beat the competition

13. Our request for a negotiating mandate will set out a costed position and our start points, zones of potential agreement, and walk-away triggers. It will also set out our best understanding of Royal Mail's likely starting position, zones of potential agreement, and walk-away triggers. We are already gathering intelligence to build this understanding, and will continue to do so over the remainder of this financial year. An approval of this mandate in March 2017 will involve choices on the extent of concessions we would be prepared to trade in order to ensure the long-term security of our Mails business.
14. We need to reserve our option to offer early, time-limited, financial incentives in a partnership opportunity to Royal Mail in order to achieve our objective of an early renegotiation on a long-term deal. We believe it would be wrong to deploy this tactic yet, but believe it more likely than not that we will need to do so early next financial year, once the joint strategy is completed and when it can be tied to a compelling vision of our long term future together. Implementation of any such incentive would be from FY18/19. The affordable level of such an incentive, its conditions (most likely associated with cost savings), and the context of it within our wider set of deal objectives, would be brought to the GE and Board for endorsement as part of the wider approval process for the negotiating mandate.
15. In conclusion, our overall strategy towards Royal Mail has not changed from the path we set out to the Board in June. Whilst we cannot mandate that Royal Mail enter into a renegotiation next year regarding the post-2020 relationship, we are using the tools we have to influence their position. Some of these are already in use and further tools are still available to be deployed (such as external stakeholder influencing) to influence them towards our desired outcomes.

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What have we done since June regarding our next best alternative plan? What have we learned and how will this influence our strategy towards Royal Mail?

16. We have worked with expert advisors from the logistics market to further investigate the two alternative business models we set out for assessment:
- Offering other providers access to our sales channel as a “mail supermarket”
 - Becoming a provider of mails products in our own right, with our own product set and contracts let for collection, sortation and delivery services.
17. We believe we could have the most credible and sustainable alternative strategy by becoming a mails provider in our own right. Implementation would require significant business change and would not be without risk. It could make Post Office a serious threat to Royal Mail. Further detail is available in Appendix 2, but in summary our growing confidence in such a model is driven by our two key conclusions that:
- There is adequate supplier capacity and capability in the UK to absorb our volumes with a much reduced reliance on RM. In letters for example, our total volume would represent just 10% of either of Whistl or UK Mail’s current volumes. Both organisations process, sort, trunk and then and inject letters into RM for final mile delivery via the regulated Downstream Access market. In parcels, the current level of market overcapacity is increasing faster as Amazon expands its own logistics operation and removes volume from other providers. We could expect to have to work with more than one parcel provider to handle our market-changing 250m annual parcels volume, or we could need one to invest to accommodate these volumes. In capacity terms, the three largest players outside Royal Mail already handle 570m parcels p.a. (MyHermes 250m, Yodel 170m, DPD 150m).
 - Our initial indicative economics, at the most conservative assumptions, demonstrate a positive direct product contribution for Post Office of c£100m p.a. from revenues of £1.0bn-£1.2bn. This compares favourably with the counterfactual case of reduced RM income in a new deal and a Mails direct product contribution nearer to £50m p.a. The business would incur new fixed costs in the region of £25m p.a. while all other costs would be volume-variable, with agents’ pay rates maintained at current levels. These figures do not reflect upside opportunities, for instance new product and revenue streams from the greater freedoms we would have to directly partner with Amazon, eBay and other online retailers. However, implementation planning and risk planning for this strategy is at a very early stage and will require significant further development before a final recommendation could be made.
18. We have assessed potential outcomes against the same four success factors that we will assess any future deal with Royal Mail:

Success factor:	Anticipated outcome
Offer the best in class proposition for our customers	• We could continue to offer a full spectrum of mails products, with market-leading features. • We could continue to price at levels competitive with Royal Mails’ rates across Letters, Large Letters and Parcels, though in some instances with greater service quality (e.g. tracking).

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Success factor:	Anticipated outcome
	- We could take commercial control of product design and pricing, allowing our own response to customer needs. - We could reduce customer journey complexity and improve in-branch experience through our own product design. - However, Royal Mail could take a mutually-damaging approach towards stamp or first class letter and large letter product journeys. Estimates are ranged to account for this risk.
Support the long-term sustainability of the network and our agent proposition	- Agents could have a strong mails product portfolio to retain footfall, even in the face of likely competition from RM. - Low value, high-workload, Royal Mail accept-only volumes could reduce as Royal Mail set up alternative acceptance channels. - Branch collections could continue to be made by a single (prime) provider, with equivalent or fewer segregation requirements. - Overall complexity could reduce and agents could gain greater ability to influence the products for their customers' needs. - Total agents pay could be maintained at current levels should we choose to, despite reduced overall volume and complexity. - Transitioning to the new arrangements would be highly challenging however, requiring new processes, training and ways of working.
Deliver profitable income over the long-term for Post Office Ltd	- We anticipate indicative Post Office Mails revenue of £1.0-£1.2bn and a direct product contribution of c£100m p.a. after taking into account an initial assessment of the downside risks from Royal Mail's response. This is the biggest single uncertainty. - The Royal Mail response would be powerful, and we could anticipate them to take overt and aggressive actions to defend their position (e.g. poaching agents, acquiring PayPoint). - There are also further upside opportunities which remain to be assessed including accessing more SME customers and through working with Amazon or eBay on new propositions.
Add value to our brand	- We could continue to operate as the trusted postal retailer on the high street. - We could have more control over the relationship of our brand with the mails products we sell. - However, we could be involved in an ugly, and protracted, public relations battle with Royal Mail. - Similarly, we could face direct competition with Royal Mail on the high street.

19. If we wanted to be in a position to deploy such a model in time for a FY20/21 rollout, we would need to have commenced a process of public procurement with logistics providers by January 2018. This is after the joint strategy project and MDA mid-term review window. Moving into a procurement could only ever be considered after having exhausted all other attempts to secure an acceptable long-term deal with RM.

20. Running such a procurement process is not without legal challenges under the terms of the existing MDA and we are engaging expert legal advice on this point. We believe the act of us revealing an intent to the market would cause share price damage to Royal Mail. That would be certain to provoke an aggressive commercial and legal response.

21. We have also taken expert advice to help assess the feasibility of Post Office taking on the Universal Service Obligation (USO) in its own right and if this could be

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advantageous to us in any scenario. We have concluded that Post Office is very unlikely to become the Universal Service provider in whole or part. This is because:

- There is no opportunity for any change in Universal Service provider until 30 September 2021 and this would be subject to an OFCOM determination.
- We do not have an end to end delivery network, so would not be in a position to persuade OFCOM beforehand of our ability to deliver the USO requirements.
- It would be financially unfavourable to us, even despite the ability to price products with VAT exemptions.

22. Our other alternative- to offer access to our network to a range of providers as a "mail supermarket"- is not ruled out as a contingency but is considered a less attractive long-term option. We consider this more likely to be damaging for the agent value proposition and it would be likely to reduce consistency of the customer proposition across our network. Not all products could be available in all branches and we would gain no commercial control over our product set. We would also be beholden to other parties with low margins who control larger sections of the value chain. Further detail is available in Appendix 2, where this option has also been assessed against the same four success factors as above. Our modelling indicates this option as materially less sustainable with an expected direct product contribution of £25m p.a. compared to the baseline counterfactual of £50m p.a.

23. Desk-based modelling and external expert challenge has refined our thinking since June and increased our confidence in the viability of the option to become a mails provider in our own right. However, we will need to do much more work in order to confirm its credibility, deliverability, and to develop a fully costed and mature business case. Transitioning to such an option would be ground-breaking and challenging. We would need a greater level of confidence in a) our view of the possible Royal Mail and market reaction and our resulting volumes from 2020, b) supplier market appetite and c) the implementation plan and its risks before we could recommend to the GE and Board to enact such a plan, or even to recommend we reveal any such plans in development as a negotiating leverage towards Royal Mail.

24. We also recognise that further development of this business plan could expose further implementation challenges, or that strategic or market conditions for potential logistics partners could affect the ability for us to secure partners at the right price. Either way, further planning and preparation will be essential to preserve optionality and provide contingency. There is urgency here as we are already close to the implementation critical path, should we ever wish to implement such a plan.

25. In conclusion, since June we have significantly increased our understanding of our alternatives. With further work we expect this to become a) useful leverage and a way to increase our negotiators' confidence with RM, b) a mechanism to set a more demanding walkaway position in our negotiating mandate, and c) a genuine contingency to keep the Post Office in business in the event of failing to secure an acceptable deal with Royal Mail. We must invest in further development of this business plan and associated implementation plan.

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How are we improving the chances of our desired outcomes with Royal Mail? What is our timeline, when are the key decision points, and what are our next steps?

26. Our desired outcomes with RM, as set out in June, have not changed. These involve: moving from transactional fees to greater collaboration and value sharing; an income stream sufficient to ensure our long-term viability and that of our agents; pricing structures that incentivise RM to maximise volumes through our network; a relationship over the long-term, preferably perpetual; positive incentives for us to deliver market leading service; and a product set which provides a breadth of range and value-added features to help defend against commoditisation.
27. To improve our chances of achieving these outcomes with RM we must now:
- Complete the joint strategy project between now and April 2017. This is the best available vehicle to prove the "better together" case, establish the need to act early, and establish the basis for the long term relationship we would then negotiate. We will also much better understand the positions Royal Mail will take, areas of likely agreement and areas of contention prior to formal negotiation.
 - Establish a more direct influencing relationship towards Moya Greene (RM CEO). We have now agreed with Royal Mail that review checkpoints together with both CEOs should be introduced during and at the end of the joint strategy project.
 - Develop the full business plan and the implementation plan for the next best alternative between now and March 2017, in order to ensure we have credible leverage and a better understanding of its costs, benefits and risks in order to help set our walk-away position in any negotiation mandate with Royal Mail.
 - Fully document, internally challenge, and align on our primary deal objectives when taking into consideration the business' medium term funding position. We expect more clarity on the funding position over the course of this financial year.
 - Develop a detailed, costed, negotiating mandate between now and March with a deeper understanding of Royal Mail's likely starting position, areas of potential agreement, and our walk-away triggers with respect to our desired outcomes.
 - Exploit opportunities above and beyond executive interactions in order to influence Royal Mail and their own stakeholders towards our primary deal objectives. This may require opening a more detailed dialogue with external stakeholders, including Government, to help influence RM's position.
 - Continue activities to deliver "no regret" actions which stretch or extend the MDA in ways that change the landscape from which we will then renegotiate. This means: further development of our Drop & Go proposition to grow loyalty and customer insight from small business customers; development of new propositions to gain greater share in the Click and Collect market; devising a market-leading returns proposition; and developing the business case for a mails product proposition unavailable from Royal Mail (e.g. international time-definite delivery) in order to demonstrate an ability for us to partner with other providers in the market where doing so is permissible in the MDA.
 - Continue across the whole business to deliver on the strategic priorities as set out in the five-year plan to FY20/21. This means investing to reduce the costs and complexity of Post Office Ltd whilst enhancing our distributional capabilities. Aside

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from its wider business objectives, this specifically: further improves our attractiveness to RM as a partner above their other alternatives; further improves our ability to move to an alternative Mails business model in the event of being unable to secure an acceptable long-term arrangement with RM; and further strengthens other business lines such as Financial Services and Identity to help mitigate downside risks in Mails and grow other profitable income streams. We will need to ensure that ministers are aware of the critical link between our funding request and our time-limited opportunities to prepare for negotiations with RM.

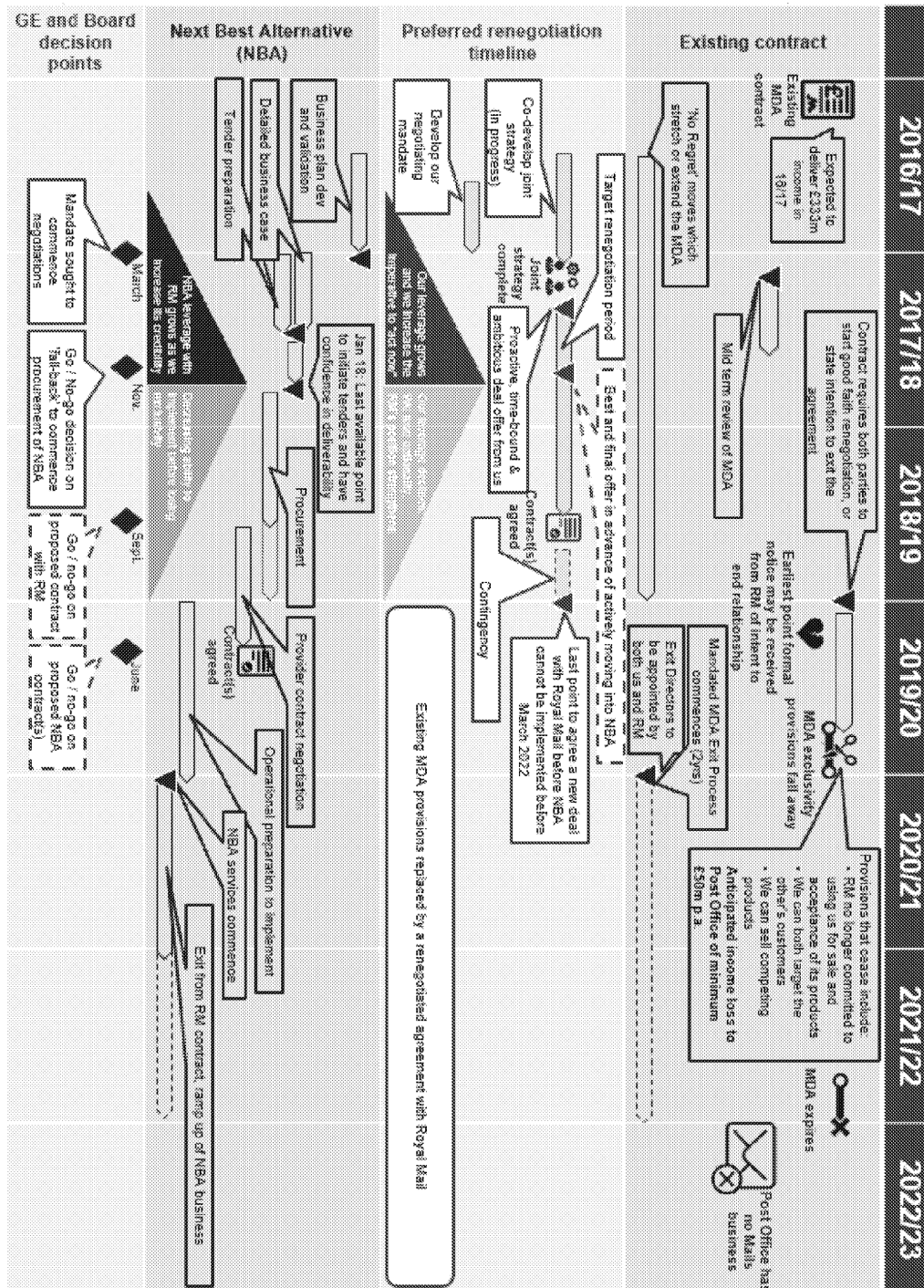
28. We also have the power to generate leverage through antagonistic actions in the current MDA, for example refusal to work constructively together on assessing or implementing Royal Mail change requests. That would develop a mutually-destructive working dynamic and we are not at the point of needing to consider this.
29. There is no material timeline change from that we set out in June. As previously stated, we expect to return to the GE and Board in March 2017 to seek a negotiating mandate, and our objective remains to commence a renegotiation with Royal Mail early next financial year. We anticipate May 2017 to November 2017 to be the window of our maximum negotiating strength towards Royal Mail. We have the scheduled contractual mid-term review in May 2017, we expect to have a combined strategy completed and bought into by both organisations by April 2017 and we will have gathered additional intelligence of RM's likely intentions through our work in the interim. Beyond January 2018, our next best alternative options would lose credibility (and indeed become un-implementable in the timescales we need) without commencing any procurement exercise. We can now provide a more detailed view of our decision path than we did in June, and this is set out in the schematic on Page 12.
30. The most complex decision point that we can see over the next two years is a November 2017 "go" / "no go" decision on launching a procurement exercise for logistics partners to support our next best alternative:
- To recommend a "go" decision in November 2017, we would need to have revealed both our "carrot" and our "stick" to Royal Mail and still have not secured entry into a meaningful negotiation with confidence in the outcomes we need. This would mean both time-limited final incentivisation to buy a longer duration partnership, as well as some element of disclosure to Royal Mail about a "Plan B" to become a mails provider in our own right, directly competing with them.
 - To recommend a "no go" decision to the GE and Board in November 2017, we would need to have established, and entered, meaningful negotiations regarding a long term deal. The terms of negotiations and their end point would need to be set in such a way that we face no erosion of our ability to implement our Plan B.
31. In conclusion, our timeline remains on track but the task ahead is of high challenge and high complexity. We must deliver a compelling joint strategy together, increase the scope and pace of development of our next best alternative, deliver on our no regret moves, widen our influencing strategy towards RM in order to increase our

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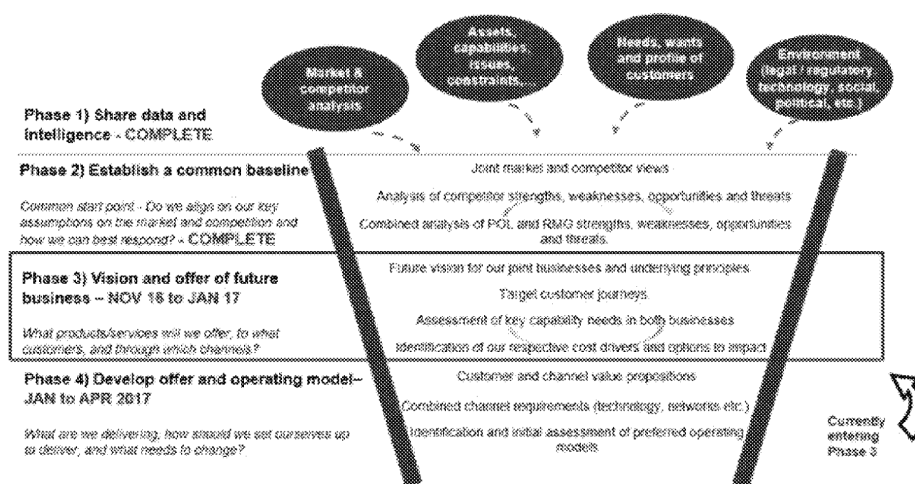
chances of a desirable settlement in our timelines, and deliver against the wider business objectives set out in our five-year plan.

Timeline and Decision Path**STRICTLY CONFIDENTIAL**

Appendix 1: Joint strategy project outputs

The following slides form an executive summary of outputs from the joint strategy project work to date. Further supporting detail is available in the reading room if required.

Joint strategy: scope and progress



Royal Mail Group

Market overview

The addressable letters and parcels market is in gradual decline



The overall letters and parcels market is in slow decline
Approximately -2% CAGR across the full UK and export postal market.

Addressable letters and parcels market is also forecast to decline at the same level
Expect to also see c. -2% CAGR change across overall letters and parcels for the addressable combined POL and RMG market.



Decline in both overall and addressable market is driven by reduction in letters
The overall core source of decline is letters with a -4.6% CAGR due to e-substitution and technical innovation. While some overall growth is forecast in parcels (1.3% CAGR¹), this does not offset the impact of the letters decline.

Growth forecast in parcels – but in a competitive landscape



Online B2C sales driving growth

- Increase in online Retail and Marketplace selling represents growth opportunity for parcels (3% CAGR¹), returns (c.20% CAGR²) and Click and Collect
- Major growth forecast in overall Click and Collect (<32% CAGR² total overall) but this is a small segment of the market (c. 144m by 2018). The addressable market (i.e. out of store/PUDO click and collect) rate of growth is slower at 18% CAGR (2016-2021)³ – while this is strong, it is currently only 1% of the total e-retail delivery market, and will still be less than 2% by 2021



Over-capacity in the market driving increased competition

- POL/RMG has a large market share in Large Letters and Small Parcel categories (e.g. c. 70% volume of Marketplace Sellers for these products), but MyHermes is the strongest in Medium and Large Parcels (these products represent 56% of Marketplace Seller volume vs 5% for POL/RMG).⁴
- Over-capacity causing competition on pricing and margin squeeze. Historically, RM and POL have moved away from the Medium / Large Parcel sector due to inability to compete on price in these segments. As competitors seek to move into the LL and SP segments, these areas will also become increasingly challenging



1. Source: Internal views based on recent trends
2. Source: BMRB Click and Collect report 2016
3. Source: Verdix 'True Value of Stores' July 2016
4. Source: Marketplace Seller Report, Wave 5 July/August 2016. POL/RMG Customer Forum August 2016.

Royal Mail Group

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Competitor overview

Competitor threat comes not from a single organisation but multiple layers of threat from different competing models

- Royal Mail and Post Office as combined businesses have a large market share in the parcel and delivery market for consumer and sub-account level small business customers. This is a legacy from the monopoly position and competitors are looking to erode this share in all segments.
- Competitor landscape is evolving primarily due to technology innovation enabling:
 - More efficient processes – and therefore better able to compete on price.
 - More rapid adaption to market changes – so can keep pace/stay ahead to maintain competitive advantage.
 - Better customer experience – which drives increased expectations from a more online focused customer base.

Type	Overview	Impact on POL/ RMG	Potential scale of impact
Challenger	 	- Disintermediation to control full customer experience. - Targeting key profitable POL/ RMG segments. - Erosion of RMG/ POL brand via commoditisation of postage.	 Material, revolutionary change if mandating own services.
Traditional	  	- Network based, similar model to RMG/ POL. More agile and technologically innovative. - Better customer knowledge.	 Continued gradual erosion.
Disruptor	 	- Innovative organisations operating an alternative business model to disrupt the existing market. - Focus on part of the value chain or a particular market segment.	 Less predictable. Could be disruptive in impacted areas. Multiple viable disruptors in different areas could have material impact.



Royal Mail Group

Customer overview

Our customer expectations are evolving and competition is seeking to deliver a better customer experience. We need to improve understanding of our customers to better meet their needs and keep pace in a changing market landscape.

Segmentation overview focused on customers using Post Offices for:

- Purchase or drop-off
- Primarily consumers and micro SMEs
- Small Professional Firm and SME supplementary purchases and drop-off for businesses that don't get a collection.

General customer context



Customer expectations are increasing

Customers exposed to improved online capabilities across industries. Growth in postal industry is driven by online shopping so this demographic is particularly used to managing activities 'on the move' with increased expectations of immediacy. These expectations are being applied to both sending and receiving parcels, and are reinforced by competitors raising the bar on customer offer and experience e.g. through improved tracking capability.



POL/ RMG brand is strong but this is a legacy strength and being eroded

- Customers increasingly familiar and satisfied with other brands, commoditising postal services – POL/RMG seen as less relevant
- Competitors improving their quality of service.



We have very limited customer data compared to competitors

Competitor models by default capture more customer information enabling improved customer insights. POL/ RMG has insufficient capability in this space when data intelligence provides a competitive advantage.



Royal Mail Group

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SWOT conclusions

Own strengths are legacy ones	POL/ RMG have a future in the mails market but our combined strengths are legacy ones and we are in a defensive position in a changing market place.
Competitor change is technology driven	A key driver of change in the competitor landscape is in technology and online capabilities. POL/ RMG will need to stay relevant (at a minimum) in order to compete and maintain market share in a landscape of evolving consumer behaviours.
Growth unlikely in legacy markets	Growth of market share is unlikely in our traditional market given the legacy monopoly position and we will have to work hard and be more efficient to maintain our current share.
Growth likely in new markets but they are relatively small	Growth in new markets is feasible (e.g. Click and Collect) – but these markets are small so expectations on impact on overall revenues and margins need to be realistic.
Need to manage cost base to stay competitive	Key competitor strengths are noted as ability to respond to market changes and lower cost base. For our combined businesses to maintain share in a price sensitive market where brand strength may become less relevant, we need to look at how we can manage our cost base in order to stay competitive on price and also fund any technical enhancements.
Changing the customer experience is critical to winning	Success and failure is driven through getting the customer experience right and keeping it relevant for evolving customer needs. Customer expectations are increasing given Amazon and MyHermes experiences, and broader access to technologies across other industries and purchasing behaviours (use of smartphones, increased online behaviours etc.) Ability to keep pace with these changes is fundamental to ongoing success.
Need to become more organisationally efficient	Some of our key strengths and weaknesses are tied to our joint working. Staying together we have an end-to-end network with a strong brand presence and comprehensive product offering. There are, however, commercial tensions and operational complexity as a result of being two organisations. This impacts our combined ability to respond efficiently to the competition. Improving this should be an area of focus.

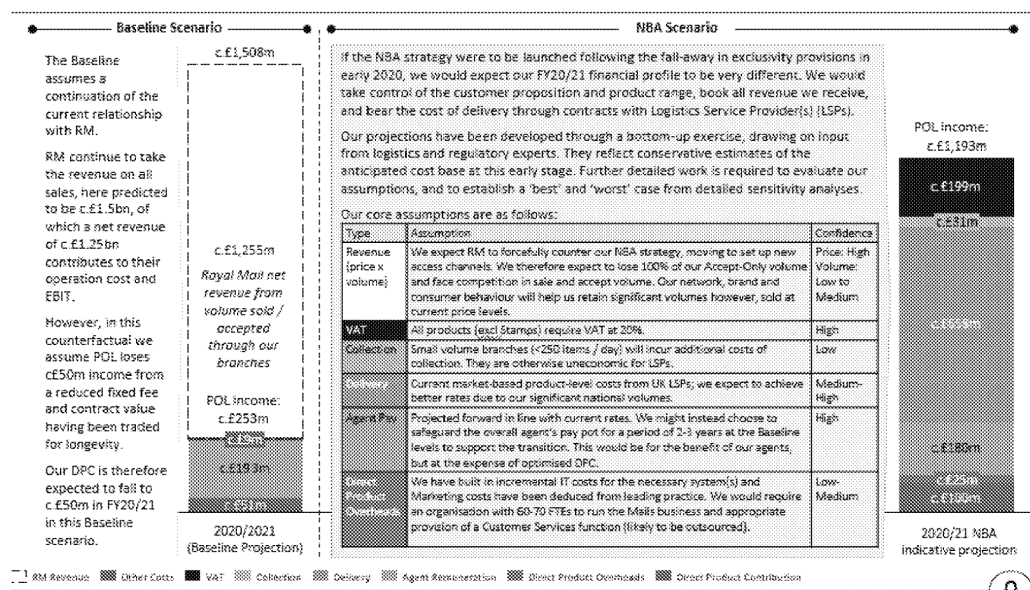


Royal Mail Group

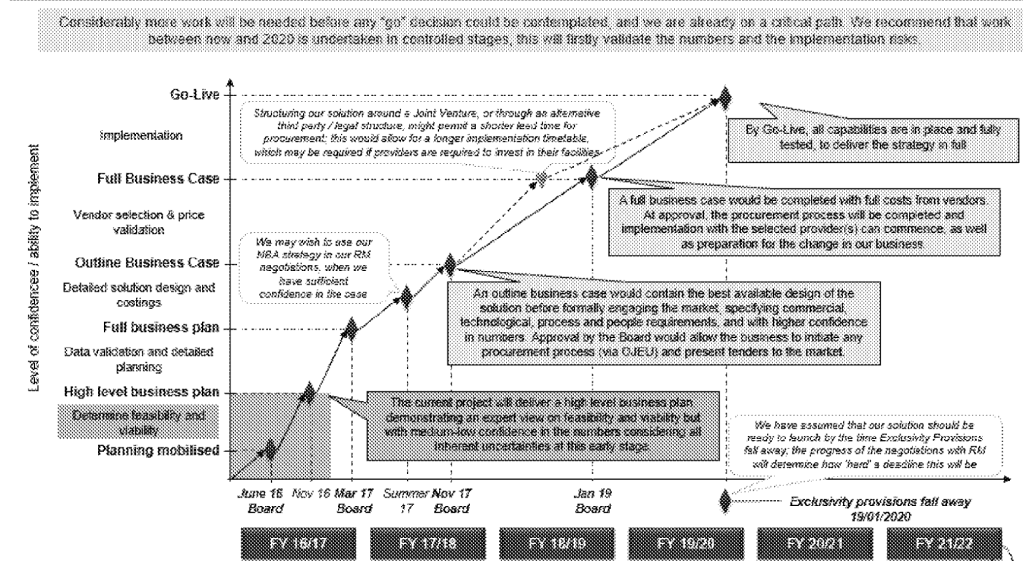
Appendix 2: Next best alternative outputs

The following slides form an executive summary of outputs from the next best alternative project work to date.

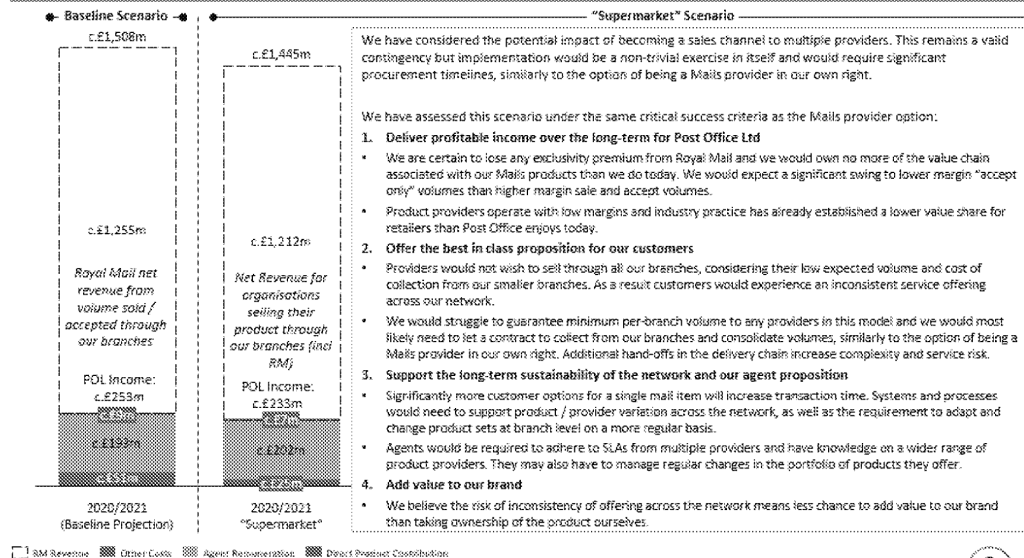
Initial economic modelling of Post Office as a Mails provider in its own right

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Delivering the Next Best Alternative Mails Strategy: Where we are on the scale of maturity and our readiness to implement



Offering other providers access to our sales channel as a "mail supermarket" is a contingency but less likely to be a sustainable strategy



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POST OFFICE MANAGEMENT SERVICES LIMITED
REPORT TO POST OFFICE LIMITED BOARD

PAGE 1 OF 8

H1 2016/17 Report to the Shareholder

Presented by: Nick Kennett, CEO POMS

Executive Summary

Context

Post Office Management Services Limited ("POMS") is a subsidiary of Post Office Limited ("POL"); it undertakes insurance intermediation and is regulated by the Financial Conduct Authority. Under its Articles of Association, POMS submits a performance report every half year to its shareholder. This paper is the report for the first half of 2016/17.

Questions this paper addresses

- What are POMS' strategic objectives, shorter term goals and Plan?
- Is POMS delivering what it said it would do?
- What are the key constraints in delivering the short and long term plans?

Conclusion

POMS is on track to deliver its long term ambitions and strategies, confirming the benefits and opportunities of operating as a standalone, regulated business within POL; there are, however, a number of risks and dependencies:

Financials:

- While EBITDA was £(1.0)m to Plan at £4.9m, mainly due to weak branch travel insurance sales (income £3.3m behind Plan), margin management and cost reduction should result in a full year EBITDA of £7.9m (£1.2m adverse).
- POMS' regulatory capital is above that required by the FCA.
- POMS is, however, concerned that changes to POL's branch sales model, in particular the removal of Financial Specialists, will impact life assurance sales/income from Q4.

Building the future model:

- In May 2016 the POMS Board approved a five year growth plan aligned to POL FS' New Normal; it is targeting an EBITDA of £17m in 2020/21 and a contribution to Group profit of £43m. This is on track against the original POMS business case.
- The achievement of the strategy is depends on POL's delivery of services, including marketing, digital delivery and data analytics. These are not governed by SLAs or service contracts; discussions are underway to establish accountabilities, incentives and delivery requirements.
- The "Hawk" business acquired in 2015 is outperforming the business case.
- The new strategic technology platform (Zeus) is on track for delivery; this is pivotal for POMS to integrate other general insurances and expand in the value chain.

Governance and compliance:

- Risk and governance structures are in place and being embedded.
- The most significant risk issue remains the operational oversight by POL of its branches, as discussed at the Post Office ARC in September 2016.

POST OFFICE MANAGEMENT SERVICES LIMITED

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Input Sought

The Board is requested to note the report.

POST OFFICE MANAGEMENT SERVICES LIMITED
REPORT TO POST OFFICE LIMITED BOARD

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The Report

1. Financial delivery in the first half and outlook for the Full Year

£m	YTD Actual	YTD Var to Plan	Forecast	FY Plan	Var to Plan
Net Income	20.4	(3.9)	39.4	42.4	(3.0)
People Cost	(1.4)	0.6	(3.4)	(4.1)	0.7
Marketing Costs	(1.9)	(0.5)	(3.0)	(2.6)	(0.4)
Non Staff Costs	(5.8)	1.5	(12.5)	(13.2)	0.7
IB Costs	(6.4)	1.2	(12.6)	(13.3)	0.7
Total Expenditure	(15.5)	2.9	(31.5)	(33.3)	1.8
EBITDA	4.9	(1.0)	7.9	9.1	(1.2)
Other	(0.1)	0.1	(0.5)	(0.8)	0.3
EBT	4.8	(1.0)	7.4	8.3	(0.9)
Capex	(2.7)	0.7	(5.1)	(4.9)	(0.2)

* "IB costs" are Inter-business amounts paid to POL for commissions and services

1.1. Half year to September 2016

POMS trading profit ("EBITDA") YTD was £4.9m, £(1.0)m adverse to Plan. Income was £(3.9)m lower than Plan, principally due to weak Travel insurance sales in branch £(3.3)m:

- The Travel insurance performance was a result of lower sales volumes in branches in Q1. This was reversed in Q2 by the introduction of a promotional discount aligned to the purchase of travel money. While volumes recovered, this impacted on margins, which were c20% below Plan.
- POMS partially mitigated the trading impact through various cost initiatives.
- Since the promotion ended in mid-September, travel insurance volumes have remained at c115% of Plan; average commission per policy has recovered to c95% of Plan.

Staff costs are £0.6m lower than Plan due to release of bonus provision for 2015/16 and vacancies not being filled.

Marketing costs are £(0.5)m higher than Plan due to higher Travel spend associated with the promotional activity, while non-staff costs (excluding Marketing) are £1.5m lower than Plan mainly due to contact centre being £0.8m lower than Plan.

Commissions payable to POL (Inter-business costs) are £1.2m lower due to lower travel insurance sales.

1.2. Outlook for the rest of the year:

The forecast projects a shortfall in EBITDA of £(1.2)m versus Plan, implying a £(0.2)m shortfall in H2. The main factors contributing to this are Travel insurance income which is forecast to be £(0.1)m lower than Plan in H2, and a stretch target in the Plan for Motor and Home insurance.

There are a number of risks and opportunities to the forecast and we continue to work to reduce the gap versus Plan.

A potentially significant risk is the impact of potential changes to the branch sales model. Further details are set out below in 2.4.

1.3. Regulatory capital

POMS is regulated by the FCA and is required to maintain at least a minimum £0.7m of qualifying capital at all times. As at September 2016, POMS's qualifying regulatory capital is £6.5m more than the minimum required by the FCA.

The year-end forecast is for qualifying regulatory capital to be £5.7m higher than the minimum required. This figure includes an estimated £2.1m post-tax profit tax to be earned in the second half of the year.

A current balance sheet is set out at Appendix 1.

1.4. Cash

POMS had £17.2m in cash at bank at the end of the half year. This is balanced by £5.9m due to POL for commissions, £1.7m due to insurance third parties, £5.5m of reserves and £4.1m for working capital.

2. Building the future model

2.1. POMS' strategic objectives

- To deliver operational efficiency, product and pricing flexibility resulting in greater control of, and access to, the value chain.
- To establish direct control of customer management, policy conditions and retail pricing.
- To build directly or enter into agreements with Underwriters, TPAs and other suppliers to procure and develop the capabilities required to support the chosen business model.
- To build a profitable asset for the Post Office whilst optimising returns.

2.2. The 5 year Growth Plan

The 5 year Growth Plan was approved by the POMS Board in May 2016. It is founded on new business and operating models, and is aligned to the POL FS "New Normal". This will provide the environment to enable POMS to provide its customers with enhanced service, control, trust and value by:

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

The delivery of the plan will increase POMS' EBITDA to £17m in 2020/21, making a contribution to POL Group's profits in that year of £43m.

2.3. Significant progress has been made towards these objectives in H1

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

Internal risk and compliance capability and processes have been developed.

The development of the strategic technology platform is on-track for delivery in December 2016, enabling further expansion of POMS' participation in the general insurance value chain.

The retendering for the provider of POMS' protection business has been undertaken and contracts are targeted for signing by January.

2.4. There are challenges ahead

While the financial performance is broadly in line with the trajectory set out in the 5 Year Growth Plan, there are significant delivery challenges/risks, including:

Market and Sales

- Managing the impact of political and economic change, particularly:
 - The impact on travel, and hence travel insurance demand, of Brexit;
 - The decline in Sterling;
 - The impact from further interest rate falls on protection products.
- Ensuring that Post Office is able to deliver anticipated sales and service levels as it manages its strategic priorities. At present the majority of life assurance sales are concluded in face-to-face conversations by Financial Specialists. POL is considering eliminating this team and concurrently building a sales team in agency branches ("CRMs"). While this will reduce POL's operating costs, the CRMs will not be qualified to complete life sales, referring the opportunity to contact centres. This risks both reducing POMS' income and increasing call centre costs; the potential impact has not yet been included in POMS' year end forecast or 2017/18 plans while full details are assessed.

AR and Other Risk Management

- Managing the impact of regulatory change, particularly relating to conduct risk and the implementation of the Senior Manager's Regime in insurance in 2018;
- Ensuring that Post Office is able to deliver the level of branch oversight and management required under its AR obligations.

Services from POL

- POMS does not have its own Marketing, Digital Delivery or Data Analytics capabilities, but instead relies POL to provide these. However, the arrangements are currently not governed by SLAs or service contracts. The POMS and POL teams are working together to put appropriate capacity and governance in place, but there is a near term risk around capacity in POL.

POMS' resources

- Having the necessary staff resources, technology and operational and risk management processes in place to acquire and integrate the Junction GI business in 2018/19.

POMS Management and the Board monitor these risks and seek to implement strategies and investments to manage them.

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

In November 2015, POMS acquired Bank of Ireland's interests in the general insurance business that it had with POL (Project Hawk).

Since acquisition, the business has performed ahead of the business cas:

<u>Benefits £m</u>	2015/16	2016/17	Total
Actual/Forecast	1.6	4.4	6.0
Business case	0.3	3.8	4.1
Surplus/(Deficit)	1.3	0.6	1.9

The business case also incorporated further benefits in the years past 2016/17. A review of those further benefits showed:

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

Overall, the review showed incremental NPV of £25m versus the original £29m. This reduction in incremental NPV is a result of the very conservative approach the review took to valuing the benefits, particularly those from new and existing products. If, for example, the valuation had recognised 50% of those benefits then the incremental NPV would be £35m. Noting this, POMS is happy that the acquisition is on track to deliver at least the business case benefits.

2.6. Project costs

The key projects in 2016/17 are:

- The new strategic technology platform (Zeus) is on track for delivery; this is pivotal for POMS to integrate other general insurances (including the integration of the general insurance business from Junction in 2018) and expand in the value chain.
- Putting the new life assurance relationship in place (Project Hera) – on track for delivery in early 2017
- Delivering the new MI system (Project Sequel) - delivered.

Costs are forecast to be on Plan, other than Project Zeus which is expected to be £0.3m over Plan at £4.2m. This additional expenditure will be recovered in later years.

2.7. Governance

Board, ARC and executive committees are in place and fully operational, in accordance with structures set out in our authorisation submission.

An in-depth Board effectiveness review is underway and will report in January; the results will be included in the full year report.

3. Risk management

Risk management framework and governance structures are in place and are being embedded.

The relationship with POL as both AR and service provider is in place; the most significant issue, however, remains the operational oversight of branches, as discussed at the Post Office ARC in September 2016.

Significant progress has been made to improve the systems and controls. Actions are being developed by POL and POMS to improve the levels of conduct risk.

At its meeting in January, the POMS Board will assess the progress made, or anticipated, and will assess whether it is comfortable to allow POL to continue to sell POMS' products in agency branches.

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

4. Conclusion

POMS is now well established and performing broadly in line the expectations. The key building blocks are being built or are in place and being embedded. The five year plan forecasts income and profit that exceed the original business case, confirming the significant opportunity that POMS provides to its shareholder. However there are a number of risks and constraints that may restrict POMS' ability to deliver its Plan. The POMS Board and management are actively monitoring these risks.

Appendix 1: POMS Balance Sheet

£k	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
Non-current assets						
Intangible assets	46,008	45,994	46,979	47,089	48,571	48,369
	46,008	45,994	46,979	47,089	48,571	48,369
Current assets						
Amounts owed by group undertakings	225	386	381	525	0	0
Other debtors	197	73	126	189	150	293
Accrued income	5,386	5,350	4,830	3,845	4,571	4,250
Prepayments	32	27	23	18	155	130
Cash at bank and in hand	15,999	11,497	13,483	17,815	17,928	17,170
	21,839	17,333	18,844	22,392	22,804	21,843
Total assets	67,847	63,328	65,823	69,482	71,376	70,212
Creditors: amounts due within one year						
Trade creditors	(550)	(473)	(663)	(718)	(1,101)	(1,203)
Amounts owed to group undertakings	(7,888)	(2,345)	(3,231)	(4,529)	(4,900)	(5,853)
Other creditors	(1,374)	(1,515)	(1,859)	(2,749)	(2,442)	(1,880)
Accruals	(4,296)	(4,305)	(5,054)	(5,234)	(5,912)	(3,537)
Provisions	(1,033)	(1,063)	(1,121)	(1,125)	(1,131)	(1,182)
Tax Creditor	(195)	(379)	(432)	(678)	(831)	(965)
	(15,335)	(10,079)	(12,361)	(15,034)	(16,317)	(14,619)
Total assets less current liabilities	52,512	53,248	53,462	54,447	55,059	55,593
Creditors: amounts due in more than one year						
Amounts owed to group undertakings	(500)	(500)	(500)	(500)	(500)	(500)
	(500)	(500)	(500)	(500)	(500)	(500)
Net assets	52,012	52,748	52,962	53,947	54,559	55,093
Capital and reserves						
Share capital	50,000	50,000	50,000	50,000	50,000	50,000
Retained earnings	2,012	2,748	2,962	3,947	4,559	5,093
Total equity	52,012	52,748	52,962	53,947	54,559	55,093

Back Office Transformation

Authors: Rob Houghton/Angela Van Den Bogerd Sponsor: Alisdair Cameron Meeting date: 24 November 2016

Executive Summary

Context

In 2015, the Board approved a "Transition" project to reduce operational risk and stabilise Back Office hardware. An update was provided in September, which reminded the Board that, in line with the IT Strategy, a further stage of development (Transformation) would be required. The purpose of this paper is to agree the proposal for that Transformation. The Board has not previously approved funding for this element of Transformation, although the Three Year Plan has included a place-holder of £11m.

Today our Back Office systems enable POL to run the Supply Chain operation, settle with clients, pay agents and employees and report financially and operationally. If these systems fail, we cannot trade. Some £60b of transactions are processed over a year, affecting all locations and over 50k people.

The September Board paper highlighted that, "We cannot continue to exist in the transitioned state...." IT cannot commit to appropriate service levels across these key business processes and we have now received a written confirmation from SAP that its support for HR SAP and POLSAP will cease permanently in December 2017. This is not a theoretical risk: that support was used in February to resolve a three day POLSAP outage, which had Supply Chain working manually while we were unable to report the Bank of England's cash position and teams spent weeks re-inputting and reconciling. It is not been uncommon for the settlements team to pay clients based on estimated values, adjusting to actuals later.

The legacy complexity of these systems and the processes that work around them requires manual working, spreadsheets and multiple interfaces. It is hard to maintain strong control, as evidenced in the financial controls work, and limits our ability to report and analyse our results. The resultant complexity has led to a prohibitive cost of change, preventing improvements that should occur in business as usual, and higher run costs.

Questions addressed in this report

1. Which transformation options have been considered?
2. What is our recommended approach?
3. What are the key risks to a successful delivery?

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Conclusions

The back office application estate cannot stay as is. The minimum spend is £8-12m to upgrade and stabilise the systems, without delivering any improvements in the cost of change, IT run costs, control or future flexibility.

We have assessed three other options: removing the older systems; incrementally improving the way we work; and replacing everything with a completely new ERP system.

We are recommending Option 3 as representing the right balance of financial benefit, operational control, flexibility and risk. The cost increases to £16-20m to gain £3.5m lower operating costs and enabling a further £3m to be realised across other programs, with improvements in controls and ways of working.

The risks are significant, although substantially less than for a full ERP replacement. We know from experience that any change to Back Office will be a journey of discovery. We have a 17% contingency in the plans, which had already been adjusted by 7% following Wipro's independent review.

More importantly, we have developed the project in stages. We can progress Option 3 while retaining Option 2 as a viable alternative until we have proven the full concept. The next significant decision date is April 2017. The only spending commitment at this stage, approved by the Group Executive, is for £1.54m on top of the £0.2m spent to date.

Input Sought

The Board is asked to:

- Support the preferred Option 3, budgeting for costs of £20m
- Note the approved spend to April 2017
- Require an update and any future funding requests in March-April 2017.

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The Report

Which transformation options have been considered?

4. Four approaches are summarised below.

Option	Cost (£m)	IT OPEX Benefit (£m)	IT Risk (inc. DR)	Dept. OPEX Benefit (£m)	NPV (£m)	Payback Yrs	Enabled OPEX Benefit for other programmes (£m)	Audit & Controls	Business Efficiency / Fit to Strategy	Project Risk & Delivery Complexity
1. The "No Transformation Scenario"	8 – 11	0.4	✓	0	-8.63	26.46	0	X	X	Medium /High
2. Remove Old Systems	13-16	3.0	✓	0	-9.0	4.6	2.1m	X	X	Medium /High
3. Transform	16-20	3.0	✓	0.4	-11.9	5.74	3.1m	✓	✓	High
4. Transform to new ERP	24-30	3.0	✓	0.4	-24.2	8.62	3.1m	✓	✓	Very High

5. The first option enables no movement in improving control or flexibility and derives no benefits. The fourth option is substantially more expensive and riskier with no guaranteed additional benefit. Neither are therefore recommended.
6. Options 2 and 3 represent more nuanced choices. In both cases, we would remove POLSAP, HR SAP and our old warehousing systems. Option 3 additionally adopts industry standard processes, changes ways of working and will give us the flexibility to support future change quickly and cheaply.

What is our recommended approach?

7. We are recommending option 3 Transform, with a number of checkpoints enabling a fall back to option 2 – "Remove Old Systems" should costs/risks escalate. Option 3 is in line with the IT Strategy:
- **Simplify, Standardise, Reduce Cost:** adopt industry norms; configure systems not customise. This makes it easier and cheaper to outsource should we choose to.
 - **Build in Traceability:** Transact sales in ERP allowing onward transactions and reporting to flow from a single view of sales. This will give us one version of the truth; sales data that is accurate and reliably so. Improves auditability, reduces report creation and validation time, changes employee focus to analysis and action.

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- **Create Capability:** Invest internally, ensure end-to-end process knowledge and technical skills are in-house and enables cheaper change delivered without third parties.
 - **Deliver Small, Deliver Regularly:** Break down large goals into achievable pieces of work, build momentum, hit targets.
8. Key building blocks include:
- Designing out POLSAP and HR SAP migrating processes to other existing systems simplifying the IT landscape
 - Processing sales transactions in ERP, enabling settlements, invoicing, agent remuneration, profitability analysis and sales reporting to occur using standard SAP functionality – with auditable linkage.
 - Replacing 3 old warehouse management systems with a single modern solution enabling process savings and online ordering for all branches.
 - Improving retail cash management, linking directly into our core finance system and enabling online ordering for Post Masters
9. The diagram below summarises the planned delivery scope for this program.

PROCESSES	CHANGE & PEOPLE	DATA	TECHNICAL
➤ Settlements and invoicing ➤ Agents Remuneration ➤ Agent Debt ➤ Cash Processing and Treasury ➤ Procurement ➤ Cost Accounting ➤ Product & Channel Profitability Analysis ➤ Warehousing	➤ Journey from admin & report creation to data set up and analysis ➤ Client engagement and standardised settlement/invoicing interaction ➤ Reduction of staff and overtime	➤ Product Master & Hierarchies ➤ Agent master and channel hierarchy ➤ Agent Contracts ➤ Sales Organisation ➤ Sales transactional flows ➤ Client Contracts ➤ Chart of Accounts, Cost & Profit Centers	➤ Online cash & stock ordering for Post Masters ➤ Decommission POLSAP & HR SAP ➤ Implement SAP IS-Retail & ICM ➤ New warehousing system ➤ Migrate functionality to Transtrack ➤ Remove or adapt 56 interfaces

10. Future flexibility: Using more of our ERP's features requires embedding core processes in system steps. This can lead to reduced flexibility and the impact on our business has been considered. The following are core to the system:
- **Organisation Structure** – Post Office's divisions and channels will be created as core structure. These are simple to add to, remove or group, but difficult to split or completely redesign. Upfront design needs to gauge the level at which these are created carefully.
 - **Financial Principles** – One challenge currently is that the financial principles (e.g. what is our definition of a profit centre?) are not consistent. Once these are established, they are difficult to change.

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- **Detail** – The detailed list of profit centres (or other elements) can be added to and modified simply. Multiple product hierarchies can be created and channel reporting can be available by a number of selection criteria.

11. The highest impact process being tackled is client settlements. KPMG recently conducted a detailed review of our 440 client contracts detailing our approach to reconciling and validating each back into our accounts. The settlements team has been involved setting the high-level direction for our approach and will be instrumental throughout implementation. Approach to key areas are:

- **Client Contact:** Clients rely on access to Horizon data for detailed transactional information, this access will remain. The settlements team daily provide one of five template word documents with summarised volume and value. These are emailed (or faxed) to clients alongside the bank transfers. This part of the process will simply be replicated and improved as the process moves to our CFS system.
- **Settlement Data:** Almost 80% of the 440 clients settle based on Post Office data, hence will successfully migrate into our proposed standard process. Some of larger clients, by value, require upfront payment (e.g. predicted Santander account transactions) or using their data (e.g. Camelot); in these cases, our approach will be to engage and move them to our new process with manageable exceptions. These are the expected areas of concern as there are some case where a win-win improved process won't be found and we will have to determine mitigation plans.
- **Fall Back Plan:** In all cases it is possible to migrate the current settlement process as-is. The current process involves creating payments that are not system-linked to sales then reconciling manually to demonstrate that accounts are balancing. In the case that we cannot move to a more automated process for some contracts, they can continue to run on a similar approach in CFS as they do today in POLSAP.

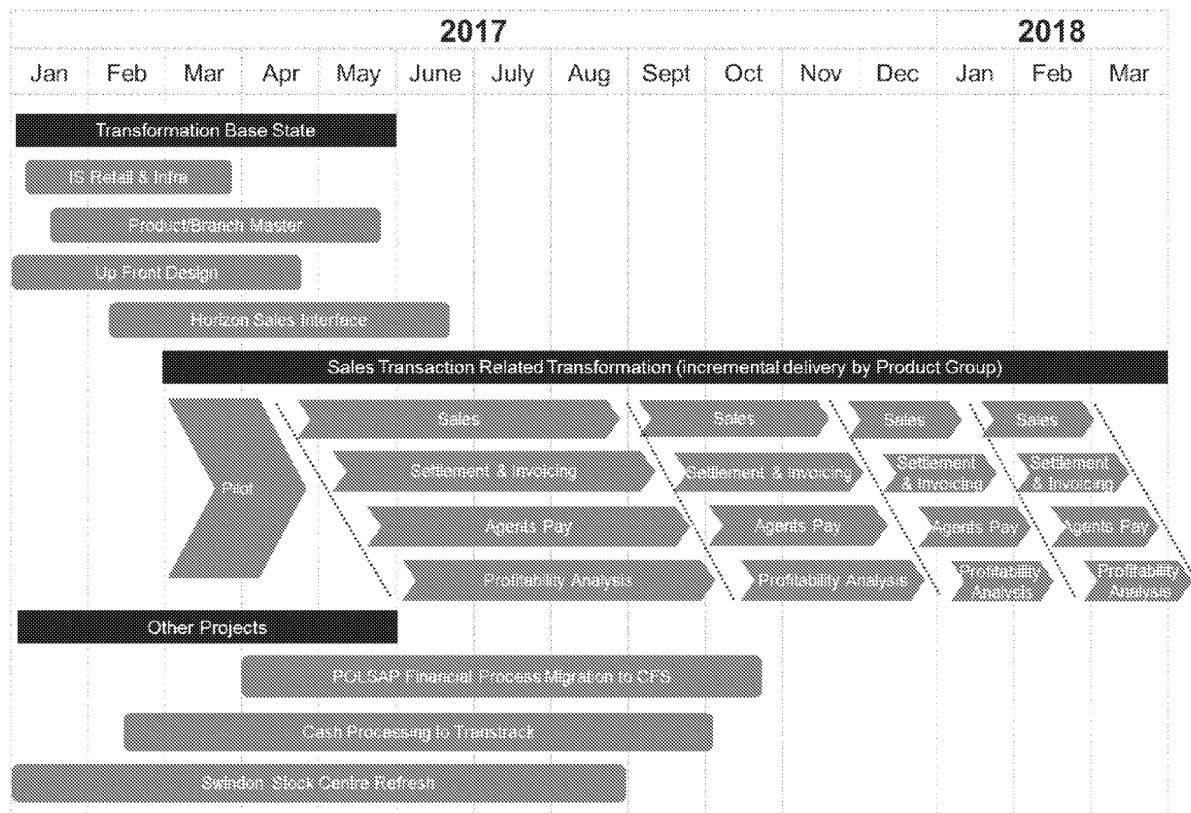
12. The program will be governed by the Post Offices' "One Best Way" methodology and in line with the IT strategy focus on incremental delivery, retaining control, avoiding large spend commitments and building skills into the retained team.

13. The delivery plan shown below provides an initial view on the projects required and their timelines.

- **Transformation Base State** – up front technical prerequisites, basic master data and design principles
- **Sales Transaction Related** – the transformational changes dependant on first processing sales transactions: settlements, invoicing, agent remuneration, profitability analysis and reporting. Planned to be delivered incrementally over time by business unit / product group / type of sales process e.g. we may first tackle sales of Mortgages, then bill payments etc

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- **Other Projects** – projects required to deliver the overall transformation aims and cost reduction but able to run with minimal dependency on the overall program including: moving financial processes from POLSAP to CFS (e.g. agents' debt), moving cash processing functionality from POLSAP to Transtrack, refreshing our warehouse systems.



14. The initial budget drawdown request for 2016/17 is £1.532m (£217k has already been authorised). Further funds will be requested when the deliverables below for a project complete and submission is made to move to the next phase.
15. In April 2017 the program will report back on the extent to which we intend to transform, seeking approval for further funding. Outputs will include the results of a study into our client agreements and the extent to which we can standardise the back end processing. And the results of a pilot modelling a truly transformed back office using SAP to process sales transactions generating settlements, invoices, Agents' pay and product profitability. At this checkpoint we will decide whether to proceed with option 3, or revert to option 2.

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16. Program costs have been modelled with resource and material plans created for each area of work. In order to validate expected costs Wipro were engaged to provide an independent view and indicated that the program may cost 5-8% more than our pre-contingency view: we provided for 25% in the £20m recommended budget.

Phase	Cost (£m)
Transformation Base State	2.5 - 3
Agents Remuneration	1.5 - 2.5
Sales Processing	2 - 2.5
Financial Operations and Procurement and Reporting Improvements	2 - 2.5
Settlements Re-design	1.5 - 2
Supply Chain Cash Systems	3.5 - 4
Warehouse Refresh	3 - 3.5

17. Benefits are as set out below:

Benefit Generator	Amount	Calculation
Remove POLSAP	£1,167,686	POLSAP Infra, Support Licence = +£1,890,163 Increased CFS Infra, Support & Licence = -£475,334 Increased Transtrack Support & Licence = -£247,143
Remove SAP Common Services	£1,130,000	Removal of CSC common services (printing, authorisations, portal) required to manage multiple SAP environments. With only CFS left these are not required, and there is no additional OPEX to replace.
SAP extended Maintenance Charges	£359,067	SAP extended maintenance charge = +£224,529 SAP Active Embedded support = +£269,076 (Partial reduction of £134,538)
Transtrack moves off Citrix	£75,000	Remove Citrix licence costs = +£75k Microsoft alternative included in current licencing.
Warehouse licence and support reduction	£310,331	Mercia Licence = +£55,000 WCS Licence = +£128,375 Galaxy = +£466,956

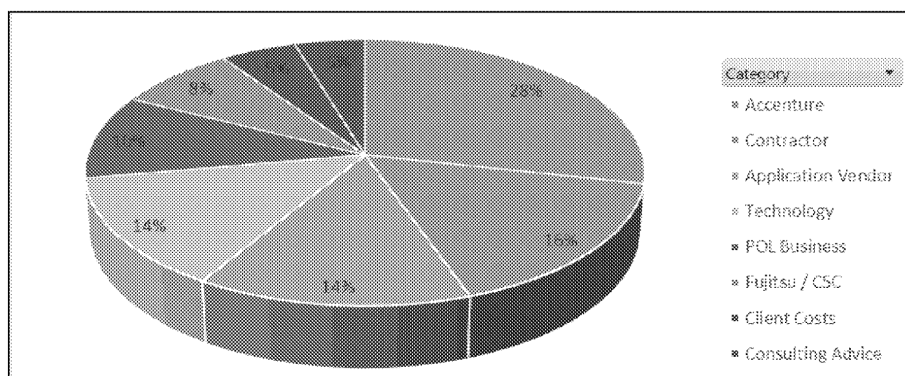
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Benefit Generator	Amount	Calculation
		New WMS system = -£300,000 Front end App = £-40,000
Improved Warehouse processing	£443,500	Non staff costs (£30k paper / £20k postage) = +£50k Fixed staff costs (2 x PO) = +£58.5k Variable staff costs (2 x SO1 equivalent) = +£45k Remove Capricorn engineers = +£170k Increase pick efficiency = +£120k
Total	£3,485,584	

18. In addition to the benefits above directly attributable to the Back Office Transformation business case, there is a further **£3,089,586** of claimed benefits in other programs dependent on option 3 being delivered:

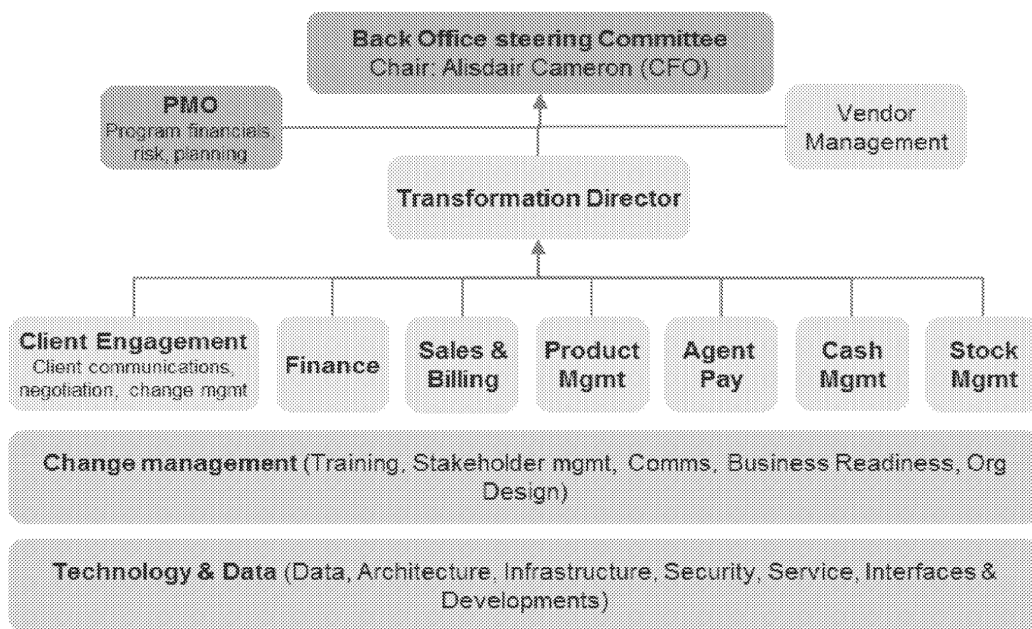
- Online Cash Ordering replaces call centre = £400k headcount reduction
- Decommissioning HR SAP = £2,056,586 licence, infrastructure and support cost reduction
- FSC process simplification = £633,000 headcount reductions

19. The program will be delivered using the contracted Back Office partner (Accenture). We will also spend on backfilling Post Office resources and supplementing them with skilled contractors.



20. The diagram below shows the proposed program organisation grouped by process and capability. An early deliverable (in progress) is a resource plan highlighting capability gaps for discussion on where we should hire, contract or buy-in skills.

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21. Wipro recently conducted a review of the detailed approach, resource plans and budget for the program. Their report concludes:

- The approach for the program, desire to simplify through consolidating into systems already in our landscape and use standard processes is a good one.
- Internal change management should not be underestimated and requires focus throughout
- The timelines provided were suitable for the program of this size and complexity, however Wipro believed they could be accelerated (something we believe would not be possible within the Post Office for our tasks). However they recommended some additional technical steps and overall believed costs may increase by 5-7%, which has been taken into account in our figures.

22. The Post Office has faced significant challenges in recent programs and is implementing a number of the lessons learned from these in this approach.

Lesson	Learned
Incumbent vendor costs should not be underestimated.	Costs have been budgeted using current program actuals as a guide. Key vendors (inc. Fujitsu, Accenture) have been involved in the approach and budgeting.
Fixed Price Contracts are not suitable for large scale change where Post Office is accountable for external deliveries	The team will be led by Post Office resources backfilled, with specific capabilities brought in to support. The majority of delivery will be time and materials against a

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Lesson	Learned
	delivery plan. Fixed price will be used only for items work entirely within a single vendor's control.
Large delivery projects are prone to failure and lack of oversight	Whilst to achieve the overall aims, a number of projects are required, these are being broken down into their smallest component parts, with an approach of incremental delivery.

What are the key risks to a successful delivery?

39. The tables below contain a brief description of the key risks identified and our plans to overcome them.

Title	Description	Mitigation	Owner
Client Impact	The Post Office currently settles and invoices clients in a multitude of fashions, providing bespoke information in many cases. There is a risk that as we try to standardise we come into conflict with client contract, either jeopardising our relationships or reducing the effectiveness of the program.	Communicate early, take feedback and consult with client senior stakeholders, to ensure that the operation teams are instructed to work with us where possible. Re-negotiate contracts/ways of working with key customers (condition that we need to provide clients a decent or better experience).	Angela Van Den Bogerd/Martin George/Nick Kennett
Concurrent Financial Systems	It is essential to bring core sales into CFS, this can either be completed as a big bang (meaning all contracts and settlements move together) or incrementally. Our view is that an incremental approach is overall lower risk for our organisation. However, this gives a risk that Post Office will be running the same financials in POLSAP and CFS, increasing the potential of double reporting revenue, or mis-settling.	The Finance team will need to outline a plan for dealing with this challenge early in the project. During project the financial reporting team will need to demonstrate each month that errors are not occurring. To ensure the approach is solid there is a plan to engage our auditors early to agree the approach.	Financial Controller
Product Data	There are multiple Product Master data definitions and groupings (e.g. for Horizon, for Stock, for Agents Remuneration, for reporting) and questions	An entire work stream for the program will be dedicated to Product and Branch master data, offshore support for data cleansing and manipulation is budgeted.	James D'Souza

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Title	Description	Mitigation	Owner
	about the master data quality. Work will be required in order to create a clean Product Hierarchy. There is a risk that this will be more challenging and expensive than planned.	Should the team be unable to tie together all the product threads in the organisation a fall back is to revert to receiving values/products/volumes into SAP from sales systems, with reduced controls and checks, leaving multiple product definitions and hierarchies in our organisation. Product master governance will be updated alongside the project to ensure on-going adherence to the updated approach.	
Cost/Time	There is a risk that the budget and timeline are not accurate.	As outlined in the transformational principles section the program is delivering where possible in incremental chunks, hence timeline and cost slippage will be visible early enabling corrective action to be taken. Wipro reviewed our detailed cost estimate and resource plan of £16m. During the sessions (workshops with Accenture, SAP, our back office departments and technology teams) it became clear that additional technical steps would be required. Overall Wipro's view including upsides and downsides was that our total costs would be 5-8% higher, this is included within our requested 25% contingency.	Ben Cooke
Resource capability and Business Focus	The Post Office is undergoing significant change with a high number of projects going on e.g. FS Digital Transformation, EUC Admin etc. There is a risk that the required resources for the program are not available, or focus is distracted.	The Back Office team & applications are largely distinct from front office and FS/POMs activity, hence digital and Horizon related projects are not considered to be a major threat (pre-planning has occurred with Fujitsu for the Horizon interface and resource will be available Jan-Mar) Joint planned has occurred with the departments heavily involved and the other back office programs (SSTP for FSC and Successfactors for HR). In Supply Chain where key resources could potentially have their roles changed through Iris early discussions have occurred to earmark critical resource & will be picked up once the program is funded. Currently all essential team members identified are remaining within the Post Office.	Alisdair Cameron

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POST OFFICE
BOARD

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DECISION PAPER

Broadband Customer Acquisition

Author: Alwen Lyons

Sponsor: Alwen Lyons

Meeting date: 24 November 2016

Executive Summary

Context

The Board were asked by email on 4 November 2016, to delegate authority to the Chief Executive and Chief Financial Officer to proceed with negotiations and sign a contract for the acquisition of 78,000 Broadband customers from New Call, who trade under "Fuel Broadband".

The Board approved this request by email response and the negotiations have started.

The Board's delegation now requires formal ratification.

Input Sought

The Board is asked to ratify the decision by the Board to delegate authority to the Chief Executive and Chief Financial Officer to proceed with negotiations and sign a contract for the acquisition of 78,000 Broadband customers from New Call, who trade under "Fuel Broadband".

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POST OFFICE
BOARD

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Post Office Limited Sealings

Author: Alwen Lyons Meeting date: 24 November 2016

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 1454 to 1461 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 1454 to 1461 inclusive in the seal register is hereby confirmed.

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POST OFFICE LIMITED
Register of Sealings

Date
24.11.2016

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1454 / Deed of Surrender	21/10/2016	19/10/2016	Deed of Surrender and Release relating to a lease of premises known as 9 Higher Road, Urmston M31 1AA. Robert Graham Trustees Limited and Post Office Limited.	Jane MacLeod	Jean Reynolds
1455 / TR1	31/10/2016	26/10/2016	TR1 - 35 The Broadway, London, NW7 3DA	Jane MacLeod	Jean Reynolds
1456 / Licence	31/10/2016	27/10/2016	License to Install Air Conditioning Equipment relating to Land at the Rear of 113 Baker Street London W1.	Jane MacLeod	Jean Reynolds
1457 / Surrender of Lease - TR1	02/11/2016	28/10/2016	Deed of Surrender of Lease: Post Office, Market Place, Chesterfield S40 1TL - TR1 Transfer of whole registered title (Title no. of property DY410908) Full title guarantee. Transferor is POL and Transferee is Trillium (RMF) Limited.	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1458 / Lease Renewal	02/11/2016	01/11/2016	Lease Renewal of 72 High Street Hoddesdon, Hertfordshire, between Nicola Trigg and Graeme Ross Atkinson as Executors for Elizabeth Fowler (1) and Post Office Limited (2) for a further 5 years. (Underlease)	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1459 / Reversionary Lease	10/11/2016	08/11/2016	Reversionary Lease by reference to an existing lease relating to Ground Floor and Basement, 354 and 356 Edgware Road, London W2 1BG between Simpsons Paints Limited (Landlord) and Post Office Limited (Tenant).	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1460 / Deed of Variation	10/11/2016	08/11/2016	Deed of Variation relating to Ground Floor and Basement, 354 and 356 Edgware Road, London W2 1BG between Simpsons Paints Limited (Landlord) and Post Office Limited (Tenant).	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1461 / Renewal lease	14/11/2016	11/11/2016	Renewal lease by reference to an existing lease between Makan Investments Limited (a company registered in Jersey 76832) (Landlord) and Post Office Limited (Tenant) in respect of basement and ground floor premises at 124 Deansgate, Bolton (as per the existing lease dated 9 May 2006). Term: 5 years with effect from 9 May 2016. Rental: £40,000 per annum exclusive of rates and VAT to be paid quarterly in advance	Alwen Lyons	Jean Reynolds

POST OFFICE
POST OFFICE BOARD

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Performance Review – Health and Safety

Author: Martin Hopcroft

Sponsor: Martin Kirke

Meeting date: 24th November 2016

Executive Summary

Context

- 1.1 Keeping our employees healthy and safe is fundamental to Post Office success. This is reflected in the Post Office Board's legal responsibilities – directors can be personally liable when health & safety duties are breached and members of the board have both collective and individual responsibility for health and safety.
- 1.2 Our Health & Safety performance has improved significantly in the past 5 years and we have a rolling 3-year plan to drive health and safety compliance and risk reduction. The key risks of driving and robberies are the subject of mitigating activities. Our reporting and safety management system is measured against the externally recognised health and safety standard – OHSAS 18001. We recognise the importance that wellbeing can play in creating engaged and motivated employees and have developed and implemented an extensive wellbeing plan.
- 1.3 The aim for 2016/17 is to continue the year-on-year improvement by targeting a reduction in four key safety metrics: accidents; lost time accidents; days lost; and personal injury claims.

Questions this paper addresses

- 2.1 What is going well across health and safety and what is not going so well?
- 2.2 What are we doing to mitigate the key risks, including driving and robberies?
- 2.3 Are there any significant emerging risks?

Conclusion

1. Performance continues to remain strong against all four of the key **health and safety metrics**, including absence accidents and lost days (see Appendix).
2. There is an appetite from the Group Executive and across the business as a whole to improve **awareness of health and safety** performance, management responsibilities and compliance. The Health & Safety Team and Property Management Team are attending many meetings and workshops to support and provide guidance and training.
3. Mitigating actions are working to reduce **road risk** and the risk of robberies. (see Appendix)
4. Recent environmental training has highlighted that POL may not be following best practice in the way we address environmental issues across the business and that Post Office **Environmental Strategy and Policy could be strengthened**. The Head of Health & Safety has set up a focus group, also involving Property team, the Social, Action and Inclusion Manager, and legal team to address ownership, governance and best practice. A report, with recommendations, will be provided to the GE H&S Sub Committee and Risk and Compliance Committee.
5. Following a recent Property Compliance review, it has been highlighted that additional training is required for '**Person in Charge**' (**PICs**) in Directly Managed branches to improve their competence and awareness. Managers are completing basic online PIC training with additional **training workshops** being arranged between Jan - Mar 2017 by the Head of H&S and Property Compliance Manager.
6. Following a 'deep dive' H&S session with the GE, it was agreed that the Director of Employee Relations & Engagement and Head of H&S provide **executive awareness training** to GE Members during Nov and Dec 2016.

Input Sought

We ask that the Board to **note** the current safety and wellbeing performance, risks highlighted and mitigating activity.

What has gone well across Health & Safety

- **'Accident' and 'lost time'** incidents have reduced at P6 2016/17 when compared to September 15/16 and are meeting the continuous improvement target of 5% year on year reduction. (see appendix)
- Current **road risk performance** has also improved when compared to 2015/16 with 'at fault' incidents remaining 32% lower than 2015/16.
- Whilst the number of CVIT **violent incidents** have increased compared to 2015/16, robberies have remained low in August and September (following the slight increase in July). 2 out of 15 incidents have incurred injury.
- The risk profile of **Supply Chain** will change due to the current restructure and changes in workload, delivery routes and relocation will potentially increase risk through change management activity resulting in distraction. The Health & Safety team are attending the weekly Iris programme and work stream meetings to provide support, including risk assessments, training and support visits to sites.
- **Accidents involving customers** at Crown and hosted branches are investigated, reviewed to identify any preventative measures and benchmarked. Current volume remains very low with fewer claims from customers. Analysis is being undertaken and will be shared at the December GE H&S Sub Committee meeting.
- The volume and value of **personal injury claims** has reduced with provision for known unsettled claims also reducing to £602k at Period 7 (October).
- **Mental health** related conditions are the single most common cause of longer term absence with 17% of occurrences and 31% of total absence days, a slight increase at P6 2016/17. Analysis is being undertaken to understand which areas of the business may benefit from additional 'mental health awareness' training. There has also been an increase in the number of users of the online 'Help' Employee Assistance and Lifestyle Online websites possibly in response to recent increases in absence but also awareness of resources. (See Appendix)
- **Attendance levels** have reached 96.8% YTD at P6 (September 2016/17) and remain on target. However, there has recently been an increase in the level of absences in Crowns but a decrease in Supply Chain. (See appendix)
- Three **Wellpoint™ health check** kiosks have been utilised across all largely populated sites (>25) during the first half of the year with very positive feedback. *Mobile health checks* will be offered by the Health & Safety team to Crown branch and Network Field team colleagues from November.
- **Property** - Health and safety related risk and facilities management have been assessed as medium risk, reducing to low by year end. This follows a programme of checks, inspections and closure of risk assessment actions in accordance with Health and Safety at Work Act and is now virtually complete.

Overall property risk has reduced from high to medium and expected to be low by year end, mainly due to the recent focus on completion of technical risk assessments by CBRE and completion of actions by the Crown Office and Supply Chain lead and area management teams, supported by H&S and Property teams. Additional training will be provided in workshops to Persons in Charge (PICs) from January 2017.

- **Hosted Sites** – we have a duty of care to our employees working within 'hosted' premises eg. WH Smiths. A trial is under way to involve Trade Union H&S Reps in site meetings prior to transfer date, to support the local managers / project managers in respect of planning and advice. The Head of Health & Safety is in contact with the WH Smiths H&S Manager to develop relationships, understanding of the H&S processes and support available to local Post Office Managers.

What has not gone so well?

- **Property** - The most significant area requiring improvement has been managing fire risk, as reported by CBRE to the Property Compliance Board as a finding from their risk assessments. High *risk fire actions* have been closed with medium and low actions planned to be closed by November.
- **Customer Harassment** - Concern was raised by the Westminster local authority regarding Post Office Policy for dealing with violence and abuse by customers, especially in London where there is a growing problem with the homeless population and their presence in our branches.
Positive recognition has been received from the Environmental Health Officer in Westminster for the way Post Office has effectively managed this emerging risk in the London Crown branches. Consideration is currently being given for sharing with Postmasters and signposting them to the Health & Safety Executive for support and guidance.

2.2 What are we doing to mitigate the key risks, including driving and robberies?

- **Road Risk:** Driving activities have the potential for high impact/loss and therefore remains one of the more significant residual risk which is successfully being mitigated through a number of ongoing initiatives. Following a restructure of the Fleet Management Team, Head of H&S and National Fleet Manager are continuing to support the Road Risk Consultation Forum to ensure appropriate plans and actions in place to mitigate emerging trends and risks eg. initiative to capture signatures from all colleagues who drive for work that they have received and understood the policy and instruction alongside licence checks.
- **Robbery Risk:** Robberies have the potential for high impact/loss and remain a significant residual risk. We are successfully mitigating this through a number of initiatives and best practice. Ongoing monitoring of the risk profile will inform the assessment of the need, or otherwise, of body armour.
- **Safety Risk:** Concern raised with GE at the deep dive session that **mobile phones** are being used by Business drivers, including joining conference calls.

Policy and guidance issued via a communication in August, reiterated by Senior Management during September. There needs to be strong leadership and empowerment for employees to challenge anyone on a call who may be driving and further discussion is planned for the GE Exec Coaching sessions in November.

- **Property Risk:** Remedial work for all identified high risk items has been completed and plans for addressing medium risk electrical, asbestos, building fabric and legionella have been built and are being undertaken.

Health and Wellbeing: We recognise the benefits that wellness can bring to the organisation and therefore there is an extensive programme of healthcare interventions to all areas of the business.

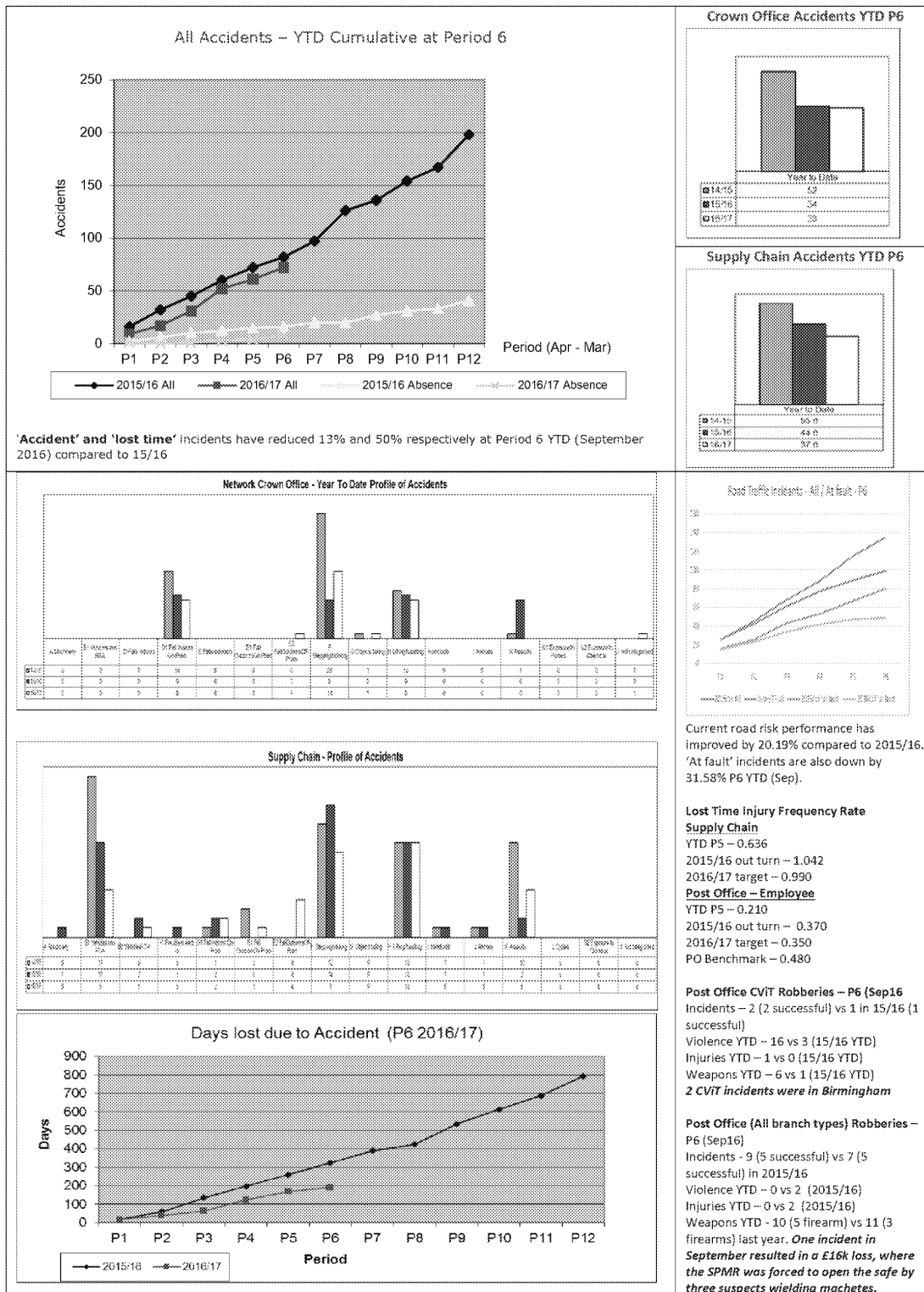
- The Health & Safety team are working closely with the **Communications team** to support a plan of activity to further raise awareness of the resources available to colleagues, including comms, blogs, video and face to face workshops.
- A programme of **wellbeing activity**, including raising awareness of mental health conditions, symptoms and the support available has been updated.
- The roll-out of a second programme of **health checks** to all employees via face-to-face clinics and stand-alone digital wellbeing kiosks will continue from Nov.
- Work is currently being undertaken to evaluate the link between local engagement scores with Wellbeing, analysing absence data and the **engagement index and wellbeing scores**, with focus on mental health related absence in particular. Conclusions and a proposed plan of action will be shared with the GE H&S Sub Committee in December.

2.3 Are there any significant emerging risks?

- The **Environmental Policy**, plan and level of reporting is currently under review. A Strategy Tactical Group has been set up by the Heads of H&S and Property, the Compliance Manager and CSR Manager, supported by legal and FM provider guidance to review strategy. The first group meeting took place on Nov 1st. POL directors will be made aware of the significance of **environmental reporting**, how it is affecting our brand image, the potential for personal liability with further discussion at the GE H&S Sub Committee in December.
- A significant gap has been identified in the competence of managers to carry out their **Person in Charge** (PiC) responsibilities and a revised on-line training product has been developed and issued by the H&S Team, with a requirement that all PiCs complete this by September. Follow up H&S training workshops will be provided to PiCs and deputy PiCs, covering Premises H&S, Site Log Books, Fire Extinguishers.

(Appendix Attached – Performance Charts)

APPENDIX - Summary of Safety Performance - YTD Period 6 (2016/17)



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Health & Safety Report Oct 2016

APPENDIX - Summary of Wellbeing Performance - YTD Period 6 (2016/17)

2016 / 2017	Sick Absence %ge							Gross Hours Target
	April Period 01	May Period 02	June Period 03	July Period 04	Aug Period 05	Sep Period 06	Y.T.D Totals	
FINANCE	3.5%	3.2%	3.4%	3.5%	2.9%	2.8%	3.2%	3.5%
FIN: SUPPORT SERVICES (ALL)	4.6%	3.3%	3.2%	3.0%	2.8%	3.1%	3.3%	3.8%
FIN: SS FSC	3.9%	2.6%	2.4%	2.8%	3.4%	1.6%	2.7%	3.4%
FIN: SS CONTACT CENTRES	8.4%	4.5%	4.2%	3.6%	2.2%	3.6%	4.3%	6.7%
FIN: SS HRSC	2.4%	3.4%	3.8%	3.1%	3.9%	4.8%	3.5%	2.6%
FIN: SUPPLY CHAIN	3.4%	3.4%	3.6%	3.9%	3.2%	3.0%	3.4%	3.7%
SALES & NETWORK	3.3%	3.0%	3.1%	3.6%	4.0%	4.2%	3.5%	3.2%
SN: CROWN SALES	3.7%	3.4%	3.3%	4.0%	4.4%	4.6%	3.9%	3.5%
SN: SALES DIRECTOR	3.9%	2.5%	3.2%	3.0%	2.5%	2.6%	3.0%	2.9%
PEOPLE & ENGAGEMENT	1.6%	1.7%	1.3%	1.1%	0.6%	1.9%	1.6%	1.1%
PE: COMMUNICATIONS & CORP AFFAIRS	0.0%	3.4%	3.1%	3.1%	0.2%	0.0%	2.0%	0.3%
GENERAL COUNSEL	0.3%	0.4%	0.0%	2.9%	1.3%	0.6%	0.8%	1.8%
GC: SECURITY	0.2%	0.1%	0.0%	2.4%	2.5%	1.2%	1.1%	1.9%
FINANCIAL SERVICES	0.6%	2.1%	2.2%	2.1%	1.6%	1.6%	1.7%	2.8%
Post Office Ltd	3.2%	2.9%	3.0%	3.4%	3.4%	3.5%	3.2%	3.3%

Trends - Attendance levels have reached 96.8% YTD at P6 (September 2016/17) and remains on target. However, there has been a recent increase in the level of absence in Crowns but a decrease in Supply Chain which has helped the overall business performance. (See chart above)

Network & Sales absence levels have increased over the last quarter and risen above target (overall sick absence 3.5% v 3.2%). We have seen an increase in Crown Office long term absences (2.2% LTS up to 3.3% in recent months). Analysis is being undertaken with the Occupational health partner to understand underlying trend by geographical areas.

Supply Chain absence reduction is mainly due to a reduction in long term absences wither by a return to work or exit from the business. (2.2% LTS down to 1.6%).

Activity -

- **Mental health** conditions remain the single most common cause of longer term absence with 17% of occurrences and 31% total absence days, a slight increase at P6 2016/17. Awareness training continues to be rolled out to all teams.
- There has also been an increase in the number of users of the online '**Help' Employee Assistance and Lifestyle Online** websites possibly in response to recent increases in absence but also due to improved awareness of resources.

POST OFFICE
BOARD

Post Office Limited Board Meetings

Author: Alwen Lyons Meeting date: 24 November 2016

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

Date			Time	Notes
Tuesday	31 January	2017	09.30 – 14.00	
Tuesday	28 March	2017	09.30 – 14.00	
Thursday	25 May	2017	11.15 – 15.30	
Tuesday	27 June	2017	TBC	Board Away Day 1
Wednesday	28 June	2017	TBC	Board Away Day 2
Tuesday	25 July	2017	11.15 – 15.30	
Tuesday	26 September	2017	09.30 – 14.00	
Tuesday	31 October	2017	09.30 – 14.00	
Thursday	23 November	2017	11.15 – 15.30	