Post Office Board Agenda

Date	
31st October 2017	
Start Time	**Finish Time**
09.30hrs	12.50hrs
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	• Jane MacLeod • Marla Balicao (Minute Secretary) • Martin Edwards (item 4 & 6) • Owen Woodley (item 5 & 8) • Kevin Gilliland (item 5) • Henk Van Hulle (item 8) • Rob Houghton (item 8 & 10) • Jeff Smyth (item 8) • Jeff Lewis (item 9.1) • Mick Ebsworth (item 9.2) • Martin Hopcroft (item 10)	None

Agenda Item		Action Needed	Purpose	Lead	Timing
1.	**Minutes of previous Board and Committee meetings including Status Report**	Decision	Minutes formally agreed.	Jane MacLeod	09.30 – 09.35
2.	**CEO Report** (Including IR update)	CEO report noted	CEO to update the Board on the report.	CEO	09.35 – 09.55
3.	**Financial Report**	For noting	CFO to update the Board on the report.	CFOO	09.55 – 10.10
4.	**Strategic Update**	For approval	To approve the 3 year Strategic Plan	Martin Edwards	10.10 – 10.30
5.	**Chief Executive Financial Service & Telecoms Performance Report**	For noting	To update the Board on the Financial Services & Telecoms Performance report.	Owen Woodley	10.30 – 10.50
BREAK					10.50 – 11.00
6.	**Identity Strategy**	For noting	To update on progress developing the strategy for Identity verification services	Martin Edwards	11.00 – 11.30
7.	**Borrowing Limits over Christmas**	For approval	Board to support and approve to vary the cash headroom for Christmas.	CFOO	11.30 – 11.40
8.	**Customer Hub and First Delivery**	For decision	For Board to approve the Customer Hub and First Delivery.	Henk Van Hulle / Owen Woodley / Rob Houghton / Jeff Smyth	11.40 – 11.50

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Post Office Board Agenda

Agenda Item		Action Needed	Purpose	Lead	Timing
9.	**IT Update**				11.50 – 12.15
	9.1 Everest Update	For approval	To update on Project Everest negotiations, and provide the Board assurance on the IT Strategy.	Rob Houghton / Jeff Lewis	
	9.2 Security Operations Centre (SOC) Business Case	For approval	For Board to approve the SOC Business Case.	Rob Houghton / Mick Ebsworth	
10.	**Health & Safety Deep Dive**	For noting	To review Post Office's approach to Health & Safety.	CFOO / Martin Hopcroft	12.15 – 12.40
11.	**Items for noting**				12.40 – 12.45
	11.1 Sealings	For noting	Board aware of the affixing of the seal.		
	11.2 Meeting dates and forward agendas	For noting	For Board to note meeting dates and forward agenda.		
12.	**AOB**				12.45 – 12.50
CLOSE & LUNCH					12.50

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POLB 17(6th)
POLB 17/65 – 17/79

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

Minutes of a meeting of the BOARD meeting
held at 10.30am on Tuesday 26th September 2017
at 20 Finsbury Street, London EC2Y 9AQ

Present:

Tim Parker	Chairman (TP)
Richard Callard	Non-Executive Director (RC)
Tim Franklin	Non-Executive Director (TF)
Ken McCall	Senior Independent Director (KM)
Carla Stent	Non-Executive Director (CS)
Virginia Holmes	Non-Executive Director (VH)
Paula Vennells	Group Chief Executive (CEO)
Alisdair Cameron	Chief Financial and Operations Officer (CFOO)

In Attendance:

Jane MacLeod	General Counsel and Company Secretary (Secretary)
Steve Ashton	Post Office Management Services Limited Chairman
Nick Kennett	Chief Executive Financial Services and Telecommunications, and Chief Executive Officer of Post Office Management Services Limited (NK)
Martin Edwards	Group Strategy Director (ME)
Kevin Gilliland	Chief Executive Retail (KG)
Rob Houghton	Group Chief Information Officer (RH)
Owen Woodley	Managing Director, Post Office Money (OW)
Paul Willmott &	McKinsey & Co
Megha Kansal	McKinsey & CO

Apologies for Absence: None

POLB 17/65 INTRODUCTION AND CONFLICTS OF INTEREST

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

(b) The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

POLB 17/66 MINUTES OF THE PREVIOUS BOARD MEETING INCLUDING STATUS REPORT

(a) The minutes of the Board meeting held on 25th July 2017 were approved and the Chairman was authorised to sign them as a true record.

(b) The actions status report was noted as accurate.

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POLB 17/67 **CEO REPORT**

(a) The Board noted the CEO report. The CEO made the following additional points:

(b)
- Concern had been expressed to her by Board members as to the bandwidth of Rob Houghton (CIO), whether he was getting enough support and whether he was a flight risk. The CEO noted those concerns and advised that the CIO had recently finished recruiting his lead team. She recognised that he was critical to the successful delivery of IT transformational plans that were currently in flight. The CEO confirmed that she did not believe that retention was an issue, although if the CIO were offered a role with a substantially increased remuneration package, we would not be able to match that.

(c) Industrial Action
- The CWU were becoming more confident and bullish in the behaviours – no doubt as a result of the heightened profile of the Labour Party.
- Following the Taylor Report they had written asserting that postmasters were employees - an issue that was being addressed more formally.
- In addition they recently have raised allegations of bullying in DMBs. A meeting was convened on Friday 22 September to discuss these allegations, and it was stressed to the CWU that Post Office does not tolerate bullying and that if they had evidence then they should share it with us.
- The CWU are balloting RMG employees regarding strike action which could occur any time from 16 October onwards. We are engaging with RMG to understand their contingency plans, although historically RMG have settled with the unions and that may still be an option for them. The main impact on Post Office will be managing storage of mail given that agency branches do not have much storage capacity, and many would need to close if there had been no collections for 2 days or more. This would obviously have an impact on others sales and services. We have looked at out contractual position, but it does not appear as if we have many contractual levers.

(d) 3 year Strategy Implementation
- In response to a question as to the strategic plans for the use of the £210 million investment funding, the CEO responded that the GE were meeting shortly to work through these plans and that these would form part of the strategic update to the October Board.

(e) Security Operation Centre
- In response to a question the CEO advised that Fujitsu had been given the opportunity to bid for the SOC and disappointingly, their proposal was substantially more expensive than Verizon's.

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POLB 17/68 **LITIGATION UPDATE**

(a) The Board received a verbal update on the Postmaster Litigation from the General Counsel, noting that the Case Management Conference would be held on 19 October, and the outcome of the CMC would be directions given by the Court as to the conduct of the case over the next 12-18 months. There were key strategic issues to be decided as to Post Office's preferences for the sequence in which the legal arguments were to be addressed, and Post Office had receive legal advice as to the preferred sequence.

(b) The Board discussed the advice and its implications, and approved the proposed strategy.

POLB 17/69 **FINANCIAL PERFORMANCE REPORT**

(a) The CFOO presented the financial performance report for September 2017.

(b) The Board <u>noted</u> the financial performance report and in discussion the CFOO made the following points:

- In branch travel money sales were doing well following a lengthy period of under-performance, however on-line sales were down. Work was underway to understand the drivers of this, however there was a concern that FRES had changed their pricing to protect margin. Additionally it was thought that customers were leaving purchases until the last minute in which case in branch sales were faster.

(c)
- Performance across all FS businesses (FS &T, POMS & FRES) was of concern.

(d)
- Conversions of DMBs were behind plan with a consequent impact on staff costs.

(e)
- Within Supply Chain and also DMB higher than normal illness levels have created operational issues. In the case of Supply Chain they are under increased pressure for collections as a result of higher cash levels in the network.

(f)
- Cash losses have been a concern however additional audits are being undertaken and the number of material losses seem to be reducing. The resourcing model for branch oversight is being reviewed to ensure that branch losses can be monitored effectively and losses identified before they become material. There have been 80 agency branches shut since the beginning of the financial year of which 50 were due to suspensions (usually involving a loss > £10k). The position has improved recently and the rate of large losses seems to be declining. As part of the rollout of the new branch equipment, cash audits are being undertaken on a random basis of c 10% of branches. To date none of these random audits have identified cash losses. The CFOO also commented that compliance with the cash declaration process was improving.

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(g) On this point the Board stressed the importance of Post Office being seen by the agency network to take action proactively in relation to cash shortfalls.

(h) • The 5 + 7 reforecast was underway. There are a number of challenges including benefits expected in the Retail BU which will now be delayed until 2018-19. Nevertheless the CFOO expected that the £28 million EBITDAS target would still be achieved, although the factors contributing to that outcome may change.

POLB 17/70 **POMS PERFORMANCE AGAINST STRATEGY**

(a) The Chairman welcomed the POMS Chairman, Steve Ashton and the POMS Managing Director Rob Clarkson to the meeting to present their report on the performance of Post Office Management Services Limited (POMS) for full year 2016/17,.

(b) The Board noted the report and Mr Ashton and Mr Clarkson made the following additional points:

(c) • POMS is broadly on track with delivery of its longer term strategy, however there are challenges including:
  - Overspend and delay on implementation of the Zeus (travel insurance) platform has caused slippage on delivery of certain plans, however overall, the project had delivered he planned benefits.
  - There is increased regulatory attention on oversight of Appointed Representatives by regulated entities such as POMS which poses an increased pressure for branch sales;
  - The restructure of the marketing function has impacted adversely;
  - Changes to the branch distribution network through Project Finch have also impacted adversely.

(d) • POMS is responding to these challenges by reviewing its strategy – particularly around the car/van/home/ markets, and the POMS Board is reviewing the strategy at its November meeting. Among other issues, is the need to change and improve the distribution options.

(e) • There have been a series of successes and the transition to Royal London and better negotiated outcomes with Collinson have resulted in significantly increased margins.

(f) • The consumer focussed strategy being developed by the wider Post Office financial services business will assist in framing the POMS strategy, and there will be common challenges for IT, compliance and technology support.

(g) • There continue to be challenges between the strategic goal of building shareholder value, and the need to deliver in year targets.

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(h) During the subsequent discussion:

- The Chairman asked whether there was a clear enough guidance from the shareholder as to how to balance long and short term objectives. It was noted that there is investment available for longer term strategic development, however this will require identification of an investable proposition, which could include acquisitions or joint ventures.
- It was noted that the Post Office brand was well suited to a general insurance proposition and the POMS team should ensure there was a sufficiently ambitious plan to develop that brand value. For example, there were opportunities for home insurance as a result of increasing home automation.
- Digital channels need to become much stronger and the new marketing strategy would substantially aid this, although there are challenges to ensure that digital channels support customer retention measures. To this end better customer platforms and improved claims handling performance will be key to retaining customers. Innovation was needed as much in the distribution strategy as in manufacturing.

The Chairman thanked Mr Ashton and Mr Clarkson for their report.

POLB 17/71 ANNUAL REPORT AND ACCOUNTS 2016/17

(a) The Committee received a report from the CFOO which included a draft of the Annual Report and Accounts 2016/17 ('ARA'). The Board noted that the ARA had been considered by the Audit, Risk and Compliance Committee on 25 September 2017 which had recommended the ARA for onward submission and approval to the Board. The Board recognised that given timing the ARA was a living document and that changes continued to be made.

(b) The CFOO recognised that a significant amount of work had gone into the preparation of the accounts to address changes during the year, and that due to the delays in finalisation of the funding, additional work had been required to address post balance sheet events. In particular, since the last discussion of the draft accounts in May:

- The pensions scheme having closed as at end March 2017, the Trustees had arranged and effected a buy in of the pensions liabilities with Rothesay Life;
- Agreement on the future funding from government was necessary to establish the sustainability of Post Office;
- Significant work had been undertaken to establish that the impairment of assets could be reversed and to undertake the necessary work to validate the inclusion of those assets on the balance sheet, as well as to determine that the future approach to depreciation and amortisation was viable.

The combination of these had meant that significant work had been undertaken on the subsequent events review.

(c) The timetable for finalisation was as follows:

- Signing of the accounts targeted by the end of the week (29/9/2017)
- Announcement of the further funding could happen during the week commencing 2/10/2017
- Publication of the accounts could not occur until they had been laid before Parliament and the earliest date for this was in the week commencing 9 October.

(d) The Chair of the Audit & Risk Committee confirmed that at the Committee meeting the previous day, EY had confirmed the process that had been undertaken by them to prove that Post Office was sustainable going forward.

(e) The Board noted that the Chairman's and CEO's statements remained outstanding and that further work was required to ensure consistency between the various sections, and for EY to finalise their technical and quality review.

(f) The Board further noted that each director had been requested to review and sign their respective Certificates of Director's Remuneration and Interests in Shares, and that the details set out in each certificate had been reviewed by both the Finance and HR teams.

(g) The Board approved the ARA subject to finalisation and delegated authority to the Chairman, CEO and CFOO to finalise all outstanding matters and the text of the front end, and once done so to their satisfaction, to sign the accounts.

POLB 17/72 FUNDING DOCUMENTS

(a) The Chairman welcomed ME to the meeting to provide an update on the status of the funding documents.

(b) ME advised that the funding documents were substantially similar to those relating to the current funding period, and that once executed would replace the interim documents signed in March 2017.

(c) ME noted that there were two documents currently under negotiation:

a) the Entrustment Letter which set out the access criteria (including Services of General Economic Interest 'SGEI's); and

b) the Funding Agreement under which the Network Subsidy Payments for 2018-19, 2019020 and 2020-21 (totalling £160 million) , and the 'investment funding' of £210 million, would be paid.

Together the two documents required Post Office to:

- maintain a network of at least 11,500 branches, of which at least 11,000 must provide the SGEIs. These services, which are defined in the Entrustment Letter, include mails, access to cash (banking and POCA), bill payments and access to

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specific government services.
- meet the Access Criteria (as set out in the Entrustment Letter and which have not changed) which are designed to ensure a reasonable geographic spread of branches across the UK, based on population and post code districts.
- prepare and deliver a 3 year Strategic Plan for the 2018-2021 funding period by end November 2017;
- prepare and provide annual strategic plans in an agreed form before 31 March in each year during the funding period; and
- provide quarterly reporting of progress against the annual and 3 year Strategic plans.

(d) The key changes between the current funding documents and those under discussion relate to:
- payment mechanics as BEIS has indicated that it would prefer quarterly drawdowns;
- if the number of branches falls below 11,500 then Post Office would be required to develop a remediation plan for approval by the Secretary of State and if Post Office wished to withdraw SGEI services from the 11,000 branches Post Office would need to seek the Secretary of State's consent; and
- Post Office's quarterly reporting obligations to the Secretary of State.

(e) In addition ME advised that he had been discussing with BEIS whether it would be possible to amend the terms of the Post Office Credit Facility to review the commitment fee and rates, rates, move from weekly to monthly reporting and potentially introduce greater flexibility under the 'event of default' provisions in certain scenarios relating to the security headroom.

(f) ME advised that the State Aid process had begun and although the timeframes were tight, BEIS had advised that they believed it would be possible for the approval process to be completed in time to allow drawdown of the first tranche of the Investment Funding and the Network Subsidy Payment for 2018-19 in early April 2018, subject to delivery of the 3 year Strategy by the end of November 2017 and the Annual Strategic Plan by end March 2018.

(g) RC confirmed that this summary was consistent with BEIS' expectations.

RC left the meeting during the further discussion due to his conflict as a representative of Post Office's shareholder.

(h) In response to a question ME confirmed that BEIS had withdrawn their earlier proposals which would have given the Secretary of State additional approval rights over the application of funds.

(i) The Board noted that should a Labour Government be elected, then it was Labour party policy to nationalise Royal Mail Group,

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and it was likely that fundamental changes would be required to the Post Office Board and operating strategy. **The Board requested management to develop plans to address the possible scenario of an election and Labour victory.**

Action: Martin Edwards (j)

(k) The Board:

- noted the timetable for agreeing the revised funding documents;
- approved the terms of, and the transactions contemplated by, the following draft documents:
  - Funding Agreement between the Secretary of State and Post Office Limited contemplating a total of £160 million network subsidy payments for 2018/19, 2019/20 and 2020/21 and £210 million 'investment funding (the 'Funding Agreement');
  - Entrustment Letter being a letter from the Secretary of State for the Department of Business, Energy and Industrial Strategy addressed to Paula Vennells as Chief Executive Officer of Post Office Limited and headed 'Entrustment of Post Office Limited with the Delivery of Certain Public Services' (the 'Entrustment Letter' as further described below);

  (together: the 'Funding Documents')
- resolved to execute and perform each of the Funding Documents;
- authorised any director or Authorised Signatory to execute each of the Funding Documents on behalf of Post Office Limited; and
- authorised any director, Authorised Signatory or the Company Secretary to sign and/or dispatch all documents and notices to be signed and/or dispatched by it under or in connection with each of the Funding Documents.
- authorised the CEO and CFOO to negotiate and agree any amendments to the POL Credit Facility which have the purpose of improving pricing or giving POL greater operational flexibility in the management of cash in its operations, reviewing the interest rates, switching from weekly to monthly reporting and introduce greater flexibility around the use of proceeds and/or the authorised investments and the segregation undertakings and corresponding events of default , and
- authorised any director or Authorised Signatory to execute any amendments to the POL Credit Facility for this purpose.

ME left the meeting.

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POLB 17/74 CHIEF EXECUTIVE RETAIL PERFORMANCE REPORT

(a) The Chairman welcomed Kevin Gilliland to the meeting to introduce the commercial performance report for the Retail BU for period 5 and noted the paper.

(b) KG reported:

- Retail had had 5 positive months trading which offset delays in the implementation of DMB franchising and product simplification. In branch footfall remained stable and volumes and margins in mails continued to show good performance;
- Competitor activity continues to be of concern however the trial between Rymans and Doddle had ended after 3 months, and Rymans were now back in discussions with Post Office;
- Launch of the eBay shipping platform had been delayed to after Christmas and we were working with RMG to ensure that both parties were able to participate; this work is helpful in positioning future joint strategy work with RMG;
- Threatened industrial action at RMG remained of concern. 17 October was the likely earliest date for a strike. We are working closely with the RMG team to develop contingency plans. At this stage we believe that 24 hour rolling strikes are most likely affecting collections and deliveries alternatively.
- Product Simplification was launched this week which will be worth £11 million to the bottom line once fully rolled out. At the time of reporting over 5 million transactions have occurred using the simplified product processes, with only 22 emails received mainly regarding requests for support or complaints. Meetings have been held with multiples who were supportive of the rationale for simplification but were concerned about loss of remuneration. Transitional payments are being offered to all postmasters and we will work with postmasters – and particularly multiples, to consider cost savings measures.
- 'No Queues at Christmas 'is underway with a range of

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initiatives including increasing the number of Drop & Go accounts; remote diagnostic and fixing of SSKs; social media videos for customers; extra Christmas makers and staff (including a new lower paid back office role), all of which should have a positive impact on queues.

Action: KG

(c) KG was requested to consider:

- the economics of products – both for Post Office and agents given the declining volumes and margins, and have a view as to which products were genuinely necessary to support footfall;
- the implications of increasing use of Post Office supplied cash.

The Board noted the report.

POLB 17/75 TECHNOLOGY STRATEGY UPDATE

(a) The Chairman welcomed RH to the meeting to present his report.

(b) RH noted that this was the third in a series of presentations to update the Board on the development and implementation of the technology strategy. Focus at present was on:

- roll out of the branch technology upgrade which is challenging both in terms of the number and scale of the network, and the fact that was being delivered into third party sites which creates unexpected issues. The target is to have completed the hardware roll out by March 2018, and the upgrade to HNGA by June 2018, in each case to avoid increased costs arising from among other issues, failure demand. Already we are seeing positive reports from agents due to faster transaction processing. This will further improve as we move to HNGT which can be accessed via third party point of sale systems and which is particularly of benefit to the large multiples.
- Upgrade of the communications network from BT to Verizon and upgrade of ISDN lines. In branch routers are being replaced in every branch; while we are trying to coordinate engineer visits with the technology upgrade this is not always possible.

(c) In discussion, the Board noted that the combination of the upgrades currently underway and in planning will result in simpler processes, faster transaction times, and as a consequence reduced in branch training time as the system is more intuitive. This would assist in the discussions on agents' remuneration as well as improve compliance.

(d) RH also advised that his leadership team was now in place although attracting and retaining IT architects was currently an issue.

(e) RH further commented on the work underway to develop the

Digital Roadmap. FS was being prioritised although the outcome of the discussions with BoI needed to be factored in. the current focus was the customer journey for Travel Insurance and this was a joint effort between POMS and the IT team. The 'customer hub' is a platform for products which will be accessed through it, and therefore products and the platform needed to be developed in parallel. The investment return of launching the products on this platform will be carefully assessed.

(f) RH noted that discussions with Fujitsu were ongoing and that he would be reporting more specifically on these negotiations in October. He noted that the shape of the deal is now broadly agreed with a shift to a variable costs base, with savings invested in change. There are opportunities to develop greater digital capability and Fujitsu are keen to leverage their growing cloud, security and retail capabilities, of which we will seek to take advantage of cloud and retail technologies. Improved personal relationships at a senior level have proved helpful in moving the discussions forward.

(g) RH then update on the discussions with Atos which he described as 'testing'; there is a revised deal under discussion and although the revised position is not as good as he had hoped to achieve, it is better than the current model.

(h) Overall RH felt that as each of the programmes were developed and rolled out, both operational risk and cost were being reduced. Overall there was a better engagement between the business and IT, however there was still a cultural challenge in developing the mindset of 'digital by design'.

(i) The presentation concluded with a demonstration of the changes resulting from the redesigned branch software.

(j) The Board commented positively on the progress to date; noted that there was significant amount at stake and were sympathetic to temporary setbacks. They recognised the cultural challenge (digital thinking/approach to business) and asked to be kept up to date.

RH left the meeting.

POLB 17/76 BACK OFFICE TRANSFORMATION

The Board noted the paper and the CFOO commented on the following:

(a) • The replacement and transformation of POLSAP and HRSAP was challenging. As had been previously discussed with the Board, the systems were complicated and the supporting infrastructure was fragile, and as a result and as discussed at previous meetings, the overall cost of the programme had increased. There was still further work to be done to finalise the strategy - for example regarding Swindon where the benefits case remained outstanding.

(b) • While the plan was to continue with the current plans, there was a risk that POLSAP would need to be stabilised on short notice by way of upgrade. This is being monitored closely as the cost of the upgrade would be c£6 million and the CFOO noted that he was seeking delegated authority to incur this expenditure if it proved unavoidable.

(c) The CFOO also noted that he was seeking approval for drawdown of £7.3 million to deliver the next phase of work which would increase the cumulative investment in the Back Office Transformation to £16.2m for the period to end February 2018 which a total expected cost of Phase 1 of £20.9 million (including the contingency). Phase 2 will now include the changes to procurement and the Swindon stock ordering systems. A separate business case is under development in relation to these, and the site strategy for Swindon is being reviewed.

The Board noted that the total project could therefore cost up to £31.3 million and that further approvals would be sought once a more detailed view of the Phase 2 costs had been obtained.

The Board approved the drawdown of £7.3 million as requested.

(d) The Board noted that the potential stabilisation of POLSAP at a cost of c £6 million was effectively an insurance policy and that the objective was to get off the current infrastructure.

The Board therefore delegated authority to the CEO, CFOO and CIO to approve and incur the additional costs to upgrade POLSAP should that be required due to material increase in operational risk, at a cost of up to £6m.

POLB 17/77 **RATIFICATIONS**

(a) Modern Slavery Transparency Statement
The Board approved the 2017/18 Modern Slavery Transparency Statement (in respect of POL and POMS) as recommended by the Audit, Risk and Compliance Committee (minute POLARC 17/60) but noted the need for training to enable field teams and others to recognise the risks and indicia of modern slavery, as well as the development of reporting processes.

POLB 17/78 **ITEMS FOR NOTING**

Register of Sealings
(a) The Directors resolved that the affixing of the Common Seal of the Company to documents numbered 1544 to 1575 inclusive in the seal register was confirmed.

Health and Safety
(b) The Board noted the paper and the CFOO noted the following updates:

- Following the Grenfell Tower fire cladding on the four Post Office owned and occupied multi-story buildings had been tested with no adverse findings;
- An incident had occurred at the Muswell Hill branch (a RMG owned property) where signage had fallen down and injured

pedestrians. Following this, signage had been reviewed on all RMG shared sites, and checks were ongoing in relation to fabric quality at all owned or shared sites. The relevant contractual obligations were being considered.

- An independent 3rd party audit had been commissioned of the Health & Safety Framework and the results of this were expected before the end of the calendar year.
- Overall accidents rates were flat against the previous year and were no discernible patterns as to causation. We are monitoring measures such as LTIFR (Lost Time Injury Frequency Rate) to ensure that changes resulting from the reduction in workforce numbers was not resulting in increased stress or other unintended outcomes which could also impact injury and illness rates.
- The Road Travel Policy was being reviewed, and telemetry trails were underway in Belfast. There was concern that we had limited visibility of the 'grey fleet' (where employees used their own car for business purposes) and work was underway to understand the risks around such usage.

(c) Health and Safety in the Agency Network
The Board noted the Directors' Duties explained in the Health and Safety in the Agency Network report.

(d) Meeting Dates and Forward Agenda for September 2017
The Board noted the future meeting dates and proposed forward agenda. Ms Holmes note that she had a conflict on 1 February, 2018 and **the Chairman requested that the Secretary see if an alternate date could be identified**.

Action: Company Secretary

POLB 17/79 ANY OTHER BUSINESS

(a) The Company Secretary advised the Board that at its meeting ARC that morning, the ARC had reviewed the proposed insurance renewal for Post Office Limited and summarised the changes to the policy cover including:

- Aligned renewal dates across all policies
- Extended cyber insurance across Post Office, and
- No change to the other coverage including Directors & Officers Insurance.
- The Company Secretary noted that the renwal was within the CEO's delegated authority and therefore would be renewed, effective 1 October 2017.
-

(b) Tim Fanklin noted that he had been requested to join the Board of Topaz Finance Limited which was an FCA regulated provider of mortgage services and part of the wider Computershare Group. He also noted that he expected to step down from the Land Registry Board in January.

(c) There being no further business the Chairman closed the meeting at 3.00pm.

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Chairman **Date**

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Status Report as at: 25/10/2017

Post Office Limited Board

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
31 January 2017 POLB 17/11 (d)	Board Effectiveness Review Reconsider the proposal for an independent advisor to the Board after the IT strategy presentation at the July Board meeting.	**Ken McCall/ Rob Houghton**	October 2017 Board	Underway and there will be an independent review presented at the October Board.	To Close
28 March 2017 POLB 17/25 (j)	FS Growth - POMS As part of the long term financial services strategy, a potential future move into underwriting activities would be brought to the Board for further discussion at the appropriate time.	**Nick Kennett**	Board Date TBC	This is a long term strategic option and as such, a Board date has not been assigned. Nick will revert in due course as/when POMS are ready to proceed.	Open
25 May 2017 POLB 17/36 (d)	CEO Report - Identity Services The CEO explained the enhanced Verify product which would be launched in June and was likely to include a digital driving licence product. The new product would be helpful for vehicle rental companies and Ken McCall offered advice in accessing this market. Post Office as the Verify market leader had been chosen to launch this new service in advance of other suppliers and this would help cement the position in the market.	**Martin Edwards / Ken McCall**	October 2017 Board	Action originally assigned to Kevin Gilliland for September Board but this falls within Martin Edward's remit and has been reassigned accordingly, and is on the agenda for October.	To Close
25 May 2017 POLB 17/36 (h)	CEO Report - Industrial Relations The CEO reported that the Company was still in dispute with the CWU and UNITE unions although the UNITE dispute was closer to resolution. The Board discussed the reduction in number of CWU reps paid for by the Business which had reduced from nineteen to six. The Board challenged the practice of paying for any union reps and asked the CEO to check why the union were not paying for their reps.	**Martin Kirke**	October 2017 Board	To be addressed in Industrial Relations Project Jay report at October Board.	To Close

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REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
25 May 2017 POLB 17/40 (e) (f)	Mails Strategy Update The Board asked KG and MS to continue to develop the next best alternative work in parallel with an emphasis on the technical integration, and to return to the Board with a view on how quickly they could be implemented if the negotiation do not deliver what is needed. The Board asked the CEO to ensure she had the strongest negotiation team possible.	**Kevin Gilliland / Mark Siviter**	November 2017 Board	Timescales for implementing our full next best alternative (NBA) (including USO/captive core volumes) is in the region of 30 months, driven by procurement, organisation capabilities and IT integration. As set out in our May Board paper, the decision to commence full NBA preparation would be needed by November 2017 in order to achieve a go live of early 2020, the point exclusivity falls away. Initiating the next phase of NBA preparation will entail discussions with the market for the provision of services and distribution. Given our recent progress with Royal Mail with the acknowledgment of complex interdependencies to deliver the USO, resulting in increasing interest in renewing long term exclusive arrangement (possibly by June 2018) such a decision would send a strong negative signal to both RM and the market, and would therefore require careful consideration. Update on the outcome from the Mid-Term review to come to the November Board.	Open
26 Sept 2017 POLB 17/72 (j)	Funding Documents The Board requested management to develop plans to address the possible scenario of an election and Labour victory.	**Martin Edwards**	November 2017 Board	To be included in the Strategy update for November	Open
26 Sept 2017 POLB 17/74 (c)	Chief Executive Retail KG was asked to consider (a) the economics of products - both for Post Office and agents given the declining volumes and margins, and have a view as to which products were genuinely necessary to support footfall and (b) the implications of the increasing use of Post Office supplied cash.	**Kevin Gilliland**	November 2017 Board	To be addressed in the CE Retail report for November.	Open
26 Sept 2017 17/78 (d)	Meetings Noting that the meeting scheduled on 1 Feb 2018 would create a schedule conflict for Virginia Holmes the Chairman requested that the Secretary see if an alternate date could be identified.	**Company Secretary**	October 2017 Board	Meeting now moved to Monday 29 January	Closed

CEO's Report

Author: Paula Vennells   Meeting date: 31st October 2017

Executive Summary

Context

Our target for 2017/18 is to achieve EBITDAS of £28m. Our 3 year goals are to:

→ Accelerate the transformation of the Post Office.
→ Secure commercial sustainability for the long term.
→ 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?

Conclusions

Performance is on track and preparations where they should be as we approach peak season. We need to keep an eye on costs, but at this stage I am reassured that is the case.

Business planning is under way: we have finalised the strategic plan (to be covered at this Board meeting) and we are now working on 18/19 Operating plan.

Good progress is being made on IT strategy and in our negotiations with suppliers; there is still no room for complacency. Rob is leading this well.

Input Sought

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

The Report

Looking Back

WHAT HAS GONE WELL?

- **Financial Performance – P6**
  - → Reporting EBITDAS of £(0.1)m in P6 (£0.7m favourable to budget) and YTD of £4.4m (£2.7m favourable to budget). Trading performance in the month was in line with performance of prior months (marginally ahead of budget). We are still on track to deliver £28m EBITDAS for the year, albeit the shape of delivery is different.
  - → Balance sheet headroom in P6 was £36m, £71m lower than budget with higher drawings on the loan offset by lower NRF usage (£70)m to ensure a positive net capitalisation position with the Bank of England for the end of their financial year.

- **Revenue performance**
  - → Sales performance continues to be strong and forecast for full year remains to deliver income of £17m over plan. All areas of the Retail Business Unit are currently ahead of plan, as is Telephony. Banking, POMs and Travel Money continue to perform above forecast and above prior year.

- **Branch simplification**
  - → Phase 1 of simplification went live on 19 September. This involved simpler, quicker Mails transactions across the whole network. We are sharing the benefits of the efficiencies equally with postmasters, allowing us to realise £11.65m of recurring P&L benefits across Phase 1 and 2 of simplification (Phase 2 goes live in March 2018 and this will introduce faster printers in branch). We are reducing workload by 7.4% and remuneration by 3.1%. We had expected a negative reaction from some postmasters however the response has been quieter than expected – our helpline has had fewer than 100 calls in 4 weeks.

- **Government affairs**
  - → I met with the Secretary of State for Scotland on 11th October and on 18th October I hosted a drop-in session for MPs in Westminster. Without exception each Minister and MP I spoke to recognised how critical post offices are to communities and how as a business we are a beacon in government – run commercially for the sole benefit of delivering a social purpose to communities and great products and services for customers.

- **IT**
  - → Rob Houghton's team ran a Hackathon with FJ for an agent portal on 18th October – this was supported by NSPF and independent Postmasters. The team delivered a demonstrable M.I mobile application delivered within 2 days. Rob's team is now progressing with this.
  - → We have finalised the contract changes with ATOS. This will reduce the Opex costs by £1.2m p.a. saving in Opex achieved through the termination of services deemed non-value and re-engineering efficiencies in service lines. This saving will be back dated to 1st July 2017 to achieve current year savings. In addition, we have significantly reshaped the delivery of change and are saving money daily through insourcing the change process.
  - → The MoU with FJ is complete and will be discussed in October board.

- **Corporate Affairs**
  - → As a result of our work following the publication of the Lords Committee report on Financial Inclusion, Post Office was invited to a meeting with Margot James MP and Guy Opperman (Minister for Pensions and Financial Inclusion, DWP), to discuss how Government can assist Post Office in working with banks to mount a major public awareness raising campaign in early 2018. This will both stimulate transaction levels in branch, and ensure that the universal access to the financial system the Banking Framework provides gains widespread recognition. Post Office will also be meeting to discuss this with the Economic Secretary to the Treasury over the Autumn period.
  - → A drop-in session for MPs hosted by the CEO and the public affairs team took place on 18 October in the House of Commons. This yearly event provides MPs with a further opportunity to talk about both local and national Post Office issues of interest and concern to them, and their constituents.
  - → The CEO met with the Secretary of State for Scotland. It was a positive meeting with discussions around our plans for Scotland. This would help with the 'Trapped PO's'. (see network paragraph, pg4)

- **Colleague engagement**
  - → Focus on improving internal engagement continues to be a key priority. This month, we held a Chief Executive Question session giving people across the business an opportunity to ask any questions they have. It was a well-attended event with live stream option available for colleagues not based at Finsbury Dials. Questions covered a range of areas, from our role in communities, commercial experience of the Board, and future plans for the DMB network.

→ Planning is now underway to develop an exciting and sustained communications campaign for the Strategy for the funding period to 2020/2021.

→ We held our second D&I event in Chesterfield in October with approx. 60 colleagues from across the business. It was a great day celebrating the diversity of our people with colleagues sharing their stories, good debate and many commitments made by colleagues to promote this across the business even more. We were joined by Alwen Lyons who came back to present the first of the Alwen Lyons Awards. Alex Clarke won the first award for his contribution to D&I across the business, in particular setting up the Be You Group for disability confidence in Post Office.

WHAT HAS NOT GONE WELL?

- **Revenue performance**

→ Personal FS and Moneygram: all categories are behind budget and prior year.

- **Network**

→ The number of branches reduced by 16 in the month and is now 11,558, 75 behind target. Network Numbers remain under pressure from the increased number of postmaster suspensions for losses together with a higher than anticipated level of churn in the Network overall. YTD we have had 102 unplanned closures of which 55% were due to suspension following losses identified at audit.

→ A number of interventions are underway to deliver white space premises and a simpler appointment process. Additionally options are being reviewed to assist postmasters in converting premises.

→ Challenges are increasing from MPs and the NFSP re "Trapped Postmasters". We shall address this in the Network Strategy Plan for 18/19.

- **IR**

→ Remains troubling as we plan to reduce full time union representatives with the CWU and settle the 17/18 pay deals with Unite. CWU internal uncertainties are making the union responses more volatile than previously. We continue with our plans and remain within mandate.

- **IT**

→ Since the last update we have managed to secure a critical extension to ISDN until the end of November. Progress in fully eradicating ISDN is still challenging due to a combination of factors. We have also selected a new hardware device (Box Cielo) for rollout and built plans to continue some level of deployment through the Christmas change freeze.

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→ Credence has again hit issues on transition and our current forecast is November; if we are unable to deliver to this date then it will need to slip into January due to the change freeze. We are spending significant time ensuring its right as its fundamental to our reporting cycle.

Looking Ahead

FUTURE FOCUS

- **IT strategy**

→ An independent review of the IT strategy was discussed at GE this month. The review agreed with the overall direction of the strategy and provided useful guidance in four main areas:

  - Bring the Post Office Strategy to life linking it to the financial plans and making it tangible to all Post Office colleagues.
  - Improve the quality of portfolio management and change management to flag likely risks and issues rather than just 'keep score'.
  - Consider some other potential business enhancement opportunities.
  - Strengthen delivery of the IT Strategy to reduce delivery risk.

→ Rob Houghton will provide a management response to the review along with actions and any improvements to be made. This will be reported to the Board in November.

- **Interest rate increases**

→ We have agreed in principal with BOI that in the event of base interest rate changes the mortgage back book will move up in line with any increases. On the mortgage front book, swaps have already moved in anticipation of a 25bps move and we are repricing in line with that. We may make additional adjustments if swaps move further.

→ On the savings back book, we will move in line with the competition; if competitors pass the full benefit on, then we will too. At the Partnership Board on 24th October tactics were discussed as part of the wider agenda to ensure we have the right focus on our reputational risks. On the savings front book, we expect broadly to pass on the base rate change in product pricing.

- **Christmas planning**

→ We are making good progress with our planning in the lead up to Christmas. All activities connected to our "No queues at Christmas" strategy remain on track with a strong start to internal volunteer registration levels.

→ SSK improvements for Confirmation of Posting no longer requiring host intervention is due for testing on 24th October and is on track for roll out. This will reduce waiting times for a majority of SSK customers, and removes the need for colleague intervention.
→ Waiting times have improved in the pilot offering the streamlined Drop & Go service. This incorporates the 'test' lower pay grade back office role, which we plan to introduce post Christmas to improve ongoing efficiencies.

RISKS OR CONCERNS?

- **Royal Mail industrial action**

→ Royal Mail were successful in their application for an injunction preventing the CWU from undertaking strike action pending third party mediation. The immediate threat of Industrial Action by CWU has receded until December 21st at the very earliest (Note 21st is the last posting day before Christmas, if industrial action went ahead it could have a big impact). Whilst this is good news as it reduces risks over our peak period, until a deal is announced the risk remains real into Q4.
→ We have engaged closely with Royal Mail to ensure the necessary contingency plans are in place to keep Post Offices open for business. We have had good co-operation from RM and are confident that the delay until December will allow RM to ensure suitable plans are in place. As a contingency, and a means to free up their own resources, we have also worked with RM to explore the options for Post Office to operate its own branch collection service using third party agents. A further update to follow on this next month.
→ Discussions continue with Royal Mail on the future relationship. These are progressing positively with the focus shifting from a mid-term review to renewal of the long term relationship. We will provide a full update to the November Board.

- **POca**

→ Discussions with DXC and JPM continue with the aim of finalising the new POca agreement.
→ Negotiations have been more difficult than expected, driven mostly in response to upcoming changes in the bank regulatory landscape (particularly the Payment Services Regulations 2017 or PSR 2017). As a result, DXC/JPM have changed the terms of the agreement we reached in July to pass additional cost onto POL. These costs would be passed onto POL whether we agree a new contract or extend under the terms of our current contract.
→ The key issue is that PSR 2017 requires an increase in statement frequency from two to twelve, at an estimated cost of £12m - £15m. We have approached the FCA with the support of DWP and HMT to seek an exclusion to this requirement.

→ Despite the change in terms we believe that, on balance, the certainty provided by the new agreement is better for Post Office as opposed to extending under the old agreement and beginning negotiations again (likely going into dispute resolution). Increased revenue as a result of higher than anticipated LIBOR forecasts is counter-balancing the additional PSR 2017 costs; and an exclusion from the requirement for monthly statements would improve product performance from the position presented to the Board in July.

→ We are seeking to reach final agreement on the new contract as soon as possible. If we are unable to reach agreement we are still able to extend the current contract.

- **UKVI**

→ We have recently agreed an extension to our contract with UKVI for the bio-metric residency permit service until November 2018. At the same time, they have launched their procurement exercise for the service beyond that date.

→ Their procurement is based around outsourcing all visa application processing in the UK for the next 5 years and is quite different from the service that we currently provide. It includes all back office processing alongside subsuming the scope of the 'BRP' service we currently provide for capturing biometrics from visa applicants and is based in a small number of application centres rather than a disperse network.

→ The procurement has been beset by repeated delays and information to inform potential bidders has been slow to emerge from UKVI.

→ Although the new service is a poor fit with Post Office's core activities, given the uncertainty, we intentionally submitted a bid as a prime contractor to keep our options open. This was unsuccessful as expected owing to our lack of experience in scanning and processing documents.

→ However, it has created the opportunity to partner with one of the world's largest visa processing companies (and UKVI's incumbent supplier for visa applications abroad) where Post Office would offer customers the opportunity to pay a premium to make their application in a branch that would be more conveniently located for them.

→ This would have the benefit of continuing to offer customers a service they value in a Post Office; utilising the AEI network; and supporting our wider identity strategy. There may also be further benefits to be derived from a partnership with a company that provides visa application services worldwide.

→ We are in the process of completing discussions with our potential partner to allow for submission of a bid by 9 November.

- **Postmaster Litigation**

→ Case Management Conference was held on 19 October in relation to the Postmaster Litigation and a short update was provided to the Board following the hearing. Work will now focus on preparing the disclosure materials,

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undertaking the work to identify the pool of 12 cases from which the 6 lead cases will be selected, and generally commencing planning and preparatory work for the trial. We will also review the likely costs over the next 13 months.

→ A verbal update will be provided at the Board on 31 October and we have scheduled a more detailed briefing for the Board in November.

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September 2017
Financial Performance

Al Cameron
31 October 2017

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Trading performance continues in line with recent trends. EBITDAS +£2.7m ahead of budget ytd. Full year forecast maintained at £28.0m (in line with budget).

Context

- YTD P5 EBITDAS performance was £4.5m. £2.0m favourable to budget.
- At end of FY 16/17, cash in Network was £666m and balance sheet headroom was £189m
- P6 budget EBITDAS is £(0.8)m

Questions

- How is our scorecard performance in P6?
- What is the financial performance of the business in P6?
- Are we appropriately funded?

Assumptions

- For the purposes of this pack the reversal of our impairment policy has been applied and assets are now capitalised and depreciated on a monthly basis in line with the 2016/17 annual report.

Conclusions

- Reporting EBITDAS of £(0.1)m in P6 (£0.7m favourable to budget) and YTD of £4.4m (£2.7m favourable to budget).
- Trading performance in the month was in line with performance of prior months (marginally ahead of budget).
- We are still on track to deliver £28m EBITDAS for the year, albeit the shape of delivery is different. An update is provided in this report.
- Balance sheet headroom in P6 was £36m, £71m lower than budget with higher drawings on the loan offset by lower NRF usage (£70)m to ensure a positive net capitalisation position with the Bank of England for the end of their financial year.

Input Sought

- The Board is asked to note the financial performance.
- The Board agrees that from P7 we monitor Actuals v Forecast (5+7), with limited budget comparisons

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Branch numbers continue to track below targets

Key Performance Indicators	P6			YTD			Full Year
	Act	Target	Var.	Act	Target	Var.	Target
Growth							
Total Gross Income (excl NSP) £m	72.3	71.0	1.3	463.3	456.0	7.3	945.0
EBITDAS £m	(0.1)	(0.8)	0.7	4.4	1.7	2.7	28.0
Headroom £m (vs Board minimum limit)	236	> 200	36	236	> 200	36	> 200
Digital Net Income £m (digital team)	3.3	3.6	(0.3)	21.5	23.6	(2.0)	45.0
Net profit £m [1]	0.6	0.6	0.0	6.9	6.9	0.0	8.3
Customer							
Customer Effort	82%	76%	6%	78%	76%	2%	76%
Net Promoter score Financial Services	25	25	0	25	25	0	25
Acceptable Wait Time %	94%	95%	(1)%	93%	95%	(2)%	95%
Branch Compliance - Financial Services - basket of 11 measures	0	<=50	50.0	25	<=50	25	<=50
People							
Representation (Senior Managers) - Gender	38%	37%	1.2%	38%	37%	1.2%	37%
Attendance	95.9%	96.7%	(0.8)%	96.5%	96.7%	(0.2)%	96.7%
IT Lost Time (Number of Sev1/Sev2 IT incidents)	3	13	10	40	78	38	<156
Safety LTIFR	0.000	0.180	0.180	0.283	0.180	(0.103)	0.180
Modernisation							
Number of branches (one month in arrears)	Same as YTD			11,558	11,633	(75)	>=11,700
NT and ND Branches Transformed in Year	43	40	3	257	217	40	400
HGNA Rollout [2]		TBC		764	1,709	(945)	100% Aug 18
IT Transformation (% of IT controls implemented)	63%	59%	4%	63%	59%	4%	All high risk gaps closed

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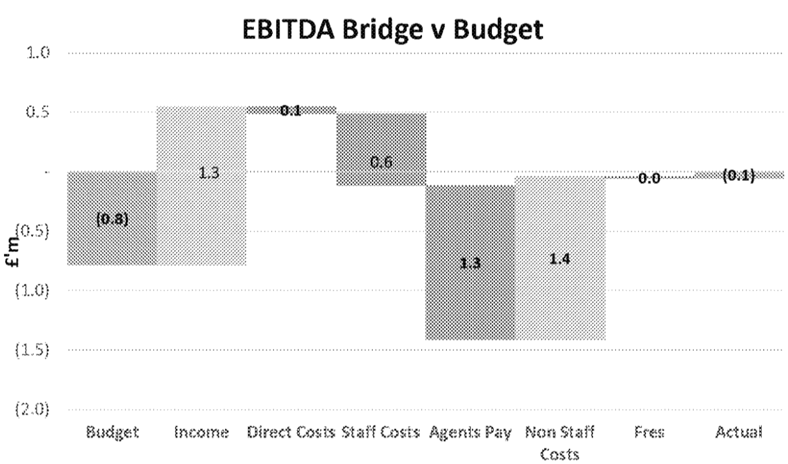
Branch numbers continue to decline and track below targets

- **Digital Net Income**
  - Digital Income, £(0.3)m adverse to target and £(2.0)m adverse YTD.
  - The shortfalls in the month were again driven by Travel, £(0.3)m adverse in the month and £(2.4)m adverse YTD. Budget uplifts in volumes due to natural search increases have not been delivered.
- **Acceptable Wait Time**
  - Acceptable wait time in the month and YTD was 94%, (1)% adverse to target. This however represents a significant year on year improvement of 1.5%.
  - A key focus in the forthcoming weeks will be the No Queues at Christmas initiative. Significant progress has been made in resourcing DMBs, recruitment for Christmas casuals is progressing and 2,000 of the 2,900 Christmas were filled in 4 days.
- **Attendance**
  - There is an emerging trend of long term absence in Directly Managed Branches and Supply Chain continues.
  - Absences continue to convert from short to long term including a number of musculoskeletal cases in Supply Chain. A detailed review of the Supply Chain absence is underway and depot visits have commenced.
- **Network**
  - Number of branches reduced by 16 in the month and is now 11,558, 75 behind target. Network Numbers remain under pressure from the increased number of postmaster suspensions for losses together with a higher than anticipated level of churn in the Network overall. YTD we have had 102 unplanned closures of which 55% were due to suspension following losses identified at audit.
  - A number of interventions are underway to deliver white space premises and a simpler appointment process. Additionally options are being reviewed to assist postmasters in converting premises.

P6 EBITDAS is £0.7m favourable to budget. Underlying performance in line with budget in the month

£m	P6 Act	P6 Var Bud	P6 Var PY
Gross Income	**72.3**	**1.3**	**(0.1)**
Direct Costs	(10.0)	(0.1)	(0.9)
Net Income	**62.3**	**1.3**	**(1.0)**
Staff Costs	(14.2)	(0.6)	3.6
Agents Pay	(28.3)	(1.3)	0.3
Non-Staff Costs	(22.7)	1.4	(1.4)
Expenditure	**(65.3)**	**(0.5)**	**2.5**
FRES - Share Of Profits	2.9	(0.0)	(0.5)
EBITDAS	**(0.1)**	**0.7**	**1.1**



- **Gross income** – £1.3m favourable. Continuing overperformance in Retail (+£1.7m). FS&T revenues (+£0.3m) driven by Telecoms (+£1.0m) due to strong performance in underlying business. New Call revenues (£1.6m) track slightly ahead of budget in month following acquisition in P5. Shortfall in POMS (£0.8)m with misses in Travel, Car, Home and Life insurance. Further details provided on slides 7 & 8.
- **Staff costs** – £(0.6)m adverse. Overspends in Retail £(0.6)m continue due to delays in branch conversions. Further details on slide 8.
- **Agents pay** – £(1.3)m adverse and continuing to track in line with YTD trends due to favourable revenue variances in Retail and the channel/product mix.
- **Non-staff costs** – £1.4m favourable includes:
  - £0.3m benefit from brand and marketing spend. Spend has been reviewed as part of the reforecast process.
  - £0.7m from property costs, part timing of spend and part cost savings.
  - £0.9m of in year IT cost benefit as a result of detailed cost reviews undertaken as part of the forecast process.

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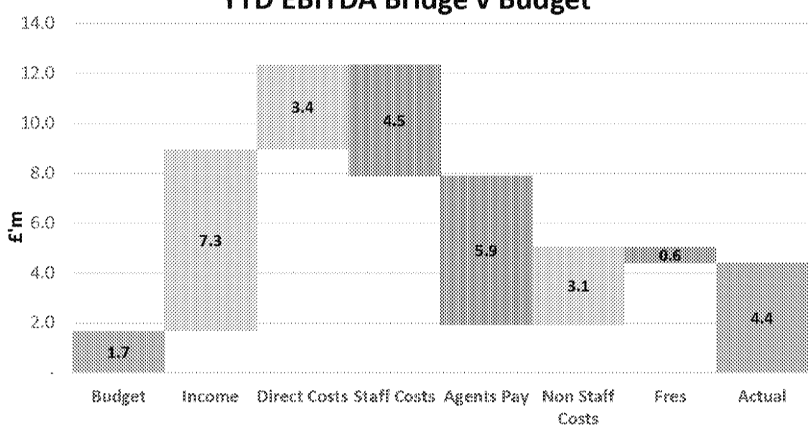
YTD EBITDAS is £2.7m favourable to budget

£m	YTD Act	Var Bud	Var PY
	YTD		
Gross Income	**463.3**	**7.3**	**(8.8)**
Direct Costs	(59.8)	3.4	(3.6)
Net Income	**403.5**	**10.7**	**(12.4)**
Staff Costs	(91.2)	(4.5)	23.9
Agents Pay	(183.5)	(5.9)	8.3
Non-Staff Costs	(141.0)	3.1	1.8
Expenditure	**(415.7)**	**(7.3)**	**34.0**
FRES - Share Of Profits	16.6	(0.6)	(3.9)
EBITDAS	**4.4**	**2.7**	**17.6**

YTD EBITDA Bridge v Budget



- **Gross income** – £7.3m favourable.
  - Retail +£14.1m with strong performance in Parcelforce, Labels, RM Signed for, Lottery and Government Services. Significant year on year decline £(14.5)m driven by Government Services £(11.0)m.
  - FS&T £(4.6)m adverse to budget driven by delays in New Call launch £(6.0)m ytd and declines in Moneygram revenues £(2.1)m due to drop in volumes following Brexit.
  - Strong performance in other Telco areas due to c.32,000 additional customers (driven by closing 2016/17 base) partially offsetting these declines.
- **Staff costs** – £(4.5)m adverse. Overspends in Retail £(3.2)m due to continuing delays in branch conversions and Supply Chain challenges £(1.6)m.
- **Agents pay** – £(5.9)m adverse and continuing to track in line with YTD trends due to favourable revenue variances in Retail.
- **Non-staff costs** – £3.1m favourable with significant underspends in marketing £2.7m driving the variance. Following review, these savings are now anticipated to be crystallised in the full year outturn.
- **FRES** – £(0.6)m shortfall ytd but full year expectations are that FRES will deliver ahead of budget.

Retail revenues +£14.1m favourable to budget but declining year on year

£m	P6 Act	P6 Var Bud	P6 Var PY	YTD Actual	YTD Var Bud	YTD Var PY
Parcelforce	1.4	0.2	0.1	8.9	1.4	0.7
Special Delivery	3.6	0.1	(0.0)	24.2	0.4	(0.2)
International Priority & Standard	0.8	0.1	0.1	5.3	0.7	0.6
Stamps (1st & 2nd)	1.3	(0.1)	(0.2)	8.8	(0.6)	(1.0)
Labels (1st & 2nd Class)	6.6	0.3	0.5	43.7	1.0	2.0
RM Signed For	1.7	0.2	0.0	11.2	1.6	0.3
Home Shopping Returns	1.2	0.1	0.2	8.3	0.4	1.2
Other Trading	2.7	(0.1)	0.0	17.4	(0.3)	(0.1)
Total Mail Trading	19.3	0.8	0.8	127.9	4.6	3.5
Fixed fee	3.8	0.1	(0.2)	24.9	0.4	(1.6)
Mailwork & Mails non trading	0.8	(0.1)	(0.3)	5.0	(0.5)	(1.5)
Total Mail Non-Trading	4.7	(0.0)	(0.5)	29.9	(0.2)	(3.1)
Retail (Inc Gift cards & Other)	0.9	(0.1)	0.1	5.7	0.2	0.0
Lottery	2.4	0.4	(0.1)	15.7	2.9	(0.9)
Retail and Lottery	3.3	0.4	0.0	21.4	3.0	(0.9)
Payment Services	2.0	(0.1)	0.0	13.3	0.4	(1.7)
ATM	2.3	(0.2)	(0.3)	15.5	(0.4)	(1.3)
Payment Services	4.3	(0.2)	(0.3)	28.8	(0.1)	(3.1)
Motoring Services	0.5	0.1	(0.2)	3.7	0.4	(0.7)
Card Account	3.6	0.3	(1.4)	23.0	1.9	(10.0)
Passport Services	1.1	0.4	(0.1)	11.8	4.5	(0.8)
Digital ID Serv UKVI & Asylum	1.5	0.3	0.2	7.2	1.0	0.5
ID - Assurance (Verify)	0.5	(0.3)	0.1	3.3	(1.1)	0.8
Other Government Services	0.0	(0.0)	(0.1)	0.6	(0.1)	(0.7)
Government Services	7.3	0.8	(1.5)	49.6	6.7	(11.0)
Total Retail	**38.9**	**1.7**	**(1.5)**	**257.5**	**14.1**	**(14.5)**

Retail

- Continued strong performance in the month following recent trends across all revenue pillars.
- Revenue growth over the balance of year will however slow due to delays in launch of Digital Check and Send.
- The Full Year Retail EBITDA performance is expected to be c.£3.1m ahead of budget.

FS&T £(4.6)m adverse with shortfalls in Moneygram £(2.1)m and Telecoms £(1.6)m

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£m	P6 Act	P6 Var Bud	P6 Var PY	YTD Actual	YTD Var Bud	YTD Var PY
Total Retail	**38.9**	**1.7**	**(1.5)**	**257.5**	**14.1**	**(14.5)**
Mortgages	0.2	(0.1)	(0.0)	1.4	(0.7)	(0.3)
Credit Cards and lending	0.2	(0.1)	(0.0)	0.9	(0.6)	(0.5)
Savings	3.4	0.0	(0.3)	20.2	(0.0)	(1.9)
Travel Money	2.4	0.2	0.1	14.9	0.6	0.7
MoneyGram	2.4	(0.3)	0.1	13.5	(2.1)	(1.4)
Post Office Money	8.6	(0.3)	(0.2)	50.9	(2.8)	(3.4)
Banking Services	6.6	(0.1)	1.2	42.5	1.1	11.2
Telecoms	12.4	1.0	2.3	72.6	(1.6)	9.0
Postal Orders	1.1	(0.1)	(0.3)	7.6	(0.7)	(2.2)
Other Income	0.0	(0.2)	(0.0)	0.0	(0.5)	(0.1)
FS&T	**28.7**	**0.3**	**3.1**	**173.6**	**(4.6)**	**14.6**
POMS	3.5	(0.8)	0.1	25.2	(2.2)	2.1
Total FS&T	**32.2**	**(0.5)**	**3.2**	**198.8**	**(6.8)**	**16.6**
Supply Chain	0.9	0.1	6.9	5.1	(0.2)	(0.8)
Other Income	0.3	0.0	(8.7)	1.9	0.1	(10.1)
Total Revenue	**72.3**	**1.3**	**(0.1)**	**463.3**	**7.3**	**(8.8)**

FS&T

Year on year Growth in Telecoms and Banking Services offsetting declines in traditional banking products.

- **Moneygram**: A return to marginal year on year growth for the first time since P1. Counteractive measures continue to try and drive increased volumes with branch visits to assess promotional opportunities, better customer retention and targeted marketing spend.
- **Telecoms:** Continuing overperformance in underlying business due to c. 32,000 additional customers v budget. New Call acquisition in the month delivered £1.6m of revenue and is performing marginally ahead of budget (£1.4m). Delay of New Call acquisition has led to c.£6.0m ytd revenue shortfall against budget.

POMS

- Shortfall in the month across (£0.8)m with misses in Travel, Car, Home and Life insurance.

Delay in branch conversions and challenges in supply chain lead to overspend in staff costs

Total	Month			YTD		
£'m	Actual	Bud	Var Bud	Fcst	Bud	Var Bud
Wages & Salaries	10.1	10.4	0.3	63.7	65.6	1.8
Overtime	0.3	0.3	0.0	2.3	2.0	(0.3)
Contractors & Temporary Resource	0.4	0.1	(0.4)	2.6	0.3	(2.3)
Employers NI	1.3	1.3	(0.0)	8.9	8.1	(0.8)
Pension	1.3	1.3	(0.1)	8.2	7.9	(0.4)
Staff Costs - Run Rate	**13.5**	**13.3**	**(0.1)**	**85.8**	**83.8**	**(2.0)**
Bonus & Productivity	0.8	1.2	0.5	5.4	6.3	0.9
Staff Costs Efficiency Target	-	(0.9)	(0.9)	-	(3.3)	(3.3)
Staff Costs - Total	**14.2**	**13.6**	**(0.6)**	**91.2**	**86.9**	**(4.4)**
Staff & Agency Related Costs	1.1	1.0	(0.1)	5.5	4.8	(0.7)
Consultancy & Advisory Services	0.9	1.2	0.2	1.8	1.3	(0.5)
Brand & Marketing	1.7	2.0	0.3	8.0	10.7	2.7
Legal Costs	0.4	0.4	0.0	2.2	2.2	(0.1)
Property & Facilities Management	2.9	3.6	0.7	20.5	22.9	2.4
Vehicles	0.2	0.3	0.1	1.9	2.1	0.2
IT Infrastructure & IT Services	7.2	8.1	0.9	50.6	50.9	0.2
Finance Costs	1.6	1.1	(0.5)	8.2	8.8	0.6
Losses	0.9	0.7	(0.3)	5.3	4.0	(1.3)
Other Operating Costs	5.8	5.8	0.0	37.0	36.3	(0.7)
Non staff Costs	**22.7**	**24.1**	**1.4**	**141.0**	**144.0**	**3.0**
Total Costs	**37.0**	**37.7**	**0.8**	**232.2**	**230.9**	**(1.4)**

Staff costs £(4.4)m adverse YTD:

- £(3.2)m due to Retail driven by delays in branch conversions. The gap is anticipated to continue throughout the financial year and this is partially mitigated by reductions in agents pay.
- £(1.6)m is due to Supply Chain with budget task £(0.8)m not achieved, adverse overtime costs £(0.3)m due to sick leave and £(0.3)m of incremental cost post Iris implementation. Supply Chain staff costs on budget in P6 but some challenges remain.
- **Non-staff costs**
- £2.7m saving of savings from delays in spend. Plans have been revised and the ytd savings are anticipated to crystallise in the full year outturn.
- Benefits in property costs +£2.4m (leases and rebates) offset overspends in other areas.
- Finance Costs +£0.6m favourable to budget with savings in payment card fee processing (Retail).
- Losses £(1.3)m adverse to budget driven by former agents.

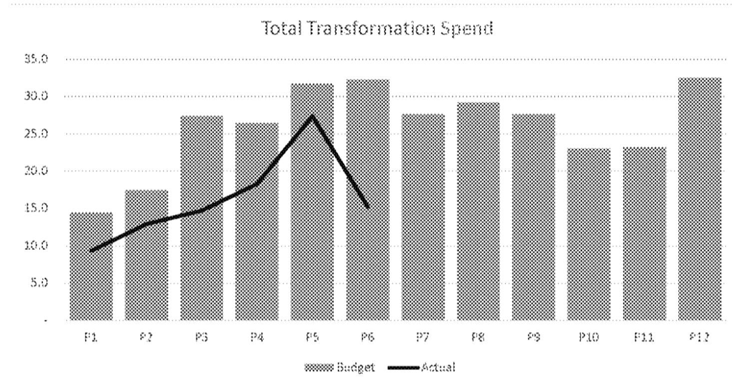
Capital and Investment spend continues to track less than budget

£m	P6 Act	P6 Var Bud	P6 Var PY	YTD Act	YTD Var Bud	YTD Var PY
EBITDAS	**(0.1)**	**0.7**	**1.1**	**4.4**	**2.7**	**17.6**
Network Subsidy	5.4	-	(0.8)	35.0	(0.0)	(5.0)
EBITDA	**5.3**	**0.7**	**0.3**	**39.4**	**2.7**	**12.6**
Depreciation	(4.2)	-	(4.1)	(22.0)	-	(21.7)
Interest	(0.5)	0.1	(0.4)	(2.1)	1.4	(2.6)
Discontinued Operations	-	-	-	-	-	-
Impairment	-	-	6.6	-	-	48.1
Change Spend	(7.3)	4.1	16.8	(46.8)	4.9	25.7
Investment Funding	5.8	-	51.6	35.0	-	(35.0)
Profit/(Loss) On Asset Sale	1.4	1.4	0.0	3.3	3.3	1.6
Profit/(Loss) Before Tax	**0.6**	**6.4**	**72.1**	**6.9**	**12.3**	**28.7**

- Capital & Investment (previously exceptional) expenditure is £7.3m in the month and continues to spend below budget expectations.
- In period spend on capital assets was £8.4m, £51.1m YTD (cost would previously have been expensed prior to the change in accounting treatment).
- Profit on Disposal relates to Henley Street (Stratford) £1.3m and Perth £0.1m

Project Spend is currently tracking £52m below budget

	P6			YTD		
	Act	Bud	Var Bud	Act	Bud	Var Bud
IT & Digital	4.9	11.4	6.4	26.8	55.2	28.5
Network Development Programme	4.5	9.4	5.0	22.9	29.7	6.8
DMB Network Development	1.1	1.3	0.2	18.3	8.2	(10.2)
FS & T	1.5	3.3	1.8	8.5	21.7	13.2
Back Office Transformation	1.4	2.5	1.1	6.5	8.8	2.3
Retail	0.8	1.8	0.9	3.4	10.0	6.6
LEAN Centre	0.3	-	(0.3)	3.2	3.2	0.0
Supply Chain	(0.0)	0.1	0.1	2.4	0.5	(1.9)
People and Engagement Transformation	0.2	0.5	0.3	2.2	3.1	1.0
Property	0.3	0.4	0.0	1.6	1.5	(0.2)
POMS	0.5	0.5	(0.0)	1.4	2.0	0.6
Other Transformation	0.1	0.3	0.2	0.6	1.5	0.9
Corporate Services Transformation	0.0	0.4	0.4	0.2	1.0	0.8
Identity	-	0.2	0.2	-	0.6	0.6
Finance	-	0.1	0.1	-	0.3	0.3
Digital & marketing	-	0.2	0.2	-	0.9	0.9
Network Operations	-	-	-	(0.0)	1.5	1.5
Central Adjustments	(0.0)		0.0	(0.0)		0.0
Total	**15.7**	**32.3**	**16.6**	**97.9**	**149.7**	**51.8**
Capital	8.4	20.9	12.5	51.1	98.1	47.0
Investment	7.3	11.4	4.1	46.8	51.7	4.9
Total	**15.7**	**32.3**	**16.6**	**97.9**	**149.7**	**51.8**



Transformation Spend

- Transformation spend continues to track significantly below budget both in month and ytd.
- Delays occur against planned spend across the whole project portfolio. The £(10.2)m ytd overspend in DMB Network Development relates to a £13.0m unbudgeted onerous lease provision following the announcement to close 48 DMBs in P5.
- IT & Digital continues to see delays in the rollout of a number of projects as issues with programs and suppliers are worked through. YTD spend is £29m behind budget with an expected increase in activity over the remainder of the year.
- FS&T includes £6.1m ytd for the acquisition of New Call v budget of £10.3m. Project Finch and Peregrine delays drive additional budget underspend.

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P6 balance sheet shows a net asset position of £196m

Balance Sheet

£m	Sept 2017	Mar 2017	Variance
Fixed Assets	437	391	46
Debtors	291	339	(48)
Cash	819	680	139
Creditors	(577)	(582)	5
Pension surplus	1	1	0
Provisions	(70)	(88)	18
Other	8	8	0
Loan	**(714)**	**(561)**	**(153)**
Net Assets/(Liabilities)	**196**	**188**	**8**
Capital and Reserves	**196**	**188**	**8**

- The increase in the cash balance since the year end (see slide 13) is offset by the increase in loan balances.
- Debtors reduction is due to statutory audit reclassification adjustment of £27.0m posted in P12 numbers only (credit card receivables moved from Cash to Debtors).
- Creditors is line with March 2017, however the balance includes £70m of additional government creditors offset by a reduction, trade payables (£20m), agents and staff pay (£12m), client creditors (£16m), bonus accrual (£12m)
- Reduction in provisions balance due to OSOP and agents compensation payments.

Managed short-term reduction in facility headroom due to NRF CAP requirements

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(1) Where was our cash?

£m	Branches	CViT	Cash Centres	Total
P6 - Actuals	647	139	227	**1,012**
P12 - Actuals	647	138	158	**943**
Variance vs P12 - Actuals	*(0)*	*1*	*69*	***69***
P6 - Budget				**979**
Variance vs P6 - Budget				***33***

(2) How was it funded?

£m	RCF	Clients	"Network Cash"	NRF	Total
P6 - Actuals	714	92	**806**	206	**1,012**
P12 - Actuals	561	127	**688**	255	**943**
Variance vs P12 - Actuals	*153*	*(35)*	***118***	*(49)*	***69***
P6 - Budget	643	60	**703**	276	**979**
Variance vs P6 - Budget	*71*	*32*	***103***	*(70)*	***33***

(3) What was our facility headroom on the RCF?

£m	Cap	Board Buffer	Net Limit	RCF	Facility Headroom
P6 - Actuals	950	(200)	750	(714)	**36**
P12 - Actuals	950	(200)	750	(561)	**189**
P6 - Budget	950	(200)	750	(643)	**107**

(4) What was our security headroom on the RCF?

£m	Network Cash	Other Net Assets	Total Security	RCF	Security Headroom
P6 - Actuals	806	189	995	(714)	**281**
P12 - Actuals	688	210	898	(561)	**337**
P6 - Budget	703	172	875	(643)	**232**

(5) What was our actual headroom?
Given we do not apply £200m buffer to Security headroom our actual headroom is £36m.
(lower of £36m facility and £281m security headroom)

- Total cash at P6 was £1,012m, £69m higher than year end and £33m higher than Budget.
- The higher cash position versus year end of £69m is due to higher cash centre inventories. This includes stocks of old £1 coins (£6m), Inward Rems increase (£13m), Irish notes in process of repatriation to Belfast (£6m) and (£9m) of BoE notes being sold to Clydesdale which were in-transit at period end. The remaining increase in cash of c.£34m represents sub-optimal holdings and initiatives are in place to reduce these holdings as well as the level of Inward Rems.
- Inward Rems were £84m in March 2017, rising to £144m in P3. Initiatives to reduce rems have resulted in P6 closing balance of £97m.
- Headroom under the loan was £36m, £71m lower than Budget due to lower NRF usage (£70m) to ensure a positive net cap position with the BoE at year end.
- Since year end Headroom has fallen £153m partly due to funding mix (£49m) and partly due to funding an increase in Network Cash (£69m). The remaining reduction in Headroom is driven by Capital and Investment spend of £85m partly offset by government funding.

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Full Year Forecast

Full year EBITDA held at £28m but a different shape of delivery

	YTD			BOY			Forecast		
	Act	Bud	Var	Fcst	Bud	Var	Fcst	Bud	Var
Gross Income	463.3	456.0	7.3	485.0	489.1	(4.1)	948.3	945.0	3.2
Direct Costs	(59.8)	(63.2)	3.4	(60.4)	(63.0)	2.5	(120.2)	(126.1)	5.9
Net Income	403.5	392.8	10.7	424.6	426.1	(1.5)	828.1	818.9	9.2
Agents Pay	(183.5)	(177.5)	(5.9)	(185.0)	(182.9)	(2.1)	(368.5)	(360.5)	(8.0)
Staff Costs	(91.2)	(86.8)	(4.4)	(91.1)	(85.0)	(6.2)	(182.3)	(171.8)	(10.6)
Non-Staff Costs	(141.0)	(144.0)	3.0	(143.3)	(149.0)	5.7	(284.3)	(293.0)	8.7
Expenditure	(415.7)	(408.4)	(7.3)	(419.4)	(416.9)	(2.5)	(835.1)	(825.3)	(9.8)
FRES - Share Of Profits	16.6	17.2	(0.6)	18.4	17.2	1.2	35.0	34.4	0.6
EBITDAS	4.4	1.6	2.8	23.6	26.4	(2.8)	28.0	28.0	0.0

- **Revenue:** Strong performance in H1 but challenges in the remainder of the year
  - **Retail:** Current underlying volume trends held but non delivery of planned growth restrict H2 growth. Shortfalls in Digital Check and Send (£5m) and Monetisation Project (£2m).
  - **FS&T:** Telecoms overperformance in balance of year offsets shortfalls from Project Peregrine and BOI profit share.
- **Agents Pay** higher sales via the agency network and delays to simplification benefits (£4m) offset in part by a reduction in fixed pay.
- **Staff Costs:** continue to be adverse but gap closing on BAU costs. Project spend of £1.9m in balance of year.
- **Non Staff Costs:** strong focus on cost base to offset trading underperformance.
- **Growth Fund:** £9m has been included in the Growth Fund for the forecast (Budget: £10m).

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Overperformance in Retail £3.1m offsets challenges in other areas

	P5F Variances											
	Retail	FST	POMS	Finance & Ops	CEO	CIO	Strategy	LRG	HR	Comms	Central	Total
Gross Income	**14.2**	**(9.0)**	**(1.8)**	**(0.2)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3.2**
Direct Costs	1.8	5.9	(1.7)	-	-	-	-	-	-	-	-	5.9
Net Income	**16.0**	**(3.1)**	**(3.5)**	**(0.2)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9.2**
Agents Pay	(6.7)	(1.3)	-	-	-	-	-	-	-	-	-	(8.0)
Staff Costs	(8.0)	0.6	0.3	(4.2)	(0.0)	(0.6)	(0.1)	(0.1)	0.2	0.0	1.3	(10.6)
Non-Staff Costs	1.9	3.2	2.2	4.3	0.0	0.6	(0.1)	(0.3)	(0.6)	(0.1)	(2.4)	8.7
Expenditure	**(12.8)**	**2.5**	**2.5**	**0.2**	**(0.0)**	**(0.0)**	**(0.2)**	**(0.4)**	**(0.5)**	**(0.0)**	**(1.1)**	**(9.8)**
FRES	-	0.6	-	-	-	-	-	-	-	-	-	0.6
EBITDAS	**3.1**	**0.0**	**(1.0)**	**0.0**	**(0.0)**	**(0.0)**	**(0.2)**	**(0.4)**	**(0.5)**	**(0.0)**	**(1.1)**	**(0.0)**

Notes:

- £0.5m overspend in HR as only 50% of the Apprenticeship Levy assumed to be recovered in 2017/18.
- £0.4m in LRG due to Postmaster litigation costs - £2.4m v £2.0m budget assumption.
- £1.1m overspend in Central due to unbudgeted LTIP costs.

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Appendix

YTD Gross Profit margin is on budget

	P6				Var				YTD				Var			
	Retail	**FS&T**	**Other**	**Total**	**Retail**	**FS&T**	**Other**	**Total**	**Retail**	**FS&T**	**Other**	**Total**	**Retail**	**FS&T**	**Other**	**Total**
Gross Income	**38.9**	**32.2**	**1.2**	**72.3**	**1.7**	**(0.5)**	**0.1**	**1.3**	**257.5**	**198.8**	**7.0**	**463.3**	**14.1**	**(6.8)**	**(0.1)**	**7.3**
Directly Attributable	(2.5)	(7.4)	-	(10.0)	(0.1)	(0.0)	-	(0.1)	(15.4)	(44.4)	(0.0)	(59.8)	(0.3)	3.6	(0.0)	3.4
Supply Chain	(2.0)	(1.0)	-	(3.0)	(0.0)	(0.0)	-	(0.0)	(12.9)	(6.7)	-	(19.7)	(0.8)	(0.4)	-	(1.2)
DMB Costs	(4.3)	(1.3)	-	(5.6)	(0.5)	(0.2)	-	(0.7)	(28.5)	(8.3)	-	(36.8)	(2.1)	(0.6)	-	(2.7)
Agents Pay	(22.1)	(6.2)	0.0	(28.3)	(1.2)	(0.2)	0.0	(1.3)	(146.1)	(37.4)	(0.0)	(183.5)	(7.9)	1.9	(0.0)	(6.0)
Gross Profit	**7.9**	**16.3**	**1.2**	**25.4**	**(0.0)**	**(0.9)**	**0.1**	**(0.8)**	**54.5**	**102.0**	**7.0**	**163.5**	**2.9**	**(2.2)**	**(0.1)**	**0.8**
Gross Margin %	**20%**	**51%**		**35%**	**(1%)**	**(2%)**		**(2%)**	**21%**	**51%**		**35%**	**(0%)**	**1%**		**(0%)**

- **Gross profit margin** is on budget YTD at 35%. In P6;
  - Retail gross margin is slightly adverse to budget as revenue growth is in products which generate additional agents pay costs.
  - FS&T margin continues to track in line with budget
- **Supply Chain** costs adverse to budget due to non-delivery of staff efficiency task.
- **Other income** relates to Supply Chain and Gamma.

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STRATEGY PAPER

Finalising the Strategic Plan 2018-21

Author: Martin Edwards, Al Cameron, Natasha Wilson

Meeting date: 31st October 2017

Executive Summary

Context

As part of the funding process we are required to submit a final draft of our 2018-21 Strategic Plan to UKGI in November.

Questions addressed in this report

1. What is the role of the Strategic Plan in the context of our wider funding governance?
2. How have the numbers changes since the May draft of the Plan?
3. What is our proposed approach to setting STIP and LTIP targets?
4. What are the next steps for developing our detailed plans?

Conclusion

1. The purpose of the Strategic Plan is to set out the overall financial and strategic outcomes we expect to deliver over the three years in return for the funding from Government. We have agreed with UKGI that this can be a short, high level document, providing the flexibility to evolve the detail as part of each annual planning round. The proposed draft accompanies this paper.
2. The most material change to our numbers since the May version of the Plan arises from the current status of the negotiations with Bank of Ireland, discussed with the Board last month. While our negotiating mandate protects the Post Office's long-term value in financial services, it puts at risk around £25m of annual profit over the next three years relative to our assumptions in May.
3. We believe we can mitigate over half of this risk, reducing the profit gap against our May plans to £10m by 2020/21 and ensuring we remain on track to reach commercial sustainability by the end of the period, with a run rate EBITDAS in the region of £100m pa.
4. The numbers included in the final approved Strategic Plan will form the basis of the STIP targets that will be presented to the Board in January. For LTIP we propose moving to free cash flow as the primary measure, ensuring the business remains focussed on both trading performance and efficient use of investment funding to drive long-term value.

Input sought

The Board is asked to approve the proposed Strategic Plan for submission to the shareholder in November.

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The Report

What is the role of the Strategic Plan in the context of our wider funding governance?

1. Under the terms of our new funding agreement for the period April 2018 to March 2021 we are required to submit a final Strategic Plan by 30th November.
2. We have consulted with UKGI in the preparation of this document and have agreed with them that it can be shorter and more high level than the papers submitted in May, given that: a) the UKGI team have already seen our detailed underpinning analysis; and b) the Strategic Plan will be supplemented (and to some extent superseded) by the annual plans we are required to submit prior to the start of each financial year.
3. This approach ensures that while the Plan provides a clear statement of our overall strategic intent and financial targets for the period, we have the flexibility to revisit the detail each year in consultation with the shareholder, responding to new circumstances and opportunities like any normal commercial business. There is no hypothecation of funding to individual investment lines in the plan.

How have the numbers changed since the May draft of the Plan?

4. While we have the flexibility to review the details of the Strategic Plan each year, given that we are required to explain and reconcile any changes clearly we should ensure that the final draft submitted in November reflects our latest forecasts.
5. We have therefore undertaken a full review of the May projections, with the updated Plan incorporating the following material changes:
   i. **Final funding outcome**: the investment funding agreed with the Government amounts to £210m over the period, which is £30m less than the £240m net request included in our May draft Plan. This reduction therefore necessitates a greater degree of capital rationing, particularly in the early years, with the key changes outlined further below.

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iii. **Implementing the telco profit recovery plan:** the May draft Plan incorporated the estimated impact of Ofcom's review of landline pricing currently underway, which is expected to reduce the underlying profitability of our telco business by around £10m pa from 2018/19. However, the strategy review discussed at the June Board identified a range of levers to offset this impact by managing the yield on the existing business and broadening our reach to new customer segments, leveraging the planned investment in our digital platform (the 'Customer Hub'). While the delivery of these initiatives is not without risk, we have now included their impact in the revised plan, thereby offsetting around £10m pa of the impact of the BoI negotiations.

iv. **The flow through of the updated forecast for 2017/18**: as set out in the separate performance report, our '5+7' re-forecast maintains the £28m EBITDAS target for this year but with a different shape compared to the original budget, with net income over £9m ahead (primarily driven by mails and other Retail) but costs adverse by a similar amount. Just over half of these income and cost impacts flow through into the subsequent years. We have also increased the allowance for Sparrow costs to £5m pa from 2018/19.

v. **Updated approach to further DMB franchising**: in May we assumed that we would franchise a further 100 directly managed branches (DMBs) over the period, taking the residual network down to 127 branches by 2021. In our updated plan we are now assuming that we will take a more decisive step towards a fully retailer-hosted network by converting 177 DMBs over the period, replacing them with over 300 agent-run Mains and Locals. In addition to the customer benefits of more locations, this increases the net savings by £12m to £27m pa by 2022/23, with an average payback of 5 years. The benefits in the first two years are slightly lower (by c£3m pa), based on our strategy of initially focussing on opening additional agency branches around large DMBs, to de-risk both the commercial and customer impacts of the programme. We will be presenting an updated DMB strategy and implementation plan to the Board in January, which will seek to accelerate benefits delivery wherever possible.

vi. **'Project Panther' (Payzone acquisition)**: in the June Retail strategy paper we set out our initial assessment of the opportunity for acquiring Payzone's bill payments business, outlining how this would accelerate the improvements we need to make to our network, branch technology and retailer product range. Further due diligence of the opportunity is currently underway, and we are working towards providing a recommendation to the

Board in November. Given that we will either need to pursue this or alternative similar investments to deliver our Retail strategy, at this stage we have added £15m to cover the potential acquisition costs together with £3m of annual benefits from 2018/19.

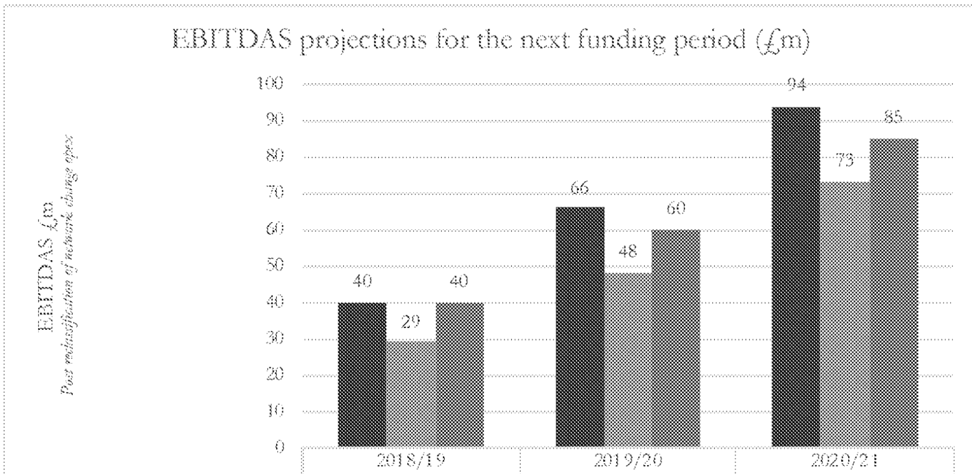
vii. **Investment cost reductions**: given the reduced Government funding and the additional initiatives that we have accommodated in our plans, we have had to find savings elsewhere to protect our cash position, in particular:

- Across financial services, mails and identity our May draft Plan included around £80m of investment over the next three years to build our digital and data capabilities. The further work we have conducted since then on alternative delivery models (outlined at the June Board session on the 'Customer Hub') has suggested that we could reduce this by around £15m, while still delivering the desired customer outcomes.
- Our network plans included £10m for the development of a full retailer cash solution to go alongside EPOS delivery. As set out in the June network strategy paper we no longer see this initiative as a near term priority, and have therefore reallocated the funding to help fund Project Panther or similar investments. We are also taking a more gradual approach to the conversion of small Mains and Community branches to Locals, which we believe is preferable in both commercial and stakeholder terms.

viii. **Reclassification of some network change costs:** our May plan included £14m pa of network maintenance and refurbishment costs classified as capex and what was previously known as exceptionals. We now believe that £5m of these costs should be reclassified to opex, reflecting the need for ongoing activity to maintain our >11,500 network beyond the Network Transformation programme that ends this year. This is obviously just an accounting change - it has no impact on our cash flow position or progress towards commercial sustainability, nor does it diminish the underlying improvement in profitability that we will be required to drive moving into the new funding period.

6. The net impact of all these changes results in a c£20m pa worsening in our EBITDAS position over the next three years (excluding the impact of the classification switch noted above). The position with the Bank of Ireland is the largest contributing factor – without this the other changes in our Plan result in a small net improvement in our projections.
7. We propose setting an additional challenge for the business to close around half of this remaining gap against the May plan, resulting in the revised EBITDAS projections set out in the chart below. We will work through the detail of how we meet this challenge as part of the forthcoming budget round, but for example it

could include driving additional products through the Customer Hub, expanding the scope of the Banking Framework, accelerating the delivery of the network and cost programmes wherever possible or revisiting the levels of agents' remuneration in the later years of the plan (linked to further simplification of the retailer proposition).



	2018/19	2019/20	2020/21
May draft plan	40	66	94
October re-forecast	29	48	73
Recommended Strategic Plan	40	60	85

8. These adjustments to our plan still leave us on a trajectory to deliver our core objective of securing commercially sustainability by the end of 2020/21, generating sufficient free cash flow to fund future re-investment in the business. The programmes completed prior to March 2021 will leave us on a run rate to achieve EBITDAS of over £100m pa by the following year, with the DMB programmes alone delivering an additional £15m of incremental annual benefits beyond 2020/21.

What is our proposed approach to setting STIP and LTIP targets?

9. Following the discussion at RemCo, we will revert with STIP proposals in January built around EBITDAS and cash headroom with clear indications of key individual targets around other areas including IT transformation and digitisation.

10. We are reverting to seek the Board's approval on the structure for LTIP for the schemes completing in 2018-19, 2019-20 and 2020-21. Again, following discussions at RemCo our proposal is that we should have a gateway measure, being that we will always meet the national access criteria of 90% of the population being within 1 mile of a Post Office and 99% within 3 miles.

11. The primary measure of success over the period is recommended to be free cash flow, defined as trading cash flow generated (essentially EBITDAS) less government investment funding drawn down. This retains the focus on trading

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performance and incentivises us to minimise the use of investment funding and to use it effectively for benefit in future years.

12. Free cash flow would be 100% of the LTIP target for the schemes completing in 2018-19 and 2019-20 and 70% of the target for 2020-21: the other measure for the 2020-21 scheme would be commercial sustainability, achieved by there being no request for future Government investment funding. Minimum and stretch targets would be set at plus and minus 20% of the Plan numbers.

13. Subject to the Board's approval of this approach, the next step would be to finalise a submission to BEIS consistent with the targets set out elsewhere in this paper.

What are the next steps for developing our detailed plans?

14. Following approval of the overall Strategic Plan by the Board and UKGI, the focus of the business will switch to developing the underpinning delivery plans and our detailed budget for next year. The Group Executive will be reviewing the full investment portfolio for 2018/19 in November, followed by the rest of the budget in December prior to draft submission to the Board in January.

15. The table below provides a brief overview of the current shape of our investment portfolio for the next three years, highlighting when the Board can expect to see further detail on each area.

Area	Investment 2018-21 £m	Benefits by 20/21 £m pa	Current status of initiatives	When is it coming to the Board?
IT investments	80-90	23	Strategy well advanced, now in delivery	• IT strategy reviewed Sept • Everest decision in October
Network development & simplification	105-120	24	Simplification & white space in delivery; new retailer propositions & technology at design & testing stage	• Network development business case & Project Panther in November
DMBs	~85	12	Approaching end of existing programmes; developing strategy for remaining 227 branches	• Strategy & implementation plan for remaining DMBs in January
Modernising our products & services (FS, mails, identity & digital)	90-110	31	Most initiatives still at design stage, although transitioning to delivery of Customer Hub for spring 2018 launch	• Identity strategy & Customer Hub in October • Mails & Banking Framework/ATMs in Nov
Digitising & optimising the business	35-40	16	Further cost savings & operational transformation currently at early design phase	• Updates in 2018

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Post Office Strategic and Financial Plan 2018-2021

October 2017

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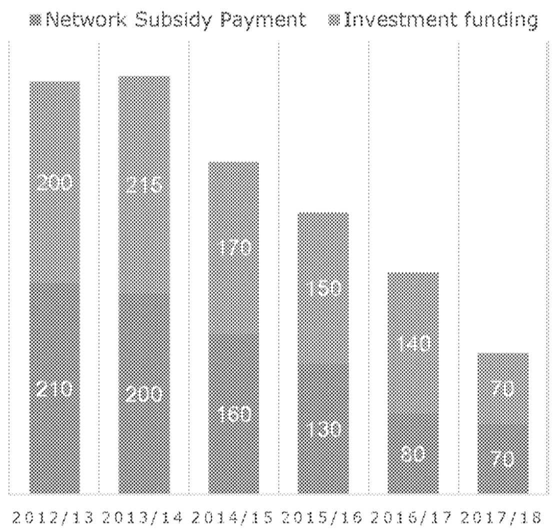
The business has delivered rapid progress since 2012, stabilising the network and delivering the first operating profit for 15 years

FINANCIAL SUPPORT FROM THE GOVERNMENT HAS DECLINED STEADILY...

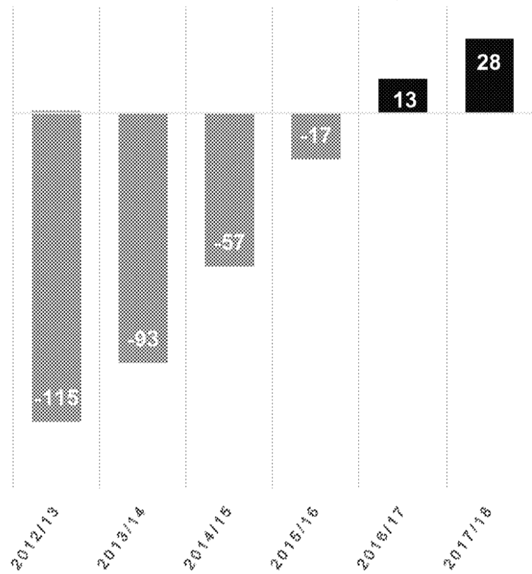
FACILITATED BY SIGNIFICANT IMPROVEMENTS IN PROFITABILITY

...WHILST STABILISING NETWORK NUMBERS AND CONTINUING TO MEET THE GOVERNMENT'S ACCESS CRITERIA.

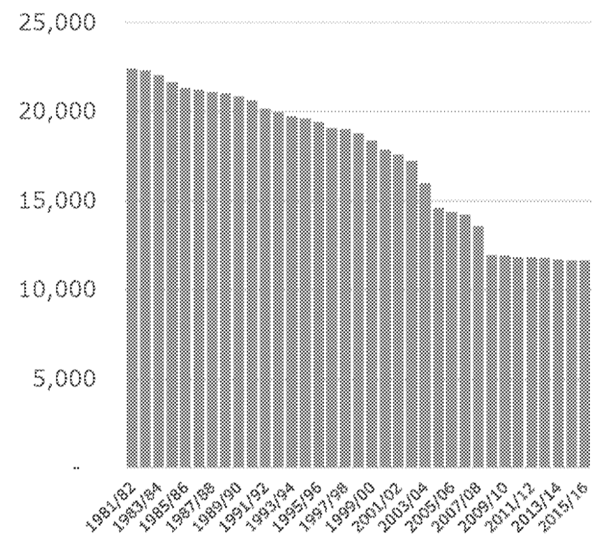
GOVERNMENT SUPPORT, £M



EBITDAS PROFIT/LOSS, £M



Total number of branches (at year end)



In spite of a challenging operating environment, the success of the Post Office's transformation programme to date has enabled the business to deliver the strategic objectives set by the Government – maintaining a network of over 11,500 branches, meeting the access criteria and reducing funding significantly over time.

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However, the Post Office still faces major challenges that must be addressed to secure its long-term sustainability

Income is declining in our core markets with more work to do on costs	• **Government services, payments and traditional mails products are all facing downward pressure** due to the continued shift to alternative channels and growing competition. • While we have reduced costs significantly since 2012, because of legacy operating systems across the business we still have **more work to do to reduce costs** which otherwise drag on our profitability. • In the absence of further investment to complete the transformation we estimate that we **will revert back to an EBITDAS loss** of nearly £30m by 2020/21, compounded by the fire sale of assets to generate cash.
Our digital capabilities are insufficient to meet consumer expectations and drive growth	• **Limited digital capabilities across our product range**, with no single view of customer. We are at risk of losing relevance to customers, with 60% of customers in our target segments saying they prefer to access services online. • This is particularly crucial for **financial services and identity, but even in mails** many customers want to be able to start their journey online, accelerated by developments like the roll out of eBay's online shipping platform.
We need to secure the right retailers to host our network	• **Retailers have more choice than ever** for ancillary services which range from self-serve coffee machines to parcel services. • **While retailers see the value of hosting a post office, for many this is offset by concerns** around the operational cost and complexity and the prospect of declining direct remuneration. • **These issues are creating the potential for network instability**, with 1,000-2,000 branches at risk over the next few years if we don't act.
Our major commercial partnerships need to be realigned	• We are **approaching the sunset years of the current contract with Royal Mail**, with an urgent need to work more effectively together to respond to intensifying competitive pressures. • The current relationship with **Bank of Ireland is no longer delivering decent growth prospects**, due to a combination of their balance sheet constraints and the wide ranging exclusivity which prevents us from working with new suppliers better equipped to support our commercial plans.
Our IT systems need modernising to provide greater stability, security and flexibility	• The core operating system used in the branch network **(Horizon) was designed two decades ago** in a paper-based, non-networked world, and for a different purpose to the one we need today. • Both our branch and back office systems are at the end of their life, leaving us unsupported by suppliers or exposed to unacceptable cost demands and operational risks. We have suffered several significant service outages in recent months, and these incidents will continue if we do not invest.

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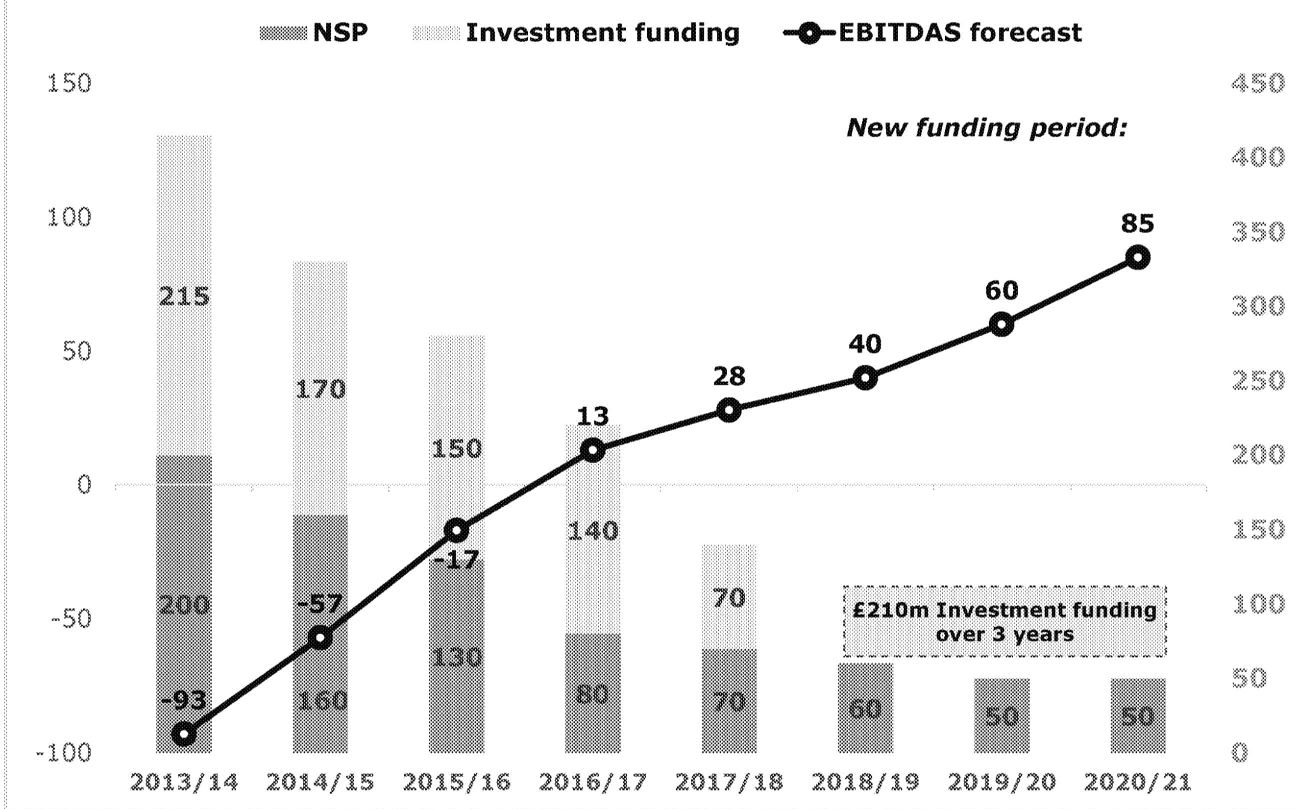
We have identified five strategic priorities to address these challenges and complete the transformation

Strategic priority	Key initiatives 2018/19 – 2020/21	Investment 2018-2020 (£m)	Benefits & Outcomes
Simplify the retailer proposition	• Simplification of product transactions and branch operations • Network expansion in urban areas to meet customer demand • Further franchising of DMBs* (177 assumed in Plan) • Roll out of self service kiosks for agency branches, development of more flexible POS solutions (via HNGT) and the creation of an 'agent hub' to digitise and simplify services to postmasters	**£170 to £210m**	• **~£36m pa benefits by 2020/21** • Increased retailer demand for post offices, strengthening our ability to attract and retain the best agents (at lower remuneration). • A better network for customers, with more locations in areas of high demand.
Build innovative, flexible and secure IT	• Replace end-of-life branch hardware and invest in improving security and addressing recurring outages and system failures • Transition Horizon to cloud based architecture with increased business flexibility via development of 'thin client' • Restructure IT operating model to take back control of core functions at lower operating cost	**£80m to £90m**	• **~£23m pa benefits by 2020/21** • Operational risk profile shifted to within acceptable parameters. • Flexible IT architecture to enable better services for customers, agents and staff
Modernise our products and services	• Creation of integrated digital platform (the 'Customer Hub') to drive growth across financial services and our wider product range • Development of multi-channel mails services to deliver improved convenience for both SMEs and consumers • Investment in capabilities to lead the market in digital identity • Further expansion of the Banking Framework	**£90m to £110m**	• **~£31m pa benefits by 2020/21** • 10% of revenue base from new products & propositions, stabilising overall top line • Digital innovation used to improve every possible product transaction
Digitise and optimise the business	• We will deliver a further 20% reduction in central staff costs by streamlining and automating key processes across the organisation and digitising our services to agents • Supported by transformation and replacement of back office systems to deliver improves processes and the MI our people need to run the business	**£30m to £35m**	• **~£16m pa benefits by 2020/21** • Our people are able to focus more of their time on serving customers and adding strategic value – not doing processes that are better performed by machines.
Modernise our skills, culture, HR policies and processes	• Modernise and simplify our HR processes, policies and systems to increase productivity while maintaining our values • Develop leaders who drive the culture which make the Post Office a great place to work while delivering results • Attract, develop & retain the new skills required to grow business • Develop leaders who model our values and the culture	**~£5m**	• **Underpins delivery of the above benefits** • Culture and talent in place to deliver the next stage of the Post Office's transformation • Improved staff engagement levels • 50% of senior roles filled by internal candidates

Delivering on these strategic priorities will secure the commercial sustainability of the Post Office

Post Office will be on a run rate to commercial sustainability by the end of this funding period

Funding (NSP & Investment) and EBITDAS Forecast (£ million)



- The plan puts the Post Office on a trajectory to reach commercial sustainability by the end of the funding period, defined in terms of generating the sustainable profits and free cash flows needed to fund future re-investment in the business.
- As the next section sets out, the majority of this profit improvement comes from cost reductions across the business.
- Overall revenue performance is expected to remain broadly stable over the period, but this masks a substantial (c10%) shift in the revenue base from legacy products to new propositions that ensure our continued relevance to customers.
- Total investment costs over the period amount to around £445m (including both the initiatives listed on the previous slide and maintenance capex). Over half of this is funded from our own trading profits (post NSP), with remainder coming from the £210m investment funding from Government.

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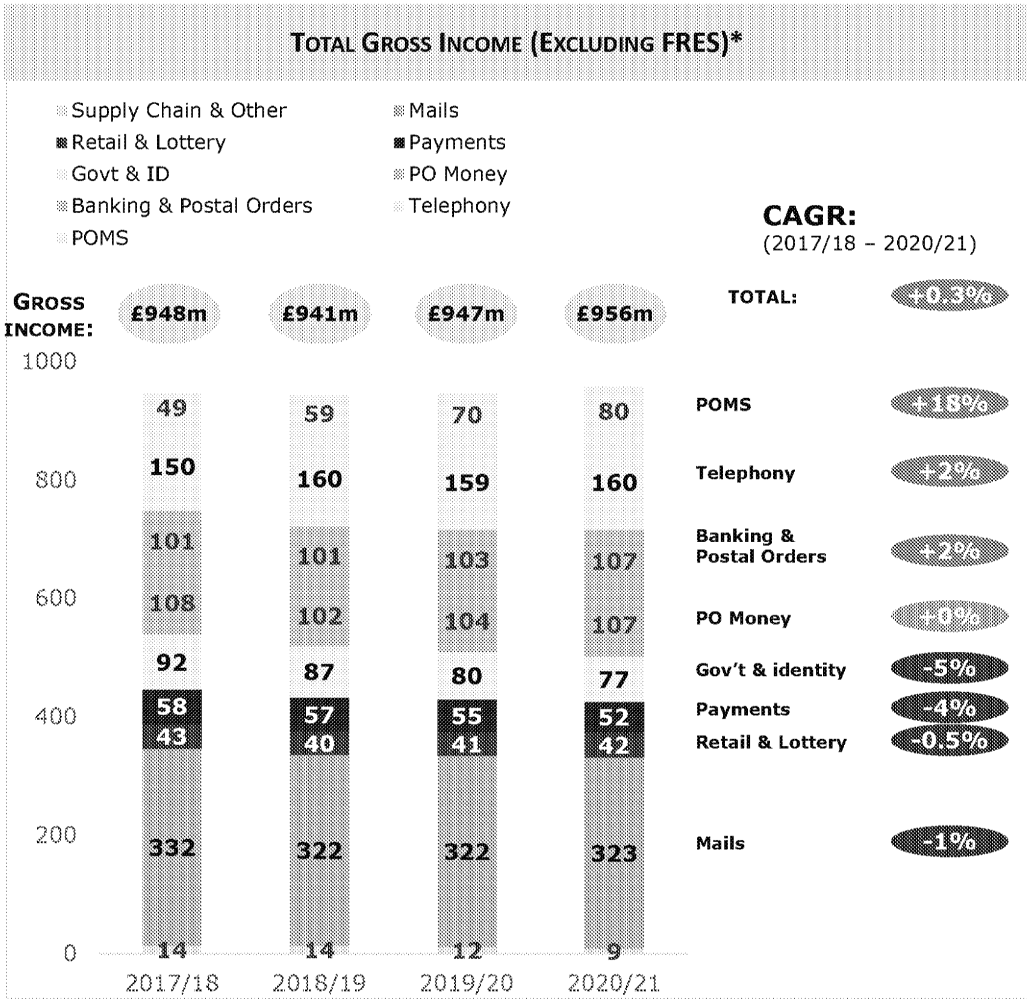
The plan delivers growth in our overall revenue position in spite of challenging markets



Our strategy is centred around maintaining the delivery of the SGEI services and delivering four priority market ambitions:

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

The next two slides set out further details on the key drivers and initiatives in each area.

 *The numbers above do not include an £11m p/a EBITDAS challenge

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Key income drivers, initiatives & investments (1)

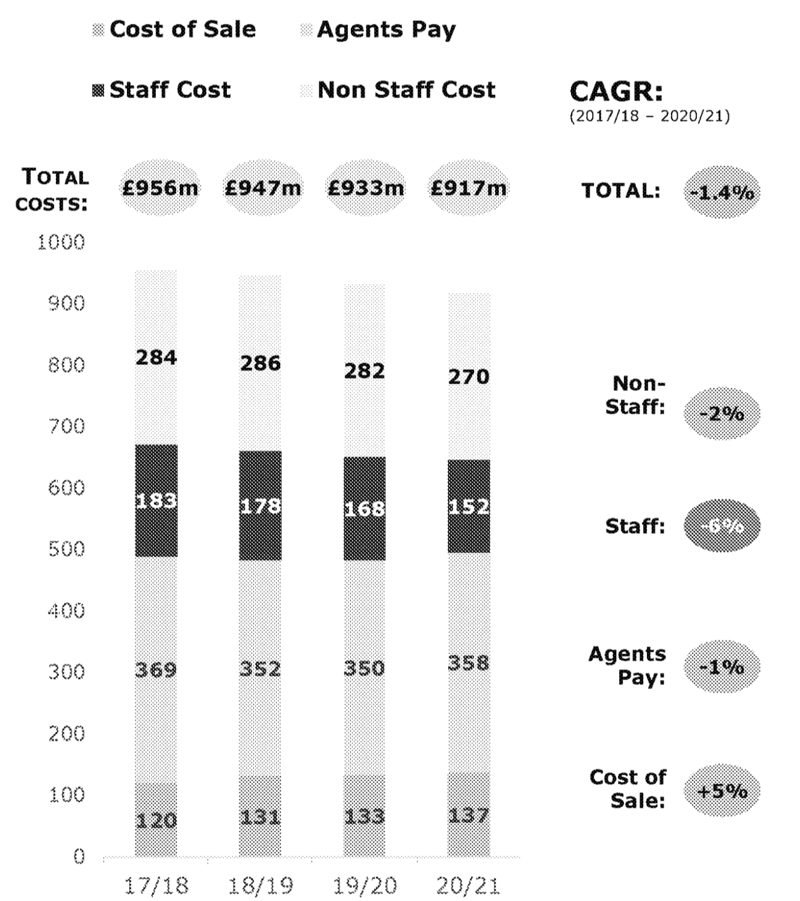
	Mails	Identity & Government Services	Banking services	Payments
Key drivers	• Traditional mails volumes declining by 2-3% pa due to increased digitisation and competition. Our plan seeks to offset this by tapping into faster growing segments of the parcels market as set out below. Overall income also held up by RPI linked fee mechanism with RMG.	• Legacy services in continued decline, with net income from POCA, DVLA, UKVI & passports declining from £62m to £33m. Plan partly offsets this with growth in digital identity.	• Continued bank branch closures (nearly 500 in 2017 alone) and increased awareness of Banking Framework driving growth of c5% pa.	• Traditional bill payments market declining by >5% pa due to shift to alternative channels, although our strategy seeks to drive outperformance vs the market.
Key initiatives	Up to £40m invested to strengthen our network coverage and multi-channel capabilities, including through: • **Drop & Go:** growing the SME user base and improving the online service with additional features like loyalty discounts. • **Click & Collect:** improving the customer journey for parcels collections and potentially extending to other carriers and platforms. IRRELEVANT	• **Launch of Digital Check & Send for passports:** improving the customer journey and supporting HMPO's aim to remove paper. Delivers c£12m income by 2020/21. • **Identity services:** building the UK's digital identity market to improve security & convenience for customers and reduce costs for clients. Underpinned by c£20m investment in digital platform and in-branch technology.	• **Further enhancements to the Banking Framework:** ongoing programme of product innovation, such as quicker deposit processes for business customers. • **Discussions underway with major banks around further extensions to the Banking Framework** to IRRELEVANT	• **Targeting large clients directly and enabling the technical capability** required to leverage growing segments such as pre-pay smart metering and transport ticketing. • **Project Panther** currently being assessed – seeks to accelerate improvements to our network, retailer technology & product range (£10-15m investment). • **ATMs:** new contract required during Plan period – options under review.
Risks	• Significant uncertainty associated with both the pace of market developments (e.g. shift to eBay shipping platform) and the outcome of negotiations with RMG – impact of these events could worsen mails income by £10-30m pa by 2020/21.	• Up to £15m pa profit at risk by 20/21 if identity market does not evolve as planed. • Potential for additional regulatory costs of £5-10m pa on POCA.	• New framework agreement needs to be negotiated with the banks before the end of the plan period, presenting both risks & opportunities.	• Bill payments income and volumes subject to significant binary risk associated with winning large client contracts against intense competition.

Key income drivers, initiatives & investments (2)

	PO Money	POMS	Telecoms
Key Drivers	• Bank of Ireland balance sheet constraints and alignment of incentives are the major factors influencing outlook for PO Money product range – currently assuming £7m income drop from savings. Offset by investment in own capabilities (see below). • Plan assumes we maintain our c25% share of a broadly flat travel money market.	• Against the backdrop of a competitive market, POMS plan seeks to deliver c£20m profit increase by 2020/21, by building on the investments to date to increase control of the value chain and improve distributional capabilities.	• Fixed line net income – traditionally the mainstay of the PO telco business – is set to decline, not least from impact of Ofcom interventions. Our plan seeks to offset this through growth in new products & customers.
Key Initiatives	• **Negotiations with Bank of Ireland ongoing,** with aim to recalibrate FRES value share, establish greater product sourcing flexibility and align sales incentives. Outcome currently uncertain (*see Sept 2017 Board paper for further detail*). • **Building the digital platform ('Customer Hub')** required to support our future growth in financial services and other B2C product lines, delivering an integrated proposition to customers to meet their needs. Requires investment of c£30m over the period. • **Developing the product and proposition roadmap** to put through the new platform, starting with those which are already within our control like travel, identity & insurance. Intention to launch retail investment products in 2019.	POMS strategy review underway, reporting to POMS Board in Nov 2017 – assessing range of options for driving growth: IRRELEVANT • **Deepening capabilities in pricing management, digital sales and analytics**, leveraging the investment in the wider Customer Hub. • **Potential acquisition opportunities** to broaden distribution reach and move into MGA / underwriting capabilities.	• **Improving the efficiency of the current operations**, driving higher yield from more efficient targeting of existing customers, channels and pricing propositions. • **Broadening the customer reach** to appeal to new customer segments, leveraging the investment in the Customer Hub. • **Expanding the product portfolio** to capture greater revenue and increase retention rates – potentially including TV, energy and mobile.
Risks	• Inevitable uncertainty around our ability to gain traction in new product areas like investments (forecast to generate £8m pa revenue by 20/21). • As indicated above, relationship with Bank of Ireland is the key swing factor over the plan period, with both risks and opportunities against our baseline forecast.	• POMS plan is predicated on ambitious profit growth – a combination of external factors (regulation, Competition, macroeconomics) and internal capability dependencies could put some of this £20m growth at risk.	• Precise impact of Ofcom review of landline pricing currently unknown- could add £5-10m pa risk. • Broadband market remains subject to intense price-led competition.

The plan delivers substantial further cost reductions to drive sustainable profit improvements

TOTAL OPERATING EXPENDITURE*



AGENTS PAY: ASSUMPTIONS & INITIATIVES

- **Agents' pay declines from £369m in 17/18 to £358m in 20/21**.
- Declines are primarily driven by: a) network development and simplification savings; and b) the changing product mix, with a shift towards digital channels.
- From 2019/20 this is offset by the impact of the DMB strategy, as more branches are converted into agency branches (increasing agents' pay but by less than the savings in staff costs).

STAFF COSTS: ASSUMPTIONS & INITIATIVES

- **Staff costs decline from £183m in 17/18 to £152m in 20/21**. This is driven primarily by further DMB franchising and savings in operations and Finsbury Dials staff costs.
- Marginally offset by increase in staff costs associated with our growth strategies in financial services, mails and identity, in addition to the delivery of the new IT operating model.

NON-STAFF COSTS: ASSUMPTIONS & INITIATIVES

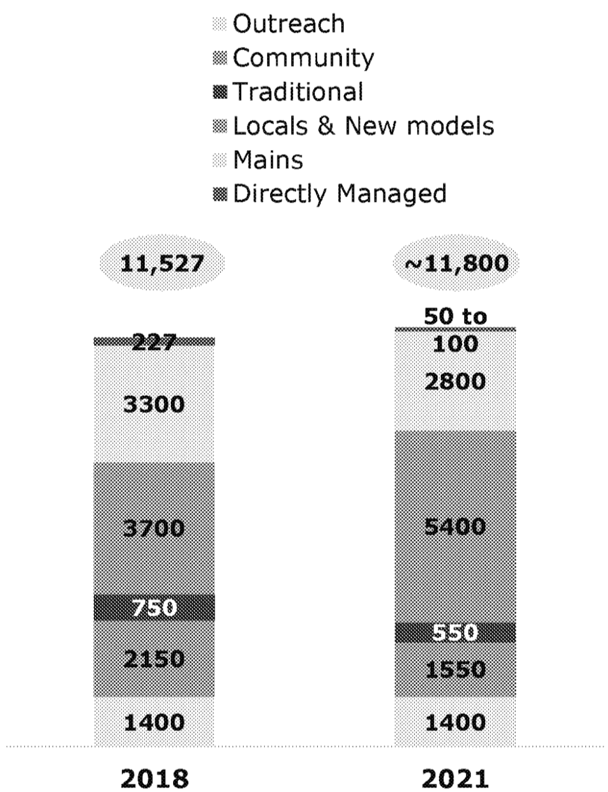
- **Non staff costs decline from £284m in 2017/18 to £270m in 2020/21**, primarily driven by the IT and DMB initiatives. Significant supplier dependencies and risks associated with the IT savings (forecast at £23m pa by 2020/21).
- Savings partially offset by capability builds required to deliver PO Money, POMS, identity, mails and telco initiatives over the period.

COST OF SALES: ASSUMPTIONS & INITIATIVES

- Changing product mix for telco results in CoS rising from £82m in 17/18 to £101m in 20/21, partially offset by £5m decline in POCA CoS.

We will simplify the retailer offer to deliver a network that meets the changing needs of customers and communities

The Network will grow over the life of the plan



We will continue to meet the network access criteria set by Government

Network Initiatives & Investments

1. A more efficient agent network:

- **Transaction simplification** of Customer Referrals and the vast majority of our Mails products and services
- **Operating simplification of ATM and Branch Balancing**, will save each branch between 1 hour and 3 hours 20 minutes of office admin per month (depending on whether the Branch has a self-filled ATM).
- **Cash Management:** enhancing cash declaration controls in order to reduce cash requirements across the Network
- **Automation**: extending self-service kiosks to agents to reduce their operating costs and improve customer convenience.
- **Strengthening the product range for retailers** to generate the profitable footfall which sustains their businesses.

2. Changing the shape of the network:

- **Shift away from directly managed branches to retailer hosted branches**, providing a more sustainable, cost effective and convenient service to meet customer demand across more city centre locations.
- **Replace smaller Mains with Locals when they close or change ownership**, delivering an EBITDAS benefit of ~£6.5k per branch
- Manage down the **Traditional and Community** branches that do not have viable retail offering, whilst opening new Post Offices in vibrant retail hubs where customers shop

3. Generating network headroom:

- Retailer demand for Post Offices – and resulting headroom – is essential to enable the change in shape of the network and sustain a nationwide network of around 12,000:
  - Urban symbol group & multiple convenience stores in under-served towns and cities.
  - Inner urban retailers to improve capacity & reduce demand in DMBs.
  - Rural symbol group convenience stores.
  - Rural viable independent and community-run shops which do not have a post office

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Income Statement

Income Statement	FY17/18	FY18/19	FY19/20	FY20/21
Total income	**948**	**941**	**947**	**956**
FRES profit share	35	35	35	35
Gross Income	**983**	**976**	**982**	**991**
Total Cost of Sales	-120	-131	-133	-137
Net Income	**863**	**845**	**849**	**853**
Total Staff Costs	-183	-178	-168	-152
Total Non Staff Costs	-652	-638	-632	-629
Total expenditure	**-835**	**-816**	**-800**	**-780**
EBITDAS Challenge	0	11	12	12
EDITDAS	**28**	**40**	**60**	**85**
PBIT BEFORE EXCEPTIONAL ITEMS	**25**	**39**	**59**	**85**
Network payment	70	60	50	50
Non-NSP funding	70	189	21	0
Investments	-282	-187	-146	-112
Net Interest (payable)/receivable	-9	-11	-14	-18
Profit (Loss) on disposal of fixed assets	3			
PROFIT/(LOSS) BEFORE TAX	**-123**	**89**	**-30**	**4**
PROFIT/(LOSS)	**-123**	**89**	**-30**	**4**

NB This slide is based on full impairment of capex – we are currently updating the income statement and the balance sheet to align with new accounting approach in our 2016/17 accounts and will update this slide accordingly.

Cash Flow Statement

Cashflow	FY17/18	FY18/19	FY19/20	FY20/21
Cashflow from Operations - TOTAL	**25**	**39**	**59**	**85**
Changes in Balance Sheet:				
(Increase) / Decrease in Business debtors (including Trade, accrued income)	33	10	0	0
(Increase) / Decrease in Client debtors	-20	-1	0	0
(Increase) / Decrease in FRES accrued income	0	0	0	0
(Increase) / Decrease in Cash and Cash equivalents	-68	0	0	0
(Increase) / Decrease in inventory, pension surplus, PP&E	0	0	0	0
(Decrease) / Increase in Business creditors	-2	-37	0	0
(Decrease) / Increase in Client creditors	17	-6	0	0
(Decrease) / Increase in Provisions	-44	-25	-7	-7
Changes in Balance Sheet - TOTAL	**-83**	**-59**	**-7**	**-7**
Cashflow from Investing				
Network payment	70	60	50	50
Non-NSP funding	70	189	21	0
Investments	-282	-187	-146	-112
Profit/loss on disposal	3			
Cashflow from Investing - TOTAL	**-139**	**62**	**-75**	**-62**
Cashflow from Financing activities				
Interest payable (Govt Facility)	-9	-11	-14	-18
Tax losses receipt FRES	0	0	0	0
Cash movement	**-206**	**30**	**-37**	**-3**

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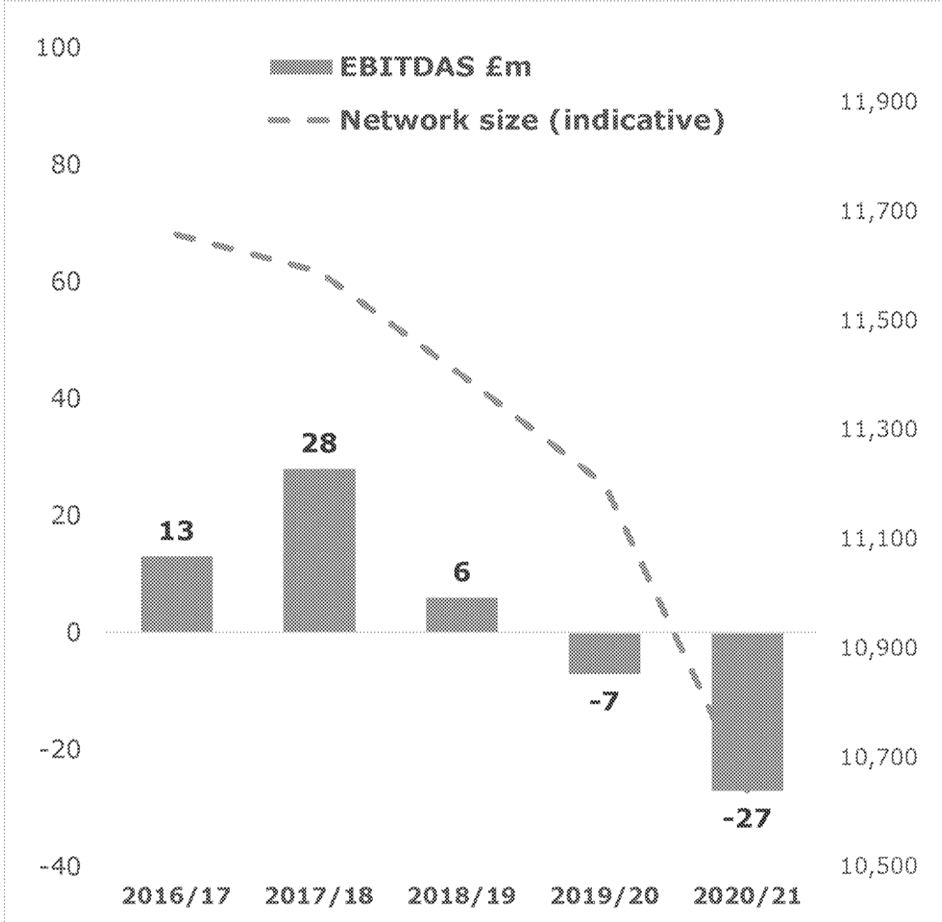
Balance Sheet

Balance Sheet	FY17/18	FY18/19	FY19/20	FY20/21
Total Non-current assets	**120**	**120**	**120**	**120**
Current assets				
Inventories	8	8	8	8
Total Trade and other receivables	312	303	303	303
Network cash	734	734	734	734
Non-Network cash	14	14	14	14
Total Cash and Cash equivalents	748	748	748	748
Total Current assets	1068	1059	1059	1059
Total Assets	**1188**	**1179**	**1179**	**1179**
Business creditors	-285	-248	-248	-248
Client creditors	-313	-307	-307	-307
Total trade and other payables	-598	-555	-555	-555
Provisions	-46	-21	-14	-7
External loans (Govt)	-767	-736	-774	-776
External loans (Commercial)	0	0	0	0
Total liabilities	**-1410**	**-1312**	**-1342**	**-1338**
Total Net assets	**-223**	**-133**	**-163**	**-159**
Equity				
Share capital	0	0	0	0
Share premium	-465	-465	-465	-465
Retained earnings	567	690	600	631
In-year profit/loss	123	-89	30	-4
Other reserves	-2	-2	-2	-2
Total Equity	**223**	**133**	**163**	**159**

Counterfactual analysis:
Without further investment we face declining profitability and network instability

EBITDAS AND NETWORK NUMBERS WITHOUT FURTHER INVESTMENT FUNDING



- Without investment to tackle the challenges identified on slide 3 our income will drop more rapidly than we are able to reduce costs, leading to an inevitable return to loss making and growing subsidy requirements.
- Furthermore, given that we are faced with a number of non-discretionary, essential investments (for example around IT security and stability) we would have to sell assets (such as our Telecoms business) to fund these essential IT upgrades.
- These forced disposals and sales would reduce our profitability further, which would create a downward spiral that would threaten our continued commercial viability.
- As a result of this downward spiral, network numbers would start falling, perhaps ending 1,000 below today's levels, as we fail to win new business and strengthen our offer to retailers.

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FS&T CE Report – October 2017

Author: Nick Kennett

Meeting date: October 2017

Executive Summary

Context

Financial Services & Telecoms (FS&T) comprises Post Office's "direct to customer" products and the banking framework. This report provides an update to the Board on performance and the key market and other challenges and opportunities.

Questions this paper addresses

1. How are our sales and revenues performing against targets?
2. What is the forecast financial outturn for the full year?
3. What are the risks to the delivery of the short and medium term plan?
4. How is the competitive environment evolving?

Executive summary

- At Period 6, FS&T is slightly behind budget (£4.5m, 2.5%) mainly as a result of lower MoneyGram transactions, poor mortgage/credit card sales and delays in completing the New Call acquisition; Banking Framework transactions are well ahead of plan.
- A full year reforecast, based on P5 data, puts FS&T back on track to meet full year targets, representing a 7.7% year-on-year increase in income and 14.4% in contribution; P6 performance is slightly ahead of the delivery run rate.
- POMS is experiencing headwinds in car and home insurance markets, and lower travel insurance sales, particularly in the Network; full year profit is forecast to be c£1m adverse.
- The competitive, customer and regulatory environments remain very competitive, while the impact of Brexit and weak Sterling are hitting MoneyGram transactions.
- The key risks are trading in MoneyGram and insurance; regulator actions; risks from rejecting the BoI proposal.
- Following the September Board we rejected the BoI proposal; reaction has been muted and we continue BAU initiatives to optimise medium term value and flexibility.
- The New Call acquisition has completed with customers successfully integrated to the Post Office.

Conclusion

The portfolio of FS&T products and services continue to grow and deliver value to Post Office; while we forecast meeting plan and slightly adverse for POMS there are a number of risks that we will continue to manage.

Input Sought

The Board is requested to review and note the report.

POL00103898

The Report

Overview of financial performance

1. At the half year FS&T financial performance is slightly behind budget, with gross income £4.5m and profit £0.9m adverse to Plan.
2. The key performance highlights are strong growth in Banking Services and Travel Money Card sales, offset by continued poor performance in MoneyGram (as a result of lower migrant numbers and falls in Sterling) and weak sales in BoI products.
3. The delay in closing the New Call/Fuel telephony acquisition has impacted income by £6.2m but profit by only £0.6m due to lower variable costs. With the acquisition having completed and trading to plan the variance will not reoccur.

Gross Income (£m)

	Period 6 YTD					Full Year				
	Actual	**Budget**	**Var**	**PY**	**YoY**	**Fcst**	**Budget**	**Var**	**PY**	**YoY**
Mortgages	**1.4**	2.1	(0.7)	1.6	(16.5)%	**2.0**	3.6	(1.6)	2.7	(24.7)%
Credit Cards and lending	**0.9**	1.6	(0.6)	1.4	(33.6)%	**1.7**	3.7	(2.0)	3.0	(42.6)%
Savings	**20.2**	20.2	(0.0)	22.1	(8.5)%	**47.2**	47.8	(0.6)	54.7	(13.7)%
Travel Money	**14.9**	14.3	0.6	14.2	4.8%	**27.8**	27.4	0.4	27.3	1.8%
MoneyGram	**13.5**	15.5	(2.1)	14.9	(9.6)%	**28.7**	31.7	(3.0)	29.8	(3.6)%
Post Office Money	**50.9**	53.7	(2.8)	54.3	(6.2)%	**107.4**	114.3	(6.9)	117.4	(8.5)%
Banking Services	**42.5**	41.4	1.1	31.3	35.9%	**86.4**	83.0	3.4	67.4	28.2%
Telecoms	**72.7**	74.2	(1.5)	63.7	14.2%	**149.4**	149.4	(0.0)	129.9	15.0%
Postal Orders	**7.6**	8.3	(0.7)	9.8	(22.7)%	**14.6**	16.2	(1.6)	17.5	(16.6)%
Other income	**0.0**	0.5	(0.5)	0.0	97.3%	**1.2**	5.2	(4.0)	1.2	(2.5)%
TOTAL	**173.7**	**178.2**	**(4.5)**	**159.0**	**9.2%**	**359.0**	**368.2**	**(9.2)**	**333.4**	**7.7%**

FST Profit £m

	Period 6 YTD			Full Year		
	Actual	**Budget**	**Var**	**Fcst**	**Budget**	**Var**
Post Office Money	45.0	47.1	(2.0)	93.7	100.2	(6.4)
Banking Services	41.8	40.3	1.4	85.0	80.9	4.1
Telecoms	18.4	15.6	2.7	37.4	32.0	5.4
Postal Orders	7.6	8.3	(0.7)	14.6	16.2	(1.6)
Other income	0.0	0.5	(0.5)	1.2	5.2	(4.0)
Variable agents' pay	(34.1)	(34.5)	0.4	(63.6)	(61.8)	(1.8)
FRES	16.6	17.2	(0.6)	34.9	34.4	0.5
FST DPC	**95.2**	**94.6**	**0.6**	**203.2**	**207.0**	**(3.9)**
Fixed agents' pay	(5.2)	(5.1)	(0.1)	(9.9)	(10.4)	0.5
Marketing and digital	(4.2)	(3.2)	(1.0)	(5.7)	(6.4)	0.7
FST Programme costs	(1.5)	(1.4)	(0.1)	(0.9)	(2.0)	1.1
FST Central costs	(1.3)	(0.9)	(0.3)	(1.3)	(2.9)	1.6
TOTAL	**83.0**	**83.9**	**(0.9)**	**185.3**	**185.3**	**0.0**

POMS/Insurance Contribution £m

	Period 6 YTD			Full Year		
	Actual	**Budget**	**Var**	**Fcst**	**Budget**	**Var**
POMS Company EBITDA	3.5	4.2	(0.7)	7.1	7.3	(0.2)
Plus: Commissions to POL	6.5	7.4	(0.9)	13.2	14.0	(0.8)
POMS (Group contribution)	**10.0**	**11.6**	**(1.6)**	**20.3**	**21.3**	**(1.0)**

4. Based on data as at P5 we completed a detailed re-forecast to the year-end, taking account of performance to date, initiatives and emerging factors. As set out above, this concludes that FS&T (excluding POMS) will achieve the full year budget.

5. By year-end gross income will be £9.2m behind plan at £359m, an increase of £25.6m or 7.7% year-on-year. The core assumptions are that:

   - Mortgages, credit cards, postal orders and MoneyGram will continue at broadly current run-rates, with some limited upside from new initiatives; we expect not to receive any profit share from credit cards (budget £0.9m); and we have assumed that the savings value share will not achieve the final one basis-point reduction as the market yield curve rises (£0.6m).
   - The £3.0m anticipated from Peregrine will not materialise and agent's pay increases by £1.9m, as a result of higher banking transactions and incorrect budgeting.
   - These under-performances will be countered by continued growth in banking services, supported by an in-branch marketing campaign and the benefit of Lloyds Business Banking joining in the autumn. Telecoms income will also recover with the full impact of New Call, higher customer numbers and the benefit of various yield initiatives.
   - Ofcom has delayed the implementation of end-market pricing changes to the telecoms fixed-line market to beyond 2017/18.

6. While FS&T profit is £0.9m adverse to budget, we are targeting to achieve the full year budget, a £1.8m swing, based on:

   - Further positive growth in banking services (£1.3m); FRES budget phasing (£1.1m); updates to reflect the opex/capex split of planned projects (£1.2m); and FS&T central costs (£1.9m), reflecting slower Mortgage Specialist headcount and strict control of overheads.
   - The key risks in the short/medium term are:
     - Trading performance in MoneyGram and insurance;
     - The potential impact of new regulations in travel money, insurance and telecoms;
     - The risks from the rejection of the BoI proposal (particularly on the realignment of profit share in Travel Money/FRES; and
     - Delays to the deployment of the Customer Hub.

Post Office Money

Markets

7. The Savings market remains flat as a result of the extended period of very low interest rates, pressurising margins; however rising yield curves ahead of a potential base rate increase in November and competitive pressures are driving a number of smaller banks to offer high pricing, particularly in fixed rate products.

8. With house prices inflation flat (and in some markets declining), mortgage activity has been modest in 2017, with the mix shifting from buy-to-let and cash buyers to first-time buyers. Mortgage competition remains very high.

Performance

9. Travel Money is performing to plan, mainly driven by the strong performance of Travel Money Card – our Multi-currency Travel Money Card recently won Best Customer Loaded Programme at the prestigious Emerging Payments Awards.
   - Branch sales are showing positive signs of improvement and are beginning to re-align with last year.
   - Travel Money Online is very sensitive to currency rates and underperformed over the peak season as Sterling fell against the Euro. While trading has improved, it is unlikely to meet the annual target.
10. Savings income is based on hitting a balance sheet and Net Interest Margin (NIM) target. We are forecasting to meet the balance sheet target, but not the final one basis-point reduction in NIM as the yield curve rises. A back-book re-price has been implemented improving NIM, but has not yet had a significant impact.
11. Mortgages applications and completions are both ahead YOY, albeit behind income target, with completions up 54%. A new product range went live in September improving our competitive position. A mortgage awareness week in branch (in key locations supported by Mortgage Specialists) drove a doubling in weekly leads (654 to 1,417), providing a strong pipeline. We are strengthening the First Time Buyer offer in October.
12. Cards & Lending: Approval rates, applications and sales are all increasing; whilst we are behind plan, momentum is building due to a number of initiatives and customer journey improvements. These include using the information from the Fast Checker tool to pre-populate the credit card application; this places us amongst the leading players and reduces the number of customer entries in the application by over 40% from 29 down to 16 fields.

Developments

13. Following the September Board meeting, we rejected BoI's proposal; reaction to date has been muted and we continue BAU initiatives. In the absence of agreement on a contract extension, we are now discussing options to secure a new value share arrangement to protect our savings book and associated income stream and maintain the launch of the new mortgage propositions in 2018. We are aiming to conclude these short-term negotiations by November while we continue to examine options on the future management of FRES.
14. Following the presentation and demonstration of the Customer Hub at the Board strategy away-day, the customer proposition, deployment plan and business case are being finalised for GE support. The initial minimal viable proposition will focus on travel including integrating with POMS and FRES and is targeting to be in market ahead of the summer 2018 holiday season.

MoneyGram

15. MoneyGram transactions are behind last year and tracking well behind plan, creating a £2.1m income shortfall versus budget YTD and a forecast of £3.0m adverse for the full year (down 3.6% YoY). As requested, we have set out more detail on the reasons for this decline and the outlook.
16. The Brexit vote and the fall in Sterling have impacted the remittance market, with migration levels into the UK substantially down; this combined with the fall in Sterling is significantly impacting all UK money transmission providers.

17. This has been further exacerbated by the introduction in June of tighter AML identity requirements by HMRC for transactions over £800. This has required Post Office customers to provide full identification through an on-line or app process before the transaction can be completed; while the AML requirements should have been implemented by all market participants, we are concerned that many smaller businesses are not yet following the new rules.
18. The changes have impacted our trading volumes, with transactions over £800 falling c.56% after the new threshold was introduced and Suspicious Activity Reports down by 50%, suggesting AML processes are having a positive impact on stopping potentially fraudulent transactions. Transactions over the threshold have recently stabilised and now seem to be improving as customers become familiar with the ID upload process.
19. Looking forward, although the AML impact is easing, the current volume trend is expected to continue. In mitigation we have a number of actions:
    - Site Visits – 50 completed; additional signage orders taken from 44 branches.
    - Customer Strategy – Following a review, the messages we regularly send to customers will be updated.
    - Sales Team – New sales team structure under review. 17 DMB locations in the London area have been put forward for Team Support.
    - Cross Marketing – The Post Office brand continues to be promoted in Romania and Bulgaria. Further corridors are being investigated with MoneyGram.
    - New cash to account corridors are being introduced into key corridors, such as Romania, Lithuania, Bulgaria, Dominican Republic & Zimbabwe.
    - More broadly, we are reviewing the wider remittance market, including changing consumer needs, market convergence and digitisation.
20. We are also following up with HMRC to encourage a consistent enforcement across the market.

Telecoms

21. The broadband market continues aggressive price-led competition, with some significant pricing floors being broken on both standard broadband (ADSL) and fibre broadband. BT has responded with the re-launch of a data usage capped product to achieve a price of £24.99pm for fibre.
22. We are currently promoting an aggressive offer on ADSL at £19pm, which is starting to deliver sales (particularly online), supported by marketing.
23. Customer migration from New Call/Fuel to Post Office has successfully completed. Churn for the transferring customers has been above forecast (~2k), but the financial impact of this has been offset by lower than forecasted uptake of the welcome offer (40% vs 100%) and NPV remains in line with the business case.
24. The business is in a strong position and is forecast to over achieve budget with 16% year-on-year income growth, of which c10% is organic. However, trading continues to be challenging and gross customer additions are below budget, especially in agency branches.
25. Ofcom have informally communicated a delay to the proposed reductions to market pricing for landline services to at least April 2018.

Banking Services

26. Banking Framework transactions are performing ahead of budget and this trend is expected to continue, with Lloyds Business Bank joining shortly. In addition, following successful trials in Belfast, 7,000 branches are receiving local, directed and 'punchy' campaign material, to run to early November.

27. The growth has in, in part, been driven by bank branch closure; c750 will close in 2017 and the trend rate is expected to continue through 2018. The apparent strategy for banks is to become 'cashless', with remaining branches focusing only on value-added sales and service activities.

28. Post Office has an opportunity to capitalise on that process to become "The cash provider for UK Banking". We are assessing the opportunity and potential impact:
    - We are working with Lloyds Bank to understand their entire cash delivery service and transaction profile to assess how we could accommodate their volumes to be Lloyds' national cash provider.

29. New products have been launched or are in development (Change Giving Lite, Business Cheque Encashment and Deferred Checking) which will further enhance trading. Change giving has been offered informally by Postmasters; the new model will charge for the service and remunerate PM's accordingly.

30. To improve the customer and branch experience, Santander 'paper' transactions have been replaced with automated alternatives. This is expected to increase service speed and customer satisfaction.

POMS

31. Strong competition continues across the core insurance products. Following changes in the FCA's renewal rules we are seeing a significant increase in customers using price comparison websites for annually renewable products.
    - Volumes are below budget for travel insurance (particularly network sales - down 18% YoY) and from regulatory changes impacting car and home policies. Despite these POMS continues to grow, with revenues up year-on-year by 4%.
    - As a result of the weak travel sales and the removal of an unallocated income stretch of £2.6m which will not be delivered, POMS is forecasting to deliver Group EBITDA of £20.2m for 2017/18; this is £1.0m adverse to Plan.

32. POMS is working with Group to identify investable opportunities to accelerate growth while recognising that investment will often impact short-term profitability.

33. POMS has received a challenge from the FCA as to whether communication to certain travel insurance customers ahead of policy expiry meets new rules. POMS ARC has discussed the matter and POMS' Director of Risk is working with the FCA to agree remediation actions.

Customers & Digital

34. Although still 9% behind the revenue target YTD, we have seen some positive trends in recent weeks with the implementation of mortgage and loan action plans jointly developed with BoI.

35. Natural search rankings have dropped for some products following changes to Google algorithms and we are making changes to our site to remediate. Activity to improve our Telecoms and Travel Money Online customer journeys has driven performance improvements.

36. The positive trend in the FS Net Promoter Score has continued and is on target at +25, with an ambition to exceed the full year target.
    - A key driver of the improvement has been to reduce the number of days a savings account is frozen after a customer makes a change to their personal or banking details from five days to one.
37. Recently Telecoms complaints have been at record low levels, driven by various customer satisfaction initiatives. However, in August complaint volumes rose, principally from New Call/Fuel customer migrations.
38. Ofcom published its quarterly industry complaint report on 27th September, which showed an improvement in the volume of fixed line complaints from Post Office customers, falling from 21 complaints/100k customers to 17/100k. However, the report has shown that the overall industry improved at a faster rate, leaving Post Office at the top of the list[1]. We are engaging with Ofcom to address how the data is compiled and also with Fujitsu to improve the customer experience. Post Office is not referenced in the Ofcom broadband complaints report.
39. Following the presentation and demonstration at the Board strategy meeting, we are finalising the Customer Hub customer propositions, deployment plan and business case for executive sign off. The initial proposition will be travel focused and integrate POMS and FRES offerings and target to launch ahead of the 2018 summer period.

Risk

40. We presented a report to the Audit & Risk Committee in September, updating conduct risk performance and giving a view of upcoming regulatory initiatives. This update includes further developments and other non-conduct risk matters.
41. AML and Travel Money: HMRC has indicated that a penalty of c£350K is likely in relation to "breaches" in AML/CTF controls in our Travel Money business. This fine is not required to be publicised by the HMRC. We have submitted an action plan to improve our controls and we are working towards the agreed timescales.
42. EUM: The programme will ensure that counter colleagues are both vetted and trained prior to accessing Horizon. This is a key regulatory requirement for our businesses. This programme is being piloted in 24 branches. The objective is to have EUM installed in the largest 500 FS branches by November and implemented across the whole network in 2018.

Nicholas Kennett
Chief Executive, Financial Services & Telecoms
October 2017

[1] *This generated minimal media interest.*

Building our identity services business

Authors: Martin Edwards, Jonathan Evans

Meeting date: 31st October 2017

Executive Summary

Context

At the June Board we discussed the Post Office's opportunity to lead the market for digital identity services. This paper sets out how we propose to seize this opportunity through a co-ordinated series of actions to accelerate consumer and client adoption.

Questions addressed in this report

1. What is the proposition for customers?
2. What are the opportunities within the Post Office to embed our identity platform?
3. What are the priority external market opportunities beyond government?
4. What role should we play in the value chain to manage the market?
5. What are the next steps to execute this strategy and how do we define success?

Conclusion

1. The market for re-usable digital identities like Verify remains in its infancy in the UK, although the opportunities are enormous. The central challenge is to gain a critical mass of consumers and businesses signed up to use the service. In the absence of a proactive role from Government, we believe the Post Office is better placed than any other organisation to lead the development of the market.
2. There are four central planks to our strategy to pursue this vision:
    a. **Integrating our identity platform into the Customer Hub** launching next May, creating a service that puts customers in control by enabling them to securely store, manage and share their personal data.
    b. **Making our identity platform the default (and easiest) way for customers to access all Post Office products and services** online and in-branch, such as AML checks for travel money.
    c. **Expanding the use of Verify beyond government** to create a service that is genuinely valuable to customers on a day-to-day basis. In the near term we will be prioritising two particular sectors with strong synergies with the Post Office's core business lines - banking and travel.
    d. **Taking a more controlling role in the value chain**, by in-sourcing the functions currently performed by Digidentity, potentially via a JV, and taking a proactive role in the creation of the 'hubs' required to connect new private sector clients to multiple identity providers.

Input sought

The Board is asked to approve the overall direction of this strategy so we can transition rapidly into execution.

Strictly Confidential

The Report

Introduction

1. At the June Board we discussed the Post Office's opportunity to lead the market for digital identity services, disrupting the current siloed approach where the same identity checks are performed repeatedly for each individual by multiple organisations, at an estimated annual cost of over £3bn. Building our role in identity services should reinforce both our social and commercial objectives, promoting digital inclusion and consumer empowerment while generating £14m pa of additional profits by 2020/21 (based on the projections in our Strategic Plan).
2. This paper sets out our strategy for delivering this opportunity. The core challenge is how to achieve critical mass of consumers and clients. Digital identity is a classic example of a two-sided market – an economic platform with two distinct sets of users who provide benefits to each other. Such markets are notoriously difficult to get started because of the inescapable fact that without one side of the market there is simply no value to the other side (like Uber without any taxi drivers). Growth therefore tends to be painfully slow in the early stages, but can then accelerate exponentially once a tipping point is reached on one or both sides. Currently just 2% of the UK population have a reusable digital identity, despite the concept being around for nearly two decades.
3. As this paper sets out, to overcome this challenge the Post Office will need to take a more proactive role in stimulating adoption on both sides of the market, in contrast to our passive role under Verify where essentially we are waiting for the business to come to us. Once we have built momentum in the market, the task of attracting further customers and clients should become much easier.
4. Given the challenges and complexity of this market, we have acted on the Board's request to ensure our thinking is informed by extensive external input. We have engaged the services of two of the leading specialist consultancies in this area, met with over 30 different organisations - prospective clients, partners and competitors - and run three workshops with the support of McKinsey.

What is the proposition to customers?

5. Identity services are a means to an end, and customers will only engage with our platform if it enables them to access services they value with greater ease and security than their alternative options. The existing suite of infrequently used Government services connected to Verify is not sufficient to provide a compelling proposition to customers, and therefore the next two sections of this paper set out: a) the Post Office products and services which we are proposing to connect to the identity platform; and b) the external services beyond government which we are seeking to integrate.

6. While these end services drive the primary value to customers of our identity platform, to accelerate adoption we believe we also need to invest in creating a more compelling and engaging customer interface than the current Post Office Verify app (which is limited in functionality and basically just enables customers to upload their data).

7. As part of the wider Customer Hub launching next May, we are therefore planning to include an 'identity wallet' with the following enhanced functionality:

   - A **'Personal Data Store'** (PDS), which, as the name suggests, enables the customer to collect, securely store and control access to their identity 'attributes' such as name, address, date of birth, biometrics and passport number, together with any attestations from 3rd parties (for example confirmation from the Post Office that they have passed through a full Verify check, or confirmation from the DBS that they have passed a criminal records check). This would firmly position the Post Office as a consumer-centric identity provider, promoting individual ownership of personal data in contrast to the Credit Reference Agencies for example who share (and leak) without the customer's consent. The PDS also potentially provides additional benefits in terms of GDPR compliance for the Post Office and an additional route to help customers pass through the full Verify checks by aggregating wider data sources such as their bank account or Government Gateway records, all under their control.
   - **Tools to share selected data** from the PDS with chosen individuals or businesses, either app to app or via an API. There are a multitude of potential customer uses, for example purchasing age restricted products without the need for photo ID, a childminder proving to a prospective client that they are DBS checked, peer to peer platforms or proof of identity to collect secure items from a Post Office or hire a car.
   - **A digital signature** for use in contracts and other documents. Digital signatures have been legally acceptable in the UK since 2000, but are now expected to grow in usage as more organisations seek to digitise processes.
   - **The ability to view what other services they can access effortlessly using their digital identity** - this is important to raise customer awareness of the wider value of the platform and encourage deeper engagement.

8. Some illustrative screen shots of what the app might look like are provided at Annex B. We will ensure the design of these services is informed and iterated through a continuous process of user testing and feedback. The PDS in particular is likely to be kept simple in the first instance as customers get used to the concept of managing their own data, with further functionality and sophistication added over time.

9. Our expectation is that these services will be provided free to consumers, certainly in the early stages when we do not want to create any additional disincentives to

mass adoption. The revenue model is predicated on the assumption that this investment in consumer functionality is then repaid by charging government and private sector clients for access to our APIs and Verify-level certificates of assurance, enabling them to reduce the costs and friction of their own customer on-boarding processes. Further details on the external market opportunity is set out below.

What are the opportunities within Post Office to embed our identity platform?

10. Making our identity services platform the default way for customers (and employees) to access Post Office products and services is a vital component of our strategy for four main reasons:

- It will **improve the customer experience for accessing our services**, with faster on-boarding processes and the elimination of the need to make customers repeatedly provide the same information and identity documentation to access different services;
- It should **reduce costs by moving to a standardised process** across all areas rather than the fragmentation we have today (often using our Verify competitors like Experian and GB Group);
- It **demonstrates to external clients that we have complete confidence** in our identity platform, trusting it with own customers and employees; and
- It **addresses our key weakness as an identity provider, which is our lack of existing digital customer relationships** to cross-sell into Verify. Amongst the 7 Verify providers, both Experian and Barclays have large customer datasets (15 million accounts in the case of the latter) and are starting to think about how they can leverage these relationships for Verify. GDS have also indicated that they are prepared to incentivise this form of cross-sell through pre-registration payments of around £3 for each customer signing up to the basic level of Verify.

11. The integration of services onto the Customer Hub from next May provides the opportunity to start closing this gap. Our travel products represent the most significant near-term opportunity - we have 800,000 travel insurance customers, we perform 700,000 Travel Money online transactions per year and under the tighter HMRC rules we may have to perform up to 7 million in-branch AML checks each year (in a worse case scenario). Linking these checks to a re-usable digital identity will mean these customers are not asked to re-present the same identity documentation each time they want to pick-up travel money.

12. We will look to apply the same principles to all our products and services with a digital component, including the telco customer base, Drop & Go and the wider insurance range. We are also working with HR to change the employee on-

boarding process so it uses our Verify service, ensuring our people are both users and advocates.

13. We are also working on three other opportunities to increase the volume of users onto our identity platform from existing Post Office services:

- The launch of the digital passport service next March creates the opportunity to target 2 million customers a year coming into our branches with their identity documentation in hand;
- We have initiated a project with GDS and Mydex (a provider of Personal Data Stores) to explore how we can take the 2m POca customers through the Verify process, meaning they are ready to access Universal Credit and apply for basic bank accounts and other financial services from the Post Office or other providers.
- Over 1 million customers a year pay at least £34 for the Royal Mail redirections service, with around a third of them applying via the Post Office network. Our identity platform provides the opportunity to combine this with an additional service to enable customers to share their updated address details with service providers. Previous customer research suggested that over 70% would find this service appealing (based on a sample of 300). The service would be more powerful if offered in partnership with RMG's redirections service (rather than competing against), and so we are exploring whether there is a collaborative approach we could take to this idea without sacrificing ownership of the identity assets.

What are the priority external market opportunities beyond government?

14. While government services remain the cornerstone of Verify, the clear lesson from the past three years is that: a) we shouldn't passively just wait for the pipeline to flow; and b) the services that are currently available are too infrequently used to stimulate consumer momentum. The Cabinet Office is now reaching largely the same conclusion, and is actively encouraging the Verify providers to generate external demand.

15. The potential applications across the private sector are enormous. The following table provides a list of the main potential areas of demand for high assurance identity services. These are consumer facing services that are regulated and where there are significant costs associated with identity checking, fraud and error.

Opportunity	# of Transactions	Revenues (£m)
Bank Account Opening (Churn and Cross-border)	2m	134
Travel (includes pre-flight checks and car hire)	78m	102
Age (Gambling, Dating, Adult content, age-restricted goods)	245m	513
Gambling (ID and Self-exclusion)	20m	95
Property Rental	23m	151
Retail (Address, Age)	1,773m	44
Health (Access to health records, Home care worker ID)	914m	138
Sharing economy	4m	21
Legal (Conveyancing, Divorce, Wills)	3m	15
Insurance (Home, Motor, Medical, Life)	60m	45
Pensions	40m	105
Asset Management (Share certificates, Corporate voting)	32m	16
Employment (Temp, Permanent, DBS, DVLA)	38m	206

16. As our identity services business and the wider market reaches greater maturity we would view all of these sectors as viable targets, with the network effects increasing as more consumers and clients use our platform. However, in the near term we believe it would be better to focus our resources on gaining traction in a few key markets.

17. We have therefore identified two priority external market opportunities, selected on the basis of: a) their potential to accelerate adoption of digital identity; b) the risk of competitor solutions emerging if we don't move quickly; and c) the synergies with the Post Office's existing business lines:

 - **Financial services -** KYC/AML costs can range up to £100 per customers, constituting a major cost of retail banks. Through the Banking Framework the Post Office has already established itself as a trusted and neutral service provider, and we therefore have a clear opportunity to expand this into document verification and digital identity services. Across the industry this could represent a c£200m market opportunity, which the Cabinet Office is encouraging identity providers to pursue based on the international evidence that shows that most flourishing digital identity systems are built around the combination of both government and banking services. We are pursuing a twin track approach of engaging with UK Finance and Cabinet Office in the development of a sector wide approach, while also pursuing more accelerated engagement with a few individual banks (with HSBC showing the most appetite to date).

 - **Travel-related identity services** – the International Air Transport Association (IATA, the trade body for the airlines) and IAG (the owners of British Airways) have both expressed in interest is using digital identities (and Verify in particular) to help streamline the process for Advance Passenger Information (which requires customers to submit their personal details and passport number prior to travel). Their research estimates that half of all customers make errors when providing this information, creating

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additional overheads of around 40p per customer. We therefore estimate a UK market opportunity of up to £100m pa for the consumption of digital identities offering greater accuracy and security. Given the synergies with our core travel business, we view this as an obvious opportunity to prioritise, alongside other travel related services where customer checking is required, such as car hire and home sharing (Airbnb). Initial discussions with prospective clients are underway.

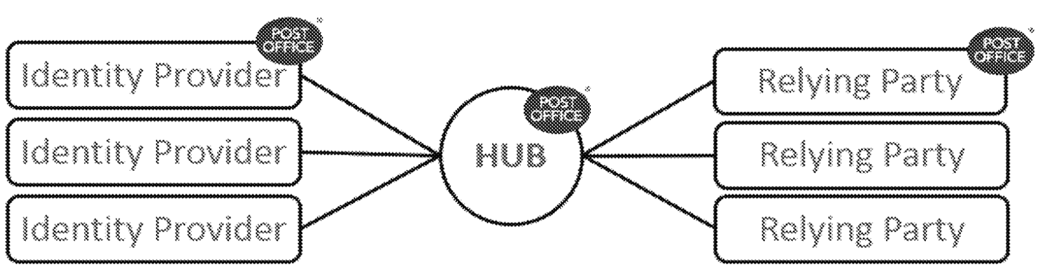
18. We are also in early discussions with Call Credit (the UK's third largest credit reference agency) around the potential to offer their 3.6 million Noddle customers an accelerated sign-on to Verify via the Post Office.

What role should we play in the value chain to manage the market?

19. The UK's digital identity market remains highly unstructured at present, with a complex web of players on the supply side performing incomplete roles, and fundamentally no mature mechanism for matching these suppliers to the myriad potential clients on the demand side. Annex A provides further detail on this market landscape, highlighting the key competitors and prospective partners who we need to be watching or engaging.

20. Our challenge in this context is to create some order and momentum from this amorphous market, leveraging the strengths of our brand and market reach. The table and diagram below summarises our recommendations on the three key roles in the identity services value chain that we propose to take on in order to stimulate and lead the market.

Role in value chain	Post Office's current position	Recommended position
1. Identity provider (IdP): gathers the data from customers and performs the necessary assurance checks	Just a branded white label service	In-sourcing of identity assurance function from Digidentity, either directly or via a JV
2. Relying party (RP): the service providers (like government or banks) who need to validate a customer's identity before offering them the service	Not using our own identity service, instead paying companies like Experian to do customer & employee checks	As outlined earlier in the paper, use our own identity service to accelerate adoption
3. Hub provider: manages the technical and commercial interface between multiple IdPs and multiple RPs – the key market maker	No role at present	Play leading role in the creation of a private sector hub, either owning directly or co-owning with relevant market players



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21. Further details on these recommendations are set out below.

i) In-sourcing the identity assurance function

22. At present the Post Office is a pure brand player in digital identity services, relying entirely on our Dutch partner Digidentity who perform all of the identity checking and storage, manage the customer platform and the interface with GDS and handle customer enquiries.

23. This relationship with Digidentity has served us well. They have consistently proved themselves to be the most effective and agile provider on the Verify platform, enabling us to achieve market leading customer conversion statistics (although this is also partly explained by the strength of our brand enabling us to implicitly 'cream skim' the easiest customers to validate). Despite the fact that we do little more than lend our brand to their operation, we retain 60% of the gross revenues and around 80% of the total profit margin from Verify.

24. However, if we intend to become the UK's major player in digital identity services we believe we need to put the relationship with Digidentity on a different footing, establishing a commercial arrangement which provides us with increased control, scalability and flexibility over these core competencies. A straight acquisition would be the simplest option, but is unlikely to be financially compelling. They were purchased for an undisclosed sum by US firm Solera a year ago as a strategic acquisition; informally we understand that they are unlikely to sell the business for less than £50-75m (Digidentity's primary market is the Netherlands, and they also have ambitions to expand internationally).

25. The alternative option would be to form a UK based JV with Digidentity, with them as minority shareholders. Informally they have confirmed an interest in this idea. Our contract with Digidentity is due to expire in 2018 in any case (with the option of a one year extension), so now is the right time to be considering an alternative arrangement. Clearly we would want some competitive tension around this process, and therefore we would propose to run a quick tender exercise (potentially via a subsidiary), with a JV arrangement explicitly highlighted as a likely outcome. This would enable us to benchmark Digidentity against the 2-3 competitors who we believe are in a position to play a similar role. Our assumption is that the strength of our brand and existing Verify market share would provoke significant interest amongst prospective partners.

ii) Taking a proactive role as a 'hub' provider for private sector clients

26. Given the structure of the UK identity market with multiple providers on the supply side, there is likely to be a central role for 'hub' providers – the entity responsible for providing the technology platform the connects multiple identity providers to multiple clients (or 'relying parties' to use the industry term), managing the scheme rules and standards and negotiating the commercial relationships with

both sides. This is the role performed by GDS for Verify for government services; they have no intention to do the same for commercial use cases, and are instead encouraging private sector companies to take on this role to extend the usage of Verify credentials. Once this model is proven GDS have indicated informally that they may also outsource their role as a hub provider.

27. To date around six companies have expressed an interest in taking on this hub role for the private sector, with each of them in the very early stages of attempting to marshal a quorum of identity providers and relying parties. None have launched a live service yet, although IDEMIA – a EUR3 billion French based identity services company, who are also an identity provider under Verify – are probably the most far advanced in terms of being ready to trial a service.

28. Our previous thinking assumed that we would remain focussed on the consumer facing role of being an identity provider, leaving the specialist technology companies to vie for the role of hub provider. However, we have now reached the conclusion that we should seek to take a more proactive role as a hub provider in our own right, for four main reasons:

- It enables us to play a central role in the development of the market ecosystem, rather than passively waiting for someone else to make things happen (which as we have seen with GDS and Verify is an unsatisfactory position);
- The evidence from other countries and comparative markets like payments suggests that the hub role tends to be the most profitable link in the value chain;
- We believe our brand has value as a trusted, neutral B2B service provider, particularly with the banks by virtue of the Banking Framework; and
- It compensates for our *current* key weakness as an identity provider, which is our lack of existing digital relationships. If the banks or one of the major consumer technology companies like Apple were able to leverage their customer relationships, as a hub provider we would still be able to work with them while also preserving our role as a major identity provider in our own right.

29. Clearly we would need a technology partner to perform the hub role, either using one of the half a dozen specialist providers in this market or (less likely) one of our major IT suppliers like Fujitsu. The technology platform is probably less important as a USP in this market – the most successful hubs will be the ones which combine technical competence with an effective and well-resourced B2B sales capability.

30. There are a number of commercial models we could pursue with these partners – an acquisition might be feasible for some of the smaller technology outfits, but for the larger firms a JV or service contract is more realistic. As with the approach to Digidentity outlined above, we would expect to test these options through a short tender process, preceded by further bilateral conversations with key players.

31. Digidentity are themselves a hub provider in the Netherlands, and have said they would be in a position to set up a UK-based hub for us rapidly. IDEMIA would also be a prime partner for the opportunities in travel identity explained above, because of their existing strengths in border control systems and the fact that (we understand) they have persuaded British Airways to test a trial service using Verify.

32. We may also need to think more creatively about alternative shared ownership arrangements if we wanted to reduce our investment costs or create stronger incentives for relevant stakeholders. For example, in order to persuade the banks to buy into a shared digital identity scheme we might want to give them the option of partial ownership. We are also exploring a recently announced scheme in Germany where seven leading companies from across different sectors have grouped together to create a shared digital identity scheme in order to improve their customer onboarding processes.

What are the financials?

33. The table below summarises the financials that were included for incremental investment and growth in our Strategic Plan.

£ million	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Digital Check & Send	4.8	6.6	11.8	11.9
GOV.UK Verify and new identity services	1.8	6.2	11.1	11.2
Total net income	**6.6**	**12.8**	**22.9**	**23.1**
Direct product costs	(2.8)	(4.9)	(9.1)	(9.3)
EBITDAS	**3.8**	**7.9**	**13.7**	**13.8**
Investment costs (assumed capex)	**(4.2)**	**(12.2)**	**(4.4)**	**(3.3)**

34. While this represents a stretching set of targets for new income and profit growth, (particularly in the early years where we may need to subsidise pricing), if we successfully execute the strategy outlined in this paper and secure a growing range of clients then overall the figures should be achievable, with the potential for upside opportunity once we build real momentum in the market.

35. The projected capex of £20m over the next three years is intended to cover the technology platform costs and in-branch hardware to capture biometrics and documents. The actual costs will depend on the precise nature of the commercial models we form with partners, with options to reduce the upfront costs to the Post Office but with the inevitable trade-off of diluting our share of the subsequent value that is generated. We will revert to be Board with more detailed business cases for investment once we are further progressed in these commercial discussions.

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What are the next steps to execute this strategy and how do we define success?

36. While we have a unique set of assets to lead in digital identity, these advantages will erode if we don't act quickly and cede the ground to others. Subject to the Board's approval of the broad direction of this strategy, we would propose rapidly transitioning into execution with the following priority actions over the next 2-3 months:

- Resourcing the Customer Hub digital development team with the capabilities needed to deliver the features explained in the first section of this paper, ready for user testing in early 2018 followed by full launch in May. As part of this we will also be sourcing a provider of the Personal Data Store capability, with at least one company (Mydex) available for rapid deployment via the G-Cloud.
- Commencing the tendering process and commercial negotiations for the proposed in-sourcing of the Digidentity capabilities and the development of the industry 'hub' function explained in the prior section.
- Resourcing the wider capabilities needed to deliver our ambitions in identity services. In the short term we are recruiting for an additional B2B sales lead and dedicated project managers and business analysts to supplement the team's bandwidth in designing and delivering new client propositions. The wider shape of the function and the roles which need to be filled will be partly dependent on the nature of the partnerships we form (point ii. above) – for example if we form a JV with Digidentity this is likely to involve the transfer of some of their customer service team, and other prospective partners may bring strong B2B sales capabilities, reducing the need for us to recruit directly into these roles.
- Running more detailed workshops with prospective clients in our priority sectors of banking and travel, to understand their identity pain points in more detail and co-create the solutions we can provide to address these issues. We already have follow-ups planned with at least two clients, and are working to expand this list over the coming weeks.
- Continuing with the delivery of the digital passport application service from next March using our existing AEI estate in the first instance, which represents a strategically important step to secure our relationship with HMPO and accelerate our wider identity ambitions. In parallel we are exploring longer-term alternatives to the AEI booths, including potentially forming a partnership with PhotoMe.
- Intensifying our lobbying activities with senior Government stakeholders and external influencers to highlight the much bigger role which the Post Office could play in identity services, reducing costs for taxpayers and increasing

digital inclusion. While at present the Government has shown no intention of moving away from the Verify model of multiple private sector identity providers, we need to be ready to capitalise on any opportunities to shift the policy debate in favour of a more extensive role for the Post Office, for example a change of administration or a decision on whether to re-procure the Verify framework contract.

37. Beyond these immediate activities, based on the strategy outlined in this paper we would define success for our identity services business over the next three years as delivering the milestones and outcomes set out in the box below.

- ✓ Radically improved consumer platform launched May 2018 as part of wider Customer Hub.
- ✓ Our identity service used to meet AML/KYC requirements for Post Office travel money transactions by spring 2018, then extended to all Post Office customer and employee checking by 2019.
- ✓ Digital passports service launched by April 2018, supporting cross-sell into identity platform and protecting wider travel business.
- ✓ Major bank and travel company signed up to use our identity service in 2018, becoming their default route for all their customer checks by 2019.
- ✓ Solution for replacing existing AEI estate defined by spring 2018, ready to ensure smooth (and ideally accelerated) transition prior to contract end in March 2020.
- ✓ Industry leading customer completion rates maintained, demonstrating superior conversion rates to external clients.
- ✓ Market leading share of Verify maintained, proactively supporting the Government to hit its target of 25 million users.
- ✓ Rigorous data security standards maintained (and externally accredited) at all times – no acceptance of breach risks.
- ✓ On track to deliver the profit growth targets set out in our Strategic Plan.

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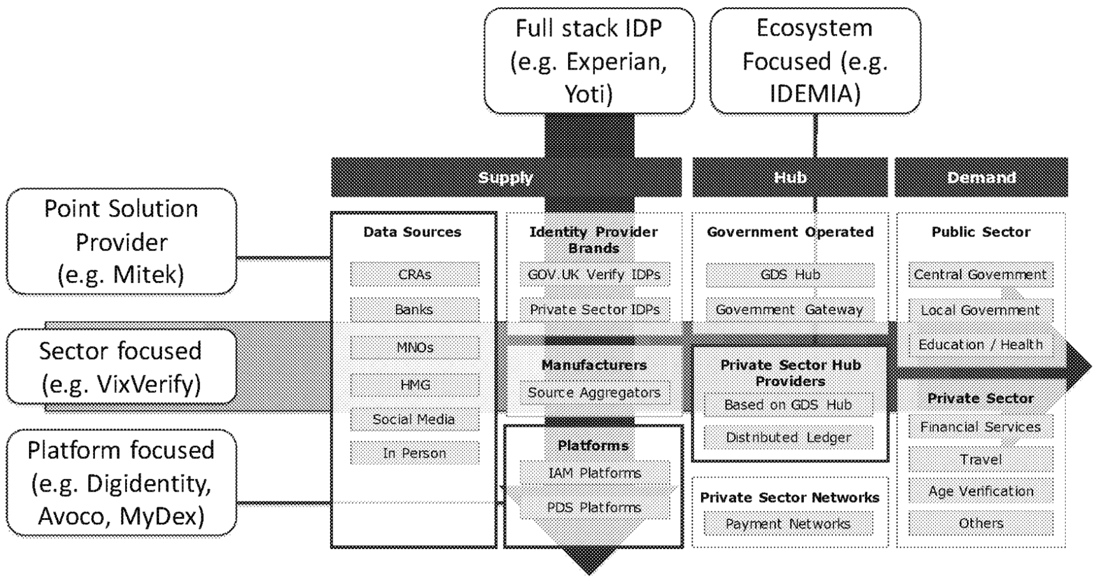
Annex A: overview of the identity services market landscape



Type	**Collaborators**	**Competitors**
Data Sources Sources of evidence to corroborate the identity being claimed.	Banks via PSD2 Those that bring B2C relationships, e.g. Callcredit's 3m Noddle customers.[1]	Banks and CRAs if they try to become identity bands, e.g. Barclays, Experian.
Identity Provider Brands Consumer facing brand for identity. The service the user has a direct relationship with for the management of their identity. Includes the 7 GOV.UK Verify IDPs and emerging private sector brands such as Yoti and potentially banks.	Manufacturers (e.g. Onfido, GB Group) who have no B2C brand.	Banks, Mobile Operators, Start-up brands (e.g. Yoti), Experian and possibly Callcredit.
Manufacturers Service to build assured identities by aggregating and correlating data from multiple sources. Traditionally the role of CRAs, other providers (e.g. Onfido) combine CRA data with other sources.	Onfido, Digidentity etc.	Those that could be identity brands, e.g. Experian.

[1] *Arguably Facebook and Google bring B2C relationships however there are potentially privacy / reputational issues working with them, and their B2C relationships are very low level of assurance.*

Some players (e.g. VixVerify) target KYC for financial services.		
Platforms The underlying technology platform for managing digital identity and the associated personal data.	IAM solutions such as Digidentity, Avoco, Forgerock. PDS solution such as MyDex.	No direct competitors with Post Office.
Government operated hubs The GDS hub that is part of GOV.UK Verify primarily.	Have no choice but to work with Verify for now. Could change, depending on future of Verify.	Not currently but could change, depending on future of Verify.
Private sector hub providers Several vendors with hub propositions including IDEMIA, Mvine, Signicat, Digidentity.	IDEMIA to achieve joined up approach to Airline and Financial Services.	IDEMIA if they seek to gain too much control. Other hub providers depending on their focus.
Private sector networks Potential threat if card networks or Vocalink sought to develop identity services over their networks. GSMA Mobile Connect, which is the mobile operator identity network proposition.	GSMA because for now MNOs cannot make a strong assured identity proposition but provide a useful data source.	Card networks and Vocalink particular if they seek to offer ID&V capabilities for financial services.
Public sector RPs Public sectors users of identity services.	DWP – strong links with Post Office and volumes.	HMRC? – few links to Post Office, could go in a direction detrimental Post Office proposition.
Private sector RPs Any potential user of identity services.	Retail banks – should include tier 2 banks and building societies who have less ability to solve this themselves.	Retail – can be difficult to work with. Will be protective of "their" customer data.

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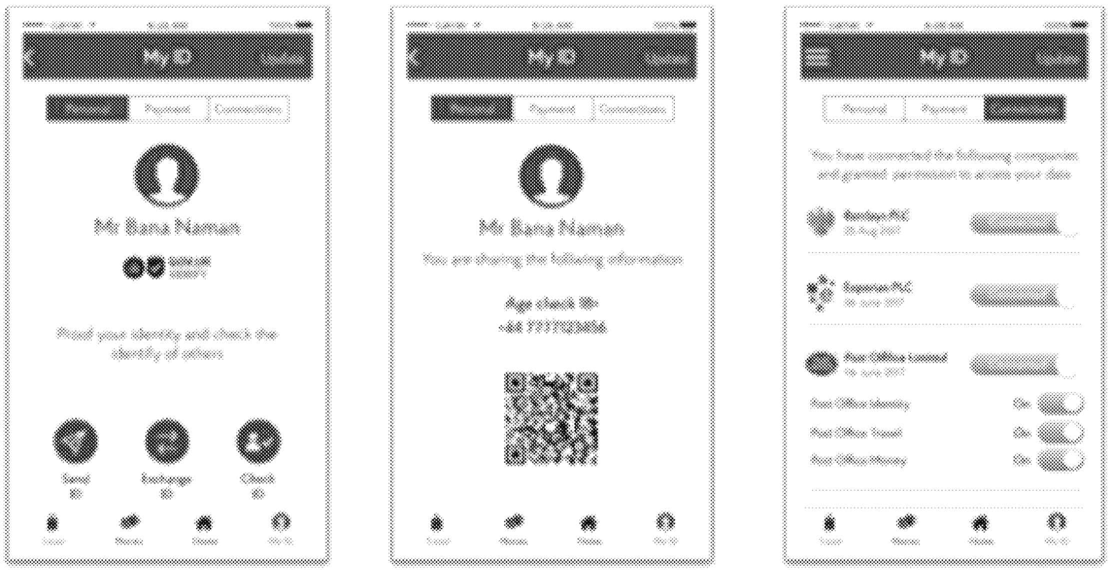
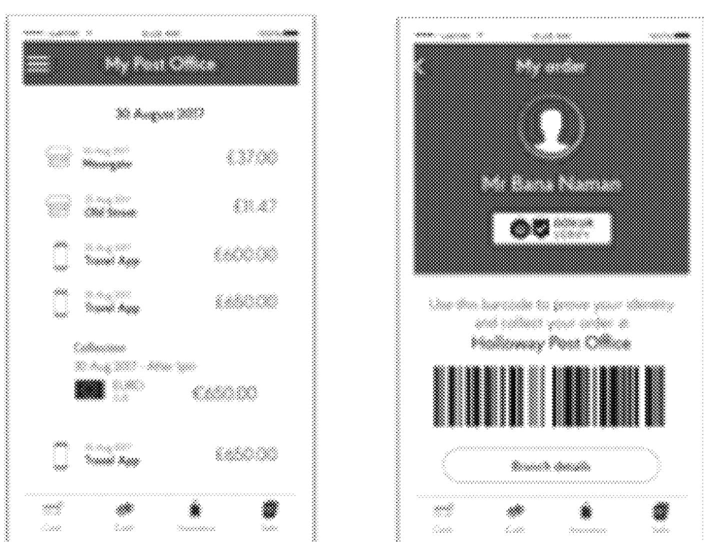
Annex B: Customer Hub 'My ID'

The following is an illustration of how the Customer Hub 'My ID' could be used for peer-to-peer identity assurance such as purchasing age restricted products without the need for photo ID, a childminder proving to a prospective client that they are DBS checked. These transactions may be single use interactions sharing only the minimum acceptable data or could be used to establish a more permanent and trusted connection such as with your bank, credit reference agency and Post Office.



Customer Hub 'My ID' being used for a Travel Money Online collection from branch. The customer uses the app to track their order, then once in branch a digital identity token is generated and provided to the counter staff by barcode or using contactless technology.



POST OFFICE BOARD

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DECISION PAPER

Borrowing Limits - P9/P10

Author: Mark Dixon Sponsor: Alisdair Cameron Meeting date: 31 October 2017

Context

The Board has agreed a £200 million headroom buffer on drawings on the Government Loan. We wish to temporarily reduce this to £100 million in order to fund higher network cash over the holiday period.

There are currently a number of initiatives in place to reduce the level of network cash and promote cash efficiency. These initiatives will ensure that we remain within the Board approved limit at the financial year end. We will provide an update to the Board on these initiatives in November.

Conclusion

In December 2016, the Board agreed a temporary increase to the Headroom limit from £750 million to £850 million through to 29 January 2017, subject to approval by the Group Finance Director. Overnight drawdowns were above £750 million on 2 days, 5 January (£771 million) and 6 January (£775 million). All other drawings were within the £750 million limit.

Although we expect headroom to deteriorate over the 2017/18 financial year, the peak deterioration is in Period 9 as we invest in higher network cash holdings over the holiday period.

At the end of Period 6 drawings on the Government Loan were £714 million and usage of the NRF was £207 million. Our overall headroom was in line with expectations at the time of the Budget.

Although Overall Headroom is in line with Budget, this is mainly because the impact of higher network cash inventory (£32 million) is offset by lower capital and investment spend (£47 million).

As in previous years we expect headroom to reduce significantly in Period 9 due to higher network cash balances held in anticipation of higher outflows due to winter fuel payments and higher cash withdrawals from ATMs and across counters prior to the holiday period. In the 5 + 7 Forecast we expect network cash at the end of Period 9 to be nearly £170 million higher than at the beginning of the financial year. Network cash then reduces significantly by the end of Period 10.

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From end of Period 6 to the end of Period 9 we expect to invest £101 million in higher network cash balances and spend £87 million on capital and investment. Other net inflows over the period result in an overall net outflow of £170 million.

Given our position at the end of Period 6, cash usage over subsequent periods through to Period 9, and allowing for significant swings in funding requirement intra-month of up to £100 million due to variations in client-related working capital, we therefore expect to need to draw beyond the £750 million Board approved limit on the Government Loan in Period 9.

This position will improve after Period 9 and we expect to be within the £750 million limit at the end of the financial year.

We are therefore requesting a temporary derogation for Period 9 and Period 10.

Input Sought

The Board is asked to approve a derogation to draw the Government Loan up to £850 million (i.e. to reduce the headroom buffer from £200 million to £100 million), subject to approval by the CFOO, for the period from 27 November 2017 (beginning of Period 9) to 29 January 2018 (end of Period 10).

Customer Hub and first delivery

Authors: Henk van Hulle & Jeff Smyth Sponsor: Nicholas Kennett Meeting date: 31st October 2017

Executive Summary

Context

1. At the October 2016 meeting, the Board confirmed its approval of the "digital first" Post Office Money strategy, which brings together the New Normal customer positioning and the 'Strong Integrator' (SI) business model (Project Falcon). The Board agreed also to £72.3 million five year investment (£37.4 million capex) on a "test and learn" basis, releasing funding in stages, subject to appropriate governance.
2. The business plan has been updated following the outcome of the Peregrine and government funding conversations.
3. This paper seeks authorisation from the Board to release £5.5m to build and launch the first release of the Hub, targeting travel.

Questions addressed in this report

1. What is the Customer Hub?
2. Why will customers engage with it and how will we drive customers to it?
3. What is the first release?
4. What is the business case?
5. What are the risks?

Conclusion

1. The Customer Hub is the digital customer platform which facilitates a single customer experience primarily managed by a mobile app. It enables customers to access accounts and services wherever and whenever they need in a single journey mainly: 'Post Office in my pocket', eliminating the disjointed journeys associated with multiple partners.
2. By 'owning' the customer relationship and controlling the end-to-end customer journeys Post Office will be able to build deeper relationships and deploy/enhance capabilities such as data analytics, digital campaign management, customer targeting and app notifications.
3. The development of the Hub consists of the core infrastructure with a suite of generic enablers. They act as an integrator/facilitator of product solutions.
4. The first delivery is Travel (May 2018), bringing together POMS' insurance products and foreign exchange, including Travel Money Card and its mobile app.
5. The infrastructure cost over five years to build the Customer Hub, including the delivery of four businesses is £26.3 million, with the Travel component costing £5.5 million to launch with estimated running/updating costs of £1.2 million per annum and marketing costs of £2.5 million per annum for driving customers to the Hub.

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6. The Travel Hub targets to deliver £50.6 million gross revenues and EBITDA of £32.5 million over five years.

Input Sought

1. The Board is asked to support the Customer Hub delivery plan and authorise the release of £5.5 million to build and launch the Travel proposition.

Input Received

2. The Post Office Group Executive and the Executive Cost Group in October 2017 have approved the approach, business case and funding subject to Post Office Board approval.

The Report

What is the Customer Hub?

1. Our current digital offering is fragmented and disconnected, principally because we have no single sales and servicing capability. This is driven by the siloed product manufacturing and sourcing model with multiple partners. As a consequence there is no brand consistency and single customer experience.
2. The Customer Hub is the digital customer platform which facilitates a single Post Office brand and customer experience. It enables customers to manage their needs securely; researching, buying and servicing online. The Post Office will provide the customer with access to accounts and services wherever and whenever he/she needs: 'Post Office in my pocket', which includes a mobile app.
3. By providing a single interface, integrating products together, Post Office will be able to leverage data-analytics to support cross-selling of other services.

Why will customers engage with the Hub and how will we drive customers to it?

4. Post Office already has a sizeable online customer base engaging with us digitally:
   - Over 1 million savings customers, of whom c80% were acquired online;
   - Over ½ million Travel Money Online customers;
   - 670,000 credit card customers, of whom c.60% were acquired online;
   - 620,000 Travel Money Card holders, of which c.15% were acquired online and c80% are topping up online or through the dedicated mobile app;
   - Over 600,000 travel insurance policies sold in 2016/17, 45% online;
   - Over 1.2 million insurance policyholders.
5. 60% of the UK population prefer to deal with companies online on a day-to-day matters[1]. Our target customers want to do more with us, but want us to make it easier for them to interact with us and to be more relevant. Market research across Mortgages, Savings, Cards and Loans has confirmed that c60% of our existing customers are open to another product[2].
6. There are three characteristics critical to the success of the Customer Hub:
   - The level of personalisation by which relevant experiences will be created;
   - The immediacy of engagement, nudging and transacting; and
   - The velocity by which customer experiences are created (e.g., regular mobile app updates).
7. The Hub acts as a channel through which to engage customers. Those customers who bought before are 4-6 times more likely to buy again and yet we can only treat them today as new prospects.
8. Customers will be encouraged to access the Hub to activate, renew services or self-serve. Customers will be able to manage all their travel administration in one place and without having to re-key the same information all over again. The

[1] *Source: Quadrangle, Customer Strategy research, 2016*

[2] *Source: Customer Advocacy Programme, Aug 2017*

experience to get travel insurance and Travel Money will be joined up and effortless. Adding policyholders, renewing insurance policies, adding additional insurances such as gadget insurance, topping up or blocking the TMC card, ordering Click&Collect in branch or at home will be all be available, anytime and anywhere.

9. Building the Hub will take Post Office further up the value chain, enabling us to command a greater share of the value generated.

10. Colleagues in branch, CRM tablets, contact centres or online will have secure access to a single view of the customer's history, which will help in serving customers better and building better relationships.

What is the first release?

11. The order by which businesses will be integrated will be defined by profit potential, impact on digital footfall, technical integration/complexity and supplier dependencies. It is through the sale of these products where we drive the actual benefits of the Hub (e.g., effective cross-sales, increased customer retention, lower costs of acquisition/ cross-sales and higher numbers of product holdings per customer).

12. POL is already a destination for Travel services and over 70% of the digital footfall on our website is related to Travel.

13. The first delivery, the Travel Hub, aligns with the POMS travel insurance strategy and integrates with FRES, into a single travel service, enabling customers to self-serve the products and offer add-on products such as gadget insurance. The capabilities that make up the Travel Hub[3] comprise:

    a. **Travel Money and Multi-Currency Card** – ability to order Travel Money online, enhanced journeys to current web journeys, in-app onboarding, top-up and card management.

    b. **Travel Insurance** – in-app purchase, quotes, documents, renewals and claims management.

    c. **Branch Bureau Integration** – Ability to link the digital with the physical. Allows for click and collect and other branch services, provided digitally.

14. Travel represents multiple opportunities not only for Travel Money Online and Travel Money Card but also Travel Insurance. Enhancing our digital capabilities to align with 'The New Normal' and leveraging our physical branches gives Post Office the ability to strengthen the position as market leader in Travel Money.

What is the business case?

15. The total infrastructure over five years to build the Customer Hub, including the delivery of four businesses, is now estimated at £26.3 million, with estimated running/updating costs of £1.2 million per annum for the first delivery and marketing costs of £2.5 million per annum for driving customers to the Hub, notifications and personalisation.

[3] *Screen shots are displayed in appendix A*

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16. Four components explain the difference from the original £72.3 million business case:
    a. We are not building from scratch (original case) but applying a 'pay-as-you-grow' and 'best of breed' model
    b. The marketing cost in the old business case was £20 million (versus £12.5m)
    c. The new business case incorporates 4 businesses (versus 5)
    d. At this stage we have not budgeted to become a regulated company (£1.5m)
17. The table below sets out the key financials:

5 Years	£m
Gross Revenues: Travel Hub Other Hubs (businesses)	 50.6 TBC
EBITDA	32.5
Total infrastructure cost (all businesses) • Launch Travel Hub (build) • Ongoing support Travel Hub (£1.2m p.a.)	(26.3) (5.5) (6.0)
Marketing and data analytics (£2.5m p.a.)	(12.5)

18. The Hub investment is targeted to deliver gross income of £50.6 million over 5 years with an EBITDA of £32.5 million (of which POMS and Travel Money have already assumed £17.8 million in their existing plans as the Hub is an enabler for their growth). The revenue generated from the Hub, is a mixture of additional value on top of existing plans (including Gadget insurance, subject to product development, with gross income of £11.4 million over 5 years), and sales already assumed in existing plans (travel insurance).
19. To launch subsequent businesses we have assumed costs of £3-£5 million. Additional deliveries will be subject to individual business cases.
20. Authority is sought to release £5.5 million to build and launch the Travel Hub with a delivery date ahead of the summer 2018 travel season. A summary of the investment timeline and a breakdown of the costs and benefits are set out in Appendix B.
21. Subsequent cases will be presented to cover the ongoing support, marketing and data analytics for the Customer Hub over five years.

What are the risks?

22. GDPR Design Compliance – The Customer Hub will need to consider GDPR in its design approach to be both compliant and mitigate against any potential re-work together with its partners.
23. A delay of launch to the project – This means that the go-to market of the Travel Hub will fall outside the ideal peak travel season.
24. The risk that FRES might not engage fully or will not have the capacity to co-operate. We need to create a working model with FRES.
25. The risk that permanent resource might not be recruited quickly enough.

26. The risk that the Hub will not enable the growth for POMS (e.g. gadget insurance sales).
27. The risk that not enough will be invested to increase the awareness of the proposition in the market.
28. The long term risk is our ability to build a high level of customer engagement. The level of personalisation, velocity and immediacy of creating distinctive propositions are ways to maintain high levels of customer engagement.

Conclusion

29. The infrastructure cost over five years to build the Customer Hub, including the delivery of four businesses is £26.3 million, with the Travel component costing £5.5 million to launch with estimated running/updating costs of £1.2 million per annum and marketing costs of £2.5 million per annum.
30. The Travel Hub targets to deliver £50.6 million gross revenues and EBITDA of £32.5 million over five years.
31. The Board is asked to support the Customer Hub delivery plan and authorise the release of £5.5m to build and launch the Travel Hub (May 2018).

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Appendix

A. Travel Hub screenshots

B. Summary of the business case

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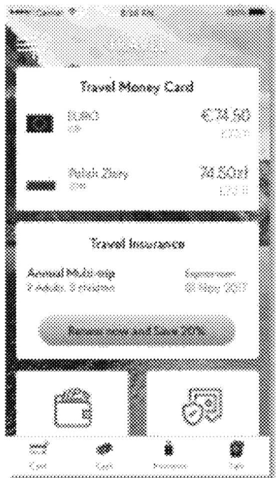
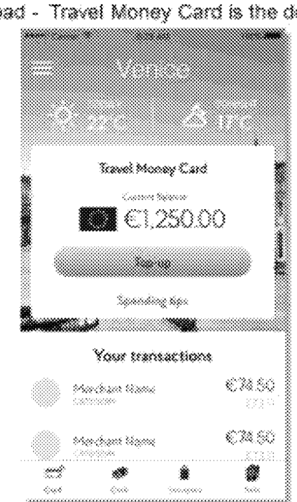
Appendix A - Travel Hub screenshots

1. Existing customer returning to app home and away

At home



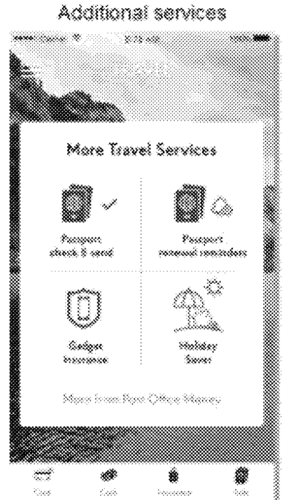
Abroad - Travel Money Card is the default



2. Utility menu and additional travel services

Utility menu

Additional services



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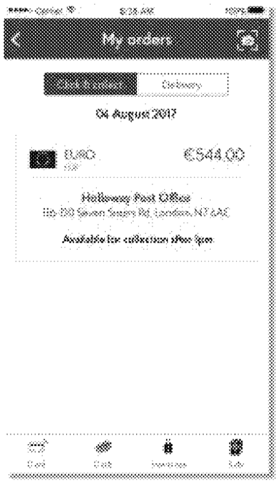
3. Click & collect pick-up with identification

Existing orders



Order and identification

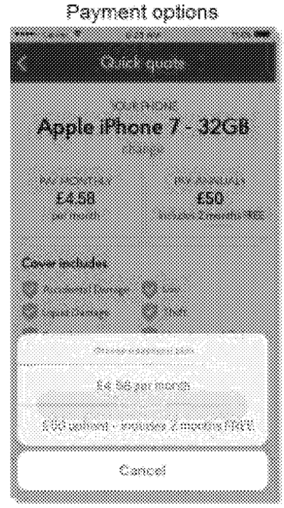
Branch information

4. Gadget Insurance Cross-sell

Product Proposition

Quick quote (interrogate phone)

Payment options



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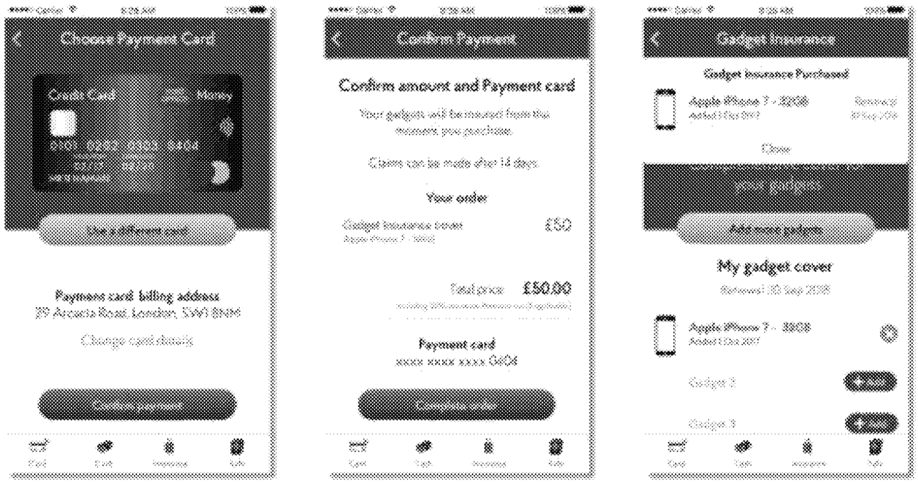
4. Gadget Insurance Continued



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Appendix B. Summary of the business case

1. The build of the Hub requires a five year investment of £26.3 million, comprising £18.3 million CAPEX and £8 million OPEX.

£M	Capex Investment	Opex Investment	Total
Total	**£18.3M**	**£8.0M**	**£26.3M**

The table below shows the investments and the decision points.

	Nov 17	Dec 17	Jan 18	Feb 18	Mar 18	Apr 18	May 18	Jun 18-Mar 19	19-20	20-21	21-22	22-23
Release 1												
Release 2												
Release 3												
Release 4												
Maintenance & enhancements												
Cumulative £m	**0.8**		**2.4**		**4.0**		**5.5**	**9.0**	**13.4**	**17.7**	**22.0**	**26.3**

2. The agile approach allows management to be flexible about funding decision points.
3. Ongoing costs after launch relate to the maintenance of the digital platform, feature enhancements, SaaS licencing, API costs and technical/business resources managing the capability as a live service in BAU.
4. The Travel Hub, costs £5.5 million to launch with estimated running/updating costs of £1.2 million per annum and marketing costs of £2.5 million per annum for driving customers to the Hub. It targets to deliver £50.6 million gross revenues and generates a positive NPV of £9.8 million.
5. It should be noted that the budget and plan to 2020/21 anticipate that the digital investment will be capitalised. The updated plan expects now that the 2017/18 and 2018/19 investment could be treated as exceptional.
6. The financial summary is as follows:

Financial Summary £m	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
Impact on EBITDA							
Gross Income							**0**
TMC		1.2	1.6	2.1	2.8	3.7	**11.4**
Travel Ins		2.7	4.1	4.5	4.8	5.1	**21.1**
TMO		0.2	0.4	0.5	0.6	0.7	**2.3**
Gadget Ins		1.1	2.0	2.4	2.7	3.1	**11.4**
Identity		0.4	0.7	0.9	1.1	1.2	**4.4**
Direct Product Costs							
TMC		(1.5)	(1.5)	(1.6)	(1.9)	(2.1)	**(8.7)**
TMO		(0.1)	(0.2)	(0.2)	(0.2)	(0.3)	**(1.0)**
Travel Ins		(1.0)	(1.1)	(1.0)	(1.0)	(1.1)	**(5.2)**
Identity		(0.3)	(0.6)	(0.7)	(0.8)	(0.9)	**(3.2)**
Impact on EBITDA		**2.6**	**5.5**	**6.9**	**8.1**	**9.5**	**32.5**

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Restructuring the Fujitsu Horizon Agreement

Author: Jeff Lewis Sponsor: Rob Houghton Meeting date: October 17

Executive Summary

Context

This document provides an overview of the proposed realignment of the Post Office relationship with Fujitsu through the signature of a Memorandum of Understanding (MoU). It focusses on the output of negotiations, its transformational commitments and the benefits that the agreed changes, once implemented, will deliver.

Questions addressed in this report

1. Why was the restructuring of the Fujitsu Horizon Agreement needed?
2. What options were considered and what do we propose to do?
3. Why have Fujitsu agreed to the proposals?
4. What are the benefits to Post Office and how does it support the IT Strategy?
5. What are the risks for Post Office and how are these to be mitigated?
6. What are the next steps and time lines for completion?

Conclusion

- The convergence of Post Office and Fujitsu business and technology goals has enabled the successful restructuring and resetting of the Horizon system contract without an increased financial commitment requirement.
- The MoU has three key components within its framework:
    - Re-directing existing contractually committed spend to invest in our Digital Transformation agenda, in particular cloud infrastructure and thin client;
    - Altering the current financial model of predominantly fixed price to demand driven, consumption based pricing; and
    - Guaranteeing that the total contracted spend will be at least equal to the current contractual commitments and a commitment to act as a reference customer for Fujitsu digital and cloud capabilities.
- The successful outcome of these two elements will deliver forecasted operating expense savings of between £15 – 30m over the term of the agreement to support the target IT operating expenses for 2018 onwards.

Input Sought

The Board is asked to approve signature of the MoU and authorise negotiation of the detailed contract changes to support the agreed principles, including creation of the Digital Delivery Services.

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The Report

Reminder of the background for negotiation – why it was needed.

1. In March 2016 Post Office signed a 6 year extension to the Horizon Agreement commencing April 2017 to secure the stability of front office services.
2. The agreement is predominantly fixed price (circa 90%) with guaranteed revenue for Fujitsu of circa £195mm, excluding regulatory risk and resilience change spend.) The extension contemplated further changes in relation to technology, but the introduction of transformational digital software and revised pricing approach would require a renegotiation of the terms of the extension.
3. Due to the circumstances leading up to signature of the extension, the relationship had become strained, there was a lack of trust and Fujitsu were slow to move out of "exit mode."
4. In March 2017 we informed the GE that Fujitsu, whilst supportive of implementing such changes, were expecting significant additional benefits to move away from the fixed price nature of the contract and introduce agile transformation. There was sufficient common ground however to warrant further negotiations.
5. The negotiations since then have focussed on finding an acceptable commitment from both sides, with sufficient detail to both ensure clear understanding of intent and confidence that the risks are understood and can be addressed.
6. The estimated investment required to underpin the digital journey to support the business strategy is £30 - 50m over 5 years.

What options have we considered and what do we propose to do?

7. In order to be in a position to exit Fujitsu in 2023 – we need to re-architect the system. We have adopted a layered architecture approach – determining to change the front end architecture (that seen by the postmaster) first whilst retaining the back end architecture (the Horizon database) for a period. In addition, we plan to move to a cloud architecture for resilience and cost.
8. The alternative to renegotiation is to perform the digital transformation (front end rewrite) and cloud migration with other suppliers. This would necessitate incremental change spend of 15-30m over and above existing FJ contracted spend. The risks associated with this approach are high both in terms of selecting a new partner but also in getting FJ to cooperate on essential technical collaboration activities. We have demonstrated to Fujitsu that, as difficult as this alternative may prove, the Post Office would not sign a revised contract at any cost.
9. In March we set out the Post Office objectives for the negotiations. The table below shows the extent to which we have met these objectives in the MoU. (Green indicates a binding commitment, amber a non-binding commitment and red means it was not addressed or not met.)

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Objective	Extent Achieved	Objective	Extent Achieved
Assisted Transformation		Protection of POL IP in new development work	
Thin Client version of front end		Improved contract governance	
Cloud hosting with utility based pricing		Benchmarking	
Move from fixed to variable pricing		Acceptable PCR Risk	
Effective Relationship at all levels		No Belfast exit fees	
Faster change process		Meets the CCN 1600 legal / procurement position that will enable POL to remove its long term dependency on Fujitsu	
Reduced Operating expenses (BAU)			

10. As indicated above, the MoU directly or indirectly meets all the original goals. It contains clear principles to enable Post Office to implement the changes to the Horizon contract that will position IT to deliver the digital and cost outcomes detailed in the IT Strategy paper.
11. In return for Fujitsu breaking the financial charging model, which will allow the move to a lower cost base for Post Office, we will guarantee the minimum spend already in the contract.
12. This will be achieved through what we call a "Revenue Switch" mechanism. For every pound that the operating expenses are reduced, the Post Office will either invest in targeted transformational change or compliantly procure new services from Fujitsu.
13. As detailed further below Post Office expects to save between £15 – 30m on operating expenses over the term through new technologies and a demand driven charging mechanism.
14. Additionally, the Post Office would not need to spend £15m on a further data centre refresh and resilience programme (required to maintain old infrastructure.)
15. The total potential "operational savings" means that Post Office would need to place between £30 - 45m new orders. Although a large portion, or possibly all, of this value would be ordered under the Horizon Agreement for cloud and digital journey, Post Office also has the ability to compliantly award new business to Fujitsu to count towards the revenue baseline.
16. The MoU addresses key delivery issues giving the Post Office;
    - the ownership of all new software intellectual property rights. The Change Note for this has been signed and gives Post Office full rights to use through ownership or enhanced licencing at no extra cost to existing Agreement;
    - subject to business case approval, it commits both parties to migrate the infrastructure from Belfast data centres to new cloud technology;
    - it sets out the principles by which Fujitsu will cooperate to create a lower cost application support model, based on transparent metric to enable continuous operational improvement; and

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- it commits both parties to investigate and implement faster and more efficient delivery practices, based on an agile mind-set, as opposed to process driven methodologies.

17. The MoU also identifies the need for improved ways of working within the governance of the relationship, building on the goodwill and collaborative approach witch the parties have created at the management level.

How does the MoU benefit the Post Office

18. Implementing the MoU creates value for the Post Office from perspectives of reduced cost and risk.
19. From a cost perspective
    - Cost Avoidance of £30 - £45m for incremental infrastructure and digital transformation, as this will come from within committed spend with Fujitsu;
    - It will deliver a lower unit cost for data centre and associated service management charges through the cloud technology;
    - It will deliver volume based charges, which means that we will only pay for what we use, as opposed to the capacity of the Horizon system being scaled for the busiest periods at Christmas;
    - It provides the opportunity for Post Office to benchmark elements of the charges earlier than currently allowed in the Agreement;
    - It will deliver change at a lower cost base, subject to the agreed location strategy; and
    - It will introduce transparency in the software support allowing Post Office and Fujitsu to identify and eliminate cost drivers.
20. From a risk perspective
    - It will move the data centre infrastructure to a supported platform and software, and through "evergreening" (continuous maintenance through the operational charges) remain current;
    - In moving the technology to new digital environments and code it reduces the dependence on a limited number of Fujitsu resources;
    - Post Office will own all new IPR created in HNGT and other digital software created from 1 October 2017; and
    - It will greatly increase the Post Office's flexibility and ability to run an open and competitive tender at the end of the Agreement.
21. At this stage it is not possible to definitively identify the operating expense reductions. However, we have run a number of scenarios, looking at speed of change, scope of services which can be affected and the potential reduction in charges once complete. The outcome is a saving of £15 -30m commencing in 2018/19. This does not include potential savings from lower cost of ownership of counter hardware and other IT network charges as a result of HNGT, which are yet to be assessed.

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What are the benefits for Fujitsu

22. We have negotiated away from Fujitsu's initial ask to extend the term of the contract. Commitment to the relationship and recognition of future potential have helped shape Fujistu's final position.
23. Fujitsu have stated that its primary benefits are
    - Post Office commitment to pound for pound revenue guarantee;
    - Becoming the Post Office's digital delivery partner (not exclusive position);
    - Post Office move into Fujitsu K5 technology;
    - Post Office agreeing to become a reference client for these technologies; and
    - The opportunities that continuing the relationship should bring them.

What are the risks associated with this approach and how are they being mitigated?

24. Internal and external legal have been engaged throughout to consider any impact on existing PCR levels of risk. By adhering to the wording and context of both the modification notice issued in February 2016 and CCN1600 (the extension to Horizon in March 2016), the legal procurement advice is that there is little or no increase in the underlying procurement risk. (Full legal risk report available on request.)
25. Legal have raised concerns that inclusion of new contracts awarded to Fujitsu outside of the Horizon Agreement within the Revenue Switch mechanism ("New Services") could increase the procurement risk. This would manifest itself if an award was made to Fujitsu and a losing supplier used the existence of the MoU arrangements to support a challenge to such award.
26. We believe this risk can be mitigated through the confidentiality of the MoU and clear and transparent procedures and evaluation criteria being used for all procurements. The benefit of including these New Services is that it reduces the risk of any shortfall against the reduced Fujitsu committed spend. Having weighed the advice, the mitigation and the benefits the recommendation is that this level of risk is acceptable.
27. The financial risk relates to the Revenue Switch Model. This would be if Post Office is unable to compliantly award sufficient new services or business to Fujitsu to cover the reduced revenue as the operating charges fall post transformation. In this event there is a risk that Post Office would have to make up the shortfall in 2023.
28. The likelihood of this scenario is low for two reasons. Firstly, we believe there is sufficient additional business in the pipeline to meet the top end of the saving predictions that is £45m over the 5 years remaining of the Agreement.

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£m excluding iVAT	Low	High	Reason	Comment
HNGT 5 Year Projection	£ 5.0	£ 10.0	Business Driver	Unbudgeted, 2 scrum teams
Pivot to Cloud Phase 1-2	£ 8.0	£ 12.0	Efficiency	Included in Overlays
Self service Portal	£ 3.0	£ 7.5	Efficiency	Unbudgeted, 1-2 scrum teams
Pivot to Cloud Phase 3	£ 5.0	£ 8.0	Efficiency	Unbudgeted - BRDB migration
Pivot to Cloud dual running	£ 4.0	£ 8.0	Essential	Service protection during cloud migration
Horizon Change Team	£ 5.0	£ 10.0	Business Driver	Budgeted through other change
Identified Church Fund	**£ 30.0**	**£ 55.5**		

Secondly, in the event that a shortfall was predicted both parties would look to negotiate a solution which did not involve cash settlement.

29. There is a risk that the historical mutual distrust will hamper progress. Good progress has been made through changing personnel and some processes. Enduring success will require further commitment to this cultural transformation which will be managed at an executive level.

Next Steps

30. Project Everest will continue through to the end of March 2018 to execute the necessary changes to the contract. Planning has already commenced so that upon approval and execution of the MoU workstreams will start delivery.
31. Contract changes and project work orders will be submitted through exist corporate governance as will Business Cases for the investment programmes.
32. The target timetable is as follows:

Change Notes for Revenue Switch, variable pricing framework	31 December 2017
Digital Development Services Change Note & Go Live	31 January 2018
Pivot to Cloud Work Order	31 March 2018
Application Support Change Note	31 March 2018
K5 Pricing Change Note	31 March 2018

Appendix A: List of Risks and Mitigations

Scenario	Business / Prog Risk	Mitigation
Post Office decides not to migrate all of Horizon to the Cloud	Yes	Not an FJ issue. Business case would need to reflect if this is an option
Pivot to Cloud takes longer than planned through non-attributable reasons	Yes	Full planning is completed prior to commencement, strong programme governance
Pivot to Cloud takes longer than planned due to problems with the K5 environments all within Fujitsu responsibility	Yes	Strong programme governance and use of existing remedies within the contract.
Pivot to Cloud fails to deliver the minimum expected like for like cost reductions	Yes	Ensure understanding of range of benefits prior to start
Later than planned realisation of benefits	Yes	Strong project governance to provide visibility of progress and risk to enable early corrective action
HNGT does not work because of unresolvable technical complexities	Yes	Determine early in lifecycle and kill development
HNGT takes longer to roll out to Branches than planned due to Post office	Yes	Not really an FJ Issue; this would be spend with CC and internal team if HNGT was ready.
HNGT takes longer to roll out to Branches than planned due to Fujitsu Services	Yes	Missed obligations will be managed through the project governance and existing contract mechanism
Fujitsu material failure to deliver programmes due to corporate technical shortcomings	Yes	Such breach would lead to full contractual remedial action
Service and Security Management etc. remain highly bespoked.	Yes	Service transition embedded in delivery team, managed through key objectives
K5 capability does not exist	Yes	Architectural roadmap that provides a feasible approach to delivery prior to commitment. (Note this risk prevents any move to cloud environment – the main challenge)
Increased complexity drives costs up	Yes	Identification of appropriate risk share and business case will be

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		based on a combination of cost and timescales for migration against the expected benefits within the Business Case timeline. Additional costs would impact the Business case.
Post Office operational costs increase post P2C due to increased demand	No	Not a Fujitsu problem. Demand could increase due to business, positive outcome. Controls required through service and demand management for negative increases where no business drivers.
Fujitsu increase pricing on K5	No	Contract agreement post MoU will provide guaranteed unit pricing against clear criteria
All initiatives deliver cost savings greater than the maximum anticipated	No	POL would have to find a way to award new business to Fujitsu to avoid making a financial settlement
Insufficient additional contract to compliantly award to Fujitsu	No	As Above
POL is unable to invest in accordance with its plans due to funding considerations.	No	Impact would need to be considered in the overall POL response to this situation. Any impact on terminating contractual commitments would be managed in accordance with the Fujitsu Agreement.

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Appendix B: Achievement of Post Office Objectives

POL Objective as per GE March Paper		MoU Position	
Title	**Description/ Comment**	**Extent Achieved** Green= binding agreement, Amber = principle agreed, Red = not agreed / covered	**Comment**
Assisted Transformation	Re-directing future probable spend on discretionary CapEx into strategy CapEx investment to deliver thin client and cloud technology		Key to the future pricing model and the agreement is that POL will use existing contractually committed spend to deliver a transformed Horizon system
Thin Client version of front end	Subject to Proof of Concept work and agreeing ways of working for agile development		Thin Client will be the lead project which will frame future digital software direction and services
Cloud hosting with utility based pricing	Subject to final architecture and commercial pricing model against market benchmark		This approach will be delivered in conjunction with new digital architecture. External due diligence confirmed suitability of Fujitsu K5 Cloud enterprise solution.
Move from fixed to variable pricing	This is inherent in utility pricing. The degree of the variable pricing component as a percentage of total pricing is subject to negotiation.		There is a binding agreement to move to a variabilised pricing model. The extent to which this can be achieved is subject to success of HNGT and cloud transformation.
Effective Relationship at all levels	There is commitment on both sides to improve relationships. Fujitsu acknowledge some Fujitsu behaviours had been driven by the "sun-set" status of the POL account. Fujitsu's willingness to address issues of transparency and perceived duplication of charges will be essential in promoting trust at all levels in POL.		The MoU recognises the need for improved relationship, but any specific changes will need to be incorporated via the Change Note (s) required to enact the MoU provisions
Faster change process	Subject to POL clearly specifying the processes it needs to be adopted.		The introduction of new Digital Development Services will include mechanism for faster implementation of change
Reduced Operating expenses (BAU)	The re-architecture and cloud hosting will reduce operating expenses, but the extent to which POL is able to meet its objectives is to be determined by other service and contractual considerations		The MoU includes specific principles and goals. Whilst scenario planning has been done that indicates savings within the target region of £15-£30m over the remaining term of the Agreement, there are no guaranteed reductions. OPEX reductions are subject to the final system design, service model and ongoing utilisation ongoing means costs may go up as well as down. The design phase output (due circa 12/17) will give more clarity.

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POL Objective as per GE March Paper		MoU Position	
Title	**Description/ Comment**	**Extent Achieved** Green= binding agreement, Amber = principle agreed, Red = not agreed / covered	**Comment**
Protection of POL IP in new development work	All new work must be completed under the correct IP provisions in the existing contract. The risk is that Fujitsu may try to link to software for which it owns IP. Notwithstanding this the licence payment for Fujitsu IP will remove residual risk at the time of exit from the contract.		Successful negotiation of a new category of IP for digital software development. In addition to owning all new software there are improved licencing provisions and a new IPR indemnity protection for POL
Improved contract governance	The tower model has introduced additional complexity in managing service and project change. Negotiations will look to simplify as far as possible and potentially reduce Fujitsu costs of service.		The MoU recognises the need for improved relationship, but any specific changes will need to be incorporated via the Change Note (s) required to enact the MoU provisions
Benchmarking	It will be difficult to remove existing limitation on POL's ability to benchmark. Clear articulation of revised charging structure will enable benchmarking / market testing prior to signature of a revised agreement.		Infrastructure and related services within the Fujitsu cloud offering include an option for ongoing benchmarked pricing. Conversations are ongoing to ensure changes to the software support model would enable POL to assess vale for money prior to signature
Acceptable PCR Risk	See statement below		The legal assessment (internal and CMS) is that the MoU approach does not add any additional significant PCR risk. Some risk has been identified with rgard to the inclusion of non Horizon contracts within the "Revenue Switch" Mechanism.
Meets the CCN 1600 legal / procurement position that will enable POL to remove its long term dependency on Fujitsu	As part of the compliance review legal will assess the extent that any contemplated changes are PCR compliant and fit with the PCR advice and technical arguments POL relied on for signature of CCN1600 (Trinity.)		
No Belfast exit fees	The Trinity change included explicit provisions relating to stranded costs for the Belfast data centres. As the pivot to cloud programme will not complete prior to the end of the existing Belfast lease in December 2018 POL is negotiating that the length and terms of any extension Fujitsu negotiates does not leave POL with any stranded costs that it must pay on final exit from Belfast.		Further analysis of the Belfast exit provisions indicate that the risk of excessive stranded costs for POL is lower than initially assessed. The principle to minimise these is included in the MoU, but the level of any decommissioning costs will be dependent on the transformation approach adopted by POL.

Business Case – Security Operations Centre

Author: Mick Ebsworth Exco Sponsor: Rob Houghton Meeting Date: 31 October 2017

Executive Summary

Context

The 2016 Deloitte review of Information Security found that IT Security wasn't centrally managed and that PO does not have a consolidated view of IT Security threats, vulnerabilities and events. Today, most 3rd parties in our supply chain have an element of security control and monitoring capability, and are contracted to provide PO with security controls assurance. The current solutions do not sufficiently correlate security events and incidents to determine in a timely manner if PO has a cyber security exposure.

Questions addressed in this report

- What do we propose to do and why?
- What options did we consider?
- What is the performance against the business hurdle rates?
- What do we need to do next to progress?

Conclusion

- Implementing a Security Operations Centre (SOC) will enable PO to develop and deploy cybersecurity capability across the entire IT estate, including all of the outsourced IT and Network supply chain. The SOC will proactively protect PO against any cybersecurity threat, and enable timely identification and management of IT Security events and incidents.
- We determined that a hybrid operating model enables PO to have 24x7 cover from a mix of Verizon and PO staff managing critical issues relating to PO systems and services. We concluded that the proposal from Verizon offered the best solution with regards to technology, services offered and price.
- This business case does not meet business hurdle rates. This is a risk prevention business case against the risk of cyber security exposure for PO.
- The SOC requires £6.6m investment over 3 years, of which £2.2m will be Capex in Year 1, and £2.2m Opex in each of years 2 and 3, which is included in the IT 5 Year Plan forecast.

Input Sought

The board is asked to approve the business case to proceed.

The proposal has previously been approved by the Executive Change Group.

The Report

What is the need or opportunity and why now?

1. Post Office needs to increase its IT Security maturity to meet today's ever increasing cyber security threats, as outlined in the Deloitte findings. The SOC will provide increased cyber protection by overseeing all security controls from all sources;and centralise and aggregate events and incidents to enable PO to react against security issues efficiently and effectively, reducing our risk exposure.
2. Centralising the security controls into a SOC will enable PO to correlate the output and provide a 'single pane of glass' view of security priorities that need to be addressed, providing increased protection to PO customers, data and systems.
3. This activity is included within the Security 3 Year Plan to increase PO IT security capabilities through the Security Transformation Steering Committee.

   Besides the Loss of Sensitive Data Operational Risk, which is outside our risk appetite, PO are subject to regular attempts to disrupt service or steal funds. Implementing the SOC is part of the programme to bring us within risk appetite, the tooling within the SOC solution will reduce the risk of service disruption or financial loss. The Security Operations Centre will also align to the industry standard of the Cobit 5 controls model as part of the IT Controls Framework programme.

The proposal

4. We will develop SOC capability using a hybrid solution of internal analysts supported by outsourced technical capability.
5. The SOC will have these core capabilities:
   - Security Information and Event Management (SIEM) platform to correlate security data from across the PO infrastructure
   - Governance Risk and Compliance platform to manage incidents and risks
   - Firewall Assurance platform to interrogate PO Firewalls to ensure they are configured correctly
   - Vulnerability Management correlation to determine the severity of vulnerability exposure across the infrastructure
   - Anti-Phishing and education platform to activily protect against Phishing attacks and raise awareness throughout the organisation
   - Threat identification to identify where the PO is being targeted

Key Benefits

6. The key benefits from a SOC include, but are not limited to, the following;

- Greater protection of PO sensitive information and data
- Greater insight into security related events and trending capabilities
- A business focused solution with people, process and systems addressing many of the existing concerns and recent audit findings relating to IT Security improvement.
- A single source of security related information and alerts
- Correlation of IT Security incidents and events across the PO estate resulting in more effective detection and prevention
- The ability to conduct security awareness and training to protect against phishing attacks
- Early identification of threats and credential/sensitive data leakage
- A single source to manage and report on all server cerfificates, ensuring no loss of service
- Greater control and visibility of PO assets
- A central team to manage and enforce security policy and process for PO Information Security
- Ability to manage potential incidents inline with GDPR requirements meeting the need to formally report incidents within 72 hours should they occur
- Centralised Governance, Risk and Compliance (GRC) platform providing tailored dashboards and reporting by business unit
- Support for audit and compliance objectives

The business case

7. The business case is to develop and deploy a SOC including an operational team focused on IT security and a Governance Risk and Compliance (GRC) capability to correlate output from all identified 3rd party suppliers where IT service or infrastructure is provided into a single SIEM platform allowing for increased control and visibility. This business case supports development and delivery of the Post Office SOC. The scope includes (software/hardware/licences), the operational team to support the SOC processes, a single SIEM platform in which we will correlate IT security data from our IT Supply Chain.
8. We will implement capability via a phased approach, building the tooling within the Verizon cloud environment first, migrating Tower logs and gaining quick visibility of the IT Security controls in place, maximising value at earliest points.
9. This solution mature PO IT security and reduce our risk exposure, which in turn will help to protect PO assets, enable compliance to regulatory requirements, protect PO customer data and PO reputation.
10. Once the SOC has been implemented, PO will have an ongoing capability to manage and control IT security events and incidents in a timely fashion and have the ability to easily demonstrate compliance to multiple Information Security standards, such as ISO27001 and PCI. We will achieve this through a small on-site PO and 3rd Party team who will manage the SOC environment and provide 24x7 protection.

11. Through the ability to demonstrate compliance, the solution also supports the PO General Data Protection Regulations (GDPR) project, which requires the ability to identify and manage Information Security incidents within 72 hours, as well demonstrating compliance to the expected controls.

12. As the SOC matures, PO will be able to be more vocal about our Information Security capability to customers and partners.

Why Verizon

13. All existing suppliers were reviewed against an agreed set of requirements, following a standard procurement process and the Verizon service offered the best fit with regards to technical solution, services offered and price against PO requirements.
14. Concerns exist about Verizons delivery capability on Network rollout (especially with its weak European presence and capability) and their ability to manage SOC delivery alongside their existing challenging plan. They have demonstrated:
    - The team respoinsible for delivering the SOC are separate from the existing teams providing current delivery to PO
    - They have the skill to deliver the proposed solution
    - The SOC will be hosted within the UK, it will be managed from Germany which is inline with Government directives, furthermore should requirements following Brexit dictate the management of the SOC can easily moved to the UK

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Appendix 1 – Financial Summary

Investment £k	Sunk costs	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Capex	249	0	1,905	0	0	0	0	2,154
Exceptional	0	0	0	0	0	0	0	0
Opex	0	0	0	0	0	0	0	0
Client Funded	0	0	0	0	0	0	0	0
Total POL Investment	249	0	1,905	0	0	0	0	2,154

Drawdown Request £k		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Capex	0	0	2,154	0	0	0	0	2,154
Exceptional	0	0	0	0	0	0	0	0
Opex	0	0	0	0	0	0	0	0
Client Funded	0	0	0	0	0	0	0	0
Total Drawdown Request	0	0	2,154	0	0	0	0	2,154
Total New Request	0	0	2,154	0	0	0	0	2,154

Impact on EBITDAS £k		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Total	Benefit Owner
Net Income		0	0	0	0	0	0	0	
Direct Product Costs		0	0	0	0	0	0	0	
Cost Saving		0	0	0	0	0	0	0	
Recurring Costs		0	0	(2,127)	(2,143)	(2,158)	(2,175)	(8,603)	
Total Impact on EBITDAS		0	0	(2,127)	(2,143)	(2,158)	(2,175)	(8,603)	

Economics	NPV @ 12% over 5 years £m	Payback years	EBITDAS	Recurring EBITDA	Steady State – Yr
Hurdle Rate	+ve	3 years	>£2m pa incremental @steady state	N/A	N/A
Business Case	-6.50	N/A	N/A	N/A	N/A

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Health and Safety Deep Dive Review

Authors: Martin Hopcroft Sponsor: Al Cameron Meeting date: 31st October 2017

Executive Summary

Context

The Board received updates on its legal responsibilities for health and safety in July and September. In summary, the Board should ensure there is strong and active leadership from the top; that workers are involved; that we undertake assessments of health and safety risks; and that we review our performance.

The Health and Safety Executive advises that Boards are able to demonstrate that they have actively sought to understand the risks posed by the business' operating model and have required regular assurance from management to demonstrate that the company has implemented safe systems of work.

Questions this paper addresses:

1. Do we enable the Board to fulfil its duties?
2. How safe and well have we become?
3. What issues are we currently working on?
4. How do we get assurance that we are doing everything we should be?

Conclusions:

We believe that our structures and reporting enable the Board to fulfil its duties and that strong and active leadership is maintained from the top.

Safety performance has improved significantly over the last 5-6 years and wellbeing, measured in terms of absence, appears to be at acceptable levels. Work is continually underway to maintain safety and wellbeing across the organisation.

Priority areas for focus include fabric checks on buildings, especially vacant properties, a review of road risk and increasing training to identify and manage mental health issues. We are currently commissioning an expert, third party audit of our management of safety to provide assurance.

Input Sought

The Board is asked to consider and challenge our approach to safety, agreeing to provide ongoing support for the work proposed.

The Report

How do we enable the Board to fulfil its duties?

1. The high level structure of our approach to safety supports the guidance:

Requirement	Approach
Strong and active leadership	Executive accountabilities changed at the start of 2017 with the CFOO accountable for safety, reflecting the risk focus on operations and property, and the HRD accountable for health and wellbeing. Performance is reviewed monthly at Operations Board and a sub-committee of the GE meets to deep dive on specific issues and to consider risks assessments. A specialist team supporting and challenging health and safety has a reporting line through to the CFOO. Monthly reports are received at GE and Board and a safety metric is included on the GE's monthly scorecard.
Workers involved	Many operational teams are actively engaged and accountable for the health and safety of their people and affected third parties, including Supply Chain and Property. The Union has designated health and safety representatives who work closely with our specialist team.
Undertake risk assessments	Risks are monitored continuously for some areas, either through outcome measures or activity measures such as property compliance. Other risk assessments are either undertaken on a periodic basis (fabric checks) or as a concern is identified. A GE sub-committee risk workshop was held earlier in 2017 to consider any additional risks that we should be managing that don't appear in outcome reporting.
Monitor, review and report	The GE and the Board receive a monthly performance report and an annual deep dive.

How safe and well have we become?

2. Safety performance has improved substantially. We are experiencing fewer and less severe accidents than at any time over the last six years. However, the overall trajectory seems to have flattened in 2017-18 and we need to consider what will create further improvement.

Year	12/13	13/14	14/15	15/16	16/17	17/18 to date
All accidents	301	267	238	198	129	65
All accidents/1000 employees	38.21	33.49	32.03	29.29	21.02	25.7
Lost Time accidents	47	33	41	38	16	11
Lost Time accidents/1000 employees	5.97	4.14	5.52	5.62	2.61	2.17
Lost Time Injury Frequency Rate (LTIFR)	0.40	0.28	0.37	0.37	0.16	0.28

3. Whilst it is difficult to get comparable information to benchmark this performance on a like-for-like basis, we have obtained information for a number of large organisations (see appendix 3). While our overall performance is satisfactory, we believe that it can be improved. In particular, Supply Chain LTIFR appears to be settling at c. 0.6, down from 1.04, when 0.3 is world class: we are targeting 0.3 by 2021. As members of the Home Office sponsored BSIA, we are participating in a benchmarking exercise for security carriers to help identify and adopt best practice across the Industry. To understand performance we should also compare accidents and lost time accidents per 000 employees. (See table above).

4. Robberies are more variable, with "fashions" emerging for attacks on Supply Chain staff, branches and ATMs. Overall, the trends are as set out below. This remains a continuous area of focus as we try and equip our people and our agents with the appropriate protection. All of the robberies in Supply Chain this year have been snatches as the cash is being carried between the van and the shop – a departure from last year where there was greater focus on the hand over within the shop. We are trialling body cameras for the drivers to see if this is an effective deterrent:

Year	**14/15**	**15/16**	**16/17**	**17/18 to date**
Attacks	104	108	150	82
Injuries	17	15	15	7

5. As set out in the monthly report, the best measure of wellbeing remains absence, which YTD is at 3.5% versus a budget of 3.4%. This compares reasonably well with other companies and with previous years. We have seen some summer spikes in DMBs and Supply Chain which are under detailed review. The single greatest driver of longer term absence is mental health and this is an area of much increased activity as set out below.

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
2013/14	3.2%	3.1%	3.1%	3.2%	3.0%	3.3%	3.6%	3.4%	4.1%	3.8%	3.4%	3.30%
2014/15	3.20%	3.20%	3.20%	3.60%	3.70%	3.70%	3.70%	3.70%	4.00%	3.80%	3.70%	3.40%
2015/16	3.00%	2.90%	3.00%	3.00%	3.10%	3.20%	3.40%	3.40%	3.60%	3.60%	3.90%	3.50%
2016/17	3.20%	2.90%	3.00%	3.40%	3.40%	3.60%	4.10%	3.90%	4.20%	3.80%	3.80%	3.30%
2017/18	3.30%	3.00%	3.20%	3.70%	4.00%	4.10%						

What issues are we currently working on?

6. A considerable amount of day to day activity and compliance checking goes on across the business. A summary of this is set out in Appendix One. In addition, we are working on a number of priority areas either because an incident review has led to additional activity or because our own risk assessment process has identified a gap. Details of these activities are summarised in the table below:

Issue	Plan	Completion Timescale
High risk incident involving loose signage at Muswell Hill highlighted the need to carry out some additional fabric checks on our buildings	CBRE have risk profiled the fabric of properties including signage, guttering, downpipes etc and identified 9 high risk and 56 medium risk properties. We have gone out to tender for remedial works.	High risk – Dec 2017 Medium Risk - Mar 2018
The length of time we maintain vacant properties presents an ongoing risk. There is concern that a number of empty buildings are not receiving frequent and sufficient fabric surveys and therefore may be deteriorating.	BNP Paribas have agreed to reduce this by a further 39 properties by FY end and monthly inspections are carried out to mitigate potential risk.	Mar 18
Grenfell Fire Incident	Cladding checks have been undertaken across the estate following Grenfell and the 4 higher risk sites have been cleared with no remedial actions required.	Sept 17
Asbestos Removal	CAPEX approval for 17/18 works has been agreed and 8 high risk sites have been identified for asbestos removal. The risk is being managed in these sites	Feb 2018
Risk of terrorist attack	Security arrangements are being reviewed at all Support Centres and a proposal to upgrade at Finsbury Dials has been agreed. A new barrier will be installed at the front of the entrance to the building and a joint reception created. Security guidance and lone working guidance will be issued shortly afterwards.	Nov 2017 (completion of remedial works at FD is dependent on landlord agreement.)
Risk of Acid Attacks	Guidance is being drawn up on how to respond to acid attacks and equipment is being reviewed	Nov 2017
Road Risk – we supply reducing levels of support and checking	Developing a complete road risk policy including a strategy to reduce business	Nov 2017 for draft policy. Telemetry roll-

from supply chain vehicles to company cars to people using their own vehicles for PO business	travel and mileage and delivery of a Drivers Safety Training module through SF, covering vehicle safety, personal safety, mobile phone policy etc. Telemetry is being introduced across supply chain vehicles to improve driving behaviours.	out subject to Belfast trail results.
Ensuring Supply Chain drivers are sober to drive: a driver lost his licence but there was no evidence anyone has driven whilst intoxicated at work.	Working with Alco-lock to test device that will not release keys if the driver is over a pre-set limit.	Possible trial of device in Jan 2018 dependant on outcome of meeting with union on 24/10/2017
Due to the volume of new colleagues joining the business, including the use of Contractors, assurance is required that line managers are following the business and building induction processes and providing ongoing support.	Health & Safety Team will continue to attend Lead Team meetings to ensure that all managers, PiCs and their teams are aware of their responsibilities and completing H&S activities. Checklists will be summarised by the HRSC and shared with the H&S Team.	Mar 2018
Lone Working	Lone workers risk assessment for support teams being incorporated into Local Risk Assessments and supporting training package developed	Jan 18
Increasing sick absence levels in Supply Chain	A review is being undertaken by the Health & Safety Business Partners to assess the impact of change on working arrangements and health and wellbeing of colleagues. This includes analysis of accident and absence data and trends together with a survey questionnaire and summary to the Operations Board.	Results Nov 17
Mental Health	OH Assist ™ are preparing a range of tools and guidance to support the roll out of positive mental health 'first aid' to all parts of the business with 60 First Aiders being identified. Training scheduled for Nov 17. There has been a successful pilot of Mental Health Awareness workshops for Managers provided by the HR Advice and Guidance partner Adviser Plus. These will continue to roll out during Q3 and Q4.	From Nov 17

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How do we get assurance that we are doing everything we should be?

7. We are setting up two formal audits to give us comfort that our approach and focus is complete and appropriate, one on property specifically and an overall piece of assurance on our approach to safety. The safety audit has been narrowed down to two providers, the HSL or the British Safety Council. We are looking to complete the first phase during Q3.

Appendix 1 Compliance and Wellbeing Initiatives

Health & Safety Policy, Organisation and Arrangements.

A full review has been undertaken and all parts of the Policy were found to be suitable and sufficient.

Risk Assessment
- **Generic Risk Assessments** have been reviewed and updated for 2017/18
- **Local Risk Assessments** have been simplified, updated and issued.

Training
Refresher Training has been provided to all Person's in Control and their deputies. Property H&S workshops have been provided to Directly Managed Branch Managers and Supply Chain Shift Managers and Support Centre PiCs.

Compliance

Compliance is being measured in a number of ways.
- Through receipt of the Certificate of Compliance from all line managers
- Completion of all calendarised H&S activities
- Results of H&S Business Partner Audits
- Results of Property Building Hazard Risk Assessments (Fabric)
- Summary reports from FM Providers, CBRE and Servest
- Results of Trade Union Inspection Reports
- Accident investigations
- Checks undertaken by Vehicle fleet providers
- Audit results from the Supply Chain Compliance Team

Property
All fire risks assessment actions have been closed out. Our site audits have evidenced that in the main we are managing our buildings and housekeeping is improving.

- The Statutory Compliance Dashboard can be viewed at Appendix 2

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- New Site Log Books have been distributed to the sites and training workshops have been provided by the Property and H&S Teams to upskill PiCs in the Directly Managed Branches, Supply Chain sites and Support Centres.
- Previous concerns on how we dispose of IT hazardous waste, in particular printer cartridges are currently being addressed by IT with a new supplier being procured.
- Waste Management - Between June 16 and July 17 Servest managed 1404.70 tonnes of waste compared to the previous 12 months rolling period of 1381.69 tonnes of waste. This represents an increase of 1.66% in waste produced, however, 98% of this waste continues to be successfully diverted from landfill.

Hosted Sites

- Guidelines were issued to PICs in hosted sites to help facilitate their relationship with WH Smith's store managers
- A positive relationship is developing between Post Office and WH Smith's Director of Risk and Health & Safety Managers.

Supply Chain

- Prior to the Simplifying Supply Chain Programme, all Persons in Control were trained to the BSI OHSAS 18001 standard and audited by the Compliance Team with support from Health & Safety Business Partners.
- Additional support was provided during the transitional phases including a review of lone working with risk assessments undertaken for all depots.

Security

- CViT - Supply Chain Risk Assessments, Robbery (including body armour), Premises and Vehicle Risk Assessments have been reviewed by the Security Programme Manager and Head of Health & Safety. The risk assessments are still relevant with sufficient controls.
- Post Office Robberies – There was an increase in volume towards the second half of 2016/17 and a number of interventions agreed to reduce risk. A security scan across the organisation has been undertaken. Following the recent ONS report suggesting shop theft has increased by 11%, a review will be undertaken to understand whether there is a correlation with higher losses and robberies.

Road Risk

The number of Road Traffic Collisions has continued to reduce following a number of initiatives being implemented over the last couple of years.

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- Road risk forum held to monitor, review and develop initiatives
- For Supply Chain Commercial drivers
    - On-site coaching focused on reversing techniques.
    - Case conferences to ensure consistent approach to accident investigation
    - Revised approach to incident management introduced including: Driver welfare discussion; In depth incident analysis with driver and risk profiling; Training needs analysis and provision;
    -
- For Company Car Drivers, Programme of driving and road risk communications (Driver Focus)

Wellbeing and Health

The Health & Safety team are raising awareness of the Occupational Health resources available by:

- Attending Team Meetings
- Providing personal health checks to employees across the business.
- Soft launch of the Post Office Wellbeing Portal, formal launch October 2017.
- Extension of the absence 'case management' pilot, OH Assist™ Advice Plus, providing additional support for line managers with limited or no experience of managing an absence referral.
- Encouraging proactive 'at work' referrals and targeted interventions in line with absence causation.
- Mental Health Awareness workshops for managers have been successfully piloted and will continue to year end.
- A 'positive' mental health awareness approach has been successfully utilised in Chesterfield FSC and Birmingham Cash Centre.
- Health Checks through the Self Service Kiosk have been offered to large sites and these will continue to be offered across the business (either Kiosk or Mobile) with ongoing analysis of data to inform future intervention and support.
- Communication of monthly 'health' related campaigns via Intranet (posters and handouts)
- Extension of Employee Assistance Programme 'Trauma Support' coaching, including training Customer Service and HRSC helpline advisers to handle and cope with difficult calls. This bespoke coaching, provided by an OH Assist Psychotherapist, will be extended further to managers including guidance through the provision of a 'Suicide Policy'. Will also extend to Contract Advisers, Security Managers and specific Network Operations Managers.

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APPENDIX 2 – Statutory Compliance Dashboard

Sevice Line Statutory Complinace inspection's	Number of Property Units Applicable to Service Line	Number of Property Units Inspected	No of Property Units with Inspections Outstanding	Total Property Units Service Line with in-date Inspections %	Number of Property Units with Defects Outstanding	Total Property Units Sevice Line with no Defects outstanding %
LIGHTINING PROTECTION SYSTEM INSPECTIONS	14	13	1	92.86%	3	78.57%
PAT	301	301	0	100.00%	0	100.00%
ELEC FWT CERT	345	315	30	91.30%	189	45.22%
HV SWITCHGEAR INSPECTIONS	1	1	0	100.00%	1	0.00%
LV SWITCHGEAR INSPECTIONS	78	70	8	89.74%	10	87.18%
RCD / RCBO OPERATIONAL TEST	151	137	14	90.73%	1	99.34%
GENERATOR MAINT	10	9	1	90.00%	0	100.00%
UPS MAINT	9	9	0	100.00%	3	66.67%
L8-RA INSPECTION (Legionella Risk Assessment)	287	287	0	100.00%	154	46.34%
LEGIONELLA SAMPLING	248	248	0	100.00%	0	100.00%
TVC INC E-COLI & COLIFORMS SAMPLING	248	248	0	100.00%	0	100.00%
PASS / GOODS LIFTS MAINT (6 MTHLY)	17	9	8	52.94%	8	52.94%
GOODS LIFTS (Inc Lifting Beams) MAINT (12 MTHLY)	5	5	0	100.00%	3	40.00%
PASS/GOODS PLATFORM LIFTS MAINT(6 MTHLY)	6	2	4	33.33%	2	66.67%
GOODS ONLY PLATFORM LIFTS MAINT (12 MTHLY)	2	2	0	100.00%	0	100.00%
ESCALATORS MAINT (6 MTHLY)	1	1	0	100.00%	0	100.00%
PASS / GOODS LIFTS EXAM (6 MTHLY)	17	17	0	100.00%	10	41.18%
GOODS LIFTS (Inc Lifting Beams) EXAM (12 MTHLY)	9	9	0	100.00%	1	88.89%
PASS/GOODS PLATFORM LIFTS EXAM(6 MTHLY)	4	4	0	100.00%	3	25.00%
GOODS ONLY PLATFORM LIFTS EXAM (12 MTHLY)	5	5	0	100.00%	3	40.00%
ESCALATORS EXAM (6 MTHLY)	1	1	0	100.00%	0	100.00%
GAS (HTG) SYSTEMS SAFETY INSPECTIONS	142	119	23	83.80%	13	90.85%
GAS - CATERING EQUIPMENT MAINT	8	7	1	87.50%	1	87.50%
FGAS - SYSTEMS REGISTER	299	299	0	100.00%	0	100.00%
FGAS MAINTENANCE INSPECTIONS(12 MONTHLY)	286	254	32	88.81%	4	98.60%
FGAS MAINTENANCE INSPECTIONS(6 MONTHLY)	1	1	0	100.00%	0	100.00%
AIR PRESSURE SYSTEMS - WSE	18	18	0	100.00%	0	100.00%
FUEL ISLAND SYSTEMS (STORAGE & DELIVERY)	13	13	0	100.00%	3	76.92%
AD BLUE - FUEL ADDITIVES (STORAGE & DELIVERY)	3	3	0	100.00%	0	100.00%
INTERCEPTOR / OIL SEPERATOR INSPECTIONS	7	4	3	57.14%	3	57.14%
ASBESTOS REGISTERS & SURVEYS	247	247	0	100.00%	42	83.00%
RADON GAS MONITORING	97	97	0	100.00%	0	100.00%
LEV EXAM-MAINT INSPECTIONS	15	15	0	100.00%	13	13.33%
ACCESSABLE - POWERED DOORS MAINT INSPECTIONS	158	153	5	96.84%	2	98.73%
ROLLER SHUTTER DOORS MAINT INSPECTIONS	28	28	0	100.00%	4	85.71%
GREASE TRAP INSPECTIONS	3	3	0	100.00%	0	100.00%
TM44 (ACI) INSPECTIONS	220	219	1	99.55%	0	100.00%
DECs	39	26	13	66.67%	0	100.00%
FIRE RA (Risk Assesssment) SURVEY	292	292	0	100.00%	0	100.00%
EML ANN INSPECTION	268	228	40	85.07%	93	65.30%
FIRE DETECTION & ALARM SYS INSPECTIONS	206	199	7	96.60%	4	98.06%
FIRE EXTINGUISHERS	284	283	1	99.65%	7	97.54%

Number of Property Units Applicable to all Service Line's	4393
Number of Property Units Inspections in-date	4201
Number of Property Units with outstanding inspections	192
Number of Propert Units with defects outstanding	580
Number of Property Units with no defects outstanding	3525
Total number of Property Units within the inspection date %	95.63%
Total number of Property Units with no defects outstanding %	80.24%

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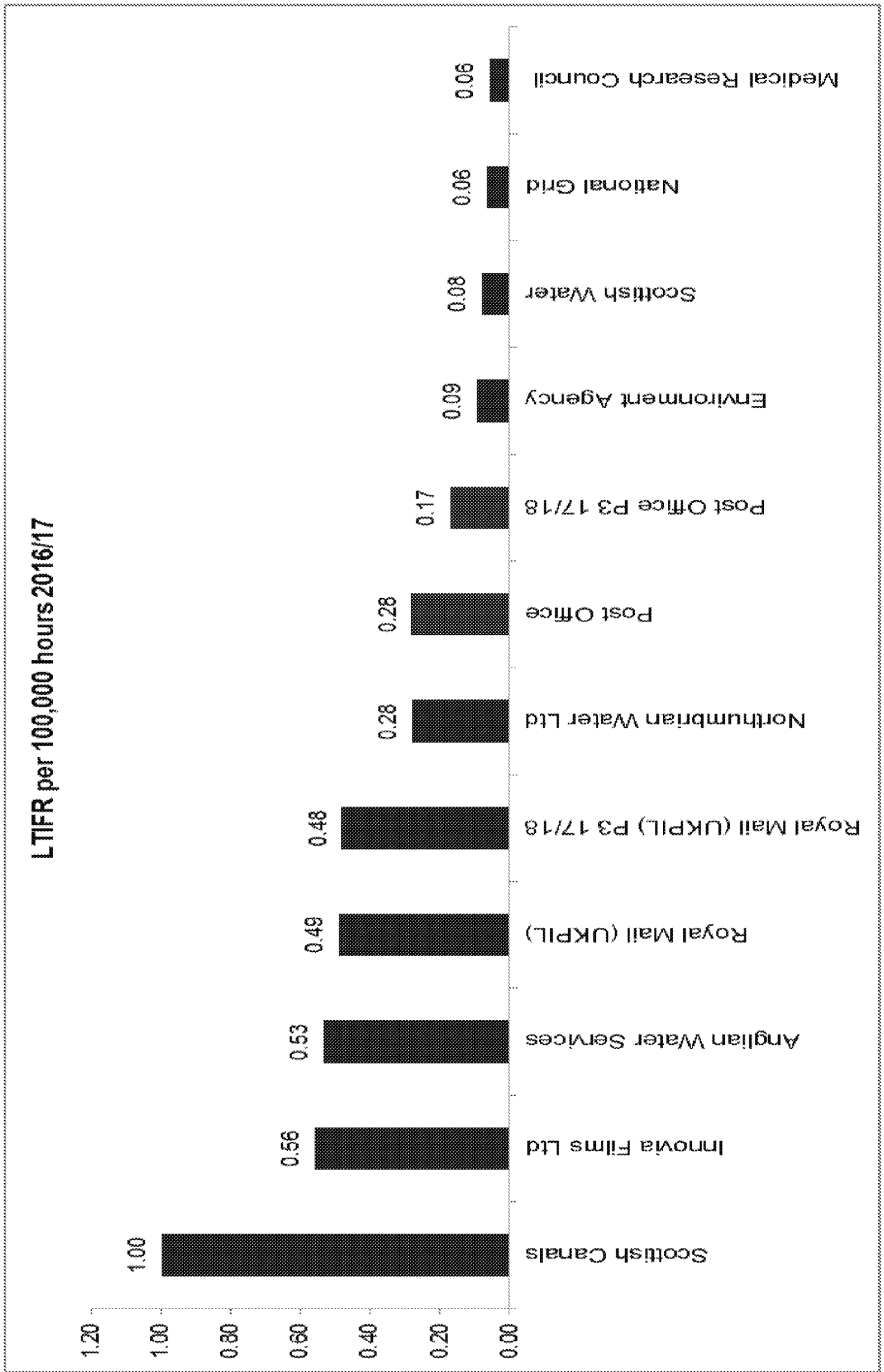
APPENDIX 3 – Benchmark Data – Lost Time Accident Frequency Ratio



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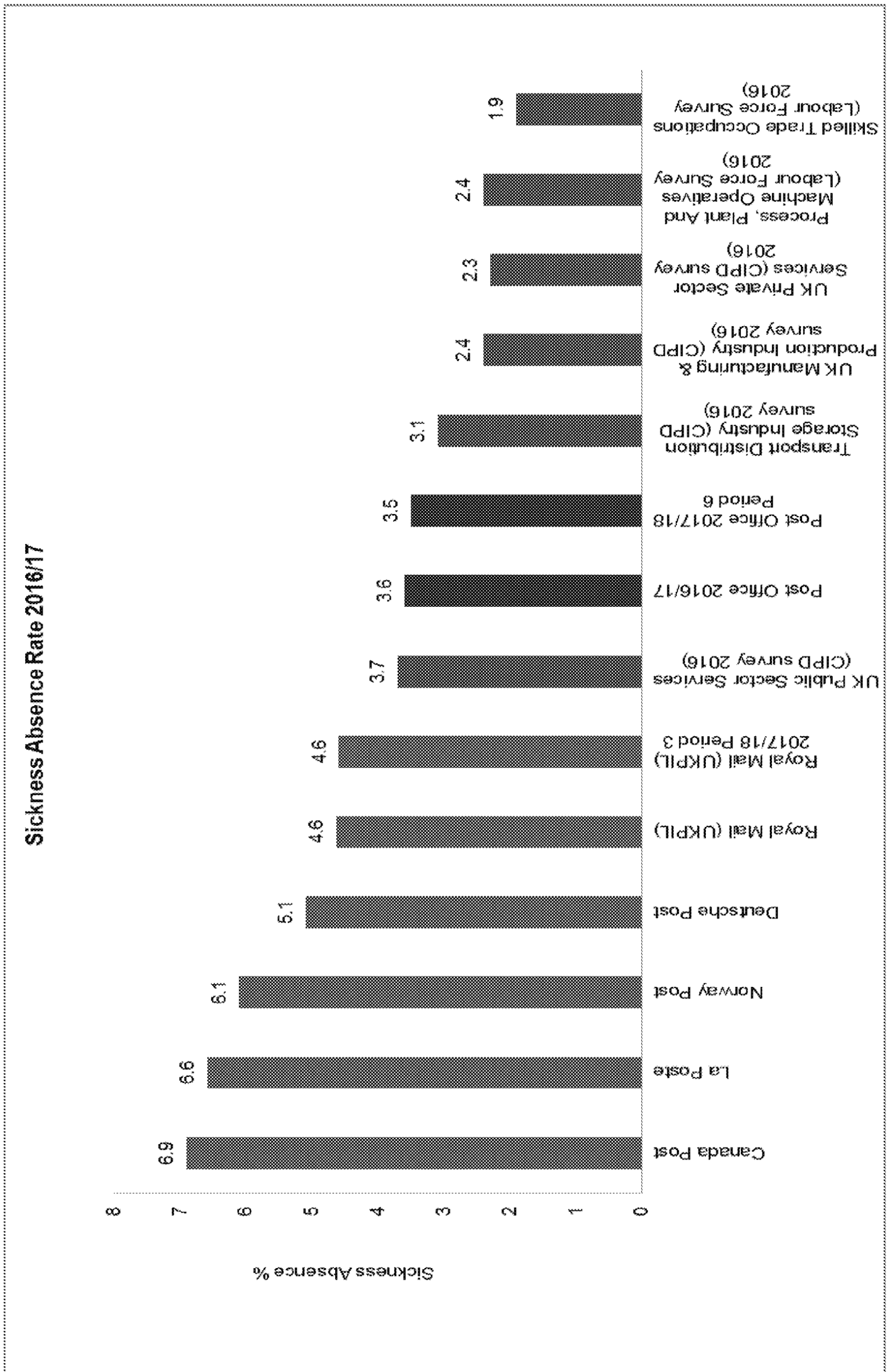
APPENDIX 4 – Benchmark Data – Sick Absence Rates



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Post Office Limited Sealings

Author: Jane MacLeod Meeting date: 31 October 2017

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 1576 to 1591 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 1576 to 1591 inclusive in the seal register is hereby confirmed.

POST OFFICE LIMITED

Date
25.10.2017

Register of Sealings

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1576 / Deed of Rectification	25/09/2017	22/09/2017	Deed of Rectification between The Post Office Limited (Party 1) and RT Incorporated (Party 2) and Property Network (Balham) Limited (Party 3). This deed is supplemental and collateral to the Original Document. The Original Document did not correctly reflect the intentions of Party 1, Party 2 and Party 3. Party 1, Party 2 and Party 3 have agreed to rectify the Original Document on the terms set out in this deed. Seal (x1)	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1577 / TR	25/09/2017	22/09/2017	Transfer of whole registered title in respect of property 83b Keppel Street, South Shields, NE33 1AA (Title no TY510085). Transferor: Post Office Limited; Transferee: South Tyneside Council. Seal x1	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1578 / Deed of Surrender	26/09/2017	22/09/2017	Deed of Surrender relating to Post Office premises at Salisbury FPO, 24 - 36 Castle Street. Salisbury, SP1 1AA. This deed (Title Number WT267172) is between (Landlord) Bristow Croysdill LLP and (Tenant) Post Office Limited. (x1)	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1579 / Underlease of Denbigh	28/09/2017	28/09/2017	Underlease of forming part of the premises known as 20 High Street, Denbigh, Denbighshire, LL16 3RY between Royal mail Group Limited (Head Landlord), Post Office Limited (Landlord) and IR Dim Limited. Seal x1.	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1580 / Lease of Union Glen, Aberdeen	03/10/2017	27/09/2017	Lease relating to property of Unit 3, Union Glen, Aberdeen, AB11 6ER, which is between OCM Luxembourg Aberdeen Union Glen Apart-Hotel S.A.R.L. (Landlord) and Post Office Limited (Tenant). Seal x1	Victoria Moss, Deputy Company Secretary and Diane Blanchard, Executive Assistant	Jean Reynolds
1581 / Lease 879 - 881 Finchley Road	03/10/2017	03/10/2017	Lease relating to the property of 879 - 881 Finchley Road, Golders Green, NW11 8RT, between Kim Martin Jordan Lewison & Lindsey Frances Brock (Landlord) and Post Office Limited (Tenant). Seal x1.	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1582 / Transfer of Freehold - Catford	11/10/2017	11/10/2017	Transfer of Freehold in regards to Post Office Catford, 187 - 189 Rushey Green, London SE6 4BD and 1, 2, 3 and 4 Blackshaw's Alley, Rushey Green. Title Numbers: 387180, LN5718, 365454 and LN60106. Transferor: Post Office Limited; Transferee: Such Limited. Seal x1	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1583 / RE-EXECUTION SEALING	16/10/2017	27/07/2017	Re-Execution of the Settlement Agreement between New Call Telecom Limited (Employer) and The Post office Limited and Julie Berry (Employee). CAF no. 744. Original Seal (1562 x3) Date: 18/08/2017 (Seal x3)	Victoria Moss, Deputy Company Secretary	CoSec Depository
1584 / RE-EXCUTION SEALING	16/10/2017	27/07/2017	Re-Execution of the Settlement Agreement between New Call Telecom Limited (Employer) and The Post office Limited and Craig McMillan (Employee). CAF no. 744. Original Seal (1551 x2) Date: 16/08/2017 (Seal x2)	Victoria Moss, Deputy Company Secretary	CoSec Depository
1585 / RE-EXECUTION SEALING	16/10/2017	27/07/2017	Re-Execution of the Settlement Agreement between New Call Telecom Limited (Employer) and The Post office Limited and Emma Moir (Employee). CAF no. 744. Original Seal (1549 x2) Date: 16/08/2017 (Seal x2)	Victoria Moss, Deputy Company Secretary	CoSec Contact Depository

POST OFFICE LIMITED

Date 25.10.2017

Register of Sealings

Company Number 21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1586 / RE-EXECUTION SEALING	16/10/2017	27/07/2017	Re-Execution of the Settlement Agreement between New Call Telecom Limited (Employer) and The Post office Limited and Noreht Viljoen (Employee). CAF no. 744. Original Seal (1550 x3) Date: 16/08/2017 (Seal x3)	Victoria Moss, Deputy Company Secretary	CoSec Contact Depository
1587 / RE-EXECUTION SEALING	16/10/2017	27/07/2017	Re-Execution of the Settlement Agreement between New Call Telecom Limited (Employer) and The Post office Limited and Katie Crook (Employee). CAF no. 744. Original Seal (1563 x2) Date: 16/08/2017 (Seal x2)	Victoria Moss, Deputy Company Secretary	CoSec Contact Depository
1588 / RE-EXECUTION SEALING	16/10/2017	27/07/2017	Re-Execution of the Settlement Agreement between New Call Telecom Limited (Employer) and The Post office Limited and Stuart Jackson (Employee). CAF no. 744. Original Seal (1554 x3) Date: 16/08/2017 (Seal x3)	Victoria Moss, Deputy Company Secretary	CoSec Contact Depository
1589 / Deed of Covenant	18/10/2017	17/10/2017	Deed of Covenant relating to The Old Post Office premises at Post Office Road, Bournemouth, Dorset BH1 1BB. This deed is between (Covenantor) Lambton Property Share Company Limited and (Covenantee) Post Office Limited. (x1)	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1590 / Deed of Appointment & Removal	20/10/2017	17/10/2017	Deed of Appointment and Removal between (1) Multiplex Financial Trustees Limited (Continuing Trustees), (2) Youssef Daniel Arakji (New Trustee), (3) Harpreet Singh (Outgoing Trustee) and (4) Post Office Limited (Appointer).	Victoria Moss, Deputy Company Secretary	CoSec Depository
1591 / Licence Alterations/ Retention	25/10/2017	10/10/2017	Licence for Alterations and Retention (NYK314576) relating to 22 Lendal, York, YO1 8AA between Post Office Limited (Licensor) and York BID Company Ltd (Licensee). Sealing x1.	Jane MacLeod, Company Secretary	Jean Reynolds

POST OFFICE BOARD

Post Office Limited Board Meetings

Author: Jane MacLeod Meeting date: 31 October 2017

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

2017

Date			Time	Notes
Thursday	23 November	2017	13.30 – 17.00	

2018

Date			Time	Notes
Thursday	29 January	2018	11.45 – 16.30	
Tuesday	27 March	2018	11.45 – 16.30	
Thursday	24 May	2018	11.15 – 16.00	
Tuesday	26 June	2018	TBA	Board Away Day
Wednesday	27 June	2018	TBA	Board Away Day
Tuesday	31 July	2018	11.45 – 16.30	
Tuesday	25 September	2018	11.45 – 16.30	
Tuesday	30 October	2018	11.45 – 16.30	
Tuesday	27 November	2018	11.45 – 16.30	

POL00103898

Post Office Ltd
Post Office Board
31 October 2017

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

Balicao, Marla	
MacLeod, Jane	

Additional access

Regan, Avene	