POL00027267

Group Executive Agenda

Remember (a+vei) (otw) (p&o) & (cit) !

Date reported as	
16th January 2018	
Start Time	**Finish Time**
09.30hrs	16.10hrs
Location	
Room 1.19 Wakefield	

Present	In Attendance	Other Attendees	Apologies
• Paula Vennells (Chair) • Alisdair Cameron • Debbie Smith • Jane MacLeod • Rob Houghton • Martin Kirke • Mark Davies • Martin Edwards	• Marla Balicao • Owen Woodley • Micheal Passmore (item 1 & 2) • Natasha Wilson (item 2 & 5) • Julie Thomas (item 3) • Cathy Mayor (item 4) • David Ascott (item 5) • Tim White (item 6)	• Tom Wechsler (item 7&13) • Andrew Goddard (item 7) • Michael Austin (item 8) • Andy Garner (item 9) • Henk Van Hulle (item 13.1)	• Nick Kennett

	Agenda Item	Action Needed	Purpose	Lead	Timing
1.	**Performance – Financial Results & Review of Business Scorecard**	For Information & Input	To review the Financial Results & the Business scorecard and discuss any areas which are show to have a RED status.	Micheal Passmore	09.30 – 09.50
2.	**2018/19 Budget Review & LTIP / STIP**	Discussion & Input	To review the 2018/19 Budget and LTIP/STIP.	Al Cameron / Michael Passmore / Natasha Wilson	09.50 – 10.35
3.	**DMB Strategy**	Discussion & Input	Final Decision paper	Julie Thomas	10.35 – 11.35
BREAK					11.35 – 11.45
4.	**Performance Report – Retail SBU**	Input & Information	For GE to note the Retail Performance Report.	Debbie Smith/ Cathy Mayor	11.45 – 12.15
5.	**Gender Pay Gap**	Discussion & Input	Discuss and review the Gender Pay Gap.	Natasha Wilson / David Ascott	12.15 – 12.45
6.	**Future Change Approach & Governance**	Noting & Input	Update on Future Change Approach & Governance.	Rob Houghton / Tim White	12.45 – 13.05
LUNCH					13.05 – 13.35

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Agenda Item		Action Needed	Purpose	Lead	Timing
7.	**Project Panther**	Discussion & Input	To update GE on Project Panther.	Tom Wechsler / Andrew Goddard	13.35 – 13.55
8.	**Cloud Strategy**	Information & Input	Strategy update	Rob Houghton / Michael Austin	13.55 – 14.25
9.	**Postmaster Portal**	Information	Digital Self Service update	Andy Garner	14.25 – 14.55
BREAK					14.55 – 15.05
10.	**Verbal update from Committees & Steering Groups** 11.1 IRSG 11.2 POAC	For noting	Chairs of Committees to update GE	 Martin Kirke Mark Davies	15.05 – 15.30
11.	**Review of GE Minutes, Action Points and Updates**	For noting and Input	To update the GE on the actions taken and provide any information requested	All	15.30 – 15.40
12.	**Items for Noting** 12.1 Health & Safety 12.2 Forward agenda 12.3 RM Negotiations Update	For noting	For GE to note the papers		15.40 – 15.55
13.	**AOB** 13.1 Digital Pockit Update 13.2 Investment Committee	 For noting Discussion		Henk Van Hulle/Tom Wechsler	15.55 – 16.05
14.	**Feedback on meeting**	For input	Review the agenda items and the effectiveness of the sessions		16.05 – 16.10
CLOSE					**16.10**

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December 2017
Financial Performance

Micheal Passmore
16 January 2018

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P9 EBITDAS £1.7m ahead of forecast, YTD EBITDAS £1.3m ahead of budget.

Context

- YTD P8 EBITDAS performance was £6.4m. £0.2m favourable to forecast and £2.8m favourable to budget.
- At end of FY 16/17, cash in Network was £666m and balance sheet headroom was £189m
- P9 forecast EBITDAS was £5.1m, P9 budget EBITDAS was £8.3m. Balance Sheet headroom forecast was £(9)m. A temporary £100m extension was agreed with the Board to cover the additional cash requirements during Christmas trading.

Questions

- How is our scorecard performance in P9?
- What is the financial performance of the business in P9?
- Are we appropriately funded?

Conclusions

- P9 EBITDAS £6.8m, £1.7m favourable to forecast, and £(1.5)m adverse to budget. YTD £13.2m; £1.9m favourable to forecast and £1.3m favourable to budget.
- EBITDAS benefited from strong Christmas trading performance and accelerated IT cost benefits.
- High level 9+3 forecast suggests we will slightly overdeliver in 2017-18 with EBITDAS estimated at c.£31m v £28m budget target, although early Mails performance in January was poor.
- P9 EBITDA performance in the month was £(1.5)m adverse to budget due to the incremental agents pay impact in the month from higher revenue volumes and the delays in projects (e.g. simplification) to reduce these costs. Full year budget position not impacted in P5F due to strong revenue trading performance and continued focus on cost saving to mitigate.
- Balance sheet headroom in P9 was £27m, £129m worse than P8 due to the Christmas trading period. During P9 the maximum loan balance was £750m meaning that the additional £100m facility which was requested to cover peak Christmas trading was not required.

Input Sought

- The GE is asked to note the financial performance.

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Branch compliance significantly behind in month and Network numbers continue to fall

Key Performance Indicators	P9 Act	P9 Target	P9 Var.	YTD Act	YTD Target	YTD Var.	Full Year Target
Growth							
Total Gross Income (excl NSP) £m	89.3	88.7	0.6	713.5	701.9	11.6	945.0
EBITDAS £m	6.8	8.3	(1.5)	13.2	11.9	1.3	28.0
Headroom £m (vs Board minimum limit)	227	> 100 [3]	127	227	> 100 [3]	127	> 200
Digital Net Income £m (digital team)	3.4	2.7	0.7	33.7	33.1	0.6	45.0
Net profit £m [1]	5.8	5.0	0.8	17.1	0.6	16.5	0.0
Customer							
Customer Effort	81%	76%	5%	80%	76%	4%	76%
Net Promoter score Financial Services	26	25	1	25	25	0	25
Acceptable Wait Time %	93%	95%	(2)%	94%	95%	(1)%	95%
Branch Compliance - Financial Services - basket of 11 measures #	120	<=50	(70.0)	51	<=50	(1)	<=50
People							
Representation (Senior Managers) - Gender	39%	37%	2.5%	39%	37%	2.5%	37%
Attendance [2]	96.1%	96.7%	(0.6)%	96.3%	96.7%	(0.4)%	96.7%
IT Lost Time (Number of Sev1/Sev2 IT incidents)	8	13	5	67	117	50	<156
Safety LTIFR	0.346	0.180	(0.166)	0.260	0.180	(0.080)	0.180
Modernisation							
Number of branches (one month in arrears)	Same as YTD			11,546	11,670	(124)	>=11,700
NT and ND Branches Transformed in Year	17	14	3	372	317	55	400
HNGA Network Only Rollout	859	333	526	5,634	2,000	3,634	4,000
HNGA Branch Counter Refresh Rollout	36	0	36	1,525	3,500	(1,975)	8,000
IT Transformation (% of IT controls implemented)	66%	73%	(7)%	66%	73%	(7)%	All high risk gaps closed

1. Net Profit metric target based 5+7 forecast
2. Attendance P8 reported due to SAP lockdown on the 15th of Dec
3. Board agreed £100m buffer to target for December, reverting back to £200m at end of January

Explanations of key variances in slides 4 – 6

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Branch compliance down with issues in a number of areas

Growth

Net Profit

Net profit YTD is £16.5m favourable to budget due to EBTIDAS overperformance £1.3m, underspend on change activity £10.1m and profit on disposal of assets £4.4m.

Customer

Acceptable Wait Time

Acceptable Wait Time scores decreased by 2% to 93% which was 2% below the stretch target but was better than the 4% drop in P9 last year. Within the network DMB scores were in line with targets but were below targets for both Agency (88%) and WHSmiths (88%) branches.

Branch Compliance

Branch compliance is rated red in the month. YTD the rating is amber however there are a number of planned actions which aim to bring this back in line with targets by P11. The key reasons for the red ratings in the month are:

Mystery Shopping:

1. 1 out of 3 mortgage specialist shops was graded 'red' and related to a 'fact find' over the phone where insufficient detail was requested in relation to the customer's budget. The specialist has been suspended pending re-training.
2. 4 out of 20 CRMs were graded red due to:
   - Not using the tablet (leading to the risk that the CRM strays from the compliant introductory sales process).
   - Not following the required introductory sales process
   - Providing information to a customer that was misleading or incorrect.
3. 6 out of 11 counter colleagues were graded red and further root cause analysis is required. Product knowledge is patchy, particularly in branches where volumes of transactions are low. Encouragingly close to 100% of results showed that the customer is not pressurised to take out a product there and then without giving the shopper time to read the product literature.

BOI reviews:

9 out of 52 branches reviewed by BoI in the three months to the end of November were rated red in relation to advertising and promotions. We are working with Marketing, Network and Stock Services to review literature to ensure that it is up to date and that sufficient controls are in place.

We have also implemented a monthly Branch Focus communication, to support branches maintaining compliant literature for all FS products. The first edition in November incorporated a full literature check of all FS leaflets.

In January 2018 we are looking to pilot a new process of a documented FS literature spot check. Initially we would look to undertake a pilot with all DMBs and 'handful' of agency branches.

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Safety Incidents track below prior year YTD but LT in month ahead of target.

People

Safety LTIFR

- There were 11 employee accidents in Post Office during P9 (December), and 91 YTD which remains on track to be lower than last year.
- 6 employee related accidents in Directly Managed Branches in P9, 1 Lifting and handling, 2 indoor falls, 1 striking inanimate object, 1 cut due to broken glass and 1 indoor assault. YTD there has been 39 incidents which remains below target and on track. There was one lost time incident in P9 in DMBs due to an assault by a customer.
- There were 5 employee related accidents in Supply Chain in P9, 2 on or around the Post Office vehicle, 2 outdoor falls and 1 striking inanimate object. YTD there has been 50 incidents with a slight improvement over the previous rolling quarter. There was one lost time incident in P9 in Supply Chain where an employee parked on incline and vehicle door moved back and struck wrist, causing fracture.
- There were zero accidents reported across Network Operations and Support teams.

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Network numbers continue to decline but NT expected to exceed target by 450 branches by end of the year.

Modernisation

Network

- Number of branches increased by 1 in the month and is now 11,546, 124 behind target. YTD xx branches remain closed following postmaster suspension with the remaining gap due to higher churn.
- Actions to open new premises continue to be considered and developed. The current Network Operations plan shows that there will be additional openings over the remainder of the year (over and above future closures) with the closing network numbers currently forecast to be 11,632.

NT and ND Transformation

- The number of branches transformed in the year is currently 372 with the number expected to the exceed the full year target of 400 by the end on next month. Currently it is anticipated that c.450 branches will be transformed by the end of the year.

HGNA Network Only Rollout

- Target is that for February all remaining branches on the network will be completed by the target week (5th March for network transitions). Any failed branches will be revisited before the end of March 2018. Crown branches to be scheduled from 5th February 2018 marking a major milestone of beginning to install new equipment in flagship branches.

HGNA Branch Counter Refresh Rollout

- Due to issues encountered with the Branch Counter Product, Transaction Simplification contention and restrictions by the business on particular branch types e.g. WHSmith the pace of deployment has been lower than anticipated. The current plan assumes that 11,500 counters will be completed by August 2018.

IT Transformation

- The percentage of controls implemented remains the same as prior month due to a delay in PWC training for TrAction tool and PO user acceptance testing which needs to take place before the control testing commences.
- The testing phase is expected to start the week commencing 8th Jan 2018 and finish by 15th Mar 2018.

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P9 EBITDAS £1.7m favourable to forecast. Strong Christmas trading performance and IT cost savings

	Revenue	Direct	Agents	Cont.
FST Trading				
Post Office Money	0.3	-	(0.5)	**(0.2)**
Moneygram	(0.4)	-	0.2	**(0.2)**
Banking Services	0.7	(0.0)	(0.3)	**0.4**
Telecoms	0.5	(0.0)	0.0	**0.5**
Postal Orders	0.0	0.0	(0.0)	**0.0**
FS&T	**1.1**	**(0.0)**	**(0.5)**	**0.6**

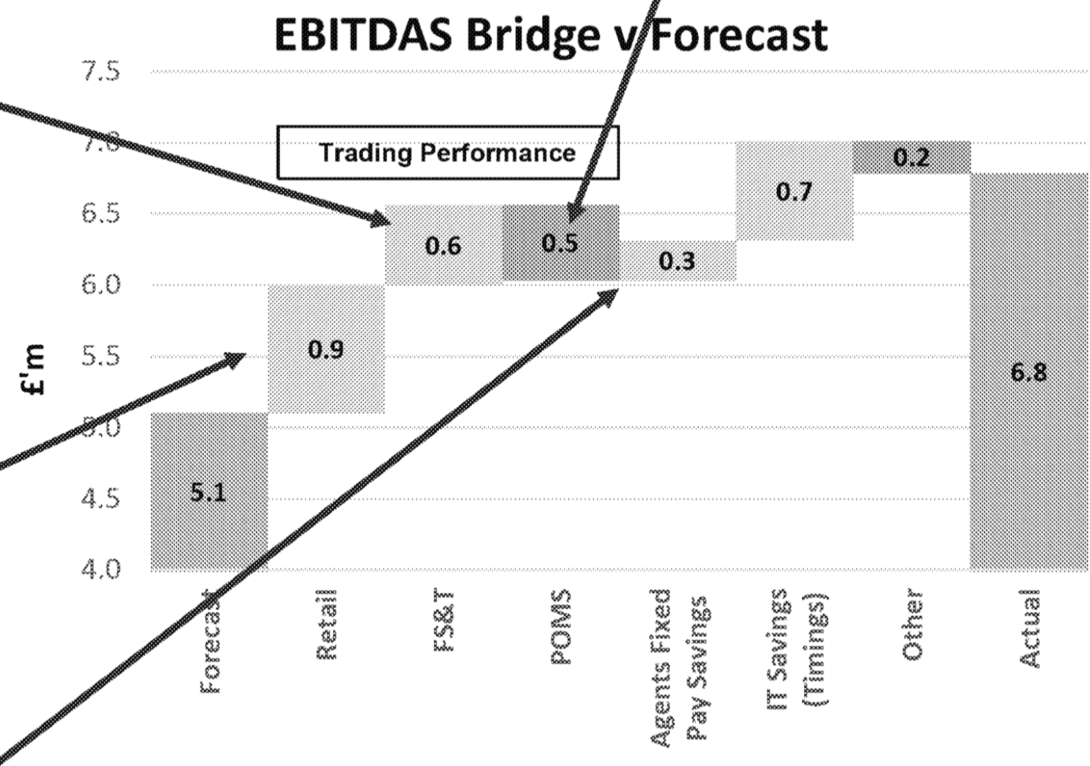
Moneygram £(0.2)m – continuing shortfalls in volumes.

Banking Services +£0.4m – strong Christmas trading.

Telecoms +£0.5m – higher ARPU (slide 14).

	Revenue	Direct	Agents	Cont.
POMS	**(0.5)**	**(0.1)**	**-**	**(0.5)**

Revenue £(0.5)m – £0.3m of profit share forecast not achieved



	Revenue	Direct	Agents	Cont.
Retail Trading				
Mails Trading	1.2	-	(0.6)	**0.6**
Retail and Lottery	0.2	-	(0.2)	**0.1**
Payment Services	(0.6)	-	0.2	**(0.3)**
Card Account	0.5	-	-	**0.5**
ID - Assurance (Verify)	0.3	(0.1)	-	**0.1**
Other Retail	0.3	(0.3)	0.0	**(0.0)**
Retail	**1.9**	**(0.5)**	**(0.5)**	**0.9**

Mails Trading +£0.6m – strong Christmas trading performance.

Payments Services £(0.3)m – reduced availability (slide 12)

Card Account +£0.5m – benefit of increase in interest rates post forecast process. Benefit erodes from P10 due to monthly statement regulatory requirement.

Agents Pay £0.3m – fixed pay savings v forecast

IT £0.7m – savings due to deal with Fujitsu. Timing only as had been assumed in full year IT outturn.

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P9 EBITDAS is favourable to Forecast £1.7m but £(1.5)m adverse to Budget

£m	Act	Var Fcst	Var Bud	Var PY
		P9		
Gross Income	**89.3**	**2.4**	**0.6**	**2.0**
Direct Costs	(9.9)	(0.6)	(0.0)	(1.3)
Net Income	**79.4**	**1.7**	**0.6**	**0.7**
Staff Costs	(15.0)	(0.0)	(0.8)	0.9
Agents Pay	(38.0)	(0.8)	(2.1)	1.8
Non-Staff Costs	(22.5)	0.8	0.9	(0.9)
Expenditure	**(75.4)**	**(0.1)**	**(2.0)**	**1.8**
FRES - Share Of Profits	2.9	-	(0.0)	0.5
EBITDAS	**6.8**	**1.7**	**(1.5)**	**3.0**
Revenue				
Retail	56.9	1.9	1.7	(1.0)
FS&T	28.6	1.1	(0.4)	3.2
POMS	2.7	(0.5)	(0.5)	0.0
Other	1.1	(0.1)	(0.1)	(0.2)
Total Revenue	**89.3**	**2.4**	**0.6**	**2.0**

Performance against Forecast

- **Gross income** – £2.4m favourable driven by strong Christmas trading in Retail, Banking and Telecoms.
  - **Retail +£1.9m:** Mails +£1.2m, Retail & Lottery +£0.2m, Payment Services +£0.3m, POCA +£0.5m (interest rate increase) and Verify +£0.3m. Offset by ATM £(0.9)m (£0.5m due to trading performance (slide 12) and £(0.4)m (timing).
  - **FS&T +£1.1m:** Banking Services +£0.7m (strong trading performance) and Telecoms +£0.5m (higher ARPU – slide 15). Moneygram continues to underperform £(0.4)m but is offset by small gains across other areas.
  - **POMS £(0.5)m:** profit share targets with supplier not met £(0.3)m and volume shortfall (slide 16).
- **Agents pay** – £(0.8)m adverse to forecast but moves in line with revenue mix. £0.3m benefit in fixed pay partially offsets incremental variable cost.
- **Staff costs** – in line with forecast across all cost areas.
- **Non-staff costs** – £0.8m favourable due to savings in IT spend following a deal agreed with Fujitsu (timing only).

Performance against Budget

- Performance against budget was £(1.5)m adverse in P9 but was ahead of forecast expectations. We have confidence in delivery of the full year outturn with a continuation of the strong trading performance and focus on cost control. A high level view of full year expectations is provided on slide 18.

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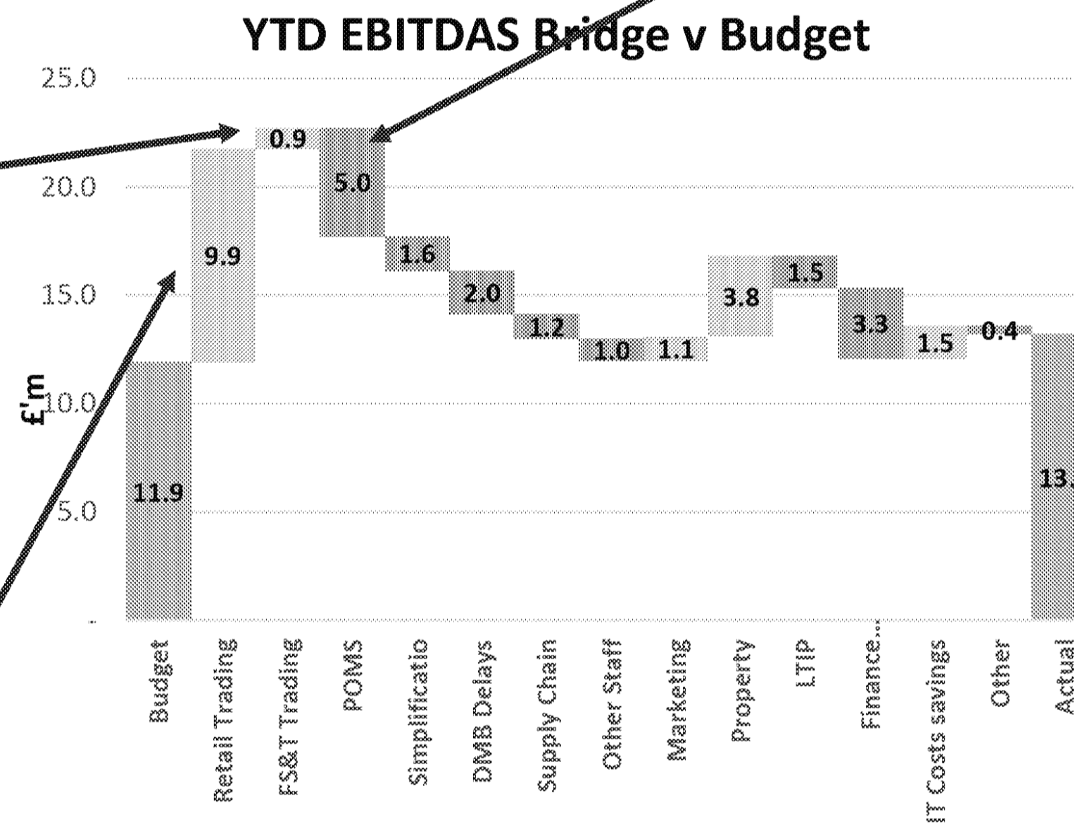
YTD, we remain ahead of budget

	Revenue	Direct Costs	Agents Pay	Cont.
POMS	(3.4)	(1.5)	(0.1)	**(5.0)**

	Revenue	Direct Costs	Agents Pay	Cont.
FST Trading				
Post Office Money	(4.8)	-	(0.3)	**(5.1)**
Banking Services	2.9	(0.0)	(0.2)	**2.7**
Telecoms - Excl. New Call	6.9	0.1	0.2	**7.2**
New Call	(5.9)	5.0	-	**(0.9)**
Other FST	(2.8)	(0.0)	(0.1)	**(2.9)**
Total FS&T	**(3.6)**	**5.0**	**(0.4)**	**0.9**



	Revenue	Direct Costs	Agents Pay	Cont.
Retail Trading				
Mails	6.0	-	(4.6)	**1.4**
Retail and Lottery	3.8	(0.7)	(2.4)	**0.6**
Payment Services	(1.0)	-	0.7	**(0.3)**
Government Services	10.0	1.1	(3.0)	**8.1**
Other Retail	-	0.0	-	**0.0**
Total Retail	**18.8**	**0.4**	**(9.3)**	**9.9**

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YTD EBITDAS is £1.9m favourable to forecast and £1.3m favourable to budget

£m	YTD Act	Var Fcst	Var Bud	Var PY
	YTD			
Gross Income	**713.5**	**4.5**	**11.6**	**1.3**
Direct Costs	(90.6)	(0.4)	3.8	(6.5)
Net Income	**622.9**	**4.2**	**15.3**	**(5.2)**
Staff Costs	(137.2)	0.1	(7.5)	16.3
Agents Pay	(283.5)	(1.8)	(8.8)	12.9
Non-Staff Costs	(214.8)	(0.6)	2.4	(3.1)
Expenditure	**(635.4)**	**(2.3)**	**(14.0)**	**26.2**
FRES - Share Of Profits	25.7	-	(0.1)	(2.7)
EBITDAS	**13.2**	**1.9**	**1.3**	**18.3**
Revenue				
Retail	404.6	3.8	18.8	(23.4)
FS&T	263.1	1.6	(3.6)	24.0
POMS	35.0	(0.8)	(3.4)	2.4
Other	10.8	(0.0)	(0.2)	(1.7)
Total Revenue	**713.5**	**4.5**	**11.6**	**1.3**

Performance against Forecast

- Performance against forecast is ahead of expectations following the strong Christmas trading performance:
  - **Gross income** - £4.5m favourable with Retail +£3.8m and FS&T +£1.6m.
  - **Agents pay** - £(1.8)m adverse but in line with incremental revenue performance ytd. Some savings on Fixed pay partially offset incremental variable costs from trading.
  - **Non staff costs** - £(0.6)m adverse to forecast. Costs driven by Finance and Losses £(1.3)m partially offset by savings in other areas.

Performance against Budget

- **Gross income** – £11.6m favourable.
  - Retail +£18.8m with strong performance in Parcelforce, Labels, RM Signed for, Lottery and Government Services against budget. Significant year on year decline £(£23.4)m driven by Government Services £(14.4)m and Mails non-trading (£4.5)m.
  - FS&T £(3.6)m adverse to budget driven by delays in New Call launch £(5.9)m and continuing declines in Moneygram revenues £(3.9)m due to drop in volumes following Brexit.
  - Strong performances in Banking Services +£2.9m ahead of budget and the underlying Telco performance, partially offset these declines.
  - POMS revenues £(3.4)m adverse to budget. Shortfalls in travel and home insurance.
- **Staff costs** – £(7.5)m adverse. Overspends in Retail £(4.5)m due to delays in branch conversions, partially offset by reductions in agent pay.
- **Agents pay** – £(8.8)m adverse and continuing to track in line with YTD trends due to favourable revenue variances in Retail, partially offset by fewer agents from delays in conversion c.(£2.7m).
- **Non-staff costs** – £2.4m favourable to budget:
  - £1.2m underspend in marketing with full year savings anticipated at £2.5m.
  - £3.8m savings from property (leases and rebates); offset by
  - £1.5m of IT cost savings
  - £1.5m of unbudgeted LTIP costs
  - £3.3m of finance and losses (agent losses £1.7m, FX £1.0m, Apprentice Levy £0.7m)

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Retail: Strong Christmas trading and POCa interest rate interest benefit.

£m	P9 Act	P9 Var Fcst	P9 Var Bud	YTD Act	YTD Var Fcst	YTD Var Bud
Parcelforce	2.8	0.2	0.4	15.2	0.2	2.3
Special Delivery	4.7	0.2	0.1	37.5	0.3	0.7
International Priority & Standard	5.6	(0.1)	0.2	26.5	(0.5)	1.2
Stamps (1st & 2nd)	6.3	0.3	(0.5)	18.8	0.2	(1.3)
Labels (1st & 2nd Class)	10.4	0.3	0.4	70.2	0.6	1.7
RM Signed For	2.2	0.1	0.3	17.5	0.2	2.3
Home Shopping Returns	1.7	0.1	0.1	13.1	0.3	0.7
Other Trading	1.8	0.1	(0.2)	12.0	0.1	(1.3)
Total Mail Trading	35.4	1.2	0.9	210.8	1.5	6.2
Total Mail Non-Trading	4.7	-	(0.0)	44.8	0.0	(0.2)
Retail (Inc Gift cards & Other)	2.9	0.0	(0.4)	10.8	(0.1)	(0.7)
Lottery	2.6	0.2	0.6	23.7	0.9	4.5
Retail and Lottery	5.5	0.2	0.2	34.5	0.8	3.8
Payment Services	2.4	0.3	0.4	20.4	0.5	0.9
ATM	2.3	(0.9)	(1.0)	22.9	(1.2)	(1.9)
Payment Services	4.7	(0.6)	(0.6)	43.2	(0.7)	(1.0)
Motoring Services	0.5	0.1	0.3	5.4	0.3	1.1
Card Account	3.8	0.5	0.7	34.0	0.7	3.6
Passport Services	0.6	(0.0)	0.3	14.6	(0.1)	5.5
Digital ID Serv UKVI & Asylum	1.0	0.1	0.1	11.1	0.3	1.4
ID - Assurance (Verify)	0.7	0.3	(0.2)	5.3	0.6	(1.5)
Other Government Services	0.0	0.0	(0.0)	0.9	0.3	0.0
Government Services	6.6	1.0	1.1	71.2	2.2	10.0
Total Retail	**56.9**	**1.9**	**1.7**	**404.6**	**3.8**	**18.8**

£m	P9 Act	P9 Var Fcst	P9 Var Bud	YTD Act	YTD Var Fcst	YTD Var Bud
Gross Income	**56.9**	**1.9**	**1.7**	**404.6**	**3.8**	**18.8**
Direct Costs	(2.6)	(0.5)	0.0	(22.4)	(0.1)	0.5
Net Income	**54.2**	**1.4**	**1.7**	**382.1**	**3.7**	**19.3**
Agents Pay	(32.4)	(0.3)	(1.8)	(226.1)	(1.3)	(8.6)
Staff Costs	(6.6)	0.1	(0.3)	(62.1)	1.0	(4.5)
Non-Staff Costs	(3.9)	0.2	(1.1)	(26.8)	(1.0)	2.3
Expenditure	**(42.8)**	**0.0**	**(3.2)**	**(315.0)**	**(1.3)**	**(10.9)**
EBITDAS	**11.4**	**1.4**	**(1.5)**	**67.1**	**2.5**	**8.4**

Revenue £1.9m favourable

- **Mails Trading:** +£1.2m with strong Christmas trading performance across the portfolio. P9 ahead of YTD trends and forecast expectations.
- **Payment Services:** £(0.6)m with shortfall in ATM £(0.9)m. Shortfall is partly due to trading £0.5m and improved availability targets not yet being met (slide 12) and £(0.4)m budgeted provision release held back (timing).
- **Card Account:** £0.5m due to continuing upside from BOE interest rate increase 100% EBITDAS benefit in the current month but the requirement to produce monthly statements will start in P10, reducing the net benefit.

Costs in line with forecast

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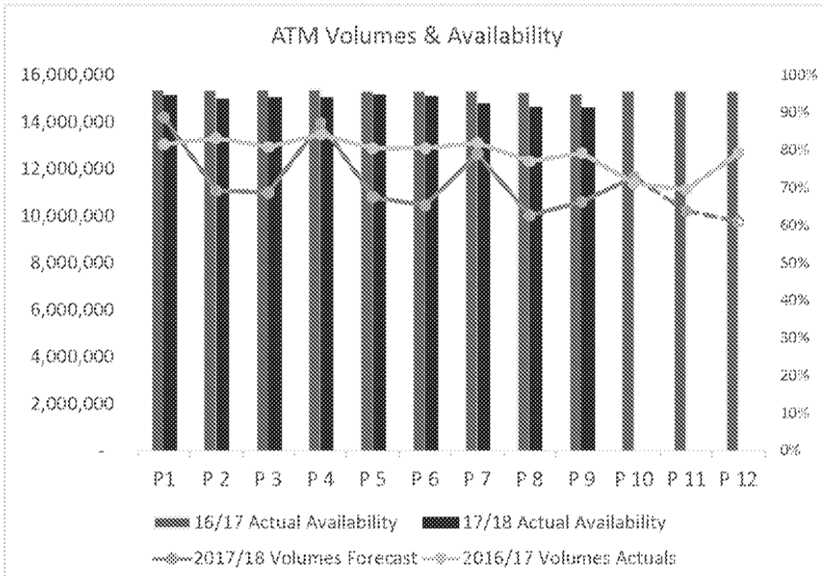
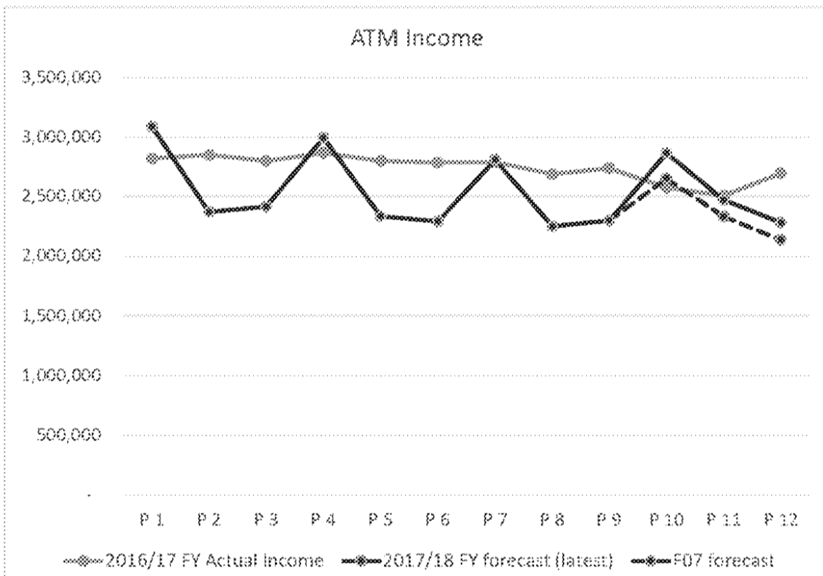
ATM availability has fallen from 94% in H1 to 92% in H2 leading to revenue shortfalls v forecast.





Availability

- Of 2,370 live ATMs 1,950 are transacting at average availability of 97.5% (i.e. 1.5% above 96% target)
- The remaining 420 ATMs have been experiencing average availability of 65%. This is primarily being driven by a high number of cash dispenser faults and cash jams following the introduction of polymer £10 notes.
- This has led to a reduction in the overall availability reducing from 94% in H1 to 92% in H2 ytd. This reduction was not anticipated in the full year forecast.

Mitigation

- ATM Service Manager is now in place and a team is being recruited to provide support to branches on a daily basis to reinstate the support and intervention removed under OSOP (4 heads and c.£0.2m cost).
- Revenue shortfalls are still however anticipated against the forecast over the remainder of the year (£0.7m) and these are included in the revised Retail risk and opportunities position.

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FST: Gross Revenue £1.1m favourable vs Forecast in month

£m	P9 Act	P9 Var Fcst	P9 Var Bud	YTD Act	YTD Var Fcst	YTD Var Bud
Mortgages	0.2	0.1	(0.1)	1.9	0.2	(1.0)
Credit Cards and lending	0.2	0.1	(0.1)	1.5	0.2	(0.8)
Savings	3.4	0.0	0.0	30.3	(0.0)	(0.0)
Travel Money	1.6	0.1	0.1	20.4	0.5	1.0
MoneyGram	2.3	(0.4)	(0.6)	20.1	(1.3)	(3.9)
Post Office Money	7.7	(0.1)	(0.7)	74.2	(0.4)	(4.8)
Banking Services	7.4	0.7	0.3	65.2	1.0	2.9
Telecoms	12.3	0.5	0.4	112.4	0.8	1.0
Postal Orders	1.1	0.0	(0.1)	11.3	0.2	(1.1)
Other Income	0.0	0.0	(0.4)	0.0	(0.0)	(1.6)
FS&T	**28.6**	**1.1**	**(0.4)**	**263.1**	**1.6**	**(3.6)**

£m	P9 Act	P9 Var Fcst	P9 Var Bud	YTD Act	YTD Var Fcst	YTD Var Bud
Gross Income	**28.6**	**1.1**	**(0.4)**	**263.1**	**1.6**	**(3.6)**
Direct Costs	(6.7)	(0.0)	0.2	(61.5)	0.3	5.0
Net Income	**21.9**	**1.1**	**(0.2)**	**201.6**	**1.9**	**1.3**
Agents Pay	(5.5)	(0.5)	(0.3)	(55.5)	(0.4)	(0.2)
Staff Costs	(1.0)	(0.1)	(0.1)	(9.2)	(0.7)	(0.2)
Non-Staff Costs	(4.5)	(0.8)	(0.4)	(33.4)	(1.4)	(0.8)
Expenditure	**(11.0)**	**(1.3)**	**(0.7)**	**(98.1)**	**(2.5)**	**(1.2)**
EBITDAS	**13.8**	**(0.2)**	**(0.9)**	**129.2**	**(0.6)**	**0.1**

Revenue £1.1m favourable

- Banking Services £0.7m favourable in P9 due to strong trading over Christmas, up c.30% year on year.
- Telecoms £0.5m favourable due to higher average revenue per customer (ARPU) than forecast (slide 14).
- MoneyGram £0.4m adverse due to continuing market decline.

Margin £1.1m favourable

- Telecoms profit margin slightly ahead of forecast (47% vs 45%).

Costs £(1.3)m adverse

- Agents pay £(0.5)m adverse in line with incremental revenue.
- Staff Costs £(0.1)m adverse in P9 (staff for new projects not included in the forecast).
- £(0.3)m adverse on Consultancy reflecting our commitments under the agreement with BoI.
- £(0.3)m adverse on Brand & Marketing due to the new Postal Orders marketing campaign.

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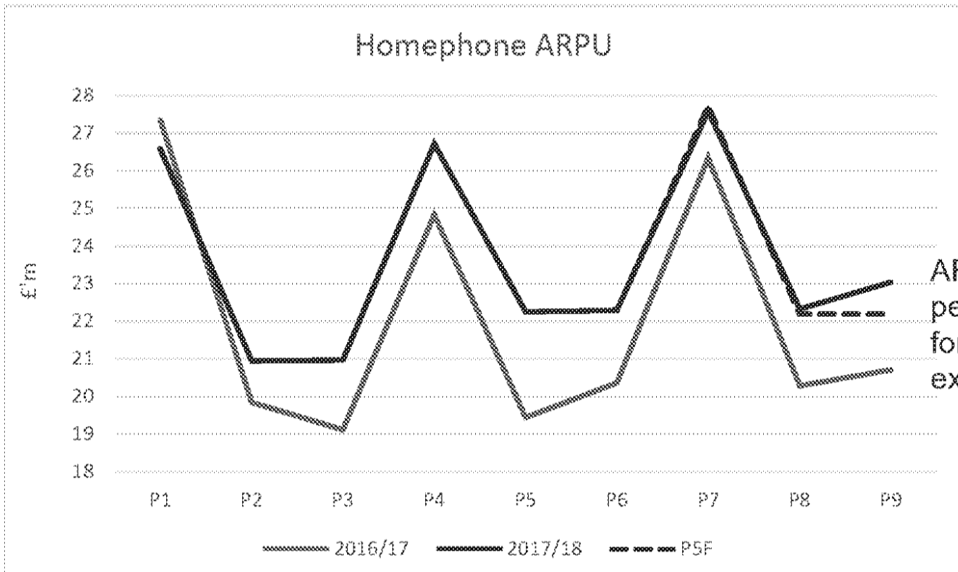
Telecoms: £0.5m revenue overperformance in the month driven by ARPU (average revenue per user)

Telecoms Revenue overperformance in month is due to £0.1m from additional customers and £0.4m due to additional revenue per customers – driven by Homephone and New Call

Telecom Volume / Price analysis by Product

	P9 Customers (#)			P9 Revenue Impact (£'000)			
	Actual	**Forecast**	**Var**	**Vol**	**Rate**	**Total**	**Comment**
Homephone	245,878	246,226	(348)	(8)	208	200	Rate variance due to mix (packages & features and calls outside of plan)
Dual Premium	208,165	205,397	2,768	70	15	85	
Fibre	5,166	3,889	1,277	38	(16)	22	
Broadband	436	408	28	-	-	-	
New Call	48,874	48,350	524	11	174	185	New Call take up of welcome offer (only one month of data to rely on when 5+7 submitted) - fewer customers signed up to contract
Total	**508,519**	**504,270**	**4,249**	**111**	**381**	**492**	

Homephone ARPU Trend



ARPU over performed v forecast expectation

New Call

ARPU overperformance due to less take up of the welcome offer than anticipated v forecast. This drove additional ARPU benefit in the month as customers were maintained on the higher tariff v forecast expectations.

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POMS: EBITDAS £0.2m adverse to forecast in P9

	P9			YTD		
Revenue						
Travel	0.7	(0.5)	(0.1)	12.0	(0.9)	(1.0)
Car	0.8	0.0	0.1	8.6	0.1	0.3
Home	0.8	0.1	0.1	7.1	0.2	(0.3)
Life	0.3	(0.1)	(0.4)	5.0	(0.3)	(0.1)
Other	0.2	(0.0)	(0.2)	2.3	(0.0)	(2.2)
-	-	-	-	-	-	-
Total Revenue	**2.7**	**(0.5)**	**(0.5)**	**35.0**	**(0.8)**	**(3.4)**

	P9			YTD		
£m	**Act**	**Var Fcst**	**Var Bud**	**Act**	**Var Fcst**	**Var Bud**
Gross Income	**2.7**	**(0.5)**	**(0.5)**	**35.0**	**(0.8)**	**(3.4)**
Direct Costs	(0.5)	(0.1)	(0.2)	(6.5)	(0.4)	(1.5)
Net Income	**2.2**	**(0.5)**	**(0.7)**	**28.6**	**(1.2)**	**(4.9)**
Agents Pay	(0.1)	(0.0)	(0.0)	(1.8)	0.1	(0.0)
Staff Costs	(0.3)	0.1	0.1	(2.8)	0.2	0.5
Non-Staff Costs	(0.9)	0.2	0.4	(12.1)	0.5	2.0
Expenditure	**(1.3)**	**0.3**	**0.5**	**(16.8)**	**0.7**	**2.5**
EBITDAS	**0.9**	**(0.3)**	**(0.2)**	**11.7**	**(0.5)**	**(2.4)**

Net Income £(0.5)m adverse

- Travel £(0.5)m adverse, £0.3m non-trading profit share not payable
- Home & Car £0.1m favourable
- Direct Costs / COS £0.1m adverse due to higher Direct Mail costs

Staff Costs £0.1m favourable

- £0.1m phasing of recruitment

Non-Staff Costs £0.2m favourable

- £0.1m favourable in consultancy due to costs reclassification

YTD and FY

- YTD EBITDAS £13.6m (excl. allocation of agent's pay) versus FY Fcast of £20.2m. A variety of initiatives will drive revenue in Q4 such as Life DRTV and Term Life product launch. A 9+3 forecast will be performed to refresh 5+7 position in the light of substantial number of risks and opportunities.

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P9 and YTD Overheads by GE Member

	Overheads	Month							YTD					
		Actual			Var to Fcst			Var Bud	Actual			Var to Fcst		
	£'m	Staff Costs	Other	Total	Staff Costs	Other	Total	Total	Staff Costs	Other		Staff Costs	Other	Total
DS	Retail	6.6	3.9	**10.4**	0.1	0.2	**0.3**	(1.4)	62.1	26.8	**88.9**	1.0	(1.0)	**(0.0)**
NK	FS&T	1.0	4.5	**5.5**	(0.1)	(0.8)	**(0.9)**	(0.4)	9.2	33.4	**42.6**	(0.7)	(1.4)	**(2.0)**
NK	POMS	0.3	0.9	**1.2**	0.1	0.2	**0.3**	0.5	2.8	12.1	**15.0**	0.2	0.5	**0.6**
AC	Finance & Ops	4.9	5.7	**10.6**	(0.3)	0.5	**0.2**	(0.7)	39.6	52.2	**91.8**	(0.7)	0.2	**(0.5)**
PV	CEO	0.0	0.0	**0.0**	0.0	(0.0)	**(0.0)**	(0.0)	0.3	0.0	**0.3**	(0.0)	(0.0)	**(0.0)**
RH	CIO	0.2	6.6	**6.8**	0.3	0.4	**0.7**	1.1	3.2	73.8	**77.0**	0.4	0.3	**0.7**
ME	Strategy	0.1	0.0	**0.1**	(0.1)	0.0	**(0.1)**	(0.1)	0.5	0.1	**0.6**	(0.0)	0.0	**(0.0)**
JM	LRG	0.5	0.3	**0.9**	(0.0)	0.1	**0.1**	(0.1)	4.0	4.1	**8.1**	0.1	(0.1)	**0.0**
MK	HR	1.5	0.4	**1.9**	(0.1)	0.0	**(0.0)**	0.2	13.8	4.5	**18.3**	(0.1)	0.1	**0.0**
MD	Communications	0.2	(0.1)	**0.1**	(0.0)	0.4	**0.4**	0.3	1.3	2.1	**3.4**	(0.1)	0.6	**0.5**
	Central	(0.3)	0.3	**(0.0)**	(0.0)	(0.2)	**(0.2)**	0.6	0.4	5.6	**6.0**	(0.0)	0.2	**0.1**
	Total	**15.0**	**22.5**	**37.4**	**(0.0)**	**0.8**	**0.7**	0.1	**137.2**	**214.8**	**352.0**	**0.1**	**(0.7)**	**(0.6)**

Variances are based on YTD performance v Forecast

- **FS&T:** £(0.7)m staff costs overspend due to contractor cost catch ups £(0.5)m. Non staff costs overspend of £(1.4m) includes £(0.9)m of marketing (timing) and incremental costs for BOI £(0.3) which had assumed to be capital in forecast.
- **CIO:** Savings due to deal agreed with Fujitsu £0.7m benefit. Timing v forecast and full year risk anticipated at c.£(1.0)m currently – see R&O (next slide).
- **Finance & Ops:** Staff cost overspend of £(0.7)m driven by incremental contractor costs £(0.2)m. Additional staff costs offset by savings in non - staff costs (allocation v forecast assumption).
- **Comms:** £0.6m non-staff cost savings due to reallocation of marketing costs to Retail (Retail sales award). Saving will reverse due to cost challenges in balance of year forecast.

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Risk and Ops: Current view suggests over delivery of Budget

	Risk Adj View	P5F	Var Risk
Retail	11.9	7.1	4.8
FST	257.0	258.5	(1.5)
POMS	19.7	20.2	(0.5)
Finances & Ops	(114.5)	(111.6)	(3.0)
CEO	(0.4)	(0.4)	(0.0)
CIO	(99.8)	(98.7)	(1.0)
Strategy	(0.8)	(0.7)	(0.0)
LRG (excl. Sparrow)	(8.7)	(8.7)	0.0
HR	(24.8)	(24.6)	(0.2)
Comms	(4.8)	(4.8)	-
Central	(4.9)	(5.9)	1.0
Total (excl. Efficiency & Sparrow)	**29.9**	**30.4**	**(0.4)**
Efficiency Fund	3.9	-	3.9
Total (excl. Sparrow)	**33.8**	**30.4**	**3.5**
Sparrow	(3.0)	(2.4)	(0.6)
Total	**30.8**	**28.0**	**2.9**

Total (excl. Sparrow)	33.8	30.4
Budget (excl. Sparrow)	30.0	30.0
Variance	3.8	0.4
%	113%	101%

Retail: Continuing trading overperformance, programme underspend (moved to 18/19) and interest rates benefit from POCA partly offset by regulatory impact of monthly statements from P10.

FST: Value share improvements £1.7m offset by reductions in FRES performance £(0.5)m and additional costs from responding to Ofcom pricing challenge £(2.1)m.

POMS: £0.5m reduction but reliant on TV trial and completing. Challenging upwards and completing a detailed bottom up 9+3 forecast.

Finance and Ops: includes £2.5m of maintaining prudent assumptions on provisioning.

CIO: £1m net risk left of £3m challenge in P5F. Complete review being conducted to full year outturn

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Efficiency Fund currently assumes £3.9m of costs to be released v forecast

Efficiency Fund	£'m	Spent to P9
P9 Forecast	**8.8**	
Retail - No Queues at Christmas	(0.6)	(0.2)
FST - Postal Orders	(0.2)	(0.2)
FST - Telecoms	(1.6)	-
POMS - Growth Plan	(2.5)	(0.2)
Growth Fund Release	$\boxed{\textbf{3.9}}$	$\boxed{\textbf{(0.7)}}$

- £0.7m of efficiency fund spent year to date v £4.9m allocated to projects to date
- Risk and Opportunities currently assumes release of £3.9m
- POMS Growth Fund spend outlook being validated as part of detailed 9+3 forecast review (currently being undertaken).

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Depreciation catch up in the month following detailed review. Capital and Investment spend continues to track below forecast and budget

	P9				YTD			
£m	**Act**	**Var Fcst**	**Var Bud**	**Var PY**	**YTD Act**	**Var Fcst**	**Var Bud**	**Var PY**
EBITDAS	**6.8**	**1.7**	**(1.5)**	**3.0**	**13.2**	**1.9**	**1.3**	**18.3**
Network Subsidy	5.4	(0.0)	-	(0.8)	52.5	(0.0)	(0.0)	(7.5)
EBITDA	**12.2**	**1.7**	**(1.5)**	**2.2**	**65.7**	**1.9**	**1.3**	**10.8**
Depreciation	(6.1)	(1.8)	-	(6.0)	(35.8)	(0.9)	(0.9)	(35.4)
Interest	(0.6)	0.0	0.0	(0.5)	(3.7)	0.1	1.6	(4.8)
Discontinued Operations	-	-	-	-	-	-	-	50.0
Impairment	-	-	-	8.5	-	-	-	76.8
Change Spend	(6.0)	12.3	1.9	4.2	(66.1)	18.1	10.1	37.0
Investment Funding	5.8	-	-	(5.8)	52.5	-	-	(52.5)
Profit/(Loss) On Asset Sale	0.4	0.4	0.4	0.0	4.4	1.2	4.4	2.8
Profit/(Loss) Before Tax	**5.8**	**12.6**	**0.8**	**3.0**	**17.1**	**20.4**	**16.5**	**84.6**

- Depreciation catch up in the month following continuing review of assets (yet to be added to fixed asset register). Full year forecast is now expected to be £2.0m over the P5 Forecast.
- Change Spend expenditure is £6.0m in the month and continues to spend below forecast and budget expectations. In the month there is a £10.0m shortfall due to a delay in the announcement of closures of 89 DMB's (now anticipated to be April 18).
- The change process is being amended with a stronger portfolio management function to address this.
- In period spend on capital assets was £11.9m (see next slide), £90.6m YTD.

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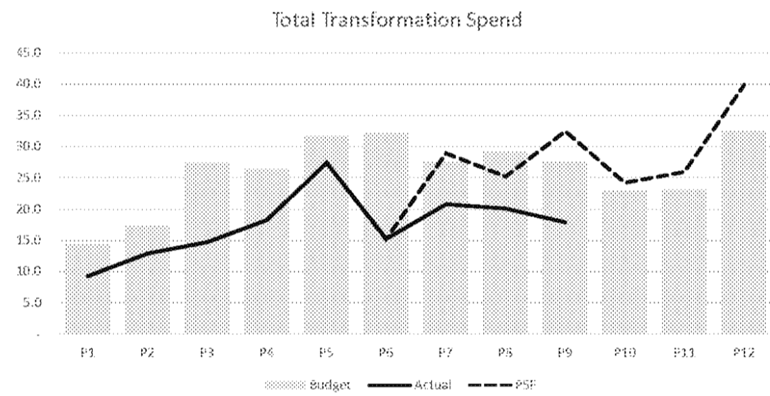
Project Spend £14.5m below forecast due £10m impact of delay in announcing closure of DMB's (now anticipated for April 18)

	P9			YTD			FY		
	Act	Var P5F	Var Bud	Act	Var P5F	Var Bud	Fcst	Var P5F	Var Bud
IT & Digital	8.5	(0.7)	2.4	53.4	1.3	33.9	104.7	(9.5)	8.0
Network Development Programme	3.1	1.8	1.6	35.3	2.3	8.3	49.1	10.3	21.7
DMB Network Development	1.2	11.1	1.3	23.3	13.4	(7.9)	32.7	11.5	(11.1)
FS & T	0.9	1.0	1.2	11.5	2.4	18.1	18.5	(0.1)	15.9
Back Office Transformation	1.5	0.4	0.4	11.4	1.9	4.0	17.6	(0.1)	2.5
Retail	0.7	0.7	0.4	5.4	1.8	9.4	10.1	-	8.0
LEAN Centre	0.2	(0.2)	(0.2)	3.0	1.2	1.2	3.5	1.2	1.2
People and Engagement Transformation	0.8	(0.1)	(0.2)	4.3	(0.7)	0.3	4.8	(0.7)	0.1
Property	0.7	(0.5)	(0.5)	2.8	0.1	(0.0)	4.0	0.1	(0.0)
POMS	0.3	(0.1)	(0.1)	2.6	(0.5)	0.1	3.3	(0.5)	0.1
Supply Chain	0.2	(0.1)	0.4	2.6	1.4	(0.2)	4.8	-	(1.0)
Other Transformation	(0.1)	0.3	0.3	0.8	0.5	1.4	1.6	0.5	1.4
Corporate Services Transformation	0.0	0.1	0.1	0.2	0.2	1.0	1.3	0.2	1.0
Identity	-	0.2	2.0	-	1.3	4.0	3.0	(0.4)	1.7
Finance	0.0	0.2	(0.0)	0.1	0.1	0.4	0.3	0.2	0.2
Digital & marketing	-	-	0.2	-	-	1.6	-	-	2.3
Network Operations	0.0	0.5	0.3	0.0	1.1	1.8	2.3	0.1	(0.5)
Central Adjustments	(0.1)	0.1	0.1	0.0	(0.0)	(0.0)	(0.0)	(0.0)	0.0
Total	**17.9**	**14.5**	**9.7**	**156.7**	**27.8**	**77.4**	**261.8**	**12.7**	**51.5**
Capital	11.9	2.3	7.8	90.6	9.7	67.3			
Change	6.0	12.3	1.9	66.1	18.1	10.1			
Total	**17.9**	**14.5**	**9.7**	**156.7**	**27.8**	**77.4**			

Transformation Spend

- Transformation spend continues to track significantly below budget and forecast in the month.
- An update on the Top 15 Projects is provided on the next slide.



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Top 15 Projects Summary

#	Project Name	Area	Month Act	YTD Act	Full Year Fcst	Full Year Var Bud	RAG	Project Update	17/18 Ben £'m
1	Network Transformation	Network Development Programme	1.6	24.6	39.1	2.6	G	NT variances are driven by timings of settlement agreements, these costs are under review with ramp down of the programme and the cross over to ND. It is likely that FY spend could be as little as £35m in the year due to this.	
2	CT vacant leaseholds & CT onerous property contracts	DMB Network Development	0.3	15.3	15.3	(14.2)	G	Overpsend v budget is due to no budget being identified for onerous leases due to DMB closures announced earlier in the year. £10m released in the latest forecast as the next announcements (of 89 branches) forecast for P9 are now anticipated to take place from 1st April 18 (after Board sign off), thus incremental costs and benefits in 18/19.	2.9
3	EUC Branch Deployment	IT & Digital	0.5	9.1	27.8	2.5	A	Final hardware order now due to impact Mar-18, with implementation costs still in 18/19.	0.4
4	Network Development	Network Development Programme	1.5	10.7	10.7	18.4	A	FYF latest view broadly in line with previous forecast submitted:	
5	IT Networks	IT & Digital	3.6	18.3	24.8	(7.1)	A	Full network move must be completed by end of year to avoid extension penalties.	0.8
6	Risk and Resilience	IT & Digital	1.2	9.1	9.0	11.8	G		
7	Back Office Systems Transformation	Back Office Transformation	1.4	9.6	15.3	0.1	A		
8	Telco - Acquisition of New Call Customer Base	FS & T	0.0	7.8	10.1	0.2	G	Transfer of acquired customer base completed in August. Final cost estimate relates to design and implementation costs incurred by Fujitsu and its contactors, amounts being confirmed.	0.6
9	Crown Network Shape	DMB Network Development	0.8	5.2	12.2	(2.2)	A	+ £0.4m Holdover & dilaps removed from forecast as covered within the Onerous Contract Provision. + £0.9m phasing into next year on Settlement Agreement & Branch works.	1.4
10	Network Paddington Project	DMB Network Development	0.2	2.1	3.2	5.4	A	+ £2.6m Holdover & dilaps removed from forecast as covered within the Onerous Contract Provision. + (£0.2m) Slight increase in costs against WHS Smiths ATMs, P5 forecast assumed rollout 40 & P7 assumes rollout 50	3.6
11	IT for IT\IT Operating Model	IT & Digital	-	-	2.2	5.9	G		0.6
12	5YP initiative overlays_PO Money - Falcon	FS & T	-	-	5.0	3.0	G	The Falcon initiative is now known as Customer Hub. The £5m forecast is consistent with the numbers presented to the ESG at the end of October	
13	Project Everest	IT & Digital	0.1	0.6	6.3	(0.0)	G	Negotations now ramping up, required in year spend to be finalised in December.	
14	Payment Services_PCI project	IT & Digital	-	-	1.0	4.5	G	Delay of project to 18/19 whilst best commercial approach is agreed by business.	
15	POS Enhancements	Retail	0.1	3.0	5.3	(0.1)	A	EUM Project business case is currently being revised. Variances are driven by timings of IT supplier costs. Latest view forecast has been rephased to reflect this.	-

RAG Status based on latest forecast for cost and delivery expectations

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P9 balance sheet shows a net asset position of £205m

£m	Dec 2017	Mar 2017	Variance
Fixed Assets	436.5	391.0	45.5
Debtors	381.5	339.0	42.5
Cash	772.4	680.0	92.4
Creditors	(610.0)	(582.0)	(28.0)
Pension Surplus	1.6	1.0	0.6
Provisions	(62.7)	(88.0)	25.3
Other	8.4	8.0	0.4
Loan	(723.0)	(561.0)	(162.0)
Net Assets/(Liabilities)	**204.7**	**188.0**	**16.7**
Capital and Reserves	**204.7**	**188.0**	**16.7**

- Debtors increase on year end is due to seasonality of Christmas and increase in Card and ATM settlement debtors. Balances anticipated to reduce in the forthcoming months.
- Reduction in provisions balance due to OSOP and agents' compensation payments.
- Cash and loan balance movements higher than year end due to peak Christmas trading requirement (see next slide).

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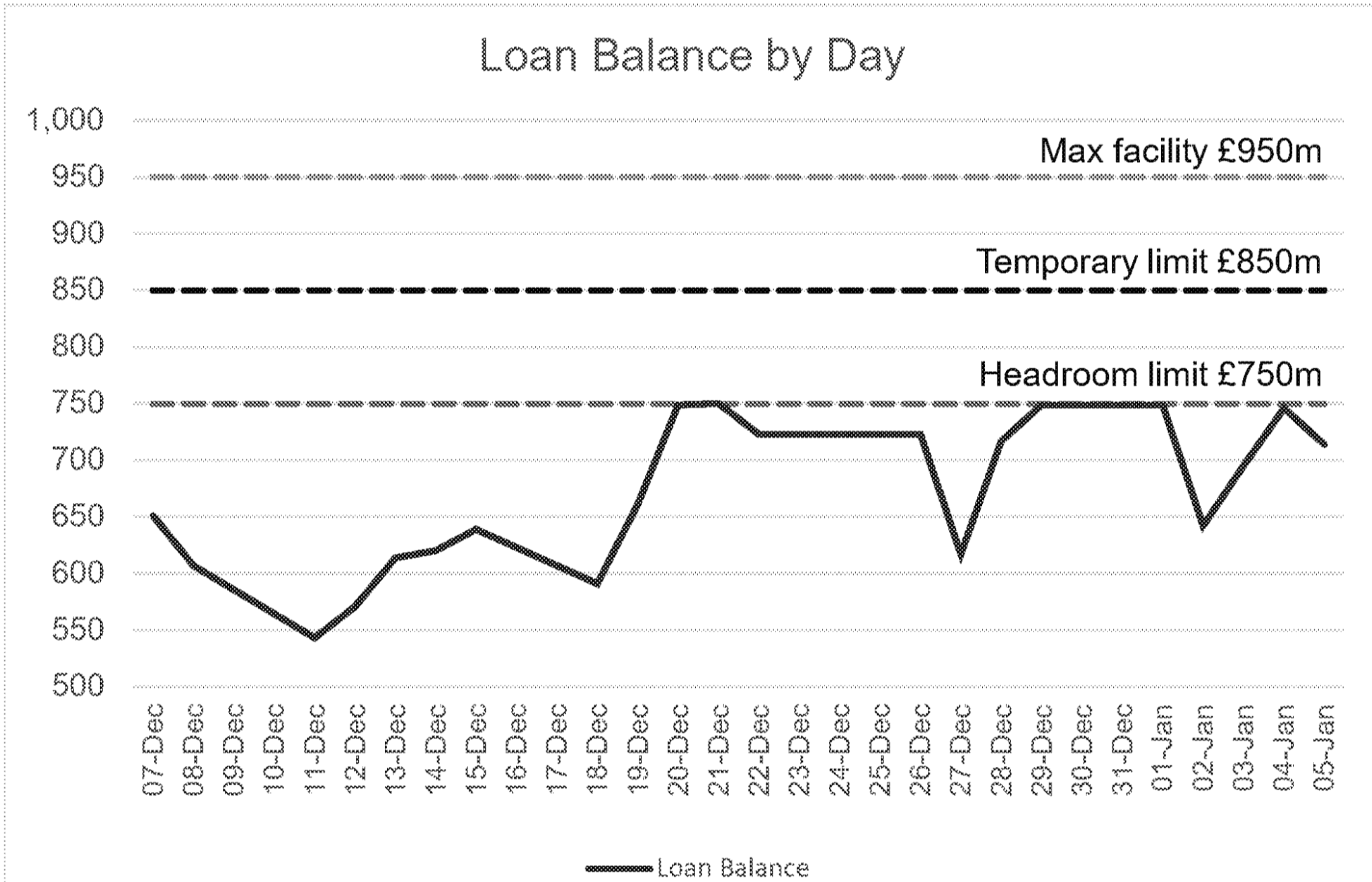
Loan balance didn't breach the £750m headroom limit in P9



- The POL Board agreed a temporary increase in the headroom limit from £750m to £850m to support the increased cash funding requirement over the Christmas holiday period (subject to the approval from the CFOO).
- During the period the maximum facility used was £750m meaning that the additional facility was not required to be utilised.

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Network cash lower than forecast due to cash processing focus and initiatives

(1) Where was our cash?

£m	Branches	CViT	Cash Centres	Total
P9 - Actuals	703.7	97.4	153.1	**954.2**
P12 - Actuals	647.0	138.0	158.0	**943.0**
Variance vs P12 - Actuals	*56.7*	*(40.6)*	*(4.9)*	***11.2***
P9 - P5F				**1,091.6**
Variance vs P9 - P5F				***(137.4)***
P8 - Actuals	624.3	100.1	141.5	**865.9**
Variance vs P8	*79.4*	*(2.7)*	*11.6*	***88.3***

(2) How was it funded?

£m	RCF	Clients	"Network Cash"	NRF	Total
P9 - Actuals	723.0	(2.7)	**720.3**	233.9	**954.2**
P12 - Actuals	561.0	127.0	**688.0**	255.0	**943.0**
Variance vs P12 - Actuals	*162.0*	*(129.7)*	***32.3***	*(21.1)*	***11.2***
P9 - P5F	759.1	(2.5)	**756.6**	335.0	**1,091.6**
Variance vs P9 - P5F	*(36.1)*	*(0.2)*	***(36.3)***	*(101.1)*	***(137.4)***
P8 - Actuals	594.0	100.9	**694.9**	171.0	**865.9**
Variance vs P8	*129.0*	*(103.6)*	***25.4***	*62.9*	***88.3***

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

£m	Cap	Board Buffer	Net Limit	RCF	Facility Headroom
P9 - Actuals	950.0	(200.0)	750.0	(723.0)	**27.0**
P12 - Actuals	950.0	(200.0)	750.0	(561.0)	**189.0**
P9 - P5F	950.0	(200.0)	750.0	(759.1)	**(9.1)**
P8 - Actuals	950.0	(200.0)	750.0	(594.0)	**156.0**

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

£m	Network Cash	Other Net Assets	Total Security	RCF	Security Headroom
P9 - Actuals	720.3	279.7	1,000.0	(723.0)	**277.0**
P12 - Actuals	688.0	210.0	898.0	(561.0)	**337.0**
P9 - P5F	756.6	249.9	1,006.5	(759.1)	**247.4**
P8 - Actuals	694.9	193.1	888.0	(594.0)	**294.0**

(5) What was our actual headroom?

Given we do not apply £200m buffer to Security headroom our actual headroom is £27m.
(lower of £27m facility and £277m security headroom)

Performance against Prior Month (£88m higher than P8)

- Network cash is £88m higher than P8 mainly due to increases in Branches £79m, as a result of the holiday period. An increase in the branch values was anticipated and additional collections have been planned in January to reduce this balance back to normal trading levels.
- Cash Centres were £12m higher than P8 as we maintain emergency inventory for post holiday activity. Additional resources have been approved in January to efficiently process the increased cash that will be recovered from branches.

Performance against Forecast (£137m lower than forecast)

- The lower cash is split £60m in cash centres and £61m in branches following the trends we have seen in recent months.
- The lower cash centre balance reflects the lower inward rems which had conservatively been assumed to remain at P6 levels. Rems were £60m lower than forecast (£14m outward rems and £36m inward rems) as we continue to manage the cash holding position.
- Headroom under the loan was £27m, £36m higher than forecast. This was due to lower than forecast network cash (£137m) offset by lower than forecast usage of the NRF (£101m).

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Appendices

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EBITDAS by Area and Variance to P5F

	Actual												Var P5F											
	Retail	FST	POMS	Finance & Ops	CEO	CIO	Strategy	LRG	HR	Comms	Central	Total	Retail	FST	POMS	Finance & Ops	CEO	CIO	Strategy	LRG	HR	Comms	Central	Total
Gross Income	**56.9**	**28.6**	**2.7**	**0.8**	**-**	**-**	**-**	**-**	**-**	**-**	**0.3**	**89.3**	**1.9**	**1.1**	**(0.5)**	**(0.1)**	**-**	**-**	**-**	**-**	**-**	**-**	**(0.0)**	**2.4**
Direct Costs	2.6	6.7	0.5	-							0.1	9.9	(0.5)	(0.0)	(0.1)	-	-	-	-	-	-	-	(0.1)	(0.6)
Net Income	**54.2**	**21.9**	**2.2**	**0.8**	**-**	**-**	**-**	**-**	**-**	**-**	**0.2**	**79.4**	**1.4**	**1.1**	**(0.5)**	**(0.1)**	**-**	**-**	**-**	**-**	**-**	**-**	**(0.1)**	**1.7**
Agents Pay	38.0	-	-	-	-	-	-	-	-	-	-	38.0	(0.8)	-	-	-	-	-	-	-	-	-	-	(0.8)
Staff Costs	6.6	1.0	0.3	4.9	0.0	0.2	0.1	0.5	1.5	0.2	(0.3)	15.0	0.1	(0.1)	0.1	(0.3)	0.0	0.3	(0.1)	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)
Non-Staff Costs	3.9	4.5	0.9	5.7	0.0	6.6	0.0	0.3	0.4	(0.1)	0.3	22.5	0.2	(0.8)	0.2	0.5	(0.0)	0.4	0.0	0.1	0.0	0.4	(0.2)	0.8
Expenditure	**48.4**	**5.5**	**1.2**	**10.6**	**0.0**	**6.8**	**0.1**	**0.9**	**1.9**	**0.1**	**(0.0)**	**75.4**	**(0.5)**	**(0.9)**	**0.3**	**0.2**	**(0.0)**	**0.7**	**(0.1)**	**0.1**	**(0.0)**	**0.4**	**(0.2)**	**(0.1)**
FRES	-	2.9	-	-	-	-	-	-	-	-	-	2.9	-	-	-	-	-	-	-	-	-	-	-	-
EBITDAS	**5.8**	**19.3**	**1.0**	**(9.7)**	**(0.0)**	**(6.8)**	**(0.1)**	**(0.9)**	**(1.9)**	**(0.1)**	**0.2**	**6.8**	**0.9**	**0.2**	**(0.2)**	**0.0**	**(0.0)**	**0.7**	**(0.1)**	**0.1**	**(0.0)**	**0.4**	**(0.3)**	**1.7**

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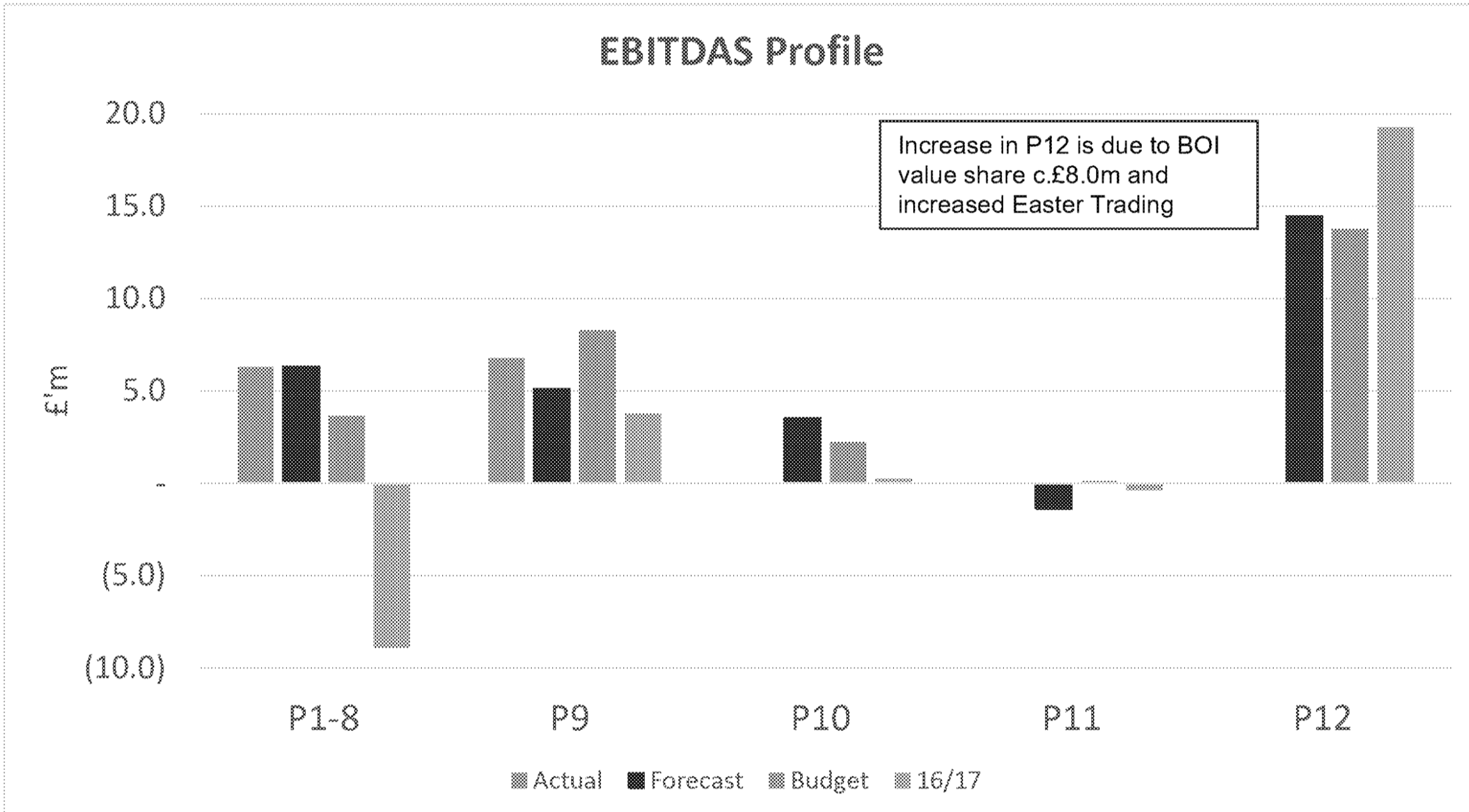
EBITDAS profile for remainder of the year



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YTD Gross Profit margin is on budget

	P9				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*	**56.9**	**31.3**	**1.1**	**89.3**	**1.7**	**(0.9)**	**(0.1)**	**0.6**	**404.6**	**298.1**	**10.8**	**713.5**	**18.8**	**(7.0)**	**(0.2)**	**11.6**
Directly Attributable*	(2.6)	(7.2)	(0.1)	(9.9)	0.0	0.0	(0.1)	(0.0)	(22.4)	(68.0)	(0.2)	(90.6)	0.4	3.4	(0.2)	3.8
Agents Pay - Variable*	(29.3)	(4.9)	0.0	(34.1)	(2.1)	(0.3)	0.0	(2.4)	(196.6)	(49.8)	0.2	(246.2)	(9.2)	(0.4)	0.2	(9.4)
Agents Pay - Fixed	(3.0)	(0.8)	(0.0)	(3.8)	0.2	0.1	0.0	0.3	(29.5)	(7.5)	(0.2)	(37.2)	0.6	0.2	0.0	0.8
Supply Chain	(2.3)	(1.2)	-	(3.4)	(0.2)	(0.1)	-	(0.3)	(19.2)	(10.0)	-	(29.2)	(0.8)	(0.4)	-	(1.2)
DMB Costs	(4.5)	(1.3)	-	(5.9)	(0.2)	(0.1)	-	(0.3)	(43.0)	(12.5)	-	(55.5)	(2.8)	(0.8)	-	(3.7)
Gross Profit	**15.1**	**16.0**	**1.0**	**32.1**	**(0.6)**	**(1.3)**	**(0.2)**	**(2.1)**	**93.9**	**150.3**	**10.5**	**254.7**	**6.9**	**(5.0)**	**(0.2)**	**1.9**
Gross Margin %	**27%**	**51%**		**36%**	**(2%)**	**(3%)**		**(3%)**	**23%**	**50%**		**36%**	**1%**	**(0%)**		**(0%)**

*- Allocation by product included on next slide

- **Gross profit margin** is on budget YTD at 36%. In P9;
  - Retail gross margin is adverse to budget as revenue growth is in products which generate additional agents pay costs and the non delivery of agents savings due to simplification.
  - FS&T margin below budget due to strong performance in Telecoms (but incremental COS)
- **Supply Chain** costs continue to track slightly adverse to budget.
- **Other income** relates to Supply Chain and Gamma.

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YTD Gross Profit margin is on budget

	YTD														
	Actual					Budget					Var				
£m	Rev	COS	Agents	Net Rev	%	Rev	COS	Agents	Net Rev	%	Rev	COS	Agents	Net Rev	%
Total Mail Trading	210.8	-	136.4	74.4	35.3%	204.6	-	131.8	72.7	35.6%	6.2	-	(4.6)	1.6	(0.3%)
Total Mail Non-Trading	44.8	-	-	44.8	100.0%	45.1	-	-	45.1	100.0%	(0.2)	-	-	(0.2)	-
Retail and Lottery	34.5	3.3	19.6	11.6	33.5%	30.7	2.6	17.2	10.9	35.6%	3.8	(0.7)	(2.4)	0.6	(2.1%)
Payment Services	43.2	-	18.8	24.4	56.5%	44.2	-	19.5	24.7	55.9%	(1.0)	-	0.7	(0.3)	0.6%
Government Services	71.2	19.1	21.8	30.3	42.6%	61.2	20.2	18.8	22.2	36.2%	10.0	1.1	(3.0)	8.1	6.3%
Total Retail	**404.6**	**22.4**	**196.6**	**185.6**	**45.9%**	**385.8**	**22.8**	**187.3**	**175.7**	**45.5%**	**18.8**	**0.4**	**(9.3)**	**9.9**	**0.3%**
Post Office Money (excl. Travel)	33.8	-	11.3	22.4	66.4%	35.6	-	10.4	25.2	70.8%	(1.9)	-	(0.9)	(2.8)	(4.4%)
Travel Money	20.4	-	7.2	13.1	64.5%	19.4	-	6.7	12.7	65.4%	1.0	-	(0.5)	0.5	(0.9%)
MoneyGram	20.1	-	7.1	12.9	64.5%	24.0	-	8.3	15.7	65.4%	(3.9)	-	1.2	(2.7)	(0.9%)
Banking Services	65.2	0.9	19.2	45.2	69.2%	62.3	0.8	19.0	42.5	68.2%	2.9	(0.0)	(0.2)	2.7	1.1%
Telecoms	112.4	60.6	0.8	51.0	45.4%	111.4	65.6	1.0	44.7	40.2%	1.0	5.1	0.2	6.2	5.2%
Postal Orders	11.3	0.0	2.3	8.9	79.2%	12.4	-	2.2	10.2	82.2%	(1.1)	(0.0)	(0.1)	(1.3)	(3.0%)
Other Income	0.0	-	-	0.0	100.0%	1.6	-	-	1.6	100.0%	(1.6)	-	-	(1.6)	-
FS&T	**263.1**	**61.5**	**48.0**	**153.6**	**58.4%**	**266.7**	**66.5**	**47.6**	**152.7**	**57.2%**	**(3.6)**	**5.0**	**(0.4)**	**0.9**	**1.1%**
POMS	35.0	6.5	1.7	26.9	76.7%	38.4	4.9	1.6	31.9	83.0%	(3.4)	(1.5)	(0.1)	(5.0)	(6.3%)
Total FS&T	**298.1**	**68.0**	**49.7**	**180.5**	**60.5%**	**305.2**	**71.4**	**49.2**	**184.6**	**60.5%**	**(7.0)**	**3.4**	**(0.5)**	**(4.1)**	**0.1%**
Supply Chain	8.0	-	-	8.0	100.0%	8.3	-	-	8.3	100.0%	(0.2)	-	-	(0.2)	-
Other	2.7	0.2	37.2	(34.6)	(1,271%)	2.7	0.2	38.1	(35.6)	(1,331.0%)	0.1	(0.0)	0.9	0.9	60.1%
Total	**713.5**	**90.6**	**283.5**	**339.4**	**47.6%**	**701.9**	**94.4**	**274.6**	**332.9**	**47.4%**	**11.6**	**3.8**	**(8.8)**	**6.5**	**0.1%**

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Budget Update

Author: Iain Pickering / Micheal Passmore Sponsor: Alisdair Cameron Meeting date: 16 January 2018

Executive Summary

Context

The GE reviewed initial budget submission in December. Initial budget papers will be reviewed by the Board in January before being finalised in March.

The purpose of this paper is to:

- Update the GE on the progress of the budget following the December review
- Confirm the shape of the P&L and the EBITDAS target for 2018-19
- Answer questions and confirm assumptions
- Recommend an approach to STIP
- Agree next steps and actions

Questions this paper addresses

- What is the recommended 2018 / 19 EBITDAS target?
- What are the main assumptions and unanswered questions?
- How deliverable is the recommended plan?
- What is the 2018/19 change plan?
- What should our STIP focus be?
- What are the next steps to finalising the budget?

Conclusions

We are recommending a 2018/19 EBITDAS target of £47m, including a £3.5m benefit from the 53rd week. This shows underlying trading growth of more than £10m and reconciles to the Strategic Plan position.

The key assumptions are listed in the report, including a 2.6% pay award (not all visible), a £14m increase in marketing and growth spend, no assumed interest rate change and no Bank of Ireland profit support.

This plan looks deliverable with a budget gap of c.£12m from the December submissions. However, FD availability meant that F&O and other functions are a step behind. This is not a significant gap compared to previous years and we expect to be able to close it during the upcoming budget reviews.

The change plan requests are set out in the Appendices. We have an additional ECG on 15th to start reducing the submissions and prioritising.

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We are recommending a gateway criteria for STIP to remain above 11,500 branches. The "earning" criteria proposed for discussion are EBITDAS at 50%, removing POLSAP, HRSAP and HNGX from the business without significant trading detriment (30%) and having the Customer Hub operational, serving customers in two pillars of Insurance and Identity (20%).

The next steps are to submit a version of this paper and the underlying slides (attached in draft with work to be done) to the Board and a STIP paper to RemCo. We will also provide a reconciliation back to the 3YP to UKGI.

Detailed budget reviews are in diaries and we will seek to substantively agree the final position at the February GE, finalising the last details in March. UKGI will be conducting its review in February. The Board in March will approve the final budget, approve RemCo's recommendations on STIP and agree the first funding request to BEIS.

Input sought

The GE is asked to agree the target for 2018/19 and the STIP proposals, providing challenge and questions.

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The Report

What 2018 / 19 EBITDAS target should we recommend?

1. In the 3 Year Plan the Board agreed a Strategic Plan target for 2018/19 of £40m EBITDAS. This was £5m less than the original 3YP submission, reflecting the increased costs being crystallised as new roles in BAU following the conclusion of material change projects such as Network Transformation.
2. Currently we believe that this shift to BAU will be less than £5m in 2018-19 and we are more likely to be looking at £2-3. Taking £3m as the more prudent likely answer, our target would increase by £2m to £42m.
3. The Board has asked us to explore accounting and target options to exclude the costs of Sparrow from trading EBITDAS. Given that current estimates of the cost of litigation and project support in 2018/19 have risen to £9m, we have agreement in principle with our auditors to treat this as an exceptional item. We are exploring whether it would be sensible to trigger this treatment by providing for the estimated future liabilities this year. £5m was assumed for Sparrow costs in the October Board paper. This would therefore increase the target to £47m excluding Sparrow.

4. In tabular form this looks as follows:

EBITDAS 2018-19 (£m)	October	Current	Variance
Underlying trading	60	60	-
Sparrow costs	(5)	-	5
New BAU costs	(5)	(3)	2
Growth Fund	(10)	(10)	-
Target	**40**	**47**	**7**

5. In December, there was concern to ensure that year on year EBITDAS growth should be at least £10m excluding the benefit of the 53rd week's trading, which is estimated at £3.5m (Appendix 1).

6. The 2017-18 budget has been increased from £28m to £30m to also exclude the costs of Sparrow. The latest view of 2017-18 outturn is £35m, with £4m of growth fund not expected to be spent and £3m of Sparrow costs excluded.

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EBITDAS, £m	2017-18 Budget	2017-18 Latest Forecast	2018-19 Proposal	Variance to 2017-18 Budget	Variance to 2017-18 Forecast
Trading	39	40	53.5	14.5	13.5
Growth Fund	(9)	(5)	(10)	(1)	(5)
	30	**35**	**43.5**	**13.5**	**8.5**
53rd week	-	-	3.5	3.5	3.5
EBITDAS	**30**	**35**	**47**	**17**	**12**

7. On this basis the underlying trading demonstrates growth of £13.5m year on year against our current forecast on a like for like basis.

8. Looking forward, £12m EBITDAS growth next year compares to £19m in 2019/20 and £24m in 2020/21. It was always in the plan to have more modest growth in 2017/18 as we deliver substantial enabling change such as getting off POLSAP, delivering EUM, completing the branch rollouts and developing more of the commercial strategies. The need to re-accelerate profit growth after next year underpins the Future Shape paper circulated to GE. This will be summarised in the January Board paper on the budget to reassure the Board that we are not "aiming off".

EBITDAS, £m	2018/19	2019/20	2020/21
Submitted Plan	40	60	85
Sparrow	5	5	5
New BAU spend (vs £5m per annum)	2	1	-
Target EBITDAS	**47**	**66**	**90**

9. We are therefore recommending that a £47m EBITDAS target to the Board, excluding Sparrow and including the benefits of the 53rd week.

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What are the assumptions and unanswered questions?

10. The following is a list of key assumptions and questions that have been included in budget submissions to date. This list will be maintained and updated through to March budget conclusion.

Question	**Assumptions in current plan**	**Outstanding**
1. What costs are being moved from Investment to BAU?	£3m in 2018-19	This will be finalised and validated during January and February.
2. What is the accounting treatment for Sparrow?	Excluded either through accounting treatment or target adjustment.	Finalise treatment as an Exceptional item. Should this be provided for in full in 17/18?
3. Is the targeted year on year profit growth in 18/19 sufficient given the challenges in outer years?	The trading increase excluding the growth fund increase and the 53rd week is £13.5m. We are recommending this is sufficient.	Subject to GE and Board confirmation
4. What will happen to interest rates?	Interest rates will remain unchanged for next year.	
5. Will we do the new deal on POCA and execute the swap?	Current plan assumes that we do the new deal with POCA and that the hedging strategy is put in place.	Hedge agreed by the Audit and Risk Committee.
6. What pay award are we assuming?	We agreed that we would budget for 2% in business units and 0.6% in a central reserve. An increase to 3% would cost c. £0.6m versus the planned cost of £4.3m below: | | £'m | | Closing 17/18 Cost (annualised) | 181.2 | | **2.6% inflation** | **4.7** | | Less: Unite (from 1 Jun) | (0.4) | | **Controllable** | **4.3** |	
7. What are FTE assumptions?	Reviews have been focussed on EBITDAS position to date. Detailed reviews in January/February will review headcount assumptions.	Compete FTE reviews, with all template increases approved by MK/AC.

8. Will we get any savings support or profit support from BoI?	Current plan assumes that there will be no savings or profit support from BOI which has reduced EBITDAS by £12.2m YOY.	
9. Should we push FRES to be more profitable in 2018-19? Do we make a net profit next year on FX?	FRES is currently budgeted to deliver £34.1m next year v £35.0m in 17/18. Impact of Money Laundering regulations are impacting transactions >£1,000 thus reducing the return from FRES in 2018/19.	Paula and Al will review the overall contribution of FX and the FRES contribution in a planned budget review encompassing Owen Woodley's strategic assessment.
10. In total, how much marketing do we want to budget for, including the fixed and variable costs?	Brand and Marketing is currently budgeted in the businesses at £27.3m, an increase of £9.2m (Appendix 2) with an additional £10m growth fund, £5m higher than 2017-18 expectations.	A review of Marketing has been diarised for Paula and Al to work through the plans for 2018-19. We can then assess whether £37m is the right budget assumption.
11. What is the proposed impact of simplification on agents' pay and what are the options. Can we do more to reduce fixed fees, budgeted at £47m?	Simplification budgeted to reduce variable agents pay by incremental £5.6m in 18/19 (£12m annualised). Fixed agents pay budgeted to reduce by £2.6m from NT/Churn with £0.4m to increase Outreach payments from Sept. (114 mains to locals, 123 community to local + 300 new offset in churn).	Assess as part of the Retail budget review. No more value from future Simplification changes is the right forecast position.
12. What is the plan to impact and reduce cost of sales?	No changes assumed	Subject to budget reviews. This area will certainly be part of Future Shape.
13. How do we optimise use of the apprenticeship levy and how do we structure to deliver any change?	Budget currently assumes that the Apprenticeship Levy will be c.£1.0m with 50% recovered.	We need a plan to deliver the £0.5m. The question of p/l accountability for training has been flagged.

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14. Are we delivering the capability shifts we will need for the future and can we self-fund – re-training, fewer better people etc?	The plan currently includes funding of £5.4m to fund know gaps in the organisation. See Appendix 3 for a breakdown of costs.	Are there any other areas that need to be addressed in Wave 1 that we haven't picked up? Can the business afford these and if so what controls should be put in place?
15. What is the net contribution (after SC costs) of additional banking framework activity and is it enough to justify the additional focus?	£1.1m increase in 2018/19 increased by £0.7m in the December submission.	Subject to detailed budget reviews and alignment with Supply Chain.
16. How are we funding a shift change in MI and data management and is that in this budget?	Current budget includes a permanent head of MI £0.2m.	Review the Project Arrow assumptions to see if this is all change funded.
17. What is the total change spend in opex?	Budget currently includes £5.3m of change spend. See Appendix 4	Subject to budget reviews
18. What is the plan for DMBs?	Plan A. Budgeted to exit 25 within 18/19 and 72 in 19/20. The January review is unlikely to significantly change the outcome in 2018/19.	January GE review of plans
19. Is it correct to remove the MS from the business	Plan assumes that Mortgage Specialists have been removed from the business with the exception of £1.0m of cost remaining for MS still needed to screen leads.	Announcement expected January

How deliverable is the recommended plan?

11. Budget submissions in December totalled £35.4m of trading EBITDAS, excluding Sparrow. This was in itself a significant improvement on the initial submission.

12. This left a gap to target of £12m, £3m higher than we estimated in December. However, this is not a significant gap in historical terms and we expect to identify it during the budget reviews, with an intention to largely finalise the position at the February GE. However, changes and headwinds do emerge and we will remain flexible on the final target allocations until March GE. We do want budgets finalised and loaded onto the system before the year-end.

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13. It is important to note that the functions working with Stuart Nesbit are a challenge round behind the trading businesses. A substantial part of the December shortfall will be made up from those functions including F&O.

14. Revised submissions have now been received in these areas (subject to detailed reviews) as well as an update to Agents Pay and a move of £2.0m of costs in Retail for Identity Services programme costs from BAU costs to the wider programme. The current gap is currently therefore assumed at £3.3m (but is still subject to validation and scrutiny).

EBITDAS	**2018 / 19 Jan**	**2018 / 19 Dec**	**Var**
Retail	385.4	383.4	2.0
FST	252.9	252.9	-
Agents Pay	(365.6)	(368.3)	2.7
POMS	20.3	20.3	-
Finance & Ops	(113.5)	(115.5)	2.0
CEO	(0.4)	(0.4)	-
CIO	(88.2)	(88.2)	-
Strategy	(0.8)	(0.8)	-
LRG	(9.3)	(9.9)	0.6
HR	(25.0)	(26.0)	1.0
Comms	(5.3)	(5.3)	-
Central	(6.8)	(6.8)	-
Total (excl Sparrow)	**43.7**	**35.4**	**8.3**
Var to Target	**(3.3)**	**(11.6)**	

15. The next round of submission reviews need to focus on operating costs and a reasonable assumption is that we will seek to hold our operating cost base flat. The current P&L shape is below (£3.3m short of target).

	2018/19 Bud	2017/18 P5F	Var
Gross Income	971.2	949.2	22.0
Direct Costs	(121.3)	(121.2)	(0.0)
Net Income	850.0	828.0	22.0
Agents Pay	(365.6)	(368.4)	2.8
Staff Costs	(186.5)	(182.6)	(3.9)
Non-Staff Costs (excl. Market	(250.9)	(254.5)	3.6
Brand & Marketing	(27.3)	(18.2)	(9.2)
Efficiency Fund	(10.0)	(5.0)	(5.0)
Expenditure	(840.3)	(828.7)	(11.7)
FRES - Share Of Profits	34.1	35.0	(0.9)
EBITDAS (excl. Sparrow)	43.7	34.4	9.3

Note: 2017/18 forecast £28.0m adjusted to remove Project Sparrow costs £2.4m and assumed £4.0m release of Growth Fund.

What is the 2018/19 Change Plan?

16. Part of the iterative process of finalising the budget is also to finalise the change plan and to ensure that the assumptions on project delivery align with the profit and loss account outcomes. The way we get change spend from the Government changes next year. Each quarter we have to submit a change report via the Board which gives a view of overall portfolio progress, summarises delivery of change and benefits for Board approved investments and sets out expected spend in the following quarter leading to a drawdown request.

17. The current list of change requests for next year is set out in Appendix 5. It totals £315m including £28m of largely unplanned operating costs. This compares to £238m assumed in the 3YP.

18. At the ECG on Monday 15th we will have a first collective review of the requests and seek to narrow it to a workable list aligned with our p/l before the submission of Board papers.

What should our STIP focus be?

19. The GE wants a new, balanced scorecard which we finalise together in March. However, the Board does not welcome complex, multi-measure targets.

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20. Recently we have targeted EBITDAS and Cash Headroom but these measures are captured in the LTIP submissions for the next three years and one of our design principles is that there should be different targets between the schemes.

21. We need to have a first discussion in principle with the RemCo and the Board, finalising the targets in March.

22. Our recommendation is that network numbers remaining above 11,500 should be the gateway criteria, supported by three "earning" measures:

- EBITDAS at 50%
- Removing POLSAP, HRSAP and HNGX from the business without significant trading detriment (30%)
- Having the Customer Hub operational, serving customers in two pillars of Insurance and Identity (20%)

23. No one agrees on these things and this will attract debate. Views needed.

What are the next steps?

24. We will be submitting a paper and slide deck to the Board in January. The draft slide deck is attached and it needs work. The paper will follow the logic of this and the previous GE paper but will be substantially re-written to focus on the Board's concerns. These will include a view of the change plan after Monday's ECG.

25. In addition, we will submit to UKGI a high level reconciliation of this plan for next year compared with the October approved plan.

26. A short paper will be sent to the RemCo and summarised in the Board paper, recommending STIP targets in principle.

27. Detailed budget reviews are largely in diaries and we will be finalising this over the next couple of days. At the February GE we will seek to recommend and agree the allocation of targets. We will likely seek additional GE time to ensure that everyone is comfortable with the process and outcomes. UKGI will be conducting its own reviews in February and we will seek their agreement, including an agreement on funding drawdown by the end of February.

28. At the March GE, we will finalise the plans allowing budgets to be loaded onto the systems before year-end. The March Board will then approve the formal budget, STIP targets as recommended by RemCo and the first, quarterly funding request.

Appendices

Appendix 1: Impact of Week 53 on Trading Performance

Area	Revenue £'m	Costs £'m	EBITDAS £'m
Retail	7.6	(1.5)	6.1
FS&T	5.5	(1.4)	4.1
Agents Pay	-	(5.5)	(5.5)
Finance & Ops	-	(1.2)	(1.2)
Total	**13.1**	**(9.6)**	**3.5**

Appendix 2: Brand and Marketing Spend by Area

	2018/19 Sub 2	Var Sub 1	Var 17/18
Retail	4.1	-	(0.1)
FS&T	11.0	4.4	(4.3)
POMS	7.5	-	(4.2)
Finance & Ops	0.3	-	(0.2)
CEO	0.0	-	0.0
CIO	0.0	-	0.1
Strategy	0.0	-	0.0
LRG	0.1	-	(0.0)
HR	0.2	-	(0.0)
Communications	3.6	0.5	(0.4)
Central	0.5	-	0.0
Total Marketing Spend	**27.3**	**4.9**	**(9.2)**

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Appendix 3: Skills Gaps being Funded in the Current Plan

Area	Description	£'m
Retail	Marketing (6 new roles – 2 perm, 4 temp) includes temporary resource to review POS and branch communications and additional roles to formalise marketing support. Government (6 new roles) additional resources to manage existing, develop future propositions and increase team capability Bill Payments (2 new roles) – Increase team capability. Assumes Panther is delivered. Other – Non Cash payments (1 role), ATMs (1 role in product, 3 in ops) Identity – 4 new roles to support new incremental revenue	0.3 0.2 0.2 0.2 0.5
FST	Digital Capability Marketing Capability PO Money Capability	0.4 0.3 0.4
POMS	To support growth strategy: - Marketing Support - Pricing, Products	 0.7 1.2
IT	Security & Architecture, BP, Performance Portfolio	1.0
F&O	Head of MI	0.2
F&O	Network Ops – Post OSOP Review	0.8
Legal	Additional resources to support business requirements: Company Secretariat (1 head) Legal (1 head) IT / Commercial (previously to be funded by Everest) Legal (2 heads) – paralegal to support business growth internally rather than externally Internal Audit (1 head) – reduce external audit costs Risk (1 head) – Infosecurity (3 heads) – 2 x Data protection and 1 x compliance.	0.9
		7.3

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Appendix 4: Change Spend Currently Included in Opex

Area	Description	£'m
FS&T	Customer Hub (Opex element only)	3.2
POMS	Investment Proposal (to be discussed separately)	n/a
		3.2

Appendix 5: Project List (Change Plan) 2018/19

Business Area	FT or New	Project	Opex	Capex	Exceptional	Total Investment
Retail - Network	FT	Network Transformation		918	12,186	**13,104**
Retail - Network	FT	Network Development		2,730	15,979	**18,708**
Retail - Network	FT	Simplification (originally under ND)			13,626	**13,626**
Retail - Network	FT	HNGT Lite			300	**300**
Retail - Network	FT	Branch Opening Hours			887	**887**
Retail - DMB	FT	Crown Network Shape		1,217	8,014	**9,231**
Retail - DMB	FT	Network Paddington Project			599	**599**
Retail - DMB	FT	CT vacant leaseholds & CT onerous property contracts			8,085	**8,085**
Retail - DMB	FT	DMB Strategy		2,476	11,472	**13,948**
Retail - DMB	FT	Sale Of Assets				**-**
Retail - Commercial	FT	POS Enhancements	165	2,322		**2,487**
Retail - Commercial	New	Digital Check & Send	173	1,653		**1,826**
Retail - Commercial	New	POCA Implementation	695			**695**
Retail - Commercial	FT	Cheque Imaging	236			**236**
Retail - Commercial	New	Payment Regulatory & Trend Changes	750	1,545		**2,295**
Retail - Commercial	New	POCA Future & Government Strategy	1,000			**1,000**
Retail - Commercial	FT	Project Panther			1,598	**1,598**
Retail - Commercial	New	Project ATM			300	**300**
Retail - Commercial	New	Identity Services	1,890	10,010		**11,900**
Retail - Commercial	FT	SSK Procurement			43	**43**
Retail - Commercial	FT	SSK Simplification		278	279	**557**
Retail - Commercial	FT	SSK Roll Out			4,000	**4,000**
Retail - Commercial	FT	Smart Metering / Real-time Bill Payment / Multi	80	900		**980**
Retail - Commercial	New	Mails - multi channel	200	5,000		**5,200**
Retail - Commercial	New	Mails - click & Collect	500	3,100		**3,600**
Retail - Commercial	New	Mails - small business club	400	1,800		**2,200**
Retail - Commercial	FT	Mails Strategy + Mails (Joint Neg) - Next Best Alternatives			4,900	**4,900**
Retail - Commercial	New	Mails - Ebay	600	4,000	25,000	**29,600**
Retail - Commercial	New	Mails - Peer to peer	300			**300**
Retail - Commercial	New	Mails - Market Place Collections	200			**200**
Retail - Commercial	New	Mails - Small Business Integrator	200			**200**
Retail - Commercial	New	Mails - Customer Identity	100			**100**

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Business Area	FT or New	Project	Opex	Capex	Exceptional	Total Investment
IT & Digital	FT	Risk and Resilience		8,421		**8,421**
IT & Digital	FT	R&R - IT for ITBuild SOC and Command Centre		4,000		**4,000**
IT & Digital	FT	Chameleon/HNGT Lite		8,500		**8,500**
IT & Digital	FT	IT for IT Operating Model		5,000		**5,000**
IT & Digital	FT	Branch Printer Replacement		3,576		**3,576**
IT & Digital	FT	EUC Branch Deployment		2,681		**2,681**
IT & Digital	FT	Back Office Systems Transformation		9,000		**9,000**
IT & Digital	FT	IT Networks	-	-	-	**-**
IT & Digital	FT	Project Everest		9,300	3,500	**12,800**
IT & Digital	FT	CDP reprocurement		1,400		**1,400**
IT & Digital	New	AEI Refresh		2,600		**2,600**
IT & Digital	New	IT Strategy capability		2,000		**2,000**
IT & Digital	New	Information Services Replacement		1,000		**1,000**
IT & Digital	New	IT for IT foundational architecture		1,350		**1,350**
IT & Digital	New	New Itron Card/Key Reader Boxes		1,400		**1,400**
IT & Digital	New	PCI/Payments Hub		2,500		**2,500**
IT & Digital	New	Paystation		2,500		**2,500**
IT & Digital	New	ePOS Capability in Branch Network		2,870		**2,870**
IT & Digital	New	Postmasters Portal		6,200		**6,200**
IT & Digital	New	Multi-tier Service levels		1,000		**1,000**
IT & Digital	New	Digitisation of Mails		1,000		**1,000**
IT & Digital	New	Finch (Field Agent Systems)		1,000		**1,000**
IT & Digital	New	Innovation Environment		500		**500**
IT & Digital	New	Data & Analytics Strategy incl. CVM tools		3,000		**3,000**
FS&T	FT	Falcon - Travel Hub	21	1,609		**1,630**
FS&T	New	Falcon - Additional Verticles	171	14,190		**14,361**
FS&T	FT	Eagle	2,072	1,929		**4,001**
FS&T	New	Telco - VCOP		600		**600**
FS&T	FT	Telco - Tech Refresh & Routers	1,886	1,740		**3,626**
FS&T	New	Telco - Price Change	900			**900**
FS&T	New	Telco - Proposition	700			**700**
FS&T	New	Banking Framework - Cash Management	828	424	5,341	**6,592**
FS&T	New	Brands & Salesforce Procurement		637		**637**
F&O	New	Swindon Strategy - BOT??	-	3,000	-	**3,000**
F&O	New	AP - Procurement - BOT?? P2P	-	3,000	-	**3,000**
F&O	FT	Cash Management	342	1,188	584	**2,114**
F&O	New	Project arrow	-	1,000	-	**1,000**
F&O	FT	Ops Transformation	205	2,490	434	**3,129**
F&O	New	Supply Chain	-	3,700	-	**3,700**
F&O	FT	Network Ops	-	500	-	**500**
F&O	FT	Property	986	6,209	-	**7,196**
F&O	FT	Finance	-	500	-	**500**
LRG	FT	GDPR		2,000		**2,000**
LRG	FT	Group Littigation	5,000			**5,000**
LRG	FT	JLM		51		**51**
HR	FT	Success Factors - Phase 1		321		**321**
HR	FT	SF/EUM Common Services		603		**603**
HR	New	Success Factors - Phase 2		2,594		**2,594**
HR	New	Vetting - fit and proper	1,100	788		**1,888**
HR	New	Senior Management - POMS		402		**402**
HR	FT	Project Jay	1,009			**1,009**
Central	FT	Transformation team			2,000	**2,000**
Central	New	Transformation budget (seed funding and new p	1,000	2,000	2,000	**5,000**
Total			**23,708**	**170,224**	**121,127**	**315,059**

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2018/19 Budget

This is a FIRST and INCOMPLETE DRAFT of the budget Board deck which will be an Appendix to the main paper. This is directional only and is in the process of being completed.

Al Cameron

xx January 2018

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1 **Strategic context and priorities**

2 Overview of 2018/19

3 Income

4 Margin and Agents Pay

5 Costs

6 POMS

7 Risks and Opportunities

8 Capital and Investment Spend

9 Balance Sheet and Cashflow

A Annex A: Transformation Plan

Overview

Update on key 17/18 items

POST OFFICE

Another year of progress:

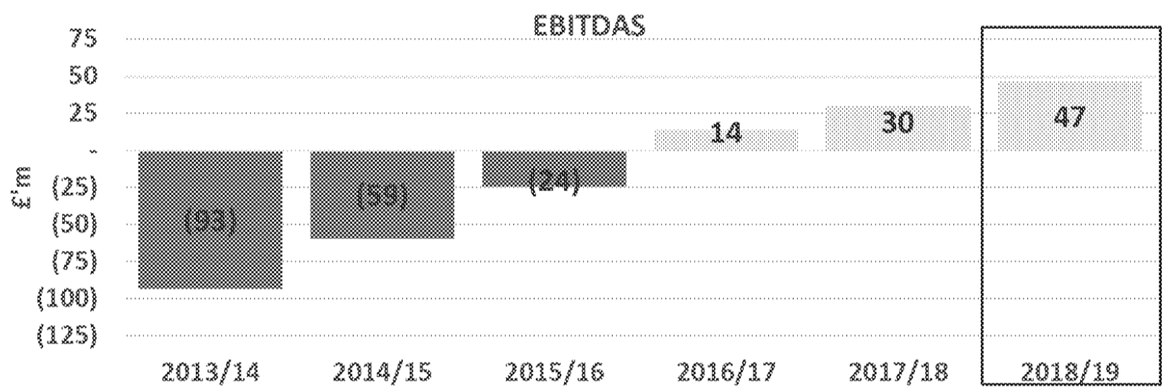
- We continue to modernise, a further x,xxx branches to be modernised taking the programme total to around x,xxx (xx% of our network). These branches are delivering longer opening hours, more efficient ways of working and more attractive environments for customers in their local communities.
- Lower cost, simpler business: total expenditure (excluding project opex) forecast to decrease from £942m in 2016/17 to £xxxm in 2017/18, a reduction of xx%.
- EBITDAS growth continuing and 2018/19 in line with latest funding targets as we continue to deliver the continued momentum towards commercial sustainability.

The transformation continues with major challenges still to deliver

- IT, Network Transformation, Supply Chain (to expand)

But trading conditions are challenging:

- We have maintained our target of £47m EBITDAS, in spite of challenging trading conditions in Retail, Telecoms and Financial Services
- 2018/19 will represent a year of stabilisation as deliver of the transformation projects and set ourselves up to successfully deliver the next round of significant cost reductions in 2019/20



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As identified in the 3 Year Plan the Post Office still faces major challenges that must be addressed to secure its long-term sustainability

POST OFFICE

Link strategy into 18/19 budget

		Comment
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.	• Retail revenue £(x.xm) Slide x • Costs +£xm. Reduction in 19/20 • Budget assumes continuing investment spend of £xxm (Slide x)
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.	• xx • xx
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.	• xx • xx
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.	• xx • xx
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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Five strategic priorities to address these challenges and complete the transformation

Link strategy into 18/19 budget

Strategic priority	Key initiatives 2018/19 – 2020/21	Investment 2018-2020 (£m)	Benefits & Outcomes	2018/19
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	**£190 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.	• Slide x • Slide x # of sites
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	• Slide x • Slide x #
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	• Slide x • Slide x
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.	• Slide x • Slide x
Trust our people to find the best way to do their jobs and help our customers	• Talent and career progression: provide an environment where our people have a chance to learn, grow and thrive, with the right succession planning and early career talent development. • Learning & Development: everyone who wants to learn and develop will be fully supported through a range programmes. • Reward and Recognition: attract and retain the talent we need.	**~£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	• Slide x • Slide x

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The 18/19 proposed budget delivers £47m EBITDAS in line with revised 3 Year Plan target

High level review of 18/19 shape

	2018/19 Bud	2017/18 P5F	Var P5F	% Var
Gross Income	**971.2**	**949.2**	**22.0**	**2.3%**
Direct Costs	(121.3)	(121.1)	(0.1)	0.1%
Net Income	**850.0**	**828.1**	**21.9**	**2.6%**
Agents Pay	(365.6)	(368.5)	2.9	(0.8%)
Staff Costs	(186.5)	(182.7)	(3.8)	2.1%
Non-Staff Costs	(284.9)	(281.4)	(3.6)	1.3%
Expenditure	**(837.0)**	**(832.6)**	**(4.5)**	**0.5%**
FRES - Share Of Profits	34.1	35.0	(0.9)	**(2.6%)**
EBITDAS (pre Sparrow)	**47.0**	**30.5**	**16.5**	**54.0%**
Sparrow	(7.0)	(2.5)	(4.5)	**180.0%**
EBITDAS	**40.0**	**28.0**	**12.0**	**42.8%**

Target Reconciliation

	2018 / 19
Per 3 YP	**40.0**
Project Costs into BAU*	2.0
Sparrow (per 5YP)	5.0
Target pre Sparrow	**47.0**

* 3 Year Plan approved by the Board included a £5m adjustment for project costs moving into BAU. Net adjustment in 2018/19 is £3m leading to the "target" being increased by £2m.

Gross Income (Slide x)

- Revenue growth despite continuing decline in Retail (£x.xm), pricing pressures on Telecoms following the Ofcom announcement to BT (£x.xm) and removal of the profit share agreement with Bank of Ireland (BOI) £(x.x)m.
- Growth driven by xx, xxx

Direct Costs (Slide x)

- xx

Agents Pay (Slide x)

- xx

Staff Costs (Slide x)

- xx

Non Staff Costs (Slide x)

- xx

FRES (Slide x)

- xx

Sparrow

- xx

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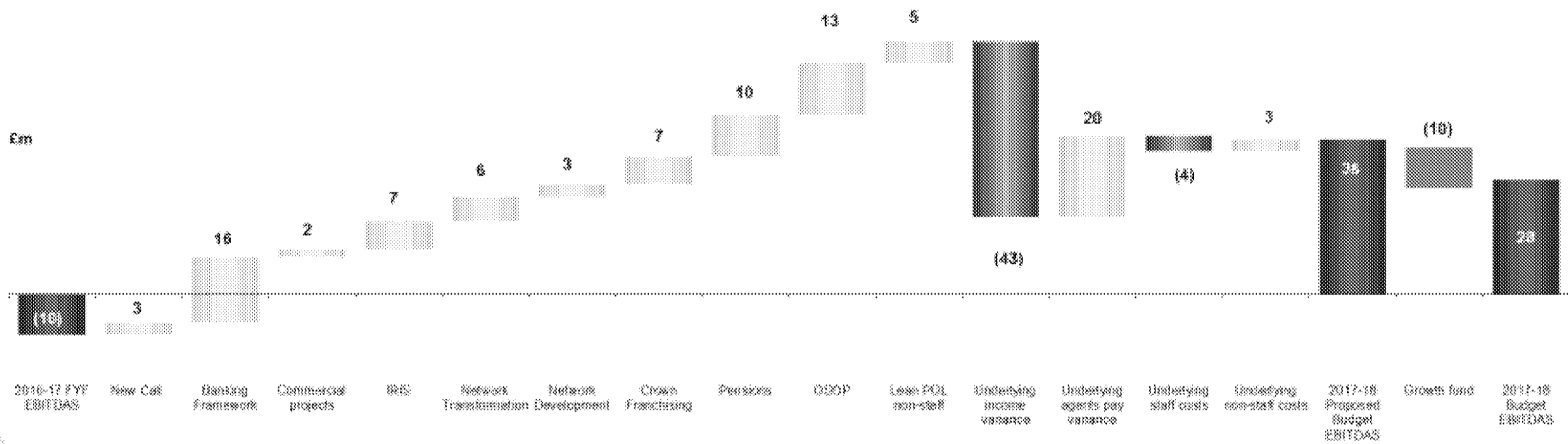
EBITDAS year on year £xxm improvement achieved against continuing trading challenges.

To be updated for 2018/19 numbers



- Decline in income means that significant savings are needed in all other areas.
- Banking Framework has strong income generation, with a low level of associated costs.
- OSOP is playing a key role in hitting the £38m goal.
- Assumed that the New Call purchase goes ahead.
- Non-staff rise seen in initial submissions has been challenged.

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Key income drivers, initiatives & investments (1)

Update for final submission

	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. • **Multi-channel expansion and eBay integration:** enabling customers to start transactions online and complete in branch, and potentially selling RMG tracked services directly through our own digital channels.	• **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 support more radical reconfiguration of their network, which would necessitate additional investment and financing arrangements.	• **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.

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Update for final submission

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: • **Further increasing control over end-to-end product delivery** to improve value capture, including by re-negotiating (or exiting) the arrangement with JBF (the intermediary for motor & home insurance). • **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.

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Key 2018/19 Budget Programme Deliverables (1)

Expand for all key projects with latest view

Key Budget Program Deliverables

	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	P12	EBITDAS £'m
Simplification	ATM go live Mar 18, Mails Nov 18												5.6
HNGT Lite			3 strategic partners (1 every 4 months)										0.5
Network Development	300 Whitespace, 114 Mains to Local												2.0
SSK Simplification													-
SSK Rollout													-
ND	Exit 25 DMB's and open c.100 new Agency Branches												3.3
NT	Reach 7,660 conversions by end of year												0.7
EUM													-
Back Office Transition													1.4
Branch Tech Refresh													1.2
Network Transition													2.1
Everest													4.0
XX													

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The plan assumptions / impact are set out below

- **VAT** – 9% irrecoverable rate assumed, no change from 16/17.
- **Inflation** – Where possible specified contract terms used, if not CPI at 2.6% used.
- **Interest** – assumes rate remains unchanged at 0.50%.
- **Pay rises** – £xxm budgeted (2.6%).
- **Bonuses** - £xxm has been budgeted centrally for STIP and £1.6m for LTIP

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£22m increase in Gross Income.

Gross Income	2018/19			2017/18		
£m	18/19	Var 17/18	% Var	17/18	Var 16/17	% Var
Mail Trading	285.4	13.1	4.8%	272.3	5.4	2.0%
Mail Non-Trading	55.8	(4.0)	(6.7%)	59.8	(5.9)	(9.0%)
Retail and Lottery	39.0	(5.2)	(11.7%)	44.2	(2.1)	(4.5%)
Payment Services	59.2	1.2	2.0%	58.0	(7.6)	(11.6%)
Government Services	91.4	(0.8)	(0.9%)	92.2	(22.0)	(19.3%)
Total Retail	**530.8**	**4.3**	**0.8%**	**526.5**	**(32.2)**	**(5.8%)**
Mortgages	1.8	(0.3)	(15.0%)	2.1	(0.6)	(21.7%)
Credit Cards and Lending	1.9	0.2	9.6%	1.7	(1.2)	(41.5%)
Savings	39.0	(8.2)	(17.3%)	47.2	(7.5)	(13.8%)
Travel Money	32.6	4.8	17.3%	27.8	0.5	2.0%
MoneyGram	25.5	(3.1)	(10.8%)	28.6	(1.2)	(4.0%)
Post Office Money	100.8	(6.6)	(6.1%)	107.4	(10.0)	(8.5%)
Banking Services	95.0	8.7	10.0%	86.3	19.0	28.1%
Telecoms	160.4	10.8	7.2%	149.6	19.5	14.9%
Postal Orders	12.3	(2.2)	(15.3%)	14.5	(4.0)	(21.7%)
Other Income	(0.4)	(1.6)	(136.3%)	1.2	(0.1)	(5.6%)
FS&T	**368.1**	**9.0**	**2.5%**	**359.1**	**24.3**	**7.3%**
POMS	57.9	8.7	17.8%	49.2	6.1	14.3%
Supply Chain	10.9	0.0	0.0%	10.9	(1.2)	(9.6%)
Other Income	3.6	(0.0)	(0.7%)	3.6	(0.2)	(4.0%)
Total Revenue	**971.2**	**22.0**	**2.3%**	**949.2**	**(3.0)**	**(0.3%)**

Retail +£4.3m (0.8%

Mails (Slide xx)

- Fixed fee £4m decrease split between contractual efficiencies and Annual Count reduction. Royal Mails request for changes to be mitigated and will not impact 18/19 income.
- Overall trading flat with favourable variance driven by RPI increase (3.2% less (assumed 3.2% -1)

Retail and Lottery (Slide xx)

- Retail sales impacted by DMB closures offset by new WHS contract
- Camelot lottery sales declines by 9.5%

Payment Services (Slide xx)

- HNGT Lite & new contract opportunities offsetting payments decline
- Poca decline reduces ATM usage

Government Services (Slide xx)

- UKVI contract ends in P8, expectation to provide a frontend solution only in future.
- Verify expecting consistent YOY volume growth vs. latest view of 17/18 exit
- POca interest gains included in Net Income

FST+£9.0m (2.5%)

Savings (Slide xx)

- xx

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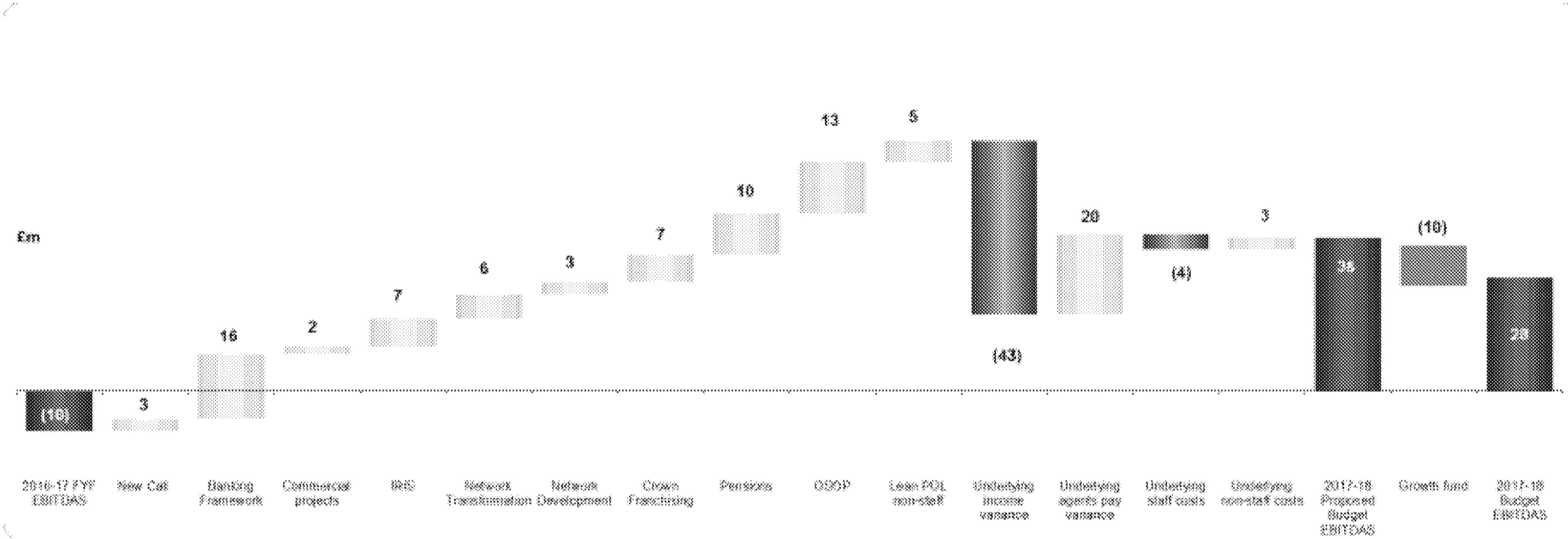
£24m fall in net income compared to 16/17. Underlying movement £43m fall.

To be updated for 2018/19 numbers



- Comments and signpost key numbers

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Retail: net income decline includes £(11)m Mails fall and continued downward trend in Retail & Lottery

	2018/19			2017/18		
£m	**18/19**	**Var**	**% Var**	**17/18**	**Var 16/17**	**% Var**
Parcelforce	21.0	1.5	7.5%	19.6	1.2	6.4%
Special Delivery	49.5	0.7	1.4%	48.8	(1.0)	(2.0%)
International Priority & Standard	12.5	1.2	10.5%	11.3	1.1	10.5%
Stamps (1st & 2nd)	21.1	(1.9)	(8.3%)	23.0	(2.3)	(9.3%)
Labels (1st & 2nd Class)	93.5	2.8	3.1%	90.7	4.0	4.6%
RM Signed For	23.3	0.5	2.3%	22.8	0.0	0.0%
Home Shopping Returns	20.6	3.6	21.1%	17.0	2.9	20.6%
Other Trading	40.1	0.9	2.3%	39.2	(0.4)	(1.0%)
Total Mail Trading	281.6	9.2	3.4%	272.3	5.4	2.0%
Fixed fee	45.8	(4.0)	(8.0%)	49.8	(2.9)	(5.5%)
Mailwork & Mails non trading	10.0	(0.0)	(0.0%)	10.0	(3.0)	(23.1%)
Total Mail Non-Trading	55.8	(4.0)	(6.7%)	59.8	(5.9)	(9.0%)
Retail (Inc Gift cards & Other)	11.5	(2.8)	(19.8%)	14.3	0.6	4.3%
Lottery	27.4	(2.5)	(8.2%)	29.8	(2.7)	(8.3%)
Retail and Lottery	38.9	(5.3)	(12.0%)	44.2	(2.1)	(4.5%)
Payment Services	28.0	1.7	6.4%	26.3	(6.3)	(19.4%)
ATM	31.2	(0.5)	(1.6%)	31.7	(1.3)	(3.9%)
Payment Services	59.2	1.2	2.0%	58.0	(7.6)	(11.6%)
Motoring Services	6.2	(0.2)	(3.1%)	6.4	(1.9)	(22.4%)
Card Account	39.1	(3.1)	(7.3%)	42.2	(19.0)	(31.1%)
Passport Services	20.4	(0.7)	(3.2%)	21.1	(1.4)	(6.2%)
Digital ID Serv UKVI & Asylum	11.4	(2.6)	(18.4%)	14.0	(0.1)	(0.7%)
ID - Assurance (Verify)	13.6	5.9	76.1%	7.7	2.1	37.9%
Other Government Services	0.7	(0.0)	(5.1%)	0.7	(1.7)	(70.4%)
Government Services	91.5	(0.7)	(0.7%)	92.2	(22.0)	(19.3%)
Total Retail	**526.9**	**0.5**	**0.1%**	**526.5**	**(32.2)**	**(5.8%)**

Mail

- Fixed fee £4m decrease split between contractual efficiencies and Annual Count reduction
- RM request for changes to Mailwork mitigated and will not impact 18/19 income
- Overall trading flat with favourable variance driven by RPI increase (assumed 3.2% -1)

Retail and Lottery

- Retail sales impacted by DMB closures offset by new WHS contract
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Payment Services

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Government Services

- UKVI contract ends in P8, expectation to provide a frontend solution only in future.
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- POca interest gains included in Net Income

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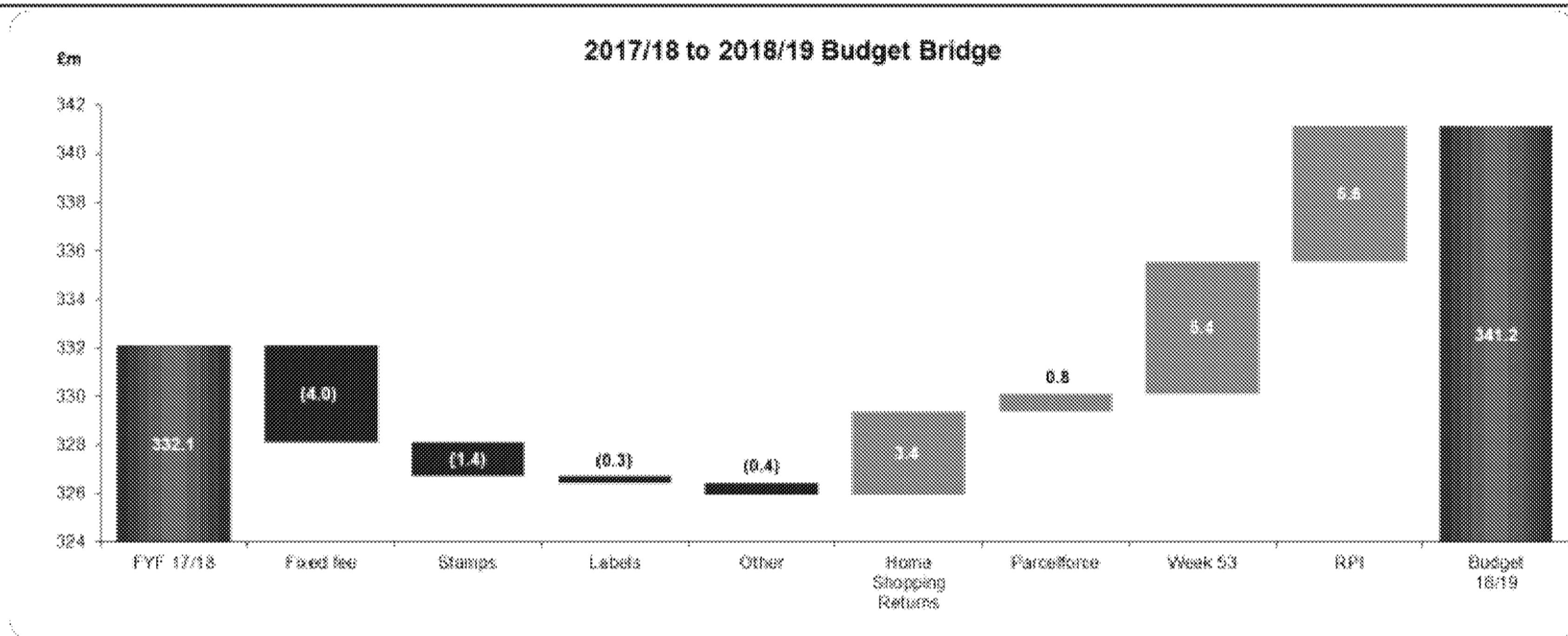
Mails Y on Y Income Movements



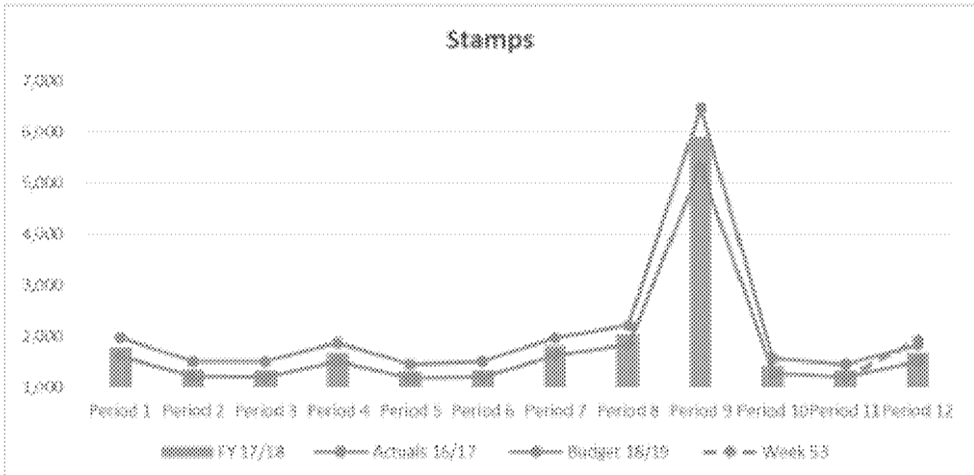
Decline Items

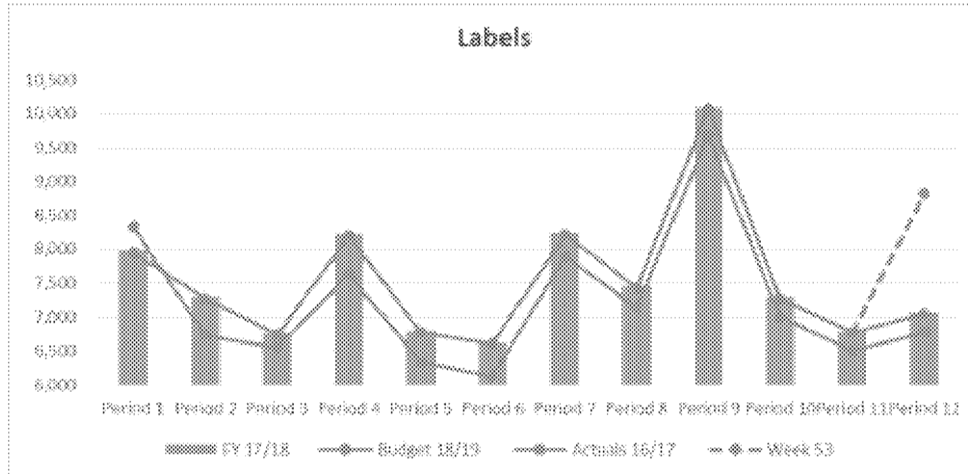
- Fixed fee reduction includes efficiency (-£2m) and annual count (-£2m). No reduction in Mailworks fees budgeted.
- Stamps declining by 6% in line with volume YTD trend
- Labels include 1st class (-£0.5m) and 2nd class (£0.2m) trending in line with volumes YTD
- Other includes; special delivery (-£1m), signed for (£0.2m), acceptance (-£0.2m) and international (£0.6m)

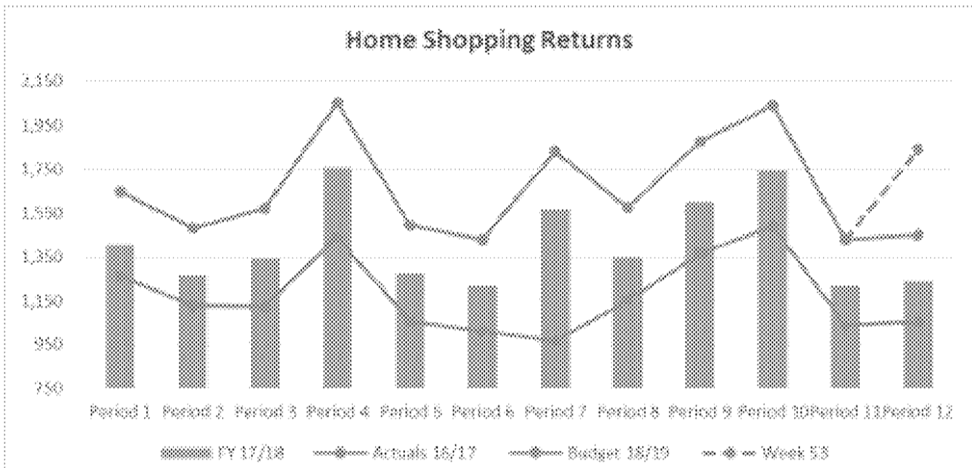
Growth Items

- Home Shopping Returns increasing 20%, reflecting growth slowdown from latest 22% PO trend and broader industry trend slowing.
- Parcelforce increasing 4% in line with volumes YTD trend
- RPI rate assumed as 3.2% (minus 1% applied to calculate contractual rate increase)

Mails and Income Graphs







Stamps – Continues to decline 10% YoY due to e-substitution and overall market decline.

Labels – YoY income broadly flat with 1% decline in 1st class volumes offset by 0.5% growth in 2nd class volumes.

Home Shopping Returns - Continues to grow +18% inline with UK online sales.*

*Source: ONS UK Retail Bulletin (October 2017) internet statistics; textile, clothing and footwear category

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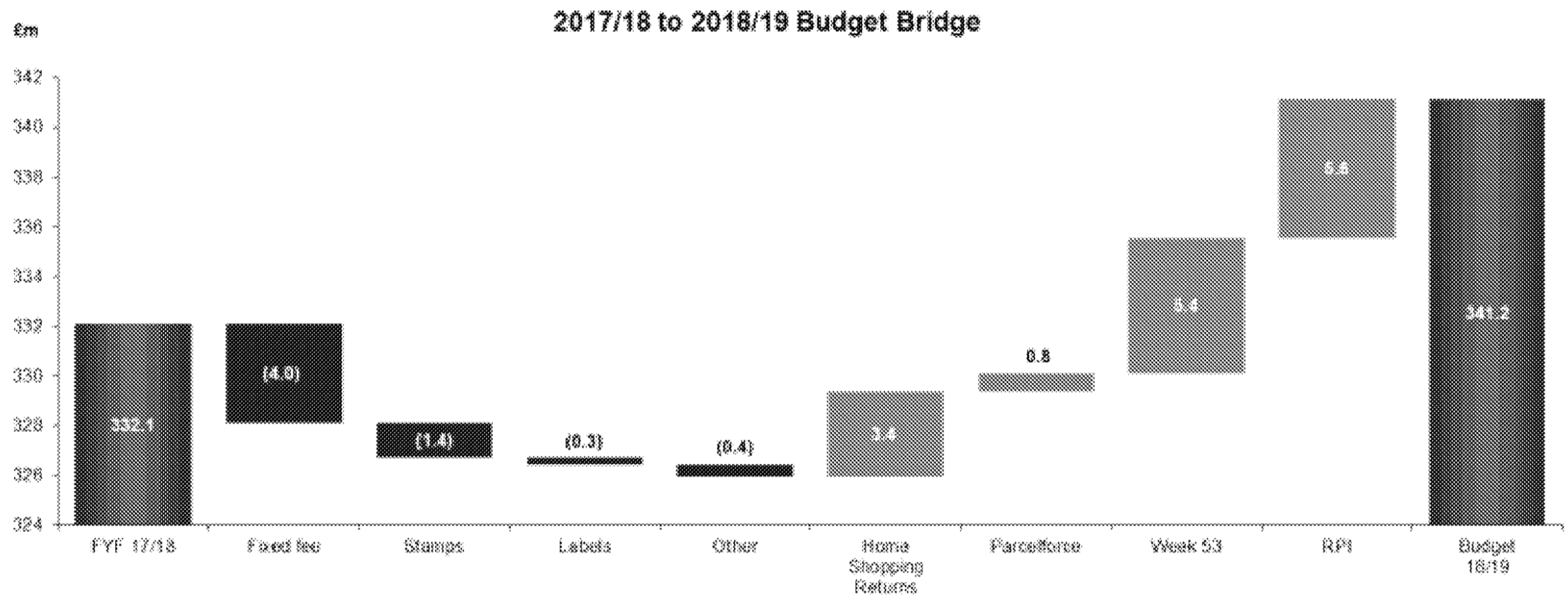
Retail and Lottery Y on Y Income Movements

Need bridge for Retail and Lottery



Decline Items

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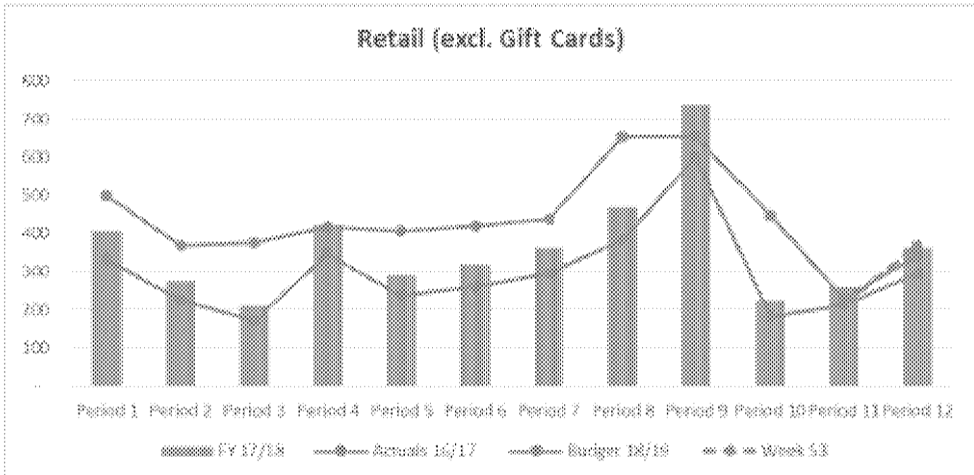
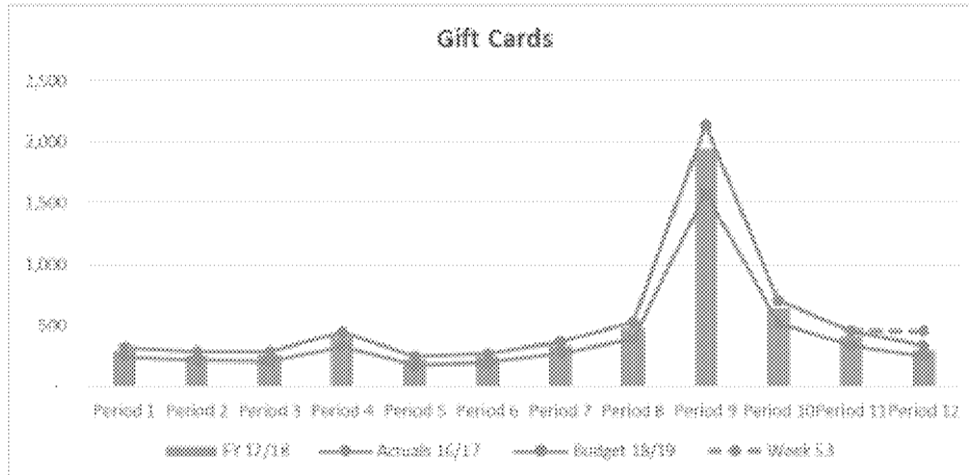
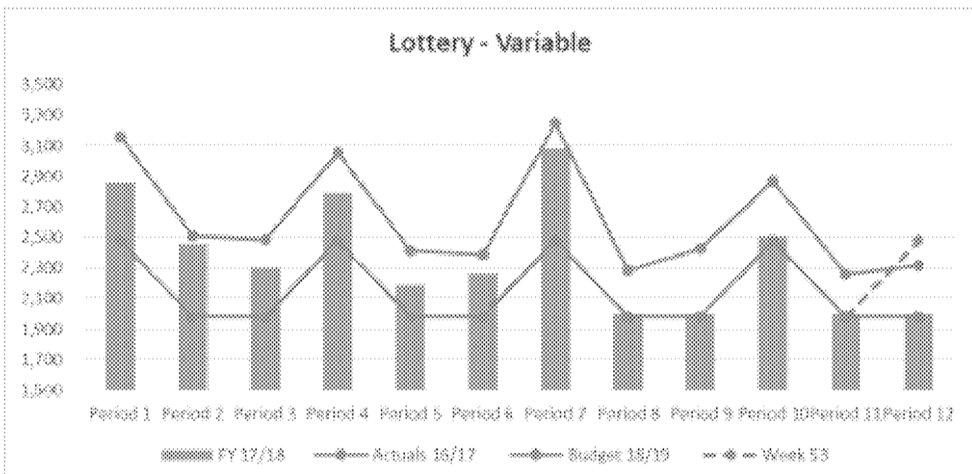
Retail and Lottery Income Graphs







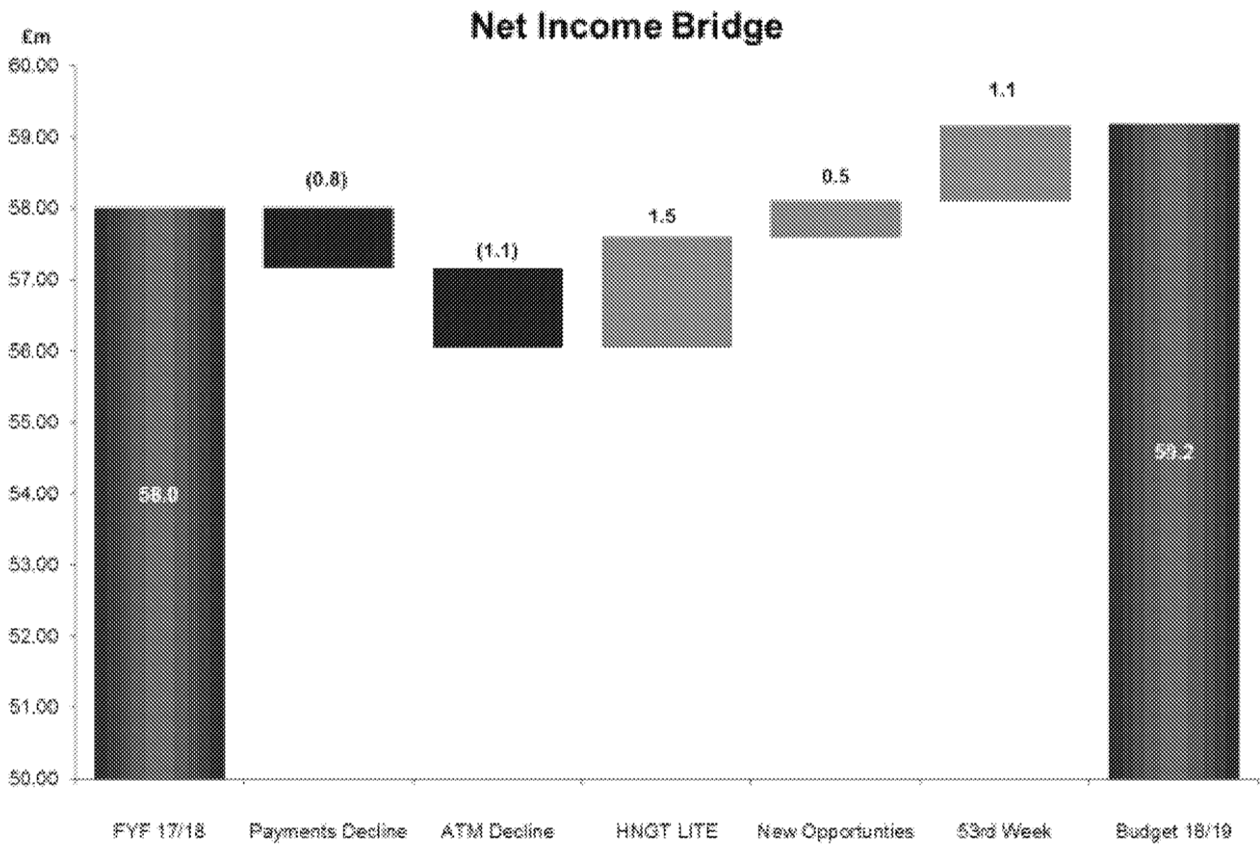
Retail (Includes Photo-Me booths) - decline driven by DMB closures (23 residual from 17/18 and 38 planned for 18/19). Retail sales income reflects the new WHS contractual arrangement and assumes a sales uplift of 40% due to new fit out and product range.

Gift Cards – Continues to grow +10% YoY above overall market growth (5% in 2016).*

Lottery Variable – Continues to decline 8% YoY based on prior two year average trend.

*Source: UK Gift Card & Voucher Association 2016 Summary H2

Payment Services Y on Y Income Movements



Key Items

- Direct Clients budgeted at 8% YoY decline & reseller a decline of 6%. Currently both direct and reseller volumes are declining at 9% YoY.
- Decline in ATM resulting from a decline in POca volume of (3.5)m withdrawals, partially offset by improved ATM availability from 94% to 96% which increases withdrawals by 2.8m YOY.
- HNGT Lite business case assumes annual benefits of £2.3m, of which £1.5m will be realised in 18/19.
- New Opportunities includes; Allpay exclusive £0.2m, smart £0.1m & payout £0.1m & BT payout £0.1m.

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Payment Services Income Graphs

Trends graphs required

- **As per Retail Presentations**

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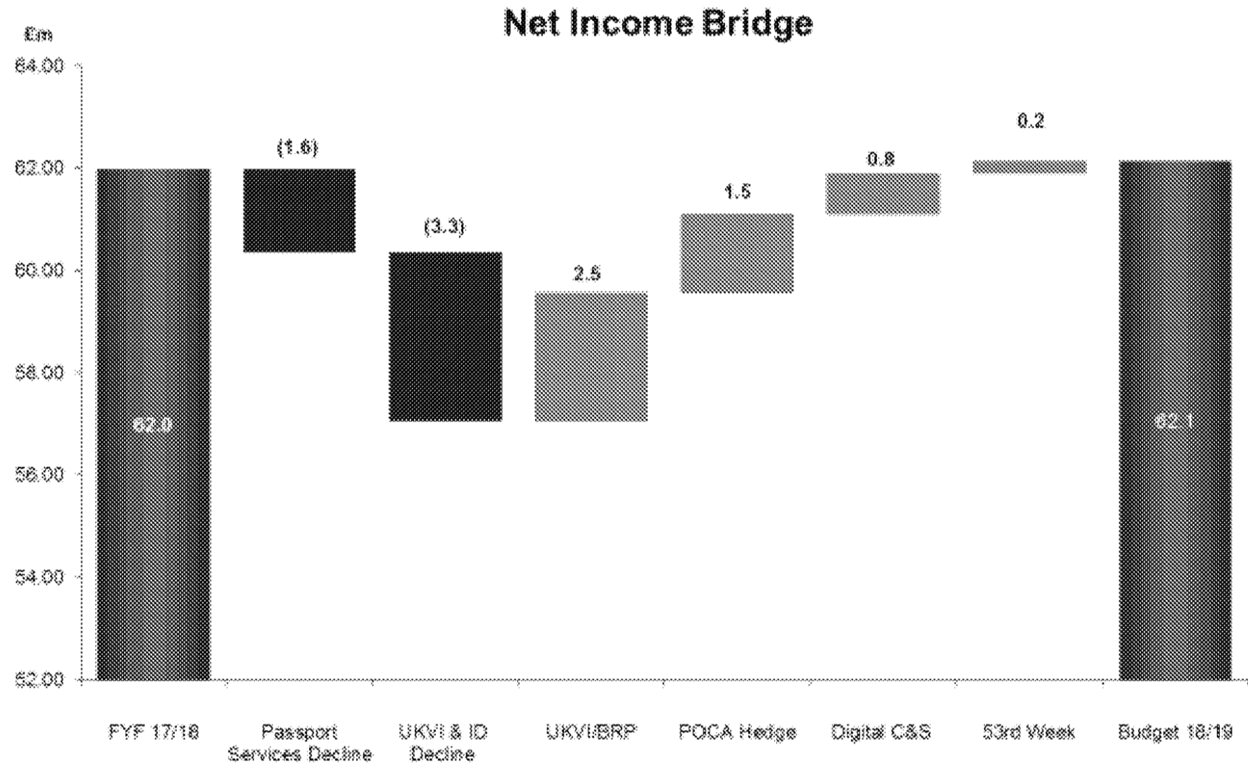
Government Services YoY income movements



Key Items

- Continuation of current YOY run rate of 7% decline £(1.4)m. Assumed decline of £(0.2)m for expected Home Office digital product launches.
- Current UKVI contract due to expire October 18, expected to delay until December 18 £(1.9)m, partially mitigated by £0.3m from winning the new Front End Service. Annualised volumes will decrease from 400k to 50k, with a price change from £16 to £25 per transaction. SIA and Secure Collect contracts expire in July18. Budget assumes that will extend for a further year mitigating £1.7m net income exposure.
- Planning to enter a 3-year interest rate swap, Libor hedged at 0.725% across the period. Assumption that actual Libor will be at 0.5% in April 18, increasing to 0.6% in March 19, resulting in annual hedging gains of £1.5m. Associated risk as requires Treasury approval.
- Digital Passport implementation P7 onwards £0.8m, with assumption of 50/50 split of volume paper to digital.

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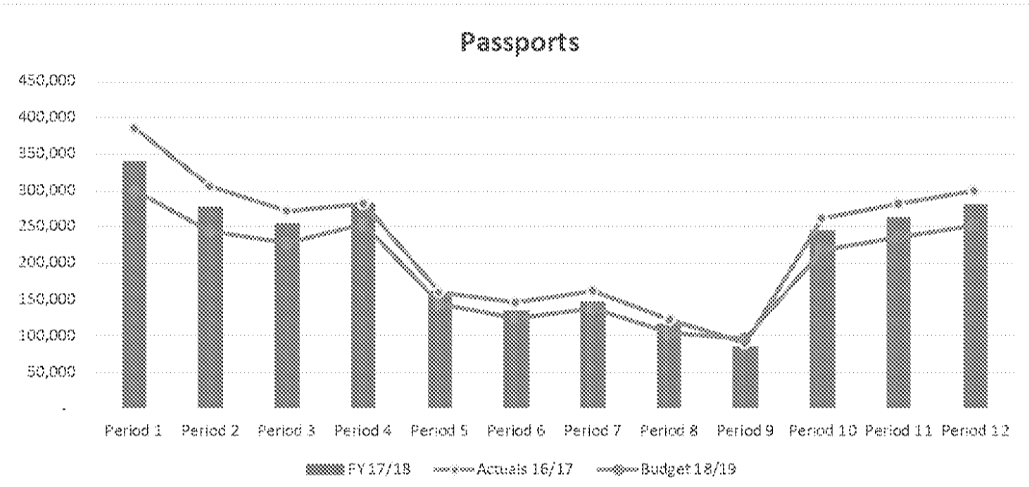
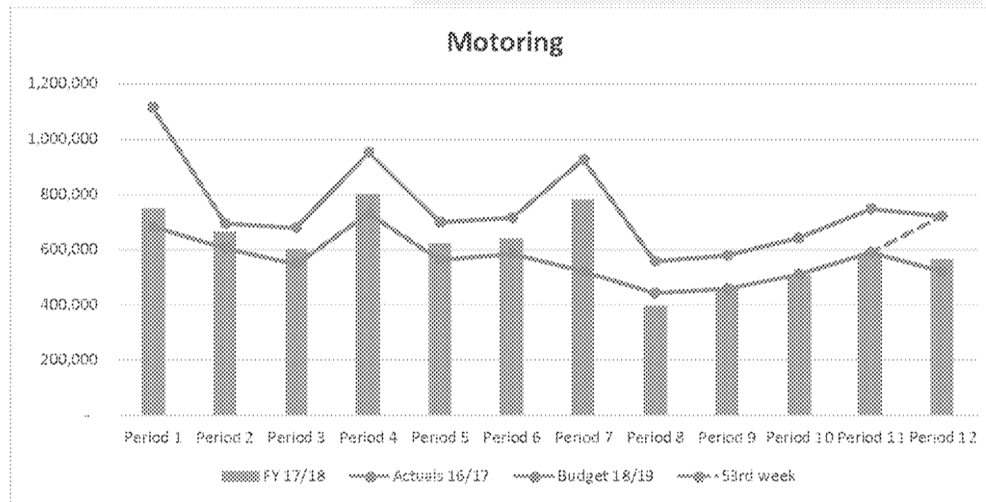
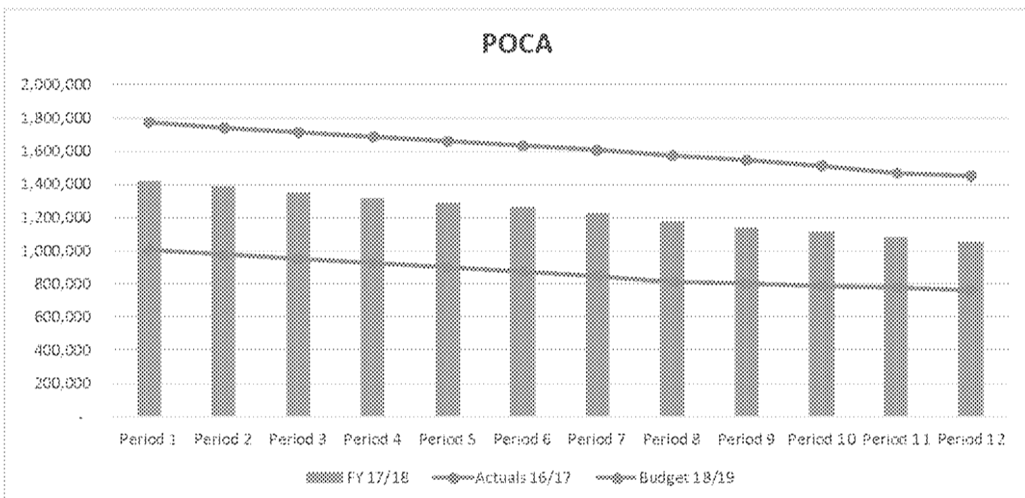
Government Services Income Graphs

Customer & Interest rate benefit of POCA reqd.







Passports - Budget assumes an 8% decline in volume YOY, the current trend shows a 7% YOY decrease which has been embedded into the plan, the further 1% reduction has been derived from new Home Office digital product launches expected in 2018/19.

Motoring - volume decline is planned at 9% YOY, in line with current performance and reflects the slow down in decline over the past two years. The volume decrease is prominently led by tax discs, 10 year renewals are planned to remain static.

POCA - volumes are planned to continue to decrease steadily as account holders are migrated onto bank accounts.

	2016-17	2017-18	Variance
Avera[illegible]			
Active			
Dorma[illegible] (£m)	1	1	0
Discount Applied (£m)	(1)	(1)	0

I think we need to split P&L for POCA to show interest v volume impact.

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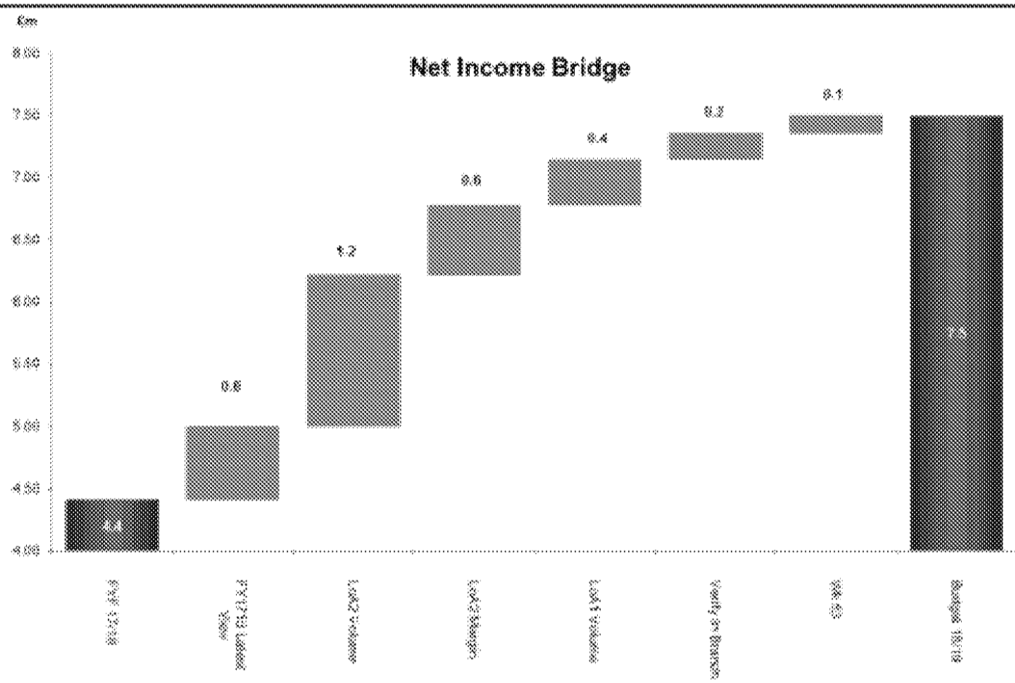
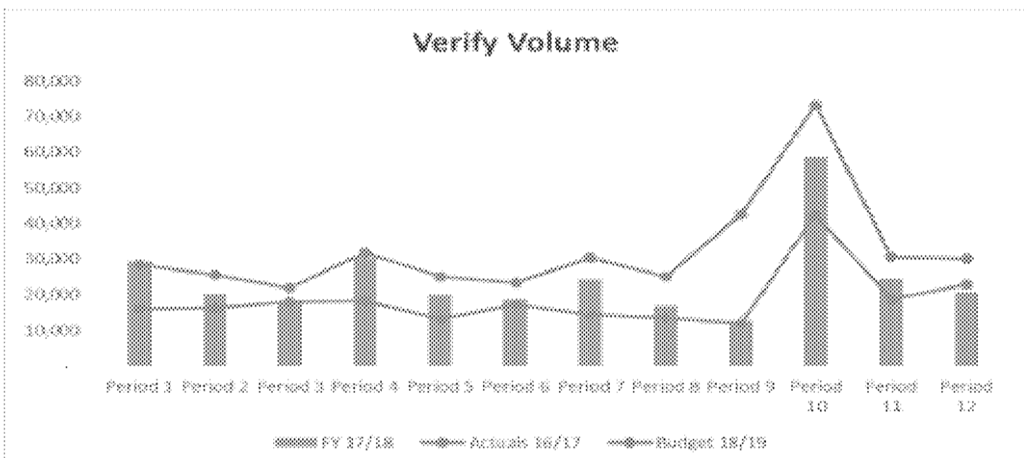
Identity Services Y on Y Income Movements



Net Income Key Items

- Expectation to out perform forecast, based on P7 & P8 actuals.
- LoA2 volume growth assumed to remain static at 31% for FY1819.
- LoA2 margin improvement of £1.45 per transaction gained via contractual volume achievements.
- LoA1 was launched in P5 17/18, budgeted consistently with recent trends circa 2,000 transactions per week.
- Verify in branch anticipated rollout in P9, dependent on digital passport implementation in P7, benefits phased with incremental growth, steady state is £1.5m per annum.



Volume Key Items

- Verify volume growth is anticipated to remain static at 31% YOY, this is in line with P1-P8 2017/18 performance.

Other

- Project costs of £4.8m
- 4 additional BAU FTE will be required to deliver the plan not yet included (£560k) to focus on acquiring new business outside of the Government space.

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Update

FS&T

£m	2018/19 18/19	Var 17/18	% Var	2017/18 17/18	Var 16/17	% Var
Mortgages	2.1	(0.0)	(0.7%)	2.1	(0.6)	(21.7%)
Credit Cards and lending	1.9	0.2	9.6%	1.7	(1.2)	(41.5%)
Savings	38.4	(8.8)	(18.6%)	47.2	(7.5)	(13.8%)
Travel Money	28.1	0.3	1.1%	27.8	0.5	2.0%
MoneyGram	25.5	(3.1)	(10.8%)	28.6	(1.2)	(4.0%)
Post Office Money	96.0	(11.4)	(10.6%)	107.4	(10.0)	(8.5%)
Banking Services	93.1	6.8	7.9%	86.3	19.0	28.1%
Telecoms	158.5	8.8	5.9%	149.6	19.5	14.9%
Postal Orders	12.3	(2.2)	(15.3%)	14.5	(4.0)	(21.7%)
Other Income	(0.4)	(1.6)	(134.2%)	1.2	(0.1)	(5.6%)
FS&T	**359.5**	**0.4**	**0.1%**	**359.1**	**24.3**	**7.3%**

- **Savings** - £10m reduction due to reductions in Bank of Ireland income (no Savings value share & no Savings guaranteed income).
- **Moneygram** - continuing decline in volumes anticipated to continue into 2018/19. Contract up for renewal in 2018/19 and options being explored to mitigate downside risk.
- **Banking Services** - £2m inflationary increase and continuing growth from Banking Framework (£5m).
- **Telecoms** – Impact of OFCOM pricing £(xx)m mitigated by various initiatives xx £xxm, etc. See slide xx for further details.

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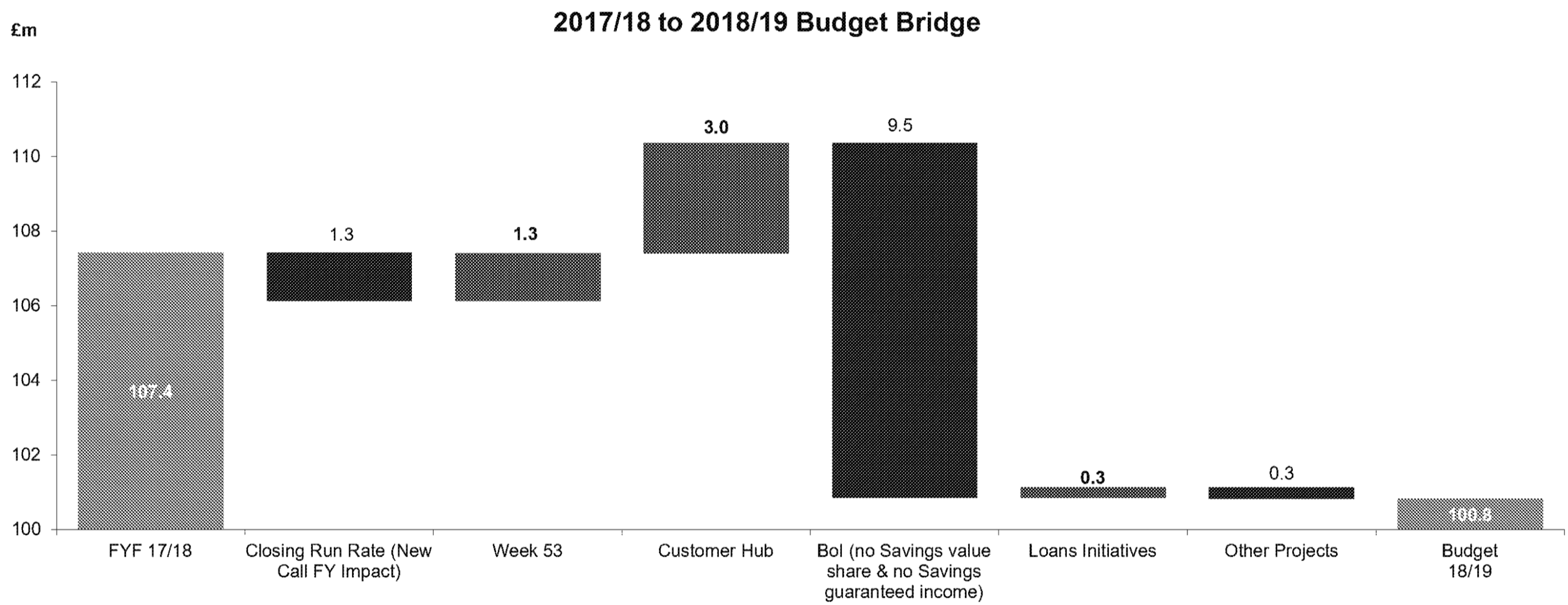
Savings Y on Y Income Movements



Key Items

- XX

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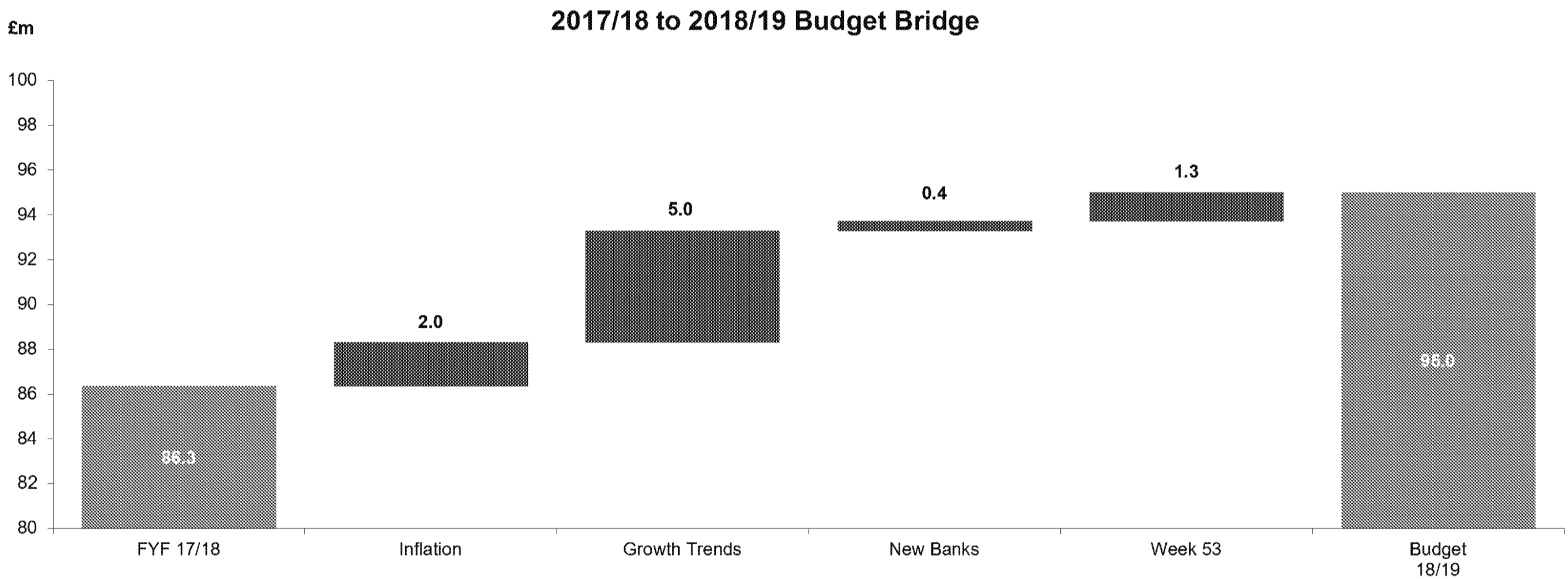
Banking Services Y on Y Income Movements



Key Items

- XX

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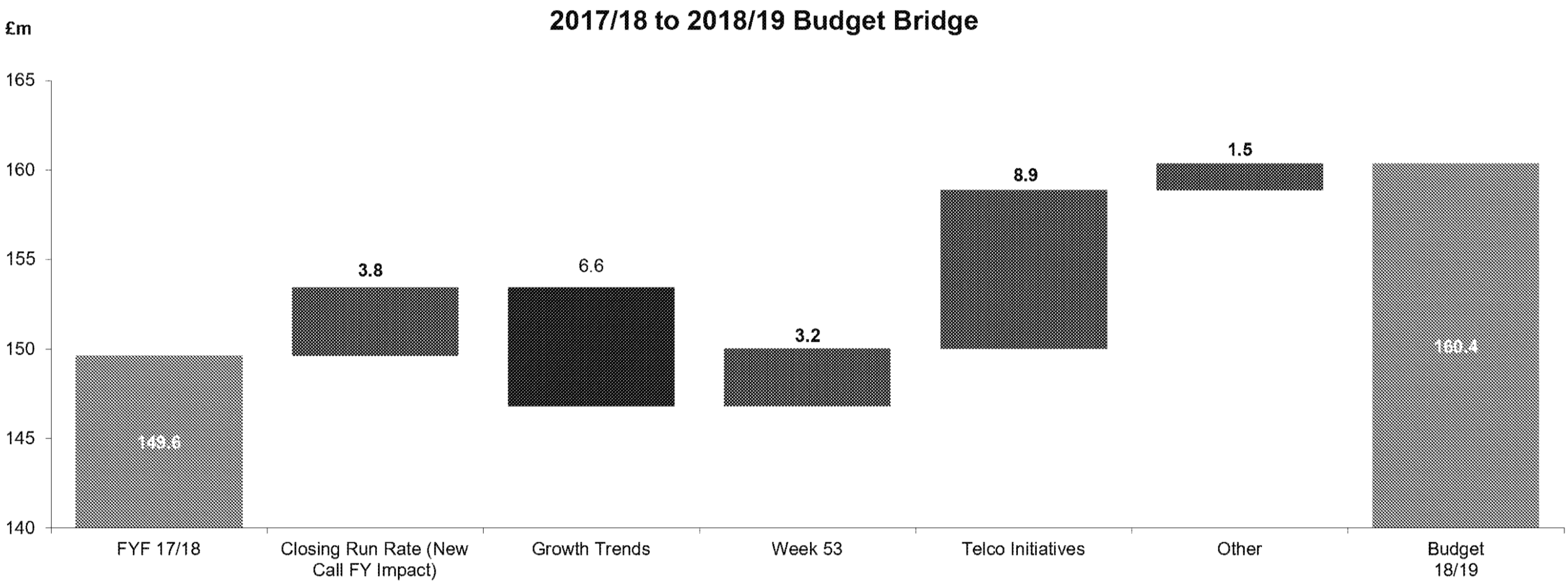
Telecoms Y on Y Income Movements



Key Items

- XX

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Telecoms Split by Product

Net Income £m	2017-18 Budget	2016-17 Forecast	Variance
HomePhone/Dual	57	59	(2)
Other Telephony	3	3	0
Underlying Telecoms	**60**	**62**	**(2)**
New Call	5	0	5
Total Telecoms Budget	**65**	**62**	**3**

- **Telecoms** £3m increase including New Call:
    - Traditional Homephone customer base is declining.
    - Underlying Telecoms income has reduced by £2m.
    - ARPU assumptions for 17/18 have been revised downwards for HP and Dual as a result of a review of actual performance.

Something required on Churn and price assumptions and impact of Telecom mitigation plans.

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Slide on Telecoms Mitigations to offset price decline

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Net Income Margin Improvement of x% driven by Revenue Mix

	2018/19				2017/18				Var			
	Rev	COS	Margin	% Margin	Rev	COS	Margin	% Margin	Rev	COS	Margin	% Margin
£m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Mail Trading	285.4	-	285.4	100%	272.3	-	272.3	100%	13.1	-	13.1	-
Mail Non-Trading	55.8	-	55.8	100%	59.8	-	59.8	100%	(4.0)	-	(4.0)	-
Retail and Lottery	39.0	1.1	37.9	97%	44.2	4.2	40.0	91%	(5.2)	3.1	(2.1)	7%
Payment Services	59.2	-	59.2	100%	58.0	0.0	58.0	100%	1.2	0.0	1.2	0%
Government Services	91.4	21.8	69.6	76%	92.2	25.8	66.4	72%	(0.8)	4.0	3.2	4%
Retail	**530.8**	**22.8**	**507.9**	**96%**	**526.5**	**30.0**	**496.5**	**94%**	**4.3**	**7.2**	**11.4**	**1%**
Mortgages	1.8	-	1.8	100%	2.1	-	2.1	100%	(0.3)	-	(0.3)	-
Credit Cards and Lending	1.9	-	1.9	100%	1.7	-	1.7	100%	0.2	-	0.2	-
Savings	39.0	-	39.0	100%	47.2	-	47.2	100%	(8.2)	-	(8.2)	-
Travel Money	32.6	-	32.6	100%	27.8	-	27.8	100%	4.8	-	4.8	-
MoneyGram	25.5	-	25.5	100%	28.6	-	28.6	100%	(3.1)	-	(3.1)	-
Post Office Money	100.8	-	100.8	100%	107.4	-	107.4	100%	(6.6)	-	(6.6)	-
Banking Services	95.0	1.3	93.7	99%	86.3	1.1	85.3	99%	8.7	(0.2)	8.5	(0%)
Telecoms	160.4	88.5	71.9	45%	149.6	81.7	67.9	45%	10.8	(6.8)	3.9	(1%)
Postal Orders	12.3	0.1	12.2	99%	14.5	0.1	14.4	99%	(2.2)	0.0	(2.2)	(0%)
Other Income	(0.4)	-	(0.4)	100%	1.2	-	1.2	100%	(1.6)	-	(1.6)	-
FS&T	**368.1**	**89.9**	**278.2**	**76%**	**359.1**	**82.9**	**276.2**	**77%**	**9.0**	**(7.0)**	**2.0**	**(1%)**
POMS	57.9	8.5	49.4	85%	49.2	8.3	40.8	83%	8.7	(0.2)	8.6	2%
Supply Chain	10.9	-	10.9	100%	10.9	-	10.9	100%	0.0	-	0.0	-
Other Income	3.6	-	3.6	100%	3.6	(0.1)	3.7	103%	(0.0)	(0.1)	(0.1)	(3%)
Total	**971.2**	**121.3**	**850.0**	**88%**	**949.2**	**121.1**	**828.1**	**87%**	**22.0**	**(0.1)**	**21.9**	**0%**

Notes:

- **Card Account:** Margin improvement due to interest rate increase however additional costs due to

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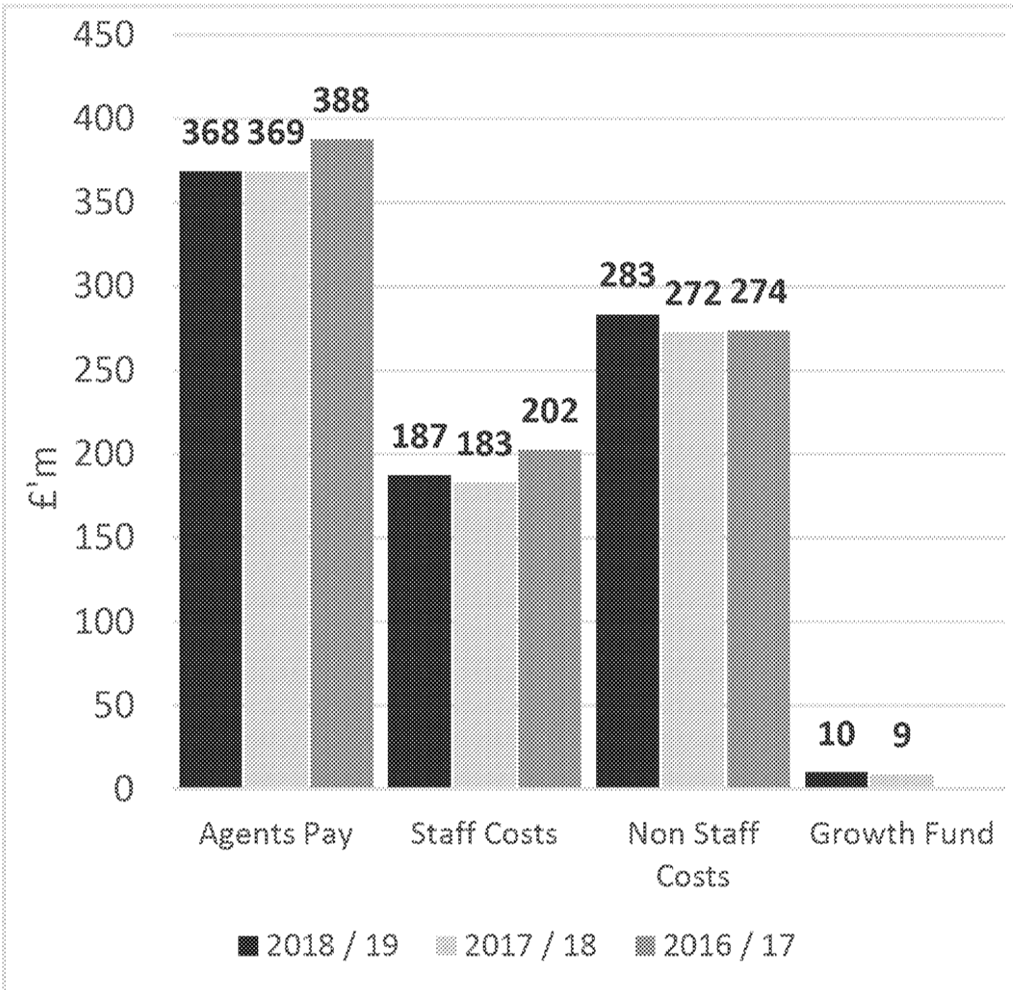
Agents Pay continues to fall with savings in x.

Expenditure by Cost Area



Agents Pay

- Reduction of £xm from £x mto £xm.
- Fixed cost Reductions of £xm due to
- Variable pay reduces from £xm to £xm.

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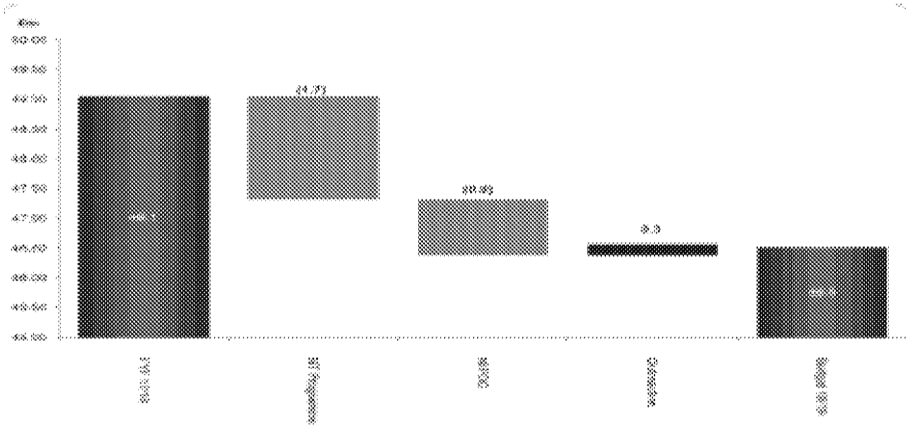
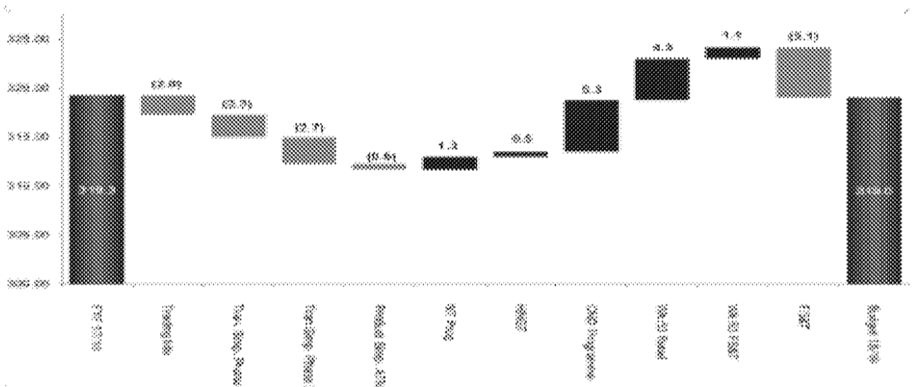
Agents Pay Bridge





	2018 / 19	2017 / 18	2016 / 17
Fixed Pay			
Variable Pay	368	369	388
Total Agents Pay	368	369	388
Fixed Pay	0%	0%	0%
Variable Pay	100%	100%	100%

Fixed Pay (Slide x)

- Xx
- Xx
- xx
- Xx

Variable Pay (Slide x)

- Xx
- X
- X

Total (Slide x)

- Xx

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Staff Costs

£'m	2018/19	2017/18	Var
Wages & Salaries	138.1	128.2	(9.9)
Pension	12.3	16.1	3.8
Overtime	6.0	4.8	(1.1)
Bonus & Productivity	14.4	12.0	(2.5)
Contractors & Temporary Resource	15.4	17.3	1.9
Employers NI	1.2	4.8	3.6
Staff Costs Efficiency Target	(0.3)	(0.6)	(0.3)
Staff Costs	**187.2**	**182.6**	**(4.6)**

£'m	2018/19	2017/18	Var
Retail	77.4	83.6	6.3
FS&T	10.6	11.3	0.7
POMS	7.6	4.2	(3.4)
Finance & Ops	55.8	51.5	(4.3)
CEO	0.4	0.3	(0.0)
CIO	6.2	5.0	(1.2)
Strategy	0.6	0.6	0.0
LRG	6.4	5.6	(0.8)
HR	18.5	18.3	(0.2)
Communications	1.6	1.6	(0.0)
Central	2.2	0.5	(1.7)
Total	**187.2**	**182.6**	**(4.6)**

Wages and Salaries

- Includes x% payrise assumption impact by £xm.
- Incremental investments of £xm to fund skills gaps currently identified in the organisation.

Pension

- £xm reduction following the removal of the 1 year uplift in contributions following the closure of the DB scheme.
- Pension autoenrolement of £xm has limited impact in the current year.

Bonus and Productivity

- Includes £xm for STIP in line with the current year and £x.xm for LTIP (as per current year)

Employers NI

- Includes £xm for STIP in line with the current year and £x.xm for LTIP (as per current year

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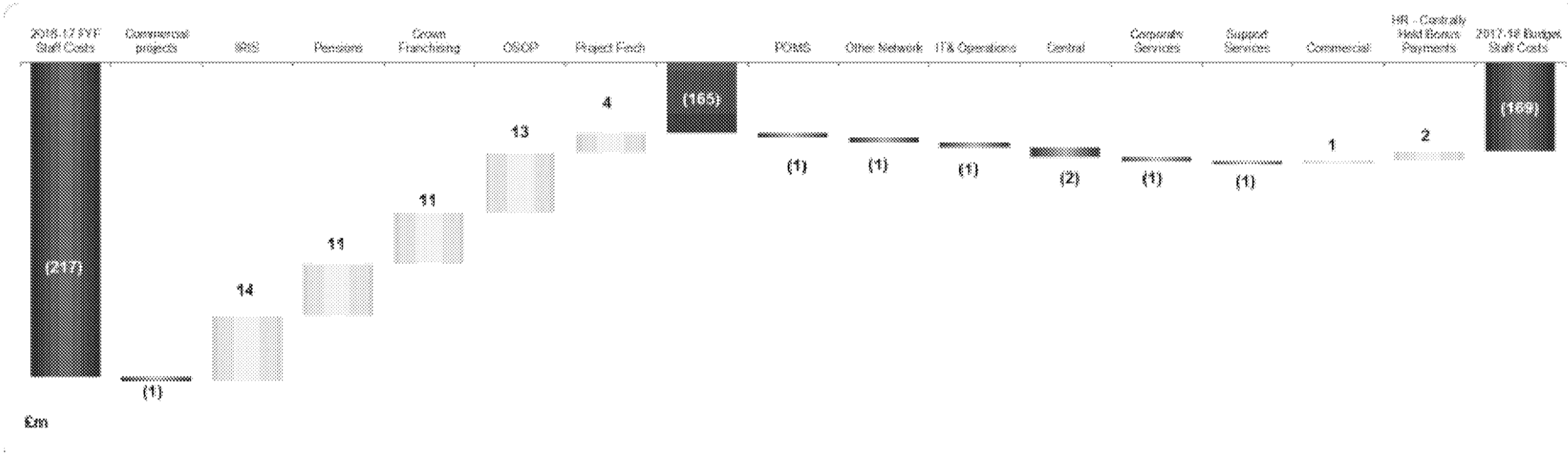
The £48m saving in staff cost is driven by planned initiatives with some small investments in capability

Needs updating for 2018 / 19 budget



- **POMS** increase for compliance capability, reduced from £(4)m in previous submission as Junction exit delayed to 18/19.
- **IT** staff cost base has increased by £(1)m reflecting the recruitment of in house capability to significantly reduce 3rd party expenditure from the current outsourcing model.
- **Central** staff increase due to inclusion of £(2)m pensions auto-enrolment cost from May 2017. £3m has been budgeted for a pay rise 'pot' which is flat year on year. This is CPI based.
- **Bonus accrual of £13m** has been incorporated in submissions assuming a £28m target: this represents a £5m reduction from 16/17 due to lower headcount with £3m delivered by OSOP.

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Update to include all areas

Staff: Addressing our resource & capability gap

We have identified the requirement for c26 additional Retail heads. Some of these are currently roles funded by projects whilst others are required to "fix" issues arising from capability or capacity. There are 4 roles identified in the Payments area which are short term increases to enable the longer term replacement of under-performers.

Requirements include the following:

Retail Marketing - 7 roles (3 perm + 4 temp) – includes temporary resource to review POS and branch communications and 2 roles to formalise marketing support for the Commercial Partnership teams which is currently dispersed across numerous Post Office teams and project funded

Government - 5 roles (3 are currently project funded) – additional resource to manage existing current workload, develop future propositions and increase capability of the team

Bill Payments - 2 roles – assumes Panther is delivered and reflects the need to strengthen the commercial capability within this team and enable long term replacement of under-performers

Other - Non-Cash Payments (1 role), ATMs (1 product role), Mails (2 roles transferring out of project), Network Development (3 consultation roles currently project funded)

HR 1 new role - Apprentice role to support the HRD on BAU people (NB current shared resource needed 100% on project that funds her).

Identity - 4 new roles have been identified

	No of roles	temp	perm	£m	
Transfers from Project to BAU	10	1	9	0.6	
New roles	12	3	9	1.1	includes Identity
Roles to upskill existing teams and be longterm replacements for underperformers	4		4	0.3	
	26			2.0	

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Headcount Bridge by area

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Non Staff Costs

Additional slides for Marketing and IT

£'m	2018/19	2017/18	Var
Staff & Agency Related Costs	10.6	10.2	(0.4)
Consultancy & Advisory Services	7.0	3.6	(3.4)
Brand & Marketing	27.3	18.2	(9.2)
Legal Costs	9.5	5.4	(4.1)
Property & Facilities Management	40.1	41.9	1.8
Vehicles	4.2	3.7	(0.4)
IT Infrastructure & IT Services	85.1	96.8	11.7
Finance & Losses	26.8	26.0	(0.8)
Other Operating Costs	89.7	84.2	(5.5)
Non Staff Efficiency Target	(8.3)	(5.9)	2.4
Non staff Costs	**291.9**	**284.1**	(7.9)

Consultancy & Advisory Costs

- Includes x% payrise assumption impact by £xm.
- Incremental investments of £xm to fund skills gaps currently identified in the organisation.

Brand and Marketing (Slide x)

- £xm reduction following the removal of the 1 year uplift in contributions following the closure of the DB scheme.
- Pension autoenrolement of £xm has limited impact in the current year.

Legal Costs

- Includes £xm for STIP in line with the current year and £x.xm for LTIP (as per current year)

IT and Infrastrcutures

- Includes £xm for STIP in line with the current year and £x.xm for LTIP (as per current year

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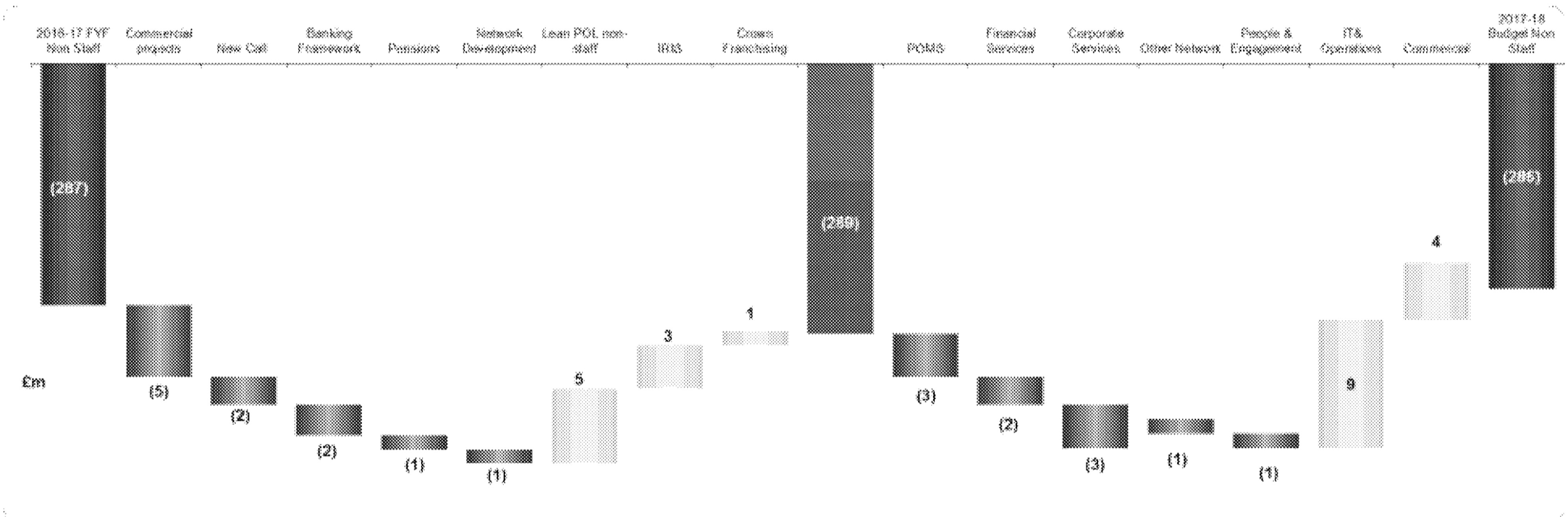
Non-staff costs show a £1m saving year on year

Needs updating for 2018 / 19 budget



- **Commercial projects**
  - £2m Mails projects including Click & Connect, Small Business Club and eBay shipping platform.
  - £2m cost of Monetisation (screen advertising in branch), against Other net income of £2m on Slide 6. No EBITDAS benefit of Monetisation seen in 17/18 but expected in 18/19.
  - £2m of cost associated with Identity projects (Digital passports/UKVI – IAC). EBITDAS benefit of £4m.
- **New Call** managed services and contact centre costs, against the £5m net income noted on Slide 16.
- **Banking Framework** non-staff cost marketing and higher security vetting costs.
- **Pensions** cost is new life assurance and group income protection due to closure of DB scheme.

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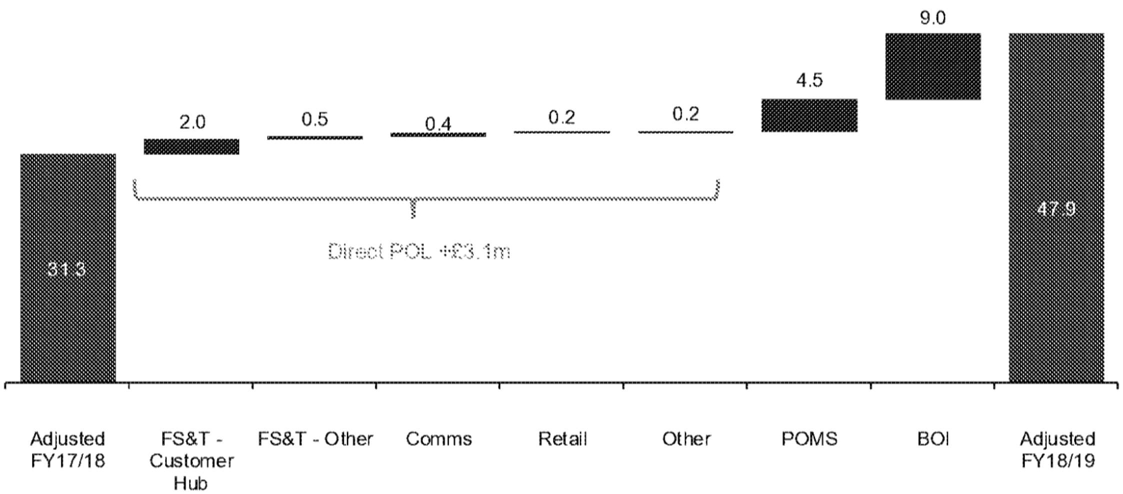
Brand and Marketing Spend is forecast to increase to £47.9m driven by Bank of Ireland, POMS and Customer

POL Group is forecast to spend £47.9m on Brand and Marketing in FY18/19 (+£16.6m on FY17/18) primarily driven by Bank of Ireland, POMS and Customer Hub.



Adjustment breakdown	FY17/18	FY18/19	Var
Reported B&M	**18.1m**	**27.3m**	**9.2m**
Adjustments overlayed:			
Bank of Ireland (recharged)	8.0m	17.0m	9.0m
FRES (recharged)	3.4m	3.4m	0.0m
FS&T - Digital Budget	0.7m	0.0m	-0.7m
FS&T - Prior Year Adj	0.9m	0.0m	-0.9m
FS&T - Cost Efficency	0.0m	-0.2m	-0.2m
POMS - Affiliates (COS)	0.2m	0.4m	0.3m
Growth Fund	TBC	TBC	
Adjusted B&M	**31.3m**	**47.9m**	**16.6m**

FY18/19 uplift in spend is driven by additional investment in:

- **Bank of Ireland (+£9.0m)** due to underspend in FY16/17 and FY17/18 carried forward to deliver Mortgages multi-channel launch;
- **POMS (+£4.5m)** reflecting the first year of POMS 5 year plan; and
- **Direct POL (+£3.1m)** primarily due to investment in Customer Hub (£2.0m) within FS&T.

**For further detailed breakdown on 17/18 and 18/19 spend, refer to Appendix 1.*

28 additional FTE are forecast across:

- **Retail (+8 FTE)** which includes 4 FTE permanent and 4 FTE fixed term contract resources – refer Appendix 2 for breakdown;
- **FS&T (+10 FTE)** all permanent roles supporting PO Money (+3 FTE), Digital (+3 FTE), Customer Marketing (+3 FTE) and Customer Hub (+1 FTE) - refer Appendix 2 for breakdown; and
- **POMS (+10 FTE)** which includes 10 FTE permanent dedicated POMS staff within the Central Marketing team which POMS will pay for.

NB. In addition to the above, POMS will also hire 2 Marketing FTE which will report under their hierarchy and be paid for by POMS.

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Spend Breakdown by Business Area

Retail:
- **FY17/18 B&M £3.9m** to deliver the Xmas campaign (£1.3m), branch product marketing (£0.3m) for point of sale promotions, Retail Transformation and Design (£0.3m), Mails (£0.2m), POTV (£0.2m), One 4 All gift cards (£0.2m), other product area spend (£0.4m) and central marketing overlays (£1.1m) which is an agreement with Central Marketing to support 'Drop and Go' campaign and format design (customer journey).
- **FY18/19 B&M £4.1M (+£0.2m)** reflecting an uplift in Government Services and slight increase in Network Development.

FS&T:
- **FY17/18 B&M £8.3m** to deliver Telecoms (£2.1m) and Travel Money (£0.9m) campaigns), Consultancy (Oystercatchers) (£0.4m), MoneyGram (£0.3m) and other print/design activity (£0.5m). FS&T also holds the budget for central agency retainer fees (£2.9m) and Digital (£1.3m) but these are in service of the entire organisation.
- **FY18/19 B&M 10.8m (+£2.5m)** reflecting investment in Customer Hub (+£2.0m) and slight uplifts in mystery shopper (+£0.3m), digital (+£0.1m), subscriptions (+£0.1m) and other (£0.1m).

Communications:
- Spend within this division is predominately for PR, Insights and research which is coded to financial accounts which is reported under the Brand and Marketing general ledger summary.

Central and other areas:
- **FY17/18 B&M £0.9m** to support the British Postage Museum (£0.5m) which is a historic sponsorship agreement with the Museum and Royal Mail. Other areas includes: HR (£0.2m), CIO and Legal, Risk and Governance (£0.1m).
- **FY18/19 B&M £1.1m (+£0.2m)** reflecting an uplift mainly in Finance and Ops.

FRES:
- **FY17/18 B&M £3.4m** to deliver Summer Travel campaign (£0.6m), in branch (£0.5m), 121 (£0.1m), plus annual plan of digital marketing (£2.0m), Easter TMC (£0.1m) and annual PR/Comms (£0.2m).
- **FY18/19 £3.4m (flat)** reflecting plans for a similar level of activity, with channel and activity split to be agreed following campaign development.

BOI
- **FY17/18 B&M £8.0m** deployed to deliver Credit Cards (£1.6m), Loans (£1.3m), Savings (£3.0m), Mortgages (£1.2m), Current Account (£0.1m), and activity to support the partnership, including NPS tracker (£0.2m), PR (£0.5m) and other (£0.2m). BOI planned to spend £14.5m incorporating £12m annual budget, plus an additional £2.5m carry over from FY16/17 to support the Mortgages launch which is now launching Mar-May 18. Of the forecasted underspend versus plan (-£6.5m), £5m will be carried forward to support Mortgages and £1.5m is planned underspend which will not roll forward into FY18/19.
- **FY18/19 B&M £17.0m (+£9.0m)** reflecting the annual budget (£12m) and carryover (£5.0m). Planned deployment is toward Mortgages multi-channel launch and annual marketing plan (£7.5m), Savings campaigns, new proposition support and annual sales plan delivery (£4m), Personal Loans campaigns and sales plan delivery (£1.6m), Credit cards sales plan delivery (£1.6m), PR (£0.5m), Broker marketing (£0.8m), new proposition support (£0.5m), NPS (£0.2m) and other (£0.4m).

	Brand and Marketing			Resource							
Group Breakdown FY18/19 vs. FY17/18	FY17/18	FY18/19	Var 17/18	FY17/18 Costs	FY17/18 FTE	FY18/19 Costs	FY18/19 FTE	Var Costs	Var FTE	FTE Type Perm	FTE Type FTC
Retail	3.9m	4.1m	0.2m	0.1m	2.0	0.7m	10.0	0.5m	8.0	4.0	4.0
FS&T	8.3m	10.8m	2.5m	2.5m	32.0	3.6m	42.0	1.1m	10.0	10.0	0.0
Communications	3.2m	3.6m	0.4m	1.6m		1.6m		0.0m			
Central	0.5m	0.5m	0.0m								
Other Areas	0.4m	0.6m	0.2m								
POMS	3.5m	7.9m	4.5m	0.2m	2.0	1.0m	12.0	0.8m	10.0	10.0	0.0
POL and POMS	**19.9m**	**27.5m**	**7.6m**	**4.4m**	**36.0**	**6.9m**	**64.0**	**2.5m**	**28.0**	**24.0**	**4.0**
FRES	3.4m	3.4m	0.0m								
BOI	8.0m	17.0m	9.0m								
FRES and BOI	**11.4m**	**20.4m**	**9.0m**	**0.0m**	**0.0**	**0.0m**	**0.0**	**0.0m**	**0.0**	**0.0**	**0.0**
Group Total	**31.3m**	**47.9m**	**16.6m**	**4.4m**	**36.0**	**6.9m**	**64.0**	**2.5m**	**28.0**	**24.0**	**4.0**

POMS:
- **FY17/18 B&M £3.5m** split across insurance product portfolio: Travel Insurance (£1.6m), Car Insurance (£0.6m), Protection (£0.8m) and Home Insurance (£0.3m). This drives net income of £40.9m (up 9% YOY). In addition to the POMS B&M spend a number of marketing initiatives are being funded by POL via the Growth Fund in FY17/18. £1.7m of Growth Fund spend is allocated for Life Over 50's DTV, Search Engine Optimisation and In Branch Data Capture Optimisation. These activities continue in FY18/19 as a POMS cost.
- **FY18/19 B&M £7.9m (+£4.5m)** reflecting the first year of POMS 5 year plan. Additional marketing investment in digital, Customer Value Management (CVM) and Search Engine Optimisation (SEO) focused on POMS core products of Protection, Travel and Household. An additional 10 marketing roles dedicated to and funded by POMS are required to execute these activities (headcount included in central marketing submission). This will drive £8.5m of additional net income in FY18/19 (up 21% YOY). Sales of some travel and all home & car policies generate recurring revenues via the renewals cycle resulting in certain investments in B&M being repaid over multiple years.

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Marketing resource paid by POL is forecast to increase by 18 FTE split across Retail (+8.0 FTE) and FS&T (+10 FTE)

Incremental FTE	FY18/19 Uplift Staff (£)	FY18/19 Uplift FTE	Incremental Role	Role Specifications	Vacancy or New	FTC or Perm	Band
Retail	0.5m	4.0	+1 FTE Marketing Analyst	Current vacancy within FY17/18.	Vacancy	Perm	3a
			+1 FTE Marketing Planner	Co-ordinating the branch in marketing calendar and acting as the gatekeeper of what we are asking from branches while liasing closely with the Communications team.	New	Perm	3a
			+1 FTE Equipment Development Manager	To support modernising the existing locals and mains formats, and support new format developments.	New	Perm	3a
			+1 FTE Category Manager	Owns the marketing of the Post Office proposition to our retail customers - current, new and future. Owns the annual plans and briefs comms manager ref priorities.	New	Perm	3a
			+1 FTE Branch POS Scrum Master	Facilitate delivery of new POS strategy, bring new ways of working with agility which can be used for other Retail marketing initiatives.	New	FTC, 12 months	3a
			+1 FTE Branch POS Change Project Manager	Enhance controls over customer messaging through POS points and develop segmented, customer-led messaging and more 'always on' marketing collateral.	New	FTC, 12 months	3a
			+1 FTE Retail Marketing Campaign Manager	NT and ND require additional support to help market their branches locally to ensure we maintain/grow footfall and deliver profitable branches. Role will help build a toolbox of parts that can be easily deployed and personalised.	New	FTC, 12 months	3a
			+1 FTE Branch Communication Project Manager	Review the large volume of information sent into branches - particularly from retail and marketing. Review existing digital platforms for branches and work closely with other platform teams to decide the one stop shop go to moving forwards.	New	FTC, 6 months	3b
FS&T	1.1m	10.0	+1 FTE PO Money		New	Perm	3a
			+1 FTE PO Money		New	Perm	3a
			+1 FTE PO Money		New	Perm	3a
			+1 FTE Digital		New	Perm	3a
			+1 FTE Digital		New	Perm	3a
			+1 FTE Digital		New	Perm	3a
			+1 FTE Customer Marketing		New	Perm	3a
			+1 FTE Customer Marketing		New	Perm	3a
			+1 FTE Customer Marketing		New	Perm	3a
			+1 FTE Customer Hub		New	Perm	3a

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Dedicated POMS resource within central marketing will increase by 10 FTE but will be paid for by POMS

Marketing area	Incremental Role	Vacancy or New	FTC or Perm	Cost - Resurce	Cost - Media	Total Cost	LTV Benefit
Search Engine Optimisation (SEO)	+1 FTE Web Editor +1 FTE Copywriter +1 FTE SEO Manager	New New New	Perm Perm Perm	0.2m	0.4m	0.6m	0.4m
Lead Capture	+1 FTE CVM Manager +1 FTE Campaign Manager Cross-sell +1 FTE Data Analyst/Executuive	New New New	Perm Perm Perm	0.2m	0.3m	0.5m	1.1m
Customer Value Management (CVM)	+1 FTE CVM Manager +1 FTE Digital Manager	New New	Perm Perm	0.2m	0.2m	0.4m	0.7m
Digital	+2 FTE CRO Specialist	New	Perm	0.1m	0.3m	0.4m	0.9m

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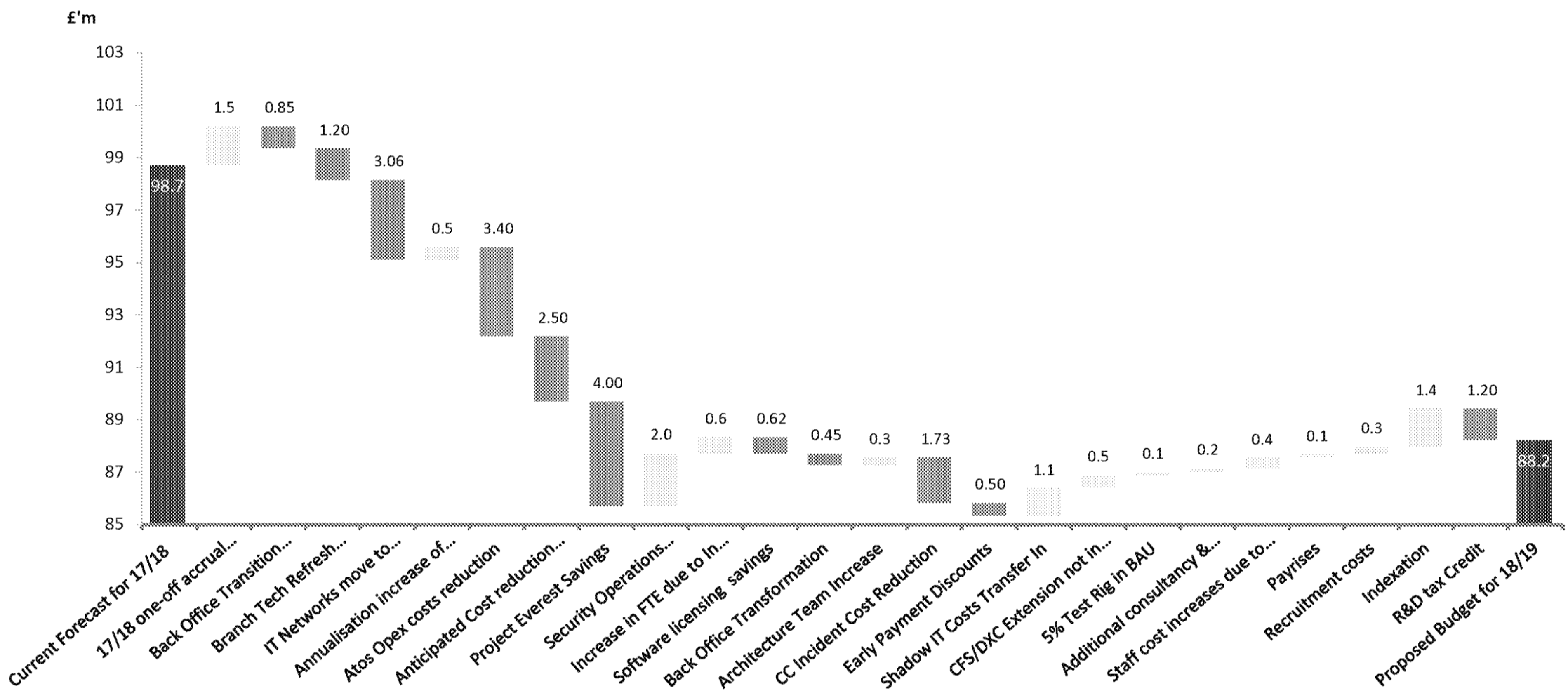
IT Cost Reduction programmes continues with £10.5m y-on-y benefit

Format and comments



- Comments.

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POMS 5 Year Plan: Executive Summary

Context and approach

- Since the last POMS strategy was developed 18 months ago, there has been a significant number of changes across the market, the Post Office Group and in the POMS business
- The review responds to the need to refresh POMS's 5 year strategy in light of thesechanges, detailed product deep dives and challenges received from our Shareholder
- Two financial scenarios have been modelled. A base case building on current business models with optimised marketing capability and an investment scenario enabling the development of a homeinsurance (GI) model supported through enhanced customer value management (CVM)
- The review incorporates an examination of a changing market context, M&A review, target customer needs, business operating model, marketing, distribution and customer management, pricing and our change plans
- It outlines how we will continue to transform our insurance business towards a more scalable and controllable customer-centric growth focused organisation
- The plan sets out the context, goals, strategies and initiatives which reflect the needs of our target customer segments, including changes to business operating models, product focus, distribution capabilities, change plan andrisks

Main conclusions

- The UK insurance market remains attractive from both a customer and commercial standpoint
- POMS needs a distinctive customer positioning in order to compete effectively
- Increasing innovation and the right business operating model will be required to respond effectively
- The existing franchise of both POL and POMS represents a substantial area of opportunity that hasn't been fully unlocked
- Unlocking value is dependent on changing the GI operating model, investment in the customer proposition, in new capabilities, marketing permissions and the capture and use of data by both POMS and POL
- POMS growth is partially dependent on Post Offices initiatives and capability (Customer Hub, CRM's, Marketing, etc.)
- Acquisition and disruption options are under consideration and offer further growth potential

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Financial Summary

POST OFFICE

Key financials

- Adopting the Growth Investment Case will drive an additional£36.4m pa in income in 2022/23 (total income£77.3m) versus 2017/18 - a 89% growth rate. Note impact of potential loss of MS's income now factored in
- Group EBITDA will climb to £41.9m, 107% increase on 17/18. POMS EBITDA will climbto £17.6m, 133% on 17/18
- CAPEX spend of £25.6m over 5 years, £11.1m Nemesis
- £10m capital injection required covering development costs whilst meeting regulatory capital requirements and internal commission structures
- Increase in direct FTE over the period of 19, from 50 to 69 (growth investment case, excludes POL resources)
- Increase in 10 FTE in POL marketing to support existing investment fund initiatives in to future years and further marketing activities (£0.7m)

Base case scenario

	17/18	18/19	19/20	20/21	21/22	22/23
Net Income - £m	40.9	49.4	51.5	54.7	58.4	62.0
Group EBITDA - £m	20.2	22.2	23.6	25.8	28.4	31.0
POMS EBITDA - £m	7.5	6.7	7.3	8.4	9.9	11.2
CAPEX - £m	3.5	3.1	2.1	1.8	1.4	1.4
Group EBITDA Margin	49%	45%	46%	47%	49%	50%
CAGR Income	9%					
CAGR Group EBITDA	9%					

Growth investment case scenario

	17/18	18/19	19/20	20/21	21/22	22/23
Net Income - £m	40.9	49.4	55.6	63.1	70.0	77.3
Group EBITDA - £m	20.2	21.0	24.7	30.7	36.3	41.9
POMS EBITDA - £m	7.5	5.4	7.2	10.8	14.3	17.6
CAPEX - £m	3.5	11.3	8.7	2.8	1.4	1.4
Group EBITDA Margin	49%	43%	44%	49%	52%	54%
CAGR Income	14%					
CAGR Group EBITDA	16%					

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Conclusions and Recommendations

Key recommendations

- Adopt a new vision, mission and customer promise to guide POMS towards its proposition development
- Focus the POMS business behind 3 major strategic pillars: (1) Business operating model designed for customer-led growth, (2) Distinctive customer offer, and (3) Scalable customer distribution engine
- Continue the execution of the travel and protection strategies, refining with additional learning and capabilities
- Proceed with developing enhanced insurance capability. Secure commitment from PO re marketing capacity and focus on data capture and permissions
- Proceed with bringing the Home model in-house (project Nemesis). Re negotiate / re tender motor
- Invest in CVM (Customer Value Management) to allow POMS to capture a greater sharing of existing customers' insurance wallets
- Continue to explore a range of smaller options that have been identified
- Seek Group funding to explore launching a 'disruptive play' into themarket – Separate business case
- Pursue all identified additional opportunities

POL dependencies

- High levels of branch sales volumes of 240k in 18/19 and reducing thereafter
- Marketing capabilities and resources – including CVM, 10 additional FTE (£700K)
- Delivery of key POL projects – Customer Hub, Analytics capabilities, CVM, Enhanced CRM tablet capability
- Maximised level of marketing permissions and sufficient access to POL customers, their data and channels
- £10m capital injection required covering development costs whilst meeting regulatory capital requirements and internal commission structures

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Strong financial forecast under the base case

Base case scenario*

	17/18	18/19	19/20	20/21	21/22	22/23
Net Income - £m	40.9	49.4	51.5	54.7	58.4	62.0
Group EBITDA - £m	20.2	22.2	23.6	25.8	28.4	31.0
POMS EBITDA - £m	7.5	6.7	7.3	8.4	9.9	11.2
CAPEX - £m	3.5	3.1	2.1	1.8	1.4	1.4
Group EBITDA Margin	49%	45%	46%	47%	49%	50%
CAGR Income	9%					
CAGR Group EBITDA	9%					

Commentary

- Potential impact of loss of MS revenue factored in
- Scenario excludes the impact of developing the new GI model, acquisition and disruption
- Plan shows a significant change in product and channel mix over the planning horizon
- Modest CAPEX demand

Key assumptions

- No deterioration in market conditions and no further regulatory shocks
- Based on existing activities and known initiatives
- Current model for general insurance with recent margin and retention performance remaining
- Protection product developments fully implemented
- DRTV for Life (Over 50's) validated in test & learn
- 18/19 step change in Agg. sales (+41%) and Web (+38%) supported by higher marketing spend and improved journey
- Investment in Pricing, Product and Marketing functions

Key dependencies on POL

- Branch can deliver 240k sales in 18/19, reduces to 200k in 22/23
- Travel summer campaign with 25% discount (18/19)
- 10 FTE growth in PO Marketing Team (£700K)
- Web sales uplift required SEO delivery, FRES support, Travel integration, delivery of customer Hub

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Growth investment case unlocked by a different GI model and CVM

POST OFFICE

Growth investment case scenario*

	17/18	18/19	19/20	20/21	21/22	22/23
Net Income - £m	40.9	49.4	55.6	63.1	70.0	77.3
Group EBITDA - £m	20.2	21.0	24.7	30.7	36.3	41.9
POMS EBITDA - £m	7.5	5.4	7.2	10.8	14.3	17.6
CAPEX - £m	3.5	11.3	8.7	2.8	1.4	1.4
Group EBITDA Margin	49%	43%	44%	49%	52%	54%
CAGR Income	14%					
CAGR Group EBITDA	16%					

Commentary

- Potential impact of loss of MS revenue factoredin
- Significant CAPEX above base case – Nemesis £11.1m, CVM £4.7m
- CVM revenues (increased product holding) drives £2.5m of revenue in 19/20 rising to £11.8m in 22/23
- Margin released from terminating BGL deal partially reinvested in POMS new operating costs

Key assumptions (in addition to Base)

- Duck Creek configured for Home
- BGL arrangement terminated for Home, noticed served in March 2019
- Home new business on Duck Creek from Sept 2019
- Home back book (200k policies) migrated on renewal over 12 months from Sept 2019
- Value released by eliminating Junction take out partially reinvested in POMS capability e.g. call centre, Ops costs
- Car and Van terms assumed to be same as Junction– possible upside if retender

Key dependencies on POL (as Base)

- Branch can deliver 240k sales in 18/19, reducing down to 200k in 22/23
- Travel summer campaign with 25% discount
- Marketing Team Expanded and improved delivery
- Web sales uplift required SEO delivery, FRES support, Travel integration, Customer Hub

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Growth investment case unlocked by a different GI model and CVM

Base Case	17/18	18/19	19/20	20/21	21/22	22/23
Net Income - £m	40.9	49.4	51.5	54.7	58.4	62.0
Group EBITDA - £m	20.2	22.2	23.6	25.8	28.4	31.0
CAP EX - £m	3.5	3.1	2.1	1.8	1.4	1.4

Investment	17/18	18/19	19/20	20/21	21/22	22/23
Net Income - £m			4.1	8.3	11.6	15.3
Group EBITDA - £m		(1.2)	1.1	4.9	7.9	10.9
CAP EX - £m		8.2	6.6	1.0		

Growth & Investment Case	17/18	18/19	19/20	20/21	21/22	22/23
Net Income - £m	40.9	49.4	55.6	63.1	70.0	77.3
Group EBITDA - £m	20.2	21.0	24.7	30.7	36.3	41.9
CAP EX - £m	3.5	11.3	8.7	2.8	1.4	1.4

Growth & Investment Case Group EBITDA Variance						
Versus Group	0.4	(5.9)	(9.0)	(10.6)		
Versus June R/Fresh	(1.0)	(3.9)	(6.9)	(4.9)	(2.9)	(1.4)

Key points

- 18/19 is a year of transition, additional operating costs are incurred as new operating model is brought on line ahead of Sep 2019 go live for travel on Duck Creek.
- The £8.2m of incremental CAPEX spend relates to:
  - £5.7m for Nemesis
  - £2.5m CVM and concierge
- Total additional CAPEX spend is £15.8m made up of:
  - £11.1m Nemesis
  - £4.7m CVM and Concierge
- The net income increase is predominantly CVM (increasing product cross holdings and retention within the POMS customer base) augmented by Nemesis benefits
- Potential loss of MS revenue factored into Base and Investment Case (£2.3m if 18/19 rising to £3.1m in 22/23

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The plan contains net risk

Insert R&O Table including weighting.

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17/18 Income statement

	2017-18 Proposed Revised Budget	2016-17 FYF	2017-18 5 Year Plan	Variance to 2016-17 FYF	Variance to 5YP
Net Income	**823**	**847**	**828**	**(24)**	**(5)**
Expenditure	**(830)**	**(892)**	**(834)**	**62**	**4**
FRES	35	35	34	0	1
EBITDAS	**28**	**(10)**	**28**	**38**	**0**
Government Grant	140	220	140	(80)	0
Capital & Exceptional expenditure	(179)	(323)	(174)	144	(5)
Depreciation	(2)	(1)	(1)	(1)	(1)
Interest and tax	3	4	1	(1)	2
Net loss	**(10)**	**(110)**	**(6)**	**100**	**(4)**

- Net loss for 17/18 of £(10)m driven by capital and exceptional spend.
- Government grant falls from £220m to £140m, a reduction of £80m.
- Depreciation, interest and tax largely consistent.

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Capex and Exceptional spend of £179m budgeted for in 17/18 compared to £323m in 16/17

£m	Base Case 2016/17			Base Case 2017/18	Overlays 2016/17	Overlays 2017/18	Overlays Total	Total 2016/17	Total 2017/18
	YTD Actual	FYF	Remaining spend P10-P12						
Network Development Programme	(71)	(94)	(23)	0	(3)	(23)	(26)	(97)	(23)
Back Office Transformation	(5)	(9)	(4)	(5)			0	(9)	(5)
IT & Digital	(41)	(75)	(34)	(31)	(4)	(54)	(58)	(79)	(85)
P&E	(16)	(20)	(4)	(4)			0	(20)	(4)
LEAN Centre	(1)	(1)	(0)	0	0	(16)	(16)	(1)	(16)
Directly Managed Branches (Crown Network Development)	(28)	(43)	(15)	(4)	1	(11)	(10)	(42)	(14)
Project Finch	0	(5)	(5)	0			0	(5)	0
Commercial	(1)	(2)	(1)	(0)	(11)	(10)	(21)	(12)	(10)
Financial Services	(1)	(3)	(2)	(1)	(1)	(10)	(11)	(4)	(11)
Property	(2)	(5)	(3)	(3)			0	(5)	(3)
Supply Chain	(0)	(5)	(5)	(1)			0	(5)	(1)
Corporate Services	(1)	(2)	(0)	(3)			0	(2)	(3)
Central	(3)	(3)	0	(3)			0	(3)	(3)
Total Excl IRIS	(172)	(267)	(95)	(55)	(18)	(123)	(142)	(285)	(179)
IRIS	(39)	(37)	2	0			0	(37)	0
Total Incl IRIS	(211)	(304)	(93)	(55)	(18)	(123)	(142)	(323)	(179)

- **Base case projects**
  - 16/17 YTD spend at average of £19m p.m. remaining 16/17 spend of £93m would require £31m p.m.
  - Risk that circa £28m of spend will move into 17/18.
  - 17/18 base case budget is £55m, business cases have been approved for the majority of this.
  - 17/18 spend is net of an assumed £30m release of agents compensation provision which will be subject to auditor review.

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Cashflow, Headroom and Balance Sheet

	£m
EBITDAS	28
Deprn/amort.	2
Change in WC/other	(153)
Interest	(7)
Capex and exceptional spend	(179)
	(309)
Network payment	70
Non-NSP funding	70
Net cash outflow	(169)
Balance sheet headroom:	
- 31 March 2018	55
- Minimum *(Dec. 17 and Mar. 18)*	55

Cash Flow

- Change in WC/other (£153m outflow) – mainly reflects higher cash (£116m), with Easter Sunday on 2 April in 2018 compared to 16 April in 2017, and provisions payments (£36m), relating to the agents' compensation.
- Capex and exceptional spend (£179m outflow) – See Slide 25. Any variances to the projects budgets will have a direct impact on cash flow.

Headroom

- Balance sheet headroom remains narrowly within the £200m Board imposed limit in each period, with pressure points at Christmas and Easter.
- Management of Network Cash will continue to be key at these pressure points.

Balance Sheet

- The group Balance Sheet will move to a net liabilities position, largely driven by the closure in 16/17 of the DB pensions scheme.

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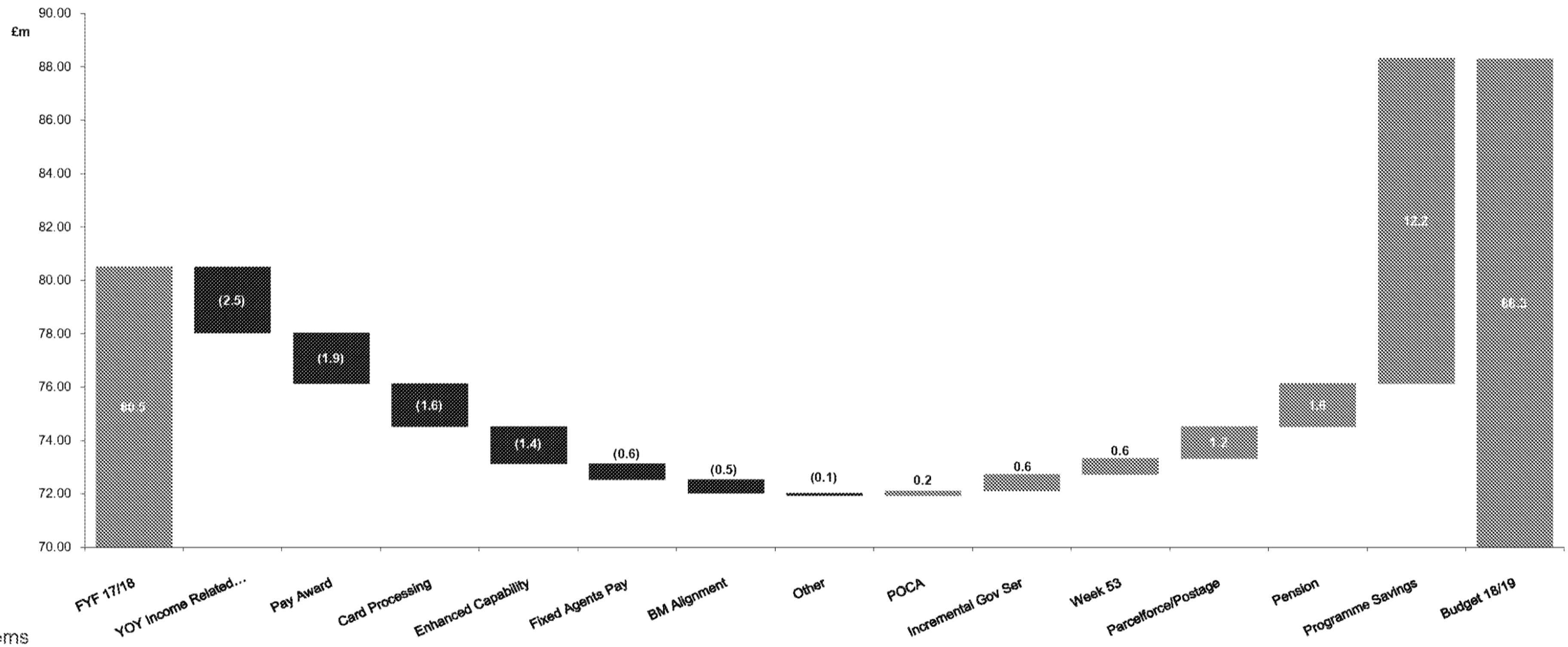
YOY EBITDA Bridge by area required



Key Items

- Network Programmes deliver £12m of improvement - Simplification £5.6m, 25 DMB branch conversions £3.3m, 300 locals in ND £2.0m, 100 NT Conversions £0.7m and HNGT Lite £0.6m
- Underlying income net decline reduces EBITDAS by £(2.5)m driven by Mails Fixed fees £(4)m and volume declines in Stamps and Lottery
    - NB Volume/Income positive growth trends in RPI, Home Shopping Returns, Parcelforce, International and Verify
- New POCa contract has net +£0.2m impact inc £1.5m hedged interest uplift. Potential £4m upside if regulator removes PSD2 monthly statements requirement
- 26 new roles (£1.4m) included to fill operational delivery gaps in Product and Marketing. NB Martins Identity £0.6m requirem ents not included
- Opex includes £4.4m for Product projects, mainly revenue protection, £2.1m moved from Government Services to Identity and C&S righ t hand column. £0.5m to be removed from Mails spend.

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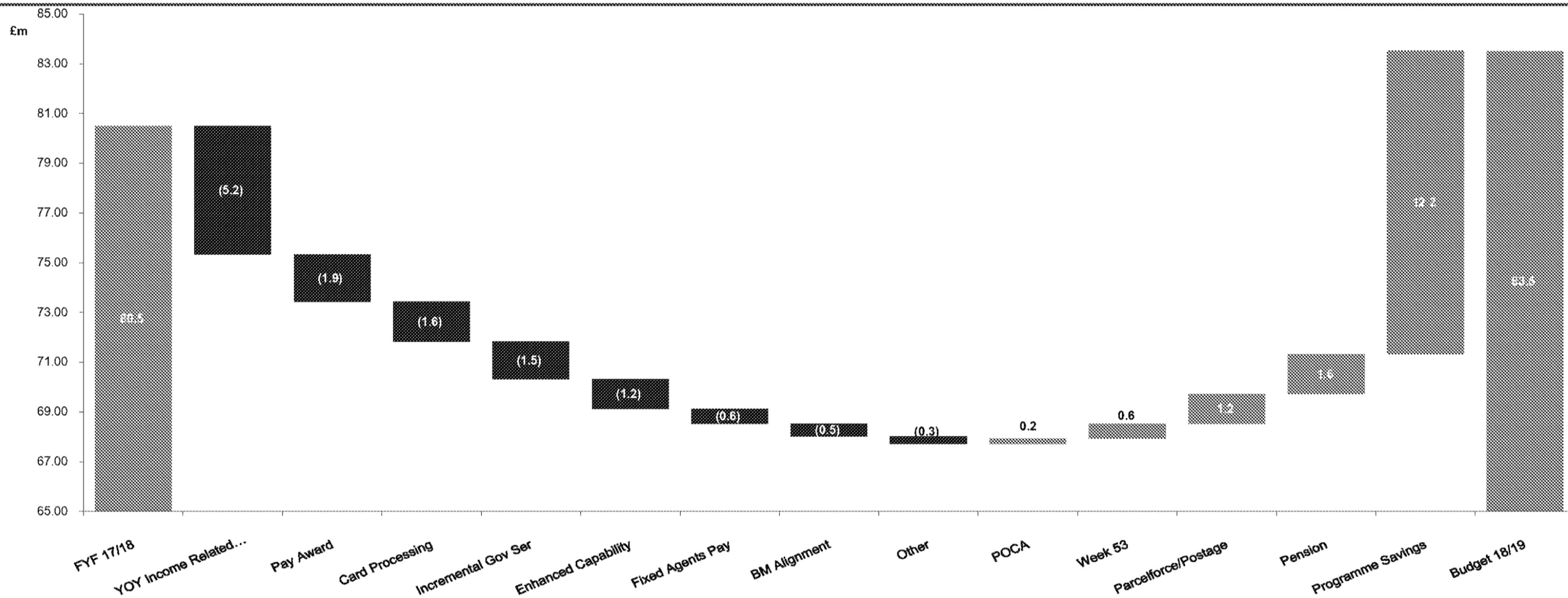
YOY EBITDA Headcount Bridge Required.



Key Items

- xxx

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Directly Managed Branch (DMB) Programme

Author: Julie Thomas GE Sponsor: Debbie Smith Date: 10th January 2018

Executive Summary

Context

Despite significant recent improvements in our DMBs, our analysis still proves conclusively that a full franchise operation would give a better commercial return, even if staff costs could be substantially reduced (appx1). Replacing a DMB with one or more agency branches is also consistent with our Retail Strategy which aims to expand our network in urban areas, providing more choice and convenience for customers.

Following the current Crown Network Development Programme (CND) which continues into 2018/19, we will have a residual network of 227 DMBs.

Franchising is a lengthy and often controversial process, with a 'drop-out' rate of c20%. Using recent experience of franchising on-site to trusted strategic partners, along with our success in opening more Local branches, we believe it is possible to divest all DMBs over a 3-year period, delivering an incremental £27.1m P&L benefit.

Questions addressed in this report

1. Should we continue franchising DMB branches?
2. What gives us confidence we can continue to find franchise partners to support this plan?
3. What options have been considered for the future of the DMB network?
4. What is the total business case investment (including sunk costs) and what funding is requested at this stage?

Conclusion

1. The franchising programme should continue. Exiting DMBs improves customer convenience, simplifies our operating model and creates a more sustainable network. Exiting all DMBs would provide £27.1m incremental benefit to the business.
2. We have successfully adapted the franchise process over the past year and understand the most challenging aspects. Our new strategy will incorporate existing, experienced, temporary operators to first franchise branches on-site, followed by the subsequent appointment of permanent operator(s).
3. We have considered retaining c.50 of the most profitable DMBs, but the central overhead of c£6m driven by having even a small DMB network may in future call into question the commercial sense of retaining these.
4. The 'franchise all' case would require £135.5m of investment, or £117.1 net of disposals proceeds, for £27.1m EBITDAS benefit, 6.4 year payback, £(35.2)m NPV over 5 years. The total draw down request of £23.1m will allow us to continue franchising DMBs during 2018/19, with future years subject to refreshed business cases to enable all options to be considered on an annual basis.

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Project expenditure (£m/k)	Opex	Capex	Exceptional	Client Funded	Total
Sunk Costs	0	0	317		317
2017/18 Current request [approved Nov '17]	0	0	1,718		1,718
2017/18 Future request			275		275
Future Request (beyond 17/18)	0	1,468	21,370		22,838
Total Expected costs	0	1,468	23,681	0	25,149
Cost included in Plan					9,702
Variance to Plan					15,446

Benefits (£m/k)	Income Growth	Income Protection	Cost Savings *	Cost Avoidance	Total
In Year					
Steady State (Yr...2024..)	(15,804)		34,320	8,588	27,103

Hurdles		
	NPV	(35,156)
	Payback (yrs)	6.4
	EBITDAS *	27,103

requested funding

Input Sought
GE input and approval to progress to POL Board, including year 1 draw down

Input Received
Group Executive 19th Oct, CAG and GE IR Steering Group 9th January

The Report

What is the need or opportunity and why now?

Financial imperative: DMBs have high staff costs (17/18 staff cost budget of £79m) with inflexible contracts and fixed property costs (17/18 property cost budget of £24m) and they drive complexity leading to other central overhead costs, est. £6m.

Customer imperative: Agency branches offer our customers extended opening hours at a more affordable, variable, cost to Post Office. Retailers give access to Post Office services across their retail opening hours, often 7 days a week.

Strategic alignment: Franchising, increasing opening hours, and expanding our network through 'whitespace' activity are all key parts of the Retail Strategy approved by the Board in June 2017. This DMB plan complements and helps deliver the strategy.

Available funding: These plans are dependent on UKGI funding. With this funding confirmed we can now continue our activity to exit DMBs over the approved funding period.

What do we propose to do and why?

Our analysis and experience show that only franchising can deliver full and sustainable cost savings. Our challenge has been to devise a way to mitigate some of the delivery risks that previous franchising programmes have encountered, including:

- Large retail chains (multiples) are wary of any risk (however small) of taking on staff under TUPE due to current expensive Post Office pay and terms and conditions. This is true even if with financial indemnity against the risk.
- Local campaigns during consultation create negative PR for potential new operators and for landlords, both of whom sometimes back out of deals.
- Our larger DMBs have diseconomies of scale for potential partners when franchising, often consuming over 50% of valuable ground floor retail space.

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- The difficulty of synchronising whitespace and franchise activity in a local area, meaning the franchise needs to be the final move so that the remuneration quoted can be based on recent evidence for the franchisee's business plan.

The approach we are setting out is a new one, designed to decouple the external dependencies on potential operators, landlords and, to a lesser extent, local stakeholder handling, which have caused delays to franchising in recent years. It is designed to deliver each franchise in the 9 months required for recruitment, public and employee consultation. Franchising remains an inherently complicated and controversial process, but one over which we would have far greater control.

The new process will sequence the DMB exit first by using the current DMB property estate with flexible lease terms to host interim franchise branches using temporary operators as a first step. This will enable immediate staff cost savings while the recruitment of the long-term operator and branch location is progressed in parallel. Subsequent change can follow in a considered way; with the DMB and its staff exited, we believe further change is far less likely to attract union or locally-driven campaigns.

This also creates more certainty for our staff once we have announced our intention to exit the DMB as we will be able to time our DMB exits more precisely by working with temporary operators who can step in as soon as the on-site property arrangements are in place. There is no need to run the usual lengthy recruitment process for temporary operators and on-site franchising does not require a full public consultation process.

We have tested the market and found existing temporary operators who are keen to support our plans. We would allocate a retail support fund of ave.£25k pa per site to underpin the business case for temporary operators to help them as they are not expected to invest significantly in a retail offer due to their role being short-lived in these schemes (c.18 months).

We propose advertising around all 227 branches for interested retailers either on or off site, and we would progress permanent solutions as a priority. Where more time or more complex network solutions are needed, a temporary operator will be used. Once a temporary operator is installed, we can continue our Locals opening activity at pace, creating greater convenience for customers in the local area whilst also reducing the size of the remaining branch to one that is more "franchisable".

We assume we will franchise the 32 DMBs currently hosted within WH Smith to them, securing an acceptable deal for POL. We are confident WHS will wish to retain the footfall the Post Office brings, making this achievable.

BNP Paribas have provided advice on potential property disposal strategies, including a lease liability transfer deal, however, the cost and time to establish this is expected to outweigh any advantages. A sale and leaseback arrangement could release value from our 24 freehold properties earlier to help fund the programme of work. A valuation exercise is recommended during 2018/19 at a cost of £100k to better inform our disposal approach.

Risks and mitigations

The risk of adverse local, political and union reaction, including industrial action (Impact: High, Probability: High). This case assumes advertising all DMB branches in April to allow both permanent and temporary franchise opportunities to be explored. A draft communication plan has been prepared and the key narrative is at appendix 4. The communication plan and its timing will be subject to a GE decision, following discussion at GE IRSG during Q4.

The risk of a 2 step process causing confusion to customers and stakeholders and therefore increased CiTA scrutiny (Impact: Medium, Probability: Medium). CiTA have been engaged on the proposed approach to first flood an area with smaller branches and later close the main DMB branch. They understand both our need to do this and that we could not be clear during consultation about our longer term plans to close the DMB or temporary operated branch. The consultation process, timelines and all documents are under review to support this approach, led by Patrick Bourke.

The risk of income loss due to franchising (Impact: Medium, Probability: High). This business case assumes 81.8% of total income will migrate to the new branches; observed migration levels following franchise activity in the last 2 years is 84% and this represents a more conservative estimate given the 2 step approach. The case has also allowed £1.5m investment in migration support and marketing activity which can be directed to product specific marketing, CRM support or local awareness activity.

What options did we consider?

The table below shows the outcome of the modelling for each option considered:

Business case table

	1	2	3	4	5
	Retain all DMBs, replace 30% of staff with new T&C's	Franchise 135 / retain 92	Franchise 177 / retain 50	Franchise all 3 years	Franchise all 2 years
Costs					
Investment	(20.7)	(90.1)	(121.6)	(127.0)	(126.5)
Central		(0.8)	(1.0)	(8.5)	(8.5)
Total Investment	**(20.7)**	**(90.9)**	**(122.7)**	**(135.5)**	**(135.1)**
Assumed Freehold disposals		12.4	12.5	18.4	18.7
Funding Required	**(20.7)**	**(78.5)**	**(110.2)**	**(117.1)**	**(116.4)**
Return					
Recurring EBITDAS benefit	3.9	12.3	14.3	12.5	12.5
Central Costs savings	0.0	2.3	3.3	6.1	6.1
Avoided costs	0.0	6.3	8.5	8.6	8.5
Total	**3.9**	**21.0**	**26.1**	**27.1**	**27.0**
NPV		(33.8)	(53.3)	(35.2)	(34.9)
Payback		5.7	6.7	6.4	6.2

1. Retain and improve 227 DMBs – **not recommended**
   Within this option, we considered introducing new terms and conditions for future DMB recruits to bring these in line with market norms. However, very low churn rates (<2%p.a.) mean a 'voluntary early departure' scheme would be needed to achieve this. The economic case is poor, even assuming 30% of posts could be replaced at lower pay rates, the run-rate P&L for DMBs would be £(18.7)m p.a. by 2024/25 (steady state), compared to £18.5m p.a. if run as agency branches. The union position in such a move could create equivalent union discord to franchising.

2 & 3. Franchise 135 or 177 branches and retain 92 or 50 – **retain as an option**

Branches would only be retained due to the poor case to franchise driven by high property holdover and staff release costs. Whether kept as DMBs or franchised, Post Office has the ongoing liability of the property costs. Once properties are vacant, BNP Paribas would act to defray some of this cost exposure by sub-letting, so franchising would improve the position.

4. Franchise all 227 branches – **retain as an option**

This approach would divest all 227 DMBs over a 3-year period. This is the only option which allows us to simplify our operating model, including the release of c£6m of central costs driven by the administration of people management tasks, property maintenance, sales MI and bonuses and a line management support team. These savings could be taken as an EBITDAS benefit or (part) re-invested in customer and sales support, including marketing.

5. Franchise all 227 branches in 2 years – **retain as an option**

This has been scoped as an option, however our two step approach is unproven at this scale, although we have completed market testing with likely operators in order to give confidence to our plans.

What do we need to do next to progress and deliver these objectives?

We propose advertising all 227 branches in early April 2018, once the supporting communication and stakeholder plan has been approved by the GE. This would allow us to progress the first year's activity and set up framework deals with franchise partners potentially allowing us to accelerate in years 2-3. We would also explore the potential to sell and leaseback our freehold properties to inform future annual business cases to confirm the latest position and opportunities and allow subsequent years funds to be drawn down. This would also enable GE to allocate funds on an affordability basis and to keep the retention of some DMBs as an option if needed.

- Jan 2018 – business case approved
- Mar 2018 – Comms plan and procurement approach complete and agreed
- Apri 2018 – Advert launched
- Jan 2019 – franchising starts

The investment and benefits are shown below vs the 3 year plan and the investment request to UKGI.

	Investment Including Property Disposal			Investment Excluding Property Disposal		
	18/19	19/20	20/21	18/19	19/20	20/21
One off costs						
Oct 17 Strat Plan	6.9	39.8	39.2	6.9	39.8	41.5
Latest version	22.8	52.3	39.0	25.1	64.6	42.3
Var	**(16.0)**	**(12.5)**	**0.1**	**(18.3)**	**(24.8)**	**(0.8)**
Benefits						
Oct 17 Strat Plan	(2.8)	2.8	12.0			
Latest version	1.6	14.7	27.7			
Var	**4.4**	**12.0**	**15.7**			
Benefits excluding Property savings to avoid double count with the Onerous Contract Provision (OCP)						
Oct 17 Strat Plan / Budget	(2.8)	(0.3)	4.0			
Latest version	1.6	13.1	20.9			
Var	**4.4**	**13.4**	**16.9**			

**Oct 17 Stat plan was also the October 17 business case and used for Budget 18/19 submission 1*

What would the impact be of delaying or rejecting the decision to progress?

- Loss of or delay to EBITDAS benefits – the funding is expected to be available only within a 3 year period.
- Inability to break up large DMBs into many more smaller branches, giving customer convenience and responding to competitive threat from other mails providers.

Scope

In Scope

- Developing and implementing area plans around our DMBs, including recruiting new temp, permanent and Local operators.
- Development of a communication and stakeholder plan and resources to support the change across the three years.

Out of scope:

- Implementation of the supporting property disposal or optimisation strategy. This is managed by Steve Norris, Head of Property.
- Implementation of any central cost reduction, should it be appropriate. It is recommended this is managed through wider POL existing efficiency programmes and activity.

What are the key (external) dependencies?

Timely availability of Government funding. Project will be unable to deliver the change activity, in particular the settlement agreement and property disposal costs.

Concurrences

Finance Director

Approved by	Commentary	Date
Cathy Mayor	The business case has a longer payback at 6.4 years than the hurdle rate and as such has a negative 5 year NPV. However, the long term recurring annual benefit is very significant at £27.1m pa warranting the significant cost. It is considered necessary to fully divest the remaining DMB network to facilitate central operations simplification and cost reductions (NB case includes indicative £6m central cost savings).	9th Jan 2018

Design Authority

Approved by	*Commentary*	*Date*
Ben Gray	The project proposes a well-developed solution to exit/franchise DMBs, but it is unclear from the case whether this is the best solution to the wider problems/challenges associated with improving the profitability of Retail.	9th Jan 2018

IT Portfolio Office (assessment of IT capacity and capability)

Approved by	*Commentary*	*Date*
Tim White	I concur subject to an IT impact assessment being completed by Andy Garner.	10th Jan 2018

Appendix 1 – comparison of options on P&L run-rate

DMB Options £m	Cost of Change	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
227 branches with 30% Jay take up										
Current P&L		(3.9)	(6.6)	(8.6)	(10.7)	(12.8)	(15.0)	(17.2)	(19.5)	(21.8)
Potential staff savings from Project Jay	(20.7)		3.7	3.6	3.5	3.4	3.3	3.2	3.2	3.1
Total P&L *		(3.9)	(2.9)	(5.0)	(7.2)	(9.4)	(11.7)	(14.0)	(16.3)	(18.7)
October Business Case	(110.2)									
Recurring benefit excl avoided costs		**0.0**	**(2.8)**	**2.8**	**10.1**	**19.8**	**19.5**	**18.2**	**17.6**	**17.6**
Proposed new business case	(117.8)									
Recurring benefit excl avoided costs		**0.0**	**1.2**	**12.3**	**21.7**	**23.5**	**20.8**	**19.1**	**18.5**	**18.5**

* Notes
1) Current P&L is adjusted for inflation on Staff & property costs at 2.5% pa
2) Savings from Project Jay is adjusted for staff costs inflation at 2.5% pa

Appendix 2

The savings in the table below are based on work by KPMG in Sep 2016, refreshed for this business case as a desktop exercise by the Retail FD.

Description	Sub-bucket	Benefit £k	One off Cost £k	Comments	Direct?
SSK Running costs	IT	1,167	0	It is assumed the SSKs in the DMBs will either no longer be in use or transferred to Agency Branches (where their maintenance/running cost has been captured).	Direct
P&E costs	HR	874	1,311	Cost relates to employee relations basic salaries. Cost saving sensitised by 50% as it is not considered that all costs will be able to be reduced.	Indirect
Finance	Finance	212	345	3 Finance heads (1xL4, 2xL3b) directly working on DMBs identified to cease.	Indirect
HRSC	HR	494	741	2800 DMB staff of 5300 Total POL Staff is 53%. HRSC pay is £1.9m. This saving assumes 26% saving of pay cost so circa half of the 53% saving.	Indirect
ABMs and BDMs	Retail	955	2,615	Removal of Branch Management and Area Management	Direct
Network & Sales Director Team - Staff	Retail	750	1,125	There are £1m worth of Channel admin costs not included in the already included Channel Admin staff saving and we have assumed 75% of this should be able to go after DMB removal.	Indirect
Network & Sales Director Team - Non-Staff	Retail	825	1,238	Channel Admin non-staff weren't included in the original savings and we think of the £1.3m budget we can remove c£0.8m	Indirect
Property Team	Property	780	1,170	Projects and Facilities management of the DMBs no longer needed.	Indirect
Total		**6,056**	**8,544**		

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Appendix 3 – Business Case

£k	Sunk costs	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
				Investment				
Capex	0	0	1,468	5,004	8,699	2,808	0	17,979
Exceptional	317	1,993	21,370	47,336	30,308	11,326	4,885	117,535
Opex	0	0	0	0	0	0	0	0
Client Funded	0	0	0	0	0	0	0	0
Total POL Investment	317	1,993	22,838	52,340	39,007	14,134	4,885	135,514

£k	Approved Prior years	Approved 17/18	New 17/18	New 18/19		Total
			Drawdown Request			
Capex	0	0	0	1,468		1,468
Exceptional	317	1,718	275	21,370		23,681
Opex	0	0	0	0		0
Client Funded	0	0	0	0		0
Total Drawdown Request	317	1,718	275	22,838		25,149
Total New Request			275	22,838		23,113

£k	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
				Impact on EBITDAS				
Net Income		0	(91)	(2,188)	(7,036)	(11,808)	(13,631)	(34,754)
Direct Product Costs		0	1,159	9,848	14,087	12,507	10,890	48,490
Cost Saving		0	51	2,736	9,604	14,650	15,205	42,246
Recurring Costs		0	450	4,309	11,004	16,440	16,873	49,076
Total Impact on EBITDAS		0	1,568	14,705	27,658	31,788	29,338	105,058
Other cash items		0	0	2,311	12,303	3,288	511	18,413
Total Cashflow	(317)	(1,993)	(21,270)	(35,323)	954	20,942	24,964	(12,044)

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	-35.2	6.4	yes	£27.1m	2024

Appendix 4 - Communication narrative (draft)

New DMB Business case messaging

- Over the last few years it's become increasingly clear that the model of running a standalone large Post Office is not commercially sustainable and does not meet the needs of customers who want local and convenient access through more, smaller branches. This is a trend we've also seen on the high street with many large supermarket chains opening a number of smaller branches so that they can meet the needs of existing customers and tap into new markets.
- Moreover our mails strategy rests on convenient access for customers who don't want to travel to a large town centre post office during the working day to post items or return on line shopping. The only way we can compete and grow our mails business is by offering the kind of convenience that customers want – especially in urban areas where we know there is potential to grow our customer base.
- This means that we will be running a general advertisement to see if there is in interest in opening up a number of new branches in 227 areas across the country where we currently have a Directly Managed Branch – the focus of this is to ensure we offer customers convenient access to allow us to grow and protect our business and to tap into new customer demand.
- We really don't yet know what the interest will be so it's difficult for us to be clear about the timescales but our intention is to move to replacing directly managed branches with more, smaller Post Offices over the next three years. This means we can offer customers access to the same wide range of services through a larger number of branches near where they live and work offering convenience and allowing us to tap into new customer demand.
- At this stage it's very difficult to be certain around the level of interest we'll get to our advertisements and what the best mix of branches will be for each location. For the vast majority of places we want to open more smaller Post Offices but there will be some locations where we could see a one on one franchise or retaining the DMB until we have another service to meet local customer demand.

HR/people messages

- We know that for many of our people working in directly managed branches there has been concern and uncertainty of the future of the network.

  We want to be open and honest with you which is why we've taken you through our retail strategy and what we think this means for the future of these branches. While we want to replace many of our DMBs over the next three years we can't be certain that this will be possible in all locations or at this stage confirm a timescale for your branch.

- We really want to reduce uncertainty for all colleagues working in directly managed branches and we'll make sure that you are kept up to date on local developments and what this means for you. It's really difficult to give general advice on the options open to colleagues in individual branches as local circumstances will vary – we've got a long history of manging change and of treating our employees fairly and we will make sure that all colleagues hear news first and that there is support to look at individual preferences. There are no plans to change the current settlement arrangements.

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Retail CE's Report – January 2018

Author: Cathy Mayor Sponsor: Debbie Smith Meeting date: 9th January 2018

Executive Summary

Context

The Period 9 YTD Retail Commercial Performance Report for the Board.

Questions this paper addresses

1. How are our sales and revenues performing against our targets and prior year?
2. What are the implications for our outlook and plans?
3. Competitor Information

Conclusion

1. Christmas trading strong, temporarily reversing recent trends, with 57.4m Customer sessions in P9, +4% on 2016, as consumers appear to leave things later.
2. Customer service levels during peak trading much improved. Year on year P9 Effort +9% to 81% and Wait time acceptability +4% to 93% as Mails Simplification and No Queues at Christmas initiatives helped reduce average wait times by 2 minutes.
3. In Mails, continued strong volume growth in Home Shopping Returns and Local Collect is helping offset the ongoing decline in stamps.
4. We have converted our 7,500th Network Transformation branch.
5. Retail is forecasting to beat EBITDAS Budget by +£7m, with further upside expected.

Input Sought

For the Board review and note.

The report

Overview of Financial performance

Gross Income (£m)	Period 9			Period 9 YTD			Full Year			
	Actual	vs Fcst	YoY	Actual	vs Fcst	YoY	Forecast	Budget	PY	YoY%
Mails Fixed	**4.7**	0.0	(8.9)%	**44.8**	0.0	(9.1)%	**59.8**	60.1	65.7	(9.0)%
Mails Variable	**35.4**	1.2	2.7%	**210.8**	1.5	1.3%	**272.3**	264.7	271.3	0.4%
Government Services	**5.9**	0.7	(15.6)%	**65.9**	1.6	(19.8)%	**84.5**	77.2	108.6	(22.2)%
Payment Services	**4.7**	(0.6)	(18.5)%	**43.2**	(0.7)	(13.1)%	**58.0**	57.9	65.6	(11.6)%
Retail & Lottery	**5.5**	0.2	7.7%	**34.5**	0.8	(2.8)%	**44.2**	40.9	46.3	(4.5)%
Verify	**0.7**	0.3	106.6%	**5.3**	0.6	52.9%	**7.7**	10.5	5.6	37.9%
Retail Total	**56.9**	**1.9**	**(1.7)%**	**404.6**	**3.8**	**(5.5)%**	**526.5**	**511.3**	**563.1**	**(6.5)%**

Retail Profit (£m)	Period 9			Period 9 YTD			Full Year			
	Actual	vs Fcst	YoY	Actual	vs Fcst	YoY	Forecast	Budget	PY	YoY%
Mails	**17.1**	0.6	(11.6)%	**116.5**	0.4	(6.4)%	**155.5**	149.6	157.1	(1.0)%
Government Services	**1.5**	1.0	7.6%	**19.4**	1.9	(33.1)%	**20.7**	15.1	38.8	(46.6)%
Payment Services	**0.6**	(1.2)	(55.6)%	**12.5**	(1.7)	(28.6)%	**18.2**	15.7	23.9	(24.0)%
Retail & Lottery	**2.6**	(0.2)	31.2%	**11.2**	(0.1)	(0.2)%	**13.7**	14.1	15.1	(9.2)%
Verify	**0.7**	0.3	106.6%	**5.3**	0.6	52.9%	**7.7**	10.5	5.6	37.9%
Retail Total DPC	**22.4**	0.5	**(7.8)%**	**164.8**	1.1	**(11.2)%**	**215.9**	**205.0**	**240.6**	**(10.2)%**
Fixed Agents Pay	**(3.0)**	0.2	13.6%	**(29.5)**	0.2	19.1%	**(39.0)**	(41.6)	(47.6)	18.0%
Sales & Trade Market	**(6.4)**	0.1	1.3%	**(60.2)**	0.7	10.7%	**(80.2)**	(74.2)	(88.1)	9.1%
Retail Programme Costs	**(0.8)**	(0.1)	61.4%	**(4.1)**	0.4	(34.0)%	**(7.3)**	(4.4)	(2.8)	(161.8)%
Retail Central Costs	**(0.7)**	0.8	(207.1)%	**(3.9)**	0.5	(62.3)%	**(5.8)**	(7.7)	(2.9)	(97.8)%
Retail Profit	**11.4**	1.5	**(4.8)%**	**67.2**	2.8	**(12.0)%**	**83.7**	**77.1**	**99.1**	**(15.5)%**

1. Whilst most areas are in volume decline, Retail continues to perform well versus budget and forecast. Mails income is benefiting from price effects; in particular higher levels of barcoding items than expected and the failure of delivery confirmation to reduce Signed For volumes. All key Home Office services continue to perform ahead of budget.

2. The income trends are projected to continue for the remainder of the year and fully mitigate the £5.5m programme benefit in year delivery gaps and other downsides, with Retail currently forecasting +£7m net upside. With +£2.8m upside to forecast already achieved, Retail is confident further upside to budget will be delivered.

Market Update

3. The convenience market in which most agents compete has seen recent growth, cost and consolidation trends continue this quarter. The Competition & Markets Authority (CMA) unconditionally approved Tesco's merger with Booker (supplier to c5,000 symbol stores), Nisa's c1,000 independent retailers voted in favour of a Co-op takeover and Palmer & Harvey, the UK's biggest delivered wholesaler with sales of £4.4bn, was put in to administration (Co-op has taken on some of its contracts). These changes will bring better prices and ranges to symbol operators, increasing pressure on independents.

4. The IGD's recent review of the convenience sector showed it to be one of the strongest growth areas in the UK economy with annual growth of 3.3% by value and 0.5% by store numbers. Analysts continue to forecast solid growth in the convenience channel, with the sector projected to add a further £6.9bn in value over the next five years.

5. These market changes, combined with key trends such as increasing automation and 'till-less' checkouts, underline the importance of Post Office investing in new models to supplement existing Local and Mains offering, particularly to Multiple partners. Project Panther and the trialling of ePOS integration and self-service kiosks in agency branches are crucial to providing an attractive retail value proposition.

6. Consumer buying behaviour over the peak period (Oct-Dec) continues to evolve with Black Friday eroding physical footfall in that week (-1.3%) and challenging the traditional retail pattern including Boxing Day sales (-4.5%).

7. Online sales grew 10% in Nov and now account for 13% of total non-food retail in the UK, driven by clothing and footwear (+22%). As price inflation exceeds volume growth, e-commerce parcel volumes over peak period are expected to grow slower at @12%. E-commerce growth remains central to the continued strong performance of our home shopping returns service.

8. Carriers are yet to announce individual peak performances but Hermes indicated growth rates of 7% over Black Friday. Hermes also reported their latest results which saw volumes grow 9% to 256m items, income +10% to £564m but profits only +4% to £35m reflecting the impact of increased operating costs and investment. They have also continued their joint promotional activity with eBay/Shutl offering a 10% discount for items bought on the platform in December. Evolution of eBay's shipping platform, which presents a real challenge to RMG and Post Office, remains slow and we have increased our engagement with them in order to improve our understanding and influence.

9. The likelihood of imminent Industrial Action by the CWU in its dispute with RM has receded following mediation. Both have agreed to further discussions on the key recommendations made on pension reforms, pay and working week, delivery times and future changes. Whilst not finally resolved, investor confidence has improved with the share price recovering to 455p following its low in November (370p). RM will release their latest trading update on 18th January.

10. Amazon is now delivering 175m items a year through its own UK delivery operations making it the 4th largest operator after only 4 years. This rapid growth has not come without challenge as the ASA announced an investigation in to Amazon's one day delivery promise after an outbreak of complaints over the Christmas peak.

Mails performance

11. Underlying volume growth in Home Shopping Returns (P9 +24%, YTD +22%), Local Collect (P9 +35%, YTD +19%) and 2C labels (P9 +2%, YTD flat) is offsetting ongoing decline in stamps (P9 -10%, YTD -12%).

12. As in 2016, there was evidence of consumers waiting later in the period before posting items, reflecting less emphasis on last posting dates and increasing confidence in delivery reliability.

Governments Services performance

13. The POca procurement completed in December with signed agreements in place with both DxC and JP Morgan. The project now moves into the implementation phase with work commencing on scoping of both potential additional services and a long term replacement for the current product. DWP activity to migrate customers from POCa to bank accounts continues and we expect 40k account closures around the 8th January.

14. All key Home Office services continue to perform ahead of budget. Market share of passports continues to decline between 0.2% and 0.5% per month, with a market share of circa 37.5% in March 18 anticipated compared to 44% in March 2017. We expect HMPO to increase the activity to promote online services in Q4, this may see additional pressure in our numbers during the period and as we move into Q1 2018.

Payment Services performance

15. Bill payments continues to be a significant footfall driver for the Post Office and we have processed 73.2m transactions to date, 78% of our full year target.

16. We are delivering the warm home discount pay-out campaigns for British Gas, E.on, Npower and Scottish Power that will see circa 2.5 million prepaid energy customers visit our branches to claim their discounts and top up their pre-paid energy meters. The British Gas pay-out campaign is a significant win for Post Office (Paypoint have been awarded this business for the last five years), generating an additional one million visits to Post Offices over the winter period and up to three million prepaid energy top up transactions.

17. A senior level meeting was held with the British Gas procurement team before the Christmas break and further engagements are due to take place in the New Year ahead of the planned tender exercise in March 2018. Similar engagements are due to take place with Npower ahead of their planned tender in Q2 2018. Payzone have formally been awarded the Thames Water business with permission to add Post Office as an extended network, enabling us to wrap this in to the Project Panther transaction. A bid for the Scottish Power Smart Meter business was also submitted and feedback is expected in early 2018.

18. Further to the update on Project Panther at the November Board, we have commenced formal negotiations with PayZone and have reached a potentially acceptable commercial position, subject to respective Board approvals. Draft Heads of Terms have been exchanged and subject to final legal due diligence and internal review, the intention is to seek approval to proceed at the January GE and Board meetings. In parallel, sales purchase agreement documentation will be drafted alongside

preparatory transition work and market reaction planning in order to prepare for Competition Markets Authority submission. Further details will be provided in the January GE and Board papers.

Network Transformation Programme

19. The programme remains ahead of target, having recently achieved the major milestone of our 7,500th modernised branch (Glyn Ceiriog in north Wales). We have over-delivered our contracts target (159 against a target of 93) and nearly delivered our openings target (335/350). We are likely to end the year on c410 openings, leaving c80 conversions to complete in 2018/19, which we will do through our existing field team, delivering c£800k of additional recurring benefit. Network Transformation will close as planned at year end and we are confident we can redeploy c150 of the 210 employees currently working to Network Development or elsewhere, retaining knowledge and experience in the business.

Directly Managed Branches (DMB) Programme

20. On track to deliver 17/18 in year benefits of £2.2m (£4m Annualised), with 12 completed and 15 scheduled in Q4. We are also on track to deliver the remaining 25 activities in the Network Shape business case in 2018/19: 6 franchise contracts; 4 franchises carried forward from 2017/18; 5 branches in the engagement/recruitment; and 10 Network Solutions planned.

21. We advertised for Local or Main operators close to 46 DMB branches (£5.4m annual benefit) in July 2017, this being the next phase of our DMB programme. 209 businesses formally registered their interest and 17 potential new operators are already in the recruitment process with 3 Local contracts already signed. The first new Local branches are scheduled to go live in April 2018 in Manchester and Cardiff. We have submitted a proposed approach for all remaining DMBs to the January Board meeting.

Network Development Programme

22. The 2017/18 target of 150 new network locations ('whitepace') remains challenging, with many scheduled openings close to year end. Year to date is behind schedule, with 37 openings versus target of 77.

23. 126 contracts are signed against a Q3 cumulative target of 185 and the pipeline of potential new Postmasters remains strong for this year and 2018/19. In addition to the 126 contracts, we have appointed a further 57 applicants subject to contract. The focus is currently on completing these contracts and scheduling works in February and March to achieve the target.

24. Phase 1 of Mails Simplification was introduced at the end of September, shortening mails transactions by over 10,000 hours per week across the network and securing

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£2.3m of in-year saving (£4.6m annualised). Reaction from agents has focused on the 3.1% reduction, but has been quieter than expected. Multiple partners have also been negative and we are working with them to agree branch-by-branch plans to realise the cost savings available.

25. Operational Simplification is on track to launch in March 2018. Automating ATM balancing will save 24% of the current time spent (2 hours per month in 2,300 branches), with an associated £565k remuneration reduction. Simplifying end-of day branch balancing will save time in all 11,600 branches (up to 17 minutes per month) with no change to remuneration. Given agent dissatisfaction on remuneration, it is imperative we continue to make the Post Office easier to work with to bolster support and retain the value of our proposition.

Customers

KPIs	Source	Current Period (P9)	Prior Period (P8)	Period Change	Prior Year (P9)	Year on Year	YTD	Target
Effort (% saying Post Office is Easy to do business with)	VOC	81%	84%	-3%	72%	9%	80%	76%
Wait time Acceptability	VOC	93%	95%	-2%	89%	4%	94%	95%

26. Network customer sessions, which had been stable at approximately 10.3m per week in the year to date, rose to 14.4m per week during P9 (+4% on 2016), peaking at 16.0m in week 38.

27. P9 has seen a strong year on year improvement in customer service measures driven by the No Queues At Christmas initiatives. Effort is up 9% to 81%, Wait time acceptability has improved 4% to 93% and the average wait time reduced by two minutes to four minutes on each of the busiest trading days (sampled over 30,000 customer visits every day across all branch formats).

28. The success across the network was largely driven by the reduced mails journey times on Horizon and SSKs resulting from Mails Simplification which saved over 55,000 hours in P9 (8% reduction, average 6 seconds per transaction). Whilst hard to isolate, it's clear the NQAC initiatives also contributed significantly, particularly in DMBs and WHSmiths. Early recruitment of seasonal workers to support Drop & Go roll out, earlier and more innovative digital communications and targeted Christmas Making all helped increase the network capacity and thus reduce queue times during the peak trading season. A full review will be conducted in January and further changes to product journeys on Horizon and SSKs are being developed for the New Year, to continue the improvement in waiting times and customer service.

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Gender Pay

Author: Natasha Wilson Sponsor: Martin Kirke Meeting date: 16 January 2018

Context

The requirement to report the gender pay gap is a positive leap forward to diversity. We will benefit from understanding where we need to take action and use this as an opportunity to tell our story about how we are going to achieve a more diverse workforce.

Whilst the reporting of our gender pay gap is a mandatory requirement, this is not the same as equal pay legislation. Gender pay looks at average remuneration at a specific point in time with the aim of identifying any mean hourly pay gap between males and females across an organisation. Equal pay is concerned with pay differences between men and women who are paid differently for 'like work', 'work of equal value' or 'work rated as equivalent' e.g. female shop workers versus males working in distribution centres at Asda.

This paper confirms the data we are required to publish as part of the gender pay regulations. It also sets out our strategy to address any gender pay gap, identifying action plans currently in place as well as new initiatives going forward. The communication of these will form the basis of our supporting narrative for both internal and external consumption.

Questions this paper addresses

1. What are we required to report, by when and what does our data tell us?
2. What are our commitments to bridge the gap?
3. How will we manage the risk of pay claims?

Conclusions

1. The Post Office mean gap is 17.5% compared to the ONS reported UK gap of 18.1%. Very few retailers have reported their gender pay gap, Phase Eight has a gap of close to 65% whilst in Financial Services, the Co-Op Bank is running at just over 30% and Virgin Money has a gap of 32.5%.
2. Gender Pay legislation requires us to report the following numbers by 5 April 2018:
   a. mean gender pay gap – 17.5%
   b. median gender pay gap – 13.1%
   c. mean bonus pay gap – 49.5%
   d. median bonus pay gap – 16.8%
   e. proportion of men receiving a bonus – 91.8%
   f. proportion of women receiving a bonus – 93.2%

g. proportion of men and women in each pay quartile:

Quartile	Male %	Female %
Bottom 25%	29%	71%
25% to 50%	28%	72%
50% to 75%	49%	51%
Top 25%	62%	38%
TOTALS	**42%**	**58%**

3. We will publicly report these numbers in the second half of March along with a supporting narrative to help explain, through our values, the reasons for the gap and what we are doing to bridge the gap.
4. Experience from other organisations particularly the BBC has shown that undertaking an internal communication exercise by explaining the difference between gender pay and equal pay is vital. Our aim is to educate our people to understand that our mean gender pay gap of 17.5% does not mean that male employees are paid 17.5% more than female employees carrying out an equivalent role.

Input Sought

The Group Executive is asked to note the outcome of the analysis and agree the commitments made.

Report

What does our data tell us?

1. The data shows there are two distinct reasons for the gender pay gap at Post Office and this will be reflected within our supporting narrative. It is more commonly known as the demographic gap:
    a. the number of men working in senior management
    b. our lowest paid roles are typically occupied by females
2. The 17.5% gap can largely be attributed to lower paid roles within the organisation being filled by females. Out of a population of just over 5,000 employees:
    a. We have 1,961 employees working as Customer Service Consultants, which is 40% of our total employee population, 77% of which are filled by females. It is important to note that CSC's are already paid above the market rate and any move to address this will have an adverse effect on our gender pay gap.

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b. There are 106 Customer Advisors, 60% of which are filled by females
c. Only 15% of all females are paid in the top pay quartile, compared to nearly 40% of males. Our advisor suggest this profile is fairly typical in many organisations.

3. Analysis has been completed by Function and Grade and is detailed in Appendix 1. Again, our results are typical of other organisations particularly within the Financial Services and Technology sectors. Tellingly however the gap by grade at the senior manager and SLP levels are over 10% with the headcount approaching a 2:1 male female ratio.
4. Overall our results are consistent with other organisations that have reported so far. See further reporting from other organisations in the Reading Room.

What are our commitments to bridge the gap?

Our commitments are centred on our values – care, challenge and commit. To explain how we will bridge the gap, we will provide a supporting narrative that highlights the great initiatives and policies we currently operate such as:

- Women in Leadership network
- accessibility and fairness
- modern working practises and policies – flexible and agile working
- talent and early careers
- reward and remuneration

However, there is more to be done and we will make four commitments publicly in our supporting narrative to close the gap:

1. We are committed to filling 40% of senior manager roles with women through gender balanced shortlists by 2020. We are on track and have achieved 39% thus far.
2. We will continue to support our female talent through our successful mentoring and coaching schemes to make meaningful progress on gender parity in our business.
3. We are committed to promoting our internal talent to fill 50% of our senior roles by 2020.
4. We have invested in our digital infrastructure to give our people the choice of flexible working and we are committed to improving capabilities through education and training.

Although not part of the narrative, we also plan to address our gender pay gap in the following ways:

- Our private medical insurance policy provides the choice of medical insurance or a cash alternative. Under the policy, part timers choosing to take the cash option have their allowance reduced according to their hours worked. This is not best

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practice and could be deemed to be discriminatory. Furthermore, this is inconsistent with other similar policies. We will remove this reduction.

- Our LTIP policy could be deemed as discriminatory in that a change of hours is not taken into account when calculating LTIP awards. We propose to use the same methodology as that used in STIP calculations, by taking into account changes in hours in the first year of the 3 year performance period. This proposal will be submitted to the Remuneration Committee for ratification.

How will we manage the risk of pay claims?

Engaging employees positively through the usual channels, networks and forums will be key to ensuring there is a good understanding of the reporting requirements and to minimise any grievances around pay. We have clearly defined pay policies for both unionised areas. The non-managerial grades have agreed set salaries and any pay differentials by role are at a minimum. The salaries and grades covered by Unite were set back in 2008 with broad salary bands. Since the start of 2017, our reward strategy of fair and equitable pay has been underpinned by a gender neutral job evaluation process. This approach was recently ratified by Unite as part of the review of the 2008 Broadbanding Agreement.

Nonetheless, we will conduct a full equal pay audit later this year to fully identify any equal pay risks. The outcome of this audit and associated costs will come back to the GE.

A spot check of equal pay by role is currently underway. Initial results will be shared with the GE as part of the gender pay agenda item.

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Appendix 1

Statistical analysis

Mean gender pay by GE Area

GE Area	Mean Gender Pay Gap
Post Office	17.5%
Chief Finance & Operations Office	9.3%
Retail	14.9%
CIO	24.9%
Communications	16.1%
Financial Services & Telco	31.7%
General Counsel	-18.5%
Human Resources	9.4%
Strategy Office	21.6%

Mean gender pay gap by grade grouping

Grade grouping	Male mean hourly rate	Female mean hourly rate	Pay Gap	Males	Females	Totals
Post Office	17.4	14.3	17.5%	2,134	2,982	5,116
Non-managers	13.6	12.9	5.4%	1,275	2,337	3,612
Middle-managers	16.0	15.3	4.9%	595	493	1,088

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Senior managers	32.2	26.7	10.8%	226	135	361
SLP	67.3	60.5	10.1%	30	14	44
RemCo	108.7	120.6	-10.9%	8	3	11

Pay quartiles by gender

Quartile	Male %	Female %	Number of Males	Number of Females
Bottom 25%	29%	71%	365	914
25% to 50%	28%	72%	357	922
50% to 75%	49%	51%	623	656
Top 25%	62%	38%	789	490
TOTALS	**42%**	**58%**	**2,134**	**2,982**

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Post Office Limited
Group Executive
16 January 2018

Post Office Change Capability
Status Update

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Executive Summary

Post Office - Change Operating Model

Context

On 13 November 2017 GE endorsed the proposals contained within the **Change Operating Model and Portfolio Office** paper, namely:

To appoint a Portfolio Office Lead and Transition project team to:

- Validate the design of the high-level target Change Operating Model including establishing a Strategic Portfolio Office.
- Assess current status of Change competencies.
- Build phased transition plan to implement new model including new teams where necessary.
- Develop investment business case.
- Identify, implement and deliver Quick Wins including supporting 2018/19 business and budget planning.
- Provide monthly updates to GE.
- Seed Investment = £500k.

Questions Addressed in this Report

1. What is the current status of the project.
2. What are the key activities for the next 2 months.

Conclusion

- Tim White has been appointed as Strategic Portfolio Office Lead taking over the management of the current Change capability team as of 15 November 2018.
- An assessment of the current Change competencies has been initiated.
- A Change Delivery Partner, PA Consulting, has been engaged to deliver two key deliverables over the next 8 weeks:
  - Design Strategic Portfolio Office Operating Model including detailed implementation plan including delivering Quick Wins.
  - Build Portfolio and Roadmap for 2018/19 including key artefacts, a repeatable process and supporting governance.
  - 2018/19 business and budget planning is being aligned with and supported by the project team.
- First Investment Committee scheduled for 22 January.

Input Sought

For information purposes only.

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Status Update

Status Report	Change Delivery Partner
▪ Tim White has been appointed as Strategic Portfolio Office Lead taking over the management of the current Change capability team (slide 8) as of 15 November 2018 ▪ An assessment of the current competency levels is underway. ▪ The first Investment Committee has been scheduled for the 22 January. A terms of reference is being produced for approval. ▪ Key Dependencies: – Strengthen the Design Team and Governance – Enhance Vendor Management and Governance	▪ 4 bids received from approved consultancy list: – PA Consulting – KPMG – Boston Consulting – Concerto ▪ PA Consulting selected ▪ 2 Key Deliverables: – Design Strategic Portfolio Office Operating Model including detailed implementation plan – Build Portfolio and Roadmap for 2018/19 including key artefacts, a repeatable process and supporting governance • Project commences 15 January 2018 – duration 8 weeks

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Supporting Slides

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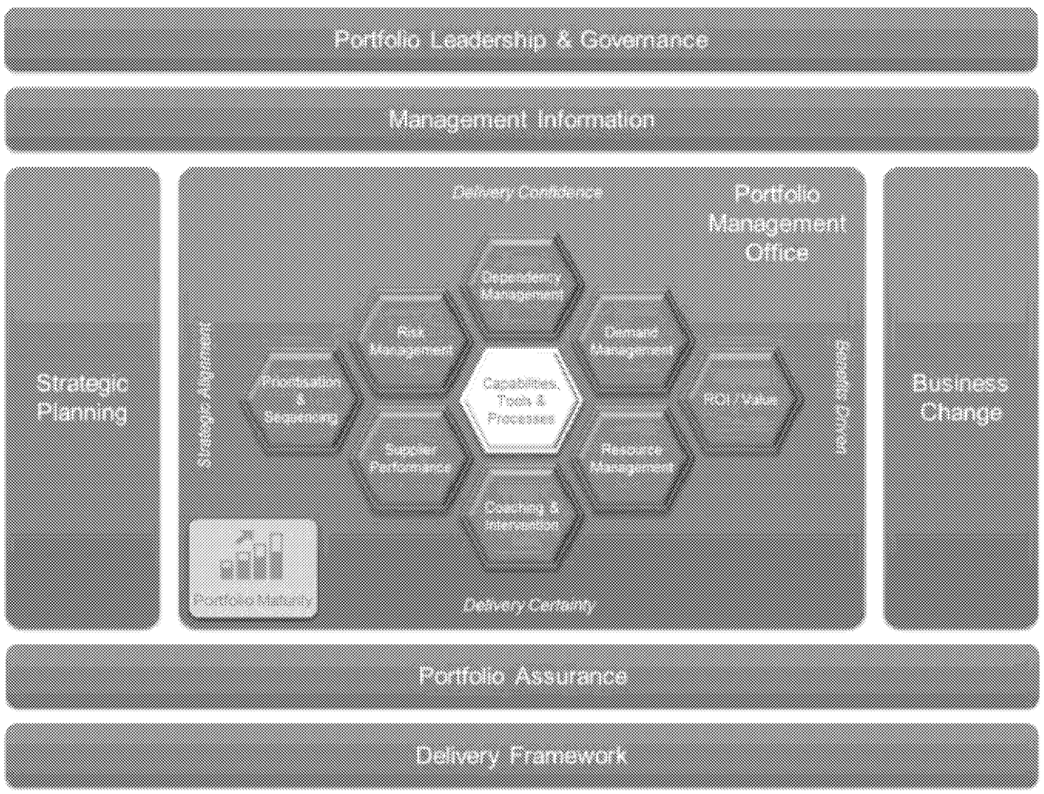
Strategic Portfolio Office Operating Model – PA's Framework



Key principles[1]

- **Strategy through to delivery** approach enables strategic ambition to be converted into a comprehensive set of change initiatives - to deliver that ambition. Critically it allows these to be successfully planned and delivered, with focus on business benefits and outcomes.

- **Delivery assurance, governance and leadership** approach helps establish consistent, non-bureaucratic delivery practices, governance and leadership to make delivery more predictable, help develop delivery confidence and provide a mechanism to identify issues early.

[1]Extract from PA Consulting report

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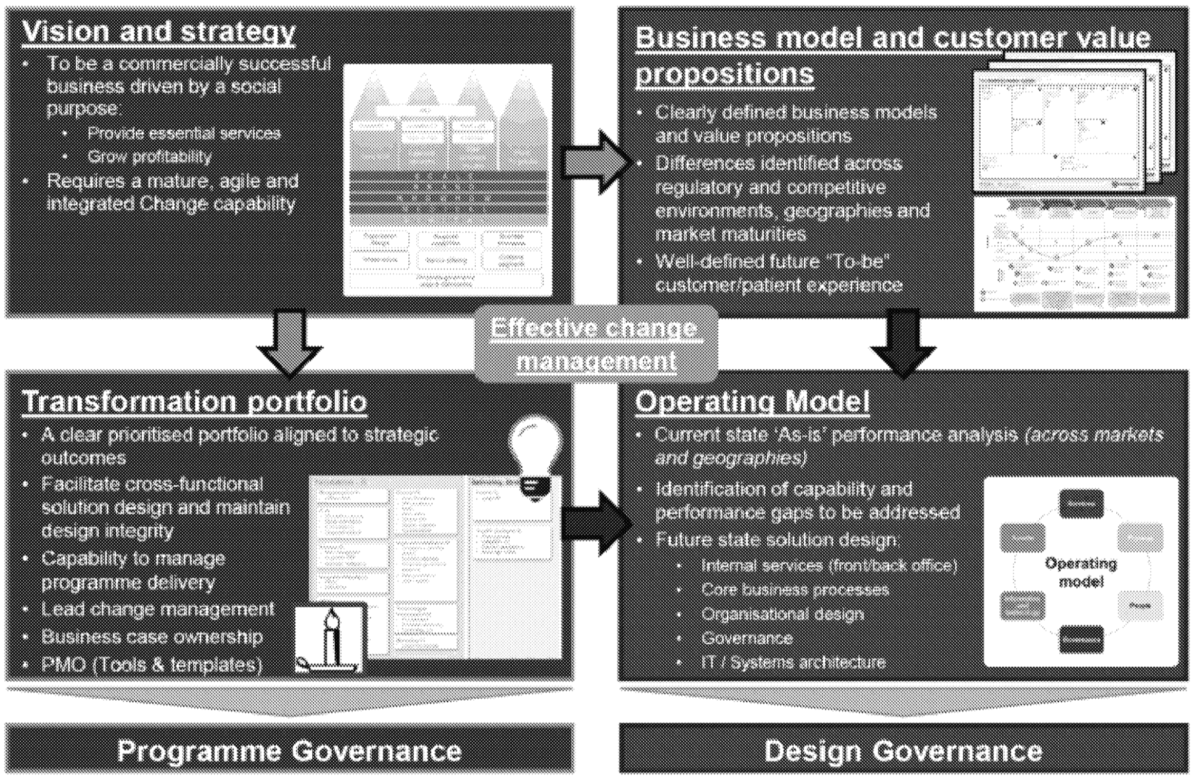
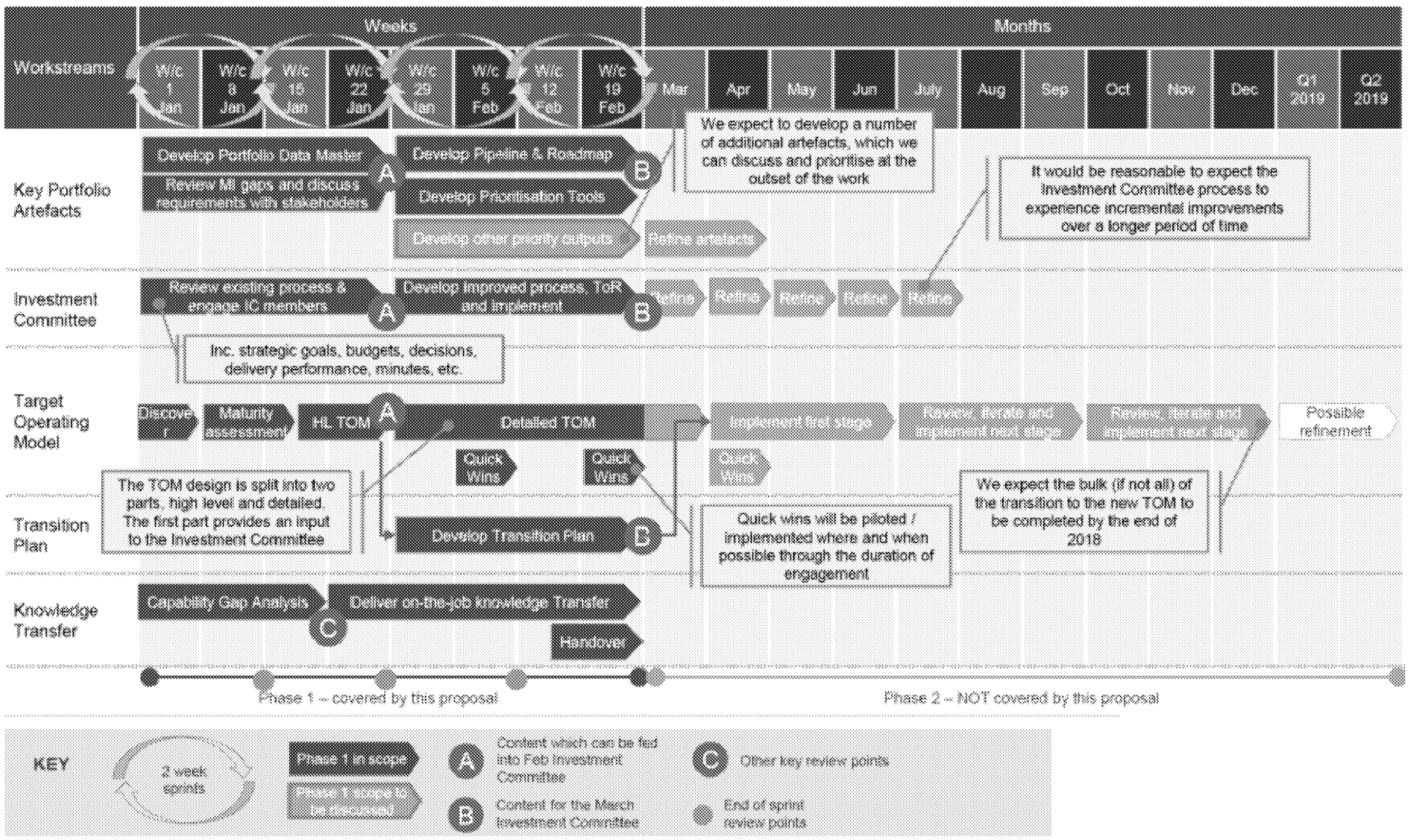
Strategic Portfolio Office Operating Model - Context

Effective Change requires a Strategic Portfolio Office as part of an integrated approach[1]



[1] Extract from KPMG report

Draft Plan – commences 15th January 2018



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Portfolio Office – Interim Organisation – 12th January 2018

Strategic Portfolio Office Lead
Tim White

Head of Portfolio Management Office
Michael Brown
+2

Head of Assurance and Risk
Jenny Elwood
+3

Head of Centre of Excellence – BA
Martin Box
(See below)

Head of Change Delivery
Martyn Lewis
(See below)

Portfolio Manager F&O

Portfolio Manager Retail

Portfolio Manager FST

Portfolio Manager CIO

Direct Reports

	Permanent	Contractor	TOTAL	Permanent %
Portfolio Leads	3	1	4	75%
Programme Managers	1	17	18	6%
Project Managers	10	49	59	17%
PMO	4	24	28	14%
Business Analysts	14	15	29	48%
TOTAL	32	106	138	23%

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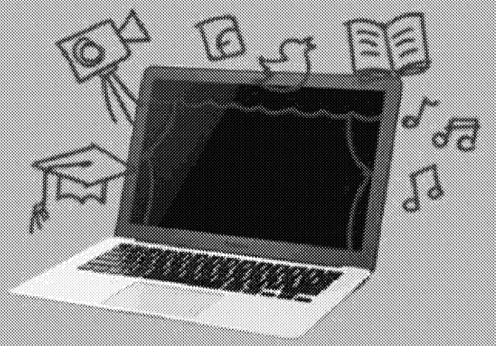
Cloud Strategy

GE Update



Michael Austin – POL Chief Technology Office
January 2018

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Cover note - Context

- The Post Office IT landscape has evolved over the past years resulting in a diversified hosting environment running our applications
- This diversity results in duplication, complexity, data silos, increased costs and information security risks
- We are investing in a Post Office Cloud Platform that will become the primary hosting location for home grown applications and (where appropriate) off the shelf packaged applications
- This document provides an overview of "Cloud" and our current investment in it

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What is cloud computing

- Delivery of computing resources (networks, servers, storage etc.) ....
  - accessible over the internet
  - charged on a pay-as-you-go basis
  - with no up front investment to consume
  - with rapid elasticity with no user or application impact
  - delivered on demand through customer self-service
- The alternative is to buy our own computing resources and find some where to host them, our own data centre or a 3rd party
  - This is largely what we do today
  - We have to pay to refresh/replace these resources every 3-5 years

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Types of cloud services ….. "Car" analogy

On Premise	Infrastructure as a Service - IaaS	Platform as a Service - PaaS	Software as a Service - SaaS	Computing Resources
Car	Car	Car	Car	Applications
Finance	Finance	Finance	Finance	Data
Depreciation	Depreciation	Depreciation	Depreciation	Runtime
Servicing	Servicing	Servicing	Servicing	Middleware
Renewables	Renewables	Renewables	Renewables	OS
Insurance	Insurance	Insurance	Insurance	Virtualisation
Road Tax	Road Tax	Road Tax	Road Tax	Servers
Garage	Garage	Garage	Garage	Storage
Fuel	Fuel	Fuel	Fuel	Networking
Driver	Driver	Driver	Driver	
Car Owned	**Car Leased**	**Car Hired**	**Taxi**	

Managed by Client

Managed by Service Provider

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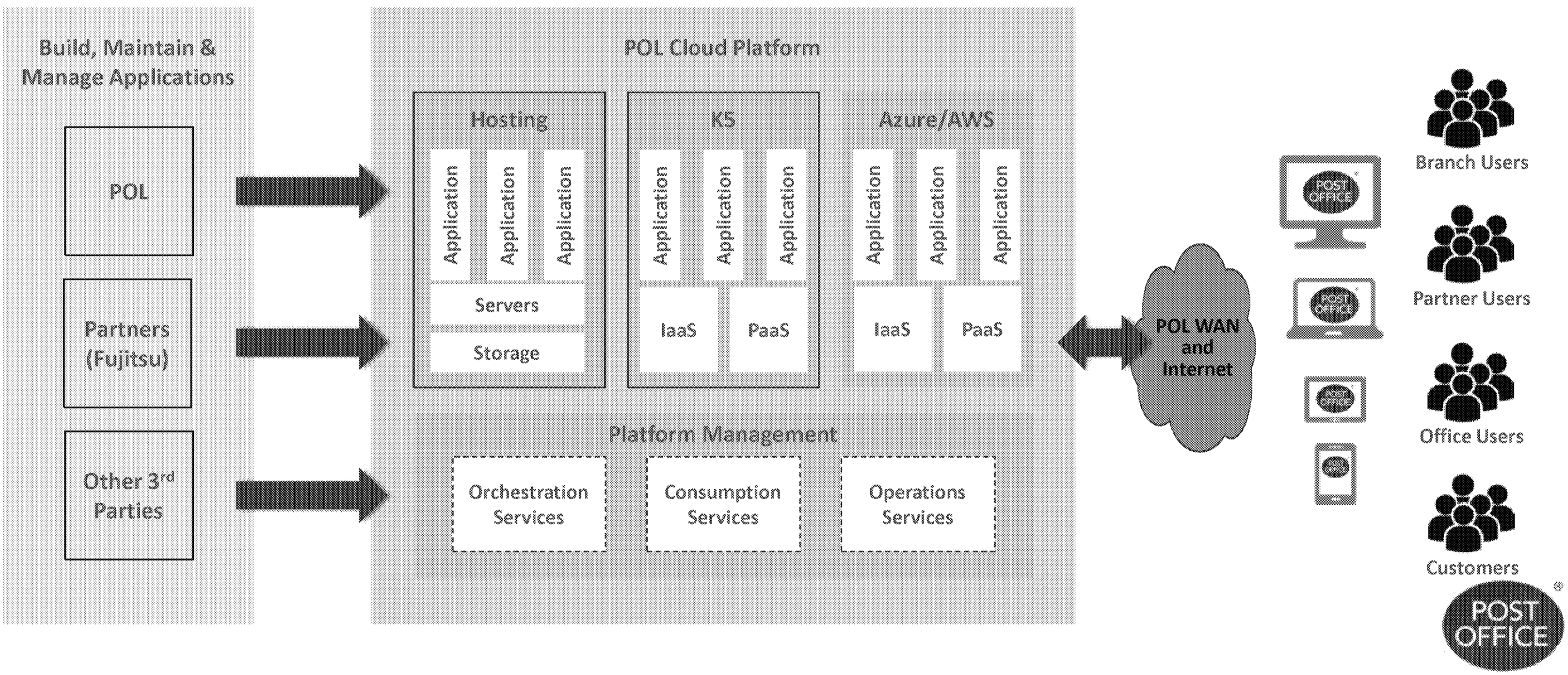
What is POL target cloud platform



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What are the benefits

- Less time, effort and money is spent creating and managing our own hosting facilities and duplicating facilities across 3rd party providers.
- The location, technology and vendor used to host IT solutions can be changed more easily.
- Information is more secure.
- IT costs are directly proportional to business activities.
- Time to market for business services is reduced, increasing opportunities
- IT costs can be more accurately estimated.
- The total cost to operate our IT estate is reduced and optimised.
- IT solutions are quicker and easier to create, deliver and operate.
- IT solutions are more reliable.
- Our business costs will scale up and down in-line with its customer demand
- End users can access their IT solutions whenever and wherever they require.

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What are the risks

- We lack the governance and control to ensure we exploit and optimise our cloud platform
- We don't invest is consolidating other hosting services into our cloud platform resulting in higher cost and duplication
- We get locked in to the cloud services of a single provider restricting us from exploiting price differentiation in the market
- Our business units create other cloud services as opposed to extending our cloud platform

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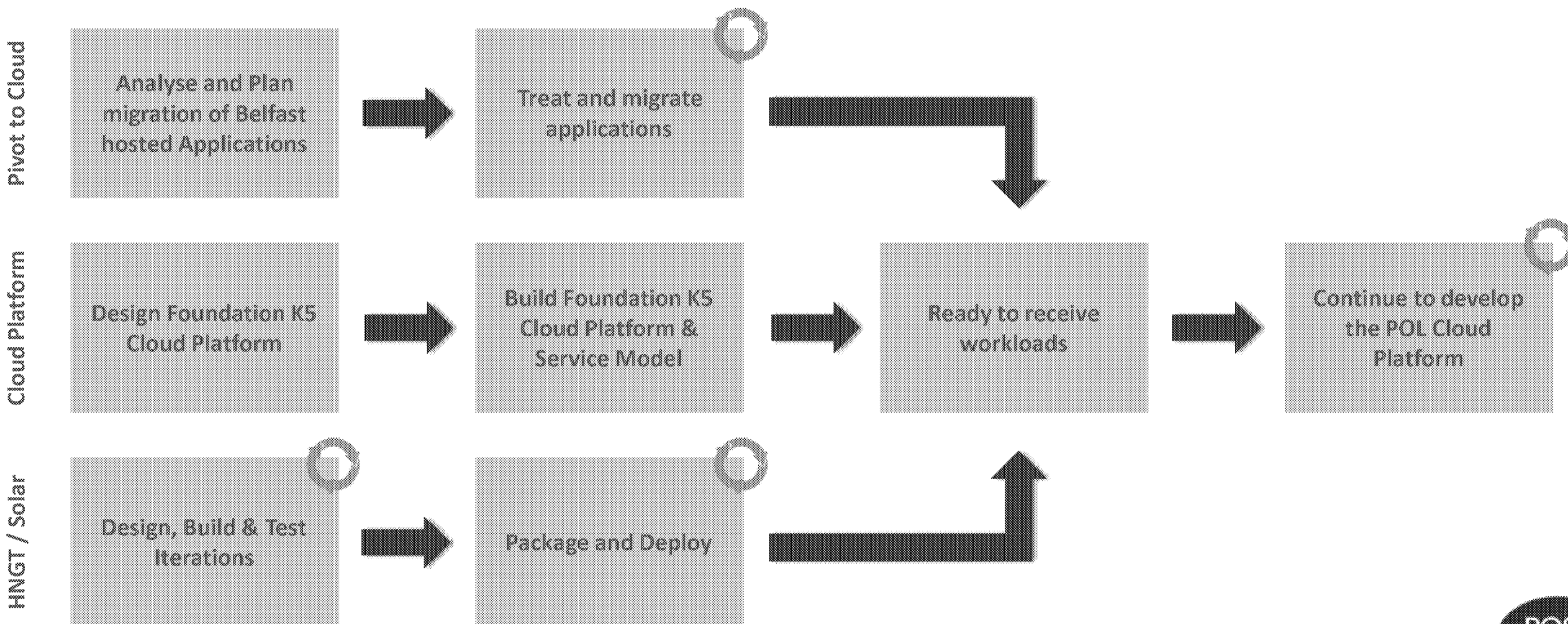
How do we get from here to there



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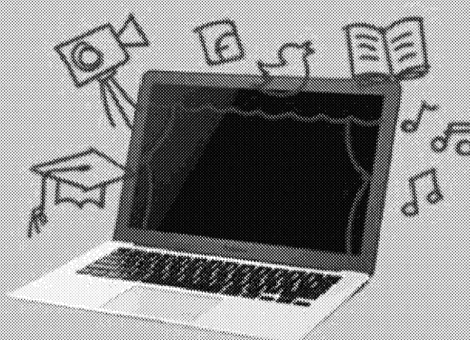
Appendix



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Cloud platform vision

Vision

A reliable, scalable and ubiquitously accessible technology platform used universally across Post Office to efficiently create and deliver IT solutions. A rich, flexible and cost-optimal platform of technology capabilities available on demand through self-service, in a measured, transparent, secure and governed manner.

- Minimises IT system and technology failures, and efficiently recovers from failures if they occur
- Responds to fluctuations in demands whilst maintaining agreed quality levels
- Accessible by authorised personnel, both POL and 3rd party, from anywhere via an Internet connection
- Used universally across Post Office as the primary means of creating and delivering IT solutions
- Empowers users to create and deliver IT solutions efficiently through self-service
- Measures usage per IT resource and is charged proportionally
- Enables the regular review of Cloud & Data Centre Service Provider cost efficiency
- Enables switching Cloud & Data Centre Service Providers with relative ease

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Current landscape and what's where

Global Payments DC	Ingenico DC	UK Cloud (P/S)	DigIdentity (NL)	Microsoft O365	BOL DC
NaviSite DC	RAPP (P/S)	SalesForce EU	AdviserPlus DC	Proximity DC	FleetMatics DC
POL Swindon U4	POL Swindon U5	Paragon DC	SAP Cloud DC12	BT Airwatch Cloud	Fujitsu S5
Azure (Accenture)	Accenture DE (P/S)	ATOS Eindhoven	POL Cash Centres x3	CSC Cloud	Azure
ComputaCenter (P/S)	Fujitsu Belfast (P/S)	ATOS Eindhoven	POL Cash Centres x3	Amazon AWS	Verizon UK4&5

- We have between 100 and 150 applications used across the business located in over 30 hosting facilities
- These are mainly managed services where we pay for hardware and infrastructure
- Some are SaaS for example SalesForce and SuccessFactors
- Some are in our own facilities
- Broader and deeper analysis is required to surface opportunities and risks

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Horizon Self Service (HSS)/Agent Portal

Author: Andrew Garner & Gayle Peacock Sponsor: Alisdair Cameron Meeting date: 16th January 2018

Executive Summary

Context

Our back office processes which provide support and management information to our postmasters and branch colleagues are complex and manually intensive, adding unnecessary cost into their operation and ours. Developing a digital self-service solution to perform these essential business tasks and access information in a much easier and simpler way will reduce overheads and make the overall agent proposition more attractive. This will enable postmasters to focus on growing their income whilst becoming less reliant on Post Office support teams in the running of their business.

Questions addressed in this report

1. What is the vision and purpose of our agent self-service strategy?
2. What are the customer and business benefits?
3. What is the approach to building the plan and prioritising the functionality?
4. How do we ensure a high adoption rate?
5. How do we propose to deliver the functionality?

Conclusion

1. Our vision is to enhance our proposition and make things simpler and quicker for agents by replacing myriad manual systems with a digital self-service portal.
2. Our customers benefit from a more intuitive and simpler to use tool to access support services. Business benefits include a strengthened proposition to market, supplier cost reductions, process efficiencies and improved branch compliance.
3. Customer value drives the product roadmap and prioritisation of the software functionality. User cases are qualified against the customer/business benefit they realise, its strategic importance, cost and complexity of delivery.
4. The ethos of the HSS project is to create applications which access services much easier than existing processes. This will hopefully encourage high early adoption of the portal and in turn enable legacy processes/systems to be decommissioned.
5. The software development is to be released through agile methodology. Customer review/feedback prior to go-live creates confidence and credibility in IT delivery.

Input Sought

The Executive Committee is asked to support the approach to the development of the HSS; i) the overall product vision, ii) phased benefit realisation and request for funding and iii) the agile methodology to delivering change.

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The Report

What is the vision and purpose of our agent self-service portal?

- Our vision is to deliver an enhanced customer experience and process efficiencies through the digital automation of the service support model. This will be initially to agents, retailers and Directly Managed Branch Managers; longer term, this will include making the portal available to all branch colleagues. It will become the channel of choice and replace traditional methods of contact. It is not something to be developed on Horizon.
- The end goal is that all support processes we provide to branches are simplified, automated wherever possible and accessed through the self-service portal. The business outcome is that branches have a paperless relationship with Post Office and only need to have a conversation with someone about their critical issues.
- A digital front end and simplification of downstream processes is fundamental in delivering operational efficiencies, reduced operating costs and reliance on staff resources.

What are the customer and business benefits?

- Each development sprint will have qualified benefits with KPIs to track the realisation. Existing change and financial approval processes will be followed.
- Customer benefits are:
    - income growth from more effective use of real time sales performance data, which is available to all branches
    - the customer groups are directly involved in the design and test of the front end portal to ensure users find it easy to use and genuine administration activities are removed,
    - time and effort saved in administrative processes to focus on serving the customer. Initial feedback from retailers indicate they receive c. 15 individuals reports from Post Office and individual e-mails from branches noting their Branch Trading results,
    - positions will not have to close to perform back office tasks
- Business benefits are:
    - potential significant cost reduction through process efficiencies within back office operations through reduced demand into the system or (eventually) entire removal of processes (ie cash ordering),
    - reduced supplier costs e.g. removal of 'subspaceonline' (hosted by Ingleby which is currently £300k per year for little usage), and prevention of further systems being developed to fill operational gaps which are costly but also complex to unpick. Early adoption by users will enable us to realise these benefits as quickly as possible.
    - improved compliance by making non-sales processes easier to do, thereby removing the excuse not to comply.

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What is the approach to building the plan and the prioritised backlog?

- The project will develop a product roadmap and prioritise user stories based on customer need, benefit delivery, strategic importance and level of complexity.
- The priority for the first two sprints are real time provision of sales/trading MI and consolidation of branch report communications.
- The current backlog of user cases includes, but is not limited to, a) ordering of cash/stock, b) hosting of Horizon on-line help, c) opening hours change requests, d) single branch communications channel and e) raising and tracking IT incidents.
- The project will also be using the pilot to identify the required support model needed to deliver the portal.

How do we ensure a high adoption rate?

- Following the hackathon, postmasters and multiple partners continue to provide their requirements and input into the solution design. The functionality being built must be chosen by the customer to ensure there is a business need to 'pull' rather than the need for Post Office to 'push' data. A response such as "why wouldn't I use the portal, it is so much easier than the previous process?" must be our goal.
- Our initial focus is on the "pull" and this will avoid the obvious and lengthy debate about devices that the Postmaster uses to access the portal. We want this to be a self-served capability without continuous consultation on device access. If the value is obvious Postmasters will find a way to access the portal (evidence is usage of WhatsApp in Postmaster communities to interchange ideas). If we "push" and enforce, the lengthy internal debates will prevent anything being delivered quickly. However, the project recognises that there will need to be a decision made about devices at the appropriate within the digital roadmap.

How do we propose to deliver the functionality?

- The Project Everest commercial negotiation (Digital Development Services) includes the standing up of a persistent digital change delivery team across Post Office and Fujitsu.
- This team is responsible for the evolution of the software functionality which will be delivered through small repeatable releases (agile methodology) and not through a large waterfall change programme.
- The Product Owner in the Branch and Customer Support Team in Network Operations will agree the business priorities and will ensure the respective business teams are ready and able to support the changes.
- Seed funding (£180k) has been approved by CAG and will deliver the sales/trading MI and consolidation of branch communications functionality. A second business case will be produced to deliver next phase of the product backlog from April 2018.

Appendix

1. Agile – Product development and delivery

Appendix 1 – Agile – Product development and delivery

3. Develop Product Backlog

- Product Backlog includes

Sales MI

- ✓ Search Transaction & Event information
- ✓ Trading performance by branch & user
- ✓ Integrate & trend Sales reports
- ✓ Compare trading to similar branches
- ✓ View Remuneration report by branch
- ✓ View Penetration report by branch
- ✓ View Branch Targets

Online 'Help'

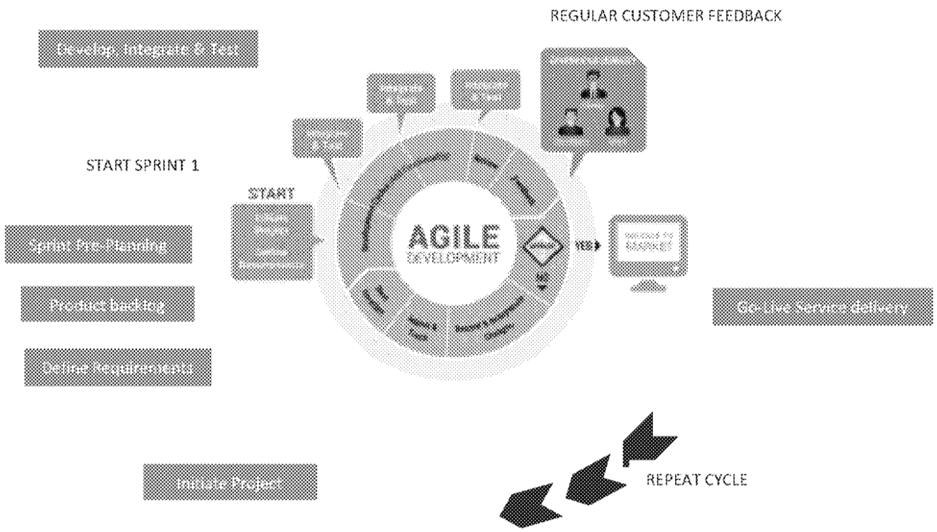
- ✓ Access to 'help' & training collateral
- ✓ Export Help manuals to pdf files
- ✓ Access to Knowledge Base

Communications

- ✓ 'Single location for information'
- ✓ Access Branch Focus online
- ✓ View branch stock levels
- ✓ Online chat, 'chatbot', messaging
- ✓ Push important notifications/updates
- ✓ Personalized user profile comms

Other

- ✓ Make online cash & branch declarations
- ✓ Online stock code catalogue
- ✓ Online stock ordering & tracking
- ✓ View branch stock levels
- ✓ Update contract branch opening hours
- ✓ Temporary change to opening hours
- ✓ Push non-compliance notifications
- ✓ Push fraud notifications



4. Sprint Pre-Planning

- Scrum team recruited (blended on & off shore (Seville))
- Scrum team location Chesterfield
- Sprint 0 completed
- User stories groomed & estimated (release cycle 1)
- Infrastructure high level design
- Technical blockers (architecture, data, security)
- Customer engagement workshop

5. Develop, Integrate & Test

- Sprint 1 completed, tested & production ready
- User stories groomed & estimated (release cycle 2+)
- Customer feedback

6. Go-Live Service Delivery

- UAT of K5 cloud architecture
- Business processes updated
- Service support model/resources
- Customer pilot scope & duration

7. Dependencies

- Device strategy
- GDPR
- Back Office transformation
- Redesign of business processes and removal of legacy process

2. Define Requirements

- Prioritise the product backlog with business
- Quantify customer and financial benefits (release cycle 1)
- Quantify customer and financial benefits (release cycle 2+)
- Forecast the 3 year HSS funding requirement
- Present release cycle 2+ business case to CRG in Feb 18

1. Initiate Project

- Evaluation of 'As Is' processes
- Discovery phase – Automation
- Customer engagement
- Hackathon
- Prototype developed

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GROUP EXECUTIVE		
14.12.17	**Venue: Finsbury Dials**	**Time: 8.15am to 12.30pm**

Present:		**In Attendance**		**Apologies**
Paula Vennells	(PV)	Michael Passmore (item 1)	(AR)	
Alisdair Cameron	(AC)	Owen Woodley (item 3)	(OW)	
Nick Kennett	(NK)	Meredith Sharples (item 4)	(MS)	
Jane MacLeod	(JM)	Martyn Lewis (item 6)	(ML)	
Rob Houghton	(RH)	Neil Crowther (item 6)	(NC)	
Martin Kirke	(MK)	Ross Duncan (item 6)	(RD)	
Martin Edwards	(ME)	Lesley Davis (item 6)	(LD)	
Mark Davies	(MD)	Marla Balicao	(MB)	
Kevin Gilliland	(KG)			

Agenda Item 1

Performance – Financial Results & Review of Business Scorecard

Purpose

To review the Financial Results and the Business Scorecard and discuss any areas which are shown to have a RED status.

AR presented the results for P8 and reported the following:

- On track for the month but Christmas trading has been slow so far and expect next week to pick up.
- Home shopping is up but down on 1st and 2nd class stamps as expected. These are high volume, low margin sales.
- Queuing times the best they have ever been.
- Positive feedback on white space branches. KG noted that 120 scheduled for Q4 and open another 300 next year.
- RH reported that HGNA will be rolled out next year to the branches, and HGNX withdrawn. A note would go out in February/March time. PV asked that MD should possibly look to do some communications before Christmas.
- AC noted that MoneyGram has been the hardest hit on trading but Cash has maintained better performance which was encouraging.
- NK explained that the amber and red ratings for branch compliance related :
  1) to branches with out of date brochures on products and agreed with KG that branches will receive some communications to ask them to check their brochures.
  2) was a non-conformance issue with CRMs. CRMs are supposed to read out agreed scripts to inform customers but they are not using the tablets with the correct information. KG noted that CRMs needed to be retrained and that further products need to be loaded to the tablet to reduce the dependency on brochure and leaflets. PV suggested that branches could self-certify as the integrity of the brand is at stake. The GE discussed ways the branches could look at self-certifying and an automated system to record.

Agenda Item 2

First Review of the Budget

Purpose

For GE to review and discuss.

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Discussion
AC presented his paper on the budget and noted it was not going to be agreed today but wanted to take the GE through the paper for their input and thoughts. • AC started by going through the table on page 2 of the report to go through the target reconciliation and then progressed to the table starting on page 5 going through the key assumptions and questions point by point. • AC noted that the Growth Fund was at £10m and people would still continue to bid for. • BAU cost covered new activities once projects ceased and this still needed to be worked through. • AC noted that Sparrow has been added back but as a non-trading item and has agreed this with E&Y. It will also be excluded for bonus purposes as the Board requested. • AC noted that target EBITDAS was £45m which was £10m more than expected due to growth element. He added that it was the lowest since being independent but this was due to IT spends as so much to do. NK asked if we were balancing back. For instance with Telco. PV enquired if we could take some out of this year? AC responded that it was best to see how Christmas trading goes and then narrow down and work out. • AC reported that more detailed budget reviews would be undertaken in January and February and still to work through banking Framework and Supply Chain. • AC noted that the Growth Fund and Marketing spend conversations were taking place and question around costs still being considered. NK commented that we should be building momentum and balancing in investment in year against the Growth Fund. PV noted that she was keen on investing in Customer Hub, Banking Framework and Identity but cost savings needed to be built in and again needs to see more details on. • NK suggested also looking at 2019/20 to help with understanding as he noted it would be a tricky year ahead and we need to be prepared for. AC noted he could refresh in government plan submitted. ME commented that he could easily refresh the waterfall in plan. • PV stated that we need to know what is going to deliver them, cost piece to work out what to do and deliver with some IT challenges. PV noted that the thinking piece was missing. AC noted that this was being worked on. Some IT savings and noted it was not about delivering them it is a question of the speed of delivery. • PV asked if Agents Hub and Colleague Hub would produce IT savings. AC explained that there would be a radical shift in the way of working, with taking activity out of back office and basic automation from new systems. AC was currently working with RH on what new technologies could bring. For instance could we drive Agents to go paperless? Q4 would work through to plan and deliver by second half of next year. • RH noted that SucessFactors roll out next year would certainly have an impact. • RH commented that the targets set are too low and AC response was that people have put initial submissions with no detail reviews yet and collectively still too high. RH noted that targets have not been stretched enough and AC responded that there is still work to be done and not ready to sign off yet. • RH commented that he expected Agents pay to go down but it is looking the same. AC response was that with new branches Agents pay will go up but noted that Agents pay line is flat and if strategically could we afford this. RH commented that the figures are not matching the story. KG added that with lighter models this will impact. PV stated that they were not going to change the 3 year plan and that we need to push on and think about the way we work. Budget cannot be submitted without the waterfall and it being gone through line by line. • AC explained that they needed to bring in more stronger and better people into the business to bridge the skills gap but also bring in fewer people. PV added they should also take more risk and make decisions faster and change the way they work for instance with legal. JM noted that the areas PO is looking to go into are more regulated and more support is required and Identity is one of them. The whole piece has enormous risk and

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need to look at the support cost associated. NK added that the risk appetite versus outcomes needs to be established with a commercial view on legal, decisions should be made in isolation. JM noted that with Identity if we got this wrong wold have an adverse effect on customers. AC expressed that this was the perfect opportunity to work on this and look at the Fujitsu relationship and use as a test case on how to work differently, looking at an agile way of working.

- KG added that when programmes come to an end the business case might stack up but do we consider head office costs and the knock on effect.
- With regards to POCA AC noted that the deal was signed yesterday and the execution of the swap would take place in January and any revisions would go through the ARC.
- AC asked if the GE were comfortable at the recommended percentage of pay award for next year at 2.6% or an average of 2.2% or the same as RM at 2%. MK reported that last year the pay award was 2% and that questioned if it was sustainable for a commercial business. He believed the CWU would push for at least 3% and this would be for April and Unite in June. KG noted from his conversations within branches the 2% went down well this year. Various percentages were discussed for different reasons and for now it agreed that 2% be budgeted for and some contingency built in just in case.
- AC highlighted the FTE Assumptions and raised the question should we be retaining headcount or reducing in 18/19. MK note grade inflation in the market and that some roles would need to change as we would be overpaying. AC asked that in January this should be looked at again and challenged.
- Saving or profit support from BOI. AC noted he was comfortable with and NK reported he had met with BOI yesterday and some sort of deal or package would be made and possibility of a one year deal.
- It was noted that FRES profit has been reducing and was becoming marginal. NK reported that numbers have not been discussed within FRES as yet but seems flat year on year. Wider conversations on Peregrine and allocated costs to be had. AC noted he would re-run the numbers on P&L.
- Marketing and Brand budget. AC noted that a £9m increase and questioned if we could spend this well or should we invest elsewhere like IT. **PV asked that Louise to join the January budget conversation on this.** MD explained that PO could do something radical and innovative to market the business.
- AC asked that the Capability gap this needed to be clear to fix this in this budget and £5.4m has been provided to fund this. He explained more details provided in appendix 4 but still needs more work on. AC was having conversations with Angela on succession and MK noted the Deep Dive on succession talent by Amber.
- MK asked if OPSOP was working well. It was noted that not in everyplace yet and still to work on the structure. AC noted that the OSOP structural piece needed no budget but needed to fit somewhere and that **MK and AC would pick up on.**
- Point 15 – it was noted it should be £1.1m EBITDAS not revenue.
- PV expressed that everyone should have a 10% contingency in their plan. AC reported that the budget didn't seem to be in bad shape and wanted to note his thanks to teams for all their hard work on so far. NK asked what the next steps were. AC in responded that a note would go out in the next couple of weeks.

Outcomes

Actions:

- **More detail to be provided in January with further context on the budget submission.**
- **STIPs to be covered in January meeting.**
- **Louise to join the January budget discussion in relation to Marketing and Brand.**
- **OSOP structural piece AC and MK to pick up.**

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Agenda Item 3

Moneygram and International Payments

Purpose

To update GE on the issues facing the business and explore where there is value in the market and considerations of overarching strategy in cross-border payments.

Discussion

NK presented his paper with OW and the following comments were made:

- MoneyGram performance has been down since the announcement of Brexit and the long-term effects could have a continuing impact. This has been exacerbated by the resultant depressed exchange rate and MoneyGram's primary focus on Eastern European corridors.
- Regulatory oversight of money transfers are tightening and the £800 Anti-Money Laundering (AML) limit now in place has already impacted on transaction volumes and values.
- Dialogue has been started with FRES in relation to Moneycorp and could be a useful opportunity to wrap together.
- NK noted that there is still a lot of work to do to bring this forward. ME noted that the team should speak to Alibaba with the links of expanding to the UK. OW explained the major problem is that the market is digitising at a fast pace and we need to develop a clear combined digital and branch strategy with specialist support. In the meantime, we are focusing on tactical opportunities including a win back campaign. The FRES Moneycorp relationship needs to be brought into the strategy too but PV asked that the strategy work focuses on the core MoneyGram product set for now.
- The current contract with MoneyGram expires on 30th September 2019 but we could extend for another two years on the same terms if notice is given in March 2018. KG asked what we would get if we went with Western Union. OW responded that it would likely be very similar as they have similar models. NK recommended that we didn't agree to extend the contract at this point whilst we consider our longer term options. AC asked that they let Barbara know before Christmas so it was on her radar from a procurement perspective.
- **ME raised that Identity should integrate with IP piece and ME and OW to follow up on**.
- AC asked who the GE lead on Digital wallets was and NK responded that he was and would be coming back to GE in March with an update. **AC asked for a strategic planning piece be included.**
- **ME also added that an Identity update would also be provided in March.**

Outcomes

Actions:

- **MoneyGram and International payments to be brought back to the GE in March.**
- **ME raised that Identity should integrate with IP piece and ME and OW to follow up on**.
- **Digital Wallets and strategic piece to come to March GE. (NK)**
- **Identity to also come back to GE in March.**

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Agenda Item 4
Telco Update
Purpose
To update the GE on what is proposed in light of regulatory changes that come in to force on 1st April 2018.
Discussion

- NK presented the Telco update paper and provided the GE with an update on the regulatory changes. He reported that in October a voluntary agreement between OFcom and BT was announced to offer Landline only customers a new price of £11.99 per from 1st April 2018. This would impact DPC by around £15m over 3 years.
- MS explained that currently we have 265k landline customers and 250k broadband customers and by dropping the price to match our usual discount to BT, our forecast for 3 year DPC declines significantly from £79 to £39.
- MS reported that we plan to remain competitive in the market by responding to BT's voluntary move but also to ensure we mitigate any negative impact on DPC. This will be done by increasing call and package prices, but ensure that we are never more expensive than BT and offer great value to our customers and leverage our brand. In order to achieve this we would:
  a) Reduce our monthly rental for new landline customers from £16.99 to £11.50
  b) Increase the price of our calls packages, connection and out-of-bundle charges across our customer base.
- MS reported that 4 options have been considered to respond to the BT announcement.
  1) Do nothing and maintain price of £16.99 but this will not deliver commercially and would put us at a disadvantage.
  2) Auto migration and move customers to £11.50 but this will still leave us with a deficit of £10m.
  3) Opt-in which would involve writing to our customers and asking them to contact us if they want to be moved to better deal. However, this could have brand and reputational implications.
  4) Free broadband offer at no extra cost to this segment only or £11.50 for landline only. We have recently had a good commercial discussion with Talk Talk (TT) to move our customers from BT to them. This would help with our margin.
- RH raised that the execution piece is missing from this report. MS explained that we would use the same team who undertook the Jaguar migration. He also explained that BT could only migrate 4000 a week so if we were to do we would need to start in January. **PV asked if RH could 'Black Hat' after Christmas. RH asked that once a plan was finalised he would go through with MS in the first week of January.**
- PV noted that there were two questions here for our customers:
  1) How long will this take for our customers; and
  2) TT would need to honour our arrangement if they were bought out.
- PV also asked if TT should also pick up the £10 postage and packaging cost of router or at least pay half. MS to review Post and Packaging charges to ensure they remain fair and aligned with competitors.
- **PV stated that a marketing campaign should be planned to highlight the free broadband and to get the messaging right. MD agreed and would work with MS on.**

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Outcomes	
Action: • **GE approval given to pursue inclusive broadband pricing for all current Landline only customers - migration orders will commence from mid Jan 18, and customer communications will happen from Mid-March 18, final migration in May 18.** • **RH to review final plan in the first week in January and 'Black hat'.** • **MD and MS to review customer communications strategy, to ensure clear customer message and evaluate if a positive external message can be created with out risk.**	 **RH/MS** **MD/MS**
Agenda Item 5	
Approval Of POMS MSA and including a discussion on Senior Manager Regime	
Purpose	
• To update GE and seek approval of POMS MSA and a discussion on Senior Managers Regime.	
Discussion	
• NK have gone through the process but AC had not had time to review and therefore wanted to defer and take off line. • JM noted that the paper requested approval in principle and delegated authority to finalise the MSA. She noted that it would be helpful if one person could assume responsibility for oversight of delivery of services to POMS, however there were different options as to who this should be. • JM noted that there were no substantive changes but both the MSA and DA were being updated to reflect current arrangements.	
Outcomes	
Action: **AC to review agreement with MP. NK offered the help of Jonathan Hill who was familiar with the agreement.**	**AC/MP**
Agenda Item 6	
SuccessFactor Demo	
Purpose	
To provide the GE with a demo of Successfactors which would be rolled out to the business in January 2018.	
Discussion	
MK introduced Neil Crowther, Ross Duncan, Lesley Davis and Martyn Lewis who would be presenting the Sucessfactors demo. RD presented the demo and the following was highlighted: • Personal data could be amended by individuals and on new joiners could populate their own information and provide signed documents back to HR through the system. Contract will be issued through Adobe sign in the future. • Company phone directory but would be down to individuals to complete. • Organisational charts of teams and reporting lines. • Will be able to manage annual leave and the buying of extra days, team absences, and emergency contacts which can feed into grapevine. AC asked if people could sell back holidays and MK agreed he would look into. He also added that the annual leave and absences would not go live till April. It was confirmed that any holiday to be	

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carried over would be done manually with managers but next year would be on this system.

- PV thanked the team and noted how great it looked.
- PV left the meeting and AC took over as Chair.
- The question of if expenses could be done through this system but MK noted that another system was being launched at the same time for expenses.

Agenda Item 7

Verbal Update from Committees & Steering Groups

7.1 **IRSG**

- MK reported that RMG and staff both might be opting for a deal.
- MK gave a verbal update on the weekly to monthly pay appeal and this related to the compensation being challenged.

7.2 **EUM**

- Julie Thomas provided a verbal update and noted that she was currently updating the EUM business case to go to ECG in January. JT reported that there were a number of issues ranging from re-design issues and technical changes and mandatory compliance testing if not completed systems were being switched off. JT explained there has been a significant overspend and the business case will be looking to ask for £10.4m from the original £7.8m. **AC stated that this would need to go to the Board in January for approval.**

Outcomes

Action: • **The updated business case for EUM to go to Board in January for approval.**	**JT/DS**

Agenda Item 8

Review of GE Minutes, Action Points and Updates

Purpose

To update the GE on the actions taken and provide any information requested.

Agenda Item 9

Items for Noting

- **Health & Safety Report**
- **Forward agenda -GE January 2018**
- **MB was asked to circulate the agenda for Board for January 2018.**

Agenda Item 10

AOB

Purpose

To discuss any additional items raised

Discussion

10.1 Directors Induction

- JM noted some changes to Board members and that Cosec is coordinating in the on boarding process and inductions. There would be a new NED to replace Virginia Holmes in April 2018. Richard Callard would be replaced by Tom Cooper in March 2018. Tim Franklin would be joining the POMS Board.

10.2 POL Glossary of Terms

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- This would be circulated in due course.

10.3 GDPR

- Jane provided an update as to where we were in terms of GDPR and noted that there was still a lot of work to be done. Customer data, agency and then employee being the priorities. GDPR training had been booked for POL Board members for January 2018.

The meeting closed at 12.30pm

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Key

Outstanding actions for discussion at GE and to close	
Completed and action closed since last meeting	
Actions in white not due	

Post Office Limited Group Executive Action Log

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open / Closed
GE on 17th January 2017					
17/01/2017: IT Strategy / Action 10	Set up a skype GE meeting.	**Rob Houghton /** Jane MacLeod	GE on 14th December 2017	Still ongoing - challenges with network bandwith being investigated.	Open
GE on 17th May 2017					
17/05/17 : HR Strategy (Part 1) / Action 7	Bring a session on regulation, the timetable and effect of new regulation, accountability and cost back to the GE.	**Martin Kirke /** Sean Leahy	TBC 2018	Suggest GE discussion on ownership. Update 07.11.17 - To be considered with POMS MSA.	Carried Forward
GE on 14th June 2017					
14/06/17 : Performance - Financial Results & Review of Business Scorecard / Action 2	Include KG and NK in the work on product profitability, with FDs and Michael Passmore.	**Al Cameron /** Kevin Gilliland / Nick Kennett	30th November 2017	Due to fixed asset reinstatement work and ongoing audit work, product profitability in current state system environment has been delayed and will start again in early September. This will run concurrently with the hierarchy and chart of accounts work in back office transformation.	To close
14/06/17 : Cash Management / Action 1	Set up a review on the Santander security rules towards the end of the calendar year.	**Al Cameron**	January 2018 - TBC	Underway.	Open
14/06/17 : Cash Management / Action 2	Develop an online training package highlighting the importance of cash.	**Al Cameron**	December 2017	It has been agreed that the best way forward would be to manage this as a Comms piece as it is not a training need. This should be a high level central communication around the scorecard, along with an ongoing campaign on the importance of cash (working with Doug Brown for DMB), especially in the lead up to Christmas. Update 12.10.17 - One notes will be sent out over the next two weeks.	To Close
GE on 13th July 2017					
13/07/17 : Crown Network Development / Action 2	Return to GE with the plan on how the white space initiative will be taken forward.	**Tom Moran /** Julie Thomas	December 2017	Update produced on whitespace progress – Tom Moran (Retail) is updating this to provide a broader update on the legal issues which has been requested by PV and produced by Ben Foat (Legal) to take account of latest developments, specifically the recent postmaster challenge re: Berryden whitespace. This will be provided to PV in w/c 11 Sep. Update 12.10.17 - The whitespace initiative is part of Network Development and the business case for this is being presented to ECG in October 2017 prior to submission to Board in November 2017.	To Close

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Last updated 11/01/2018 at 16:25

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open / Closed
13/07/17 : Sparrow Update / Action 1	GE noted the briefing and requested that a further update be provided to GE and the Board following the Case Management Conference. This update should include an assessment of the potential impact on Post Office and its business and operations of the range of possible outcomes, based on the issues to be considered through the Lead Cases.	**Jane MacLeod**	GE on 13th November 2017	To be covered in GE on 13th November 2017.	Closed
GE on 14 September 2017					
14/9/2027 Finsbury Dials Review - Action 1	SN to report back to GE with the proposed plans for FD in due course and confirm that implications of successful outcomes of Project Panther had been considered as part of space planning	Steve Norris	December 2017	Update 16.10.17 - 1. Planning peak use at FD to review if extra capacity investment is needed 2. Business case being built 3. Piloting the new style CTO at South Shields 4. Awaiting HR decision on Bark Street exit date	Open
14/09/2017 Finsbury Dials Review-	MK was requested to lead the development of a strategic proposal as to the longer terms people	Martin Kirke	June 2018 - TBC	Discussion is required to take place at the GE Awayday, in order to clarify and link it with the " Talent Acquisition Strategy ".	Open
14/09/2017	NK proposed a paper in early 2018 to look at POCA and Digital wallet initiatives	Nick Kennett	March 2018	UPDATE 5/10/17: In progress (HVH & ME looking at this)	Open
14/09/2017 Feedback on meeting	GE requested that minutes & actions be reviewed to make then more proprtionate. They also requested a glossary of terms be developed.	Jane MacLeod	01-Jan-18	To be circulated to GE 2018	To close
GE on 16th October 2017					
19/10/17 DMB Business Case	Paper to be reviewed – including development of 'Plan B' and brought back to GE in January 2018, ahead of being submitted to the January Board.	Debbie Smith/ **Julie Thomas**	Jan-18	To be covered in GE in 16th January 2018.	To Close
19/10/17 Project Jay	MK to bring updated paper to GE in November for further discussion and defer bringing to the Board till January.	Martin Kirke	January 2018	MK to bring update paper to GE January.	To Close
GE on 13 November 2017					
13/11/2017 Future Change Approach Proposal (7)	The GE approved the Change Approach proposal and asked that the skills gap be picked up and progress is taken to L300.	Martine Kirke	January 2018 - TBC		To Close
13/11/2017 Future Change Approach Proposal (7)	A more detailed proposal to be brought back to GE in January 2018	Angela Van Den Bogerd/Tim White/Rob Houghton	Jan-18	Included in Janauary Meeting	To Close

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REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open / Closed
13/11/2017 GE December 2017 (9)	GE December 2017 Government Services should be changed to be called the Future of Poca Options and jointly owned by KG, ME and NK. NK to confirm is mortgage distribution would need to be on the agenda.	Jane Macleod Nick Kennett	March 2018 TBC 2018	Moved to March	Open
	Poca and Digital Wallets to be included with Cash Strategy and deferred to March agenda.	Nick Kennett	March 2018		Open
GE on 14 December 2017					
14/12/2017 First Review of the Budget (2)	• More detail to be provided in January with further context on the budget submission. • STIPs to be covered in January meeting. • Louise to join the January budget discussion in relation to Marketing and Brand. • OSOP structural piece AC and MK to pick up.	Al Cameron/ Michael Passmore	16th January 2018	.	To close
14/12/2017 MoneyGram and international Payment (3)	• MoneyGram and International payments to be brought back to the GE in March. • ME raised that Identity should integrate with IP piece and ME and OW to follow up on. • Digital Wallets and strategic piece to come to March GE. (NK) • Identity to also come back to GE in March.	Nick Kennett/Owen Woodley	14th March 2018		Open
14/12/2017 Telco Update (4)	• GE approval given to pursue inclusive broadband pricing for all current Landline only customers - migration orders will commence from mid Jan 18, and customer communications will happen from Mid-March 18, final migration in May 18. • RH to review final plan in the first week in January and 'Black hat'.	Nick Kennett/ Meredith Sharples/Rob Houghton	16th January 2018 – May 2018	.	Open

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Last updated 11/01/2018 at 16:25

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open / Closed
	• MD and MS to review customer communications strategy, to ensure clear customer message and evaluate if a positive external message can be created without risk.				
14/12/2017 POMS MSA Approval (5)	AC to review POMS MSA agreement with MP. NK offered the help of Jonathan Hill who was familiar with the agreement.	Al Cameron/ Michael Passmore	16th January 2018		To close
14/12/2017 EUM (7.2)	The updated business case for EUM to go to Board in January for approval.	Debbie Smith/Julie Thomas	29th January 2018		Open

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Performance Review – Health and Safety

Authors: Martin Hopcroft   Sponsor: Al Cameron   Meeting date: 16th January 2018

Executive Summary

Context

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

1.2 Our Health & Safety performance has improved significantly in the past 6 years and we have a rolling 3-year plan to drive health and safety compliance, targeting a reduction in four key safety metrics: accidents; lost time accidents; days lost; and personal injury claims. Our H&S reporting and safety management system is measured against the BSI standard.

Questions this paper addresses:

2.1 It has been agreed to provide a monthly performance report to GE for noting and a more in depth Health & Safety deep dive report 6 monthly.

Conclusion:

3.1 There has been a recent increase in the number of accidents (P8 and P9), including absence accidents following 3 incidents in DMBs and Supply Chain. Investigations are being undertaken and accountabilities reviewed (see Report-H&S Metrics). **Benchmark data** has been received from suppliers / insurers and overall Post Office performance is favourable. Post Office has also participated in a BSIA exercise to benchmark Supply Chain performance across the industry and should receive a report from BSIA very soon.

3.2 Whilst mitigating action has reduced **road risk** across the Commercial Fleet over recent years and RTCs remain low, a new overarching policy is being developed for all business drivers (company and personal cars) to further reduce risk. Online awareness training has been issued via Success Factors and the Mobile Phone whilst Driving Policy reiterated.

3.3 Whilst CViT attacks remain lower in 2017/18 with 14 v 20 (2016/17), Post Office **robberies** have increased. A number of initiatives are being deployed in hot spot areas. Due to this increase in **violence**, the Board and GE have requested a review of employee and agent security, following an ONS report that shop theft is increasing across the industry, as are the number of robberies in branches. A report will be provided to GE during Q4 following a review of current procedures, equipment and analysis of robberies, attacks and losses whilst also considering the impact of change on the risk profile.

3.4 The overall level of **Property** risk is predominantly low, however, there are some high risk exceptions that are being reviewed. We are amending our FM contract to move to a proactive fabric management regime. Current property statutory compliance is good at 98%.

3.5 A number of actions are being progressed following the GE **H&S deep dive review**, including a review of road policy, guidance for lone workers, safety of vacated buildings, competency and statutory compliance. A 3rd Party Audit has been commenced with HSL to review the Post Office Safety Management System.

3.6 A number of initiatives are being developed to raise awareness of **mental health** support and resources, including MH Awareness Workshops and the introduction of MH First Aiders to provide proactive support to colleagues across the business.

Input Sought

The GE are requested to **note** the current health safety performance.

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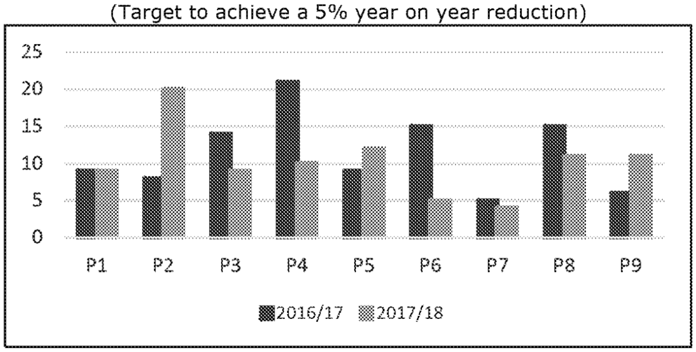
The Report – H&S Metrics

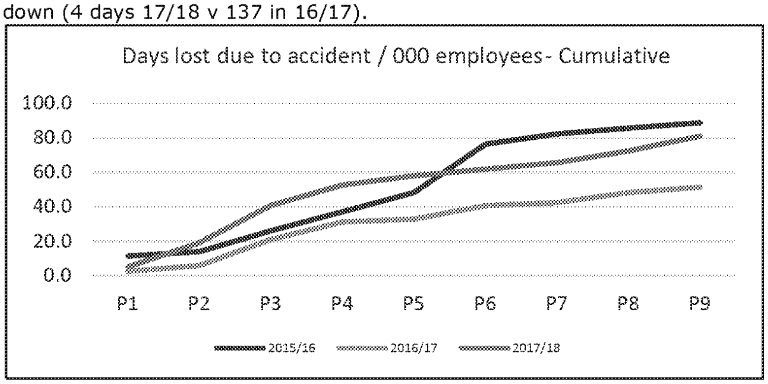
Summary of Safety Performance - YTD Period 9 (December 2017)

Number of Employee Accidents – Monthly - Period 9
(Target to achieve a 5% year on year reduction)



Accidents are forecast to outturn lower than 2016/17. There have been 91 accidents YTD compared to 101 at P9 in 2016/17. Causation is consistent with previous years in DMBs and due to falls indoors (2 in P9), lifting and handling (1 in P9) and stepping and striking (1 in P9). There was also a rare incident whereby a customer assaulted a DMB employee. Whilst stepping and striking (1 in P9) and non RTA vehicle related accidents (2 in P9) have increased in Supply Chain recently, lifting and handling related incidents have reduced (0 in P9). Following an increase in accidents P8 and P9 investigations are being carried out to understand causation and action plans agreed by local management to mitigate future risk. A Safety Forum is being set up to share best practice and discuss lessons learnt and promote safety culture.

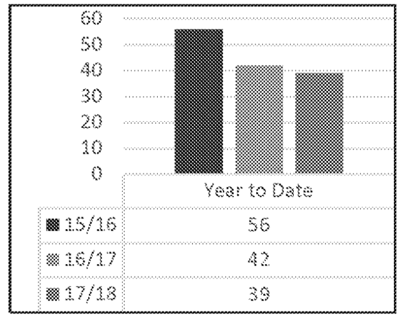
There were 2 lost time accidents reported in P9 with **17 lost time accidents** YTD 2017/18 and 364 total lost days. Cumulative Trends can be seen per 000 employees in the graph below. Total lost time / 000 employees has risen by 50% YTD. **Trauma** related total lost days, following an attack, are 97% down (4 days 17/18 v 137 in 16/17).



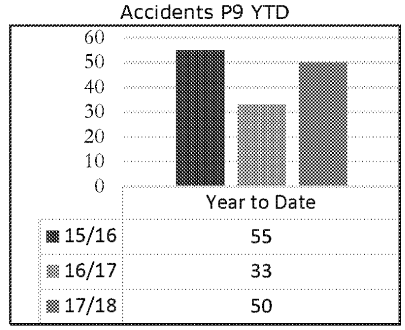
Post Office total lost days: 29 in Period 9
DMB total lost days P9 YTD : 202 (96 in 16/17) – 1 step/strike, 1 lifting, 2 fall, 1 assault
Supply Chain total lost days P9 YTD: 199 (191 in 16/17) 3 vehicle, 3 falls, 2 lifting
Support total lost days P9 YTD : 6 (6 in 16/17)

Post Office CViT Robberies – P8 (Nov 17)
There were zero incidents reported in Nov v 1 in 2016/17 and over a rolling 12 mth period there have been 14 incidents v 20 in 16/17. Trend is being monitored closely. 3 incidents YTD have used violence with 1 injury. 4 used weapons v 6 in 2016/17 YTD. 70 Cross Pavement Observations have been undertaken by Security Managers during period. 3 'Operation Stripes' undertaken to test resilience of depots, and to ensure unauthorised access is not given, regardless of circumstances. 17 other depot visits undertaken by security during period to engage with Supply Chain staff and promote security best practise.

Directly Managed Branch
Accidents P9 YTD



Supply Chain
Accidents P9 YTD



Post Office (All branch types) Robberies – P8 (Nov 17)
There were:
June - 8 incidents v 11 (16/17)
July - 4 incidents v 8 (16/17)
Aug - 8 incidents v 12 (16/17)
Sep - 13 incidents v 9 (16/17)
Oct – 14 incidents v 6 (16/17)
Nov - 9 incidents v 17 (16/17)
97 robberies YTD v 74 in 2016/17
170 compared to 112 in rolling 12mth

Violence – 2 vs 4 last year
Injuries – 1 vs 2 last year
8 injuries YTD v 8 (2016/17)
Weapons - 6 (1 firearm, 3 blades) vs 14 last year (4 firearm, 7 blades)

There has been a 10% increase in bladed robberies and a 2% reduction in firearm robberies over rolling 12 month period. TORCH visits are being made to hot spot branches to verify for compliance to security standards. A review is being undertaken to assess personal safety risk to employees and agents and to look forward to consider potential change to the risk profile of branches and CViT operations.

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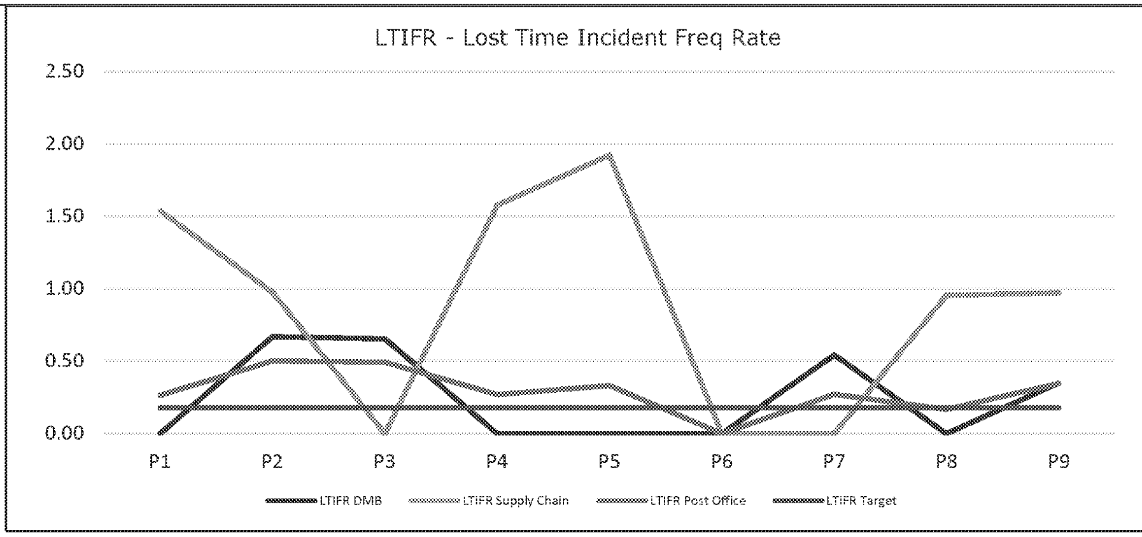


Lost Time Injury Frequency Rate (LTIFR) – Period 9 YTD

Supply Chain
YTD P9 – 0.896
2016/17 out turn – 0.590
2017/18 target – 0.500
Absence accidents/000 SiP 11.08 YTD v 9.24(16/17)

All Post Office – Employee
YTD P9 – 0.293
2016/17 out turn – 0.168
2017/18 target – 0.180
Absence accidents/000 SiP: 3.37 YTD v 2.53 (16/17)

Road Risk

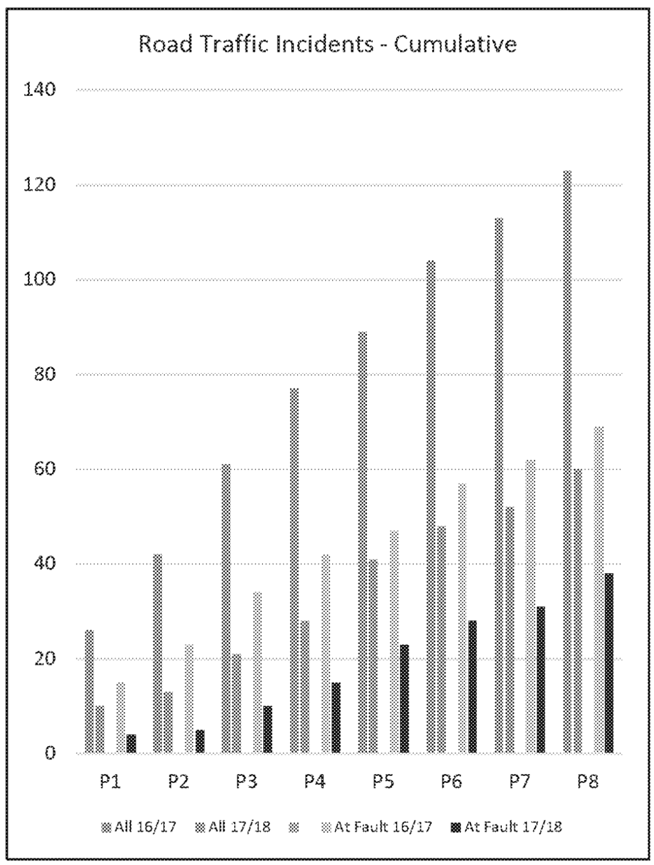
P9 Road Traffic Collisions

- 7 Road Traffic Incidents in P9
- 4 at fault, 3 not at fault

Comparing 17/18 v 16/17
There were 66 RTCs YTD in 2017/18 v 129 (16/17), a 49% reduction YTD.

At fault RTC's were 78 in 2016/17 and have reduced to 42 in 2017/18, a 54% YTD improvement. Initiatives include:

- An overarching Road Risk Policy, with improved training and compliance checks is being developed by the Fleet Management team to cover Commercial Fleet, Business Cars and Personal Car use.
- Driver Training has been developed and launched on Success Factors for all employees who drive on business.
- Road Risk Manager is working closely with the road safety charity Brake, our Insurers, QBE and Fleet providers, BT Fleet and Inchcape and Cranfield University to benchmark and pilot initiatives to mitigate risk.



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Summary of Wellbeing Performance - YTD Period 8 (Nov 2017/18)

- The overall Post Office attendance level remains stable at 96.4% YTD P8 (November 2017/18). Short Term absence is 1.0% YTD and long term absence is stable at 2.6% YTD. There has been a positive uptake of free flu vaccinations offered to Support Centre and Supply Chain colleagues during P8.
- Mental health related absence remains the most common cause of long term absence. Some additional analysis is being undertaken by our Occupational Health and HR Service Providers to understand trends and areas of concern to target intervention by business area.
- Proactive activity includes 'positive mental health awareness' sessions for colleagues, additional Mental Health Awareness Workshops being piloted for line managers and the introduction of Mental Health First Aiders with 39 trained in November and an additional 20 planned for training in Supply Chain in January, followed by a review and launch of the initiative across the business in late January.

Business Area Absence Performance v Target – P8 YTD 2017/18

2017/2018	Sick Absence %ge									
	Period 01	Period 02	Period 03	Period 04	Period 05	Period 06	Period 07	Period 08	Y.T.D Totals	Gross Hours Target
CHIEF FINANCE & OPERATIONS OFFICE	3.4%	3.3%	3.2%	3.6%	4.0%	4.8%	4.3%	4.1%	3.8%	3.4%
FIN: SUPPLY CHAIN	4.0%	3.7%	3.9%	4.1%	5.1%	5.8%	4.5%	4.5%	4.4%	3.6%
FIN: CHANGE MANAGEMENT	0.2%	1.0%	3.2%	6.6%	6.4%	2.5%	0.6%	0.6%	2.6%	3.3%
FIN: HRSC	0.8%	3.6%	1.1%	2.6%	4.4%	4.7%	9.1%	5.6%	4.2%	3.3%
FIN: NO CONTACT CENTRES	3.7%	1.9%	2.5%	5.4%	4.1%	6.6%	7.0%	5.8%	4.4%	4.2%
FIN: NETWORK OPERATIONS	2.1%	3.6%	2.0%	2.1%	1.9%	1.8%	2.5%	2.8%	2.4%	3.3%
FIN: FSC	4.0%	1.7%	2.1%	1.9%	2.0%	6.6%	4.9%	3.7%	3.4%	3.4%
RETAIL OFFICE	3.5%	3.1%	3.5%	4.1%	4.4%	4.2%	4.2%	4.2%	3.9%	3.4%
RO: DIRECTLY MANAGED BRANCHES	3.9%	3.4%	3.8%	4.6%	4.9%	4.7%	4.6%	4.4%	4.3%	3.7%
RO: AGENCY SALES & CRM	3.8%	4.9%	4.1%	1.4%	3.0%	3.8%	6.3%	6.8%	4.3%	3.3%
RO: NETWORK DEVELOPMENT	1.2%	1.0%	1.2%	1.4%	1.5%	1.0%	1.0%	1.9%	1.2%	3.3%
COMMUNICATIONS & CORPORATE AFFAIRS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%
HUMAN RESOURCES	0.0%	0.3%	1.8%	1.3%	1.3%	0.5%	2.5%	0.0%	1.0%	1.2%
GENERAL COUNSEL	0.1%	0.0%	0.0%	0.7%	1.5%	1.5%	0.4%	0.9%	0.6%	1.5%
FINANCIAL SERVICES & TELECOMS	3.0%	2.3%	1.9%	2.1%	1.7%	1.1%	1.9%	2.6%	2.1%	1.9%
FST: PO MONEY PRODUCTS	6.0%	4.5%	3.8%	4.1%	3.3%	2.2%	3.6%	4.5%	4.0%	3.7%
CHIEF INFORMATION OFFICE	2.7%	3.1%	2.6%	5.2%	5.4%	5.6%	4.4%	2.6%	3.7%	3.5%
Post Office Ltd	3.3%	3.0%	3.2%	3.7%	4.0%	4.1%	4.0%	3.9%	3.6%	3.3%

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Group Executive Draft Agenda for meeting on 21st February 2018

Description of Item	Timings	Origin *(who has requested this? (Action with ref / Standing Item/ Chairman)*	GE Sponsor *(Please choose one option from the Dropbox)*	Presenter	Required Outcome *(Please choose one option from the Dropbox)*
Performance – Financial Results & Review of Business Scorecard	20	Standing item	Al Cameron	Michael Passmore	Input & Information
2018/19 Budget Review	30	Periodic action from forward planner	Al Cameron	Michael Passmore	Discussion & Input
Cash Efficiency	30	GE action from previous meeting	Al Cameron		
CSR Policy	20	Periodic action from forward planner	All		
Brand Strategy	20	Periodic action from forward planner		Louise Fowler	
Overall Network Strategy	30	Periodic action from forward planner	Martin Edwards	Tom Moran	
HR - Training Strategy and Plan	20	Periodic action from forward planner	Martin Kirke	Natasha Wilson	
HR - Performance Management	20	Periodic action from forward planner	Martin Kirke	Natasha Wilson	
ATOS Decision (Service Operating Model)	20	Periodic action from forward planner	Rob Houghton		Approval
Verbal update from Committees & Steering Groups	25	Standing item			Noting
Contracts for Approval	10	Standing item	Jane MacLeod		Approval
Review of GE Minutes, Action Points and Updates	10	Standing item	Jane MacLeod		Noting & Input
Items for Noting	10	Standing item			Noting

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Description of Item	**Timings**	**Origin** *(who has requested this? (Action with ref / Standing Item/ Chairman)*	**GE Sponsor** *(Please choose one option from the Dropbox)*	**Presenter**	**Required Outcome** *(Please choose one option from the Dropbox)*
AOB	10	Standing item			
Total No Hours	**275**				

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Group Executive Draft Agenda for meeting on 14th March 2018

Description of Item	Timings	Origin *(who has requested this? (Action with ref / Standing Item/ Chairman)*	GE Sponsor *(Please choose one option from the Dropbox)*	Presenter	Required Outcome *(Please choose one option from the Dropbox)*
Performance – Financial Results & Review of Business Scorecard	20	Standing item	Al Cameron	Michael Passmore	Input & Information
Performance Report – FS&T SBU	30	Periodic action from forward planner	Nick Kennett	Colin Stuart	Input & Information
Future of POCA Options and Cash Services	45	GE action from previous meeting	Nick Kennett	Debbie Smith & Martin Edwards	Discussion & Input
Identity	20	GE action from previous meeting	Nick Kennett		
POAC update	10	Periodic action from forward planner		Mark Davies	
ATM's	20	GE action from previous meeting	Nick Kennett	Martin Kearsley	
Quarterly report to UKGI	20	Periodic action from forward planner	Al Cameron	Martin Edwards	
Overall Government Services Strategy	30	Periodic action from forward planner	Debbie Smith	Tom Wechsler	
Verbal update from Committees & Steering Groups	25	Standing item			Noting
Contracts for Approval.	10	Standing item	Jane MacLeod		Approval
Review of GE Minutes, Action Points and Updates	10	Standing item	Jane MacLeod		Noting & Input
Items for Noting	10	Standing item			Noting
AOB	10	Standing item			
Total No Hours	**260**				

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Personal Payments Capability

(formerly known as ‘digital wallet’)

GE 16/01/18

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1. Context

- There are several initiatives in different areas across the business which require a co-ordinated view on the provision of a personal payments capability (formally referred to as 'digital wallet‘).
- The current initiatives in FST and Government Services are:
    1. Customer Hub: the option of introducing portable payments and to take over the basic functions of a current account
    2. POCA: the requirement to develop a next generation proposition to replace POCA as Universal Credit roll-out continues
    3. Postal Orders: the need to digitise Postal Orders
- We have been approached by Pockit and after subsequent conversations they might be a solution meeting our needs.
- Bank of Ireland is looking into an alternative which is a current account solution.
- In addition, there has been an engagement by Crown Commercial Service to procure a set of payment solution providers (see appendix A).
- A paper will be presented at the March GE which will cover the feasibility of the delivery solutions.

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2. Delivery solutions

- We are looking into following options:
  1. Building a Post Office pre-paid programme (e.g. as part of Customer Hub). This solution would require an e-money licence.
  2. Partnering/investing: Pockit, PCT, U Account
  3. Taking out the option from DXC to offer POCA+
  4. Developing a new current account with Bank of Ireland
- Main assessment criteria to consider:
  1. Timing
  2. Quality of solution
  3. Feasibility of solution (migration/transition)
  4. Costs/commercials
  5. Degree of ownership/control of proposition
  6. Degree of satisfying a POL wide solution (POCA, Postal Orders, Banking Framework,…)
  7. Risk appetite (e.g. regulation)
  8. Current contractual obligations (eg FSJVA)

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3. Our ask to GE

1. To note the short term opportunity with Pockit.
2. To provide authority to the team to investigate the opportunity further and undertake due diligence work to assess their capabilities.
3. To mandate the team to have those conversations within specific markers owned by Group Strategy (buy out options, minimal ownership/control levels,...).
4. To note the formation of a working group led by FST within existing budget resource to assess the delivery options.

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APPENDIX

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Appendix A: Crown Commercial Procurement exercise

- Crown Commercial Service (CCS) is developing a new multi-supplier framework for the provision of payment solutions and associated services that will be available to both Central Government and the wider public sector.
- CCS have issued a Prior Information Notice (PIN) and invited interested suppliers to initial engagement events during January 2018 with the publication of the OJEU planned for April/May.
- The PIN describes three Lots under the framework. We believe that Lots 1 and 2 are focused on purchasing card solutions (in line with the current framework) and don't provide opportunity for Post Office to add value.
- However Lot 3 is envisaged to be for the provision of pre-paid accounts and associated services including exception disbursement and payment services. We believe this framework could be used for the future provision of a POCA-like solution by DWP and provide access to wider public sector organisations who require pre-paid account solutions.
- Post Office has registered interest and is seeking to attend the initial engagement event.
- Following the initial engagement event the Government & Payment Services team will work with Financial Services and Telecoms and Group Strategy to develop our sales and bid approach.