



## Post Office Board Agenda

<b>Date:</b>	<b>Monday 25 March 2019</b>	<b>Time</b>	<b>08.30 – 12.00 hrs</b>	<b>Location</b>	<b>1.19 Wakefield</b>
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Present		Other Attendees	
• Tim Parker (Chairman)	• Tim Franklin	• Jane MacLeod (Company Secretary)	• Tom Moran (items 6. & 7.) (Network Development Director)
• Alisdair Cameron (CFO)	• Shirine Khoury-Haq	• Veronica Branton (Head of Secretariat)	• Owen Woodley (items 9. – 10.) (CEO - FS&T)
• Ken McCall	• Carla Stent	• Debbie Smith (item 7.) (CEO – Retail)	• Chrysanthy Pispinis (item 9.) (Director PO Money)
• Tom Cooper		• Martin Kearsley (item 8) (Banking Director)	• Rob Clarkson (item 10.) (MD – PO Insurance)
Apology: Paula Vennells		• Amanda Jones (item 3.2) (Retail Sales Director)	
		• Julie Thomas (item 3.2) (Network Operations Director)	
Agenda Item	Action Needed	Lead	Timings
1. <b>Welcome and Conflicts of Interest</b>	Noting	Chairman	08.30 – 08.35
2. <b>Minutes of Previous Board meetings including Status Report</b>	Approval	Jane MacLeod	
3. <b>Postmaster Litigation (to follow)</b> 3.1 Case  3.2 Contingency planning	Noting and Input	Jane MacLeod/ Mark Davies Julie Thomas/ Amanda Jones	08.35 – 09.35
4. <b>CEO Report</b>	Noting & Input	CFO	09.35 – 09.55
5. <b>Finance</b> 5.1 Financial Performance Report 5.2 Draft 2019/20 Annual Strategic Plan and Budget	Noting & Input Noting & Input	CFO	09.55 – 10.25
6. <b>Network reporting</b>	Noting & Input	CFO/ Tom Moran	10.25 – 10.40
7. <b>Network Plan</b>	Noting & Input	Debbie Smith / Tom Moran	10.40 – 11.10
8. <b>Banking Framework 2</b>	Approval	CFO/ Martin Kearsley	11.10 – 11.25
9. <b>Bank of Ireland Negotiations</b>	Noting & Input	Owen Woodley / Chrysanthy Pispinis	11.25 – 11.40
10. <b>PO Insurance Capital Injection</b>	Approval	Owen Woodley/ Rob Clarkson	11.40 – 11.45
11. <b>Contracts/ funding for approval</b> - Global Payments Agreement - Branch Hub	Approval		11.45 – 12.00
12. <b>Items for Noting</b> 12.1 Belfast Exit Plan 12.2 Sealings 12.3 Health and Safety Report 12.4 Future Meeting Dates 12.5 Forward Agendas	Noting		

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13.	<b>Any Other Business</b>	Noting and Input	Chairman	
14.	<b>Date of next meeting</b> 28 May 2019: 11.30 – 16.30 hrs	Noting	Chairman	

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**MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 29 JANUARY 2019 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 11.45 AM**

Present:	Tim Parker	Chairman <b>(TP)</b>
	Paula Vennells	Group Chief Executive <b>(PV)</b>
	Ken McCall	Senior Independent Director <b>(KM)</b>
	Tom Cooper	Non-Executive Director <b>(TC)</b>
	Tim Franklin	Non-Executive Director <b>(TF)</b>
	Shirine Khoury-Haq	Non-Executive Director <b>(SK)</b>
	Carla Stent	Non-Executive Director <b>(CS)</b>
	Alisdair Cameron	Group Chief Financial and Operating Officer <b>(AC)</b>
In Attendance:	Jane MacLeod	Company Secretary <b>(JM)</b>
	Veronica Branton	Head of Secretariat <b>(VB)</b>
	Debbie Smith	Chief Executive - Retail <b>(DS)</b> (items 6 & 7)
	Owen Woodley	CEO - FS&T <b>(OW)</b> (items 6, 8 & 9)
	Cathy Mayor	Finance Director, Retail <b>(CM)</b> (item 6)
	Colin Stuart	Finance Director, FS&T <b>(CS)</b> (item 6)
	Martin Kearsley	Banking Director <b>(MK)</b> (item 7)
	Chrysanthi Pispinis	Director - PO Money <b>(CP)</b> (item 8)
	Will Nourse	Fenchurch <b>(WN)</b> (item 8)
	Meredith Sharples	Director – Telecoms <b>(MS)</b> (item 9)
	Rob Houghton	Group CIO <b>(RH)</b> (item 13)
	Jeff Lewis	CIO – FS & Digital <b>(JL)</b> (item 13)

ACTION

**1. WELCOME AND CONFLICTS OF INTEREST**

A quorum being present, the Chairman opened the meeting.

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

**2. RE-APPOINTMENT OF NON-EXECUTIVE DIRECTORS**

The Board **APPROVED**:

- the re-appointment of Ken McCall as Senior Independent Director of Post Office for a period of three years from 29<sup>th</sup> January 2019 until the Board meeting occurring approximately three years after that date
- the re-appointment of Carla Stent as a Non-Executive Director of Post Office for a period of three years from 29<sup>th</sup> January 2019 until the Board meeting occurring approximately three years after that date.

**3. MINUTES OF PREVIOUS BOARD AND COMMITTEE MEETINGS INCLUDING STATUS REPORT**

The minutes of the meeting of the Board held on 27 November 2018 were **APPROVED** and **AUTHORISED** for signature by the Chairman.

**4. CEO REPORT**

4.1 Paula Vennells introduced the report and invited questions.

4.2 A number of issues were raised, including:

- the impact of a Brexit "no deal" on data sharing. It was reported that the Information Commissioner's Office (ICO) had issued guidance on data sharing and as the data controller our data sharing requirements should not change, but that we were monitoring the position



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- whether we remained on track with RM negotiations? It was reported that we intended to seek a mandate from the Board on RM at the March Board meeting. There had been no change in RM's priorities for the new contract. PV was due to meet with Rico Back in advance of the March Board meeting and it was thought helpful to continue these senior level discussions and keep a focus on our main priorities in the new contract. The same issues remained in discussion and it was noted that RM had issued a second profit warning today and shares prices had dropped by 10%.

4.3 The Board **NOTED** the CEO's report.

**5. FINANCE**

**5.1 Financial Performance Report**

Al Cameron introduced the report and highlighted a number of issues, including that:

- performance had been encouraging. Mails and banking were offsetting underperformance against plan from Telco and MoneyGram. The automation of the banking deposit process had driven up the volume of transactions
- poor budgeting of a number of staff costs would run to the end of the financial year; we were focussed on making sure that these errors did not happen again
- the new retail operations structure had been announced. The HR structure was being changed and the consultation on this would start later in the week
- the Telco margins were flattening out. The regulatory environment was tougher. The end of the Fujitsu contract and development of a different partnership model would improve our returns significantly. Current returns were not sustainable for a number of reasons which would be discussed under the Telco strategy item later on the agenda
- depreciation levels were higher than budgeted as estimates had not been sufficient. This had been the first year we had included depreciation figures in the budget
- higher staff costs had been driven largely by contractor costs on three projects that had not been budgeted for
- we had underspent the growth fund. Our hypothesis for the last two years had been that we are underspending on marketing and that the growth fund would bring the marketing ideas to life. This had not proved to be the case and Emma Springham, the Chief Marketing Officer, had been asked to force rank all marketing spend requests, including those for Bol. We were attracting people to the PO website but our conversation rates were insufficient and we were considering spending more on marketing in this area
- McKinsey had been engaged for a nine week period to help PO in the organisation design (OD) work that would drive the design of the operating model for the business post DMBs. It would be a difficult and changeable period in which we needed to be able to work as flexibly as possible and support the franchise network. For example, there are currently about 150 were employed in HR but we needed to outsource elements of work such as payroll which could be simplified if staff were on standard contracts. While costs needed to be cut, capabilities also needed to be built to allow us to serve clients and customers.

A number of points were raised, including:

- that there was a strong argument for investing more in marketing and getting a good return on this. This was an important strategic issue and the Board should have an in depth discussion on the marketing strategy at the most appropriate point during the year
- it would be helpful to have more commentary on the growth fund. It was reported that we would not have a growth fund for the next financial year but would be investing more in the brand fund over the next few weeks
- that as we had discovered that McKinsey had been engaged on work for RM we should take a view on the risks of this, obtain confirmation that they were using completely different teams, and consider whether the McKinsey team should be stood down
- whether we should consider charging RM less for processing online transactions, especially as we wanted to set up our online operations quickly?

VB to add  
to forward  
agenda.

To do:  
Executive

To do: AC  
to raise  
with MS





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- network strategy and capability would be critical and we needed to understand how agile our network would be and have clarity on our network strategy over the next couple of years. We would be managing a franchise and the success of this would determine the long-term sustainability of the business. We needed a fundamentally strong mails business and a robust model
- it was requested that information on cash declarations be added back into the report It was reported that the levels were steady at around 90% To do:  
AC
- that it would be helpful to include commentary on the Payzone Bills Payment acquisition To do:  
AC
- it would be helpful to understand what one or two other POs or retailers were doing to make their network operations agile and drawing on technology to keep costs low. It was reported that this formed part of the McKinsey work
- that an interim update on Identity would be brought to the Board. ME/ VB

The Board **NOTED** the Financial Performance Report.

### 5.2 Budget Update 2019/20

Al Cameron introduced the report and highlighted a number of issues, including:

- that we had included assumed trading profits for 2019/20
- a conversation would be needed on tightening the range of profits that were included in bonus calculations
- major changes were reflected in the changed assumptions on trading profits but not minor BAU issues which we expected to work within. A “no deal” with Bol had been assumed as that had seemed the most likely outcome at the time
- we thought we should have a cost target
- senior leadership capabilities had improved but capacity remained an issue.

A number of points raised, including:

- that we would need to be rigorous on our commodity cost structure but with a number of additions and subtractions
- that we needed to understand the efficiencies that had to be driven, versus elements such as regulatory driven compliance requirements. We also needed to look at where we could eliminate or automate work. Central costs needed to reduce and revenue increase with more investment behind the brand. It was requested that our central costs were reported To do:  
AC
- whether granularity about products would be included in the budget. It was noted that that would be included
- that it was surprising that non staff costs were not going down. It was agreed that these costs should be coming down.

### 5.3 UKGI Quarterly Report

Al Cameron introduced the report and highlighted a number of issues, including:

- that less had been spent than forecast in Q3
- a number of material projects were not delivering the benefits we anticipated at the time we had anticipated. This included Project Everest through which we were changing some of our committed spend with Fujitsu from opex to capex and the rollout of new printer cartridges to branches. The latter had been designed to reduce costs and generate fewer calls while the opposite had been true because a message was being received that the cartridge was empty when it was not
- significant spend was associated with DMB franchising process. The benefits from this programme were flowing through but it continued to draw some public criticism
- that we did not include a contingency fund
- BEIS would be focussed on the £445m spend over the three year period. This was a cash flow forecast. It did not include some non-cash spend, the costs associated with the



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Postmaster litigation spend<sup>1</sup> and £26m that had not been spent from last year's budget. The £445m had been forecast based on what we thought we could invest in change without borrowing. That figure would be higher now because of higher trading profits.

- that the contract for Successfactors had been entered into speedily because of a licensing issue. It was an imperfect system and we did not think we needed the additional functionality available at additional cost. We were too small a customer for SAP to give us sufficient attention and while we would need to use the system for the foreseeable future we were not confident that they were the right long-term partner for us
- that the redundancy figure of £34m was higher than AC had expected and he would be scrutinising the figures.

A number of points raised, including:

- whether there had been challenges to test that the money could be spent during the quarter, to prioritise the requests and to make sure that the benefits were going to flow through? It was reported that this testing process took place at the Investment Committee
- whether the BEIS finance team were more comfortable with the reporting now being provided? It was reported that this was the case but that we had yet to work through the change prioritisation plan. AC noted that further work was needed on investable growth projects for next year. An insurance acquisition had not been included in the change fund and £6m had been included for Identity rather than the £9m which would have allowed us to move off the Digidentity platform in the short term.

The Board:

- **NOTED** the contents of the paper, including the approach of total change spend and the confirmations to BEIS
- **APPROVED** the request of £25.9m funding for Q4
- **DELEGATED AUTHORITY** to the CEO and CFOO to finalise the precise details and supporting documents with UKGI.

## 6. RETAIL AND FS&T QUARTERLY REPORTS

### 6.1 Retail Report

Debbie Smith introduced the report and highlighted a number of issues, including:

- that Mails income and banking had driven strong performance in P9. Home shopping returns were up 29% and click and collect up 44%, while some competitors had seen declines. Greater engagement in branches to drive customer care and targeting the 250 branches which had the highest volumes of parcels had supported growth
- automated transactions for RBS and Lloyds had driven up banking transactions and we had onboarded two banks
- Payzone PB performance was currently adverse to budget; the Co-op resale was the main driver of this but we were addressing the issues with Allpay. Scottish power would go live as a client in June 2019 and a number of additional clients were in the pipeline
- RM had issued a second profit warning. Letters performance had been down 8% with GDPR and Brexit cited as the biggest drivers. UK parcels had been up 6%. The negotiations on the new contract were on-track and we would be meeting RM next week.
- DMB franchising was taking place at a rate of one branch a day. Opposition to franchising remained in some quarters with vociferous objections to the closure of the York and Kendle DMBs

<sup>1</sup> Discussions had taken place with Alex Chisholm, the Permanent Secretary at BEIS, during the summer of 2018 about the potential costs associated with the Postmaster Litigation.



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- changes had been announced to the field team structure last week. Sales managers would have responsibility for approximately 100 branches, while area managers would have responsibility for approximately 10 branches. This was designed to drive performance by supporting agents. Branches would receive visits from area managers twice a year and data would allow them to target particular branches, for example where too much cash was being held or where a higher volume of calls were being made than the norm which might indicate a training requirement.

A number of points were raised, including:

- whether we had a view of the number of customers we lost because of queues? It was reported that to have a robust idea of this you would need to be able to measure footfall versus transactions. What we did know was that our wait times were coming down and that SSKs were working much better. Staggered posting dates at Christmas had also been helpful. We were seeking to improve performance further through automation and simplification. For example, the labels system we had introduced which drove efficiencies as well as bringing us younger clients. It was asked whether there were other ideas we could consider such as a “happy hour” with cheaper prices to encourage use of off-peak service?
- whether there would be a turnover target for agents? It was noted that a balance had to be struck here because we also needed to ensure compliance and avoid too much churn within the agent community which was costly. It was suggested that we could develop a view of what returns should be generated within a geographical area
- whether common problems or themes could be reported back through the sales and area groupings and if resolving these would be part of the sales and area managers’ objectives? It was reported that this was built into objectives and that we also wanted to identify strengths within PMs who could support and train other PMs. Ultimately we would like to be able to employ sales and area managers who had experience of running a PO
- which companies were benefiting from Paypoint losing business? It was reported that we did not have full figures for this yet but we knew that DPD were performing well and Yodel poorly
- how PO’s 3% growth compared with the market? It was reported that it was too early to judge and that we still needed more data
- that it would be helpful to have an update on where the Payzone BP numbers stood compared to what we had expected. It was reported that income from rail companies was £100k behind plan but that we had known this was a risk and had factored this into the acquisition price. We were beginning to design the TOM for Payzone PB
- whether the number of branch openings planned was too optimistic? It was reported that a clear plan was in place and that we were confident in delivering in all but 9 cases where we did not have an opening date yet; however, these dates should be confirmed by 9 February 2019
- a report back on Payzone BP branch performance and how we were driving this was requested after the first 6 months of trading.

DS

## 6.2 FS&T Report

Owen Woodley introduced the report and highlighted a number of issues, including:

- that the next FS&T report to the Board would include the completed work on developing the FS&T Strategy. Pieces of strategy work were taking place in each part of the business, including insurance capability.
- FS&T was performing slightly ahead of the re-forecast. Savings had performed strongly. Travel money was broadly in line with expectations but Brexit was driving uncertainty in customer behaviour, as was the case for MoneyGram. Mortgages were a tough market in which to operate because of reduced margins



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- Telco. All players in the market was reporting downturns. We were proposing to invest in fibre as a protective measure
- general insurance was performing well but there were challenges for travel, which was affected by the general malaise in the travel market
- progress with the potential Ancile transaction had been delayed, partly because of the concerns about TIF, which was their underwriter. We needed to accelerate work on alternative acquisitions. Impaired travel was still a critical part of our pathway to being no 1 in travel insurance
- that Customer Hub numbers were significantly behind where we had hoped to be. The FRES app had been disabled in December 2018 and some customers had since migrated to the PO app. An analysis of Customer Hub was being brought to the March Board meeting. Identity proposition would be ready to add as a vertical in Customer Hub at the end of March 2019.

A number of points were raised, including:

- whether the problems with TIF were resolvable and could give us scope to purchase Ancile more quickly and at a lower price, noting the suitable fit of Ancile for PO's growth within the impaired health market. It was reported that we remained cautious because of poor responses from TIF to requests for data
- whether we had a macro view on whether Brexit would deter people from travelling? It reported that planning had been taking place to prepare for Brexit and that indicators such as a further profit warning from Thomas Cook, indicating delays in selling their holidays would have a knock on effect on travel insurance and travel money.

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**IRRELEVANT**

8. **BoI PROPOSALS**

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<sup>2</sup> We were discussing credit card provision with the market because BoI wished to exit this market.

<sup>3</sup> Capital One was only interested in purchasing the front book.





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**POST OFFICE LIMITED BOARD MEETING**  
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Jane MacLeod reported that the judgement on the common issues trial had not yet been issued. A Case Conference would be taking place on 31<sup>st</sup> January 2019 but it was difficult to progress matters further in advance of the judgement. Our communications had been prepared.

Conversations had been taking place about mediation, which was a standard request by the court, and we were considering our "red line" issues.

**13.****13.1****IRRELEVANT****13.2****14. ITEMS FOR NOTING****14.1****IRRELEVANT****14.2****IRRELEVANT****14.3 Future Meeting Dates**

The future meeting dates were **NOTED**.

**14.4 Forward Agenda**

The forward agenda was **NOTED**.

**15. BOARD AND COMMITTEE EVALUATION REPORTS**

**15.1** Ken McCall provided an overview of the Board and Committee evaluation process and the recommendations flowing from the Board evaluation. An annual cycle of evaluations would



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continue. The ARC actions had already been agreed and the Nominations and Remuneration Committees would be considering their evaluation reports.

The strengths in how the Board operated had been shown in the scores and the feedback received. The report had focussed on development areas. The Board had identified a number of areas where more discussion and greater understanding would be welcome. Today's discussions on Telecoms had started that work and developing a greater understanding of digital identity, our competitors, postmaster/ agent needs and franchising would follow.

The Board had also requested more updates from thought leaders, management updates on IT and greater visibility of the management tier below the Group Executive. Papers were better but more narrative was needed on changes in performance and the drivers for this, as well as the reasons for changes in spend and timing of delivery.

KM would be facilitating the discussion of the Chairman's performance after the Board meeting and a NED meeting had taken place on 28<sup>th</sup> January 2019 with a second one to be scheduled during the year.

The next steps would be for the actions to be taken forward as listed in the paper, including a revised forward agenda for the March Board meeting.

TP would discuss the output from the Board evaluation with UKGI and KM would discuss the Chairman's review with UKGI.

- 15.2 The Board **RESOLVED** to **APPROVE** the actions proposed from the Board evaluation as set out in page 3 of the report.

The meeting closed at 3.00 pm.

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**Chairman**

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**Date**



## Post Office Limited Board Actions as at 05.03.2019

REFERENCE	ACTION	ACTION OWNER (GE)	DUE DATE	STATUS	OPEN/CLOSED
Board Meeting 24 May 2018					
<b>IRRELEVANT</b>					
Board Strategy Sessions 26 & 27 June 2018					
1. Retail Strategy					
1. a)	The ATM Strategy should factor in our whole Cash Strategy. (We needed to analyse an <b>investment in cash machines</b> carefully looking at how far we would move to being a cashless society in the next 3-4 years).	Debbie Smith	May 2019	A paper on the overall position on cash, including ATMs, is now proposed for the May 2019 Board meeting.	Open
1. b)	<b>Agent Remuneration</b>	Debbie Smith	March 2019	The Network/ Retail Strategy paper is included on the March agenda. A paper on the long term future of agents' pay is now due to come to the Board in October 2019.	To close
1. c)	<b>Rolling out of simple SSKs</b>  (It was <b>AGREED</b> that an item would be included on the Board agenda about the costs associated with rolling out cheaper, less sophisticated kiosks (the Post Office Express Model) once we had worked through the options and had processed our take aways from the visit to Norway to see their banks' cash counter technology. It was noted that this piece of work would not be ready for at least a couple of months.).	Debbie Smith	March 2019	The Network/ Retail Strategy is included on the March agenda.	To close



## Post Office Limited Board Actions as at 05.03.2019

REFERENCE	ACTION	ACTION OWNER (GE)	DUE DATE	STATUS	OPEN/CLOSED
2.	<b>FS&amp;T Strategy in branches</b>  Owen Woodley would come back to the Board with an integrated view of FS and Telco, working with Debbie Smith to make sure that the insurance strategy and the retail strategy were integrated.	Owen Woodley/ Debbie Smith	March 2019	The Network/ Retail Strategy paper is included on the March agenda.	To close
<b>Board Meeting 25 September 2018</b>					
3. Funding beyond 2021	Provide the Board with the costs associated with running unprofitable branches.	Al Cameron / Debbie Smith	<del>January 2019</del> March 2019	A network reporting paper is included on the March agenda.	To close
<b>4. FS&amp;T Performance Report</b>					
4. b)	The learnings and next stage of the development of Customer Hub, including the mails proposition, to be brought back to the Board.	Owen Woodley / Veronica Branton	<del>March 2019</del> May 2019	The paper has been moved the May Board meeting to include an update on the future structure of Customer Hub and the development of Digital Identity.	Open
<b>Board Meeting 27 November 2018</b>					
<b>10. Security Strategy</b>					
10.a)	An additional third party review on our security arrangements to be commissioned and the reviewer to be charged with identifying gaps and producing a strategy to close those gaps.	Jane MacLeod	March 2019	Security Strategy Plan in place and process to be reviewed by ARC quarterly.	To close
<b>Board Meeting 29 January 2019</b>					
<b>5.1 Financial Performance Report</b>					
a)	Include a discussion on the marketing strategy at the most appropriate point during the year.	Veronica Branton	TBC	Item added to the forward agenda. Timing to be determined.	To close
b)	Provide an interim update on Digital Identity.	Martin Edwards/ Veronica Branton	May 2019	Digital item (both Digital Identity and Customer Hub) added to May Board agenda.	Open

## Post Office Limited Board Actions as at 05.03.2019

REFERENCE	ACTION	ACTION OWNER (GE)	DUE DATE	STATUS	OPEN/CLOSED
6.1 Retail Report	Report back on Payzone BP branch performance and how we were driving this after the first 6 months of trading.	Debbie Smith/ Veronica Branton	May 2019	Item to be included as an annex to the Retail performance report.	Open

**IRRELEVANT**

POST OFFICE LIMITED  
THE BOARD OF DIRECTORS

DISCUSSION PAPER

## Operational Responses to the GLO

Meeting date: 25 March 2019

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### Context

The purpose of this paper is to share more detail with the Board on our operational response to the GLO. Separately, we will circulate the fact base around Horizon to explain why we believe it works at scale. Details of previous reviews together with the full action list supporting this work have been included in the Reading Room.

### Questions

The questions for this paper are:

1. What workstreams have been formed and who is leading them?
2. How are we governing this work?
3. What the key questions being answered within each workstream?
4. What are our highest priorities?
5. What are the financial and other implications?

### Conclusions

We have set up 8 workstreams. We are finalising the governance to ensure we prioritise and do not aim off BAU management or important strategic opportunities. Within the paper, we have set out the questions each workstream is answering. These encompass things we have to do in response to the verdict, things we wanted to do anyway and things which might shift the balance with agents.

Our priorities are:

- Putting project governance and management in place
- Agreeing and rolling out contract variations
- Resolving issues of legal interpretation on BAU processes (new contracts, Branch Trading Statements, Suspensions, Withdrawals) and changing how we work
- Creating, rolling out and staffing a new differences and dispute resolution process
- Creating a plan to manage a bad Horizon outcome.
- Agreeing a set of positive changes for agents to reduce tension in the relationship

Our focus is on stopping issues building momentum and undermining agents and customers: if agents remain in BAU mode, largely reassured and pleased with changes, other stakeholders will also relax. At the same time, we mustn't over-react and expend scarce resources in the wrong places. We will revert with recommendations for 2019-20 in April.

### Input Sought

The Board is asked to comment on the contents of this report, making recommendations as appropriate and requesting an update at each subsequent Board meeting.

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## The Report

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What workstreams have been formed and who is leading them?

1. As set out in the Board paper supporting the meeting on 20<sup>th</sup>, we have set up the following workstreams:
  - Legal (Ben Foat)
  - Operations (Julie Thomas)
  - Agents (Amanda Jones)
  - Communications (Mark Davies)
  - Stakeholders (Al and others)
  - IT/Horizon verdict (Rob Houghton)
  - Brand (Emma Springham)
  - Financials (Micheal Passmore)

How are we governing this work?

2. Governance is being finalised. This list assumes that we have completely separated the current case management and the legal workstream will therefore be focused on supporting the operational team – for examples on issues of interpretation to enable better operational decisions.
3. Jane will coordinate the work of the legal team to ensure there is appropriate balance and alignment between the Litigation and operational change. We are setting up weekly oversight, bringing the workstream leads together with other key colleagues and seeking an overall Project Manager. We will provide a progress update at each Board meeting.

What are the key questions being answered within each workstream?

### Legal

4. The purpose of this workstream is to ensure that we make changes that are consistent with the judgment and are designed and introduced in a way that is fair and reasonable and can be expected to stand the test of time.
5. The priority is to agree what contract variations we should make to resolve some of the gaps and issues left by the judgment. We are not seeking to restore the status quo but to achieve a reasonable balance. The process of discussion and consultation will be important to making changes sustainable. Other urgent questions of interpretation will enable the operational changes detailed in paragraph 6 below.

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## Operations

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6. The focus of the Operations workstream is to deliver new processes including: what contract we should be offering new postmasters; how should we proceed if we think we should suspend or terminate a Postmaster's contract; under what circumstances can we retrieve cash; does the Branch Trading Statement work and how can it be used/changed following the judgment; what process should we follow to manage discrepancies; is our application process fit for purpose?.
7. Most critically, we need to agree and deliver a new process for managing differences. Can we be more transparent on the information we have? How do we speed up resolution? Do we need to communicate more and more often on the status of outstanding differences? Do differences need to be accounted for in a different way, perhaps with some element of "escrow"? Do we need an element of independence in finalising disputes? Do we need to formally investigate differences or only disputed differences and what form does that investigation take: is it simply triangulating against known issues and client data, for example? Under what circumstances can we trigger which follow up actions?
8. We are working through a plan to create 4 tiers of response in Chesterfield and are currently splitting calls between a Tier 1 for easy answers and Tier 2 for more complex balancing support. We are considering a third team to manage historical differences and a fourth team for material disputes. Again, we need to design in transparency and independence.
9. As well as managing differences better, we need to reduce them. We are underway with a programme to reduce errors and repeats and we will likely invest more than planned to re-design errors out of Horizon.
10. Culturally, we decided last year that we had a good deal of work to do to create a culture that is focused on customers and agents and delivers continuous improvement. We started by changing the names of some teams, so the Fraud Analysis Team became the Branch Analysis Team. Delivering a material shift in attitude and behaviour will need programme disciplines and will tie into some of the cost and capability work coming back to the Board in May.
11. We have very recently delivered much better information through our Branch Insight Tool, developed on the back of the investment in Case Management. We have now gathered together a series of data points by branch on the number and nature of phone calls, cash declarations, transaction corrections and so on. The current plan is to create corrective activity, training, support etc on the back of it. In addition, we will look to share data with branches so they can see warning signs or issues for themselves.
12. We may also choose to accelerate investment in the Branch Hub. This can become a single point of interface for branches to order cash, do training, receive communications and can also be used for transparent dispute management.

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13. We have already concluded that a critical area of focus is training. Classroom training for new agents is not good enough. On-site training is not long enough. There is very little ongoing training, although the recent field restructure will introduce 6 months close support for new agents. We may, over time, develop an online Postmaster Academy to support agents through their careers.
14. To get training and communication right, we know that we need to invest in our Communications team, which has been focused on network change. This is not just resources: it is about using simple, jargon free language that agents can understand. We may also need to recognise some segmentation in how we communicate between small, subsidised Post Offices, commercial independents and Multiples. We will also consider whether we need foreign language versions of some material.
15. In the existing budget for 2019-20 we have increased the size of the field team and are bringing the field teams together. Field presence will be critical to explain, reassure and resolve issues: we have become too dependent on letters. We may expand the team further by using some ex-DMB and other colleagues who know how to run a Post Office.
16. Other potential investments include creating key logs in Horizon or screen sharing to enable better explanations from the call centre. It may also be that disciplines that help us (cash declarations, balancing etc) may need to be mandatory and more regular.

### Agents

17. A number of the operational priorities above will be owned and delivered by the Network teams in Retail and not just in Operations. There are also bigger picture questions around the future of our agent relationships.
18. Fundamentally the question we are due to bring back in the Autumn is to set out how and over what timescale we can improve agents' lives to the point where we have a queue of people wanting to join: what is the balance of remuneration, simplification, support and lower costs that would unlock the opportunity. The opportunity is to create agents as advocates, training each other, supporting each other and explaining their role to stakeholders: they are much more effective and trusted than we are.
19. We are trying to clarify with the NFSP and others how we best help now. We are anyway announcing improved remuneration for deposits and lower penalties on Mails segregation. We also need to be clear on whose problems we are trying to solve first: the hardest up agents or the most entrepreneurial.
20. Fundamentally, agents want to earn more and perceive unfairness in different places. Which do we want to address and how quickly: can we pay them more for digital leads and create them as advocates for our website instead of viewing it as a competitor; should we pass on inflation increases in Mails pricing; should we neutralise the pricing differentials on foreign currency; should we share more of the Banking Framework premium; should we resolve the stuck agents either by paying more, reducing network numbers or by putting employees in to run them?

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21. We need an effective representative body for agents that they support. Can the NFSP evolve to fill this role or will agents prefer to replace it? How can we help without undermining its independence? As a first step, we should free them from the commitment not to criticise us in public.

### Communications and Stakeholders

22. Much of this is self-explanatory and clearly the priority is to minimise the impact of GLO criticisms on agents and customers. This requires a balance between demonstrating operational and cultural change with a robust defence legally. However, while there are many stakeholders: Government; the Unions; Clients; Customers all of them will be happier and more relaxed if we make progress with agents. It is the sense of unhappy or unfairly treated agents that causes concern elsewhere.
23. We also note that there is a political narrative that seeks to link the GLO with falling agents' pay and DMB closures and we need to decide if we wish to accept some of that narrative in our budget decisions
24. Finally, we should be strongly reinforcing the message to our shareholder that now is not the time to be publicly discussing dividends. Nothing would infuriate agents more and indeed it may be that we won't be able to have that conversation without also talking about ownership.

### IT

25. The IT stream is delivering support to the operations stream to reduce transaction failures and avoid user failure scenarios. Investigations continue into Horizon front end design, "defensive programming" and resolving high volume transaction corrections.
26. The critical focus is "how bad a Horizon verdict can this Judge deliver and how would we manage it?" While he should only be able to reach a limited view, we have to assume that he is capable of stating that Horizon cannot be relied upon.
27. This is potentially devastating, even though the vast majority of agents know deep down that this isn't the case. Other changes listed above may help but this fundamental narrative will be critical. One aspect may be introducing much more transparency around our data: how many transaction corrections; how old etc.
28. In order to rebuild trust and faith in Horizon we are investigating hiring an independent assessment (which we could publish) of Fujitsu test coverage, test strategy and identify gaps that we can fill against known use cases
29. We are also assessing the Known Error Logs of Fujitsu and determining the communications and release strategy of those errors. We are also investigating the "triangulation" of those errors against the branch incidents and ability to recreate significant incidents to demonstrate that the issue is not Horizon related.

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30. Fundamental to this is getting deep engagement from agents and operations teams to help design the front-end changes, the help required and the branch hub design.

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#### Brand

31. We have asked Emma to explore what sort of brand spend, and at what scale, would help defend us against criticism without simply being so alien to the public conversation that it reinforces a view that we are not listening and are out of touch. Any brand message may have to be articulated by agents not us.

#### Financials

32. We have two priorities which have been rehearsed in other Board papers. In the budget paper for this Board we have set out the questions we need to resolve for 2019-20. In the previous Board paper we listed out the options we are working through to provide additional funding capacity over the next 2-3 years.

What are our highest priorities?

33. The above is a long list of questions which need answering prioritising and executing. The range and variety is concerning and we must prioritise. Key issues are: Putting project governance and management in place; Agreeing and rolling out contract variations; Resolving issues of legal interpretation on BAU processes (new contracts, Branch Trading Statements, Suspensions, Withdrawals) and changing how we work; Creating, rolling out and staffing a new differences and dispute resolution process; Creating a plan to manage a bad Horizon outcome; and Agreeing a set of positive changes for agents to reduce tension in the relationship.

What are the financial and other implications?

34. Many of these changes were in our strategy and by accelerating them we will become a better business. If we can do so while maintaining a calm continuity of service it will be a significant achievement.

35. Adverse implications if we don't manage the situation are significant. We will find it harder to recruit and retain agents and that will cause the 11,500 target to come under pressure. If things start to unravel along these lines, we will find it harder to retain key people and that in turn will undermine our ability to respond to the issues and deliver change safely.

36. We will revert on the short-term financials in April. However, it would not be ridiculous to invest £5-10m in operational change, £10m in IT change and £5-10m in fairness initiatives. We will also need to fund further litigation costs, as discussed elsewhere.

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## IN STRICTEST CONFIDENCE

## Horizon volumes summary

The purpose of this note is to respond to the Board's request to understand more about Horizon data. Given the very limited amount of time, the data is for the last year and has not been as fully reviewed as normal. We will validate and expand the data set and re-circulate it.

In the last twelve months we have processed 787m transactions through Horizon. These are broken out into key businesses below by month and do not include transactions processed via non branch systems (eg Bol mortgages) or other in-branch systems.

	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19	Total
	2018M01	2018M02	2018M03	2018M04	2018M05	2018M06	2018M07	2018M08	2018M09	2018M10	2018M11	2018M12			
Banking	17,702,359	14,829,410	14,344,115	18,533,545	14,632,700	14,036,648	18,261,648	14,778,074	16,012,630	15,746,807	14,613,078	13,340,363	186,830,393		
Government	967,426	688,733	696,568	864,380	708,875	727,706	863,601	575,083	568,983	606,853	789,204	784,645	8,812,056		
Identity Services	330,062	248,594	241,200	271,788	177,178	217,743	234,169	158,421	120,039	230,900	250,927	261,890	2,740,709		
Mails	44,071,800	36,005,584	36,115,795	43,622,545	35,028,106	35,461,706	45,665,911	39,758,602	71,877,784	38,971,917	36,112,168	33,832,599	496,114,515		
Payment services	6,569,268	5,277,135	4,970,781	6,319,155	5,036,442	4,939,206	6,291,401	5,007,754	5,100,203	5,337,532	4,273,508	3,928,604	63,048,987		
Post Office Insurance	17,099	19,376	28,836	38,563	27,687	23,040	13,444	6,249	5,194	6,444	7,295	7,833	198,660		
Post Office Money	1,284,873	1,155,541	1,220,811	1,629,623	1,337,704	1,218,005	1,340,342	956,731	940,560	859,658	859,449	816,875	13,519,840		
Retail	1,432,477	1,188,351	1,155,210	1,488,640	1,174,120	1,187,386	1,492,368	1,290,891	2,068,580	1,389,802	1,121,786	983,290	15,972,861		
Telecoms	8,806	7,170	7,173	8,548	7,138	6,329	8,471	6,856	7,929	7,553	6,228	5,554	58,253		
Sum:	72,364,180	59,399,934	58,778,690	72,766,783	58,129,950	57,817,248	74,161,355	62,446,661	96,521,932	63,157,464	58,623,619	53,759,098	787,326,274		

Of these 787m transactions, we identified differences through counting cash in supply chain, reconciling transactions through Horizon versus third party data, receiving phone calls from agents, customers, suppliers (Global Pay) and clients. These differences generated 123k Transaction Corrections, 56K of which related to errors in counting the cash sent to cash centres.

If the agent accepts liability for a shortfall difference, it can be simply paid for by the agent or "settled centrally", which means they introduce their own cash or a cheque to Branch or selecting the Settle Centrally option to transfer the debt to be paid via deductions from remuneration. Alternatively, a small number are disputed for further investigation and in these cases the debt would be held until the outcome of the investigation is concluded.

Within the 123k transaction corrections:

- c. 103k are due to agent error, e.g. mis-counting or mis-keying and where procedural processes have not been followed.
- c. 10k are due to loss of connectivity with clients, e.g. banks or merchant acquirer.
- c. 300 relate to robberies in the network, although these are held and not charged to branches
- c. 300 have been due to Back Office systems, specifically reference data issues where a transaction correction is issued to enable the branch to balance.

Chesterfield staff reconcile daily summary data by product, matching 3<sup>rd</sup> party client data and reporting mismatches. Bill Payment and Banking are compared to 3<sup>rd</sup> Party Data which will represent their underlying customer accounts. In this area we have had c.496m transactions processed with 24k Enquiries representing an error rate of 0.00005%. These form part of transaction corrections.



## IN STRICTEST CONFIDENCE

Unresolved differences are held in a suspense account. Last year debits of £140k were charged to the P&L account, representing the net impact of smaller debits and credits that could not be allocated to branch.

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Credits of £4.2m are held dated back to 2010, £435k in 2018/19. Again, this is where a surplus is held, but it is not possible to identify a customer or client to repay this to. An example of this would be a customer paper based deposit into their account where the account number was incorrect or not completed. In this case the bank will notify Post Office once they have identified the customer to enable them to be credited.

Additionally, £1.4m has built up since 2015 for ATM surpluses, £301k in 2018/10. This is where the customer forgets to take their cash and the ATM retracts this. In balancing, the branch will identify a surplus and declare this in their balance.

POST OFFICE LIMITED  
THE BOARD OF DIRECTORS

DISCUSSION PAPER

## CEO Report

Author: Al Cameron

Meeting date: 25 March 2019

### Context

As Paula is focused on supporting her husband (communicated to the business on 14 March), I have taken on the CEO report.

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### The GLO

We have set aside time on the agenda to discuss where we are. The latest action list will be placed in the Reading Room on Friday 22<sup>nd</sup>.

The implications of the first judgement will be significant. The GE believes that we will have to invest more resource on the litigation and on accelerating work with agents.

We are assessing what plans we can reduce and postpone to free-up resources in 2019-20, with a focus on down-dialling work that hurts the brand or annoys agents. For example, should we slow down DMB franchising or postpone Parcelshop? We are also focused on our longer term cashflow, recognising that the full cost of the litigation may be significant.

### Commercial Performance

In P11 we made a trading profit of £3.5m, YTD £48.7m. We expect to outturn around £60m for the year. As expected, using a temporary cash forecasting solution did lead to an increase in branch cash of c. £70m, which is starting to fall. We also saw a very significant increase in inward REMs waiting for processing but this is now at normal levels. 11,613 branches were open.

In Q4, we are delivering restructuring in both HR and in Network Operations, partly arising from the closure of Network Transformation. Overall, we expect this to reduce total FTE by 104. As a result of the GLO, we may choose to retain some experienced Network people to help with the agent changes.

In change delivery, we have stopped using POLSAP except as an archive. Disaster recovery testing was completed in Swindon and messaging went live on the Branch Hub for the test population of agents.

We are increasing GE's focus on underlying commercial performance, bringing in outcome scorecards and debating a product each month, increasing our understanding of our market positions. We are also starting to deep-dive reviews of competitors. Unfortunately, the papers on Lottery and Paypoint were not discussed this month because of the immediate GLO pressures.

## Delivery

Network. In today's papers, we report back on the changes that are now ready for delivery, following the Strategy Awayday: updating our formats and changing our network (trialling Parcelshop, accelerating DMB franchising, converting Mains to Locals); improving relationships with agents (a new field team structure, Branch Hub); and digitising and automating how we serve our customers (new self-service options for Mails and Banking). Our plans are being re-prioritised following GLO.

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We will be coming back to the Board in October with the conclusions of our work on the long-term future of agents' pay and how we make more of our Payzone network.

Payzone. The performance of the acquired business is in line with budget and we have won exclusive contracts with Scottish Power smart metering (potentially 800k customers), Wessex Water and First Utility Energy, all exclusively and from PayPoint.

Tenders are in progress with British Gas and E.On and we are renegotiating reseller arrangements with Allpay and others. On the retail side, we are increasing engagement with Coop, SPAR and others, focusing on integrating clients across both networks, new device development and epos integration.

Banking Framework 2. We have had further conversations with the banks, including an all-party call under UKFI oversight. We have held our position with no further compromise. We expect all banks to sign up, although 4 are expected to "technically" leave now to complete their governance and come back before end May. RBS has already done so. This is obviously worrying but we have received no suggestion directly, via UKFI or via other stakeholders that anyone will permanently withdraw. In RBS's letter, the section on readmission by end May is highlighted in bold.

In the paper for this meeting, we are recommending two further changes: capping the fixed fee at a certain volume; and enabling the banks to fix prices beyond three years.

Bank of Ireland. We have reached an agreement with BoI and will be signing non-binding Heads of Terms shortly, in line with the Board's delegated authority. We are also close to signing the deal with Capital One to start a new credit card relationship. BoI has released us from exclusivity on current accounts and notice has been given to customers that we are withdrawing this small and imperfect product.

As a result, we were considering an opportunity to co-bid with TSB by 31 March for £50m of RBS Remedy funding to develop a SME banking proposition, subject to the perceptions of Banking Framework members. However, TSB now wants to defer its bid to a later stage of the process.

Back Office Transformation. As the ARC is taking place after the Board, we have put the full ARC paper in the Reading Room. We are now settling with clients, paying agents and reporting our performance from one set of CFS data. There have been some specific teething issues but these have been limited and manageable. Notably we experienced more adjustments than we were expecting in processing cash through High Speed Note Counters and other new processes. This is now under control but to double check the backlog, Internal Audit has been involved. They report no risk of lost cash and are not recommending further involvement.

## POST OFFICE

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Our Go/No-Go decision highlighted two areas of concern. Cash forecasting was planned for March, hence through February the Branches received set cash amounts each delivery/pick up. From the second week in March we have reverted to planned cash orders. Branch cash peaked at £560m and is now starting to fall. Full delivery of Wave 2 forecasting is scheduled for mid-April and we increase cash for Easter. We may therefore not be back to the cash levels achieved after Christmas until end May.

By far the most difficult area has been processing cash transactions into CFS. We are now comfortable that the transactions are recorded in CWC but many get stuck. As a result, the CFS cash balance can be understated by initially alarming amounts of more than £100m. We have reporting which identifies the individual transactions making up the difference, giving assurance that there is no loss and enabling us to identify root cause to prevent new and clear old differences.

However, Transtrack is slow to identify and correct the underlying causes. Between Accenture and ourselves we are mobilizing the right technical skills to help but it may be May/June before we are operating cleanly. We are working closely with PwC to ensure that we produce timely, audited accounts. In the Lessons Learnt exercise for BoT we may conclude that the capability of Transtrack, an existing provider, should have received more challenge.

Security. We are seeing an increase in the risk environment through brute force password breaking. A foreign state group, possibly Iranian, stole terabytes of data from Citrix through this approach in March.

The board was notified that that the NCSC alerted us to 50 compromised POL accounts in December which were part of a much wider compromise from a foreign state actor, also believed to be Iranian.

In addition, Verizon notified us that some Post Office information appeared within a set of 29 billion account details for sale on the dark web. Much of the data turned out to be fake. However, there were some genuine details for 40 Post Office email accounts which were compromised from using work emails on third party accounts (ie MyFitnessPal). We have closed the accounts, reminded people, with the threat of disciplinary action, to use complex passwords and advised them not to use Post Office details to download apps that may have limited security.

Our investigations haven't detected any data compromise, exposure to malware or other security reduction as a result of these incidents. This does however remain our highest risk and we continue to educate, monitor and invest in protection capability.

We have also carried out penetration testing on Payzone, highlighting a number of vulnerabilities, with a critical issue within the tablet ePos device infrastructure that could potentially be exploited by malicious individuals. A thorough assessment by internal and external experts has not, to date, identified any compromises on the infrastructure but we remain extremely vigilant.

A remediation programme is underway. We are also checking device and agent wifi connections. We do not believe there has been any intrusion through to PO systems. We will assess whether recourse is available from device vendors/ previous owners.



## POST OFFICE

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Mails negotiations. Rico Back (Group CEO) has asked his direct report, Stephen Agar, MD Letters, to lead the negotiations. Stephen has been an executive in the Postal Sector at Royal Mail for almost 30 years and is much more open and engaged. We expect to provide a meaningful update at the May Board.

Compliance and regulation: Ofcom has published its intention to investigate us over the previously reported issue of Text Relay charges. In its letter, Ofcom notes that we have ceased charging, that we will compensate customers and that they may settle. In the last year, 79 customers were over-charged by c. £1,300: Ofcom's concerns will be that it affected vulnerable customers and the 4 year duration.

We have notified HMRC of two changes to our historical positions. On VAT we are requesting a refund of c. £4m, going back over 5 years, arising from recalculating the use of our Partial Exemption method.

Separately, at my request, we are winding down the self-insured trust in place to meet our private healthcare commitments and replace it, from 1 April, with a standard arrangement with BUPA. Arising from this, we have informed HMRC that we had not been properly accounting for tax on the top up payments we had made to the Trust to cover claims. £546k is payable and we may be fined an additional £80k.

While these issues have been identified by us conducting reviews and assessments, the number of issues is uncomfortable. We are considering commissioning a wider review of our tax outcomes by a third party to ensure we have no other exposures.

Team: We have confirmed Paula's departure and immediate change of focus and I am effectively but not officially operating as CEO. We have restructured accountabilities across the GE with the Operations portfolio split between Rob, who becomes COO, Debbie, re-uniting the field teams and Mo, who takes on Safety. Brand, PR and Marketing have been brought together under Emma Springham within Owen's team and Martin Edwards now reports to Owen.

We have identified and had an indicative offer accepted for an Interim CFO who has met with Tim and Tom. We now need the final confirmation from BEIS that we can proceed. While she has to serve a notice period, we believe that she has great, long term potential.

Tim Franklin is being proposed to the FCA as Chairman of POMs, with Steve Ashton stepping down with immediate effect. We are discussing with BoI that Owen should become Chairman of FRES, succeeding Paula, with Cathy Mayor taking Owen's spot.

The Gender Pay Gap report for 2018 which will be published shortly. In the last year our gender pay gap is now 0.5% lower at 17% and smaller than the UK average. Our analysis continues to show that the Post Office gap is mainly due to higher paid, senior roles at the Post Office being held by more men. We are now closer to our goal of filling 50% of senior manager roles with women, which was 39% in our last report, and is now at 42%. The number of women holding mid-level managerial roles has also risen by a third in the last year.



Our commitment to being a great place to work was also recognised by The Times as we made their list of Top 50 Employers for Women for the third time and we were finalists in the Diversity & Inclusion category at the UK Business Culture Awards.

The GE and the L40 senior leadership team have both spent time together, agreeing how we will work, with a focus on upward challenge and open dialogue. The L40 is a new group: previously we had a larger senior leadership group made of the GE and our direct reports. This created a disproportionate representation from heads of function in Finsbury Dials, which has now been reduced, while adding in some big people leadership roles that don't report to GE, as we look to bring decision making closer to the front line.

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The GE agreed a narrative for the L40 which is attached as Appendix One, written as a speech from me. This has been debated with the L40. I wouldn't normally include this level of detail but as it is the first of a temporary arrangement it seemed appropriate. It was written before the GLO verdict but also shows that responding to that judgement is consistent with our strategy: we will re-prioritise not change direction.

## Decisions for today

**Budget.** We are not seeking budget approval given the changes we will need to make to our plans following the judgement from the GLO. Our preference would be for an additional Board call end April or we can wait until May's Board.

**Banking Framework.** We are recommending approval of two changes to the Banking Framework, a cap on the fixed fee and an extension option.

**POI Capital.** To support our plans and our regulatory position, we are recommending increasing POI's capital by £5m.

**Global Payments.** We are requesting approval for a further, one year extension on our contract, which covers our fees for customers using credit/debit cards in branches.

## Strategy

In Appendix 2, we have set out a list of strategic delivery and decisions. At the May Board, we are looking to bring back our plan, based on the McKinseys work, to fill capability gaps, deliver cost reductions and simplify the organisation. In addition, we will revert on the Mails negotiations and on our plans for Identity.

In July, we are planning to revert with our future, financial strategy, taking us beyond 2021. We will also bring back a recommendation on the future of Telco; how we manage the incumbency trap for Travel Money; the opportunity to support a cash utility; and a forward strategy roadmap.

On Telco, we have received an indication of a bid for the business that could have a compelling logic. On cash, in addition to the broader conversation with the banks, we have started a NDA'd conversation on potential synergies with RBS.

## APPENDICES

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## Appendix One L40 Narrative (Pre GLO verdict)

Any CEO wants to leave a business in better shape than they find it. Paula has definitely raised the bar....

PO was separated from Royal Mail because we would ruin the privatisation. We had no independent governance. We were losing £120m and getting £400m a year from Government. Our IT, provided by Royal Mail, was old, expensive and vulnerable. We had thousands of shops with no retail, open 9-5 Monday to Friday, unable to support the people who ran them. Our culture was that of a victim: everything was worse; nothing could get better; it was someone else's fault.

And out of that, through will, collaboration and focus, Paula has led us to be a profitable, confident business that can believe in a stronger future. She has done it without ever being arrogant or focused on herself. If anyone exemplifies the Sandhurst motto, that to lead is to serve, it is Paula.

I also owe Paula a huge personal debt for hiring me, for working with me in a real spirit of partnership, for her honesty and for the best 4 years of my working life. Many of you will have similar stories. We are finding a fitting time and place to hear them.

Let's look forward. We are an interim Executive. We may work like this for weeks or months or years. And you know, that makes **no difference to us at all**. We are leading as a permanent team. We have known Paula was leaving and that Owen and I will throw our hats in the ring for the permanent job since November. And no one noticed any change in our behaviour. Because there was none.

We are united around one priority: to hand the business over – whenever that happens - in better health than it is today. And that is getting harder because of the remarkable, expectation smashing progress you have made over the last six years.

The world is changing very fast. So we aren't going to waste a day. Some things will stay the same, some change we must accelerate and some things will be different.

**So, what will stay the same?**

As an executive team, we are here because we want to be. Not tied to a career gamble or share options. **Here because we want to be**. We all have our individual stories and while the details vary, the principles are the same.

When I was looking for a job, back in 2014, recruitment consultants would ask what I wanted. It can be big, complicated, lots to do, I would say, but it must have a team with a shared sense of urgency and do something more than make money. I talked to lots of companies, all paying more, but my wife told me after the first meeting that I would come here. She was right – you had me, **heart and soul**.

Why? Because no one else runs a real business in competitive markets to deliver a social purpose. No one. Profit making companies pretend to social responsibility. Hospitals pretend to be commercial businesses. We are both and we matter. We are the last retailer standing where others retreat. We are the only national network. We provide for people with urgent business **and** for the lonely, for the digital **and** the paper based, for the consumer **and** the small business. If you have a phone, a bank account and a PO you can trade with the world.

What we do matters more now than it used to: just look at cash. We are already the last retailer or bank standing in 3,500 communities. If we leave a community, we damage it. If we have to cut branches to hit a target, we have failed our customers. So what stays the same is our purpose, being there for every customer in every community.

We matter more, so it is more important and more urgent than ever to support ourselves from our trading. We have to make enough profit, generate enough cash to reinvest in our technology and our products, in our branches and our people to keep developing ahead of the market.

The Government doesn't want to give us more money. They have been incredibly generous. £2b and counting. So it is down to us. How should we feel about that? Should we grumble? No, we should be proud and excited. In our first year as an independent business we used £400m of government funding. In 2020-21 it will be £50m. I hope it can reduce to zero. If we can deliver for our customers while releasing £400m a year for schools and hospitals then we have achieved something amazing.

And of course being commercially sustainable is more than just making money. We have to continue becoming stronger.

We must keep making it safer for our people or no one will go to work with confidence and delight. Investing in IT, investing in security – we have a great CIO and he will continue that journey. And while it may not be sexy or on the agenda of many CEOs, we will work constantly on 4 Cs - cash, controls, costs and compliance. Companies that do these things well do them every day. And if you don't, you are Carillion, Patisserie Valerie, and all the others. These are core muscles. We won't be strong and focused if they fail. Better never stops.

It is, of course a cliché to say the world is changing faster than ever. And it's true. Not one of our products and markets looks stable over 5 years and we will have to be the most flexible business to thrive. We cannot waste a day.

We must focus our attention on what matters, judging everything we do against three questions. Will it be better for customers? Will it be simpler for agents? Will it make us stronger? And if it's no to all three – let's stop....

#### **So if that's what carries on, what do we have to accelerate?**

Customers are the people who pay the bills. Without them, we have nothing. But we are a franchise business. We don't serve customers, our agents and their people do.

**We have to make it easier for Postmasters to make more money for less effort** and in a better spirit of partnership. More flexible models, more trust in their retail judgment, more practical help and advice, encouraging them to share best practice, support services that are obsessed with helping Post Offices serve customers, more automation, better data to identify and solve issues, less paperwork. Enabling digital to be a valued partner service not a competitor. And communicating in language and through channels that everyone understands.

And look at the opportunity, 12,000 Post Offices, supported by 1,000 simple pick up and drop off parcel shops and 14,000 Payzone outlets is an achievable and startling network and it's within our grasp.

Debbie is building an exceptional team, unlocking talent that is already here as well as recruiting, working brilliantly with Operations. Of course we should all understand life in branches and for customers – but the Retail Lead Team must drive this with both data and anecdote so we know exactly what matters most to make it better for customers and simpler for agents.

The period after 2021 will bring new challenges, some of which aren't visible yet. We must be fittest if we want to thrive. This is our second area of acceleration. As you know we have started work on a 2-3 year view of that journey. How do we best work together, how do we avoid duplication and confusion, which capabilities are lacking? It is so much more than cost. But we also have to be clear that less fixed cost and lower costs overall will be critical. Tackling our supply chains, creating synergies with partners, automating the way we work, driving out repeats, managing suppliers more strongly will all create value. To achieve this we will need to make a step change in automating and digitising the business, for customers, agents and ourselves and back that up with better data, much better understood.

The third area of acceleration is how we unlock our talent. Making better decisions, devolving power and growing our talent pool. Bringing care, challenge and commit to life.

As an executive team, we are re-framing our agendas to focus on the bigger, strategic decisions. This isn't different from the North Star but we may need to focus more. We expect to spend more time on these strategic decisions and it will be entirely normal for us to have three goes at a big choice: framing the questions and the data we need; challenging our assumptions at a mid-point; and then reaching a decision or a recommendation for the Board.

GE must always be a generous and supportive place to come. But we must all, also be open to challenge and debate – prepared to disagree, to argue, to iterate....we must even give each other permission to get upset. I was upset when Angela Duncan in the safety team was the first person to point out to me that the reason SC safety had dipped a couple of years ago was, in spite of our determination not to let this happen, because we had taken our eye off the ball while we restructured. When you are upset, there's a reason, so pay attention. She was right, we accepted it. Fixing the problem suddenly became easier. Honesty always helps. So disagree, challenge, speak up – if we don't know what the issue is, we will never fix it.

Everyone needs to feel comfortable challenging upwards. We are not there yet and in some places we have a great deal of progress to make. For every one of us that has the privilege to lead a team, we must remember that to lead is to serve. I hear stories of people being criticised by their boss for asking questions and that just won't do. We want to make a real change here, across the business, working with every leader of people. We will all have an objective to develop and bring the best out of our teams and we are working to have that scored by the people who work for us.



Let's worry less about hierarchy and the way things have been done before. Let's listen most to the customer, the agents and our front line staff, in a permanent rebellion, solving their issues before we make life easier for ourselves, prioritising money and effort accordingly. That's why we have restructured this team away from reporting lines, GE-1, towards the big people and strategy roles, towards the customer and away from central functions.

Of course if the executive team is focusing on the big decisions, then running the business and making the day to day choices is down to you and your teams. We have to bring decisions closer to the front line. Having inherited the most command and control area in PO, I think Russell and the Supply Chain team, who have started to make some progress, have two lessons for us.

To empower effectively, we must be very clear on the outcomes we care about and then we have to get out of the way. Russell has given more control to depots because he is clear on outcomes. We provide POs with the cash to keep trading. We do it when we say we will so the Postmaster is happy. We keep our people safe, our cash secure, our costs low and our compliance high. After that, it should be up to them – they know the best way to work – so we can let them get on with it. In addition, Supply Chain removed two layers of management when they restructured. The depots run themselves because they have to....there is no one else.

Those outcomes, across our business, must be explicit, measured and should be the basis for incentives. They will be the foundation for the GE's other responsibility: clear performance management. But this is not about generating hundreds of new plans and targets. We must go into next year with a rigorous focus on what matters and how it gets better over time. Budgets are for financials and change benefits. Operationally, the focus has to be on getting better every month, not arguing about the plan. Better never stops.

And then talent. The PO is diversity. Every customer is welcome – you have to behave very badly to be turned away from a single Post Office. And every gender, race, sexuality, colour, health status and religion will be represented in our 50,000 people. We must catch up with our business. Having a diverse team with role models for more people genuinely matters and this focus will continue. Changing the way we work matters even more. We will make it easier for everyone to be themselves and fulfil their potential, starting with how we recruit and promote. We don't say this out of political correctness. We are telling no one what to think. It is simply this: if we unlock the talent already inside Post Office or able to join we will have an extraordinary competitive advantage.

#### **And what needs to be different?**

None of our markets are stable beyond the next 2-3 years. We have decisions to make – where do we invest, own, partner or sell? How much of the value chain should we control? Making those decisions will be a key area to focus on.

Secondly, across our markets, we need to up our ability to influence commercial performance. If I talk to a Proctor & Gamble product owner, maybe three years out of University, she could tell me the size of the market for her product, her market share and how it's changing, the product's strengths and weaknesses, what consumers care about, what marketing works and what the return is, what causes complaints and how to fix them, how to communicate and listen on social media.

I know the argument that we don't usually own our products. It's an excuse not a reason – we can strive to influence them.



We have threats and opportunities and we have a duty to avoid classic incumbency traps in Travel and in Mails and we have a generational challenge in who uses and cares about us. We have the opportunity to become consistently great commercial managers and we must seize it. GE will now be reviewing a product every month.

Thirdly, there are new opportunities we need to assess. We may have an opportunity to expand banking beyond withdrawals and deposits to place ourselves at the heart of how the UK manages cash. There may be a place for a digital payment proposition that replaces POCA and Post Orders and current accounts and more. We could completely re-work how we identify, understand, service and sell to our customers.

**So in conclusion...**

We will trade hard, be more commercial, generate more cash and invest it in our business, focusing relentlessly on the outcomes we care about and the decisions that matter. We will help our agents serve customers better, making more money for less effort. We will unlock talent and get stronger, making decisions closer to the front line. We will get more resilient.

Better for customers, simpler for agents and making ourselves stronger.

So we can serve every customer whoever and wherever they are. Without needing to take money from schools and hospitals. Securing a national service for our customers in every community.

What an opportunity. Let's lead to serve our customers, our communities, our agents and our people. When your grandchildren or your friends' grandchildren ask what you did at work, you saved the PO, everywhere, for another generation. It's such a privilege. Let's seize it, let's deliver for our customers and let's have the time of our lives along the way.

## Appendix Two: Strategic Delivery and Decisions

### Delivery

**Commercial Sustainability.** What is the future financial shape of the business, including a low and flexible cost base? Can we generate enough free cash flow to re-invest from our own resources? What else makes up sustainability: how do we become stronger and more resilient?

**Choices in execution.** Banking Framework. BoI deal. Credit cards. Bill payments. Network strategy: branch models and formats, regional support, automation.

**Enablers.** Belfast to Cloud. Branch hub. Branch models. Credence replaced, data enabled, MI improved. Regulatory compliance initiatives in the Network. Data security. Corporate restructuring (LEO). Cash forecasting. Data analytics and digital capability, enabling operational efficiency and radical simplification for agents. Customer insight. Culture: outcomes; debate/challenge; inclusion. Employment model. 4 Cs (Costs, Controls, Cash, Compliance). Target Operating Model.

**Negotiations.** Mails.

**People.** Retain the people we need, recruit and train for gaps and reinvent the stuck.

### Strategic Decisions:

**Incumbency threats.** Mails. Travel Money.

**Invest, retain, sell.** Insurance. Identity. Telco. Investments. SME banking.

**Other opportunity choices:** digital wallet (child of POCA and Postal Orders, basic bank accounts, Youth strategy in FS). Wider SME opportunity. Cash and ATMs: can we be integral to a wider utility for the UK? What's the right customer journey? What is the future of contact centres as we re-partner? What are the other adjacencies we should pursue?

## Reading Room: GLO Plans and Contingencies

POST OFFICE LIMITED  
THE BOARD OF DIRECTORSPAGE 1 OF 2  
DISCUSSION PAPER

## February 2019 (P11) – Financial Performance

Author: Micheal Passmore

Sponsor: Alisdair Cameron

Meeting date: 25 March 2019

## Executive Summary

## Context

The purpose of this paper is to outline our financial performance in P11. A detailed slide-deck is attached.

## How did we do in P11?

5.1

£m	Period 11						Year to Date					
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	Forecast	Variance	YoY
Retail	42.7	42.3	0.4	41.7	1.0	2%	521.4	518.4	3.0	519.8	1.6	0%
FS&T (incl. Insurance)	24.9	25.3	(0.4)	25.3	(0.4)	-2%	290.6	298.9	(8.3)	293.1	(2.5)	3%
Telco overstatement	0.0	0.5	(0.5)	0.0	0.0	n/a	0.0	5.0	(5.0)	0.0	0.0	n/a
Identity	4.8	3.1	1.7	3.3	1.5	-10%	50.8	43.8	6.9	46.7	4.1	6%
Supply Chain/Other	0.9	1.0	(0.1)	0.8	0.1	-8%	12.0	13.2	(1.2)	11.5	0.6	-8%
<b>Total Revenue</b>	<b>73.4</b>	<b>72.3</b>	<b>1.1</b>	<b>71.1</b>	<b>2.3</b>	<b>-1%</b>	<b>874.7</b>	<b>879.4</b>	<b>(4.6)</b>	<b>871.0</b>	<b>3.7</b>	<b>1%</b>
Cost Of Sales	(10.6)	(9.6)	(1.0)	(9.8)	(0.7)	9%	(116.4)	(115.9)	(0.5)	(115.6)	(0.9)	4%
<b>Net Income</b>	<b>62.8</b>	<b>62.7</b>	<b>0.1</b>	<b>61.3</b>	<b>1.5</b>	<b>-2%</b>	<b>758.3</b>	<b>763.4</b>	<b>(5.1)</b>	<b>755.5</b>	<b>2.8</b>	<b>1%</b>
Agents Pay	(26.9)	(27.8)	0.8	(27.4)	0.4	-20%	(330.0)	(335.6)	5.5	(330.8)	0.7	-4%
Staff Cost	(15.9)	(13.8)	(2.1)	(14.6)	(1.3)	4%	(174.5)	(166.4)	(8.0)	(170.1)	(4.4)	2%
Non staff Cost	(19.1)	(20.3)	1.2	(21.9)	2.9	-17%	(249.0)	(264.1)	15.1	(256.7)	7.8	-5%
FRES	1.5	1.6	(0.1)	1.5	0.0	-49%	30.9	31.1	(0.3)	31.3	(0.4)	-4%
Other Income	1.1	1.0	0.2	1.1	0.1	91%	13.0	11.0	2.0	12.8	0.2	190%
<b>Trading Profit</b>	<b>3.5</b>	<b>3.3</b>	<b>0.2</b>	<b>(0.0)</b>	<b>3.5</b>	<b>n/a</b>	<b>48.7</b>	<b>39.5</b>	<b>9.2</b>	<b>42.0</b>	<b>6.8</b>	<b>277%</b>
Network Subsidy Payment	4.6	4.6	0.0	4.6	0.0	-14%	55.4	55.4	0.0	55.4	0.0	-14%
<b>EBITDA</b>	<b>8.1</b>	<b>7.9</b>	<b>0.2</b>	<b>4.6</b>	<b>3.5</b>	<b>106%</b>	<b>104.1</b>	<b>94.9</b>	<b>9.2</b>	<b>97.4</b>	<b>6.6</b>	<b>36%</b>
Depreciation	(12.4)	(6.6)	(5.8)	(9.3)	(3.2)	n/a	(82.3)	(60.0)	(22.3)	(76.9)	(5.4)	n/a
Interest	(0.9)	(0.4)	(0.5)	(0.4)	(0.5)	207%	(7.4)	(5.5)	(1.9)	(6.6)	(0.8)	61%
Change Spend	(9.6)	(8.6)	(1.0)	(9.6)	(0.0)	-32%	(116.1)	(77.0)	(39.1)	(116.7)	0.6	36%
Investment Funding	8.6	8.6	0.0	8.6	0.0	48%	159.4	159.4	0.0	159.4	0.0	148%
Profit On Asset Sales	(0.1)	0.0	(0.1)	0.0	(0.1)	12%	3.5	0.0	3.5	1.3	2.2	-25%
<b>Profit Before Tax</b>	<b>(6.3)</b>	<b>0.9</b>	<b>(7.2)</b>	<b>(6.1)</b>	<b>(0.2)</b>	<b>-23%</b>	<b>61.2</b>	<b>111.7</b>	<b>(50.5)</b>	<b>57.9</b>	<b>3.3</b>	<b>16%</b>

P11 trading resulted in a profit of £3.5m, favourable by the same amount to forecast. This was predominantly driven by Home Office revenue in Identity and strong volumes in banking services, alongside a one-off compensation sum of £1.3m related to the Poplar branch. YTD trading profit of £48.7m is £9.2m ahead of budget.

P11 revenue was £73.4m, £2.3m favourable to forecast in the month. The delay in migration to the new supplier for UKVI resident permits has boosted revenue by £0.6m, with additional upside expected in P12. Paper and digital passport volumes are up 14% to forecast also. International Driving Permits are ahead of P11 forecast by £0.3m as the possibility of a no deal Brexit nears.

Banking services revenue is +£1.0m to forecast as manual to automated deposits have generated greater volumes, pushing the banks into a higher fixed framework tier. Payment services income continues to underperform (£0.3m adverse in P11, £1.3m adverse YTD) and is likely to continue on this trend for the remainder of the year.

Post Office Insurance net income has increased 9% YoY, but was -£0.3m adverse to forecast in period 11 due to re-phasing of trading activity. POI YTD trading profit of £16.9m was in line with forecast, but YoY has declined -3%, despite total revenue showing 13% growth.

Staff costs are £1.3m adverse to forecast in the period as we have continued to accrue stretch bonus to reflect expected full year outturn. Non-staff costs are £2.9m

## POST OFFICE

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favourable due to the release of uncommitted growth fund, in addition to Poplar branch compensation of £1.3m being recognised in line with previous accounting treatment and agreement with PwC. This compensation was received for being compliant with landlord's wishes to vacate part of the building, to facilitate its redevelopment.

Network numbers increased in the month to 11,613 (P10: 11,606), being 113 above the commitment and 13 above our target of 11,600. Further detailed analysis has been included in the slide deck.

YTD Change spend (Capex and Exceptional) was £241.9m bringing YTD benefits of £31.7m, both slightly ahead of forecast at an overall level. Further analysis is provided in the slide deck.

Rems are now being processed in the normal timescales, but for P11 (during the early stages of Back Office Transition) we saw a backlog of rem's due to the team being focused on clearing some initial problems associated with the new ways of working. Branches were not impacted.

## Conclusion

We had a strong trading month in Retail (Banking services) and Identity (delay of BRP switch to new supplier), with increased revenues of £2.5m. Taking into account specific issues, such as the compensation, trading profit ended £3.5m up on forecast. YTD Trading profit is at £48.7m, just £1.3m short of our full year budget.

We are still collating the full year projected trading profit outturn, but we believe this to be c. £60m. However, there are some trading risks which could reduce the final profit position.

5.1

*Strictly Confidential*





# Period 11 FY18/19 Financial Performance

## 25 March 2019



# P11 Scorecard

## Post Office Business Scorecard - FY18/19

	Period 11						Trend	Year to Date						Full Year	
	Actual	Budget	Variance	Forecast	Variance	RAG (FCST)		Actual	Budget	Variance	Forecast	Forecast Var	RAG (FCST)	Budget	Forecast
Deliver Profit															
Total Gross Income (excl NSP) £m	73.4	72.3	1.1	71.1	2.3	🟢	📈	874.7	879.4	(4.6)	871.0	3.7	🟢	965.1	956.7
Trading Profit £m	3.5	3.3	0.2	(0.0)	3.5	🟢	📈	48.7	39.5	9.2	42.0	6.8	🟢	50.0	50.9
Headroom £m (vs Board minimum limit)	364	200	164.0	200	164.0	🟢	📈							> £200m	> £200m
Change benefit delivery £m	4.1	4.3	(0.2)	3.7	0.4	🟢	📈	31.7	34.7	(3.0)	30.8	0.8	🟢	40.2	36.0
Mails - Total Labels Volume m	12.4	12.4	0.0	12.0	0.4	🟢	📈	150.7	11.4	139.3	150.5	0.2	🟢	163.4	163.2
Mails - Home Shopping Returns Volume m	3.4	3.4	0.0	4.0	(0.6)	🟡	📈	43.5	3.7	39.8	45.0	(1.5)	🟡	45.0	50.7
Banking Volume (m)	10.8	10.1	0.7	10.1	0.7	🟢	📈	123.3	120.7	2.7	120.7	2.7	🟢	130.2	133.4
Closing Telecoms Customer Base (#)	503,430	498,606	4,824	500,844	2,586	🟢	📈							0	0
Grow our Network - Customer															
Number of Branches	11,613	11,600	13	11,600	13	🟢	📈							11,600	11,600
New Network Branch	45	33	12	33	12	🟢	📈	253	265	(12)	265	(12)	🟢	338	338
Become the Partner of Choice - Customer															
Ease of Doing Business With (Effort) *	87.7%	82.0%	5.7%	82.0%	5.7%	🟢	📈	84.6%	82.0%	2.6%	82.0%	2.6%	🟢	82%	82%
No. of Horizon Customer Sessions per week	10.0	10.1	(0.1)	10.1	(0.1)	🟡	📈	10.3	10.4	(0.1)	10.4	(0.1)	🟡		
# of Sev1/Sev2 Incidents	7	8	1	8	1	🟢	📈	106	88	(18)	88	(18)	🟢	< 96	< 96
Number of failed SLA's (mth in arrears)	1	3	2	3	2	🟢	📈	33	30	(3)	30	(3)	🟢	< 36	< 36
Actual Incident Volumes	6,422	10,000	3,578	10,000	3,578	🟢	📈	95,869	110,000	14,131	110,000	14,131	🟢	<120,000	<120,000

STIP Bonusable Measures	%	On target to achieve?
Retaining 11,500 branch locations	Gateway criteria	Y
Trading Profit of £50m	80	Y
HNGX Decommissioning	5	Y
HR SAP Decommissioning	5	Y
POL SAP Decommissioning	5	Y
2 verticals on customer hub	5	N



# P11 Scorecard

## Post Office Business Scorecard - FY18/19

	Period 11						Trend	Year to Date						Full Year	
	Actual	Budget	Variance	Forecast	Variance	RAG (FCST)		Actual	Budget	Variance	Forecast	Forecast Var	RAG (FCST)	Budget	Forecast
Digital Innovation - Customer															
Trading income from customer Hub (EK)	66.1	169.4	(103.4)	25.4	40.7	🟢		406.0	1010.6	(604.5)	227.0	179.0	🟢	1,180.0	246.9
# of Registered customers on app	26,665	33,195	(6,530)	20,520	6,145	🟢		238,791	266,055	(27,264)	198,527	40,264	🟢	319,410	215,406
# of All Product pages website visits	1,391,127	1,457,667	(66,540)	1,457,667	(66,540)	🟡		19,451,390	18,157,484	1,293,906	18,157,484	1,293,906	🟢	20,168,137	20,168,137
Website Conversion ratio	13.8%	11.4%	2.4%	11.7%	2.2%	🟢		11.0%	11.2%	(0.1%)	11.2%	(0.2%)	🟢	11.1%	11.2%
Care for our People															
Line Manager Index <sup>1</sup>						🟢		69%	62%	7%	62%	7%	🟢	62%	
Female Representation in Senior Roles (3a & above) <sup>2</sup>	42.4%	42.8%	(0.3%)	42.8%	(0.3%)	🟢								43.0%	
BAME Representation in Senior Roles (3a & above) <sup>3</sup>	10.0%	10.8%	(0.8%)	10.8%	(0.8%)	🟢								11.1%	
Senior Vacancies filled by Internal Talent	25.0%	50.0%	(25.0%)	50.0%	(25.0%)	🟢		39.8%	50.0%	(10.2%)	50.0%	(10.2%)	🟢	50.0%	
Absence	3.0%	3.3%	0.3%	3.3%	0.3%	🟢		3.6%	3.3%	(0.3%)	3.3%	(0.3%)	🟢	3.3%	
Safety LTIFR	0.000	0.200	0.200	0.200	0.200	🟢		0.186	0.200	0.014	0.200	0.014	🟢	0.200	

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

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

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

**Senior Vacancies** – of the 8 offers made in February for senior management grade 3A and above, 2 were made to internal candidates.

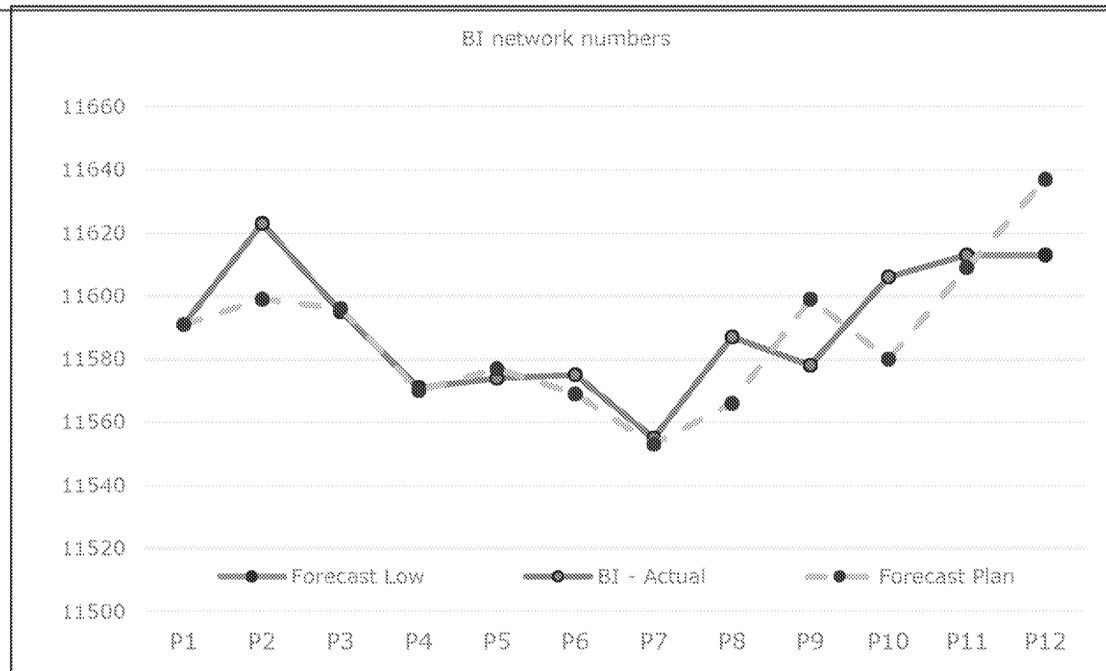
**Absence** - overall absence decreased from 3.65% to 3.01% in February and Supply Chain absence decreased from 5.42% to 4.54%. YTD absence remains above target at 3.53%.

**Safety LTIFR** – There were 2 employee related accidents during P11 (P9: 8), but no lost time accidents. There have been a total of 75 accidents YTD a reduction of 28% from prior year. Total lost days are 165 compared to 448 in 17/18, a reduction of 63%.





## Branch Numbers P11 YTD and forecast



Period	BI - Actual	Month on month var	Forecast Pessimistic	Forecast Plan
P1	11591	(Old methodology @ 11575)		
P2	11623	32		11599
P3	11595	-28		11596
P4	11571	-24		11570
P5	11574	3		11577
P6	11575	1		11569
P7	11555	-20		11553
P8	11587	32		11566
P9	11578	-9		11599
P10	11606	28	11580	11609
P11	11613	7	11586	11609
P12			11613	11636

In February there 28 closures forming of 11 suspensions, with 17 other closures / resignations, exceeded by 47 openings (45 NNLs, 2 branches of BAU activity). Forecast awaiting to be confirmed via NDA outturn, however, P11 saw the first spike in NNL delivery since Q1. NNL delivery for P12 spikes with over 70 branches due to be opened

The NNL target of 338 has been achieved in the fact we have booked 345 branches to open, however, POL tend to see roughly 10% failure rate meaning some branches will slip, which would equate to 338 branches opened for the year, so target achievement remains precarious.

The pessimistic forecast allows for some NNL slippage into 2019/20 in the event partners or suppliers struggle to meet target opening dates, especially as the delivery plan ramps up and other programme activity (NT and DMB). By the end of P11 POL also converted 28 Edgware branches as well continuing to over achieve against the NT target (128 delivered vs 100 target)





## P11 Trading Profit +£3.5m v forecast; YTD +£9.2m v budget

£m	Period 11						Year to Date					
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	Forecast	Variance	YoY
Retail	42.7	42.3	0.4	41.7	1.0	2%	521.4	518.4	3.0	519.8	1.6	0%
FS&T (incl. Insurance)	24.9	25.3	(0.4)	25.3	(0.4)	-2%	290.6	298.9	(8.3)	293.1	(2.5)	3%
Telco overstatement	0.0	0.5	(0.5)	0.0	0.0	n/a	0.0	5.0	(5.0)	0.0	0.0	n/a
Identity	4.8	3.1	1.7	3.3	1.5	-10%	50.8	43.8	6.9	46.7	4.1	6%
Supply Chain/Other	0.9	1.0	(0.1)	0.8	0.1	-8%	12.0	13.2	(1.2)	11.5	0.6	-8%
<b>Total Revenue</b>	<b>73.4</b>	<b>72.3</b>	<b>1.1</b>	<b>71.1</b>	<b>2.3</b>	<b>-1%</b>	<b>874.7</b>	<b>879.4</b>	<b>(4.6)</b>	<b>871.0</b>	<b>3.7</b>	<b>1%</b>
Cost Of Sales	(10.6)	(9.6)	(1.0)	(9.8)	(0.7)	9%	(116.4)	(115.9)	(0.5)	(115.6)	(0.9)	4%
<b>Net Income</b>	<b>62.8</b>	<b>62.7</b>	<b>0.1</b>	<b>61.3</b>	<b>1.5</b>	<b>-2%</b>	<b>758.3</b>	<b>763.4</b>	<b>(5.1)</b>	<b>755.5</b>	<b>2.8</b>	<b>1%</b>
Agents Pay	(26.9)	(27.8)	0.8	(27.4)	0.4	-20%	(330.0)	(335.6)	5.5	(330.8)	0.7	-4%
Staff Cost	(15.9)	(13.8)	(2.1)	(14.6)	(1.3)	4%	(174.5)	(166.4)	(8.0)	(170.1)	(4.4)	2%
Non staff Cost	(19.1)	(20.3)	1.2	(21.9)	2.9	-17%	(249.0)	(264.1)	15.1	(256.7)	7.8	-5%
FRES	1.5	1.6	(0.1)	1.5	0.0	-49%	30.9	31.1	(0.3)	31.3	(0.4)	-4%
Other Income	1.1	1.0	0.2	1.1	0.1	91%	13.0	11.0	2.0	12.8	0.2	190%
<b>Trading Profit</b>	<b>3.5</b>	<b>3.3</b>	<b>0.2</b>	<b>(0.0)</b>	<b>3.5</b>	<b>n/a</b>	<b>48.7</b>	<b>39.5</b>	<b>9.2</b>	<b>42.0</b>	<b>6.8</b>	<b>277%</b>

### Highlights:

- Identity – Home Office revenue +£1.0m from increased passport volumes and the continuation of UKVI resident permit volumes caused by delay in switchover to new supplier.
- Staff costs – we have continued to accrue stretch bonus to reflect expected full year outturn.
- Non staff costs – Release of uncommitted growth fund spend, in addition to £1.3m Poplar compensation received for vacating part of the building at landlord's requested. This has been recognised in line with previous accounting treatment taken on Trafalgar Square compensation.



# Retail Scorecard

	Period 11						Year to Date						Full Year	
	Actual	Budget	Variance	Forecast	Forecast Var	RAG FCST	Actual	Budget	Variance	Forecast	Forecast Var	RAG	F07	Budget
Gross income £m	42.7	42.3	0.4	41.7	0.9	●	521.3	518.4	2.9	519.8	1.6	●	569.7	568.6
Trading Profit £m	10.0	9.7	0.3	8.1	1.9	●	123.9	114.0	9.9	119.7	4.2	●	134.3	128.2
Mails - Priority Volume m	0.8	0.8	0.0	0.8	0.0	●	9.5	0.9	8.6	9.4	0.1	●	10.2	11.6
Mails - Total Labels Volume m	12.4	12.4	0.0	12.0	0.4	●	150.7	11.4	139.3	150.5	0.2	●	163.2	163.4
Mails - Click & Collect Volume m	0.4	0.4	0.0	0.4	0.0	●	4.6	0.2	4.4	4.4	0.2	●	4.7	4.1
Mails - Home Shopping Returns Volume m	3.4	3.4	0.0	4.0	(0.6)	●	43.5	3.7	39.8	45.0	(1.5)	●	50.7	45.0
Banking Volume (m)	10.8	10.1	0.7	10.1	0.7	●	123.3	120.7	2.7	120.7	2.7	●	133.4	130.2
No. of Horizon Customer Sessions per week	10.0	10.1	(0.1)	10.1	(0.1)	●	10	10.4	(0.1)	10.4	(0.1)	●	0.0	0.0
No. of Retail Transactions per session	1.6	1.7	(0.0)	1.7	(0.0)	●							0.0	0.0
Ease of Doing Business With (Effort) *	88%	82.0%	5.7%	82%	6%	●	84.6%	82.0%	2.6%	0.8	0.0	●	82.0%	82.0%
Number of Branches	11,613	11,600	13	11,600	13	●							11,600	11,600
New Network Branch	45	33	12	33	12	●	253	265	(12)	265	(12)	●	338	338

\*month in arrears

## Retail: P11 Trading Profit +£1.9m to forecast ; YTD +£9.9m v budget

Increased banking volumes and release of £1m NFSP discretionary fund provision



£m	Period 11						Year to Date					
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	Forecast	Variance	YoY
Mails Trading	20.6	20.8	(0.2)	20.6	(0.0)	2%	263.0	263.6	(0.6)	262.0	1.0	4%
Mailwork	0.6	0.6	0.0	0.8	0.0	0%	9.2	9.2	(0.0)	9.2	0.0	0%
Mails Other	0.0	0.0	0.0	0.0	0.0	n/a	1.5	0.0	1.5	1.5	(0.0)	n/a
RM Annual Fee	3.6	3.5	0.1	3.6	(0.0)	-7%	42.9	41.5	1.4	42.9	0.0	-7%
Gift Cards	0.3	0.2	0.1	0.2	0.1	82%	6.5	6.1	0.3	6.0	0.5	18%
Lottery	2.5	2.1	0.4	2.3	0.2	1%	28.6	25.2	3.5	28.0	0.6	-1%
POCa	2.4	2.2	0.2	2.3	0.1	-26%	27.8	27.5	0.3	27.7	0.2	-25%
Payment Services	1.7	2.4	(0.7)	2.0	(0.3)	-20%	21.8	25.1	(3.2)	23.1	(1.3)	-15%
ATMs	2.1	2.5	(0.3)	2.2	(0.1)	-11%	26.4	28.4	(2.0)	26.9	(0.6)	-5%
Banking Services	8.4	7.5	0.9	7.4	1.0	31%	90.6	87.6	3.0	89.3	1.3	13%
Other Retail	0.2	0.3	(0.1)	0.3	(0.0)	26%	3.0	4.2	(1.2)	3.2	(0.2)	-57%
<b>Total Revenue</b>	<b>42.7</b>	<b>42.3</b>	<b>0.4</b>	<b>41.7</b>	<b>1.0</b>	<b>2%</b>	<b>521.4</b>	<b>518.4</b>	<b>3.0</b>	<b>519.8</b>	<b>1.6</b>	<b>0%</b>
Cost Of Sales	(1.6)	(1.6)	0.0	(1.6)	0.0	0%	(19.1)	(19.0)	(0.0)	(19.3)	0.3	-21%
<b>Net Income</b>	<b>41.1</b>	<b>40.7</b>	<b>0.4</b>	<b>40.1</b>	<b>1.0</b>	<b>2%</b>	<b>502.3</b>	<b>499.4</b>	<b>2.9</b>	<b>500.4</b>	<b>1.8</b>	<b>1%</b>
Agents Pay	(23.1)	(23.8)	0.7	(23.7)	0.6	-20%	(264.5)	(267.9)	3.4	(284.3)	(0.2)	-17%
Staff Costs	(5.2)	(4.9)	(0.3)	(5.9)	0.7	26%	(71.2)	(66.7)	(2.5)	(72.1)	0.9	8%
Staff & Agent Related Costs	(0.1)	(0.2)	0.0	(0.2)	0.1	-5%	(1.9)	(2.1)	0.2	(2.3)	0.3	-3%
Consultancy & Advisory Services	(0.0)	(0.0)	0.0	(0.1)	0.1	-174%	(0.9)	(0.6)	(0.4)	(1.5)	0.5	-82%
IT Infrastructure & IT Services	(0.5)	(0.2)	(0.3)	(0.3)	(0.2)	-111%	(2.2)	(1.6)	(0.4)	(2.9)	0.6	-57%
Managed Services - Penalties	(0.4)	(0.4)	0.0	(0.4)	(0.0)	-100%	(4.4)	(4.4)	(0.0)	(4.4)	(0.0)	-98%
Postage	(0.7)	(0.6)	(0.1)	(0.6)	0.1	-3%	(6.7)	(6.0)	(0.8)	(6.6)	(0.2)	-41%
Finance & Losses	(1.1)	(1.1)	(0.1)	(0.9)	(0.2)	-36%	(12.5)	(14.1)	1.6	(12.2)	(0.3)	8%
Change Opex	0.0	(0.3)	0.3	(0.2)	0.2	n/a	0.0	(4.2)	4.2	(0.2)	0.2	n/a
Other Opex	(1.1)	(0.5)	(0.6)	(0.6)	(0.5)	-93%	(6.9)	(6.5)	(0.4)	(7.1)	0.2	-15%
Other Income	1.1	1.0	0.2	1.1	0.1	91%	13.04	11.0	2.0	12.8	0.2	n/a
<b>Trading Profit</b>	<b>10.0</b>	<b>9.7</b>	<b>0.4</b>	<b>8.1</b>	<b>1.9</b>	<b>129%</b>	<b>123.9</b>	<b>114.0</b>	<b>9.9</b>	<b>119.7</b>	<b>4.2</b>	<b>126%</b>

- ① Largely driven by Cash & Banking: +£0.5m manual to auto deposits generating more volumes; which has also pushed banks into the higher fixed framework fee tier, and RPI.
- ② Timing of DMB franchise go live.
- ③ Reimbursement of WHSmith retail fit out costs for franchised branches.



# FS&T Scorecard

	Period 11						Year to Date						Full Year	
	Actual	Budget	Variance	Forecast	Forecast Var	RAG	Actual	Budget	Variance	Forecast	Forecast Var	RAG	Budget	Forecast
Net Movement of Savings balances (£m)	(125)	(100)	(25)	(100)	(25)	●	72	200	(128)	200	(128)	●	500	(300)
Travel Money On Demand Currency Turnover (£m)	64	64	0	64	0	●	1,204	1,203	1	1,203	1	●	1,622	1,292
Travel Money On Demand sales transaction ATV	242.8	266.0	(23.2)	247.1	(4.3)	●	264.4	266.0	(1.6)	265.3	(0.9)	●	266	270.1
Number of MoneyGram Send transactions	198,606	224,244	(25,638)	219,507	(20,901)	●	2,450,129	2,608,815	(158,686)	2,558,577	(108,448)	●	2,895,484	2,839,191
TI Policy purchased (Travel App)	622	1,602	(980)	313	309	●	3,200	20,956	(17,756)	2,899	301	●		3,121
# No of Tops up (Travel App)	47,561	58,671	(11,110)	16,520	31,041	●	251,342	439,149	(187,807)	148,006	103,336	●		160,884
Closing Telecoms Customer Base (#)	503,430	498,606	4,824	495,148	8,282	●	503,430	498,606	4,824	495,148	8,282	●	0	0
Net Telecoms customer additions	(756)	(3,282)	2,526	(2,266)	1,510	●	(391)	(807)	416	(11,427)	11,036	●	(4,590)	(13,856)
Telecoms ARPU	25.0	26.1	(1.1)	26.2	(1.2)	●	24.9	25.8	(0.9)	25.3	(0.4)	●	26.2	25.4



# FS&T: P11 Trading Profit (£0.5m) adverse to forecast; YTD (£5.4m) v budget

Continued impact of Telco customer retention discounts



£m	Period 11						Year to Date					
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	Forecast	Variance	YoY
PO Money (Savings, Loans)	3.5	3.2	0.3	3.3	0.2	① -12%	41.3	38.9	2.4	40.4	0.9	-1%
Travel Money	1.8	2.2	(0.4)	1.8	(0.0)	12%	26.1	28.4	(2.2)	26.1	0.1	11%
MoneyGram	1.9	2.0	(0.1)	2.1	(0.2)	② -17%	23.9	23.4	0.5	24.4	(0.6)	-2%
Telephony	11.6	12.0	(0.4)	12.0	(0.4)	② -3%	138.2	144.4	(6.2)	140.0	(1.7)	2%
Postal Orders	1.1	0.9	0.2	1.1	0.0	-5%	11.9	11.1	0.8	12.8	(0.9)	-12%
Telephony Overstatement	0.0	0.5	(0.5)	0.0	0.0	n/a	0.0	5.0	(5.0)	0.0	0.0	n/a
DMB Migration Overlay	0.0	0.0	0.0	0.0	0.0	n/a	0.0	0.0	0.0	(0.2)	0.2	n/a
<b>Total Revenue</b>	<b>19.9</b>	<b>20.8</b>	<b>(1.0)</b>	<b>20.2</b>	<b>(0.3)</b>	-5%	<b>241.5</b>	<b>251.3</b>	<b>(9.8)</b>	<b>243.4</b>	<b>(2.0)</b>	1%
<b>Cost Of Sales</b>	<b>(7.3)</b>	<b>(7.1)</b>	<b>(0.2)</b>	<b>(6.8)</b>	<b>(0.5)</b>	③ 4%	<b>(81.6)</b>	<b>(84.4)</b>	<b>2.8</b>	<b>(81.0)</b>	<b>(0.6)</b>	8%
<b>Net Income</b>	<b>12.6</b>	<b>13.8</b>	<b>(1.2)</b>	<b>13.4</b>	<b>(0.7)</b>	-9%	<b>159.9</b>	<b>166.9</b>	<b>(7.0)</b>	<b>162.5</b>	<b>(2.6)</b>	-2%
Agents Pay	(3.0)	(3.2)	0.3	(3.0)	0.0	n/a	(37.3)	(40.1)	2.8	(38.7)	1.4	n/a
Staff Cost	(1.0)	(0.8)	(0.3)	(0.9)	(0.1)	-6%	(10.6)	(8.7)	(2.0)	(9.9)	(0.8)	-4%
Staff & Agent Related Costs	(0.0)	(0.0)	0.0	(0.0)	0.0	-89%	(0.6)	(0.3)	(0.3)	(0.4)	(0.2)	-10%
Brand & Marketing	(0.5)	(0.3)	(0.1)	(1.0)	0.5	-14%	(7.0)	(6.9)	(0.0)	(7.6)	0.6	-8%
Consultancy & Advisory Services	(0.1)	(0.3)	0.3	(0.5)	0.4	④ -62%	(2.2)	(3.8)	1.6	(2.7)	0.5	184%
IT Infrastructure & IT Services	(0.2)	(0.1)	(0.2)	(0.1)	(0.1)	-175%	(1.0)	(0.9)	(0.0)	(0.7)	(0.2)	207%
Managed Services	(2.4)	(1.9)	(0.5)	(2.1)	(0.3)	-6%	(24.8)	(24.7)	(0.1)	(24.4)	(0.4)	9%
Postage	(0.3)	(0.2)	(0.1)	(0.2)	(0.1)	43%	(3.0)	(2.7)	(0.3)	(2.8)	(0.2)	-19%
Finance & Losses	(0.2)	(0.2)	0.0	(0.2)	0.0	-26%	(2.5)	(2.9)	0.4	(2.6)	0.1	-31%
FRES	1.5	1.6	(0.1)	1.5	0.0	-49%	30.9	31.1	(0.3)	31.3	(0.4)	-4%
<b>Trading Profit</b>	<b>6.4</b>	<b>8.3</b>	<b>(1.8)</b>	<b>6.9</b>	<b>(0.5)</b>	-22%	<b>101.7</b>	<b>107.1</b>	<b>(5.3)</b>	<b>103.9</b>	<b>(2.2)</b>	-4%

- ① We are gaining customers as our competitors increase prices making us more competitive.
- ② Continued impact of customer retention discounts.
- ③ Higher customer base, increased BT wholesale costs and increase in engineer visit costs.
- ④ Predominantly due to lower Hub run costs than anticipated, as a result of new builds taken out as part of prioritisation exercise.

## PO Insurance Scorecard



	Period 11						Year to Date						Full Year	
	Actual	Budget	Variance	Forecast	Forecast Var	RAG	Actual	Budget	Variance	Forecast	Forecast Var	RAG	Budget	Forecast
Policies Sold: Postcooling off period (k)	59	65	(6)	63	(4)	●	905	932	(27)	923	(18)	●	997	1,012
Policies Renewed (k)	22	22	0	22	0	●	259	257	2	259	0	●	285	285
Policies In-Force "live" (k)	686	703	(17)	686	0	●							702	686
Net Promoter Score (Post Office Insurance)	41	36	5	36	5	●							36	36



## POI: P11 Trading Profit (£0.3m) adverse to forecast; YTD in line with forecast, (£1.3m) v budget

YoY Total revenue +12% in period and +13% YTD

£m	Period 10						Year to Date					
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	Forecast	Variance	YoY
Travel Insurance	1.5	1.8	(0.3)	1.5	0.0	56%	17.6	21.9	(4.3)	17.9	(0.3)	26%
Car Insurance	0.8	0.8	(0.0)	0.7	0.0	-15%	9.5	9.1	0.4	9.1	0.3	-11%
Van Insurance	0.2	0.2	0.0	0.2	(0.0)	0%	2.2	2.0	0.2	2.2	0.0	5%
Home Insurance	0.8	0.9	(0.1)	0.8	(0.0)	-3%	9.0	9.5	(0.4)	8.7	0.3	2%
Life - Over 50s	1.4	1.0	0.3	1.4	(0.0)	9%	7.8	7.3	0.5	7.9	(0.1)	42%
Life - SLI	0.4	0.3	0.1	0.6	(0.1)	27%	2.5	2.6	(0.0)	3.3	(0.8)	41%
Other Insurance	0.0	0.0	0.0	0.0	(0.0)	-73%	0.6	0.2	0.4	0.6	(0.0)	-9%
<b>Total Revenue</b>	<b>5.1</b>	<b>5.0</b>	<b>0.0</b>	<b>5.2</b>	<b>(0.1)</b>	<b>12%</b>	<b>49.1</b>	<b>52.5</b>	<b>(3.4)</b>	<b>49.7</b>	<b>(0.5)</b>	<b>13%</b>
Cost Of Sales	(1.1)	(0.7)	(0.4)	(0.9)	(0.2)	25%	(9.3)	(7.8)	(1.6)	(9.0)	(0.4)	15%
<b>Net Income</b>	<b>4.0</b>	<b>4.3</b>	<b>(0.3)</b>	<b>4.3</b>	<b>(0.3)</b>	<b>9%</b>	<b>39.8</b>	<b>44.8</b>	<b>(5.0)</b>	<b>40.7</b>	<b>(0.9)</b>	<b>13%</b>
Staff Cost	(0.5)	(0.6)	0.1	(0.5)	0.0	53%	(5.8)	(6.9)	1.2	(5.9)	0.1	62%
Brand & Marketing	(0.7)	(0.9)	0.1	(0.6)	(0.1)	281%	(5.5)	(6.7)	1.3	(5.8)	0.3	90%
Consultancy & Advisory Services	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	378%	(0.9)	(0.7)	(0.2)	(1.3)	0.4	50%
IT Infrastructure & IT Services	(0.1)	(0.2)	0.1	(0.1)	0.0	-18%	(1.4)	(1.9)	0.5	(1.6)	0.2	3%
Managed Services	(0.7)	(0.7)	0.0	(0.7)	0.0	-2%	(8.5)	(8.5)	(0.0)	(8.2)	(0.3)	3%
Other	(0.0)	(0.2)	0.1	(0.1)	0.1	-79%	(1.0)	(1.8)	0.9	(1.1)	0.2	-29%
<b>Trading Profit</b>	<b>1.7</b>	<b>1.7</b>	<b>0.0</b>	<b>2.1</b>	<b>(0.3)</b>	<b>-20%</b>	<b>16.9</b>	<b>18.2</b>	<b>(1.3)</b>	<b>16.9</b>	<b>0.0</b>	<b>-3%</b>

- ① Net Income has increased 9% YoY but was (£0.3m) adverse to the 6+6 forecast due to rephasing of trading activity. We remain broadly in line with latest rolling forecast (10+2).
- ② Trading profit of £1.7m was in line with original budget, but (£0.3m) below the 6+6 forecast and in line with the latest rolling forecast. Year to date Trading Profit of £16.9m was in line with the 6+6 forecast and latest rolling forecast.



## Identity Scorecard

	Period 11						Year to Date						Full Year	
	Actual	Budget	Variance	Forecast	Forecast Var	RAG	Actual	Budget	Variance	Forecast	Forecast Var	RAG	F07	Budget
<b>IDENTITY</b>														
Gross Income £m	4.8	3.1	1.7	3.3	1.5	●	50.8	43.8	6.9	46.7	4.1	●	50.2	47.3
Trading Profit £m	2.5	1.6	0.9	1.5	1.0	●	29.5	25.2	4.3	26.2	3.3	●	27.9	27.1
<b>HOME OFFICE</b>														
Paper Passport Volumes	165,213	126,871	38,342	156,765	8,448	●	1,499,479	1,189,345	310,134	1,486,883	12,596	●	1,652,960	1,325,118
Paper Passport Market Share						●	28%	29%	-1%	29%	-1%	●	26%	26%
Digital Passport Volumes	33,475	31,322	2,153	18,000	15,475	●	82,872	209,162	(126,290)	28,980	53,892	●	55,980	0
Digital Passport Market Share	4.9%			2.8%	2.1%	●	1.1%	3.9%	-2.8%	1.0%	0.1%	●	1.3%	3.9%
UKVI Volumes	35,672	5,727	29,945	0	35,672	●	535,823	397,149	138,674	439,383	96,440	●	439,383	402,998
Secure Collect Volumes	20,249	17,610	2,639	18,517	1,732	●	273,765	285,428	(11,663)	283,641	(9,876)	●	300,099	301,080
<b>DVLA</b>														
Tax Renewal volumes	613,510	589,686	23,824	575,127	38,383	●	6,638,004	6,238,824	399,180	6,245,275	392,729	●	6,946,514	6,957,814
10yr Renewal Volumes	28,255	15,447	12,808	18,273	9,982	●	303,403	274,702	28,701	262,978	40,425	●	283,079	289,504
Service Penalties £	37,586	41,000	3,414	41,000	3,414	●	489,085	451,000	(38,085)	451,000	(38,085)	●	500,000	500,000
<b>VERIFY</b>														
LoA 2 Volumes	84,427	13,339	71,088	65,247	19,180	●	706,319	374,653	331,666	692,990	13,329	●	515,712	390,408
LoA 2 Market Share	52%	50%	2%	50%	2%	●	53%	50%	3%	50%	3%	●	50%	50%
LoA 2 Conversion rate	59%	55%	4%	55%	4%	●	55%	55%	0%	55%	0%	●	55%	55%
Services Live	19	20	(1)	20	(1)	●	18	20	(2)	20	(2)	●	20	20

**Identity** - Net Income over performance of £1.4m is driven from Home Office £1m (primarily driven by extension of UKVI £0.6m and Digital Passports £0.2m) and £0.3m upside from DVLA International Driving Permits.

**Home Office** - UKVI is the main driver of upside with a delayed migration to the new supplier. Paper and Digital passport volumes are up 14% against forecast with digital making up 17% of passport volumes (7% more than forecasted in P11).

**DVLA** - International Driving Permits are ahead of P11 forecast by £0.26m and licence renewals are ahead £0.06m.

**Verify** - LoA 2 volumes are ahead of forecast in P11 by 29%, driven by an upward trend in universal credit volumes over time. The volume upside is offset by the movement of LoA 2's to price tier 2 slightly earlier than forecasted (net impact -£0.09m). PO remains Market Leader with 52% market share and 59% conversion rate.



**Identity: P11 Trading Profit +£1.0m to forecast; YTD +£4.3m v budget**  
UKVI volumes still coming through as migration to new supplier is slower than anticipated



£m	Period 11						Year to Date					
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	Forecast	Variance	YoY
Home Office	2.7	1.7	1.0	1.7	1.0	① -13%	24.6	21.3	3.2	22.1	2.5	-14%
DFT/DLA	0.8	0.5	0.3	0.5	0.3	② 46%	6.4	5.7	0.8	5.7	0.7	0%
Identity Services	0.5	0.3	0.2	0.4	0.1	20%	5.0	4.1	1.0	4.7	0.4	32%
Verify	0.8	0.6	0.2	0.7	0.1	-38%	13.9	12.2	1.7	13.4	0.4	66%
Environment Agency	0.0	0.0	0.0	0.0	0.0	n/a	0.8	0.6	0.2	0.8	0.1	-1%
<b>Total Revenue</b>	<b>4.8</b>	<b>3.1</b>	<b>1.7</b>	<b>3.3</b>	<b>1.5</b>	<b>-10%</b>	<b>50.8</b>	<b>43.8</b>	<b>6.9</b>	<b>46.7</b>	<b>4.1</b>	<b>6%</b>
Cost Of Sales	(0.7)	(0.2)	(0.4)	(0.5)	(0.1)	102%	(6.6)	(4.8)	(1.8)	(6.4)	(0.2)	79%
<b>Net Income</b>	<b>4.2</b>	<b>2.9</b>	<b>1.3</b>	<b>2.8</b>	<b>1.4</b>	<b>-18%</b>	<b>44.2</b>	<b>39.1</b>	<b>5.1</b>	<b>40.3</b>	<b>3.9</b>	<b>0%</b>
Agents Pay	(0.9)	(0.7)	(0.2)	(0.7)	(0.2)	n/a	(8.3)	(7.6)	(0.6)	(7.8)	(0.5)	n/a
Staff Costs	(0.3)	(0.2)	(0.1)	(0.2)	(0.1)	n/a	(2.0)	(1.9)	(0.1)	(1.9)	(0.1)	n/a
Managed Services - Penalties	(0.0)	(0.0)	0.0	(0.0)	0.0	0%	(0.5)	(0.6)	0.1	(0.5)	(0.0)	0%
Postage	(0.4)	(0.2)	(0.2)	(0.2)	(0.2)	③ -6%	(3.1)	(2.6)	(0.5)	(3.0)	(0.1)	-16%
Other	(0.0)	(0.2)	0.2	(0.2)	0.1	-377%	(0.8)	(1.1)	0.3	(0.9)	0.1	33%
<b>Trading Profit</b>	<b>2.5</b>	<b>1.6</b>	<b>0.9</b>	<b>1.5</b>	<b>1.0</b>	<b>-21%</b>	<b>29.5</b>	<b>25.2</b>	<b>4.3</b>	<b>26.2</b>	<b>3.3</b>	<b>-1%</b>

- ① Home Office strong performance against forecast of +£1.0m is driven by UKVI BRP volumes (+0.6m) and Digital Passports (+0.2m). Forecast assumed UKVI BRP volumes stopping in P9 however due to a delay in migration to the new supplier, we have attained additional net income of £1.2m in P10 and P11. UKVI BRP volumes are expected to continue to bring an additional upside in P12, however at lower levels as customers begin to complete transactions.
- ② DVLA upside is due to current BREXIT discussions driving an over performance on International Driving Licences.
- ③ Postage overspend is in line with higher volumes for Passports. YTD postage is flat on forecast.



## Finance & Operations: P11 Trading Profit +£1.5m to forecast; YTD (£0.1m) v budget

£m	Period 11						Year to Date					
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	Forecast	Variance	YoY
Revenue	0.6	0.7	(0.1)	0.7	(0.1)	-12%	8.9	9.9	(1.0)	9.2	(0.2)	-9%
Cost Of Sales	0.0	0.0	0.0	0.0	0.0	n/a	0.1	0.0	0.1	0.1	0.0	n/a
<b>Net Income</b>	<b>0.6</b>	<b>0.7</b>	<b>(0.1)</b>	<b>0.7</b>	<b>(0.1)</b>	<b>-11%</b>	<b>9.0</b>	<b>9.9</b>	<b>(0.9)</b>	<b>9.3</b>	<b>(0.2)</b>	<b>-7%</b>
Staff Costs	(4.4)	(4.2)	(0.3)	(4.3)	(0.1)	-4%	(48.2)	(46.8)	(1.4)	(47.0)	(1.2)	3%
Staff & Agent Related Costs	(0.1)	(0.2)	0.1	(0.2)	0.1	55%	(2.4)	(2.3)	(0.1)	(2.5)	0.1	18%
Property & Facilities Management	(1.3)	(3.1)	1.8	(2.9)	1.6	① -187%	(29.5)	(34.6)	5.1	(31.6)	2.1	-27%
Postage	(0.5)	(0.5)	0.0	(0.5)	0.0	73%	(6.4)	(6.3)	(0.0)	(6.4)	0.0	12%
Stationery	(0.6)	(0.3)	(0.3)	(0.3)	(0.3)	② -15%	(5.4)	(3.2)	(2.2)	(3.9)	(1.5)	10%
Finance & Losses	(0.5)	(0.8)	0.3	(0.8)	0.3	③ 127%	(8.8)	(8.6)	(0.2)	(8.3)	(0.5)	17%
Vehicles	(0.2)	(0.2)	0.0	(0.2)	(0.0)	28%	(2.9)	(3.2)	0.3	(2.8)	(0.1)	1%
Other	(0.7)	(0.5)	(0.2)	(0.8)	0.1	-109%	(4.7)	(4.0)	(0.7)	(4.8)	0.2	-60%
<b>Trading Profit</b>	<b>(7.8)</b>	<b>(9.0)</b>	<b>1.2</b>	<b>(9.3)</b>	<b>1.5</b>	<b>-22%</b>	<b>(99.3)</b>	<b>(99.2)</b>	<b>(0.1)</b>	<b>(98.2)</b>	<b>(1.2)</b>	<b>-5%</b>

- ① £1.3m Poplar compensation received; accounting consistent with treatment of Trafalgar Square compensation and has been agreed with PwC.
- ② £0.28m relates to printer cartridges with key drivers being looked into further.
- ③ Losses run rate has slowed down from previous periods. Also noted £0.25m of recoveries from prior period robberies and burglaries.



## CIO: P11 (£0.2m) adverse to forecast; YTD (£1.8m) v budget

IT	Period - 11						YTD					
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	Forecast	Variance	YoY
Staff Costs	0.8	0.5	(0.3)	0.6	(0.2)	(48%)	6.0	5.7	(0.3)	5.7	(0.3)	(36%)
Staff & Agent Related Costs	0.0	0.0	0.0	0.1	0.1	976%	0.3	0.4	0.1	0.5	0.1	(29%)
IT Infrastructure & IT Services	7.3	7.0	(0.4)	6.7	(0.6)	① (10%)	76.8	81.0	4.3	75.1	(1.7)	9%
Managed Services	0.0	0.2	0.2	0.2	0.1	546%	2.5	2.9	0.4	2.9	0.4	69%
Consultancy & Advisory Services	0.2	0.1	(0.1)	0.2	0.0	(94%)	0.9	1.2	0.4	1.7	0.9	(33%)
Other	(0.7)	(1.5)	(0.8)	(0.2)	0.5	(124%)	(1.8)	(8.4)	(6.6)	(1.7)	0.1	(106%)
<b>Total Operating Expenses</b>	<b>7.7</b>	<b>6.4</b>	<b>(1.3)</b>	<b>7.5</b>	<b>(0.2)</b>	<b>(1%)</b>	<b>84.6</b>	<b>82.9</b>	<b>(1.8)</b>	<b>84.2</b>	<b>(0.5)</b>	<b>9%</b>

① CIO network costs impacted by incremental line costs and increased bandwidth.

② **Actual YTD vs YTD Budget – adverse £1.8m**

Cost Challenge in FJ, Networks and ATOS not met, plus early release of security supplier costs, offset by YTD lower licences costs and staff cost savings in CIO business processes and CTO Architects.

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



HR	Period - 11					
	Actual	Budget	Variance	Forecast	Variance	YoY
Staff Costs	1.5	1.6	0.1	1.4	(0.1)	9%
Staff & Agent Related Costs	0.2	0.2	0.0	0.2	(0.0)	78%
Finance & Losses	0.2	0.1	(0.1)	0.2	0.1	49%
Other	0.1	0.1	(0.0)	0.1	(0.0)	90%
<b>Total Operating Expenses</b>	<b>1.9</b>	<b>1.9</b>	<b>0.0</b>	<b>1.9</b>	<b>0.0</b>	<b>23%</b>

LRG	Period - 11					
	Actual	Budget	Variance	Forecast	Variance	YoY
Staff Costs	0.4	0.6	0.2	0.6	0.2	(33%)
Staff & Agent Related Costs	0.0	0.0	0.0	0.0	(0.0)	255%
Consultancy & Advisory Services	0.0	0.0	0.0	0.1	0.1	2657%
Legal Costs	0.3	0.1	(0.2)	0.1	(0.2)	(44%)
Other	0.1	(0.0)	(0.1)	0.0	(0.1)	279%
<b>Total Operating Expenses</b>	<b>0.8</b>	<b>0.8</b>	<b>(0.0)</b>	<b>0.8</b>	<b>(0.0)</b>	<b>12%</b>

Communications	Period - 11					
	Actual	Budget	Variance	Forecast	Variance	YoY
Staff Costs	0.2	0.2	(0.0)	0.2	(0.0)	(45%)
Staff & Agent Related Costs	0.0	0.0	(0.0)	0.0	(0.0)	(90%)
Brand & Marketing	0.3	0.1	(0.2)	0.1	(0.2)	(42%)
Other	(0.0)	(0.0)	(0.0)	0.0	0.0	(1334%)
<b>Total Operating Expenses</b>	<b>0.5</b>	<b>0.3</b>	<b>(0.2)</b>	<b>0.3</b>	<b>(0.2)</b>	<b>(43%)</b>

Group Change	Period - 11					
	Actual	Budget	Variance	Forecast	Variance	YoY
Staff Costs	(0.2)	(0.0)	0.1	(0.1)	0.1	(317%)
Other	0.2	0.0	(0.1)	0.0	(0.1)	(90%)
<b>Total Operating Expenses</b>	<b>(0.0)</b>	<b>0.0</b>	<b>0.0</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(5520%)</b>

Central	Period - 11					
	Actual	Budget	Variance	Forecast	Variance	YoY
Staff Costs	1.7	0.3	(1.4)	0.2	(1.5)	(102%)
Finance & Losses	(1.0)	(1.3)	(0.3)	(0.3)	0.8	(154%)
Growth Fund	(1.6)	0.8	2.4	(0.7)	0.9	(171%)
Brand & Marketing	(0.1)	0.0	0.1	(0.1)	0.0	(147%)
Other	(0.3)	0.0	0.3	(0.3)	0.0	(176%)
<b>Total Operating Expenses</b>	<b>(1.3)</b>	<b>(0.2)</b>	<b>1.2</b>	<b>(1.1)</b>	<b>0.2</b>	<b>(244%)</b>

YTD					
Actual	Budget	Variance	Forecast	Variance	YoY
17.3	16.4	(0.9)	16.8	(0.5)	(2%)
2.4	2.9	0.4	2.4	(0.1)	(16%)
2.2	2.6	0.4	2.4	0.2	25%
0.8	0.7	(0.1)	0.7	(0.1)	9%
<b>22.8</b>	<b>22.5</b>	<b>(0.2)</b>	<b>22.3</b>	<b>(0.4)</b>	<b>(0%)</b>

YTD					
Actual	Budget	Variance	Forecast	Variance	YoY
6.2	6.3	0.1	6.5	0.3	(9%)
0.2	0.5	0.2	0.2	(0.0)	73%
0.6	0.6	0.0	0.8	0.2	45%
1.2	1.5	0.3	1.0	(0.3)	200%
0.7	0.5	(0.2)	0.5	(0.2)	14%
<b>9.0</b>	<b>9.5</b>	<b>0.5</b>	<b>9.0</b>	<b>(0.0)</b>	<b>28%</b>

YTD					
Actual	Budget	Variance	Forecast	Variance	YoY
1.9	1.8	(0.1)	1.7	(0.2)	(19%)
0.1	0.0	(0.1)	0.1	(0.0)	(21%)
3.1	2.8	(0.3)	3.3	0.2	(23%)
0.1	(0.5)	(0.6)	0.1	0.0	(28%)
<b>5.2</b>	<b>4.1</b>	<b>(1.0)</b>	<b>5.2</b>	<b>(0.0)</b>	<b>(22%)</b>

YTD					
Actual	Budget	Variance	Forecast	Variance	YoY
(0.3)	(0.3)	0.1	0.0	0.4	(240%)
0.3	0.3	(0.1)	0.1	(0.3)	(66%)
<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>#DIV/0!</b>

YTD					
Actual	Budget	Variance	Forecast	Variance	YoY
5.6	3.5	(2.1)	2.8	(2.8)	(67%)
(2.4)	(2.6)	(0.3)	(2.3)	0.1	(61%)
1.2	8.7	7.5	6.8	5.6	343%
0.5	0.5	(0.1)	0.5	0.0	85%
0.4	0.2	(0.2)	0.3	(0.0)	871%
<b>5.4</b>	<b>10.2</b>	<b>4.8</b>	<b>8.2</b>	<b>2.8</b>	<b>101%</b>

- ① Accrual of stretch bonus.
- ② Release of uncommitted growth fund spend.





## Operating Expenses: Summary

	Period - 11					
	Actual	Budget	Variance	Forecast	Variance	YoY
Staff Costs	15.9	13.8	(2.1)	14.6	(1.3)	1 (3%)
Staff & Agent Related Costs	0.7	0.8	0.1	0.8	0.2	22%
IT Infrastructure & IT Services	7.9	7.5	(0.4)	7.3	(0.6)	2 (12%)
Property & Facilities Management	1.3	3.1	1.8	2.9	1.6	3 83%
Managed Services	3.3	3.3	(0.0)	3.0	(0.2)	21%
Logistics	1.9	1.5	(0.4)	1.7	(0.2)	(27%)
Brand & Marketing	1.6	1.6	(0.0)	1.9	0.2	33%
Consultancy & Advisory Services	0.8	0.7	(0.1)	0.9	0.1	43%
Legal Costs	0.4	0.3	(0.1)	0.2	(0.2)	102%
Finance & Losses	0.8	1.0	0.2	2.0	1.2	4 113%
Other Operating Costs	0.4	0.6	0.1	1.1	0.7	135%
<b>Total Operating Expenses</b>	<b>35.0</b>	<b>34.1</b>	<b>(0.9)</b>	<b>36.5</b>	<b>1.5</b>	<b>11%</b>

	Period - 11					
	Actual	Budget	Variance	Forecast	Variance	YoY
Retail	9.3	8.2	(1.2)	9.4	0.1	(14%)
FS&T	4.7	3.8	(0.9)	5.0	0.3	6%
PO Insurance	2.2	2.6	0.3	2.2	(0.0)	(34%)
Identity	0.7	0.6	(0.2)	0.6	(0.2)	(50%)
F&O	8.4	9.8	1.3	10.1	1.6	3 27%
IT	7.7	6.4	(1.3)	7.5	(0.2)	(1%)
HR	1.9	1.9	0.0	1.9	0.0	23%
LRG	0.8	0.8	(0.0)	0.8	(0.0)	12%
Communications	0.5	0.3	(0.2)	0.3	(0.2)	(43%)
Central	(1.3)	(0.2)	1.2	(1.1)	0.2	(244%)
SPO	(0.0)	0.0	0.0	(0.0)	(0.0)	(5520%)
<b>TOTAL</b>	<b>35.0</b>	<b>34.1</b>	<b>(0.9)</b>	<b>36.5</b>	<b>1.5</b>	<b>11%</b>

	YTD					
	Actual	Budget	Variance	Forecast	Variance	YoY
Staff Costs	174.5	166.4	(8.0)	170.1	(4.4)	(3%)
Staff & Agent Related Costs	8.6	9.5	0.9	8.9	0.3	(1%)
IT Infrastructure & IT Services	83.2	87.4	4.2	82.4	(0.9)	6%
Property & Facilities Management	29.9	35.1	5.2	32.0	2.1	26%
Managed Services	40.8	41.1	0.3	40.4	(0.4)	(3%)
Logistics	19.2	17.6	(1.6)	18.8	(0.4)	(13%)
Brand & Marketing	20.1	21.2	1.0	21.5	1.4	11%
Consultancy & Advisory Services	7.3	8.2	0.9	9.2	1.9	(35%)
Legal Costs	2.1	2.7	0.6	2.1	(0.0)	147%
Finance & Losses	24.3	26.6	2.3	23.9	(0.5)	12%
Other Operating Costs	13.5	14.8	1.4	17.6	4.1	2%
<b>Total Operating Expenses</b>	<b>423.5</b>	<b>430.5</b>	<b>7.0</b>	<b>426.8</b>	<b>3.3</b>	<b>2%</b>

	YTD					
	Actual	Budget	Variance	Forecast	Variance	YoY
Retail	107.1	108.5	1.3	109.3	2.1	(4%)
FS&T	51.8	50.9	(0.9)	51.1	(0.7)	(1%)
PO Insurance	22.9	26.6	3.6	23.8	0.9	(22%)
Identity	6.4	6.2	(0.2)	6.2	(0.2)	(36%)
F&O	108.4	109.1	0.8	107.4	(0.9)	6%
IT	84.6	82.9	(1.8)	84.2	(0.5)	9%
HR	22.8	22.5	(0.2)	22.3	(0.4)	(0%)
LRG	9.0	9.5	0.5	9.0	(0.0)	28%
Communications	5.2	4.1	(1.0)	5.2	(0.0)	(22%)
Central	5.4	10.2	4.8	8.2	2.8	101%
SPO	0.0	0.0	0.0	0.1	0.1	n/a
<b>Total Operating Expenses</b>	<b>423.5</b>	<b>430.5</b>	<b>7.0</b>	<b>426.8</b>	<b>3.3</b>	<b>2%</b>

- 1 Accrual for stretch bonus.
- 2 CIO network costs impacted by incremental line costs and increased bandwidth.
- 3 Poplar branch compensation.
- 4 VAT recovery £0.7m greater than forecast.



## Change Spend

YTD spend is in line with forecast including savings of unallocated challenge during the latest forecast submission.

	Period 11			YTD			FY 18/19	Benefits				
	Actual	Forecast 9+3	Vs Forecast	Actual	Forecast 9+3	Vs Forecast		YTD Actual	YTD Forecast	Vs Forecast	Forecast FY 18/19	Budget FY 18/19
<b>Retail</b>	<b>7.4</b>	<b>8.8</b>	<b>(1.4)</b>	<b>110.7</b>	<b>112.8</b>	<b>(2.1)</b>	<b>124.8</b>	<b>10.3</b>	<b>10.4</b>	<b>(0.1)</b>	<b>12.3</b>	<b>12.7</b>
Mails Programmes	0.1	0.3	(0.1)	2.3	2.1	0.2	2.4	-	-	-	-	-
Cash & Banking Services	-	-	-	-	-	-	-	-	-	-	-	-
Bill Payments Projects	0.0	0.4	(0.4)	3.2	3.8	(0.6)	① 4.1	1.1	1.2	(0.1)	1.5	-
Automation	0.0	0.1	(0.0)	2.6	2.5	0.1	2.8	-	-	-	-	0.1
DMB	2.2	2.9	(0.6)	52.1	53.3	(1.2)	② 58.4	7.5	7.5	0.0	8.9	9.7
Network Development	1.7	1.9	(0.3)	15.0	15.4	(0.4)	③ 17.7	1.7	1.7	-	1.9	2.0
Network Transformation	1.9	2.1	(0.2)	21.7	21.8	(0.1)	22.2	-	-	-	-	-
Solar	1.1	0.7	0.3	9.3	9.1	0.2	10.2	-	-	-	-	0.9
Other Retail	0.4	0.4	(0.1)	4.6	4.9	(0.3)	④ 6.9	-	-	-	-	-
<b>Financial Services &amp; Telecoms</b>	<b>1.5</b>	<b>1.7</b>	<b>(0.2)</b>	<b>20.0</b>	<b>20.1</b>	<b>(0.1)</b>	<b>22.2</b>	<b>12.2</b>	<b>12.2</b>	<b>(0.1)</b>	<b>13.3</b>	<b>12.5</b>
Eagle	0.2	0.1	0.1	1.8	1.8	0.0	1.9	-	-	-	-	-
Telecoms	0.6	0.8	(0.2)	7.8	8.1	(0.2)	8.4	12.4	12.5	(0.0)	13.5	11.6
Other	0.6	0.7	(0.1)	10.4	10.3	0.1	11.9	(0.3)	(0.2)	(0.1)	(0.2)	0.9
Post Office Insurance	2.1	2.1	0.0	10.5	10.4	0.1	11.7	1.6	1.4	0.2	⑫ 2.6	4.6
Identity	0.2	0.5	(0.3)	2.7	3.0	(0.3)	⑤ 3.7	-	-	-	-	-
<b>IT &amp; Digital</b>	<b>6.3</b>	<b>6.7</b>	<b>(0.4)</b>	<b>68.1</b>	<b>68.8</b>	<b>(0.7)</b>	<b>73.5</b>	<b>4.4</b>	<b>3.6</b>	<b>0.8</b>	<b>4.2</b>	<b>6.9</b>
EUC Branch Deployment	(0.1)	-	(0.1)	11.3	11.3	0.0	11.3	0.6	(0.1)	0.7	⑬ (0.3)	0.6
IT Back Office	2.0	2.0	(0.0)	21.2	21.9	(0.8)	⑥ 23.6	0.4	0.4	0.0	0.6	0.5
IT Networks	(0.2)	-	(0.2)	(0.9)	(0.6)	(0.2)	(0.6)	-	-	-	-	-
Other IT	0.8	0.8	0.0	9.4	9.0	0.5	⑦ 9.9	0.8	0.8	-	1.0	1.2
Project Everest	3.3	3.3	(0.0)	13.4	13.5	(0.1)	15.0	2.0	1.8	0.3	⑭ 2.2	4.0
R&R	0.4	0.5	(0.1)	6.7	6.8	(0.1)	7.3	-	-	-	-	0.1
Replacement of Counter Receipt Slip Printers	0.0	0.0	(0.0)	7.0	7.0	(0.0)	7.0	0.6	0.7	(0.1)	0.7	0.5
<b>Finance &amp; Ops</b>	<b>1.3</b>	<b>1.9</b>	<b>(0.6)</b>	<b>14.1</b>	<b>15.4</b>	<b>(1.3)</b>	<b>18.8</b>	-	-	-	-	-
Finance	0.1	0.2	(0.1)	1.9	2.5	(0.6)	⑧ 2.7	-	-	-	-	-
Operations	0.5	0.9	(0.4)	5.5	6.2	(0.7)	⑨ 8.2	-	-	-	-	-
Property	0.7	0.7	(0.0)	5.8	6.0	(0.3)	7.2	-	-	-	-	-
Supply Chain	0.1	0.1	(0.0)	0.9	0.6	0.3	0.7	-	-	-	-	-
<b>Human Resources</b>	<b>0.7</b>	<b>0.1</b>	<b>0.6</b>	<b>2.3</b>	<b>1.8</b>	<b>0.5</b>	<b>⑩ 2.0</b>	<b>3.2</b>	<b>3.2</b>	<b>0.0</b>	<b>3.5</b>	<b>3.5</b>
Legal Risk & Governance	2.7	1.9	0.8	18.0	17.2	0.8	⑪ 19.2	-	-	-	-	-
Central	(0.0)	0.3	(0.3)	1.7	2.0	(0.3)	2.3	-	-	-	-	-
<b>Grand Total FY 2018/19 Before Sale Of Assets</b>	<b>22.1</b>	<b>23.9</b>	<b>(1.8)</b>	<b>248.1</b>	<b>251.5</b>	<b>(3.3)</b>	<b>278.2</b>	<b>31.7</b>	<b>30.8</b>	<b>0.8</b>	<b>36.0</b>	<b>40.2</b>
Sale Of Assets	-	-	-	(6.2)	(5.6)	(0.6)	(6.5)	-	-	-	-	-
<b>Total Change</b>	<b>22.1</b>	<b>23.9</b>	<b>(1.8)</b>	<b>241.9</b>	<b>245.9</b>	<b>(4.0)</b>	<b>271.7</b>	<b>31.7</b>	<b>30.8</b>	<b>0.8</b>	<b>36.0</b>	<b>40.2</b>
Challenge	-	(2.3)	2.3	-	(4.6)	4.6	(7.2)	-	-	-	-	-
<b>Total Change FY 2018/19</b>	<b>22.1</b>	<b>21.7</b>	<b>0.5</b>	<b>241.9</b>	<b>241.3</b>	<b>0.6</b>	<b>264.5</b>	<b>31.7</b>	<b>30.8</b>	<b>0.8</b>	<b>36.0</b>	<b>40.2</b>
o/w												
Capex	12.6	12.1	0.5	125.8	124.6	1.2	135.5					
Exceptional	9.6	9.6	0.0	116.1	116.7	(0.6)	129.0					

## Key Variances

1	Variance is driven due to missing postings of accruals in the month (will be corrected in P12 for year end position)
2	Underspend mainly due to decision to change the number of DMB exits due to resource constraints. (10 branches scheduled for 18/19 will now reduce to 5, all remaining in 19/20)
3	YTD variance is mainly driven from fewer branches delivered vs. target and recharges to Parcel Shop and Automated Locals. Significant delivery in P12 planned.
4	Variance is mainly due to PO express timing of kick-off (saving) & Simplification savings on closure.
5	Variance is mainly driven from Digital Identity due to re-phasing of distribution activities to deliver MVP1 resulting in a slower burn rate (timing-phasing) and delays in Digital Certified Copy project as it is still in assess phase due to delay in kick-off (timing-delay)
6	Variance comes from a submission error in the forecast for Project Safe Haven (saving).
7	Variance mainly driven from payments brought forward, overall project will increase by £0.1m.
8	Variance is mainly driven from project Arrow where there have been delays in project team expansion whilst project deliverables are reviewed along with YTD transfer of Back Office Transformation costs in January & partially from a submission error related to prior month postings.
9	Variance is mainly driven from Agents Portal where efficiency savings were made on Fujitsu delivery management (saving)
10	Severance accruals brought forward in line with communication. (timing)
11	Variance due to litigation costs brought forward in the month. (timing)
12	Variance is driven from Travel Insurance project where net rate & web/aggregator improvements were higher than anticipated during the 9+3 forecast period.
13	Variance related to forecast submission error.
14	Variance related to contractual remedying of prior shortfall in benefits during project's completion.



## Cash Holding Position

	Prior Year	Year End	Prior Period	Reporting Period	Variances		
£m	Period 11 FY-17/18	Period 12 FY-17/18	Period 10 FY-18/19	Period 11 FY-18/19	vs Prior Year	vs Year End	vs Prior Period
<b>Network Cash Inventory (before Demonet.)</b>							
<u>Branch</u>							
£ Cash Holdings	486.4	543.2	449.7	506.3	19.9	(36.9)	56.6
FX Cash Holdings	55.7	60.0	50.7	59.8	4.1	(0.2)	9.1
	542.1	603.2	500.4	566.1	24.0	(37.1)	65.7
<u>Cash Centres</u>							
<b>Awaiting Processing</b>							
Inward Rems	48.1	21.2	33.4	158.4	110.3	137.2	125.0
Outward Rems in Transit	37.2	55.2	28.7	39.2	2.0	(16.0)	10.5
Machine Room - Awaiting Processing	51.3	35.4	-	-	(51.3)	(35.4)	-
Old £1 Coins	2.2	1.1	0.4	0.2	(2.0)	(0.9)	(0.2)
<b>Total - Awaiting Processing (Cash Centres)</b>	<b>138.8</b>	<b>112.9</b>	<b>62.5</b>	<b>197.8</b>	<b>59.0</b>	<b>84.9</b>	<b>135.3</b>
<b>Total - Buffer (Cash Centres)</b>	<b>50.4</b>	<b>134.5</b>	<b>83.0</b>	<b>60.3</b>	<b>9.9</b>	<b>(74.2)</b>	<b>(22.7)</b>
Cheques, Debit Cards, etc.	13.3	13.9	3.6	13.4	0.1	(0.5)	9.8
ATM Holdings - Cvt filled	14.2	14.7	21.3	18.0	3.8	3.3	(3.3)
Other	3.0	2.6	-	(1.9)	(4.9)	(4.5)	(1.9)
<b>Network Cash (before Demonet.)</b>	<b>761.8</b>	<b>881.8</b>	<b>670.8</b>	<b>853.7</b>	<b>91.9</b>	<b>(28.1)</b>	<b>182.9</b>
Cash in BoE Bond	602.7	505.1	809.1	789.6	186.9	284.5	(19.5)
<b>Total Cash Holdings</b>	<b>1,364.5</b>	<b>1,386.9</b>	<b>1,479.9</b>	<b>1,643.3</b>	<b>278.8</b>	<b>256.4</b>	<b>163.4</b>
<b>Funding Position</b>							
- Cash Available to Treasury	4.9	0.4	(1.0)	0.9	(4.0)	0.5	1.9
- Government Loan	(451.0)	(623.0)	(485.0)	(586.0)	(135.0)	37.0	(101.0)
- NRF Usage	(270.4)	(237.6)	(171.0)	(240.5)	29.9	(2.9)	(69.5)
- WC Funding Network Cash Inventory	(45.3)	(21.6)	(13.8)	(28.1)	17.2	(6.5)	(14.3)
<b>Net Funding Position</b>	<b>(761.8)</b>	<b>(881.8)</b>	<b>(670.8)</b>	<b>(853.7)</b>	<b>(91.9)</b>	<b>28.1</b>	<b>(182.9)</b>

Notes - P11 FY18/19:

(1) - the equivalent data in CWC for Outward Rems in Buffer is not known

(2) - Cash Bin Holdings balance is at 4/3/19 due to timing of data collection from CWC

- ① Rems are now being processed in the normal timescales, but for P11 (during the early stages of Back Office Transition) we saw a backlog of rem's due to the team being focused on clearing some initial problems associated with the new ways of working. Branches were not impacted.



## Balance Sheet & Headroom

### Balance Sheet

£m	Period 11	Period 10	v P10	P12 FY17	v P12	Period 11 FY17	v PY
Fixed Assets	542	540	2	478	63	467	75
Debtors	329	304	25	336	(7)	296	33
Cash	626	515	111	655	(29)	503	124
Creditors	(586)	(539)	(48)	(589)	3	(555)	(31)
Pension Surplus	3	3	-	3	0	2	1
Provisions	(81)	(76)	(5)	(66)	(16)	(65)	(16)
Other	10	10	0	9	1	7	3
Loan	(586)	(485)	(101)	(623)	37	(451)	(135)
<b>Net Assets / (Liabilities)</b>	<b>257</b>	<b>272</b>	<b>(15)</b>	<b>204</b>	<b>53</b>	<b>203</b>	<b>53</b>

### Balance Sheet Headroom

£m	Period 11	Period 10	v P10	P12 FY17	v P12	Period 11 FY17	v PY
Government Loan - Available Amount	950	950	-	950	-	950	-
Government Loan - Drawn Amount	(586)	(485)	(101)	(623)	37	(451)	(135)
<b>Headroom</b>	<b>364</b>	<b>465</b>	<b>(101)</b>	<b>327</b>	<b>37</b>	<b>499</b>	<b>(135)</b>
Target Minimum Headroom	200	200	-	200	-	200	-
<b>Headroom Above/(Below) Target</b>	<b>164</b>	<b>265</b>	<b>(101)</b>	<b>127</b>	<b>37</b>	<b>299</b>	<b>(135)</b>

### Security Headroom

£m	Period 11	Period 10	v P10	P12 FY17	v P12	Period 11 FY17	v PY
Network Cash	613	500	113	644	(31)	491	122
Cash at Bank - POL	1	3	(2)	0	1	0	1
Client Debtors	152	123	28	132	19	132	20
Trade & Other Debtors - Business Debtors	174	178	(4)	188	(14)	150	23
<b>Total Security</b>	<b>940</b>	<b>804</b>	<b>136</b>	<b>964</b>	<b>(25)</b>	<b>774</b>	<b>166</b>
Government Loan	(586)	(485)	(101)	(623)	37	(451)	(135)
Santander	(84)	(83)	(2)	(100)	16	(100)	16
<b>Total Obligations</b>	<b>(670)</b>	<b>(568)</b>	<b>(103)</b>	<b>(723)</b>	<b>53</b>	<b>(551)</b>	<b>(119)</b>
<b>Headroom</b>	<b>270</b>	<b>237</b>	<b>33</b>	<b>241</b>	<b>28</b>	<b>223</b>	<b>46</b>



POST OFFICE LIMITED  
BOARD OF DIRECTORSPAGE 1 OF 8  
DISCUSSION PAPER

# Budget Update

Author: Cem Oztoprak

Sponsor: Alisdair Cameron

Meeting date: 25 March 2019

## Executive Summary

### Context

Following the Board in January we were expecting to revert with a budget for 2019/20 recommended for approval.

Trading profit was projected at £77m before any accounting changes, an increase both on the current year (c. £60m) and on the Three Year Plan (£66m). This included one quarter's benefit assumed from Banking Framework 2 net of the change in Verify pricing, the impact of the Bank of Ireland deal, reverting to 52 weeks and starting higher agents' pay for deposits three months' early.

We were going to recommend STIP at 90% EBITDAS with the 10% on change benefit delivery with 10% gaps from one target to minimum and stretch.

This had been largely agreed across the business with some £9m of ungrounded challenge being sought from further cost reductions, largely assumed to be flowing from the McKinseys work. The change plan of £170m left us broadly cash neutral for the year.

### Questions addressed in this report

- 1- What are we now recommending?
- 2- What was the supporting detail from the draft budget?

### Conclusion

As a result of the verdict on the Group Litigation Order, we are no longer recommending a budget at this stage, for reasons set out below. The report therefore sets out the basis of the budget we would have recommended to give a context for future discussions and does not represent a final view.

We are requesting approval from the Board to revert with a revised budget at end April (special call) or at the next meeting at end May.

We have reached this conclusion reluctantly because we simply do not yet have a shared view of the right budget given the GLO verdict. The questions we need to answer are:

- What additional work should be undertaken to create agent processes that are consistent with the new contractual obligations and which demonstrate fairness and transparency?
- Do we want to spend to accelerate change that simplifies processes, designs out errors and reduces differences with agents?
- If we do, to what extent do we want to take cost savings now or improve working with agents?

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- Do we want to retain some experienced DMB staff to supplement our regional field teams?
- What are the appropriate budgets now for losses and for the litigation itself?
- Should we spend more in 2019-20 on brand protection and support?
- Should we fund this additional change spend by slowing or stopping other initiatives, perhaps postponing work on franchising DMBs or on parcelshop, changes that respectively cause brand noise and irritate agents?

## Input Sought

The Board is asked to add an additional call at end April to approve the budget for 2019-20 and is asked to comment on the questions being answered and the underlying content.

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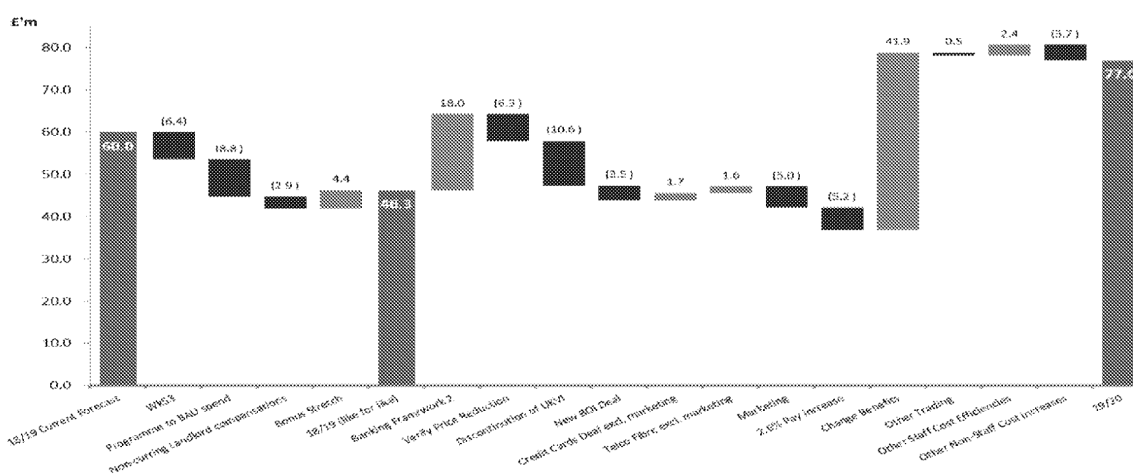
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## The Report

## How is trading profit progressing YoY?

1. We expect to grow our trading profit by 66% (£77m vs. £46m) on a like for like basis given that this years expected £60m trading profit has one-off upsides such as Wk53 and landlord compensations for Trafalgar and Poplar branches. In addition, we expect £8.8m of costs moving from change to BAU. These are being offset by £4.4m bonus stretch we expect to pay this year (£60m vs. £50m) which will be budgeted at 100% achievement for next year.
2. There has been various moving parts to deliver trading profit growth, however the key items helping us to deliver £77m trading profit are change benefits (£42m) and banking framework 2 upside (£18m).

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3. Although there has been significant cost improvement on the back of change benefits, there has been adverse cost implications especially in non-staff costs. £4.2m other non-staff cost increases has been made up of;
  - Call Centre costs (+£2.1m), primarily due to growth in insurance sales volumes.
  - Price increase in Mail Pouches (+£0.9m)
  - Telco price change & regulatory costs (+£0.5m)
  - HMRC Fees for Travel Money (+£1.0m)
  - Verizon bandwidth increase (+1.7m)
  - Other non-staff cost efficiencies across business (-£2m)

## How has the Budget moved since the last Board meeting?

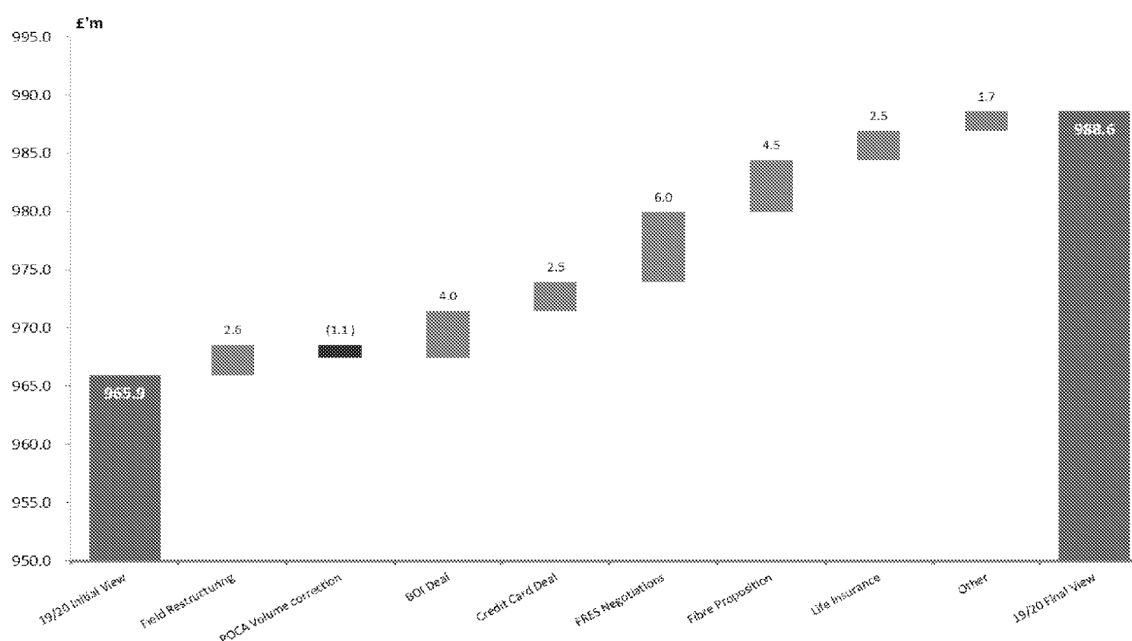
4. Following the Board review in January a number of changes/challenges have been proposed to finalise the budget with a target of £77m trading profit. These changes have now been agreed and the final proposed P&L is as following. Please see [Appendix I](#) breakdown by BU.

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£m	2019-20 Budget Proposal	2019-20 Jan Board	Changes	2018-19 Current Forecast	YoY	YoY
<b>Gross Income</b>	<b>989</b>	<b>966</b>	<b>23</b>	<b>961</b>	<b>28</b>	<b>2.9%</b>
Cost of Sales	(132)	(126)	(6)	(127)	(5)	3.9%
<b>Net Income</b>	<b>857</b>	<b>840</b>	<b>17</b>	<b>834</b>	<b>23</b>	<b>2.8%</b>
Agents' Pay	(383)	(383)	-	(361)	(22)	6.1%
Staff Costs	(167)	(166)	(1)	(188)	22	(11.7%)
Non Staff Costs	(276)	(281)	5	(274)	(2)	0.7%
FRES	30	33	(3)	34	(4)	(11.8%)
POCA Other Income	12	11	1	14	(2)	(14.3%)
Payzone	4	3	1	1	3	207.7%
<b>Trading Profit</b>	<b>77</b>	<b>57</b>	<b>20</b>	<b>60</b>	<b>17</b>	<b>28.3%</b>

5.2

5. After the first round of reviews, revenue has improved by £23m which is the main driver for trading profit increase. A major part of the increase came from FS&T following BOI negotiations which has contributed £13m of £23m revenue improvement.



6. As we have increased revenue by £23m compared to the initial submission, the bottom line has also improved by £22m as most of the improvements have fallen down to the trading profit line, along with inclusion of missing change benefits. However, we had to unwind PO Money cost reductions we had embedded in a BOI no deal scenario, as we have concluded negotiations with a positive outcome.

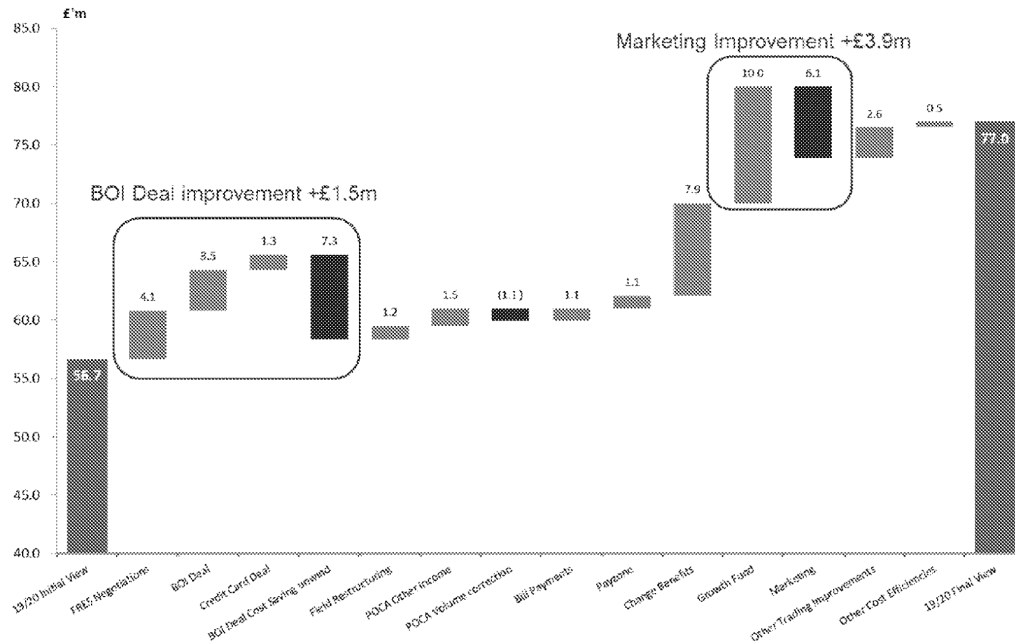
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Tab 5.2 Draft 2019/20 Annual Strategic Plan and Budget

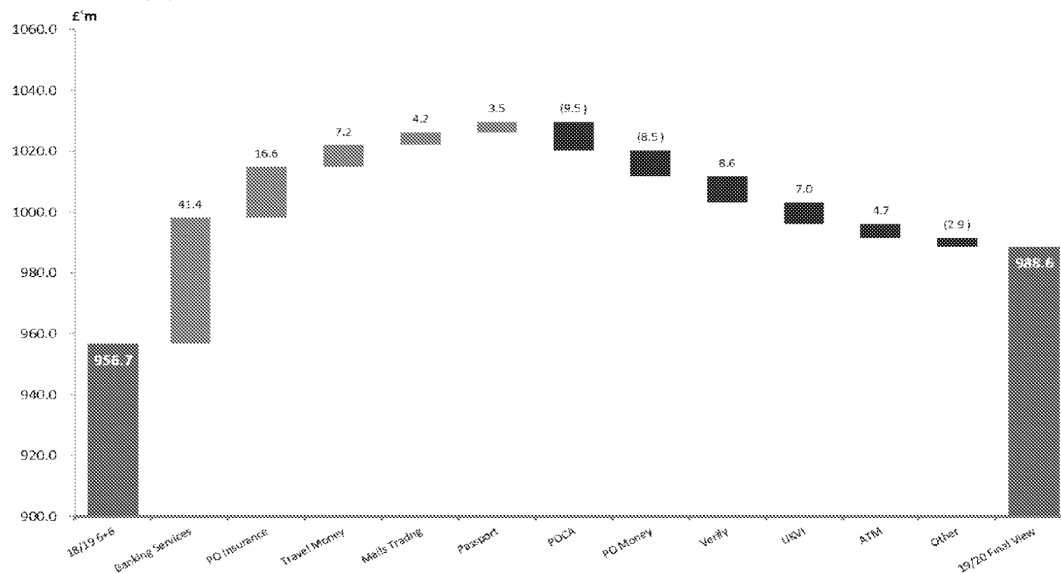
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5.2

7. There have been significant YoY movements in Revenue, but the majority of growth is expected to be achieved by volume growth in banking services as well as Banking Framework 2; which will increase the prices by Jan 20 onwards. This growth more than offsets the reductions in POCA, PO Money, Verify and ATMs. Please see [Appendix II](#) breakdown by product.



8. In addition to revenue growth there has been significant reduction in various cost areas and the main reasons behind these are as following:
- Cost of Sales (+£5m): The increase is due to growth in Insurance revenues (i.e. volume) and higher usage of aggregators (i.e. unit cost)

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- Agent's Pay (+£22m): DMB closures increases the agent's pay as the revenues transition from DMB to agency branches (£17m). Additionally, the growth in banking revenues and our decision to compensate the agency Q3 onwards is another major factor in YoY growth (£8m)
- Staff costs (-£18m): Following DMB closures, we reduce c. 600FTE and hence the relevant payroll savings contributes to the reduction in staff costs (-£26m). However, this has been partly offset by the heads moving out of change to BAU (+£9m)
- Non-Staff costs (-£6m): Change benefits being delivered as IT cost reductions contributes to non-staff cost reduction.

9. Lastly, the changes in other income lines are;

- FRES: (-£3m): As part of BOI negotiations, we have secured £6m fixed commissions which helps to grow our revenue, but this results in FRES profit share reduction.
- POCA Other Income (£2m): This reflects the slight reduction in interest earning total POCA balance held in JPMorgan.

5.2

Is the proposed trading profit target the right one?

10. There has been a few key commercial changes in the business as previously discussed and the proposed £77m trading profit target reflects all of these changes post 3YP. In addition to £77m trading profit, we will show additional £9m improvement in our trading profit budget to incorporate the anticipated impact of the new lease standard (IFRS16).

	£m
<b>3YP Target</b>	<b>66</b>
Banking framework rate upside	18
Verify pricing downside	(6)
BOI negotiations	(5)
Payzone	4
Change to BAU	(5)
Further cost challenge	5
<b>2019/20 Target</b>	<b>77</b>
Change in Lease Accounting Standards *	9
<b>2019/20 restated Target</b>	<b>86</b>

\*Because we are in the process of selling quite a few long leasehold properties, disposing/terminating other property leases, and we are switching supplier for motor vehicle leases, the IFRS 16 benefit is still to be confirmed.

11. As we can reconcile the target back to 3YP with key commercial movements, we still have c. £9m unallocated challenged sitting in business unit's submissions which is one of the main reasons why we can't shoot for higher trading profit target.

12. The marketing plan has been increased YoY to incorporate the additional activities we would like to do such as direct TV campaign for life insurance, digital identity product launch, new credit card communications as well as telco fibre broadband offering. Unlike previous years there is no growth fund as we have a fully allocated marketing plan for the year.

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## POST OFFICE

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## What's the status on change plan?

13. The proposed budget for 2019-20 change spend is £170m which reflects the prioritisation review results and it's expected to deliver £42m YoY benefit. Please see the Appendix III for project level details. The change plan may need to be re-prioritised as a result of the GLO.

## What should be our STIP target for 2019-20?

14. Our 2018-19 STIP targets is made up of 80% trading profit and 20% delivering key change initiatives (POLSAP, HRSAP, HNGX and Customer Hub) along with a gateway criteria of retaining 11,500 branch locations.

5.2

15. We propose to have the similar pattern for 2019-20 STIP targets.

Gateway: retaining 11,500 branch locations

Performance:

- 90% Trading Profit of £77m with (+/-) 10% range in each side.
- 10% Delivery of change benefits with (+/-) 10% range in each side.

## How are we proposing to manage the balance sheet in 2019-20?

16. The Balance Sheet, Cash and Headroom positions have been prepared and are subject to update following the final 2018-19 outturn position. The key assumptions made are:

- £50m Network Subsidy payments will be drawn down on a quarterly basis in line with previous years and £42m investment funding will be drawn in Q1 in line with the proposed spending pattern.
- Branch holdings are reduced down to c. £500m, including the adverse impact of banking framework by end of next year vs. 2018-19 YTD avg. of £520m.
- Cash centre balances are held at current levels, subject to seasonal fluctuations.

17. The net inflow for the year is c. £25m which will be kept as a contingency for Group Litigation.

	FY1920
Trading Profit	77.0
Interest Expense	(8.5)
Change Spend (incl. PayZone Acq.)	(170.0)
Investment Funding	42.0
NSP	50.0
Incremental Working Capital	35.2
<b>Available funding</b>	<b>25.6</b>

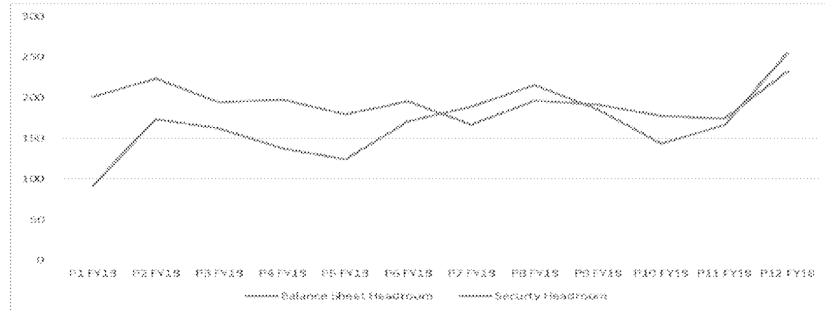
18. Incremental working capital improvement is mainly as a result of how the year end dates fall within the calendar month (31-Mar-19 v 29-Mar-20) which increases the payables balances for 19/20; specifically agents pay and salary payables balances.

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## POST OFFICE

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19. Month-end headroom is not expected to exceed the £750m threshold but as always will be tight over the Christmas period and will need to be closely monitored.



5.2

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Tab 5.2 Draft 2019/20 Annual Strategic Plan and Budget

## POST OFFICE

## Appendix I – Trading profit by BU

£m	2019-20 Budget Proposal	2019-20 Jan Board	Changes vs. Jan	2018-19 Current Forecast	YoY	YoY%
Retail	164.5	159.5	5.0	134.4	34.2	25%
Payzone	4.0	3.0	1.0	1.3	2.7	207%
FS&T	109.4	98.9	10.5	115.4	(20.7)	(18%)
Marketing	(14.7)	(5.5)	(9.2)			
POI Marketing	(9.7)	(10.8)	1.1	19.5	3.7	19%
PO Insurance (excl. marketing)	32.9	33.4	(0.5)			
Identity	15.6	14.2	1.4	32.0	(16.4)	(51%)
F&O	(102.9)	(105.1)	2.2	(106.3)	3.4	(3%)
IT	(83.5)	(83.5)	-	(91.9)	8.4	(9%)
HR	(13.3)	(11.2)	(2.1)	(11.2)	(2.1)	19%
LRG	(11.0)	(10.2)	(0.8)	(10.5)	(0.5)	5%
Comms	(3.5)	(4.9)	1.4	(6.1)	2.6	(43%)
Central	(10.7)	(21.1)	10.4	(16.6)	5.9	(36%)
Trading Profit	<b>77.0</b>	<b>56.7</b>	<b>20.3</b>	<b>60.0</b>	<b>17.0</b>	<b>28%</b>

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## POST OFFICE

## Appendix II – YoY Revenue Progression by product

	18/19 6+6	19/20 Budget	YoY	YoY %
Mail Trading	288.6	292.8	4.2	1.5%
Mail Non-Trading	57.3	54.3	(3.0)	-5.2% ↓
Retail and Lottery	40.8	38.5	(2.3)	-5.7% ↓
Payment Services	24.7	22.7	(2.0)	-7.9% ↓
POCA	29.9	20.4	(9.5)	-31.6% ↓
ATM	29.7	25.0	(4.7)	-15.9% ↓
Banking Services	98.6	139.7	41.1	41.7% ↑
<b>TOTAL Retail</b>	<b>569.7</b>	<b>593.6</b>	<b>23.9</b>	<b>4.2%</b>
PO Money	44.4	35.9	(8.5)	-19.2% ↓
Travel Money	28.2	35.4	7.2	25.3% ↑
Moneygram	27.0	26.7	(0.3)	-1.2%
Telephony	154.7	155.0	0.4	0.2%
Postal Orders	14.0	12.7	(1.3)	-9.6% ↓
Other FS&T	0.1	2.7	2.7	5300.0% ↑
<b>TOTAL FS&amp;T</b>	<b>268.4</b>	<b>268.3</b>	<b>(0.1)</b>	<b>0.0%</b>
General	22.7	25.6	2.9	12.7% ↑
Life	13.2	22.0	8.9	67.4% ↑
Travel	19.9	24.8	4.9	24.4% ↑
<b>Total PO Insurance</b>	<b>55.8</b>	<b>72.4</b>	<b>16.6</b>	<b>29.8%</b>
DFT/DLA	6.3	6.8	0.5	7.5% ↑
Home Office	23.9	20.3	(3.6)	-15.2% ↓
Identity Services	5.1	6.2	1.1	22.5% ↑
Digital Identity	0.0	1.5	1.5	100.0% ↑
Verify	14.0	5.4	(8.7)	-61.6% ↓
Other Government Services	0.8	0.6	(0.2)	-28.6% ↓
<b>TOTAL Identity Services</b>	<b>50.2</b>	<b>40.8</b>	<b>(9.4)</b>	<b>-18.6%</b>
<b>Supply Chain</b>	<b>10.1</b>	<b>9.8</b>	<b>(0.3)</b>	<b>-2.8%</b>
<b>Other Income</b>	<b>2.6</b>	<b>3.6</b>	<b>1.0</b>	<b>38.5%</b>
<b>TOTAL GROSS INCOME</b>	<b>956.8</b>	<b>988.6</b>	<b>31.8</b>	<b>3.3%</b>

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Tab 5.2 Draft 2019/20 Annual Strategic Plan and Budget

## POST OFFICE

## Appendix III – Change Plan &amp; Benefits by BU

Project Name	Change Spend	Benefits
Vehicles (Supply Chain)	2,058,320	
Swindon Strategy	3,955,000	
Process and Contact Centre Transformation	1,568,000	758,000
SF/EUM Common Services	121,457	
Agents / Postmasters Portal	5,079,825	310,339
Agents Onboarding/Support Strategy	300,000	
Property (Maintenance)	5,400,840	
Project Arrow	3,009,965	
<b>Finance &amp; Ops</b>	<b>21,493,407</b>	<b>1,068,339</b>
Project Panther (integration costs only)	8,719,711	2,844,194
Smart Metering / Real-time Bill Payment / Multi-Channel Proposition	78,159	
Cheque Imaging	140,980	93,750
AMEXSSK Channel Extension	231,609	150,000
Crown Network Shape		1,831,951
3D Secure Version 2	132,924	
Mails - Drop & Go (was called Small Business Club)	120,000	
Mails Strategy (+ Mails Joint Neg) - Next Best Alternatives	850,000	
Mails - multi channel	2,014,000	
Automation Strategy	1,308,088	
Network Transformation	760,350	
DVB Strategy	30,061,261	6,619,028
Network Paddington Project		297,000
CT vacant leaseholds & CT onerous property contracts	2,600,000	1,594,987
Sale Of Assets	-7,933,381	
Network Development	8,581,850	2,268,177
Solar Roll	6,672,000	208,250
PO Express	2,331,597	99,840
Small Malls to Locals	2,436,697	102,160
Field Restructure		1,226,000
Retail Strategy	500,000	
<b>Retail</b>	<b>59,605,845</b>	<b>17,335,337</b>
Galaxy - Telco Proposition	816,393	
Telco - Tech Refresh	1,260,688	
Galaxy - Telco Project Galaxy	-240,000	-47,022
Telephony Routers	2,316,100	
Telco - Project Nuance	1,014,020	934,720
Galaxy - Telco COP	1,209,593	
Telecoms Strategy - Business Model	1,511,860	
Eagle	1,817,877	156,864
Digital Trading Team	806,252	
Falcon - Travel Hub		442,255
Falcon - Peregrine negotiations and implementation	1,800,660	5,283,341
MoneyGram Upgrade	247,380	
Investment Product (from Peregrine)	933,717	
Digital Remittances	153,776	747,616
Project Severn (from Peregrine)	699,340	571,501
Branch Discoverability	583,935	
Website Refresh	1,092,988	
Youth Strategy	1,299,805	-518,622
<b>Financial Services &amp; Telecoms</b>	<b>17,324,384</b>	<b>7,570,653</b>

Project Name	Change Spend	Benefits
Fit and proper	981,827	-59,742
Joiners, Movers & Leavers	141,870	
GDPR	90,966	
Group Litigation	1,800,000	
Legal Entity Optimization	2,152,032	
Records retention	1,563,592	
<b>Legal Risk &amp; Governance</b>	<b>6,730,287</b>	<b>-59,742</b>
Success Factors - Phase 2	75,000	
HR Target Operating Model	1,500,000	350,000
Blueprint	4,000,000	
<b>HR</b>	<b>5,575,000</b>	<b>350,000</b>
Risk and Resilience	2,100,000	
Project driven Test Environment	1,849,068	
Back Office Systems Transformation	2,114,538	1,875,000
Safe Haven & TDC Exit	40,000	510,000
EUC Branch Deployment		24,663
Project Everest - Cloud Enablement	16,500,000	-10,667
Project Everest - Team and Legal Costs	74,000	481,000
Replacement of Counter Receipt Slip Printers		579,834
Accenture migrate from HoffKron to Azure		444,631
AEI Refresh	153,579	
CDP repurchase	100,000	544,428
PCI Payments Hub	8,475,858	-277,667
Project Nelson	2,000,000	420,000
Network Evolution and Enhancement	1,165,000	375,000
Integration, Microservices & API Layer	1,813,667	
IT Security Strategy	916,663	
AtoS Run Services Transition	2,127,776	1,780,000
<b>CIO</b>	<b>39,430,149</b>	<b>6,746,222</b>
Digital Check and Send Hardware Modernisation	1,476,003	
Digital Check & Send		3,160,000
Digital Certified Copy	493,613	300,000
Digital Check And Send Next Gen	621,259	840,000
Digital Identity	2,597,589	272,500
Identity Re Platform	814,166	
<b>Identity</b>	<b>6,002,629</b>	<b>4,572,500</b>
Nemesis (Migration of Home Insurance to Duck Creek system)	6,536,185	1,495,188
Travel (Travel insurance add-ons and improvements to Medical impaired journey)		682,570
Life Insurance products		-100,000
Protection (Aggregator launch, Product enhancements)	167,208	384,468
Pricing (Travel Ins and General Ins Pricing Optimisation)	2,739,213	646,066
Cronus 3	2,100,000	1,190,003
SPO Levy	80,800	
<b>Post Office Insurance</b>	<b>11,623,406</b>	<b>4,298,295</b>
Central SPO Costs	1,195,000	
Project Trafalgar	1,000,000	
<b>Central</b>	<b>2,195,000</b>	<b>0</b>
<b>TOTAL</b>	<b>169,980,107</b>	<b>41,881,605</b>

5.2

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# Network Reporting

Author: Tom Moran    Sponsor: Alisdair Cameron    Meeting date: 25<sup>th</sup> March 2019

## Executive Summary

### Context

Post Office is proud of its social purpose, codified in our funding agreement with government as maintaining a network of at least 11,500 branches providing access to an agreed set of 'services of general economic interest' (SGEI). We currently receive a Network Subsidy Payment on this basis. This paper updates on our strong current performance and proposed next steps to further improve how we monitor and report.

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### Questions addressed in this report

1. What are Post Office's commitments under the funding agreement and how does it perform against them?
2. What are our current processes for calculating and assuring these requirements and how will we be improving them?
3. What is the Network Subsidy Payment (NSP) and how is it calculated?
4. What do we need to do next to progress?

### Conclusion

1. Post Office is meeting its targets on branch numbers, access criteria and provision of SGEI (core services such as cash, pensions and bill payment).
2. Internal Audit has just assessed our approach and compliance and not identified any significant issues. We have recently automated the branch number report and, after extensive dual running, will move to the new approach in April. SGEI reporting will follow, and we will be presenting key reports to Board for approval. We are moving to a quicker, automated system and presenting the annual Network Report to the Board for approval for the first time this year.
3. The Network Subsidy Payment, up to £60m in 2018-19, is capped at the economic cost of operating loss-making branches. This is currently estimated at just over £70m for the full year.
4. Plans are already in place: the Network Report and SGEI Statement will be produced and assured after year end and automated reporting will start in April.

### Input Sought

1. To note the paper and endorse the proposed approach to strengthen assurance by having Board review the Network and SGEI reports.

### Input Received

2. Existing agreed processes and the recent Internal Audit report on this subject. The paper has been reviewed by the Group Executive.



## The Report

What is the need or opportunity and why now?

*The significance of our network numbers and SGEI criteria*

1. Post Office is unique amongst commercial businesses in having a social purpose to provide essential products and services to communities across the country, even in the thousands of locations where it is not commercially viable. We are proud to do so, and have confirmed this position in our Funding Agreement with government. This makes clear that *"the Secretary of State expects POL to maintain a network of at least 11,500 Branches for the duration of the Funding Period...[of which]...at least 11,000...shall be required to provide all of the SGEI Services."*<sup>1</sup> SGEI, or Services of General Economic Interest, include: benefits such as pensions; passports; bill payments; postal services, and universal access to cash.
2. Providing these SGEI is a prerequisite of the (up to) £160m of Network Subsidy Payment (NSP) for the period 2018-2021.<sup>2</sup> Post Office has maintained a network of at least 11,500 and we will end the year at c11,600. Government clients can and do withdraw services from branches on occasion, driving licences being one example. These instances are allowed for in the Funding Agreement.
3. We also have a set of 'access criteria' designed to ensure our network remains representative of the communities we serve, particularly in rural areas. These largely relate to x percent of the UK population being within y distance of a Post Office, e.g. we need to ensure that, *"99% of the population to be within 3 miles and 90% of the population to be within 1 mile of their nearest Post Office outlet."*<sup>3</sup>
4. Two crucial activities are based on this: first, operational activity to ensure we meet the criteria; and second, a calculation of the cost of maintaining *"a network of post offices beyond its optimal commercial size"*. This is what determines the amount of NSP the Post Office is given by each year.

*Performance against the network number target and SGEI Access Criteria*

5. We consistently exceed the criteria, as demonstrated by the latest figures from December 2018 at Appendix 1.<sup>4</sup> We will continue to do so and aim to increase our

<sup>1</sup> Funding Agreement between Secretary of State for BEIS and Post Office, April 2018.

<sup>2</sup> The NSP is split between financial years as follows: 2018/19: up to £60m; 2019/20, up to £50m; 2020/21, up to £50m.

<sup>3</sup> 'Entrustment of Post Office Limited with the delivery of certain public services', UKGI letter to Post Office, 2018. Performance against the Government access criteria is measured by splitting the national population according to census output areas. Central and local government all use either Output Areas as the smallest level or Super Output Areas (slightly larger level) to calculate population.

<sup>4</sup> We have never fallen below the target for the 6 main, proximity-based, criteria. In practice it is impossible to meet the postcode criterion at all times but we act immediately to restore service in any area covered by this requirement.

network to c12,000 in the longer term. We also assure actual availability of SGEI across our network through “*extensive operational monitoring*”<sup>5</sup> and ongoing central analysis which identifies any issues and ensures they are both resolved in branch and noted for reporting purposes.

#### *The Network Subsidy Payment (NSP)*

6. The NSP has reduced by 72% from £215m in 2011-12 to £60m in 2018-19 (see Appendix 2). We agreed some additional provisions relating to the NSP for the Funding period 2018-21 and, as a consequence, will be providing a ‘Cumulative SGEI Statement’ to UKGI for the financial year 2018/19. The provisions are:
  - The amount available is “*up to*” a stated amount, i.e. if the cost was a figure below £60m, it is the lower figure which would be paid;
  - We must evidence the net difference between our actual performance and our performance were we “*operating without any SGEI obligations*”; and
  - If the cost of providing the SGEI is found to be less than the SGEI payment, “*Post Office Limited will be required to repay to the Government*”.<sup>6</sup>
7. We are projecting the Cumulative SGEI Statement to demonstrate a net cost of providing the SGEI of c£70m. This would mean that the full £60m would be paid to Post Office (assuming appropriate validation, please see paragraphs 12-14 for details). This figure is similar to 2017/18, reflecting the fact, that despite improved Group profit, the number of branches required to deliver our SGEI, and the costs associated, are largely unchanged. This is likely to improve slightly over the next couple of years through a combination of increased contribution from Banking Framework 2 and ongoing reductions in central costs. We do not anticipate this resulting in the annual cost being less than the maximum amount provided for in the Funding Agreement for the two remaining years of 2019/20 and 2020/21. Longer term, we would expect the cost to reduce but remain significant.

What do we propose to do and why?

#### *Network number reporting methodology*

8. We report monthly to UKGI and produce an annual Network Report which is laid before Parliament. We have developed and trialled a new, automated system which will allow us to replace the existing, labour-intensive process which takes 6-8 weeks with a near real-time output.
9. We have undertaken extensive analysis and assurance to ensure that the new methodology retains accuracy while improving speed of reporting. Having ‘dual

<sup>5</sup> Extract from the Internal Audit report on ‘*Network and SGEI Reporting*’, which was completed in draft in March 2019 and will be submitted to the next Risk & Compliance Committee and Audit & Risk Committee.

<sup>6</sup> ‘*Entrustment of Post Office Limited with the delivery of certain public services*’

run' the current and existing methodologies and taken UKGI through the new approach, we will be moving to the new methodology from April 2019. The existing approach will continue for our regular reporting on Access Criteria.

*Assurance processes for the Network Report and NSP/Cumulative SGEI Statement*

10. We are proposing to introduce an additional level of assurance and to submit both the draft Network Report and the draft Cumulative SGEI Report to the Post Office Board this June and each subsequent year. Details of why this is needed and how it will work are below.

11. Network numbers: each report is subject to extensive internal assurance and the final draft report is formally signed off by the Network Development Director and the Network Operations Director. The same process applies to the annual Network Report, with the additional sign-off of the Retail and Group CEOs. This process has recently been subject to an Internal Audit and found to be fit for purpose.<sup>7</sup>

12. NSP/Cumulative SGEI Statement: the Cumulative SGEI Report will be produced using an 'Agreed Method of Calculating Compensation' agreed with UKGI and set out in our Entrustment Letter.<sup>8</sup> To ensure accuracy and independence, the final statement, which we must submit "*as soon as reasonably practicable following publication of its audited accounts*" must be "*accompanied by a supporting statement from an independent financial adviser*".<sup>9</sup> Accordingly, we plan to produce the report, assure and sign it off internally and then submit it for formal review by our external auditors as part of the Annual Reporting Accounts process.

13. While we will not be able to formally submit our final SGEI Statement until after our Accounts are published, we will be able to produce a full draft statement, internally approved, for Board review and assurance. We plan to do this for the June Board, with the aim of securing Board approval of the Cumulative SGEI Statement so it will be ready for formal submission as part of the account auditing process shortly afterwards.

What do we need to do next to progress?

14. All plans and required resources are already in place. All required activity would continue 'as is' if we decided not to progress, however we would forego the opportunity to improve and automate our processes and to strengthen our assurance approach.

<sup>7</sup> 'Network and SGEI Reporting' Internal Audit report, March 2019.

<sup>8</sup> 'Entrustment of Post Office Limited with the delivery of certain public services'. The methodology itself is well established and has been used in previous years.

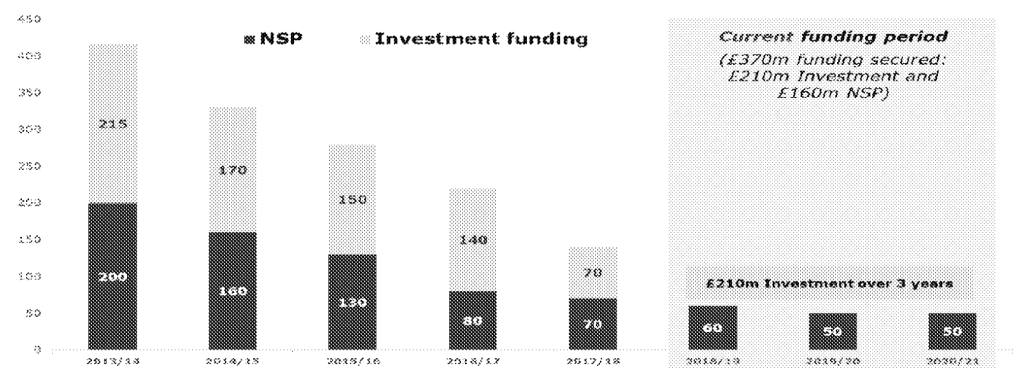
<sup>9</sup> Ibid.

## Appendix

### 1. Post Office performance against Access Criteria, December 2018

Criteria	Total Pop. within 3m	Total Pop. within 1m	Deprived Urban Pop. within 1m	Urban Pop. within 1m	Rural Pop. within 3m	Postcode Districts with less than 95% Pop. within 6m
<b>Minimum requirement</b>	99%	90%	99%	95%	95%	0
<b>Dec 18 Performance</b>	99.8%	94.0%	99.9%	98.9%	99.1%	0

### 2. Post Office Network Subsidy Payment and investment funding 2013-21



### 3. Services of General Economic Interest provided by Post Office Ltd

Category of Service	Service Provided
1 Processing social benefit and tax credit payments to the public.	<ul style="list-style-type: none"> <li>Cash payment of state benefits including state pension, child benefits and tax credits.</li> <li>Issuing of vouchers to eligible asylum seekers.</li> </ul>
2 Processing of national identity and licensing scheme applications	<ul style="list-style-type: none"> <li>Providing passport application forms for customers to complete and return</li> <li>Checking and authentication of passport applications and supporting documentation</li> <li>Capturing biometric data for Biometric Residence Permits.</li> <li>Providing vehicle licence application forms for customers to complete</li> <li>Receiving payment for vehicle licences and Photocard Licences</li> <li>Services for the sale of Rod Fishing Licences.</li> </ul>
3 Universal payment facilities for public utility services.	<ul style="list-style-type: none"> <li>Provision of facilities for payment of electricity, gas, telecommunications and water bills.</li> <li>Payment options include pre-payment and other budgeting schemes (e.g. savings stamps).</li> <li>Provision of facilities for payment of tax bills and social housing rents.</li> </ul>
4 Access to postal services	<ul style="list-style-type: none"> <li>Provision of access to postal services which the universal service provider (Royal Mail Group Limited) is required to provide under regulatory conditions and directions issued by OFCOM in accordance with section 36 of the Postal Services Act 2011 and the designated Universal Service Provider Conditions issued by Ofcom 27 March 2012</li> </ul>
5 Universal access to basic cash and banking facilities and Government savings instruments, especially for rural customers and those on social benefits.	<ul style="list-style-type: none"> <li>Provision of basic community banking facilities (cashing of cheques, cash deposit, Post Office card account and automated cash withdrawals and deposits) and cash transmission facilities (postal orders), in particular to socially excluded customers. This includes deposits and withdrawals of cash by businesses local to Post Office branches.</li> <li>Access to certain Government savings instruments</li> </ul>



POST OFFICE  
POST OFFICE BOARDPAGE 1 OF 6  
NOTING PAPER

# Retail Network Plan

Author: Tom Moran

Sponsor: Debbie Smith

Meeting date: 25<sup>th</sup> March 2019

## Executive Summary

### Context

This paper provides an update on our implementation of the customer-focused Retail Strategy approved by Board last year. It covers the choices and progress we have made, and how we are re-assessing our priorities and plans for the retail network in the light of the recent GLO judgement. We also identify what further work is required and when we intend to return to the Board to discuss our findings and proposals.

### Questions addressed in this report

1. What are the key pillars of the Retail Strategy approved last year?
2. What progress and choices have we made and what are the next steps?
3. How are we changing our plan to respond to the GLO judgement?
4. Which topics do we need to come back to the Board on and when?
5. What are the latest commercial projections for the Retail business?

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### Conclusion

1. The pillars are: new, segmented formats; stronger franchise relationships; and best in class in core markets through digitisation and automation.
2. We have chosen our new formats, built over 300 Locals and franchised a further 68 DMBs. A new field team is strengthening our franchise relationships. And we are procuring new, cheaper self-service machines as well as developing our digital Mails offer. Next steps include further franchising, trialling Parcelshop, rolling out the next generation of automation across our network, and rolling out 'Branch Hub' for agents, although we are reviewing our plans in the light of the GLO judgement as noted below, and may accelerate, delay or stop some workstreams.
3. The work needed to respond to the GLO judgement is consistent with our strategic priorities and plans and will be integrated in to this plan. The key workstreams we are now accelerating are: any necessary changes to contracts; improving our relationship with agents; and strengthening our support systems (e.g. the agent helpdesk) and loss prevention processes.
4. Our work on agent reward, opportunities through Payzone, and accelerating our technology plans are ongoing and we propose to report back to Board in October.
5. We are projecting an EBITDAS contribution of £251m p.a. from 2020/21 from the Retail Business Unit, significantly higher than our initial 3YP assessment of £127m.

### Input Sought

1. The Board is asked to note the progress made and give feedback on plans for 2019/20 and beyond.

### Input Received

2. Retail has worked closely with Ops and IT on delivery to date. This paper has been reviewed by FS&T, Legal and GE.

*Strictly Confidential**Retail Strategy – Progress Update*

## The Report

What was the Retail Strategy approved last year?

1. Our aim is to build a more sustainable and profitable Retail business for Post Office and agents that will matter even more to customers in the future than it does today. There are 3 key pillars to this work: new, customer-led segmented formats; stronger franchise relationships; and best in class in our core markets through digitisation and automation.
2. The Retail Strategy set out a clear case for change: while the Retail business has consistently hit targets, our network has become increasingly fragile due to rising retailer costs and reduced remuneration from Post Office which have made our operating models increasingly hard to profit from for some retailers. We have also seen fierce competition in our target retailers from the likes of Subway, Greggs and Costa and rising customer expectations around convenience and digitalisation.
3. This challenge is evidenced by an increasingly low 'conversion rate' (currently 20%) for potential franchisees. Unless this improves we will struggle to maintain a network of at least 11,500 'SGEI compliant' branches without having to rely even more on fixed pay Outreaches. The Retail Strategy flagged that we could have an additional 840 Outreaches by 2021 (costing an additional c£21m p.a.), plus the cost of managing churn, which is currently at 4% across the network as a whole.<sup>1</sup>

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What progress and choices have we made in implementing the Retail Strategy and what are the next steps?

4. We have made good progress in the last year, implementing our plans while also amending these based on customer and agent feedback from trials. We believe our approach and aims remain appropriate but will continue to update our implementation plans to take account of the time, money and focus required to address the issues raised by the GLO judgement. Any future activity noted below (and at Appendix 3) is therefore subject to change – we will provide an update on the latest position to Board.<sup>2</sup>

### *New, segmented formats*

5. Our vision is of a larger network which is more convenient for customers and delivers our social purpose. We are clear on our future network, informed by our 'Network Blueprint' and customer & agent research (see Appendix 2).
6. Our thinking has evolved since we first presented the Retail Strategy in 2018. We are no longer pursuing standalone self-service kiosks (i.e. where there is not already a Post Office). This has proven unattractive to agents due to the need to

<sup>1</sup> New Network Locations have churned at much lower levels so far – only 1% of those opened since 2017 have closed.

<sup>2</sup> Please see Appendix 1 for a 'Plan on a Page' of 2019/20 implementation.

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'host' self-service.<sup>3</sup> We have increased our network ambitions and want to increase 'SGEI compliant' branches from c11,600 to c12,000 over the next 2-3 years.

7. We have developed the concept of 'catalogue' products in New Locals. All New Locals offer mails, banking, bill pay and benefit payments. In addition the agent, working with their area manager, will be able to add 'catalogue' products based on local customer need and profitability. Area Managers will work in partnership with agents, using a simple framework and data to review requests.<sup>4</sup>
8. Since acquiring PayZone, our newest format, in October 2018 we have focused on integrating the two businesses, ensuring our combined networks are well-placed to win new bill pay contracts: we have secured new and exclusive contracts with Scottish Energy and Wessex Water, agreed access to Anglian Water and Thames Water, and are in tenders with E.On and, crucially, British Gas.
9. We will return to Board with proposals for further growth options later in 2019, having already completed an initial assessment which has identified the opportunities. These including developing a slimmed-down banking offer, parcel pick-up and drop-off, and developing Payzone's technology to compete with PayPal's new 'One' ePoS device.
10. We have concluded a comprehensive joint review with FS&T which has identified how we can reduce compliance requirements on agents and the field team by removing some products (Telco and Life Insurance) from c7,800 branches where they are very rarely sold<sup>5</sup>. We will work to improve lead generation in branch and focus FS in our full-range Plus model and on-line.

#### *Strong Franchise Relationships*

11. Low conversion rates (20%) and significant churn (4%p.a.), dissatisfaction from Multiples and negative agent feedback proved we need to be a better franchise partner, something which is now more important than ever:
  - **Engagement & communications:** Our new 'Branch Hub' app is already being used by over 1,000 branches, to manage IT incidents and avoid high IT charges (a call to the Atos IT service desk costs us £9.60 and a Computacenter engineer visit costs £92). Next steps are to roll-out digital 'Branch Messaging', coin ordering and MI in Q1 2019/20.
  - **Performance measures:** Our performance measures span sales and operational metrics, so that field teams will know where to focus their efforts. We have also introduced a Branch Insight Tool to allow the field team to address operational concerns when they visit a branch. Along with Case Management data measuring the volume and type of calls for help into

<sup>3</sup> Automation remains central to our other formats, please see Figure 2 and paragraph 12 for details.

<sup>4</sup> This concept has already proved successful in London, where we introduced Parcelforce International over 2kg (a product only usually sold in Mains) to 5 Locals, resulting in a 2% increase in total remuneration.

<sup>5</sup> Our analysis showed that only £51k of DPC per year is derived from sales of Life Insurance (30 sales p.a.) and Homephone & Broadband (1,000 sales) in our 7,800 Local and Community branches. We will remove these products, and the associated regulation and training, from this c2/3s of the network with minimal P&L impact.

the Branch Support Centre, we can be much more targeted in field follow up activity, e.g. extra training, relationship visit or an audit. Early intervention and support is a priority area, particularly in light of the GLO judgment.

- **Agent pay & reward:** Agents routinely identify reward as the single most important aspect of the franchise relationship, and also generally cite Post Office as insufficiently profitable. The fundamental review we have conducted on agents' reward has looked at how to create conditions for a commercially sustainable retail proposition. This has identified:
  - i. Agent reward has reduced by c£90m since 2012 to c£350m now with the same period seeing significant increases in retailer costs (e.g. minimum wage has increased by 33%<sup>6</sup>). The change in agent reward is primarily through Network Transformation and the move from fixed to variable pay;
  - ii. Reducing agent reward further would be hugely damaging. In fact we need to make targeted investments to strengthen our proposition and recognise rising retailer costs. We will do this for business banking in 2019/20, which will make a material difference to postmasters. Smaller increases in Mailwork and data capture for Mortgages and Personal Loans will also be implemented next year;
  - iii. Moving away from our 'all inclusive' support model for cash, equipment, IT support etc will only be credible and sensible if we can significantly improve the quality (as judged by agents) of our support.
  - iv. We have already made significant changes to agent reward in the last 18 months, cancelling a planned pay reduction (Simplification Phase 2) and increasing rates for banking, as well as improving the fixed pay we give to postmasters who run Outreach services. We need to do more and have nearly completed a thorough review of agent reward. Some changes are already decided, notably the significant increase in business banking we will implement later this year. Others are more complex and need to be considered as part of a wider discussion on our overall proposition.
  - v. Ultimately agent pay is just one aspect of the balance between direct profit (from remuneration), indirect reward (from footfall and associated retail sales) and simplicity (i.e. usability and complexity of our offer) which every potential agent will assess when considering the Post Office value proposition. We plan to bring a discussion on agent pay to the Board for discussion in October.
- **Recruitment, on-boarding and training:** We need to simplify the whole process, from the initial website information to the business plan and document upload process. Quick wins include replacing the formal interview with a digital assessment, simplifying the business plan and introducing pre-qualification questions so only credible applicants will apply. We are reviewing our training support (including on-boarding training) and will be

<sup>6</sup> National Minimum Wage was £6.19 for adults in 2012. The National Living Wage, which replaced it in 2016, is now £8.21.



using Branch Hub to make induction easier through simple on-line training guides and videos.

- **Field team capability:** We have developed a new team structure which creates a local leadership model and provides support to improve capability for all agents (not just the largest c3,000 as currently). We are also developing the capability of our field teams to make changes faster, working with retail experts Egremont on a 'hot housing' approach in which our field teams work with branches to test changes at speed and roll-out those that work at pace. Our pilot with branches has been very well-received by postmasters and colleagues. We are looking at options to expand this approach to Area team level so it could be replicated across the network.
- We will also continue to simplify front and back office processes, such as simplifying the process for balancing ATMs and counting cash deposits.

*Best in class in our core markets through automating and digitising*

12.Automation: We will deliver simpler, cheaper automation for agents in our two core products of Mails and Banking, running 'Design Contests' between potential suppliers to select new machines for both. This reduces the normal procurement timeline from 12-18 months to 3-6, meaning we should be able to select a design and complete the business case for investment in Q3 2019/20.

13.For Mails, automating is a key dependency for transitioning some of our small Mains to New Locals, and for mitigating rising staff costs in Plus. In Banking, we are working to separate in-branch customer journeys between retail/counter and business deposit/automated as well as working with Banks to host their own equipment (integrated into Horizon) and investing in Telecash Recycling (TCR) units to automate deposits and withdrawals. Both Mails and Cash automation should allow us to effectively offer extended hours for full shop opening hours.

14.Digitisation in Mails: We have moved our focus away from developing an App, towards developing a digital platform that will enable customers to start key journeys online before completing in branch, bringing us in line with other parcel operators. Release 1 of the digital platform should be available later in the year and will enable customers to send items to the UK and internationally.

What work is underway to address the GLO judgement findings across our network?

15.The recent GLO judgement has underlined the need to improve the way we work with agents and we are currently reviewing all aspects of our relationship with franchisees to prioritise this work. This work is fast-moving and we will provide an update on the latest position at Board.

16.As well as responding directly to the issues raised by the GLO Judgement, we are also reviewing all aspects of our Retail plan and deciding where we should delay, accelerate or stop to manage stakeholder 'noise'. Again, we will report the latest position to Board in March.

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17. We need to accelerate our transformation of customer/agent-facing and 'back-end' technology to make these easier to use. This will help not just our value proposition but also our central costs – a simpler system would reduce IT costs as well as associated support costs, allowing us to reinvest this money in supporting our network. We plan to bring forward a joint discussion with IT on this in October.

What are the latest commercial projections for the Retail business?

18. Assuming plans remain unchanged, the Retail Business Unit is projected to over-deliver on our contribution. We are now projecting a Retail BU contribution of £251m p/a by 2021, and £255m for 2023, far higher than both our initial 3YP assessment of £127m and our 2018 reassessment which saw EBITDAS slipping to £120m in a 'do nothing' scenario.

19. There are three key drivers of this improved profitability:

- Banking Framework 2, which provides an extra £101m p.a. from 2020;
- accelerated DMB activity, which delivers an extra £11m p.a. by 2022; and
- clarity on the P&L benefits of new formats and better franchising support.

20. There are also wider benefits to the changes we are making, such as reduced operational costs. As we create a more attractive and better supported proposition, churn will reduce. For example, retaining 50 existing Locals which would otherwise have churned means 25 fewer loss-making Outreach branches and 25 fewer temporary operators. This would reduce capex by £0.3m and improve trading profit by £1.2m p.a., as well as reducing the field and head office resource which we could reinvest in better supporting our agents.

21. Furthermore, refining our loss prevention strategy should improve losses: achieving the 10% reduction in losses we have targeted would improve profit by £0.6m p.a., albeit new risks as a result of the GLO judgment may now be introduced and this is therefore an area under close review. These actions will mitigate some or all of the £12m 'Network Risk' identified in Appendix 5 (which consists of two 'waterfall' charts which set out our P&L forecast for the Retail Business unit) below. Furthermore, a larger more accessible and sustainable network will be more attractive to our all of our clients across mails, banking, payments and travel, which should help us to win and retain contracts.

22. Excluding the commercial benefits from BF2 and PZ acquisition, the underlying performance improves £10m with programme benefits of £26m mitigating network risk and inflationary pressures. Much of the activity we are planning in relation to our network is about making it more profitable for agents (e.g. through Branch Hub) and to retain its relevance for customers (e.g. through Parcelshop as a new format). The P&L benefit of these initiatives is relatively small but we see them collectively as an integral part of ensuring we have a sustainably profitable network for both agents and Post Office which will be more convenient for our customers than it is today.

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## Appendix

1. Retail network 'plan on a page' 2019/20
2. Post Office formats
3. Progress and next steps in building our future network
4. High-level overview of an agent's profit from running a Post Office
5. Profit & Loss projections for Retail, 2018/19-23/24

### 1. Retail network 'plan on a page' 2019/20 (as of 18.03.19)

Workstream	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M
Non-Segmented Formats	Parcel Shop	Delivery team mobilised			Start Proof of Concept		Launch Live Service			Target 15+ Locations Open					Target 250 Locations Open
	Automated Locals	Delivery team mobilised			Start Proof of Concept								Start first 50 conversions		Dependency on Next Gen 52K
	OMS		FY18/19 Target Complete		Start Interim Operations Trial		Q1 Target Complete			Q2 Target Complete					FY19/20 Target Complete
Strong Franchise Relationships	Franchise Strategy		Strategic Plan Live		Conclude Inter House Phase 1. Recommendations for further work										
	Agent Reward Review		Agent Reward Recommendations												
	Network Support Model		Reorganisation Announced		New Field Team structure in place										
	Agent Advocacy				Control Trials Complete		Kick Off Event with New Field Team								
	Branch Perf M1		Requirements set		Planning project approach - milestone dates TBC										
	Branch Support Op Model		Discovery Phase Completed		Planning project approach - milestone dates TBC										
Automation and Digitalisation	SSK Procurement				Launch Pilot network										New devices delivered for Automated Locals rollout
	ATM/Cash Devices		Competitive Dialogue OPEU launched							New ATM/cash device Contract signed					
	Banking Self-Serve									Self-Serve Cash Deposit Start Proof of Concept					
	Mails		Requirements set												

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### 2. Post Office formats<sup>7</sup>

	CUSTOMERS WILL INCREASINGLY START THEIR JOURNEY DIGITALLY, AT HOME OR ON THEIR MOBILE			
	PLUS	NEW LOCAL	PARCELSHOP	PAYZONE
TARGET# BRANCHES	1,800	10,500	1,000	12,500
CUSTOMER SESSIONS (PER WEEK)	1,500 – 3,000	500 – 1,500	50-75	50 (aim to double by 2020)
AGENTS' REWARD (£ P.A.)	<ul style="list-style-type: none"> <li>• Profit from PO: £5.5k-£25k</li> <li>• Profit from retail x-sell: £6-£25k</li> <li>• Total profit: £11.5k-£50k</li> </ul>	<ul style="list-style-type: none"> <li>• Profit from PO: £3.5k-£14k</li> <li>• Profit from retail x-sell: £8-£18k</li> <li>• Total profit: £11.5k-£32k</li> </ul>	<ul style="list-style-type: none"> <li>• Profit from PO: £0.6k</li> <li>• Profit from retail x-sell: £0.4k</li> <li>• Total profit: £1k</li> </ul>	<ul style="list-style-type: none"> <li>• Agent Commission: £0.2k</li> <li>• Should increase as we win more bill pay clients</li> </ul>
WHAT WILL CUSTOMERS SAY?	"It does everything!" "No queues thanks to the kiosks"	"Meets all of my day-to-day needs"	"So easy and convenient to pick-up and drop-off my parcels"	"I never realised I could pay my bills here"
PRODUCTS OFFERED	<ul style="list-style-type: none"> <li>• Complete product range, including Identity Services.</li> <li>• FS&amp;T sold in Plus</li> <li>• A full range of personal and business banking.</li> </ul>	<ul style="list-style-type: none"> <li>• All Mails, banking, bill payments, POCA.</li> <li>• Full range of banking (cash limits based on capacity, security and local demand).</li> <li>• 'Catalogue' products (e.g. travel insurance) available</li> </ul>	<ul style="list-style-type: none"> <li>• Convenient access to collection and returns &amp; digital mails (when deployed)</li> <li>• Option to add bill pay</li> <li>• No banking or FS.</li> </ul>	<ul style="list-style-type: none"> <li>• Existing Payzone products will be continued</li> <li>• Non RMG mails collections &amp; returns, simple banking, etc.</li> <li>• No banking or FS.</li> </ul>
OPERATING MODEL	<ul style="list-style-type: none"> <li>• Automated for transactional and simple products supported by highly trained staff for more complex products.</li> <li>• Prominent position in-store</li> <li>• Combi tills replaced by automation</li> </ul>	<ul style="list-style-type: none"> <li>• Post Office EPOS will be adjacent to retailer EPOS (with printer and safe)</li> <li>• Branches with over 1k customer sessions p/w and high mails demand will be supported with automation</li> </ul>	<ul style="list-style-type: none"> <li>• Easy to set up in branch</li> <li>• Simple to operate</li> <li>• Retailer EPOS, with minimal front of house Post Office cap ex required</li> <li>• Retailer card payment</li> </ul>	<ul style="list-style-type: none"> <li>• Back office and training requirements will be simple</li> <li>• Will use retail EPOS and Payzone operating model</li> <li>• No additional front of house Post Office cap ex</li> <li>• Will use retailer cash</li> </ul>

<sup>7</sup> Numbers per format represent the ideal future 'Network Blueprint'. Agents reward assumes viable retail offer.



## 3. Progress and next steps in building our future network

Area:	Progress / Next steps*:
<b>DMB</b>	<ul style="list-style-type: none"> <li>68 franchised in 2018/19.</li> <li>74 to be franchised in 2019/20, reducing total by 61% over 24 months to 100.</li> <li>Trialling a 'fixed contract solution / temp managed' in 5 branches in Q2 19/20 to determine whether it is suitable for wider use.</li> </ul>
<b>New Network Locations</b>	<ul style="list-style-type: none"> <li>338 NNLs and 135 NT conversions in 18/19.</li> <li>Plan for a minimum of 220 more NNLs in 19/20.</li> <li>Average NNL weekly customer sessions are 400, which is above the 150 threshold for sustainability.</li> </ul>
<b>Hard to Place</b>	<ul style="list-style-type: none"> <li>Number reduced from 473 to 410 over 18/19, and all 'personal hardship' (PMs with severe illness) cases resolved.</li> <li>Identify permanent solution for remaining branches in 19/20.</li> </ul>
<b>New Locals</b>	<ul style="list-style-type: none"> <li>The New Local Model will allow Post Office and agents to benefit commercially from transitioning from a Main.</li> <li>15 Multiples branches to migrate from Main to Local in Q1-Q3 19/20 with existing SSKs (McColls and Blakemore, 1st and 3rd largest Mults, total over 700 branches)</li> <li>Once viability and case studies established, we will roll-out 50 in Q4 19/20 with new self-service kiosks.</li> </ul>
<b>ParcelShop</b>	<ul style="list-style-type: none"> <li>Format developed for trial in Q2 19/20 (total 300 in year), dependent on the Horizon Integration Hub' (HIH).</li> </ul>
<b>Payzone</b>	<ul style="list-style-type: none"> <li>Integrated Payzone and Post Office to help us win bill pay contracts.</li> <li>Identified Payzone sites suitable for Locals or Parcelshops.</li> </ul>

NB: With the exception of 'New Locals', which depends on a voluntary change by the agent, none of the plans confirmed above require a change to agent contract.

\*Next steps for 2019/20 current being reviewed and therefore subject to change.

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## 4. High-level overview of an agent's profit from running a Post Office

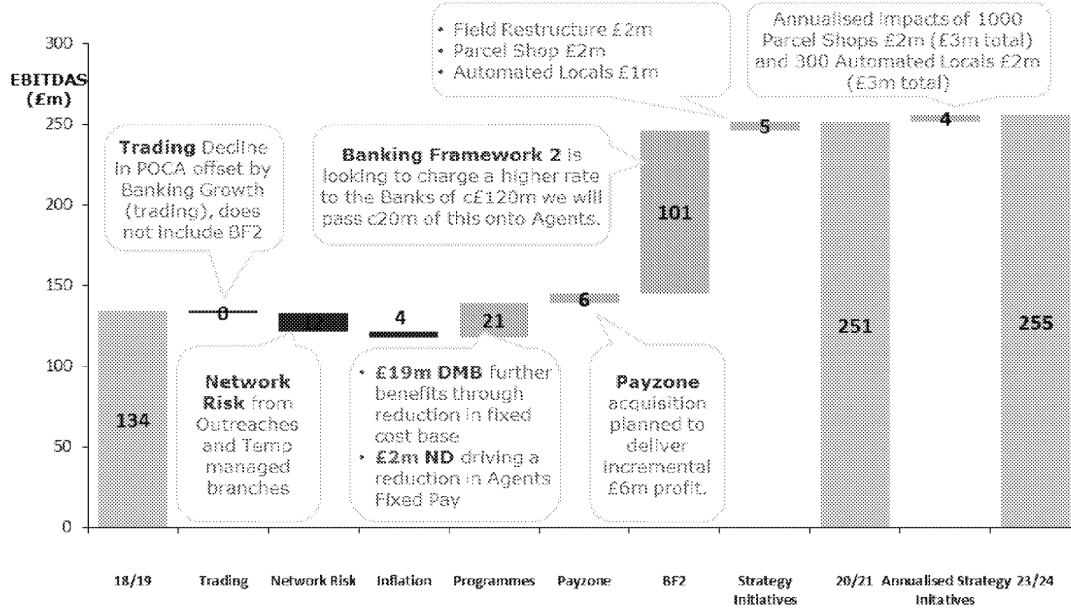
All figures are £k p/a		Post Office Turnover (£k p/a)	Post Office costs (e.g. staff)	Agent's profit from Post Office	Agents profit from retail sales (e.g. groceries)	Total agent profit from running a post office
<b>Local</b>	Medium 600 c/s	14	9	5	9	14
	Large 1000 c/s	24	14	10	16	26
<b>Main</b>	Small 1400 c/s	50	44	6	16	22
	Large 3000 c/s	140	115	25	18	43

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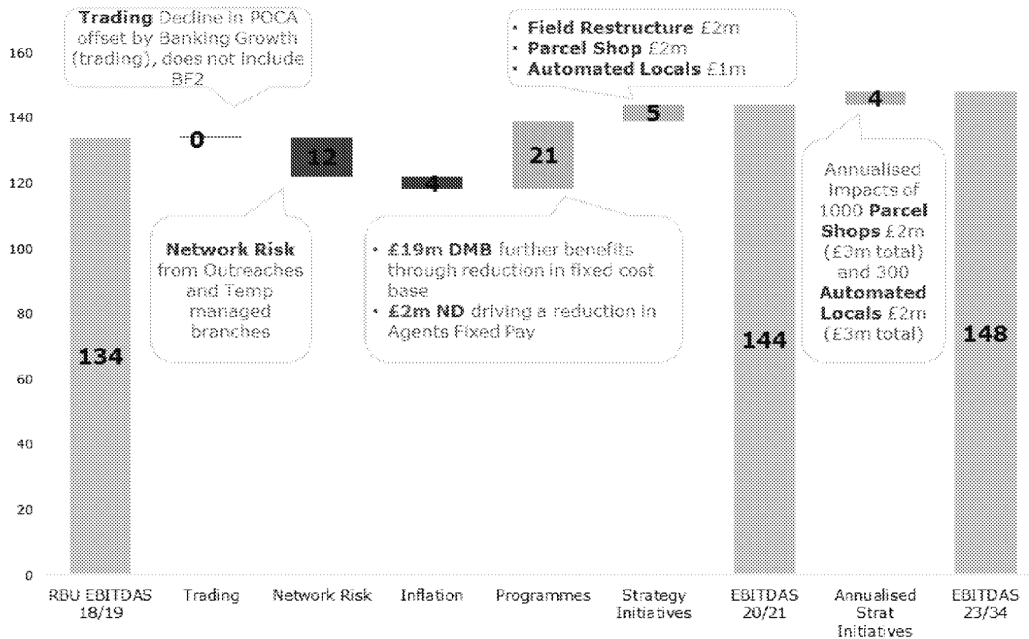
## 5. Profit &amp; Loss projections for Retail, 2018/19-23/24 (as of 18.03.19)

Figure 1: Fully-costed 'waterfall' showing Retail BU's P&amp;L forecast with key drivers:



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Figure 2: EBITDAS improvement in the Retail BU from network-only initiatives



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*Board Intelligence Hub Template*

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## POST OFFICE

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22. Governance: PO and BoI will agree enhanced governance arrangements covering, inter alia, clearer roles and responsibilities, more agile decision-making, annual performance reviews, Group to Group engagement, assurances around a better balanced book etc.

Current Accounts

23. As previously advised, BoI has been seeking to exit our existing current account product for some time – primarily because the increased costs of regulation have made the product commercially unsustainable for them. Because of their time pressures in this regard, we have been negotiating on current accounts separately to the rest of the deal.
24. The existing proposition is not fit for purpose for our customers and therefore we have been supportive of withdrawal in principle – however, only on the basis that we get released from exclusivity on any type of current account proposition contemporaneously.
25. BoI finally agreed to that pre-condition on 7th March and therefore we are now starting a phased withdrawal of the existing product. Critically, though, we now have the opportunity to explore a new partnership in SME transactional banking, which will likely be used to strengthen a wider Post Office SME proposition – an opportunity the business is starting to think through.

The latest position on Credit Cards and our negotiations with Capital One

26. By way of reminder, BoI initiated a sale process for its whole book, branded AA, NI and Post Office. Following a competitive tender process, three offers were received: full offers (i.e. both front and back book) from NewDay and Jaja, and a front book offer for the Post Office only from CapOne.
27. PO and BoI must come to a joint agreement on the right way forward for the credit cards business; neither party has the ability to proceed with the new agreements independently. PO have been supported with specialist credit cards advice and assurance from First Annapolis throughout this process.
28. BoI's preferred bidder is JaJa, who will take on all the existing back books, as well as the AA and NI front books. BoI is likely to make a loss on the back book sale (and there is unlikely to be any premium); however, BoI will pay us £1-£1.2m for being out of the credit card market (to September/October 2019).
29. PO has negotiated the opportunity to partner with CapOne, a market-leading provider. CapOne's offer is the most compelling, with a higher net payout, faster launch and lower execution risk – with an overarching aim to drive sustainable and profitable growth. CapOne is also the best strategic fit for Post Office based on key capabilities, cultural alignment and go-to-market strategy.
30. A new agreement with CapOne means leaving behind the low engagement, back-book credit card customers, who will transition to JaJa and ultimately be re-branded to JaJa over time.
  - o Whilst the back book has obviously been acquired under the Post Office brand, these customers are not particularly loyal or engaged. And whilst JaJa is not the best future partner, we are comfortable transitioning the back book to them (please refer to Appendix I for more detail)
31. We took our preferred approach to the Board sub-committee in February; they were broadly supportive of the direction of travel and our emerging recommendation, subject to completing actions around GE engagement and providing clarity on the outstanding commercial points, which we have set out below.

Key commercial items and remuneration with CapOne

32. PO will benefit from an upfront commission per account, ranging from £25-80 per card sale (higher payments for more valuable near-prime customers). This accelerates our returns as the programme scales up. The commissions per product can flex over time, to ensure incentives remain aligned for both parties – with PO earning 50-70% of the product lifetime expected value.
33. CapOne has shared the product lifetime expected value for the initial product set, relative to the £25-80 upfront commission payments, which range from 50-67% against those. This



sets a benchmark for future products and provides comfort that we can launch competitive credit cards at attractive commission levels, which fall within the 50-70% range. PO will have the right to audit the product lifetime expected value calculations of CapOne, including its cost of capital.

34. We have defined two core sets of strategic product features (standard card, travel card with 0% FX) that CapOne is required to operate within, unless agreed otherwise.
35. CapOne will have the right to test and optimise pricing, underwriting and minor card features on its own volition outside the strategic product features; it is this optimisation that helps drive value for both PO and CapOne.
36. CapOne will deliver marketing and pay for the associated headcount cost for two years post launch - thereafter we have the option to continue this support, though CapOne can bill us for the cost after that point. PO and CapOne each has a £1m annual marketing commitment for the first two and a half years.
37. A joint Management Committee (MC) will oversee the programme, with an emphasis on transparency and strong MI.

#### Termination and exit

38. We are finalising the termination rights and exit provisions; the position is summarised below and our advisors (First Annapolis) have confirmed that these terms are in line with standard industry practices.
39. The initial contract term is for five years, with either party having the right to give notice to purchase after three and a half years.
40. PO will be unrestricted from discussions with potential new partners, and exclusivity falls away upon notice of purchase by PO (or its partner) to CapOne.
41. PO's new partner could purchase the portfolio upon expiry, or PO could exit and start a new partnership - in which case CapOne would retain the back-book.
42. PO's purchase option is tied to a specific pricing mechanism, based primarily on fair market value but with certain protections for CapOne, given that lifetime value commission to PO is paid entirely up-front. PO is not obligated to pay or buy anything, but has an option to convey purchase at a designated price to a new partner.
43. Standard termination rights exist, though each party also has a right of termination on change of control of the other party. CapOne also has the right to terminate the agreement where it undergoes a change of control.
44. As CapOne is paying us upfront for the product lifetime expected value, in the event of exit notice, new account commissions will tail off in the final year of the contract. We are exploring accounting treatment options to smooth commissions over the full term of the contract.

#### Customer servicing and data

45. CapOne offshores its customer servicing, but with the ability for customers to transfer to a UK agent, and has recently re-shored handling of vulnerable customers.
46. CapOne do hold their own data outside the EEA - in the US via their corporate parent and with their offshored servicing centres in India and the Philippines. Working with our Data Protection team, it is clear that this is their data and that this is acceptable to PO.
47. CapOne has agreed not to hold any PO data outside the EEA (e.g. if we send them a marketing target list for a campaign).
48. We have agreed to work together to identify ways to leverage transactional data - in reality, we will most likely need to rely on PSD2 as the easiest route to do this. CapOne's APIs are under development and will be fully compliant in September (our target launch date).

#### Regulatory relationship and LEO interdependencies

49. There is no binding obligation on PO (or a subsidiary) to become regulated; CapOne therefore has to continue acting as a principal.
50. However, we have put in the intention that PO will apply for regulated status by two years after commencement. PO will be able to notify CapOne if we change plans in relation to this.

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Items we still need to agree

51. The final termination and exit valuation provisions.
52. The final approach for managing compliance within the Appointed Representative regime.

Next steps and latest timelines

53. Contract to be agreed by the working teams by end of w/c 18<sup>th</sup> March; socialisation with key stakeholders in w/c 25<sup>th</sup> March.
54. Aiming to be ready for signing by w/c 1<sup>st</sup> April, with likely actual signing timing to be during that week, coinciding with BoI's deal with JaJa, and the contract amendment between BoI and PO releasing PO from credit card exclusivity.
55. BoI was seeking to finalise its transaction with JaJa & Centerbridge (JaJa's private equity backers) by mid-February, ahead of its full year-results announcement on 25<sup>th</sup> February. This has been delayed, mainly linked to JaJa/ Centerbridge nervousness around a no-deal Brexit. BoI remains confident based on recent discussions that Centerbridge is comfortable to move forward.

Key risks and mitigants

56. The main risk on credit cards is the likelihood of BoI's with JaJa falling through; should this occur, then BoI is unlikely to release us from exclusivity, which in turn would not allow us to contract with CapOne. Although the likelihood is small, the mitigants PO can put in place are limited; we are however keeping NewDay engaged as a potential fall-back option.
57. Other key risks for PO are :-
  - o JaJa reputational risk as PO customers migrate to JaJa: the provisions in our variation agreement with BoI include a robust set of customer communication principles that all parties must adhere to, in particular during the overlap period where two PO-branded credit cards are in the market (only the new CapOne cards being available to purchase)
  - o JaJa migration/operational risk: whilst this is strictly a BoI risk, it could have an impact on PO should the migration not go smoothly. We have ensured we have a 'clean team' approach, with red flag reporting, which will enable PO to get comfortable with the migration plan without taking on its responsibility
58. The consumer credit cycle is in a very benign phase, and could turn as the result of normal economic cyclicality and/or due to the impacts of Brexit. In addition, regulation in recent years has decreased the returns of credit cards (e.g. interchange, persistent debt). With the flexible commissions based on product lifetime expected value, PO will be exposed to such changes. However, inflexible commissions under such a scenario would lead to misalignment with a credit card partner, and a situation where they would stop or materially restrict writing new cards. Hence we believe this is an appropriate outcome for PO as it aligns incentives.

Next steps

59. On the core BoI negotiations, we do not require anything further to sign the non-legally binding HOTs.
60. We met with UKGI on the 26<sup>th</sup> of February to have a detailed run-through of the then draft of the HoTs and were able to get them comfortable on all the material points.
61. BoI delivered signed copies of the HOTs on 22<sup>nd</sup> March.
62. PO and BoI are working on a joint project to get us from HoTs to the amended agreements by 31<sup>st</sup> May 2019. This covers the items in the HoTs, less material items that need updating, and other items that are impacted by the changes driven by the HoTs. This project will include work streams such as legal drafting, other key commercial items, business plan, governance and communications; it will be governed by a joint 'steering' committee.
63. PO will continue to be advised through to contract signature by Fenchurch and will be supported in the legal drafting by Linklaters (who drafted the original FSJVA).

## Appendix

### Appendix I: Back book transition to JaJa

Whilst not the best future partner for Post Office, we are comfortable transitioning the back-book to JaJa for the following reasons:

1. Post Office will have sign-off on PO-related customer communications through the card re-issuance
2. JaJa is replicating the TSYS-driven operating model used by BoI, so migration is a clean TSYS to TSYS 'lift and place', which is simpler and to an extent reduces risk
3. BoI will receive FCA/PRA regulatory approval to transfer the customer assets to JaJa, via an asset sale. They will assign/novate the cardholder agreements to the purchaser. If consent of cardholders is needed for the assignment or novation, BOI will hold the relevant agreements on trust for the purchaser until that consent is obtained (NB: no Part VII transfer required as no deposits included)
4. JaJa will contract with TMS, TSYS's in-house servicing operation, to provide all customer servicing – TMS is a proven and highly scaled operation
5. BoI remains obligated to operate the programme through to migration, providing Post Office with all of the protections in the FSJVA
6. BoI will have signed-off on JaJa as both the back-book and front-book including extensive due diligence on JaJa, and will be required to gain FCA sign-off for the migration approach (and to pass BoI's internal governance required to request that)
7. JaJa is new, but the management team is deeply experienced with a track-record of execution and innovation, and is well funded via PE firm Centerbridge
8. As PO's brand will be on the back book cards at migration, there is a potential reputational risk – however, PO will have the right to send in an independent 'clean team' to review BoI's migration approach
9. Credit card migrations, while a material and complex undertaking, are a well-trodden path in the UK

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# Branch Hub

Author: Andrew Garner    Sponsor: Alisdair Cameron    Meeting date: 25<sup>th</sup> March 2019

## Executive Summary

### Context

The Branch Hub is focused around providing additional help and simplifying support for our branches. This will enable the Franchisee to be more responsible for all aspects of their operation with reduced central support. Branch Hub is a self-serve portal branch operators and business owners use to access support through their own device. The self-serve functionality aims to reduce the circa 600 roles which support the franchising organisation (£30m per annum), particularly the 250 back office staff overhead dealing with branch enquiry activity across 75,000 contacts per month.

This paper is to update the Board on the Branch Hub product roadmap/development and how it enables the digitisation of the end to end Agent Lifecycle by 2022.

### Questions addressed in this report

1. What is the opportunity and why now?
2. What benefits are to be achieved?
3. What investment is required?

### Conclusion

1. Moving to self-serve meets the joint Post Office Ltd and branch operator's desire for simplified operational support. With simplified cash, coin, stock ordering, and online help, it removes the need to contact NBSC over time and reduces branch operating costs. 10k branches will be able to access Branch Hub by June 2019 with new features being released monthly during FY 19-20 through agile methodology. This is to the users own device; a new device will be at zero cost to Post Office.
2. Branch Hub is to enable £1.4m gross benefits in FY 19-20 across NBSC and Atos Manila service desks and £1.9m from FY 20-21 onwards with significant potential to go further. Simplifying the retailer proposition is another key driver, bring Post Office into line with other concession models, e.g. Paypoint.
3. Forecasted investment is £9.7m from April 2018 to March 2020. £4.9m investment in FY 18-19 which enables £1.9m annual cost savings into perpetuity. The forecasted £4.8m for FY 19-20 will be requested in quarterly business cases and evaluated by IC prior to further funds being approved.

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### Input Sought

1. The Board is asked to provide approval of up to £4.8m investment and £0.5m maintenance costs during FY 19-20 (to be drawdown on a 1/4rly basis subject to financial hurdle rates and performance KPIs being achieved).

### Input Received

2. Approved by Investment Committee on 11<sup>th</sup> March 2019.

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## The Report

What is the need or opportunity and why now?

1. Day to day back office processes experienced by a Postmaster need simplifying. The immediate priorities for Post Office is to a) automate engagement where beneficial to the user through digital self-service, b) improve direct relationships through the Retail Field teams and c) provide a more effective two way communication channel with the branches.
2. Work is already underway in support of an improved Franchise Proposition including the Retail Strategy, Agent On-boarding project, Process and Contact Centre project, Data Centre of Excellence and back office organisational reviews.
3. FY 2019-20 is fundamental to our success in attracting a healthy pipeline of new Postmasters and Retail partners, improving application conversion and reducing churn of successful Post Offices. The Branch Hub self-service portal delivers a digital experience for users which should be a standard offering of a modern day retailer, helps drive business performance and operational efficiencies fundamental to our Post Offices' success.
4. The raising and tracking of branch IT tickets has been in pilot since December 2019. It has delivered tangible benefits and this opportunity needs to be exploited. 1,125 branches are live equating to circa 20% counter positions. Currently 60% of incidents raised and 90% of web chats per month are being closed therefore avoiding Atos Service Desk and Computacenter engineer costs. Branch Hub is to enable £0.7m IT cost savings per annum (only £0.2m included in the Appendix 1 (Financial Summary), £0.5m within the IT Transformation business case)
5. In parallel F&O and CIO business units have budgeted £0.7m and £0.7m cost savings respectively in FY 2019-20, in part realised by 20% reduction in NBSC contact centre calls and removal of the Atos Manila IT service desk. These savings have been identified via i) product and process how to guides available online, ii) cash ordering online, negating the need to contact the Bristol cash centre, iii) IT incident tickets resolved via online chat and iv) the automation of stamps orders to reduce the reliance on Swindon stores. As such, Branch Hub facilitates initiatives across Retail, Supply Chain and our Operations functions, enabling a leaner back office over time.

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What do we propose to do?

*The proposal*

6. The vision for Branch Hub is to provide a flexible and scalable digital platform which enables regular releases of customer value features at a low cost of change.
7. The intention is to deploy to 10,000 branches by July 2019 and deliver the high benefit features (customer value and cost reduction) within the next 6 months to August 2019, subject to achieving the development plan in Appendix 3.
8. Early user adoption of digital services is fundamental to the reduction of Postmaster operating costs and Post Office realising the sustainable benefit streams. Only high adoption and consumption of Branch Hub services will allow the termination of the

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legacy processes and systems. Therefore, our approach is focused on developing the key features that branches are asking for, putting the users' needs first by;

- i. The Postmaster driving the prioritisation of features to be released.
  - ii. The Postmaster inputting into the user journeys with the software designers.
  - iii. The development team acting on feedback during the build and test phases.
9. Following the branch IT ticket pilot referred to in point 3, the next features include;
- i. Easy access to simple product/process information to remove the inconvenience of calling the NBSC.
  - ii. Two way messaging service to improve the effectiveness of communications direct with branches and through Retail Field teams.
  - iii. Automation of Agent on-boarding and contract management to reduce branch opening lead times and simplify lifecycle support model.
  - iv. Online ordering of coin, cash and stamp stock to remove long call wait times and reduce contact centre call volumes/operating costs.
  - v. Near real time trading MI to provide improved insight into branch operating costs and optimise sales performance.
  - vi. Online mandatory training modules to provide flexibility to the user and reduce traditional training costs.
10. The software development is being delivered through agile methodology. Post Office provides the product owner and technical assurance roles predominantly through permanent resources. The software development and testing teams are provided by two Fujitsu offshore agile scrum teams.

#### *The deployment plan*

11. All new features will be piloted with small user groups to gather feedback and confirm value is being delivered before releasing to the existing 1,000 Branch Hub users. NFSP, Branch User Forum and Multiples are part of the pilot groups.
12. We intend to formally launch Branch Hub at the NFSP conference in April 2019 and raise further awareness at the Retail conference in May 2019.
13. Acting on customer feedback we intend to accelerate the roll out Branch Hub to all 10,000 users by June 2019.

#### *The device strategy*

14. The current approach is to deploy to the user's own device. However we are surveying the existing 1,000 users to confirm the convenience and operability of using a personal device which will inform our future strategy. Fujitsu and Computacenter have both provided managed device proposals (including deployment, support and 3G/4G connectivity costs) which we expect to be a viable option for branches as a subscription charge.

#### *The business case*

12. The total forecasted investment is £9.7m from April 2018 to March 2020.
13. The £4.9m investment in FY 18-19 is targeted to deliver £0.7m cost savings in FY 19-20 and £1.9m per annum from FY 20-21 onwards (Option 1 in Table 1).
14. Option 2 and 3 (Table 1) are stretch benefit scenarios;

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- i. Option 2 is dependent on securing the final 15% of users by providing a self-funded device,
- ii. Option 3 is dependent on £0.5m per annum from the new features currently qualified from the £1.3m April – June 19 development (Agent On-Boarding training modules and a Postmaster Fit and proper declaration).

**Table 1 – Stretch benefit scenarios**

£_m	FY 19-20	FY 20-21
<b>Option 1</b> Accelerated deployment, 50% reduction in NBSC calls, 8.5k users	0.7	1.9
<b>Option 2</b> Accelerated deployment, 50% reduction in NBSC calls, 10k users (i)	0.9	2.4
<b>Option 3</b> Current additional initiatives qualified for Q1 19-20 development (ii)	1.0	2.9

15. Table 2 provides a breakdown of Option 1 benefits by feature.

**Table 2 – Option 1 Breakdown of benefits****FY 18-19**

Feature	Description of Benefit		Investment_£m	Annual Benefit_£m
Near real time Mails	Decommission of Ingleby website	Original business case	2.9	0.3
Sales MI	Reduction in Fujitsu Memoview costs			0.1
Branch Messaging (Memoview)	Reduction in Atos Service Desk calls			0.2
Raising & tracking IT branch incident	Reduction in NBSC calls & FTE	Current business case & additional 6 sprints	2.0	0.3
Online NBSC Product Articles (1)	Reduction in NBSC calls & FTE			0.4
Online NBSC Product Articles (2)	Reduction in Cash Centre calls & FTE			0.7
Ordering of Coin and Cash				
<b>Benefits to be delivered from FY 18-19 development</b>			<b>4.9</b>	<b>1.9</b>

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16. FY 19-20 forecasted investment is £4.8m; £0.6m support and maintenance. The benefits are being qualified and will be evaluated through quarterly agile business cases. This will control the further drawdown of funds following strict governance to ensure benefits are in line with hurdle rates. The development teams can be stood down if an acceptable return on investment is not available.
17. The FY 19-20 forecast includes a £1.6m provision for NBSC redundancy costs.
18. The annual operating costs are £0.6m – This includes £0.5m cloud platform support and £0.1m NBSC resource costs to support web chat.

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19. New features benefits are being qualified; these include but not limited to i) stamp/marketing stock ordering, ii) Parcel Shop), iii) online ordering of currency, iv) 'Payzone portal', v) Fit and proper declaration and vi) additional Agent On-Boarding features (see Appendix 3).

20. There is an opportunity to charge a monthly Branch Hub subscription fee per user however this is conditional on high user adoption and Postmaster/Retail Partner feedback confirming they are realising actual operational cost savings. A £3 per month charge would deliver £0.4m income per year however this is not included in the benefits (PayPoint charge an incremental £5 per month for users to access ordering and news management tools through a mobile app).

#### *Risks & mitigations*

15. The critical risks and mitigations are as follows;

Risk Description	Impact	Mitigation	Severity	Likelihood
We are unable to achieve high adoption and utilisation of 10k users by Sept 2019  Owner – Andy Garner	Customer and financial benefits are delayed	Features requested from customer feedback are prioritised in first releases. Continuous improvement actioned quickly through regular customer feedback  Brand awareness & communication plan driven by Retail Field teams, Branch User Forum and NFSP forums.  Branch Hub to be established as the only channel to access the back office services to enable legacy processes to be withdrawn	High	Moderate
An additional £1.6m redundancy provision will be incurred as a cost of realising the benefits  Owner – Kim Abbotts	Features delivering benefits may need to be de-scoped due to change spend limitations	Branch Hub to work closely with Network Operations and IT Transformation (digitisation of IT incident calls) teams to assess the net impact NBSC FTE.  Qualify the opportunities to redeploy existing agents on e.g. Branch Hub web chat or reduced IT Service Management teams.	High	Moderate
We are unable to deliver a 'simple to use' and secure Single Sign On solution for users to access Branch Hub on a daily basis  Owner – Andy Garner	Customer adoption of Branch Hub and therefore benefits are materially impacted	A dedicated Solution Architect is recruited and high level solution design options to be completed in February 2019. Solution to be live by May 19.  Accenture (and other 3 <sup>rd</sup> party supplier if required) to prioritise the development. Accenture on board.	High	Moderate

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## Appendix

1. Financial Summary
2. Examples of user experience screenshots
3. Branch Hub Product Roadmap
4. Market Analysis

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## 1. Financial Summary

Financial Summary £k									
	Sunk costs (Prior Years)	Sunk costs (in Year)	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
<b>Investment</b>									
Capex	0	0	0	4,416	512	0	0	0	4,928
Exceptional	0	0	0	0	1,564	0	0	0	1,564
Opex	0	0	0	471	0	0	0	0	471
Client Funded	0	0	0	0	0	0	0	0	0
<b>Total POL Investment</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,887</b>	<b>2,076</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,963</b>
<b>Impact on EBITDAS</b>									
Net Income			0	0	0	0	0	0	0
Direct Product Costs			0	0	0	0	0	0	0
Cost Savings			0	(1)	734	1,925	1,943	1,962	6,563
Recurring Costs			0	(153)	(639)	(611)	(564)	(564)	(2,530)
<b>Total Impact on EBITDAS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(153)</b>	<b>96</b>	<b>1,315</b>	<b>1,379</b>	<b>1,398</b>	<b>4,033</b>
Other cash items (i.e. profit/(loss) on sale of assets)			0	0	0	0	0	0	0
<b>Total POL Cashflow</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(5,040)</b>	<b>(1,980)</b>	<b>1,315</b>	<b>1,379</b>	<b>1,398</b>	<b>(2,930)</b>

## Note:-

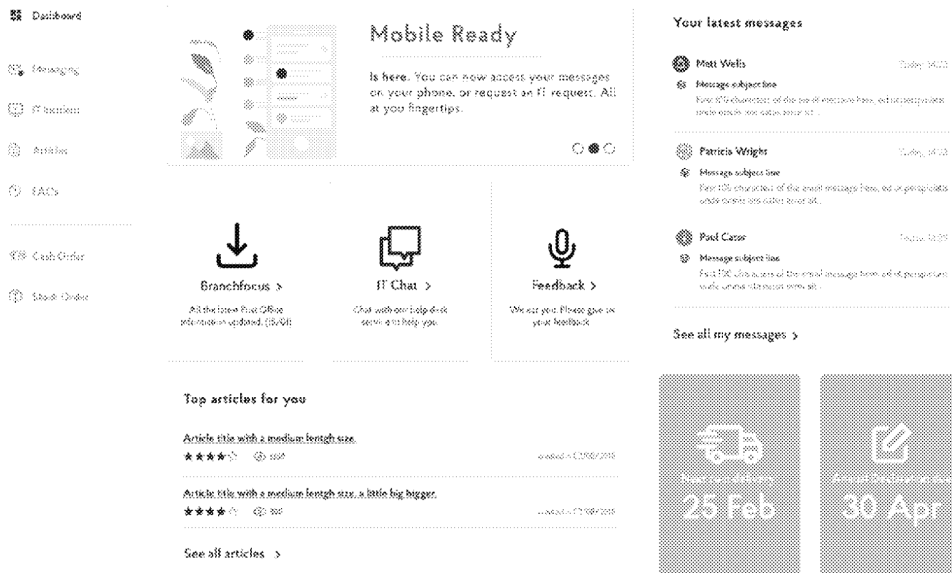
The recurring cost savings does not include the following additional annual benefits Branch Hub is enabling through front end self-serve development. Atos IT Service costs savings are included in IT Transformation business case and Agent On-Boarding and Fit and Proper are still being locked down.

- i. Closure of the Atos Manila IT Service Desk £0.5m
- ii. Agent On-Boarding training modules migrated from Successfactors £0.3m
- iii. On-line Fit Proper declaration of a Postmaster or company director £0.2m

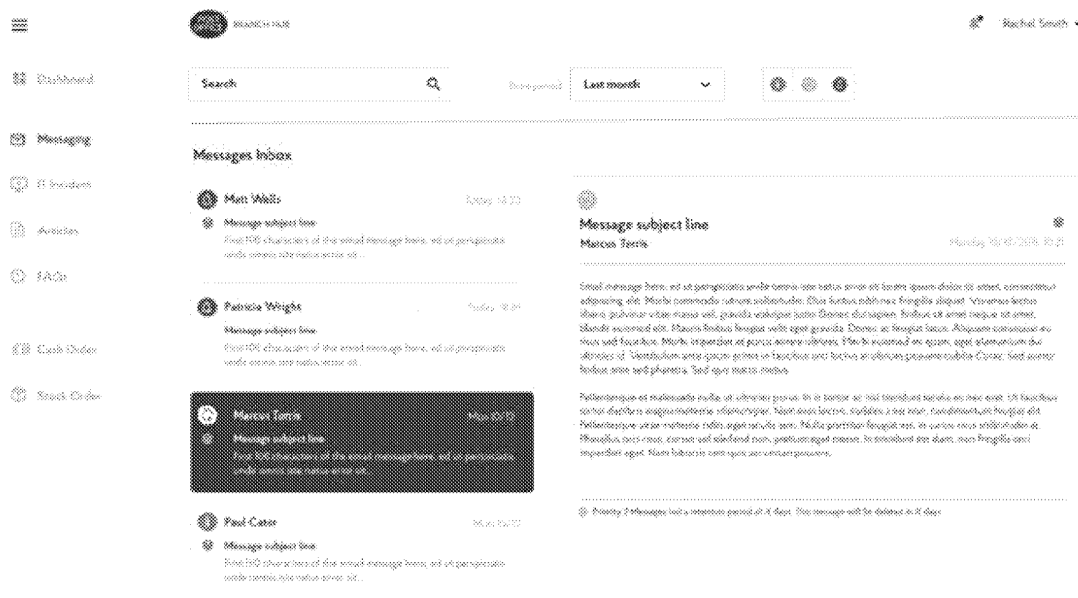


## 2. User Experience designs

### 1. User 'home page' – Design is owned by and features configured by each user



### 2. Branch Hub Message 'in box' – Memoviews and Compliance messages



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**Number of adopted users**

**Timeline:** Jan-19, Feb-19, Mar-19, Apr-19, May-19, Jun-19, Jul-19, Aug-19, Sep-19, Oct-19, Nov-19 to Mar-20

**Investment Periods:**

- £2.1m Investment (Jan-19 to Feb-19)
- £1.8m Investment (Mar-19 to May-19)
- £1.8m Investment (Jun-19 to Sep-19)

**Key:**

- Branch Hub live
- Development complete
- In Planning
- In Upgrade
- Opportunities being qualified
- Opportunities to be qualified

**Features and Milestones:**

- IT Service Management** (Jan-19)
- Branch Management** (Feb-19)
- Branch Finder** (Mar-19)
- Branch Finder Articles** (Mar-19)
- Branch Finder Articles 2** (Mar-19)
- Branch Finder Articles 3** (Mar-19)
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## 4. Market Analysis

14. We engaged various retailers and corporates through our Retail team to understand best practice of our competitors and which self-service models have been successful in delivering benefit to their franchisees and staff members.
15. The majority of our Retail partners support deploying Branch Hub self-serve to their own devices and are unwilling to allow staff to use their own devices during core opening hours. Feedback direct from Postmasters, Branch User Forum and NFSP confirms the majority of users are comfortable using their own device. However, to achieve close to 100% adoption and optimise benefits, we will need to provide a new managed device option to be chargeable to the user.
16. The key findings are;
- i. PayPoint – PayPoint One provides a core Point of Sale service for £30 per month. In addition they provide a mobile app to a user's own device for real time sales MI and stock management. This is £5 per month and has had low adoption due to poor user experience and limited functionality.
  - ii. Centrica – Centrica provides managed devices to support their engineers out in the field resolve customer issues and reduce service desk calls. 13k devices deployed over 6 months.
  - iii. Co-op & WHSmith – Co-op provide an in branch HR system to colleagues through SharePoint on its back office PCs. They have a policy of not deploying applications to personal devices to ensure time in branch is focused around serving customers. Similarly WHSmith do not enable personal devices with access to support services. These are largely managed centrally through a branch PC intranet site.
  - iv. EE – EE has deployed tablets to their advisors in branch to optimise their consumer experience. It provides access to real time sales dashboard, check 3G/4G coverage and stock levels at point of sale. Own devices were not chosen due to security challenges around processing customer data; EE wanted to retain control of the device.

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POST OFFICE LIMITED  
BOARD

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# Post Office Limited Board Meetings

Author: Veronica Branton

Meeting date: 25 March 2019

**IRRELEVANT**

**12.4**

*Strictly Confidential*



Board

**IRRELEVANT**

**12.5**

Board

Brand/ Marketing (requested by Board at Jan 19 meeting at some point over next 12 months) (placeholder)	Owen Woodley/ Emma Springham									
Postmaster Litigation	Jane MacLeod	Noting & Input	10	60	30		30	30	30	30

IRRELEVANT