POL00251661

Post Office Board Agenda

Date	
23rd November 2017	
Start Time	**Finish Time**
14.00hrs	17.50hrs
Comments	
Papers are due 16th November 2017	

Present	In Attendance	Apologies
• Tim Parker (Chairman) • Richard Callard • Tim Franklin • Virginia Holmes • Ken McCall • Carla Stent • Paula Vennells • Alisdair Cameron	• Jane MacLeod • Marla Balicao • Rob Houghton (item 4) • Heather Jackson (item 4) • Kevin Gilliland (item 5, 6,& 7) • Tom Wechsler (item 5) • Mark Siviter (item 6) • Sue Barton (item 6) • Tom Moran (item 7) • Nick Kennett (item 8) • Martin Kearsley (item 8) • Martin Kirke (item 10) • Martyn Lewis (item 10) • Rob Houghton (item 10)	None

Agenda Item		Action Needed	Purpose	Lead	Timings TBC
1.	**Minutes of previous Board and Committee meetings including Status Report**	Decision	Minutes formally agreed.	Jane MacLeod	14.00 – 14.05
2.	**CEO Report** Including IR update	CEO report noted	CEO to update the Board on the report.	CEO	14.05 – 14.25
3.	**Financial Report**	For noting	CFO to update the Board on the report	CFO	14.25 – 14.45
4.	**IT Assurance**	For noting		Rob Houghton/ Heather Jackson	14.45 – 15.15
5.	**Project Panther**	Discuss and approve	To discuss and approve the purchase of Payzone's convenience bill payment business.	Kevin Gilliland/Tom Wechsler	15.15 – 15.35
BREAK					15.35 – 15.45
6.	**RM Negotiations update**	For information and input	To update GE on the progress of RM negotiations.	Kevin Gilliland / Mark Siviter/Sue Barton	15.45 – 16.15
7.	**Network Development Business Case**	Discuss and Approve		Kevin Gilliland/Tom Moran	16.15 – 16.30

POL00251661

Post Office Board Agenda

Agenda Item		Action Needed	Purpose	Lead	Timing
8.	**Cash Service Strategy**	Noting	To update on ATMs, Banking Services Framework and Supply Chain strategy	CFOO / Nick Kennett / Martin Kearsley	16.30 – 17.00
9.	**Group Litigation Update (verbal)**	Noting	To update the Board on progress made to date.	Jane MacLeod	17.00 – 17.10
10.	**SAPHR & Payroll Replacement Business Case**	Discuss and approve	For Board to approve further funding.	Martin Kirke/ Martyn Lewis/ Rob Houghton	17.10 – 17.25
11.	**Board Committee Chair updates (verbal)** • NomCo • RemCo (including LTIP) • ARC	For noting	To update Board		17.25 – 17.40
12.	**Items for noting** 12.1 Sealings 12.2 Health & Safety 12.3 Meeting dates and forward agendas	 For noting For noting	 Board aware of the affixing of the seal To update Board		17.40 – 17.45
13.	**AOB**				17.45 – 17.50
	CLOSE				17.50

Post Office Limited
Board Meeting

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF THE COMPANY HELD ON TUESDAY 31ST OCTOBER 2017 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ AT 09:35AM			
Present:	Tim Parker	Chairman **(TP)**	
	Richard Callard	Non-Executive Director **(RC)**	
	Tim Franklin	Non-Executive Director **(TF)**	
	Ken McCall	Senior Independent Director **(KM)**	
	Carla Stent	Non-Executive Director **(CS)**	
	Virginia Holmes	Non-Executive Director **(VH)**	
	Paula Vennells	Group Chief Executive **(CEO)**	
	Alisdair Cameron	Chief Financial and Operations Officer **(CFOO)**	
In Attendance:	Jane MacLeod	General Counsel & Company Secretary (Secretary) **(JM)**	
	Marla Balicao	Minute Secretary **(MB)**	
	Martin Edwards	Group Strategy Director **(ME)**	*(item 4&6)*
	Rob Houghton	Group Chief Information Officer **(RH)**	*(item 8 &9)*
	Owen Woodley	Managing Director, Post Office Money **(OW)**	*(item 5&8)*
	Henk Van Hulle	Business Innovation Director **(HVH)**	*(item 8)*
	Jeff Smyth	CIO, Financial Services, Telecoms & Digital **(JS)**	*(item 8)*
	Jeff Lewis	IT Procurement **(JL)**	*(item 9.1)*
	Martin Hopcroft	Head of Health & Safety **(MH)**	*(item 10)*
Apologies:	None		

		ACTION
	INTRODUCTION 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.	
1.	**MINUTES OF THE PREVIOUS BOARD MEETING INCLUDING STATUS REPORT**	
	Minutes of the meeting of the Board held on 26th September 2017 were approved and authorised for signature by the Chairman. The actions status report was noted as accurate.	
2.	**CEO's REPORT**	
	The Board noted the CEO report. In response to questions, the CEO made the following additional points:	
	• The strategic plan had been finalised and work was now underway on developing the 2018/19 operating plan. The CEO noted that Martin Edwards was over stretched and consideration was being given to providing further resource to support on the operational side. The Board discussed the additional skills set that would be required. • Phase 1 of the Branch simplification went live on 19th September with little resistance and the benefits of efficiencies are being shared with Postmasters. Phase 2 is planned to go live in March 2018. • The CEO and Public Affairs team had hosted the annual drop in session for MP's at the House of Commons on 18th October. The response from MPs was very positive with a significant change in tone as compared with previous events.	

POL00251661

	• The CEO also reported that she had met with the Secretary of State for Scotland and had discussed future plans for Scotland and 'Trapped Postmasters'. There are approximately 500 postmasters - predominantly in small communities - who wish to retire however no successor can be found to take on the post office, and they therefore do not qualify for payments under the Network Transformation programme. Further, they are unable to sell their retail business. It was noted that in these circumstances tax payer money cannot be used to fund retirement payments. The CEO advised that options were being considered as to how to address these postmasters as part of the network strategy, and the Chairman encouraged the CEO to consider commercial solutions could be as well as how social needs could be met in these circumstances, as well as continuing to meet the access criteria. He also queried whether there is an option to provide termination payments other than from tax payer funded sources. • The CFOO reported that the Credence transition was improving however there were still material concerns. As daily sales data from Credence was critical across the peak Christmas trading season, transition activity would, if necessary, be halted until January in order to ensure continuity of data. • The CEO noted that in her report she had flagged a recent colleague question regarding the commercial experience of the Board, and advised that this was a genuine question as many colleagues have little engagement with Board members other than the Chairman. • There is ongoing engagement with Royal Mail to understand the likely impact of industrial action and the options to mitigate this impact. The Board queried whether collections by third parties had been considered. The CEO advised that space constraints in branches was a major issue which was being considered however we were struggling to get the right level of focus from RMG. The CEO stated that in her view the CWU would not be able to support an extended strike, however repeated short strikes would be possible.	
3.	**FINANCIAL PERFORMANCE REPORT**	
	The CFOO presented the P6 financial performance report covering September 2017. The Board noted the financial performance report and in discussion the CFOO made the following points:	
	• Performance was in line with prior months and marginally ahead of budget. • We are back on track to deliver full year EBITDAS of £28m, albeit with a different shape. • Balance sheet headroom in P6 was £36m, £71m lower than budget with higher drawings on loans offset by lower NRF usage. • Branch numbers were reduced by 16 this month and is now at 11,558 which is 75 behind target. YTD there have been 102 unplanned closures of which 55% are due to suspension over losses identified at audit. Still progressing 60/70 rolling audits as part of the branch technology roll-out, and to date there have been no material losses identified through this process. • Of the £9m targeted for the 'growth fund' investable business cases had been received representing about half the fund. • The performance of Moneygram was discussed and the CFOO commented that immigration patterns were changing as a result of Brexit impacting the pattern of remittances. Work is underway to review the strategy for the Moneygram relationship. • The question was posed as to the expectations for the balance of the year. The CFOO noted that the budget gets harder in the second half of the year, however work undertaken recently supported the achievement of the £28m EBITDAS target. The Chairman noted that the Board needed better visibility of the delivery of major projects and the impact on expected performance in the current year and next year. The CFOO confirmed that programme spend had been delayed although was the quantum had not changed.	

	The Chairman asked for the Board to be provided with a better view on the status of current projects. • The Board queried how the costs of the Postmaster litigation were being accounted for and whether these should be treated as exceptional. **The CFOO noted he would consider whether these could be shown so as not to adversely impact operational costs and will consult with the auditors on this.** • The Chairman queried why performance was behind on mortgages, savings and Insurance. The CFOO noted that mortgages had improved during the month however we were dependent on BOI pricing models. The CEO added that she had requested that POMs develop an end to end plan now that they have a marketing director in place and right capabilities, as well as access to additional investment from the growth fund. She reiterated her view that the POMS Chief Executive had the right capabilities, however he needed more support. The Chairman noted that the insurance division should have big strategic goals in order to capitalise on the brand value and that he wanted to see more being done to ensure the benefits could be realised. • The Chairman noted that the Board needed better visibility of the major business lines across Post Office as these were currently subsumed within the BU reporting. **The CEO noted that she was reviewing the current organisational structure and would provide a further update in November.**	**AC** **AC** **PV**
4.	**STRATEGY UPDATE**	
	The Chairman welcomed ME to the meeting to present the 3 year Strategic Plan for 2018-21. ME explained that the purpose of the Strategic Plan is to set out the overall financial and strategic outcomes we expect to deliver over the three years in return for £210m investment funding from the Government. The focus of the current update was to highlight changes since the draft discussed with the Board and UKGI in May. The following points were highlighted: • As the Board was aware we had opened negotiations with IRRELEVANT with a view to protect the Post Office's long-term value in IRRELEVANT with better deals for IRRELEVANT and savings. The options presented by IRRELEVANT did not achieve our objectives and this puts at risk around IRRELEVANT of annual profit over the next three years relative to our assumptions in May. ME noted the chart on page 5 which showed recommended EBITDAs targets of IRRELEVANT IRRELEVANT across the 3 year period of the Strategic Plan. There are options to mitigate approximately IRRELEVANT of this risk by 2021 leaving a gap against the previous forecast of IRRELEVANT the impact of the possible adverse changes in the telecoms market still needed to be understood. The Chairman noted we needed to work harder on our cost structures to enable reaching a breakeven point, and asked at what level would Post Office to be self-sustaining. ME responded that to be sustainable Post Office needed to generate IRRELEVANT of free cash flow to re-invest in the business. IRRELEVANT IRRELEVANT • The Board discussed the need to focus on revenue drivers as well as the cost base, noting that a number of core products and markets are in decline so there needs to be a focus on new products that will address these gaps. The Chairman requested that management focus on both revenue drivers as well as costs ensuring that we have the necessary capabilities to deliver these. The main changes to the cost base would be driven by IT, simplification of the network, further franchising of the DMBs, and digital initiatives. He noted that these were the right areas of focus but queried whether more could be done in other areas. The CFOO noted that any further material reductions in the cost base must be driven by digitisation. The CEO flagged that two acquisitions opportunities were currently being considered, however reliance only on organic growth would not deliver sufficient change in the period.	

POL00251661

	• The Chairman noted that he would like more visibility of the separate businesses within in Financial Services such as Banking Services, Insurance, Payments and Travel Money and there should be increased focus on products that could deliver growth opportunities such as insurance. He also added it would be beneficial to have regular updates from the heads of these business lines, not just from the respective Chief Executives. • Minor changes were suggested to certain of the slides within the pack. • The Chairman noted it was a good plan and thanked ME for the good work done on this. It was **Resolved** that the plan be **Approved** and submitted to the Shareholder. The Board then went on to discuss the approach for setting STIP targets as well as the performance targets for the 2016-19 and 2017-20 LTIP schemes (both of which were midway through the performance period) and the schemes that underpinned the period for the 3 years strategic plan. • The Board discussed a range of possible LTIP performance measures (which could include EBITDAS, free cash flow and/or IT transformation measures) noting that there was not yet agreement on these. It was noted that a further debate was required and that the Remco had not yet had a full discussion on the possible measures. • **The Board requested that these be discussed at the next Remco and brought back to the Board for discussion and approval.**	**AC**
5.	**CHIEF EXECUTIVE RETAIL PERFORMANCE REPORT**	
	The Chairman welcomed Owen Woodley to provide the update on the Financial Services & Telecoms Performance Report. The Chairman requested OW to focus on the areas of concern. OW reported: • At P6 FS&T is slightly behind budget (IRRELEVANT) however is up IRRELEVANT year on year. Key risks are the transparency requirements relating to POMS insurance premiums, and the Ofcom review and the consequential impacts on fixed line prices. • Brexit has resulted in changes to immigration patterns and this is adversely impacting IRRELEVANT performance; a 'root and branch' review is underway to understand the longer term implications and options. In response to a question as to whether Post Office was losing market share, OW advised that work was underway to understand how the market was being affected by changing demographics; for example transactions with India are increasing. He noted that overall IRRELEVANT of the market (of which POL accounts for IRRELEVANT and IRRELEVANT has IRRELEVANT market share. IRRELEVANT IRRELEVANT • OW also reported that although delays in completing the New Call acquisition had impacted performance, migration has now been completed and overall the transaction had been successful. • Travel Money Card relaunch was successful and the forex summer campaign in branch had been a success. However more work was required to understand the impact of IRRELEVANT IRRELEVANT in the online channel on overall performance and the resulting profit share to POL.	**OW**

	• The Chairman reiterated his previous concern that the performance reporting needed to be improved to provide greater clarity around activities. He noted that the reporting across different products was not on a like for like basis and this makes it difficult for the Board to get a view on product related costs, profit or contribution. **The Chairman asked for each key business line to be reported separately with specific commentary, and more information about competitor activity and market developments.** • OW advised that the Banking Framework was performing well with IRRELEVANT business banking now having gone live. The Board queried the nature of the customer experience – for example on deferred checking. The Board also queried what impact the new business would have on margins and whether Post Office is making a sufficient return on the service taking into account the costs such as supply chain etc and the risk profile? • **The Board requested the ARC to consider the systems and controls around the banking framework, and requested an update from the ARC in relation to the money laundering audit and the remediation work that had been undertaken.**	**AC** **CS/ JM**
6.	**IDENTITY STRATEGY**	
	The Chairman welcomed backed Martin Edwards with Jason Sheehy and Jon Evans to report on the progress on development of the digital identity services strategy. ME took the Board through the paper and reported on the following changes since the June away day: • Digital identity is an example of a two sided market – an economic platform with two distinct sets of users (providers and consumers) who provide benefit to each other. Such markets are difficult to create and will require a proactive role to stimulate adoption on both sides. At the Board's request, we have engaged and worked with two leading external consultants, met with over 30 different organisations including prospective clients and partners, as well as reviewing the competitive landscape. • We are developing the operating and delivery plans. Key to delivery will be to ensure that we have access to the necessary capabilities, and aligning with a partner that can deliver these is seen as key to implementation. There are a number of options as to how such a 'partnership' could work and we are considering what would be most viable. • IRRELEVANT • •	

	IRRELEVANT • The Chairman summarised the Board view which was supportive of the proposal, however noted the need to move forward quickly to determine the necessary capabilities and how best to develop these with potential partners. **ME was asked to come back to the Board in March 2018, with an update on progress, including a tangible proposition.**	**ME**
7.	**BORROWING LIMITS OVER CHRISTMAS**	
	The CFOO tabled his paper and asked the Board to approve a derogation to reduce the headroom buffer from £200m to £100m for the period from 27 November 2017 (beginning of Period 9) to 29 January 2018 (end of Period 10). The CFOO noted that the request was driven by the need to provide more cash to branches over the Christmas period and that it would take until end January for cash levels in the network to reduce to normal; a similar request had been made for the same period in previous years. It was **Resolved** that the request to reduce the headroom level by £100m for the period from 27 November 2017 to 29 January 2018 be **Approved**.	
8.	**CUSTOMER HUB AND FIRST DELIVERY**	
	The Chairman welcomed Owen Woodley, Henk Van Hulle, Jeff Smyth and Rob Houghton to present the Customer Hub and First Delivery paper.	
	• OW explained that the key principle of the customer hub was that it provided a reusable capability. It was estimated that it would cost c IRRELEVANT to build the platform and launch the travel money suite of products IRRELEVANT IRRELEVANT by May 2018 in time for the key summer marketing period. • The Board discussed the proposition and noted that the platform must be scalable for other products such as IRRELEVANT etc and must provide simple and user-friendly customer journeys. • IRRELEVANT It was **Resolved** that the Board authorised and **approved** the release of IRRELEVANT to build the first delivery of the customer hub (the Travel proposition).	
9.	**IT UPDATE**	
9.1	**Everest Update**	
	Rob Houghton presented his paper with Jeff Lewis which proposed the realignment of the Post Office relationship with Fujitsu through the signature of a Memorandum of Understanding (MoU). He highlighted the following points: • The current contract with Fujitsu commits us to £195m costs over the next 6 years. The proposed MOU allows Post Office to move away from fixed pricing and onto a variable arrangement for hosting and maintenance. Post Office remains committed to the total spend with Fujitsu, however savings from the move to variable pricing will be available for investment principally to fund the transition to cloud architecture and the development of HNGT. Where Fujitsu are unable to deliver an appropriate technical solution (such as for cloud architecture) Post Office would be able to source solutions from other third parties.	

	• RH noted that parts of the MOU are expressed to be binding, however these obligations are mainly applicable to Fujitsu. Further the tone of engagement within Fujitsu has been very positive and we are seeing increasing willingness to work proactively with us. • RH noted that once the MOU was signed, we would then work to deliver the necessary contractual changes • The Chairman thanked both RH and JL for the work to date and noted that this revised arrangements puts Post Office in a much better position and will have a major impact on the restructure of the cost base. It was **Resolved** that the Board **approve** the signature of the MoU and authorised the negotiations of the detailed contract changes to support the agreed principles, including the creation of Digital Delivery Services.	
9.2	**Security Operations Centre (SOC)**	
	Rob Houghton tabled the business case for the implementation of Security Operations Centre (SOC) to be sourced through Verizon and which will enable the Post office to develop and deploy cybersecurity capability across the IT estate, including all of the outsourced IT and network supply chain. The Chairman asked if the Board had a choice and if it was necessary. RH stated that the Post Office needed a SOC and that it would proactively protect Post Office against any cybersecurity threat. KM asked why was it managed in Germany. RH replied that Verizon's first line defence team was based in Germany and that his team had visited the Verizon operations in Germany as part of the assessment. It was noted that the impact of Brexit on European based services would need to be considered. It was **Resolved** that the business case for the implementation of SOC be **approved**.	
10.	**HEALTH & SAFETY DEEP DIVE**	
	The Chairman welcomed Martin Hopcroft to the meeting who presented the annual 'deep dive' on Health & Safety and drew the Board's attention to the following:	
	• A Deep Dive review will be undertaken every 6 months to look at safety risks including those arising from property, network, driving/roads and material incidents. A further update is scheduled with the GE next week which will be cover recent acid attacks and guidance for the network. A systematic review will also be undertaken to ensure we focus on continuous improvement, and there is ongoing engagement with the Central Risk team to report through the placemat. An external audit has also been commissioned on our safety management systems. • The Chairman queried what we define as 'attacks' as referred to in the paper. MH clarified these as assault (involving a physical action) and while the number of incidents had increased, the level of severity had come down. The Chairman expressed his concerns on the number of attacks on branch staff and asked how this could be reduced, and queried whether we were spending enough money to keep staff safe. The CFOO responded that this was not a budgetary issue and noted that some of the incidents are driven by criminal activity targeting particular areas or types of operations; an example is the recent spate of attached around Birmingham. The police are aware but have not as yet progressed to arrests. • MH reported that gas attacks on ATM's have reduced over the last year. The Chairman asked that we focus on deterrents to help protect staff. • The Board noted the impact on supply chain - particularly if we are moving more cash should we expect to see an increase in attacks. The Board discussed different options to protect staff – particularly in supply chain and branches, including protective equipment, notices,	

POL00251661

	training and communications. It was noted that more was being done this year with DMB and similar guidance was also being provided to agents as well. • The CFOO noted that Mental Health cases were at a lower level than last year however cases were lasting longer. More work has been done in this space with good feedback from managers who have undertaken the mental health awareness workshops. We now have 60 mental health first aiders and other initiatives are being considered. MH noted that we have good engagement with a range of other organisations in relation to both safety and health initiatives, and are able to share information and experiences to develop good practices. We have regular engagement with a range of other organisations to understand developing trends, and emerging best practice. This assists us to develop appropriate benchmarks across a range of metrics. The Chairman thanked MH for his report and noted that an update would be provided at each meeting.	
11.	**ITEMS FOR NOTING**	
11.1	**Sealings**	
	It was **Resolved** that the affixing of the Common Seal of the Company to documents numbered 1576 to 1591 inclusive in the seal register was confirmed.	
11.2	**Future Meeting Dates**	
	The Board noted the future meeting dates.	
12.	**AOB**	
12.1	There being no further business the Chairman declared the meeting closed at 13:04pm.	

……………………………………………… ………………………………

Chairman **Date**

POL00251661

Strictly Confidential

Status Report as at: 16/11/2017

Post Office Limited Board

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

POL00251661

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
25 May 2017 POLB 17/40 (e) (f)	Mails Strategy Update The Board asked KG and MS to continue to develop the next best alternative work in parallel with an emphasis on the technical integration, and to return to the Board with a view on how quickly they could be implemented if the negotiation do not deliver what is needed. The Board asked the CEO to ensure she had the strongest negotiation team possible.	**Kevin Gilliland / Mark Siviter**	November 2017 Board	IRRELEVANT	To Close
26 Sept 2017 POLB 17/72 (j)	Funding Documents The Board requested management to develop plans to address the possible scenario of an election and Labour victory.	**Martin Edwards**	November 2017 Board	To be included in the Strategy update for November	To Close
26 Sept 2017 POLB 17/74 (c)	Chief Executive Retail KG was asked to consider (a) the economics of products - both for Post Office and agents given the declining volumes and margins, and have a view as to which products were genuinely necessary to support footfall and (b) the implications of the increasing use of Post Office supplied cash.	**Kevin Gilliland**	November 2017 Board	To be addressed in the CE Retail report for November.	To Close
26 Sept 2017 17/78 (d)	Meetings Noting that the meeting scheduled on 1 Feb 2018 would create a schedule conflict for Virginia Holmes the Chairman requested that the Secretary see if an alternate date could be identified.	**Company Secretary**	October 2017 Board	Meeting now moved to Monday 29 January	Closed
31 Oct 2017 3	Financial Performance Report The Chairman asked for the Board to be provided with a better view on the status of current projects .	**Al Cameron**	January 2018 Board	We are building a summary capital and investment report for January that will operate as the future BEIS reporting required in the next funding round	Open

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
31 Oct 2017 3	Financial Performance Report The Board queried how the costs of the Postmaster litigation were being accounted for and whether these should be treated as exceptional. The CFOO noted he would consider whether these could be shown so as not to adversely impact operational costs and will consult with the auditors on this.	**Al Cameron**	January 2018 Board	We are in discussions on the treatment. It is not clear that there is a case for an accounting change and it may be that Sparrow costs would have to be excluded from EBITDAS for bonus purposes.	Open
31 Oct 2017 3	Financial Performance Report The Board needed better visibility of the major business lines across Post Office as these were currently subsumed within the BU reporting. The CEO noted that she was reviewing the current organisational structure and would provide a further update in November.	**Paula Vennells**	TBC 2018 Board	Currently work in progress.	Open
31 Oct 2017 4	Strategy Update _LTIP performance measures - the Board requested that these be discussed at the next Remco and brought back to the Board for discussion and approval.	**Al Cameron**	November 2017 Board	A paper has been presented to the RemCo and the RemCo Chair will discuss it at this meeting.	To Close
31 Oct 2017 5	Chief Executive Retail Performance Report The Board would like strategic options presented to the Board and that this should include an overview of this market. OW confirmed that he would be taking a paper to GE before the end of December and an update to Board would follow thereafter.	**Kevin Gilliland/ Owen Woodley**	January 2018 Board		Open
31 Oct 2017 5	Chief Executive Retail Performance Report Reporting across different products was not on a like for like basis and this makes it difficult for the Board to get a view on product related costs, profit or contribution. The Chairman asked for each key business line to be reported separately with specific commentary, and more information about competitor activity and market developments.	**Al Cameron**	TBC 2018 Board	We will improve the reporting in the next round of CEO reports and have added a slide to the group financial performance pack to help slightly. However this will remain sub-optimal until we are through the legacy back office systems changes.	Open
31 Oct 2017 5	Chief Executive Retail Performance Report The Board requested the ARC to consider the systems and controls around the banking framework, and requested an update from the ARC in relation to the money laundering audit and the remediation work that had been undertaken.	**Carla Stent / Jane MacLeod**	November 2017 Board		To Close

POL00251661

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
31 Oct 2017 6	Identity Strategy _ME was asked to come back to the Board in March 2018, with an update on progress, including a tangible proposition.	**Martin Edwards**	March 2018 Board		Open

POL00251661

Impact of a Labour Government

Author: Patrick Bourke   Sponsor: Mark Davies   Meeting date: 23 November 2017

Executive Summary

Context

1. The purpose of this paper is to answer the Board's question about the implications of a Labour Government. This question has become more pressing, reflecting IRRELEVANT IRRELEVANT (and since) the General Election, and a return to a starker contrast in policy between the two main parties.

2. Post Office is politically neutral and will naturally wish to execute the requirements of its sole shareholder. Under a Labour administration, IRRELEVANT IRRELEVANT, although we will clearly need to respond and adapt to new policy priorities. At one end of the spectrum IRRELEVANT IRRELEVANT, we will be entering into radically new territory. But it is far from clear that the implementation of these more dramatic changes has been properly considered by the IRRELEVANT IRRELEVANT or that they would represent real priorities for a new administration. This paper seeks to identify specific risks and opportunities without expressing preferences.

3. While the political backdrop is certainly turbulent, it currently appears to be the case that Conservatives on all wings of the party remain focused on doing what they can to avoid precipitating a General Election in the next year. Moreover, the Fixed Term Parliaments Act does further limit the chances of an election being called in the near future. While recent polling data shows Labour leading the Conservatives consistently since June, that lead is also pretty consistently stuck at the +2 and +3 mark, suggesting that, if held now, a General Election might not produce an emphatic win for Labour.

4. However, if a Labour Government is elected in the next 6 months, the most likely trigger for change to the Post Office's plans will be the need for BEIS to approve our Annual Operating Plan for 2018-19 in around March 2018.

5. This paper does not address the legal implications of any moves by a future Labour Government to push us to vary, reverse or amend our existing contractual commitments. With sufficient support and a willingness to fund the compensation due to third parties, IRRELEVANT IRRELEVANT

Questions this paper addresses

1. What are the likely implications for our governance?
2. What are the likely implications for our business model?
3. Will new or different commercial opportunities open up?
4. Are there any other implications?
5. What should we do about it?

Conclusions

1. We are likely to see pressure to limit executive pay, give much broader recognition to Unions, including nominated Board members. Conversely, we may see greater availability of public funding.
2. RMG could, in due course, be renationalised, with POL re-absorbed into the fold; changes to the employment status of our agents is a distinct possibility.
3. A Labour Government will likely press for the creation of a PostBank. We might expect support for the Post Office's role as the front office for Government.
4. A Labour Government under a Corbyn Leadership will likely create short term economic turbulence (by John McDonnell's own reckoning), against a backdrop of an already potentially challenging economic climate resulting from Brexit. Modernisation activity which results in fewer or less well remunerated jobs will be challenged.
5. Post Office will be IRRELEVANT We suggest that we IRRELEVANT IRRELEVANT We will continue to actively monitor evolving Labour thinking and ensure this is fed into existing risk management networks.

Input Sought

The Board is invited to note this paper.

The Report

What are the likely implications for our governance?

6. In a speech to the CWU in April 2016, Corbyn said "The best thing would be for Royal Mail and the Post Office to be brought back together in public ownership, not the system of ownership we have at present". IRRELEVANT IRRELEVANT ,

7. More immediate impact will be felt through early legislation to repeal the Trade Union Act and a roll out of sectoral collective bargaining. Labour will wish to give a much broader role to the Unions, potentially leading to Union nominated Board members and a greater number of full time Union representatives, IRRELEVANT

8. We would also expect to see relatively swift action on IRRELEVANT including IRRELEVANT

9. The new Government may want to make some changes at Board level. IRRELEVANT IRRELEVANT IRRELEVANT IRRELEVANT we have seen in recent years.

POL00251661

What are the likely implications for our existing business model?

10. On the Retail side, we would face significant pressure to halt our IRRELEVANT franchising policy, as is evident from the manifesto: "Labour will end the closure of Crown Post Office branches, which play a major role in serving their communities".

IRRELEVANT

12. Work on IRRELEVANT would cease, and our room for manoeuvre in the HR space will be severely constrained. We will not be in a position to count on the support of Government in IR matters.

13. In IRRELEVANT the creation of PostBank (see below) would clearly bring into question much of our IRRELEVANT

14. More broadly still, given the attention already being given to this area following the recent spate of litigation (Uber/Deliveroo), the Taylor review, and recent CWU noises in this direction, IRRELEVANT IRRELEVANT Our own Sparrow litigation's focus on the legal nature of that relationship is also clearly relevant here. The financial, network and workforce management implications of IRRELEVANT IRRELEVANT

Will new or different opportunities open up?

15. Labour's attachment to a PostBank was underscored in a recent meeting held by the Post Office public affairs team with the Shadow Postal Services Minister, Gill Furniss MP at which she was joined (unexpectedly) by Rory Macqueen, Economic Advisor to the Shadow Chancellor. At this meeting, PostBank was the IRRELEVANT It is, however, far from clear that Labour has begun to understand the true financial implications involved (dwarfing the figure cited in the recent CWU-sponsored Cass Business School Report), and how these might be bridged. That said, it is far from difficult to recognise the potential attractions of a PostBank.

16. In the shorter term, one might reasonably expect strong support for the Post Office acting as the front office for Government to stimulate footfall and generate revenue in a range of areas, in effect establishing the Post Office as the IRRELEVANT IRRELEVANT – including a modernised version of POca IRRELEVANT benefit distribution and payment services. IRRELEVANT

IRRELEVANT

POL00251661

IRRELEVANT

17. While some tentative consideration of the role the Post Office could play in the energy market has been undertaken, Labour thinking may act as something of a catalyst in this process, with Post Office providing a IRRELEVANT IRRELEVANT More broadly, and subject to funding, there might be support for IRRELEVANT IRRELEVANT

Are there any other implications?

18. Whilst the majority of our current change plan should continue to receive support (such as replacing and modernising core IT), IRRELEVANT challenge corporate decisions to modernise where there may be IRRELEVANT.

19. Workforce and reputation management is likely to become IRRELEVANT of an IRRELEVANT IRRELEVANT on a wide range of issues, for instance on pay and conditions.

20. There is also the possibility that IRRELEVANT IRRELEVANT IRRELEVANT

21. We should be cognisant of wider changes in the economic outlook, including changes to corporation tax; Labour has mooted an increase to 26% by 2022. Additionally there may be IRRELEVANT although small independent retailers may be protected to a certain extent. Early economic turbulence will exacerbate the potentially challenging economic environment of Brexit, and could lead to significant pressures on economic growth.

What should we do about it?

22. IRRELEVANT IRRELEVANT We recommend that we continue to build our engagement programme (see appendix below), focusing on key shadow frontbench and backbench MPs, and figures from within the leadership's inner circle.

23. As noted above, there is much about the Post Office which appeals to this audience. Much of our current and proposed activity can find a home in Labour's core themes of:

- **Fair Work** – Post Office as a responsible employer; a values-led business; positive progress on gender and executive pay; strong LGBTQ policies

- **Protecting public services** – Post Office enabling access to Government services particularly for vulnerable groups; innovation in identity services; role in promoting financial inclusion

POL00251661

- **Rebalancing the economy** – Post Office supporting SMEs; stimulating economic life in the High Street

24. While the Party leadership has successfully tightened its grip on the key vehicles for policy making, IRRELEVANT IRRELEVANT IRRELEVANT Accordingly, a sensible engagement plan will also see us continue to build our relationships with IRRELEVANT

25. We already have a strong relationship with a number of senior Labour figures, both within the Shadow Cabinet but also encompassing other important MPs including IRRELEVANT IRRELEVANT now chair of the IRRELEVANT is emerging as something of an authority on the IRRELEVANT and has become a senior figure on the back benches. IRRELEVANT currently working effectively across political boundaries in an attempt to soften the hard edges of Brexit, is a natural target for us.

We should continue to assess the risks over the coming months, and consult with appropriate colleagues where necessary. As part of this work, we should look at establishing a IRRELEVANT IRRELEVANT

POL00251661

Appendix

Tier one targets

Rebecca Long-Bailey MP, Shadow BEIS Sec	A long standing Corbyn ally, Long-Bailey is a prominent member of the Shadow Cabinet and tipped as a future leader. She has strong connections to Unite. Similarly to McDonnell we should watch out for her contributions.
Andrew Gwynne, Shadow Communities Secretary	Is also the party's campaign coordinator. Mentioned Post Office in a speech in July 2017 in which he repeated the pledges to "protect post offices", "end the closure of Crown Post Office branches" and "establish a Post Bank". He recently attended our parliamentary drop in session.
Andrew Fisher, Policy Chief	A friend of Corbyn's for over 10 years, Fisher has proved a divisive figure for his uncompromising left views. He was suspended over his tweets urging the public to vote for rival parties, but he has since been welcomed back into the fold.
Seb Corbyn, John McDonnell's Chief of Staff	Corbyn's son, Seb is a neutral go-between for the Corbyn and McDonnell camps. He is known for being very mild mannered and well-liked.
Laura Murray, Stakeholder Relations	Daughter of Unite's Chief of Staff Andrew Murray. Previously Shadow DCLG adviser. Responsible for engaging business, unions and NGOs.

POL00251661

Tier two targets

Debbie Abrahams MP, *Shadow DWP Sec*	Abrahams is considered a fairly sensible member of the Shadow Cabinet and is therefore a good "bridge" into the wider Labour leadership.
Rachel Reeves MP, *Chair, BEIS Select Committee*	Rachel Reeves is adept at building cross party coalitions and is well respected as extremely bright and knowledgeable on economic policy.
Frank Field MP, Chair, *Work and Pensions Select Committee*	As Chair, Field will have an important role to play in key policy areas for Post Office. He is divisive; he has been around too long not to speak his mind. Nonetheless he has cross-party appeal and is a well-respected Parliamentarian who knows how to use the media to further his agenda.
Liam Byrne MP, *Shadow Digital Minister*	Former Chief Secretary under Gordon Brown. Brought into the fold despite moderate views. Genuine interest and knowledge in the tech sector.
Gill Furniss MP, *Shadow Steel, Postal Affairs and Consumer Protection*	Low profile figure. Has a broad brief and has focused much of her attention on Royal Mail and the future of the steel industry which is important to her Sheffield constituency. We recently met her in Westminster to provide an update of our work.
Jack Dromey MP, *Shadow Labour Minister*	Husband of Harriet Harman, he is an important figure in the party. His role is to shadow the Government on employment issues while developing Labour's policy on the future of work including engaging with unions and fleshing out the concept of a Ministry of Labour.
Dr Alan Whitehead MP, *Shadow Energy and Climate Change Minister*	Longstanding interest and knowledge of the energy sector, Whitehead has served in this role since September 2015 and has a greater interest in the generation rather than retail aspect of energy.

POL00251661

CEO's Report

Author: Paula Vennells Meeting date: 23rd November 2017

Executive Summary

Context

Our target for 2017/18 is to achieve EBITDAS of IRRELEVANT Our 3 year goals are to:

- → Accelerate the transformation of the Post Office.
- → Secure commercial sustainability for the long term.
- → Establish a business that can ultimately fund investments and the social purpose from profits rather than subsidy.

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

Questions this paper addresses

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

Input Sought

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

The Report

Looking Back

WHAT HAS GONE WELL?

- **Financial Performance**
  - → IRRELEVANT
  - → EBITDAS benefitted from higher retail revenue than forecast offset by cost timings which are anticipated to reverse prior to the year end.
  - → We are still on track to deliver IRRELEVANT EBITDAS for the year, albeit a different shape and timing of delivery.
  - → Balance sheet headroom in P7 was IRRELEVANT better than P6 following a reduction in Network Cash of IRRELEVANT IRRELEVANT.

- **Retail**
  - → Continued strong performance in the month following recent trends across all revenue pillars. Across the Network, Effort score increased IRRELEVANT in P7 – the highest effort score to date and all Segments remain above target.

- IRRELEVANT
  - → Year to date, income and costs remain on forecast, with Mortgages and Credit cards IRRELEVANT better than forecast.
  - → Telecoms was IRRELEVANT better and IRRELEVANT and postal orders all performed marginally better.

- IRRELEVANT
  - → IRRELEVANT Business Bank is live on banking framework - enabling us to serve up to IRRELEVANT of all UK SME bank customers.
  - → All BCV fraud risk has been removed – the automated process has fully replaced paper.
  - → Volumes and revenues continue ahead of budget and forecast for FY17/18.
  - → Interim update on strategy at this Board meeting.

- IRRELEVANT
  - → The new Retail Arrangement Agreement (RAA) has been signed with IRRELEVANT IRRELEVANT This should improve ranging and sales of stationery in all DMBs and is forecast to deliver IRRELEVANT profit over 5 years. Current annual profit is IRRELEVANT

- **Christmas planning**
  → Our Christmas marketing campaign started w/c 6th November, including activity in branch, press and on the radio. Online and social media activity targeting marketplace sellers started w/c 23rd Oct (delayed by 1 week due to risk of Royal Mail's industrial action). Our key mails audiences this year are retaining marketplace seller volume and home shopping returns for Black Friday peak and post Christmas.
  → Our mails reforecast has predicted we will generate IRRELEVANT in variable income over the main Christmas campaign period (P8 & P9). P9 alone should generate IRRELEVANT higher than an average month.
  → All activities connected to our "No queues at Christmas" strategy remain on track.

WHAT HAS NOT GONE WELL?

- **Union activity**
  → A update will be provided at the Board meeting.

- **POca**
  → Further to the note sent to the Board, we have continued to experience a larger than expected volume of calls to the contact centre in relation to a letter sent to all Post Office Card Account customers about changes to terms and conditions.
  → The issue has been closely monitored throughout the week and we have taken steps manage the flow of calls into the contact centre and to provide reassurance to customers with concerns via automated messages, on our website and in branches. There has been no commentary in the media or on social networks.
  → Separately, the POca procurement continues its final stages of negotiation with DXC and JPM. Focus remains on closing the last points of disagreement between the parties, in particular agreeing provisions relating to data protection and upcoming GDPR legislation.

- **IT**
  → We have experienced two DDOS attacks in as many weeks, both were a likely probe of our defences. Root cause is complete and heightened monitoring/ protection is in place.
  → There has been an increase in escalation of service issues in October. The IT team have instigated emergency measures and brought the supply chain together. The systemic issues are around BT OpenReach performance and our current hybrid supplier model as we transition services from FJ to Verizon and CC. We have a Joint Service Recovery Plan being discussed at GE.

- → We postponed rollout of Portable Horizon Units (PHUs) to outreach sites whilst we investigated systemic issues with security and connectivity. This caused concern and disruption as they were due to be received. This is now resolved and rollout continues.
- → Progress against ISDN continues for end November but there is a high risk of outage on a small number of sites which we continue to work through.
- → Progress continues on the rollout plan with 3,140 HNGA counters now complete and 4,080 branches with replacement routers. Changes of this magnitude and complexity would generally attract high failure rates. We are within our expectations (upto 15%), but this is difficult to explain to postmasters when it goes wrong. In all cases fixes are successful but frustrating for those involved. I have reviewed recovery activity with Rob and his team – we will brief more fully in the Board meeting.
- → Belfast DR test still under review as updated at the RRC/ ARC. We cannot risk a full DR test until we have migrated Credence, POLSAP and HRSAP. Deliveries of this are being closely monitored so we can schedule it at the appropriate time. Likely to be Autumn 2018.

IRRELEVANT

Looking Ahead

FUTURE FOCUS

- **Market Developments**
  - → Two developments of note in the convenience retail market last week. Firstly, members of the symbol group Nisa voted to accept the Co-op's takeover. This will be a 'vertical takeover' of the supply chain rather than a rebranding of the c2,400 Nisa stores. As such there is no direct or immediate impact on the c250 Nisa stores with Post Offices, but we are close to Nisa members and Co-op on this and foresee it increasing Co-op's influence. Secondly, the Competition & Markets Authority (CMA) gave its conditional approval to Tesco's acquisition of wholesaler Booker, which owns the Budgens, Premier and Londis brands. The market had expected the CMA to be more cautious, and many had predicted it would require Tesco to sell off its One Stop convenience stores (we have 180 Post Offices in One Stops), so this removes one area of uncertainty. It does however underline the trend towards

POL00251661

consolidation in convenience retail which some independents fear will squeeze their margins. This deal is likely to go through next year.

- **Bank of Ireland**
  → I had a positive introductory meeting with Francesca McDonagh, new Group Chief Executive at Bank of Ireland. She was keen to reiterate that our relationship is important to BOI and is committed to reaching a mutually beneficial commercial agreement. We are reviewing how we proceed with our negotiations.

- **Strategy to 2018/19 plan**
  → Following Board approval of the 3 Year Strategic Plan last month, the business is now focussing on developing the more detailed budget and plan for 2018/19. The GE is reviewing initial submissions during November and December, and will be presenting a first draft view of the budget to the Board in January.

- **Government and external affairs**
  → I met with Tom Cooper, who was appointed as Director in UKGI last month. Previously, Tom was Global Co-Chairman of M&A at Deutsche Bank where he has spent the last 8 years. He started his career at KMPG and was at UBS Investment Bank for 21 years where his various roles included Head of European M&A.
  → Al and I attended the annual CBI conference earlier this month. It was a useful event with good speakers. Dominant themes of the day included technology, discussion around the increasing need for companies to become much more digitally advanced and how artificial intelligence will change the workplace of the future. Brexit uncertainty was referenced throughout the day.

RISKS OR CONCERNS?

- **Postmaster Litigation**
  → This will be covered in the Board meeting.

- **Union activity**
  → We are seeing a shift in union activity and their tactics which is concerning. The recent Employment Tribunal case around weekly to monthly pay was a huge confidence boost and no doubt will encourage more frequent and bolder activity. We are reviewing internally how we manage this going forward.

POL00251661

October 2017 Financial Performance

Al Cameron
23 November 2017

POL00251661

P7 Performance is in line with forecast.
YTD EBITDAS is +£3.8m ahead of budget.

Context

- YTD P6 EBITDAS performance was £4.4m. £2.7m favourable to budget.
- At end of FY 16/17, cash in Network was £666m and balance sheet headroom was £189m
- P7 budget EBITDAS is £2.1m, P7 forecast EBITDAS is £3.1m

Questions

- How is our scorecard performance in P7?
- What is the financial performance of the business in P7?
- Are we appropriately funded?

Conclusions

- From this month we will compare results to the forecast outturn for the year as well as the approved annual budget.
- P7 EBITDAS £3.2m (£0.1m favourable to forecast, £1.1m favourable to budget) and YTD £7.6m (£3.8m favourable to budget).
- EBITDAS benefited from higher retail revenue than forecast offset by cost timings.
- We are still on track to deliver £28m EBITDAS for the year, albeit a different shape and timing of delivery.
- Balance sheet headroom in P7 was £162m, £126m better than P6 following a reduction in Network Cash of £116m (Branches £28m, CViT £24m, Cash Centres £65m). An increase in the NRF usage of £40m following reductions in P6 to coincide with the Bank of England year end funded the capital investment in the month £15m and working capital movements of £15m.

Input Sought

- The Board is asked to note the financial performance.

POL00251661

Strong Digital performance in the month
Branch numbers continue to track below targets

POST OFFICE

Key Performance Indicators	P7 Act	P7 Target	P7 Var.	YTD Act	YTD Target	YTD Var.	Full Year Target
Growth	IRRELEVANT						
Total Gross Income (excl NSP) £m							
EBITDAS £m							
Headroom £m (vs Board minimum limit)							
Digital Net Income £m (digital team)							
Net profit £m [1]							
Customer							
Customer Effort	84%	76%	8%	78%	76%	2%	76%
Net Promoter score Financial Services	25	25	0	25	25	0	25
Acceptable Wait Time %	95%	95%	0%	93%	95%	(2)%	95%
Branch Compliance - Financial Services - basket of 11 measures	60	<=50	(10.0)	30	<=50	20	<=50
People							
Representation (Senior Managers) - Gender	38%	37%	1.4%	38%	37%	1.4%	37%
Attendance	95.9%	96.7%	(0.8)%	96.4%	96.7%	(0.3)%	96.7%
IT Lost Time (Number of Sev1/Sev2 IT incidents)	5	13	8	45	91	46	<156
Safety LTIFR	0.137	0.180	0.043	0.260	0.180	(0.080)	0.180
Modernisation							
Number of branches (one month in arrears)	Same as YTD			11,559	11,670	(111)	>=11,700
NT and ND Branches Transformed in Year	51	43	8	308	260	48	400
IT Transformation (% of IT controls implemented)	66%	59%	7%	66%	59%	7%	All high risk gaps closed

1. Net Profit metric target based 5+7 forecast

Strong Digital Performance in the month but Branch numbers continue to track below targets

- **Digital Net Income**
  - Strong Digital Income performance in the month, IRRELEVANT favourable to target. YTD revenue is IRRELEVANT adverse to target.
  - In month the overperformance was driven by Online Savings which delivered Revenue of IRRELEVANT ahead of budget and IRRELEVANT ahead of the monthly average P1-P6 following the offering of a competitive interest rate supported by a marketing campaign with significant exposure.
- **Attendance**
  - YTD higher absence has been apparent in Directly Managed branches where attendance is 95.8% versus a target of 96.3% and Supply Chain attendance is 95.6% versus a target of 96.4%. Both improved in the month, DMBs by 0.1% to 95.4%, Supply Chain by 1.2% to 95.3%.
  - Short term absences improved by 33% in the month and both Support Centres and Supply Chain staff are being offered flu vaccinations over the next month to minimise the impact of flu on short term absence.
- **Network**
  - Number of branches increased by 1 in the month and is now 11,559, 111 behind target. YTD 67 branches remain closed following postmaster suspension with the remaining gap due to higher churn.
  - Actions to open new premises continue to be considered and developed.

POL00251661

P7 EBITDAS is favourable to Forecast £0.1m and Budget £1.1m

	P7			
£m	Act	Var Fcst	Var Bud	Var PY
Gross Income				
Direct Costs				
Net Income				
Staff Costs				
Agents Pay				
Non-Staff Costs				
Expenditure				
FRES - Share Of Profits				
EBITDAS				
Revenue				
Retail				
FS&T				
POMS				
Other				
Total Revenue				

IRRELEVANT

Performance against Forecast

- IRRELEVANT
- **Agents pay** – £(1.4)m adverse. Increase in costs in line with the better than forecast Retail revenue performance
- **Staff costs** – £0.8m favourable. Delays in project spend and recruitment within Retail (£0.6m) drive in month benefits.
- **Non-staff costs** – £(1.4m) adverse to forecast due to timing of spend. All items are expected to reverse by end of the year.

Performance against Budget

- IRRELEVANT
- **Staff costs –** £(1.1)m adverse. Overspends in Retail £(0.8)m continue due to delays in branch conversions.
- **Non-staff costs –** (£1.2)m adverse to due to timing of spend.

POL00251661

YTD EBITDAS is £3.8m favourable to budget

£m	YTD Act	Var Fcst	Var Bud	Var PY
Gross Income				
Direct Costs				
Net Income				
Staff Costs				
Agents Pay				
Non-Staff Costs				
Expenditure				
FRES - Share Of Profits				
EBITDAS				
Revenue				
Retail				
FS&T				
POMS				
Other				
Total Revenue				

(YTD) IRRELEVANT

Performance against Budget

- IRRELEVANT
- **Staff costs** – IRRELEVANT adverse. Overspends in Retail IRRELEVANT due to delays in branch conversions, partially offset by reductions in agent pay.
- **Agents pay** – IRRELEVANT adverse and continuing to track in line with YTD trends due to favourable revenue variances in Retail, partially offset by fewer agents from delays in conversion IRRELEVANT
- **Non-staff costs** – IRRELEVANT favourable to budget:
  - IRRELEVANT underspend in marketing with full year savings anticipated at .
  - savings from property (leases and rebates); offset by
  - of unbudgeted LTIP costs
  - agent losses
- **FRES** performance now tracking in line with budget and forecast.

POL00251661

Retail revenues +£1.9m favourable to forecast and +£16.5m ahead of budget year to date

	P7				YTD			Full Year		
£m	**Act**	**Var Fcst**	**Var Bud**	**Var PY**	**YTD Actual**	**Var Bud**	**Var PY**	**P5F**	**Var Bud**	**Var PY**
Total Mail Trading										
Total Mail Non-Trading										
Retail (Inc Gift cards & Other)										
Lottery										
Retail and Lottery										
Payment Services										
ATM										
Payment Services										
Card Account										
Passport Services										
Digital ID Serv UKVI & Asylum										
ID - Assurance (Verify)										
Other Government Services										
Government Services										
Total Retail										

IRRELEVANT

Retail

Slower decline in revenue than anticipated following recent trends across all revenue pillars.

Revenue overperformance against budget will slow over the balance of year due to delays in launch of Digital Check and Send.

Strong performance in the month v forecast in Lottery but attracts significant agent's pay.

POL00251661

FS&T and POMS revenue in line with forecast

£m	P7				YTD			Full Year		
	Act	Var Fcst	Var Bud	Var PY	YTD Actual	Var Bud	Var PY	P5F	Var Bud	Var PY
Mortgages										
Credit Cards and lending										
Savings										
Travel Money										
MoneyGram										
Post Office Money										
Banking Services										
Telecoms										
Postal Orders										
Other Income										
FS&T										
POMS										
Total FS&T										
Supply Chain										
Other Income										
Supply Chain & Other										
Total Retail										
Total Revenue										

IRRELEVANT

FS&T

Trading in line with forecast for the month. Shortfalls in IRRELEVANT which had shown some uplift on ytd trends last month and Banking Services IRRELEVANT

POMS

In line with forecast for the month but IRRELEVANT shortfall against budget.

POL00251661

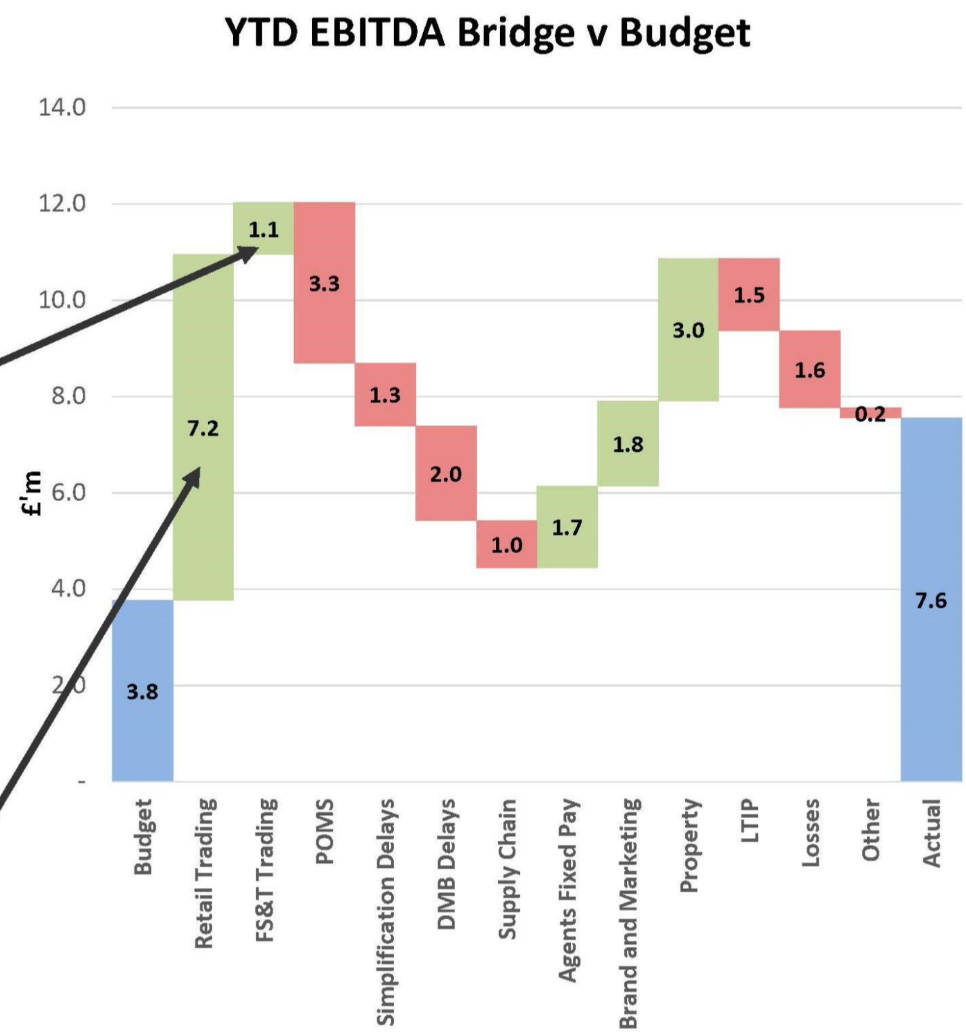
Trading overperformance offsets project delays

	Revenue	Direct Costs	Agents Pay	EBITDAS
FST Trading				
Post Office Money				
Banking Services				
Telecoms - Excl. New Call				
New Call				
Other FST				
Total FS&T				

IRRELEVANT

	Revenue	Direct Costs	Agents Pay	EBITDAS
Retail Trading				
Mails				
Retail and Lottery				
Payment Services				
Government Services				
Other Retail				
Total Retail				

IRRELEVANT



POL00251661

P7 and YTD Overheads by GE Member

	Overheads	Month							YTD		Full Year	
		Actual			Var to Fcst			Var Bud	Actual	Var Bud	P5F	Var Bud
	£'m	Staff Costs	Other	Total	Staff Costs	Other	Total	Total		Total		Total
KG	Retail	8.1	4.0	**12.0**	0.6	(0.7)	**(0.1)**	(1.0)	**68.4**	0.2	**121.1**	(6.1)
NK	FS&T	1.1	4.1	**5.1**	(0.1)	(0.2)	**(0.3)**	(0.1)	**32.1**	(0.0)	**52.7**	3.8
NK	POMS	0.3	1.4	**1.8**	0.1	(0.0)	**0.0**	0.2	**12.6**	1.5	**20.7**	2.5
AC	Finance & Ops	4.2	7.3	**11.5**	0.0	(0.9)	**(0.8)**	(0.9)	**71.3**	0.3	**122.1**	(0.0)
PV	CEO	0.0	0.0	**0.0**	(0.0)	0.0	**0.0**	(0.0)	**0.2**	(0.0)	**0.4**	(0.0)
RH	CIO	0.4	8.2	**8.6**	0.0	(0.0)	**(0.0)**	(0.9)	**61.0**	(1.0)	**98.7**	0.0
ME	Strategy	(0.0)	0.0	**(0.0)**	0.1	0.0	**0.1**	0.1	**0.5**	(0.1)	**0.7**	(0.2)
JM	LRG	0.4	0.3	**0.7**	0.1	0.2	**0.3**	0.1	**5.9**	0.2	**11.1**	(0.4)
MK	HR	1.5	0.8	**2.4**	0.0	0.1	**0.1**	(0.3)	**14.3**	(0.4)	**24.6**	(0.4)
MD	Communications	0.1	0.5	**0.7**	(0.0)	0.0	**0.0**	(0.3)	**3.1**	(0.3)	**4.8**	(0.0)
	Central	(0.1)	0.0	**(0.1)**	(0.0)	0.2	**0.2**	1.0	**5.4**	(4.0)	**9.9**	(1.0)
	Total	**16.1**	**26.6**	**42.7**	**0.8**	**(1.4)**	**(0.6)**	(2.3)	**274.9**	(3.7)	**466.6**	(1.8)

Variances are based on YTD performance v Budget

- **Retail:** £(4.0m) staff cost variance due to delay in branch conversions offset by non staff costs savings in marketing, monetisation project delays and payment card upside.
- **POMS:** Cost savings to offset trading underperformance. Additional opportunities to drive revenue performance to be funded via Growth fund for 2017/18
- **Finance & Ops:** Incremental costs from Supply Chain £(1.0)m and losses from agents. Offset by savings in Property costs.
- **CIO:** £(1.0m) adverse to budget due to phasing of spend in P7. P7 in line with revised forecast and expected to deliver budget in full year outturn.
- **HR:** Incremental costs for Apprenticeships to be offset with savings elsewhere.

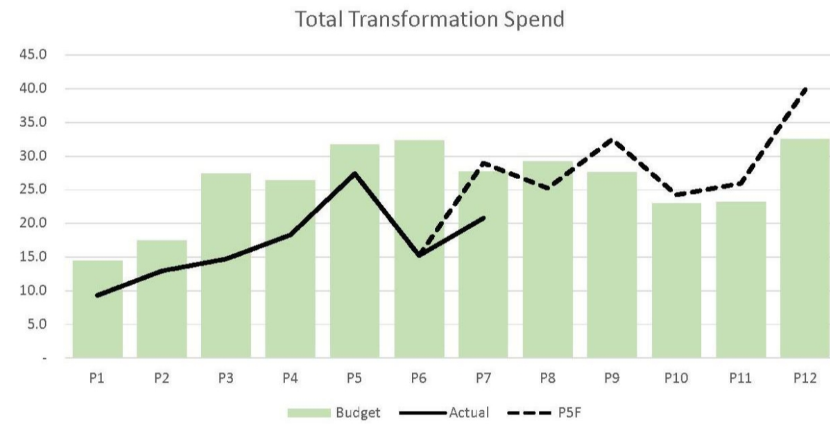
Capital and Investment spend continues to track below forecast and budget

£m	P7 Act	P7 Var Fcst	P7 Var Bud	P7 Var PY	YTD Act	YTD Var Fcst	YTD Var Bud	YTD Var PY
EBITDAS	**3.2**	**0.1**	**1.1**	**4.2**	**7.6**	**0.1**	**3.8**	**21.9**
Network Subsidy	6.7	-	-	(1.0)	41.7	-	(0.0)	(6.0)
EBITDA	**9.9**	**0.1**	**1.1**	**3.3**	**49.3**	**0.1**	**3.8**	**15.9**
Depreciation	(4.0)	0.3	-	(3.9)	(25.9)	0.3	0.3	(25.7)
Interest	(0.5)	0.1	0.1	(0.9)	(2.6)	0.1	1.5	(3.5)
Discontinued Operations	-	-	-	-	-	-	-	-
Impairment	-	-	-	7.8	-	-	-	56.0
Change Spend	(5.9)	4.3	3.3	6.8	(52.7)	4.3	8.2	32.5
Investment Funding	5.8	-	-	(5.8)	40.8	-	-	(40.8)
Profit/(Loss) On Asset Sale	0.1	0.1	0.1	0.0	3.4	0.1	3.4	1.7
Profit/(Loss) Before Tax	**5.4**	**4.8**	**4.5**	**7.3**	**12.2**	**4.8**	**17.1**	**36.0**

- Change Spend (previously exceptional) expenditure is £5.9m in the month and continues to spend below forecast and budget expectations. The change process is being amended with a stronger portfolio management function to address this.
- In period spend on capital assets was £14.8m, £65.9m YTD (cost would previously have been expensed prior to the change in accounting treatment).

Project Spend is currently tracking £59m below budget

	P7			YTD		
	Act	Var P5F	Var Bud	Act	Var P5F	Var Bud
IT & Digital	9.9	0.4	1.4	36.7	0.4	28.4
Network Development Programme	4.3	0.3	5.1	27.2	0.3	7.0
DMB Network Development	1.8	0.7	(0.5)	20.1	0.7	(9.7)
FS & T	0.9	1.3	2.4	9.4	1.3	15.2
Retail	0.4	0.7	1.4	3.8	0.7	8.1
Back Office Transformation	1.9	1.7	0.6	8.3	1.7	3.6
LEAN Centre	(0.4)	0.9	0.4	2.8	0.9	0.9
Supply Chain	0.0	1.4	0.1	2.4	1.4	(1.3)
People and Engagement Transformation	1.0	(0.3)	(0.4)	3.1	(0.3)	0.5
Property	0.4	0.1	(0.1)	2.1	0.1	(0.0)
POMS	0.3	(0.1)	0.1	1.7	(0.1)	0.5
Other Transformation	0.2	0.1	0.1	0.8	0.1	1.0
Corporate Services Transformation	0.0	0.1	0.4	0.2	0.1	0.8
Identity	-	0.8	0.2	-	0.8	0.6
Finance	-	-	0.1	-	-	0.4
Digital & marketing	-	-	0.2	-	-	1.2
Network Operations	-	0.1	-	(0.0)	0.1	1.5
Central Adjustments	0.1	(0.1)	(0.1)	0.0	(0.0)	(0.0)
Total	**20.8**	**8.2**	**11.5**	**118.7**	**8.2**	**58.7**
Capital	14.9	3.9	6.0	65.9	3.9	59.8
Investment	5.9	4.3	5.5	52.7	4.3	(1.1)
Total	**20.8**	**8.2**	**11.5**	**118.7**	**8.2**	**58.7**



Transformation Spend

- Transformation spend continues to track significantly below budget and forecast in the month.
- IT & Digital continues to see delays in the rollout of software and network to branches. YTD spend is £28m behind budget with an expected increase in activity over the remainder of the year as the projects catch up.
- FS&T includes £6.1m ytd for the acquisition of New Call v budget of £10.3m (final tranche and retention payments outstanding). Delays with BOI negotiations lead to shortfalls in spend on Customer Hub ytd. Project is now underway and expected to catch up by end of year.
- Retail underspend v budget due to delays on Anti Money Laundering as scoping of project to comply with HMRC requirements is ongoing and delayed roll out of POS enhancements.

POL00251661

P7 balance sheet shows a net asset position of £200m

£m	Oct 2017	Mar 2017	Var
Fixed Assets	450.9	391.0	59.9
Debtors	314.9	339.0	(24.1)
Cash	660.6	680.0	(19.4)
Creditors	(583.0)	(582.0)	(1.0)
Pension surplus	1.5	1.0	0.5
Provisions	(65.4)	(88.0)	22.6
Other	8.4	8.0	0.4
Loan	(588.0)	(561.0)	(27.0)
Net Assets/(Liabilities)	**199.9**	**188.0**	**11.9**
Capital and Reserves	**199.9**	**188.0**	**11.9**

- Debtors reduction since year end is due to collection of 2016/17 Bank of Ireland profit share balance.
- Reduction in provisions balance due to OSOP and agents' compensation payments.
- Cash and loan balance movements explained on next slide.

Network cash lower than forecast due to cash efficiency initiatives

POST OFFICE®

(1) Where was our cash?

£m	Branches	CViT	Cash Centres	Total
P7 - Actuals	618.5	115.6	162.3	**896.4**
P12 - Actuals	647.0	138.0	158.0	**943.0**
Variance vs P12 - Actuals	*(28.5)*	*(22.4)*	*4.3*	***(46.6)***
P7 - P5F				**973.5**
Variance vs P7 - P5F				***(77.1)***
P6 - Actuals	646.7	138.7	226.7	**1,012.0**
Variance vs P6	*(28.2)*	*(23.1)*	*(64.4)*	***(115.6)***

(2) How was it funded?

£m	RCF	Clients	"Network Cash"	NRF	Total
P7 - Actuals	588.0	60.6	**648.6**	247.8	**896.4**
P12 - Actuals	561.0	127.0	**688.0**	255.0	**943.0**
Variance vs P12 - Actuals	*27.0*	*(66.4)*	***(39.4)***	*(7.2)*	***(46.6)***
P7 - P5F	640.2	52.8	**693.0**	280.5	**973.5**
Variance vs P7 - P5F	*(52.2)*	*7.8*	***(44.4)***	*(32.7)*	***(77.1)***
P6 - Actuals	714.0	92.0	**806.0**	206.0	**1,012.0**
Variance vs P6 - Actuals	*(126.0)*	*(31.4)*	***(157.4)***	*41.8*	***(115.6)***

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

£m	Cap	Board Buffer	Net Limit	RCF	Facility Headroom
P7 - Actuals	950.0	(200.0)	750.0	(588.0)	**162.0**
P12 - Actuals	950.0	(200.0)	750.0	(561.0)	**189.0**
P7 - P5F	950.0	(200.0)	750.0	(640.2)	**109.8**
P6 - Actuals	950.0	(200.0)	750.0	(714.0)	**36.0**

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

£m	Network Cash	Other Net Assets	Total Security	RCF	Security Headroom
P7 - Actuals	648.6	208.1	856.7	(588.0)	**268.7**
P12 - Actuals	688.0	210.0	898.0	(561.0)	**337.0**
P7 - P5F	693.0	238.6	931.6	(640.2)	**291.4**
P6 - Actuals	806.0	189.0	995.0	(714.0)	**281.0**

(5) What was our actual headroom?

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

Performance against Prior Month (£116m lower than P6)

- Network cash is £116m lower than P6 due to reductions in Branches £28m, CViT £23m, Cash Centres £64m.
- FX holdings at branches (£83m), has fallen back to 2016/17 year end values after the increased demand of summer (P6 balance - £104m).
- Cash centre balances have reduced £65m, due to inward rems reducing by £16m from £73m to £57m following continued focus in this area and the reduction of sub optimal holdings held in P6 (£32m).
- An increase in the NRF usage of £40m following reductions in P6 to coincide with the Bank of England year end funded the capital investment in the month of £15m and working capital movements of £15m.

Performance against Forecast (£77m lower than forecast)

- The lower cash is split £44m in cash centres and £24m in branches.
- The lower cash centre balance reflects the lower inward rems which had conservatively been assumed to remain at P6 levels (see above).
- Headroom under the loan was £162m, £52m higher than forecast. This was due to lower than forecast network cash (£77m) and capital & investment spending (£14m), offset by lower than forecast usage of the NRF (£33m).

Performance against Year End (£47m lower than year end)

- Since year end Headroom has fallen £27m. The reduction is driven by capital & investment spend partly offset by Government funding (net £92m), partly offset by lower network cash (£47m) and cash from operations.

POL00251661

POST OFFICE GROUP EXECUTIVE DECISION PAPER

IT Assurance Response

Author: Catherine Hamilton Sponsor: Rob Houghton Meeting date: November 2017

Executive Summary

Context

The Post Office CEO, supported by the Group Executive and the Board, requested that Heather Jackson and Kirk Winstanley of Actinista perform an independent review of the IT strategy in September 2017. The objective was to assess whether the IT strategy would deliver the proposed benefits, the approach was sound, the strategy was executable and the targets were reasonable. The review outcome, complete with Terms of Reference, is attached. The review material forms background reading and Heather Jackson/ Kirk Winstanley will present their findings to bring this to life for the Board. This paper is the management response to the independent review and is therefore not in the standard format.

Conclusion

We are very supportive of the independent review carried out. It has proven a useful provocation of thinking and approach. The following response is provided; some of the actions were already in train and others are happening as a result of the review. We have responded against the recommendations made in the report.

Actinista Recommendations

1. Bringing Post Office Strategy to Life (page 19)
   - We will build our IT story into the North Star communication and bring into our existing IT communications strategy to the wider team (November/ December 17)
   - We will continue Tech Breakfasts to engage the wider organization with our IT strategy (Jan – March 18). We will shortly be starting "Welcome to IT" sessions for Post Office joiners (Jan 18). This month, we launch the strategy with the IT team, ensuring each person knows their role in bringing it to life.
   - We are developing our communications roadmap to inform, engage and recognize strategy delivery planned to be implemented 4Q17/18
   - A Digital Transformation framework is being delivered to the GE in November 17. This will provide the foundation definition and framework in which we can discuss digitisation and the impact of digital.
   - We will clearly communicate the benefits our strategy delivers for Post Office at each critical milestone.

2. Improve Quality of Portfolio Management and Change Management (page 20)
   - A paper is submitted to the GE (Nov 17) to strengthen the strategic Portfolio Office, with a number of improvements recommended to implement the Change Portfolio and invest in appropriate capability and talent.

POL00251661

- The IT transformation plan is deliberately aggressive and challenging to stretch delivery of significant operational risk reduction and cost reduction targets. We do anticipate that there will be challenges within the execution approach and we are already facing these challenges. The instigation of the Strategic Portfolio Office will allow choices to be made on both phasing and prioritisation of activities. Our priorities will be centred on the following and our phasing will shift to accommodate:
  → Regulatory Change and Maintenance essentials: GDPT, Risk and Resilience
  → Reducing Operational Risk: exit of POLSAP, HRSAP, Credence Transition, Horizon Data Centre Refresh, Networks exit, SOC and HNGX replacement
  → Business Driven Revenue Opportunities: such as; Retail Transformation (HNGT Lite/ HNGT), Identity Services, Customer Hub
  → Operational Transformations and Business Improvement: Agent Portal, Back Office transformation, Robotics, AI

  The GE and Board should expect movement on plans given the ambitious scale of change.

3. Consider other potential business enhancing opportunities (page 22)
   - Digitisation and analytics opportunities are already being progressed through other initiatives
   - AML services and Digital enhancements should be considered through the business strategy team and Customer Hub development respectively

4. Strengthen delivery of the IT strategy to reduce delivery risk (page 23)
   - We have instigated a review of the Vendor Management team through a specific Contract and Vendor management consultancy. Given the size and scale of Post Office outsource and the significant shift to new contracts we need to ensure that our controls and capability are suitable for the new operating model. Within this we will review PO executive alignment to the vendors. Owner: Catherine Hamilton; Date: Jan 18.
   - Permanent capability is being embedded into the change organisation and recent hires include a Change and Release Management lead to build rigour into the testing regime and change processes. Owner: Rob Houghton; Date: Next level hires by Mar 18
   - Our shift of the operating model will clarify roles and responsibilities in the supply chain and focus on service and change improvements Owner: Mick Mitchell; Date: Jan 18

POL00251661

IT Strategy Review

October 2017

Purpose of today's review update

- To update GEC on the assignment and its findings and to air recommendations for subsequent GEC debate.
- To agree owners / next steps in terms of taking agreed recommendations forward.

POL00251661

Terms of Reference

IT Strategy Review

Context

The IT Strategy was presented in July 2016 with updates presented in January 2017 and now due for another update submitted 19th September. The Board has requested an independent external review of the strategy. This is to ensure they are fulfilling the duties of the board whilst recognising that technology is a core enabler to the companys future strategy.

Objectives of Initiative

- Provide the board with an expert advisor review of the IT strategy – leveraging industry sector best practice (Retail/ Financial Services) with leading edge technology
- Provide the CIO and leadership team with recommendations of future direction

Questions defining the review

1. Will the IT strategy deliver the benefits outlined in the paper – both cost and risk reduction?
2. Is the approach sound – from a talent, technical and commercial approach?
3. Can we execute the strategy – do we have sufficient talent, capability and supplier alignment?
4. Is the outline timetable realistic and achievable – what are the major risks the Board needs to track?
5. Are the targets within the strategy reasonable?

Scope of Work

The scope of this work will include but is not limited to the items listed below:

- Reviews of the IT strategies submitted to date, other independent reviews related to it (KPMG/ TORI/ Inasight/ Retail IT strategy) and current WIP IT strategy
- Interviews with current IT Leadership team to assess both deeper review of each element and review alignment
- Review and clarification of the business strategy after review of the IT strategy and meetings with CIOs
- Deeper dive on the 5 year cost strategy

Deliverables:

- Deep pack for CIO and leadership team
- Executive summary and presentation for the Group Executive
- Executive summary, prepared in board format, for September/ October board – potentially with presentation but preferably that CIO presents the outcome of the review

Schedule for Review

10th September – IT strategy V3 submitted for Group Exec Review
14th September – Group Exec
19th September - IT strategy V3 submitted for Board Review
26th September – PO Board

Ideally the chosen advisor can work within this schedule to have a supplementary one or two pager to go into the 19th September papers for the board. However, the Group Exec will have had to review the contents prior to submission.

Reporting

Weekly reviews with Rob Houghton – CIO (and acting CTO until Sept)

Consult with:

IT:
✓ Michael Passmore: IT Finance Lead
✓ Andy Garner: Retail CIO
Jeff Smyth: Financial Services/ Digital CIO
✓ Mick Mitchell: Security and Operations Lead
✓ Catherine Hamilton: 5 year cost lead and governance
Sharon Gilkes: Business Performance Director
✓ Jason Black: IT Programme lead

Business:
Paula Vennells; CEO
✓ Al Cameron: CFO
✓ Martin Edwards: Strategy Director
✓ Kevin Gilliland (Retail CEO)
✓ Nick Kennett (Fin CEO)

Version: 1	Date: 21 August 2017	Sponsor:	Paula Vennells CEO
Business Lead: Rob Houghton		Copies for Information:	Jane MacLeod, General Council

POL00251661

Summary

- Overall the IT direction is right and many of the right things are being done, and good progress is being made.
- However, we believe that there is opportunity to gain more value, and also to avoid disappointment as a result of differing expectations.
- 33% of the Post Office profit uplift for next 4 years is planned from IT Opex reduction.

Structure of the following slides:

1. Your comments on the IT strategy.
2. Findings on the Post Office change agenda.
3. Findings on the IT strategy.
4. Recommendations.

POL00251661

POST OFFICE

1.1 Some quotes from our interviews

Actinista
your partner in change

Our big challenges are the regulators, conduct risks and disintermediation

We know far too little about our customers

Our risks are that we are trying to do too much - we are doing more than ever before, much investment is for IT's sake and we have multiple project teams all with interrelated releases so things will trip over one another

The first line service desk out of Manila just does not work for us

The essence of why it costs so much and is so difficult to change comes down to the Fujitsu relationship…. we have been their best cash cow

A key challenge is the complexity of running a Post Office, due to the complexity of the business and due to the systems and processes

The main thing I need is to do things better and cheaper

Rolling out the EUC platform currently is saving us a little - it gives users Office 365 and a new laptop but as a business we not yet using Sharepoint or Skype etc.

We are doing a lot better relative to our past, but relative to our competition it is not fast enough

If everything goes to plan I have a 70% confidence we can land the big things

Delivery is extremely difficult with the supplier tower model

I feel very nervous about the IT strategy. I understand what it is trying to achieve in terms of robustness. Its very technical. We are focusing on the machine rather than the marketplace, The big concern is that it takes too long to do anything.

We are making decisions about where we put resources without understanding the implications

Each programme is deliverable in isolation but the risk is in the total amount of change and the timescales

There are still too many surprises coming out of the woodwork

POL00251661

POST OFFICE ®

1.2 Your comments on the IT strategy.

Actinista
your partner in change

- The business is wary due to events / performance of the past.
- There are lots of positives about Rob and the improvements in his structure and team.
- You feel it is very technically focused. The business do not yet seem to 'get' what it will enable for them and so perhaps might not take advantage of the tech enablement in the way that adds most value.
- Some people may be standing back and letting Rob get on with this whilst they run their areas! This is probably, in partly, due to the point above.
- The biggest thing the business is looking for from IT is to improve the speed of change - they do not understand why the timescales for all changes seem to take so long and cost so much!
- Broadly the business is OK with the run service from IT. However, are they looking properly at all the opportunities to make this better and more efficient, or are they simply complacent so long as it does not break? Do they know what good looks like here? Are they aware of the operational risks which could impact them?

2.1 Findings on the Post Office change agenda.

Your strategic goals and aligning change to these:

- It is not clear that the changes planned will be enough to drive the **change in appeal** to the differing customer groups that you seek to attract in the future.
- It is not clear **which products/services you are driving** because they give you the largest growth / profit / customer loyalty etc, and how any targets for these relate to your business plan financially.
- Some of your **drivers can seem contradictory** - e.g. in Retail, pay by average transaction time length and sell post office services to drive footfall, and yet digitisation would reduce transaction time length and potentially allow customers to transact on-line and so not drive footfall into retail branches.
- You need to attract a younger demographic into the Post Office to sustain the future. What are the services you can offer to drive that **younger demographic footfall** which cannot simply replaced by online competition?

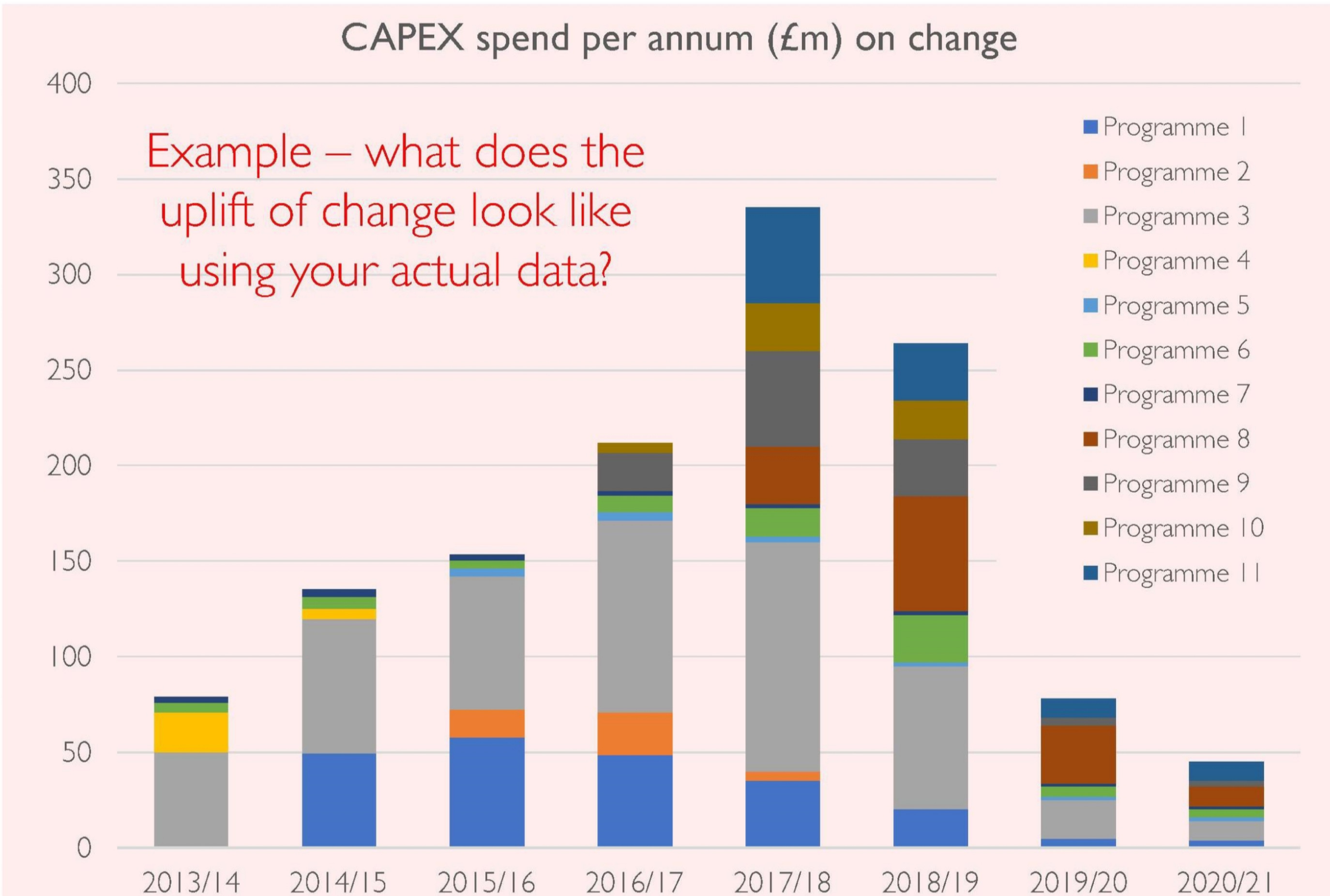
Volume of change:

- You are doing **more than ever before** in terms of change, therefore constantly evaluate:
  - Can your end users in the business absorb this amount of change?
  - Can your change functions, including IT, deliver this amount of change?
  - Will the change deliver the improvement in performance that you seek?

The following two diagrams are examples of how you can show the volume of change and impact to the business.

POL00251661

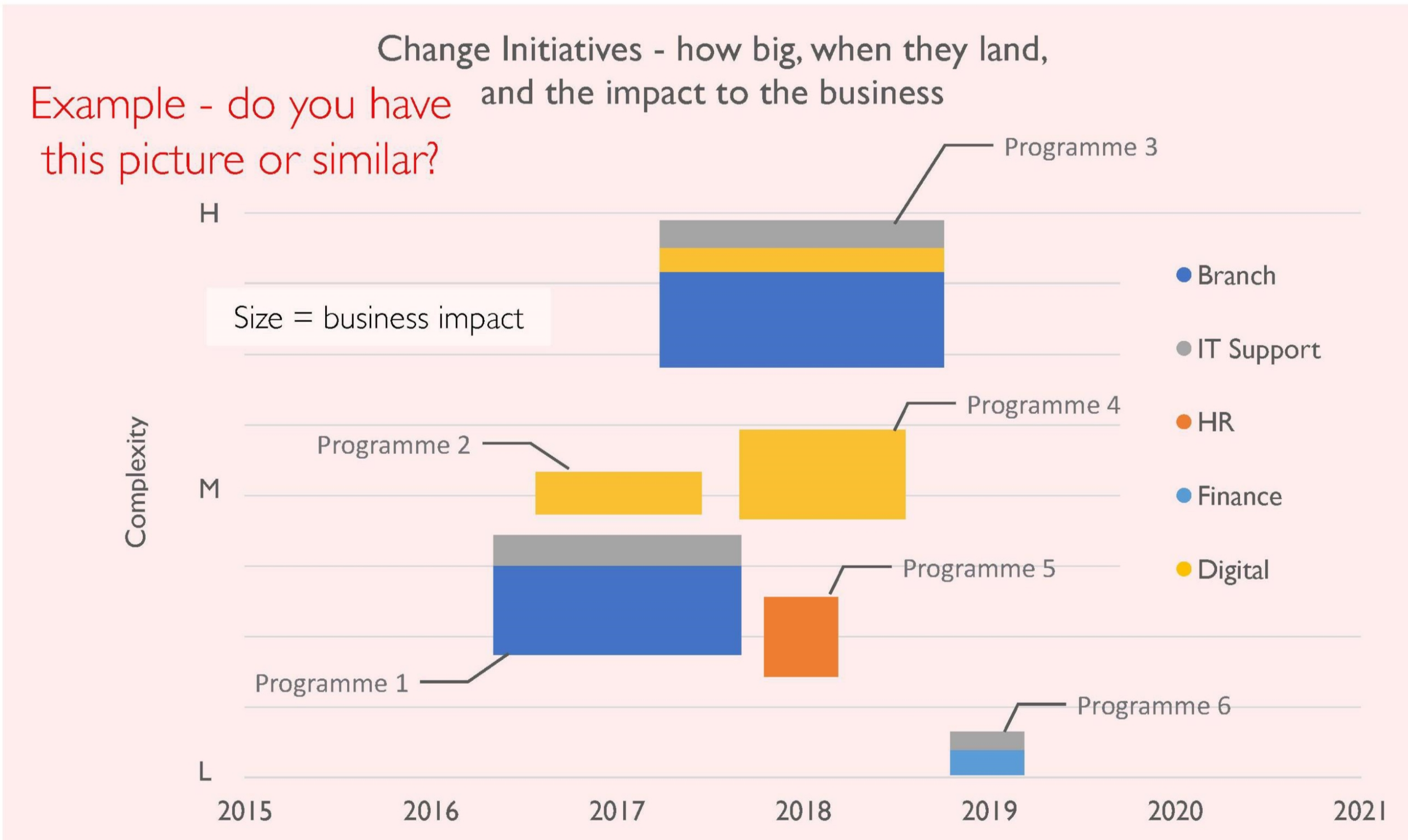
2.2 Scale of the change agenda



Can be populated with validated information from change portfolio

POL00251661

2.3 Impact of the change agenda



Can be populated with validated information from change portfolio

POL00251661

POST OFFICE®

2.4 The IT delivery plan in terms of business outcomes

Actinista
your partner in change

	2017/18	2018/19	2019/20	2020/21
Retail	ID Check	Online training in "A" Train tickets in branch Process mail at retail till		
FS & Telecoms		Customer Hub outcome 'X' Customer Hub outcome 'Y'	Customer Hub outcome 'Z'	
IT		Perimeter secured Self-serve 1st line support		
Finance				
HR	Payroll by email	Self-serve benefits		

Example - outcomes are not currently clear to us - some work may be required by the Post Office in order to populate this.
Can also overlay costs and benefits.

Who benefits
- Customer
- Colleague
- Post Master

POL00251661

POST OFFICE

3.0 Findings on the IT Strategy

Actinista
your partner in change

We address the questions raised in the assignment brief through the following sections:

1. Will the IT Strategy **deliver the benefits** - cost and risk reduction?
2. Is the IT Strategy the **right strategy**?
3. Is the **technical approach** sound?
4. Is the **commercial approach** sound?
5. Is the approach to **IT talent** sound?
6. Is the **timeline** realistic and achievable?

The following slides consider each of these in turn.

POL00251661

3.1 Will the IT strategy deliver the benefits?

Run Costs: in summary, OK position given your history and commercial situation.

- You will find it tricky to meet **a benchmark** if you use other UK retailers or retail financial services as the benchmark. What are sensible benchmarks to use – or is it truly a unique situation?
- Your IT **run costs will not compare to other retail or financial services providers** because:
  - your systems support a much broader set of services;
  - you do not charge for the consumption of IT services in the same way and therefore drive the same efficiency of behaviours - e.g. being charged for peripheral replacement, engineer visits etc;
  - your user base has shorter length of service, higher turnover and less deep knowledge of the transactions they perform and of the more complex kit they use, and therefore will require more contact with the first line service desk / other means of support.
  - You have 11,000 outlets in buildings and environments that are not 'IT friendly'
  - Government procurement processes will not be as fleet of foot and demanding of suppliers as those in retail FS institutions.
- The **commercial arrangements** you have in place currently limit the cost reduction opportunity to some extent - length of the contracts; multiple suppliers; lack of outcome-based service levels and penalty clauses; onerous exit costs etc.
- On the positive side, you have built in facility in your contracts to ensure you can **benchmark your unit costs for network and help desk costs**.
- The forecast for **your run cost reduction is realistic but challenging** and the team will need support and understanding to achieve it.

POL00251661

3.1 Will the IT strategy deliver the benefits? (cont)

Change Costs: In summary, you have a high spend on change but could use it more effectively and efficiently

- Regarding **overall total change costs**, reducing or increasing these very much depends on the appetite for change initiatives.
- Currently your change **projects probably cost you more in IT than they should** for a variety of factors, including:
  - not being as specific as to the benefits, priorities and scope as you could be for each project (e.g. Customer Hub);
  - not managing the tech providers for each project as closely and relentlessly as you might do;
  - having to navigate the range of suppliers on many projects;
  - managing some complex cross dependencies across projects;
  - engineer visits necessary to branches to implement
- You currently **underspend a large % of the budget** for change. Is this due to lack of focus on existing projects? Could the underspend be better utilised to drive more change/benefit?

Risk Position: In summary, your operational risk is reducing and you know what you have to achieve

- The IT strategy will **reduce the operational risk exposures** significantly - resilience, recoverability, security, 'route to live' etc. It will put you in a place where you should be i.e. in line with other retailers and physical retail financial services organisations. **Ongoing investment** will be required to keep you in line, particularly as you increase your financial services offerings and therefore exposure.

POL00251661

POST OFFICE

3.2 Is the IT strategy the right strategy?

Actinista
your partner in change

**The IT strategy has the right main ingredients - it is the timescales that are the challenge.
We also list some topics we have seen in other IT strategy documents.**

- Broadly **yes**.
- Sensible approach to the infrastructure and Horizon so you are **building the right foundations** but this will take a lot of time and effort.
- The issue is more one of can you do it all in **the timescales**?
- Below are example areas of things we have seen in other IT strategies:
  - honing the **service levels** delivered to the business so that SLAs and OLAs really work for the business users' needs;
  - doing more **'opportunity wins'** whilst fixing the plumbing :
  - deeper activity on **data analytics** and learning from the information you already have;
  - clearer view of the **architecture roadmap** and the steps towards delivering this – which systems will be decommissioned, which are strategic, where are new ones planned etc;
  - quick wins automating **time consuming, error prone processes** (worst ten offending processes?);
  - optimising the **end user computing capability** to increase colleague efficiency;
  - putting **greater pressure on the suppliers** to deliver what they say they will and then to deliver meaningful value add on top of that;
  - a more systemised approach for **innovation**;
  - an approach to learn more about and adopt **digital technology**.

POL00251661

POST OFFICE

3.3 Is the technical approach sound?

Actinista
your partner in change

Yes, given the basis you were starting from but you will have to 'hold the baton' on this

1. Technically the Post Office is **not doing anything that is 'bleeding edge'**. All the technical infrastructure components of what you are using are sound, and moving to the cloud makes sense for your operation.
2. In strengthening the architecture and the service manager teams you are making a step toward ensuring you have **enough technically competent people** to assess what the suppliers are doing and ensure it is moving you forward technically appropriately.
3. You are aware of the risks of not having run a full DR on the back end since 2015 and will need to schedule time to run both **DR and BCP tests**. In the meantime the Exec and the Board need to be cognisant of the resultant exposure in this area.
4. In some cases, because **your roll-outs take so long** and because you are using kit to link to some old applications, the kit is nearing end of life by the time you complete roll out.
5. You will need to ensure all **Data Protection and security issues** are fully covered off for your cloud platform, particularly if you move further into Financial Services provision.
6. On **innovation**, the sifting and prioritisation technically will have to come from the Post Office, otherwise the suppliers will only ever push and offer what they know and what they can make a profit from.
7. On **continual improvement and ensuring you do not fall behind technically** , it will also be the Post Office IT team that has to push for this to address questions such has
   - What is the plan to exit the Horizon platform in the future?
   - How well can you stress test the changes as they go out?
   - How optimised is your release strategy to safeguard the run environment and maximise change throughput?
   - Will your be security monitoring be benchmarkable with other high street financial service organisations?

POL00251661

POST OFFICE®

3.4 Is the commercial approach sound?

Actinista
your partner in change

Given the constraints, your commercial approach is sound but requires intensive effort from yourselves. Leverage senior supplier relationships to deliver value to you across the Post Office.

- You are working with a **complex 'mesh' of suppliers**.
- You supplier contracts and therefore their behaviours are **not aligned to Post Office direction**, particularly when they see it as a capped or diminishing account in terms of profit to them.
- Adhering to contract work levels, end points and to your standard of OJEU process means that you are **less fleet of foot than others** in how you use and flex your supplier base.
- You have done what you can to adjust existing contracts to drive more from your suppliers - more change capability, e.g moving run costs to change costs with Fujitsu. However, if the level of change spend is guaranteed you need to make sure that you **drive the supply chain to get value for money**.
- Your cost efficiencies and your speed of change improvements are driven through several suppliers and it is **down to the Post Office resources to navigate** and pull these all together.
- You could perhaps **leverage more out of your suppliers** by applying more pressure on them from across your exec and non-exec team.
- A key area of opportunity is **first line help** where most other organisations would be much more automated and have more rigorous SLAs with suppliers.
- Do you have enough internal capability to **validate the technical capability** of the resources from your partners?
- You will need to continually push your suppliers re **innovation and new technological approaches**, and will need to ensure they are putting technically competent teams on your work - will they always put the 'a' team on if the account is not growing for them on profit?
- The Post Office brand though is strong and you should **leverage positive PR** for you and your suppliers to your advantage!

The following diagram is a simple picture of the supplier commercial position – if used it needs to be updated and maintained.

POL00251661

POST OFFICE

3.4 The IT supplier contract timeline

Actinista
your partner in change

	Provision	5yr Spend Forecast	2017/18	2018/19	2019/20	2020/21
Fujitsu	Horizon platform (infrastructure and application)	Op. £142m Cap. £???	Renegotiation	Plan for reselection Revised contract in place		Contract end / breakpoint
CC	End user computing (desktop, print and branch counter)	Op. £57.9m Cap. £???		Plan for reselection	Contract end / breakpoint	
Atos	Service Desk 1st line support	Op. £30.5m Cap. £???	Plan for reselection	Contract end / breakpoint		
Verizon	Network infrastructure support	Op. £40.1m Cap. £???		SOC contract starts		
Accenture	Digital platform and support of key back office applications	Op. £15.1m Cap. £???				

A part-complete example - needs updating and maintaining

POL00251661

3.5 Is the approach to IT talent sound?

Much progress has been made in the quality of the IT people.
Work will need to continue to be a focus to build a highly effective IT leadership unit.

- Moving to the **"fatter" in-house IT leadership team** makes lots of sense to own and drive a step change in IT performance.
- You have a **new IT leadership team** with some apparently decent recruits to the roles. It is a very new team, with many new to the Post Office, so will need lots of time and input from Rob to build it into an effective team. Some are on a development journey and will take time (and may not make it).
- The **next layer down of the IT team** needs strengthening. This is recognised and being worked on.
- You have only two **architects**, one who has been with the Post Office several years and one brand new Head of Architecture. For the scale of change, this is a very light capability, and you don not have clear enough IT architecture **roadmaps** and good **architectural interlock** with the business yet.
- Your security approach will improve with a new **Head of Security and new SOC arrangements** with a supplier. This needs to be up and working as quickly as possible - is absolutely everything being done to enable this?
- You need to strengthen your **vendor management skills** with people who are competent to really face into the suppliers, otherwise the weight of this will fall on Rob's shoulders … and at times he is too nice with them perhaps!
- Jason Black appears to be good example of a **strong IT change programme deliverer** but, given the scale of change and the complex supplier landscape, you will need more to supplement those you grow internally.
- The **CIOs facing into the business areas** will need continuous scrutiny to ensure they successfully deliver step change.
- The relationship of **service managers** for Post Office facing into suppliers will need constant review to ensure value and service improvement is being drive from this.
- **Rob's digital role** is not yet clear, and should be given the focus on this across the business strategy. This may mean being clearer on responsibilities across Paula's direct reports.

POL00251661

3.6 Is the timeline realistic and achievable?

You are doing more than ever before, with some 'drag factors' and against very optimistic timescales, so building some contingencies might be helpful.

- You are **doing more than ever before**, seeking to deliver on a scale you have never delivered on before - it is new territory!
- And you will be **doing this with lots of 'drag' factors**:
  - a history of continuous changes in IT direction and a number of false starts;
  - a track record of late delivery;
  - a complex supplier 'mesh', and suppliers not always pointing in the same direction as you strategically or commercially;
  - a new IT leadership team at the top and a next layer down that will need to be increased in size and capability;
  - a need to get more throughput at a better price from your suppliers than you have managed historically.
- In our opinion, **the timescales are perhaps overstretching** as it is not clear where there is contingency. **It is a 'happy path' plan** and so long as all recognise this, that is fine. Do the contingencies exist elsewhere in the business?

POL00251661

4.0 Recommendations

We have four areas of recommendations for the GEC to consider how they best take forward:

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

The following slides consider each of these in turn.

POL00251661

4.1 Bringing the Post Office Strategy to Life

- **The overall business strategy** would benefit from a clear and simple **'North Star'** that everyone can understand and follow and that is supported by consistent frequent communication.
- Use **customer journeys to bring to life desired outcomes** and keep everyone focused on the end consumer.
- Focus on those things that will give the **greatest chance of achievement to the strategy numbers**.
- If you go ahead with **Panther,** really look at the opportunity for synergies and work out how you will integrate Panther into your offering.
- **Make digitisation 'real' to the organisation** and use it to add value and benefit, for example exposure to cutting edge use of digital technology, schemes to promote innovative digital ideas etc.
- **Customer Hub and Identity will be ongoing journeys** that could benefit many parts of your service proposition. There will need to be continual investment to keep exploiting the opportunities that come through learning and data. It is important to have a clear roadmap with benefits that is owned by everyone (not just Nick and Martin).
- Develop some **business contingency** to ensure you achieve the financial business plan, in case of IT slippage on cost reduction or key business outcomes.

POL00251661

4.2 Improving the quality of Portfolio Management and Change Management

- Map more clearly **the 'blobs' of change** to the **key strategic themes** (the five) and ensure you have clear line of sight of the impact each change will drive on the achievement of the strategy **£ numbers**.
- Assign a **small amount of change spend to each business area** so that they can use it for their own specific enhancements and to drive value for their area. .
- **De-risk the volume of change** by:
  - **reducing the number of change** initiatives and really focusing on those that make a difference;
  - **phasing the areas of change impact** to prevent overload in any one business area.
- Make your **macro change management** and portfolio management work better.
- Be clearer on **roles and responsibilities, metrics** and improve measurement of delivery of business outcomes – 'you get what you measure'. There may be value in establishing a very simple clear dashboard.
- Ensure you have **experienced, professional portfolio management team** and similarly experienced people managing your major programmes and projects. These people need to have done similar scale roles before and need to 'know what good looks like'

POL00251661

4.2 Portfolio management and change management (cont) – an example of 'what good looks like'

A good change portfolio function will:

- **Look forward at key risks** across the change portfolio and help mitigate them before they become issues.
- Provide **clear and simple reporting** to exec to ensure good decisions are made and the right support is provided.
- Have a clear view how all **changes align to the strategic business objectives**.
- Take a view of all types of **resource requirements** over time
- Drive a **complete 'join up' between IT and the business** so all resources are pointing the same way focused on the same things!

Here are some examples of the types of deliverables they produce / manage to give you clarity and certainty:

Business strategy

1. Alaskjdlkasdjljdsa
2. BKkshfkshdfkjdhs
3. Clsfjhkdshfkjdshkjsdhf
4. Dkjasndfkdsfhkjsdhfd
5. Elskdjfsdlkfjlkdfjksjdf

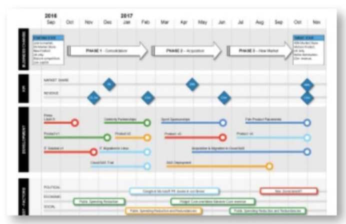
Key change initiatives

1. Alaskjdlkasdjljdsa
2. BKkshfkshdfkjdhs
3. Clsfjhkdshfkjdshkjsdhf
4. Dkjasndfkdsfhkjsdhfd

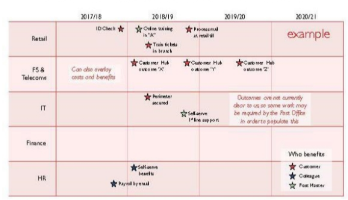
Prioritised change portfolio

Mandatory	Cost£	Ben£
Alaskjdlkasdjljdsa	123	456
2. BKkshfkshdfkjdhs	123	456
3. Clsfjhkdshfkjdshkjsdhf	123	456
Strategic		
1. Alaskjdlkasdjljdsa	1234	5678
2. BKkshfkshdfkjdhs	1234	5678
3. Clsfjhkdshfkjdshkjsdhf	1234	5678
4. Dkjasndfkdsfhkjsdhfd	1234	5678
5. Elskdjfsdlkfjlkdfjksjdf	1234	5678
BAU		
1. Alaskjdlkasdjljdsa	12	34
2. BKkshfkshdfkjdhs	12	34
3. Clsfjhk	12	34
Innovation Pilots		
1. Akjhfskdfhkjdsfhks	12	34
2. Bkajhfkjdsfkjdhfkjs	12	34

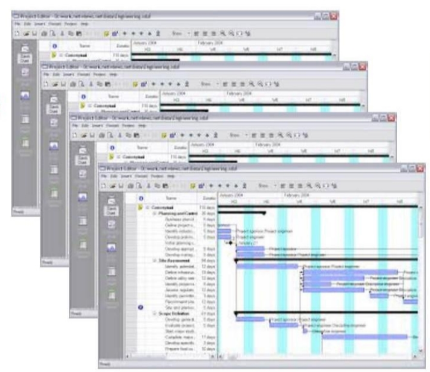
Change plan



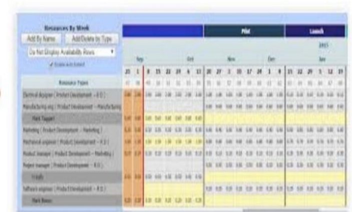
Business outcomes



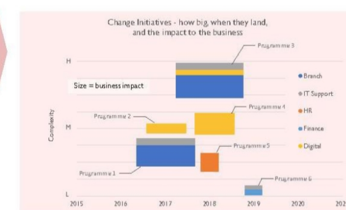
Programme & project delivery



Portfolio resource schedule



Business impact assessment



POL00251661

POST OFFICE

4.3 Consider some other potential business enhancement opportunities

Actinista
your partner in change

- Digitise **training and Post Office operating processes** to be more easily absorbed and accessible for people working in your branches. You spend huge amounts of time and money on training (face-to-face and shadowing), there is a high turnover of staff in branches, there are long wait time for help query support and changing processes can currently be cumbersome. There are other more accessible, more effective digital ways of delivering this today which other retailers are already adopting.
- Drive more value from **analytics and intelligence** from the your existing data – elsewhere we see that a small team of 2 to 4 good data analysts with some analytical tools gives insight that they do not currently have, and therefore helps them make better business decisions.
- Look at the opportunity to hone the **website to appeal more to the customer segments** you are targeting in order to drive more business now and in the future.
- **Provide AML services for other organisations**, e.g. lawyers, accountants, estate agents, trade accounts and charge a transaction fee for doing so. Is there a **possibility to provide signature witnessing for other organisations**?

POL00251661

4.4 Strengthen delivery of the IT Strategy to reduce delivery risk

- **Leverage senior Post Office Execs involvement with vendors** in a structured way to apply real pressure on your vendors so that they are seriously striving to add value to your business.
- **Strengthen your vendor management capability** in terms of experienced, senior people; perhaps people that have worked in the relevant parts of the supplier organisations so that they know how to navigate and get best value.
- Hold your suppliers to account in terms of **bringing more innovative ideas / solutions** to the table.
- Find a way to **benchmark the performance of your suppliers** on change delivery.
- Be more clear on what the **future planned technology changes will enable** in terms of business improvement and innovation.
- Introduce **regular release cycles** for deployments to key applications, e.g. Horizon and Website.
- Validate that the **Fujitsu cloud solution will provide the flexibility you need** to move to an alternative supplier in the future, should you wish to do so.
- Look at what is giving most pain to Post Masters in terms of IT service desk and look for any **potential quick wins**.
- Ensure that you have a **simple, integrated plan with IT resource allocation** to show the future resource risks, skills and pinch points.

POL00251661

Summary

- **Overall the IT direction is right and many of the right things are being done.**
- There is a reducing risk of **serious Post Office operational failure** as a result of IT.
- Regarding change, there is a significant risk that **too much is being done** / planned to be done – **'it is a happy path plan'**.
- We believe there is an opportunity to **get more from your technology suppliers** in terms of business alignment, partnership working and innovation.
- There should be more clarity around **the specific business outcomes** that will be enabled through the delivery of the technology change projects.
- There is a strong opportunity to give **better alignment** between what specific change is being planned and your overall business strategic objectives. This will help with priorisation and reduce risk to the achievement of the business plan.

Project Panther

Authors: Tom Wechsler & Andrew Goddard | Sponsor: Kevin Gilliland | Meeting date: 23 November 2017

Executive summary

Context

As set out in the June Board Strategy discussions, bill payments are a core part of Post Office's retail proposition, driving footfall and value for retailers. The bill payments business has been declining relative to the competition. This paper provides an update on one of the key proposals within our strategy to address that decline: Project Panther – the potential acquisition of IRRELEVANT bill payments business.

Questions addressed in this report

1. What are we aiming to achieve?
2. What benefits do we expect from acquiring IRRELEVANT bill payments business?
3. What is included in the potential deal?
4. What would constitute a good deal range?
5. What is the plan for completing the transaction?

Conclusions

6. We have been pursuing the option to acquire IRRELEVANT bill payments business including IRRELEVANT convenience stores and IRRELEVANT transactions. This will strengthen our place in the value chain for consumers, clients and retailers, and increase our ability to compete against IRRELEVANT
7. Having completed comprehensive IRRELEVANT and operational due diligence and applied conservative forecasts and assumptions, we believe that acquiring IRRELEVANT bill payments business is worth c IRRELEVANT to Post Office.
8. Our analysis suggests that a price between IRRELEVANT represents value for money to acquire the carved out bill payments business.
9. Furthermore, the acquisition of IRRELEVANT bill payment business supports Post Office's wider retail strategy and creates optionality to expand the distribution of some of our products, notably mails.

Input sought

The Board is asked to note the progress made since June strategy discussions and endorse the move to formal negotiations with IRRELEVANT Our intention is to return to the Board with proposed heads of terms in January.

POL00251661

The report

What are we aiming to achieve?

1. Bill payments are a core part of the retail proposition, representing the third highest driver of footfall in the network with IRRELEVANT and generating positive IRRELEVANT for the Post Office.
2. Bill payments provide the following benefits to our retail network:
   a. *Drive footfall* – Payments customers visit more frequently than average: IRRELEVANT visits per month vs. IRRELEVANT for all Post Office customers;
   b. *Drive basket size* – Customers buy more when they visit, with an average basket of IRRELEVANT compared to the Post Office average of IRRELEVANT
   c. *Have social purpose* – bill payments are explicitly part of the social purpose of the Post Office, providing a facility for the financially excluded to pay bills.
3. However, Post Office has been managing the decline of this business while IRRELEVANT has gained significant market share. Both Post Office and IRRELEVANT are suffering from market share loss at a faster rate than the competition, with transactions declining at IRRELEVANT is expected to continue to take market share, limiting their top-line decline in transactions to 4%.
4. PayPoint's success arises from:
   a. *A large network* – IRRELEVANT locations, conveniently located in urban areas and open 39 hours per week longer opening hours than the Post Office;
   b. *Good technology* – easy to use in-store technology, integrating features such as ePos software, card acceptance and bill payment into their own hardware solution or retailers ePos system;
   c. *Strong bill payment content* – enabled IRRELEVANT to secure a broader content portfolio than the Post Office or IRRELEVANT, including exclusive contracts with clients such as the BBC (TV Licensing) and via pre-pay energy payments
5. We want to arrest Post Office's decline and grow our share. Our aim is to outperform the current 5-year plan to maintain and strengthen the value of bill payments in the retail proposition.
6. Since June, we have initiated Project Panther to assess the opportunity to acquire or partner with IRRELEVANT
7. IRRELEVANT is the 3rd largest bill payments provider with IRRELEVANT of the market. It was acquired for IRRELEVANT by Grovepoint Capital in Dec IRRELEVANT from Duke Street. Under new payment leadership, their revised strategy is focussed on targeting SMEs with a leading card terminal offering. The management of bill payments is not their focus and a disposal to Post Office represents a logical approach.

POL00251661

8. The acquisition of IRRELEVANT carved out bill payment business offers the potential to add an immediate 50m transactions, taking our market share from approx. IRRELEVANT and take ownership of an extended network of 14,000 convenience stores open 100 hours/week. This would place Post Office in a much stronger position to compete with IRRELEVANT on some of their key areas of strength; notably, network size and additional client content.
9. We have a window of opportunity to regain market share. There are significant number of the largest payment contracts coming up for renewal in the next 18 months. This includes all of the large utility companies, including British Gas with over IRRELEVANT pre-pay transactions per annum. The combined strength of the Post Office and IRRELEVANT networks offers clients a stronger proposition than they have now and us the opportunity to secure some of them exclusively.
10. Without an acquisition of IRRELEVANT business, our plan is to maintain our expected IRRELEVANT against the current IRRELEVANT by restructuring our relationship with resellers and winning new direct clients. However, this would significantly hinder our ability to compete effectively with IRRELEVANT who will continue to profit from bill payments and in turn, invest in IRRELEVANT, our largest mails competitor.

What benefits could we expect from acquiring Payzone's bill payment business?

11. Comprehensive due diligence work has been completed with PA Consulting. Fig1. Below shows that the acquisition of IRRELEVANT bill payment business could generate a total of IRRELEVANT

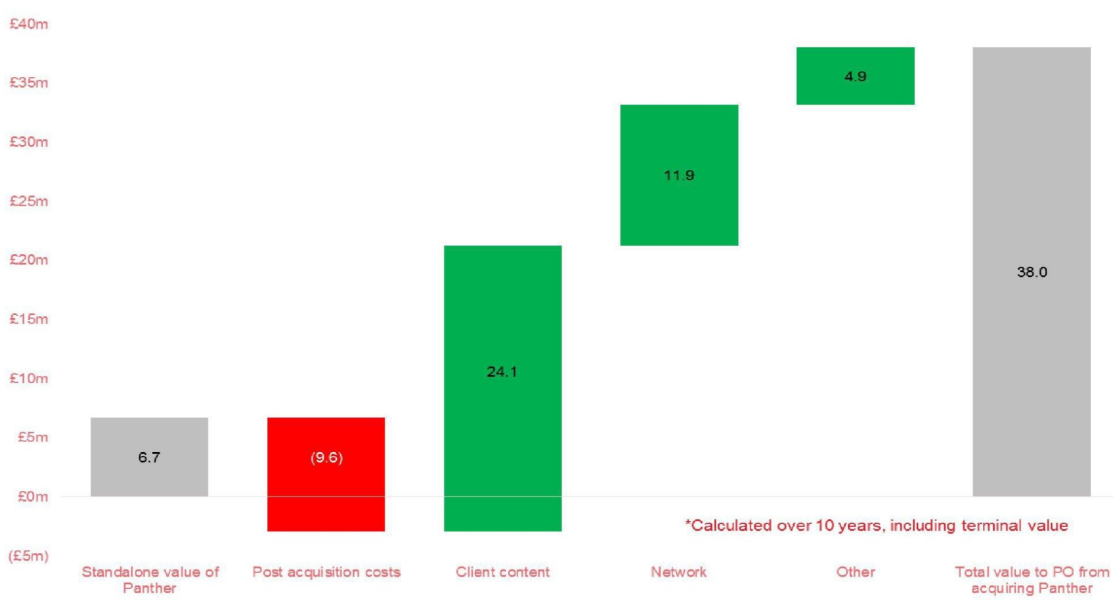


Fig. 1 - Total potential value from the transaction (including terminal value)

12. As a standalone business, we have calculated the IRRELEVANT business to generate discounted cash flow returns of IRRELEVANT with acquisition costs of IRRELEVANT and an overall terminal value to Post Office estimated at IRRELEVANT

A LARGER NETWORK

13. Adding IRRELEVANT network of IRRELEVANT agents, mostly located in cities and large urban areas significantly increases our network coverage of population within IRRELEVANT

14. Sharing bill payment content between the two networks is estimated to attract up to 7 million transactions from IRRELEVANT

15. The increased network achieved with this transaction is expected to generate discounted cash flows of IRRELEVANT and a further increase of IRRELEVANT transactions, mostly driven by market share improvement, at the expense of IRRELEVANT

STRONGER BILL PAYMENT CONTENT

16. Adding the IRRELEVANT network would narrow the gap with IRRELEVANT in terms of locations and opening hours; whilst it would not be a larger network than IRRELEVANT the combined rural and urban strength would be compelling for bill payment clients to consider exclusive deals with us, given the right price.

17. Strengthening the Post Office's client portfolio through new and exclusive contracts is estimated to generate IRRELEVANT mostly driven by an increased opportunity to win new clients on an exclusive basis, and by adding critical smart ticketing content to the Post Office content offering.

EASY TO USE TECHNOLOGY

18. IRRELEVANT bill payment technology is more developed than the Post Office. By adopting IRRELEVANT in-store bill payment solution as a replacement for our current IRRELEVANT device, Post Office could increase its speed to market with a new device, whilst saving on procurement and software development costs.

19. In addition, it would provide faster access to smart ticketing and smart metering, which are expected to represent an area of substantial transactional growth.

20. The availability of new devices would reduce time to market by at least six months helping displace competitors from Post Office branches sooner.

OTHER BENEFITS

21. IRRELEVANT card payment solution could also provide additional value to the Post Office by sharing revenues generated through the acquired installed base of IRRELEVANT convenience stores currently paying for this service.

[1] *Post Office figures adjusted to exclude community and outreach branches*

22. Furthermore, the acquisition of IRRELEVANT bill payment business supports Post Office's wider retail strategy and creates optionality to expand the distribution of some of our products, notably mails. These have not been included in our financial evaluation but we have included lower costs for acquiring agents and support e.g. equipment and cash.

What is included in the potential deal?

23. Our aim is to purchase IRRELEVANT carved out bill payment business. We have identified the following areas as in scope:
    a. Network of IRRELEVANT convenience stores
    b. Existing and pipeline of bill payment clients
    c. Technology estate to operate the bill payment business
    d. Use of and rights to the IRRELEVANT brand
    e. 47 staff currently employed by IRRELEVANT carved out bill payment business
    f. Revenue share arrangement for IRRELEVANT card acceptance business
    g. Other assets required to operate IRRELEVANT the bill payment business
24. We believe that there are benefits in retaining the IRRELEVANT brand, as this will avoid the substantial cost of rebranding the acquired network, as well as avoiding potential customer confusion by rebranding under the Post Office brand.
25. Furthermore, although today the IRRELEVANT brand does not carry much value this can be enhanced from the increased volume of transactions from Post Office's bill payments content, e.g. British Gas.
26. Our objective is to minimise any valuation attached to the IRRELEVANT brand and find an amicable solution for both parties.

What would constitute a good deal range?

27. In the June bill payment strategy paper, we suggested a potential valuation for the transaction between IRRELEVANT Having explored what an acceptable deal range might be in detail, we think that a valuation between IRRELEVANT to IRRELEVANT can generate a payback between 3 and 5 years, as illustrated in Fig.2.
28. We also propose that a proportion (to be defined) of the transaction should be dependent on performance, with payments over three years from the acquisition associated to some or all of the future revenues growth.

IRRELEVANT

What is the plan for completing the transaction?

29. We have a detailed plan of all major activities to execute the deal, meet CMA approval requirements, counter market reactions, and engage with all Post Office's major internal and external stakeholders.
30. We are working to agree a deal with IRRELEVANT in principle; conditional Heads of Terms; and mobilise key transition expertise to execute the transaction.
31. We are preparing for a phase one assessment by the CMA, with the help of Oxera and Pinsent Masons. Their preliminary view is that this transaction will in fact encourage competition against PayPoint's leading market position.
32. Nonetheless, prior to CMA approval and, realistically, up to June 2018, it is likely that we will seek to operate under a strategic alliance with IRRELEVANT to support the negotiations for critical existing and new client contracts.

What are the risks associated with the transaction?

33. Failing to conclude this deal could mean a continued decline of Post Office's bill payments business and impact the value of our proposition to existing and new branches. Continued decline in this market will strengthen IRRELEVANT financially to reinvest in IRRELEVANT impacting our mails business.
34. Pursuing this deal also presents risks: externally, in the form of a reaction from the competition, CMA or the broader market, and internally, from our limited experience and capacity to execute the acquisition and manage the transition effectively. We are working up plans to bring in expert resource and support.

Next steps

We will continue to have discussions in order to ascertain with IRRELEVANT if a deal is achievable. We will return to the Board with proposed heads of terms in January.

POL00251661

Mails Strategy Update

Author: Mark Siviter Sponsor: Kevin Gilliland Meeting Date: Nov 2017

Executive Summary

Context

In May 2017 we set out our Mails strategy and received a mandate to negotiate the contractual Mid Term Review (MTR) with RM. The purpose of this paper is to update the Board on how the Mails market has developed since May, the implications for Post Office and how we are responding. In addition it provides an update on our negotiations with Royal Mail and our recommendations on securing a long term extension to the current MDA.

Questions addressed in this report

1. How has our strategy and the market developed since May?
2. How are we progressing with our no regret actions?
3. What progress has been made with Royal Mail?
4. How will we move forward?

Conclusion

1. Our strategy, agreed in May, remains focused on meeting the needs of the customer groups most important to Post Office.
2. The changes in the market point to a direction of continued competition for marketplace volumes.
3. We are actively taking action to improve our attractiveness as the UK's leading mails retailer, improving the in branch customer experience, network coverage and capabilities, and customer journeys.
4. In addition we are building our relationships with other key operators in the market such as eBay, Amazon and others. The degree to which we can pursue these is limited by the conditions in the MDA.
5. We have prepared well for a Mid Term Review with RM which has been superseded by Royal Mail's recognition of the value of entering into negotiations on a long term extension of the MDA. We believe it is a no regret move to engage in negotiations with RM should they receive approval to do so.
6. Our strategy and negotiation preparation have been reviewed by Accenture who have confirmed their appropriateness for a MTR, and with some further work a long term negotiation.
7. We will return to GE and Board in January with a formal recommendation to negotiate with RM with a detailed mandate.

Input Sought	Input Received
Board is asked to note: progress we have made since May and developments in the market and Royal Mail, the assurance by Accenture of the strategy and negotiation preparation, and the next steps to prepare for LTR	Input into this paper has been received from Mails and Retail teams.

POL00251661

The Report

Summary of Mails Strategy

1. In May our strategy was agreed by GE and Board. This separated our market into three key segments reflecting the different customer types. Each segment possesses differing needs, competitive dynamics and value to Post Office, requiring a separate approach.
2. In summary these were:
   a) **'Core USO'** volumes including consumer letters and parcels. IRRELEVANT IRRELEVANT this is a critical IRRELEVANT and our SGEI obligations. Consumers are generally low volume, occasional senders generally with low awareness and propensity to use competitors due to the strength of our brand, but of high value to retailers IRRELEVANT Both RM and Post Office benefit from consumer brand confusion and the VAT advantage from USO services.

      While in long term decline IRRELEVANT, our objective is to sustain a close, long-term relationship with RM to maximise profitability. We will maximise sales and profitability through improved customer services and increased, selective automation (e.g. SSKs) in our branches.

   b) **'Multi-channel marketplace'**, is mostly large letter and parcels from marketplace sellers and eBayers and IRRELEVANT Accounting for IRRELEVANT IRRELEVANT customers range from occasional sellers to small business sellers where IRRELEVANT While RM and Post Office lead the market IRRELEVANT this is under increasing threat from price competition, new entrants (eBay shipping platform) and RM's channel strategy.

      Our strategy is to invest in improving the integrated online and in branch journey for customers who wish to use it, expand self-service and quick drop options. Drop and Go remains a core element of our customer proposition.

      We continue to see RM as our preferred partner however, there is no certainty they will continue to win or IRRELEVANT IRRELEVANT To this end we wish to continue close co-operation whilst maintaining the optionality of existing in part or full, the agreement should a market tipping point be reached.

   c) **'E-retail'** market accounts for IRRELEVANT and comprises Click and Collect and Home Shopping Returns. This is smallest but most rapidly growing segment IRRELEVANT characterised by customers actively choosing this options from a range of alternatives (e.g. home delivery, or return in store). RM & Post Office combined have IRRELEVANT IRRELEVANT, which is largely preferred by young, urban online shoppers with less affinity to the Post Office brand.

      Our intent is to compete directly with Collect+ and Hermes to become the ubiquitous third party network. We will improve the experience and functionality of our Local Collect service but the IRRELEVANT IRRELEVANT of MDA restrictions on Post Office accepting third party items in our network.
3. We also set out a mandate for a Mid-Term Review (MTR), the mid-term contractual opportunity for both parties to agree any changes needed for the second half the

POL00251661

MDA (slide 2). We sought to prioritise agreement of new terms for the increasingly competitive multi-channel and e-retail segments of the market. Our specific objectives were:

IRRELEVANT

4. In doing so we sought to protect the value in the current contract, defend our brand position and refuse any extension of restrictions beyond those currently set out in the MDA. In the event that no agreement was reached we were happy to revert to the formal contractual renegotiation window of Jan 2019.
5. Based on our analysis, and the output of the joint strategy work, we remain more confident of the value we offer RM. We would not renew the agreement at any cost and are clear that we should not offer up significant financial value in order to secure an extended agreement.

What has changed in the market since May?

6. Since May the high level market trends have continued with development of further competition in the multi-channel marketplace segment for Post Office.
   a) UK letter volumes continue to decline at approximately -4% to e-substitution although RM is seeing further erosion of bulk letters to downstream access (DSA) competition. Parcel volumes continue to grow at ~5% largely driven by e-retail growth.
   b) Competition, especially in parcels remains intense. The potential for contraction of market capacity through consolidation receded after the Berkeley brothers, owners of Yodel, withdrew Shop Direct Group (SDG) from sale.
   c) Competitors continue to chase higher margin customers in the SME area in particular. Despite launching a couple of new services targeting returns and social trading site customers, we have seen no evidence of Collect+ achieving their strategy to become carrier agnostic or doubling their network to 12,000.
   d) Doddle, the recent challenger brand closed all but 6 of their 23 standalone stores to focus on growing locations through partners, further demonstrating the economic challenge of dedicated parcel shops in city centres. They appear on track to hit their target of 500 retailer hosted stores by the end of 2017.
   e) Royal Mail entered the price war for medium parcels (essentially >2kg) with two online promotions to test customer price and brand elasticity. This saw significant uplift from a small base in their Click and Drop service despite a counter offer by myHermes.
   f) The eBay/Shutl shipping capability is being slowly integrated into eBay's seller journey and we now expect an incremental soft launch in Q4. e/Bay and Hermes ran a joint £2 small parcel promotion in September to drive awareness.
   g) Royal Mail will launch a new Tracked Online service in January sold initially via their own online platform 'Click and Drop', followed by eBay and Amazon. This

will offer marketplace sellers a fully tracked RM service for the first time creating a risk of migration from branch sales of Signed For.

h) Royal Mail half year results (16th Nov) show a flat performance in the UK, with growth in parcel volumes in line with the market at 6%, helping to offset the decline in letters. The continued threat of industrial action (IA) presents a further challenge to their results irrespective of the outcome as a settlement will require result in increased operating costs.

i) All carriers are now focused on peak and whether growing economic uncertainty and weakening consumer spending will affect e-retail volumes after non-food online sales growth fell from annual monthly average of 8% to 4% in October.

What does this mean for Post Office and RM?

7. For RM and Post Office the biggest challenge is increased competition for marketplace customers. eBay's shipping platform will offer marketplace customers more choice with greater reassurance while reducing the value for carriers as price transparency improves.

8. In network terms the difficulty Doddle and Collect+ have in expanding their branches, suggests the UK may be reaching parcel shop saturation as retailer economics tighten. While not complacent, it reinforces the relative strength of the Post Office and the value we offer RM.

9. Post Office's and RM's IRRELEVANT IRRELEVANT IRRELEVANT IRRELEVANT

10. RM appear to have reduced investment in a UK growth strategy relying on parcel volume growth and cost cutting to support future earnings. IRRELEVANT IRRELEVANT IRRELEVANT IRRELEVANT IRRELEVANT

11. RM's Tracked Online service, IRRELEVANT IRRELEVANT IRRELEVANT This further emphasises the need for Post Office to provide differentiation and excellent customer experience in branch.

12. The twin challenges of marketplace competition and possibly growing tensions with RM reinforce the need to rapidly secure our objectives and protect Post Office's core assets; our customer relationships, brand and network.

What action have we taken to prepare Post Office?

13. In response our approach has been to:

a) Improve our understanding of customer buying behaviour for our target customer groups in the marketplace and e-retail segments. This is informing our strategy and proposition design by highlighting, for example, the strong correlation between Returns and Click and Collect users and the demographic distribution across age groups.

b) Incorporate the key outcomes of this into the network development strategy, particularly focusing on the number, location and type of branches.

i) Extending the branch network, IRRELEVANT IRRELEVANT where Post Office is under represented compared to

POL00251661

competitors. We will open 150 new branches this year in such locations to increase customer choice and convenience.

ii) Work to improve in branch experience for key customer groups, specifically multi-channel marketplace users who are high value and at risk to direct or indirect competition. We have done this through initiatives such as Journey Simplification and 'No queues' which extend beyond the Christmas peak, including reducing SSK host interventions, and improved availability.

iii) Investing in Drop and Go. IRRELEVANT IRRELEVANT IRRELEVANT IRRELEVANT

iv) We have created new back office positions in DMB's to support processing of D&G volumes and online customer journey improvements such as online registration, transaction visibility and online manifests will be deployed by January 2018.

c) We have increased the prioritisation of improving our click and collect capabilities. In the short term we will deliver improvements to the current Local Collect IT system to improve management information and service visibility, helping improve the consistency of a customer's experience in branch.

IRRELEVANT

d) Identified and evaluated market opportunities beyond Royal Mail. IRRELEVANT

IRRELEVANT

13. These are no regret actions that will sustain Post Office's attractiveness as a network to either RM or other parties.

What progress have we made with key market players?

14. We have made good progress building our relationship with IRRELEVANT We now have a wider and deeper range of relationships and explored a joint programme of actions to demonstrate intent and capability.

15. In the short term these actions are centred on tactical developments which deliver immediate mutual value such as sharing customer insights, co-promotion of drop and go and other marketing, plus the possible sales of eBay packaging via Post Office's physical and online channels. The longer term objective is to seek their input to the design and shaping of the branch network to ensure we deliver the best possible offer to their sellers.

16. For their buyers, eBay are looking to extend their current click and collect network from 950 Sainsbury/Argos stores to more than 3000 outlets using third party providers. Under the MDA Royal Mail will lead our response, but we now have direct dialogue and visibility of the service standard expected from which we can build our Local Collect proposition.

17. We have had several conversations with IRRELEVANT IRRELEVANT IRRELEVANT

POL00251661

18. Furthermore, we are engaging with other market specialists such as Parcelly, to inform our propositions and technical service design. These operators tend to be IT and concept rich but lack the brand, infrastructure and volume to create profitable businesses, all of which are core strengths of Post Office.

What progress has been made with Royal Mail?

19. Since May the negotiating environment has changed. Key personnel have changed and RM has come under growing pressure as investors become increasingly nervous over its ability to compete effectively in the parcels market, resulting in their exit from the FTSE 100.

20. Over the summer we engaged and worked with Royal Mail resulting in them now recognising that an MTR is not the right means to address the core challenges we both face in the market as it would not provide certainty beyond 2020 or address the core issues such as online sales or customer data ownership.

21. As we intended, RM have expressed their desire to move directly to discussions regarding early renewal of the entire agreement and will seek agreement to negotiate with Post Office at November's Chief Executive Committee (CEC) prior to seeking final approval from their Board in early 2018.

How do we move forward?

22. Post Office must decide whether to engage in early negotiations, or revert to the formal contractual renegotiation window that starts in January 2019. IRRELEVANT IRRELEVANT IRRELEVANT IRRELEVANT

a) While competition in the multi-channel market and e-retail segments is increasing, Royal Mail remain market leader especially IRRELEVANT IRRELEVANT IRRELEVANT IRRELEVANT

b) We expect RMG's market position to come under IRRELEVANT IRRELEVANT IRRELEVANT This provides more time for Post Office to develop an optimum response in the form of either an improved offer or other options if required.

c) We have a window of opportunity where RMG are interested and engaged following the IRRELEVANT We must capitalise on this in case key stakeholders change such as their CEO or other urgent priorities distract them.

d) Early renewal will bring forward the opportunity for Post Office to exercise new freedoms if secured or understand the key areas of conflict should it fail.

e) It will provide early certainty of the future financial value for Post Office, and help offer longer term certainty to agents and the shareholder.

23. While we believe it is right to engage early this does not mean we are prepared to reach a deal at any cost, for example should Royal Mail seek excessive cost savings beyond the natural extension of the efficiency savings already provided by the MDA, Post Office can either seek to continue to negotiate or if no progress is expected, revert to the contractual re-negotiation window.

24. On this basis we are preparing a formal recommendation to enter into early negotiations and a detailed mandate to bring to January GE and Board. If approved, we believe we should aim to complete renegotiation in time for implementation in April 2019. This aligns with both party's financial years and

POL00251661

secures any relaxation of restrictions a year earlier than contractually possible. This would need an agreement to be reached by the summer 2018.

25. To provide reassurance to the business and the Board we commissioned a review of our strategy and MTR preparation by Accenture who concluded:
   a) Post Office's underlying market understanding and conclusions are robust and consistent with their own views of the market.
   b) The approach and objectives set out at the May Board are appropriate.
   c) The Mails team have identified and understood the key risks in terms of the market, the strategy and the negotiation with Royal Mail.
   d) The business should therefore have a high degree of confidence that the team have prepared as well as is possible to deliver against their strategy for the Mid-Term Review.
   e) The only area to be completed was the development of negotiating tactics and the creation of a sales pitch for Royal Mail, which now complete.

26. In addition, we asked IRRELEVANT to consider its appropriateness and our readiness should the discussion move to a long term renegotiation, the conclusion of which was:
   a) The analysis which has been completed by the Mails Team provides all the information needed to support the negotiation of a new long-term contract, and the strategy that has been established remains sound.
   b) Given that the time horizon for a new contract could be IRRELEVANT and with that comes additional uncertainty, some additional activities were recommended for consideration:
      i)
      ii)
      iii)
      iv)

IRRELEVANT

These considerations will be addressed in the final mandate we will present to GE and Board in January.

POL00251661

Mails Strategy Update - Reference material

November 2017
Version 1.0

Strictly confidential and not for onward distribution

POL00251661

Annex 1. Our strategy is based on the needs of our different customers and the market dynamics

IRRELEVANT

All data relates to Post Office sold and measured acceptance volumes only and therefore excludes “Annual count” bulk acceptance of RM’s account customer volumes.

POL00251661

Annex 2. IRRELEVANT

IRRELEVANT

IRRELEVANT

IRRELEVANT

Network Development Delivery

Author: Neil Ennis Sponsor: Kevin Gilliland Meeting date: 23rd November 2017

Executive Summary

Context

Our Network Development strategy, agreed by Board as part of our Retail Strategy in June 2017, gives us a clear direction to 2021. We plan to grow our network by opening Post Offices in new locations (c800 by 2021, 150 this year), particularly city centres where competition is fiercest but also rural locations, to balance expected churn. Our customers and our clients – particularly Royal Mail and payments clients – demand convenience and these new locations, combined with rolling out automation in our agency network, will deliver this.

We have funded 2016-2018 activity (notably 265 contracts signed and 150 new branches built by year end, providing a pipeline of 115 branches to build early in 2018/19) from the existing Network Transformation programme (£10.9m) and now need to agree funding for 2018/19.

Questions addressed in this report

1. What do we propose to do and why?
2. What options did we consider?
3. What do we need to do next to progress?

Conclusion

1. We propose to maintain our network of at least 11,500 and change it to better match customer demand by delivering c300 'whitespace' Locals with a particular focus on London, transitioning some small Mains to Locals and managing churn in the Community and 'stranded' (unconverted) parts of our network.
2. With a clear strategy for our network development, our key consideration was whether to request funding for more than one year. We have decided not to, given the new models and initiatives in our Retail Strategy (next generation automation, EPOS integrated proposition through the retailer's till, ongoing Simplification) are being developed and tested during 2018/19 and will give us better and cheaper ways to maintain and develop our network in time for 2019/20 and beyond.
3. Securing funding will allow us to continue establishing a pipeline of new branches for delivery in 2018/19 and retain the team we need to deliver it.

POL00251661

Input Sought

1. Approval from the POL Board of £18.71m to deliver the Network Development Programme from April 2018 – March 2019.

Input Received

2. The Network Development Strategy was approved by the GE and the Post Office Board in September 16. It was further validated as a key part of the Retail Strategy approved by the Board in June 2017. The Post Office Executive Change Group (GE) has approved this case in October 2017.

The Report

What is the need or opportunity and why now?

We have a customer and competitive imperative to 'be where are customers are', opening new outlets in both the urban and rural areas. This does not mean replacing branches with like-for-like provision in the same location where customer usage is very low. To do this requires active management of our network, both opening up new branches where our customers need them and competition is fiercest (London being the most obvious example) and managing 'churn' so we can replace branches that are not the best customer or commercial option such as some small Mains branches, 'stranded' branches we have been not been able to convert through NT due to a lack of an alternative in the area, and Community branches). Maintaining our social purpose in rural and urban deprived areas remains essential and again requires us to open new branches to offset churn in this part of the Post Office estate.

Continuing our network development activity is not only essential to delivering the requirements above, it is also needed to avoid losing vital momentum. Having stabilised our network through Network Transformation after years of decline, not delivering new branches would result in us shrinking our network in areas where we want to be active. This would send the wrong message to our customers and our competitors. It would also result in significant 'noise' from customers and stakeholders locally and nationally as we would be unable to maintain our positive narrative of a stable network.

More practically, ceasing funding for 2018/19 after one year of Network Development activity would leave us unable to fulfil our planned commitments to build new branches with operators who will have signed contracts but not yet opened their branch (115 by year-end with planned opening dates in early 2018/19, which we will need to avoid a sudden drop in network numbers). We would also have to make redundant the field and programme support team (129 people), losing experienced resource knowing we would almost certainly need to recruit a similar team in the near future to deliver this type of activity.

What do we propose to do and why?

The focus of our work will be identifying and opening c300 new network locations (aka 'whitespace' branches). These will all be Locals, this currently being our best model for providing customers with a convenient service which is sustainable for the agent and for Post Office. In addition we propose to continue to change the shape of our network, using natural churn as the opportunity.

In doing all this we are aware that our current cost of build is higher than it should be. A Local costs c£17.5k and has a payback of c10 years. We are therefore focusing, in parallel to this work and not included in the funding request, on developing new models and simplifying our proposition to retailers. This is crucial to note as we recognise how important this is to minimise our ongoing costs by reducing the cost of build.

We have started a procurement exercise for the next generation of self-service machines and are trialling a lease-based model with Multiple partners shortly. We will also be trialling an EPOS integrated solution (sometimes referred to as 'HNGT' internally, and meaning enabling a retailer to sell Post Office products through their own till) with Multiples in late Q4 2017/18 and implementing operational simplification and the next phase of Mails simplification in 2018.

With this development as background, our key proposed activity is as follows:

1. **Small Mains to Locals:**

We will transition ~114 small Mains to Locals (through churn) with an EBITDAS benefit of ~£6.5k per branch.

2. **Managing 'stranded' branches left after NT:**

We will continue to reduce the number of 'stranded' Network Transformation branches. We expect ~46 Traditional branches left after NT to close, replacing with a new Locals giving an EBITDAS benefit of ~£11.5k per branch.

3. **Managing change in the community network:**

We will replace through churn, ~123 Community branches with new Locals, giving an EBITDAS benefit of ~£8.5k per branch.

4. **Maintaining the Network:**

We have identified more than 2,000 potential sites for new Locals. We aim to deliver ~300 new Locals, in mainly urban areas. The headroom off-sets the expected churn in traditional and community branches (shown above), so overall there will be a small net increase.

5. **Central London:**

In addition to the DMB Programme we will be delivering around 50 new Locals in central London (included in the 300 re point 4 above). This is to meet the customer demand in London and improve our ability to compete.

Note: We also plan to open a further c125 new branches in areas close to DMBs to improve customer service and allow subsequent closures of the DMBs.

POL00251661

The business case

Funding requirements and benefits:

Project expenditure (£m/k)	**Opex**	**Capex**	**Exceptional**	**Client Funded**	**Total**
Sunk Costs 16/17			(401)		**(401)**
2017/18 Current request [1]		(2,286)	(8,263)		**(10,549)**
2017/18 Future request [2]					
Future Request (beyond 17/18)[3]		(5,732)	(12,976)		**(18,708)**
Total Expected costs		**(8,018)**	**(21,640)**		**(29,658)**
Cost included in Plan[4]					**(25,162)**
Variance to Plan					**(4,496)**

Benefits (£m/k)	**Income Growth**	**Income Protection**	**Cost Savings**	**Cost Avoidance**	**Total**
In Year					
Steady State (Yr 19/20) Recurring			3,979		**3,979**

Hurdles		
	NPV	
	Payback (yrs)	10.2
	EBITDAS	

Figure 1: Network Model Change Estimates

Network model change estimates

Population	**Population size**	**Subsegment**	**Replacement**	**Explanation**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**Total**
Small mains	1,100	SI churn	Offsite	Churn increases after 50% fees assurance per	-	34	69	71	117	291
		CT churn	Onsite	CT policy change announced April 17 with 12	-	-	5	5	10	20
		Compliance	Offsite	Terminations replaced	-	10	10	10	10	40
		Mults deal	Onsite	A handful of partners see the value	-	-	20	20	20	60
		Ind deal	Onsite	A very small number of indeps with good reta	-	-	10	10	10	30
		Total small mains			**-**	***44***	***114***	***116***	***167***	**441**
Traditional	750	Resign	Outreach/Headroom	Low churn rate increases as the branches rem	10	39	46	54	45	**194**
		Convert	Onsite Local	None convert on-site post-NT	-	-	-	-	-	-
Community with retail	500	Resign	Outreach/Headroom	Relatively high churn rate reduces over time	12	16	23	24	22	**97**
		Convert	Onsite Local	None convert on-site post-NT	-	-	-	-	-	-
Community without retail	1,500	Resign	Outreach/Headroom	High churn rate reduces over time	140	100	100	100	97	**537**
Headroom created to keep network stable		Brownfield Locals around Crowns		**London strategy**	-	15	45	40	-	100
		Rural Community-run/ last shop Locals			-	55	55	35		145
		Whitespace			-	80	100	175	200	555
		Whitespace additional 'ask' due to churn forecast					30	30	30	90
		Local off-site churn					70	70	70	210
		Total headroom *(new locals)*			-	*150*	*300*	*350*	*300*	**1,100**
									Total new locals needed to stay flat	**1,541**

[1] The value of the request that is included in the Business Case.
[2] The estimate on the remaining costs that have not been requested.
[3] The estimate on the remaining costs for future years that have not been requested.
[4] Plan – the prioritised list of Change initiatives.

Risks & mitigations

Details of the key risks that may have an adverse impact on benefits realisation (taken from programme/project Risk Log).

Risk ID	Risk Title / Description	Current I (Impact) L (Likelihood)			Target I (Impact) L (Likelihood)			Mitigation Action
		I 1-5	L 1-5	Current Score (IxL)	I 1-5	L 1-5	Target Score (IxL)	
Prog 010	As a result of an adverse media story/campaign (e.g. from CWU, NFSP, a Royal Mail strike, Sparrow) there is a risk that we could see a reduction in the level of PNO interest. This could result in an inability to reach NNL targets and maintain the access criteria.	*5*	*3*	*15*	*3*	*2*	*6*	We will take a coordinated and planned approach to communicating all the proposed proposition changes, focusing on the benefits to communities, customers and retailers of the changes as a whole. We have dedicated Sales teams working closely with PNOs and Strategic partners to ensure they understand the value of having a Post Office. Enhanced the Pitch packs. We will be using testimonials from recently established NNLs.
WS-005	As a result of New network locations opening there is a risk that existing branches in the vicinity could lose business which may result in complaints and resignations, particularly from new operators just appointed under NT	4	3	12	4	2	8	New network location opportunities follow the current selection criteria to ensure no more than 10% impact on nearby branches. A stakeholder plan is in place. Legal approval of approach. NDA team will continue to work through modelling the criteria for identifying whitespace branches.
Prog 005	The level of churn may not happen at the rate and volume as defined in the modelled benefits plan and no ability to influence the demand. It is a reactive strategy. E.g. economic conditions do not play out in line with the Strategy	3	3	9	3	3	9	Work with NDA team to continually monitor trends and re-adjust the forecast/plan Flexible resource pool in Property in place to manage spikes and dips. Monthly review of benefit plan to enable adjustment.

What options did we consider?

A number of alternative scenarios were considered for each of the categories of agency branches, considered in line with the network strategy approach set out to the Board in October 2016 and re-validated in the Retail Strategy in June 2017. [See Appendices].

What do we need to do next to progress?

Implement the proposed option:

Network Development Programme is currently implementing the solution, funded through Network Transformation:

POL00251661

- The Network Strategy was signed off in October 2016 and the Network Development Business case for funds 2016/17 and 17/18 was approved in November 2016. The project team was established and Network development underway from December 2016.
- The Processes used to deliver the Local Model are based on those used in the Network Transformation Programme. It mirrors the current OBC process and will call off the latest post office branch equipment.
- Network Development programme has been selling new network locations since mobilisation in December 2016.
- The Programme is in its implementation phase and therefore the next appropriate Gate would be Gate 5. The Programme will have the previous gates Mandatory documentation in Project Server, including the Programme plan (level 0 and level 1 reporting milestones) for reference.

Operate the proposed option
New Network Location branches, once opened, will be passed to our Network Operations field team for ongoing operational support and compliance. The net impact on Network numbers for 2018/19 is expected to be a slight increase overall and therefore there is no material change to Network Operations.

Future Approvals will be required for years 2019/20 and 2020/21. Our aim is for these to be based on lower build costs as a result of the steps we will take in automation and EPOS integration.

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

- We would allow our competitors, particularly in mails and bill payments, to gain a competitive edge as we would not be increasing our presence in the (particularly urban) areas where we need to be.
- We would incur unbudgeted costs if we do not get approval by November 2017, as we would have to either stop all activity or continue with engagement and commitment to agents, given the need to maintain a pipeline of activity.
- Failure to maintain the current network numbers obligation (11,500).
- Failure to optimise the benefits of Simplification.
- Failure to meet customer demand and maximise overall network potential.

Appendix

1. Retail Strategy Jun 2017

2. 2. Network Funding Paper Sep 2016

Retail Business Unit Strategy

Author: Tom Moran Sponsor: Kevin Gilliland Meeting date: 28th June 2017

Executive Summary

Context

We created the Retail Business Unit in December 2016 to join up our work on mails, payments and government services with our network strategy and proposition to retailers. Our strategic ambition is to maximise profitable income and footfall, reduce operating costs and become a 'must have' for host retailers by strengthening our position in the value chain in an increasingly challenging convenience retail market. This paper brings our thinking together as the basis for action in the next 3 years.

Questions addressed in this report

1. What are our key challenges as a retail network post-Network Transformation?
2. What options do we have to improve profitability of our models while sustaining a compelling retail proposition?
3. What options do we have to change the shape of our network, in order to meet customer and client needs and improve profitability?

Conclusions

1. Network Transformation and DMB transformation have variabilised and reduced our cost base, saving c£86m p.a. While this has also reversed years of net branch closures, as a result we are now far more reliant on the agents who own our customer relationship. To avoid network decline and to retain and recruit the right retail partners, we need to strengthen client relationships (particularly in payments), simplify our proposition and improve our technology and customer experience.
2. Pay changes since 2016 will have reduced variable pay by £20m (c6.5%) at year end – a tough sell which to date we have been able to justify. Our potential next steps are therefore to reduce pay further and/or align incentives such that agents and Post Office share more of the cost base and are both driven to make efficiencies. We have identified c£7-9m of financial benefit to Post Office from changes to our service model.
3. Our Network Development strategy gives us a clear direction to 2021. We plan to grow our network by opening Post Offices in new locations (c800 by 2021, 150 this year), particularly city centres where competition is fiercest but also rural locations, to balance expected churn. Our customers and our clients – particularly Royal Mail and payments clients – demand convenience and these new locations, combined with rolling out automation in our agency network, will deliver this.

Input sought

4. The Board is asked to note the retail benchmarking and discuss the options set out in the paper to evolve our network strategy.

POL00251661

The Report

What are our key challenges as a retail network in a post-Network Transformation world?

1. Network Transformation (NT) has been the biggest and most successful transformation in the recent history of the Post Office. It has made Post Office a true retail category, competing for client contracts and space in retail stores. The switch from fixed to variable pay for over 7,000 of our branches means we have a commercial relationship with a wide range of independent and multiple retailers, all of whom are aiming to realise the value Post Office brings to their businesses. For our Retail business, this means driving higher, more profitable footfall than the competition by offering the right products and services.

2. We cannot be complacent. There is continued churn in the network and unless we increase – and sell in – the commercial benefit of Post Office in the retail value chain we will find it hard to retain our network at its present size and risk being seen as an unattractive proposition to retailers. This challenge applies upstream to clients as well as downstream to the retailers who are our agents and the face of our customer experience. Figure 1 below summarises the challenges we face.

<u>Figure 1: Post Office Retail Value Chain – Challenges to address</u>

Stage of the value chain	Strengths	Areas of focus	Section of the paper
Clients Direct clients e.g. Royal Mail, DWP, energy companies. Upstream clients e.g. eBay	• Trusted large network • Relationship with Royal Mail materially improved over the past 9 months • Strong relationships with the banking industry	• We need to apply the same strategic focus for payments clients, changing the relationship with utilities themselves and resellers (particularly in terms of transparency and value share	• Covered in Payments Strategy Paper (PSP) • Mails covered in Mails Strategy to Board in May 2017
Retailers Independents 85% Multiples 15%	• Strong 'destination' brand • Attractively full and unique products range • Compelling footfall offer for retailers • Technology supports over-the-counter mails	• We offer no customer self-service in most branches, provide poor MI for retailers and cannot support integration into retailer operations (esp. Point of Sale) • Direct remuneration leaves little room for error on covering the costs of operation, requiring a strong focus on staffing management disciplines from the retailer	• Network shape
Customers In-branch customers Support other channels, e.g. providing leads	• A stable network • Successful modernisation with longer hours and accessible branches • At the heart of the community, high levels of traditional trust	• Our payments offering is less compelling than the competition in product range and density. • We do not have enough branches nor opening hours for mails users or bill payers in city centres and other urban areas • We still have a counter-based model, without self-service, in nearly all agency branches[1]	• PSP • Network shape

[1] Self service kiosks are currently operating in DMBs, some WHSmiths and one trial agency branch.

POL00251661

Benchmarking Post Office's retail proposition

3. We have benchmarked our current proposition, with support from IGD[2] and Fizz[3], and sought feedback from existing agents with strong retail.[4] One conclusion is particularly clear – we need to prove we can drive profitable footfall through each of our clear, differentiated models. The research also shows retailers will not typically 'pay' for footfall, so making Post Office at least break-even on a stand-alone basis is important, as is aligning incentives to reward good behaviour and penalise non-conformance.

4. IGD's benchmarking included sectoral expectations and best practice on technology and management information, where we know Post Office's offer is inferior to our competitors. Retailers have high expectations of in-store IT. Installing technology in-store allows suppliers to gain valuable management information (MI) on sales and stock, so often the supplier will provide it for free.

5. It is the overall retail proposition – direct income and indirect footfall 'halo effect' – which the retailer considers when choosing whether to bring the Post Office category into their store. Please see Appendix 1 for more details.
    - The key benchmark for the **main** is against other high-specification, demanding-to-operate franchises that complement a convenience retail offer, including food-to-go franchises such as Subway. A main Post Office generates much higher footfall (2,000 per week compared to 1,000 for a Subway, with a higher propensity to spend in store) but around half the direct profit.
    - The **local** is the closest offer to the competition against whom we typically assess ourselves: Collect+ or myHermes/Payzone. However the local is much more than this:
        - 20% 'category add-on' accessible to all retailers (lottery and stamps);
        - 20% like-for-like with the PayPoint/Collect+ offer (payments + mails pickup/ drop off); and
        - 60% unique offer without parallel in IGD's categories that is critical to the proposition (mails, banking and government services)

      The direct comparison to Camelot and Collect+ is poor: retailers can make 50% higher profit at lower investment, training and space requirement from ignoring the 60%. However, the 60% does offer something special: a destination brand and an extra 250 customers a week.

[2] The Institute of Grocery and Distribution, the leading grocery and convenience experts.
[3] A consultancy run by the founder of him! research, which led our research into Post Office footfall in 2016.
[4] Please see Appendix 2 for a summary of the research.

- We have also taken the opportunity to benchmark the economics of a standalone **self-service**-led proposition. Retailers can generate 25% higher profits with no up-front costs from a coffee kiosk (simpler to operate but little destination brand value). While a retailer would be highly unlikely to give up an existing local for a coffee kiosk, even the very best retailers in high footfall areas who have not taken on locals (e.g. Tesco Express) do operate coffee kiosks. At the right price point, therefore, we believe the self-service proposition provides an opportunity to open up new retail locations (see later section on shape of the network).

6. In conclusion, we have a sound retail proposition but not one that is significantly more profitable than those of our competitors. Relatively minor changes in footfall could shift the balance. For example, if Collect+ doubled its traffic from c250 a week to 500 it would be more profitable than a Post Office and far simpler to operate.

7. We are drawing upon this benchmarking evidence to help set the right level of 'value share' with retailers. This results in a series of options relating to what we can and should pay, and provide, to our agents to remain competitive. We have always balanced priorities in setting pay rates, changing contracts etc. for agents. We have now codified – for Post Office decision-making purposes, not for wider sharing – a set of principles to follow when reshaping the retail proposition (see Figure 2 below). The next section quantifies progress to date and future opportunities.

POL00251661

Figure 2: Proposed Principles for Retail Model Proposition – Value Sharing with Agents

<table>
<tr><th>What we will do</th><th>What we will not do</th></tr>
<tr><td>Make decisions on the basis that Post Office operators in the non-Community network are good retailers, with flexible staffing models and effective management.</td><td>Protect poor retailers from commercial reality in the long term. (e.g. by declining to reduce rates due to concerns that poor retailers lack the flexibility to accommodate change).</td></tr>
<tr><td>Combine attractive footfall to benefit the wider retail with an attractive ‘paid proposition’. The fees on offer to retailers will be consistent with running the Post Office component at break-even or better, unless market evidence changes.</td><td>Presume that there is sustainable retailer demand for footfall-only offers that cause direct losses, unless market evidence changes.</td></tr>
<tr><td>Maintain a small number of models, each with a transparent and clear offer to retailers.</td><td>Negotiate individualised models and pay rates retailer by retailer (although we will be flexible and act commercially where appropriate e.g. format, up-front investment and ongoing sales and marketing support).</td></tr>
<tr><td>Where there is a market fee rate (due to meaningful competition) we will review fees regularly, taking account of the whole package on offer to retailers. This may mean some products will be paid below market rate.</td><td rowspan="2">Impose arbitrary reductions in fees for competitive products simply to improve Post Office profitability or leave the paid proposition unchanged for long periods out of inertia.</td></tr>
<tr><td>Continually evaluate supply and demand for Post Offices to benchmark the attractiveness of our overall offer for each model and adjust rates accordingly, seeking to retain the highest value share consistent with a stable network of sustainable Post Offices.</td></tr>
<tr><td>Seek to align incentives between retailers and Post Office in the structure of fees and charges to improve the commercial outcomes for both retailers and Post Office.</td><td>Stick to the status quo paid proposition – with no charges and all fees paid exclusively for products sold – for reasons of conservatism or to avoid stakeholder challenge.</td></tr>
<tr><td>Where contracts change, look to share any gain or pain with agents (taking account of market rates), subject to our principle of seeing the highest value share possible for Post Office.</td><td>Pay agents such that products are loss-making (unless there is clear market evidence that such fees are necessary to retain a viable proposition to retailers).</td></tr>
<tr><td>Implement material proposition changes in a measured way, providing reasonable evidence for the change and time for retailers to adapt – thus keeping the network reasonably ‘net stable’.</td><td>Impose changes too quickly or without appropriate rationale – or desist from imposing changes as a result of concerns over ‘protecting’ the least capable retail hosts for the long term.</td></tr>
</table>

What options do we have to improve the profitability of our models while sustaining a compelling retail proposition?

8. Reducing agents' pay is a key lever to improving Post Office profitability – agents' pay is £365m p.a. and we need to minimise it, consistent with being able to retain a strong retail proposition and stable network. Our options are therefore based on whether, and how much further, we could reduce pay and how we could change our service model to save more.

9. Recent history is important here. We are in the midst of major changes to the paid proposition for retailers. As a result of NT, we have increased variable pay from 66% to 85% of total pay, with further reductions in fixed pay planned to continue through churn in the network (see network shape section below).

10. Around 75% of agent fees do not increase in line with inflation; around 25% are paid according the value of each transaction (e.g. POca, stamps, bureau). Through the period of the plan we expect agents to experience a small overall drop in pay from this effect alone, while cost pressures from national living wage changes and other forms of inflation are intense. Furthermore, we are mid-way through a series of reductions in variable pay that amount to nearly £20m in annualised terms:
    - Rebalancing pay further onto sold products to improve sales incentives. The total mains pay bill for selling 2nd class parcels is now only just over £5m (1.4% of the total pay bill), while selling special delivery is over £12m (3.2%);
    - Creating a network-wide incentive for Mails Segregation of c£5m to mitigate our ongoing risk from Royal Mail and to improve behaviours and reduce costs; and
    - Simplifying our most common Mails journeys and processes and translating the savings from shorter transactions in to efficiencies (c£12m). This is shared between agents and Post Office, recognising the challenges agents will have in realising the savings.

11. Overall, these changes pose a very significant challenge to implement while sustaining a network of 11,700 branches. Although we have a carefully planned transition approach (including field support for agents and helping them move to a specialist model in-store to reduce the training burden), simplification will be particularly challenging this year. We may also make reductions in rates of pay for POca (unknown, but could be up to £1m p.a. depending on how current negotiations proceed) to ensure that Post Office is not operating the contract at a loss.

12. The overall effect by the end of the four year plan leaves a local at breakeven for the retailer in direct profit terms, while the direct profitability of a main is cut by around 40%. Although footfall is also expected to decline slowly, both models will continue to offer strong footfall benefits that make them profitable overall: the local total value drops from £52k to £49k, while the main drops from £85k to £73k. The benchmark organisations will suffer similarly from wage and cost inflation, although they start from a position of offering higher direct profit today.

13. We have examined our options for further changes to the paid proposition:

Figure 3: Options for further changes to agents pay and wider proposition

Option	Changes	Likely effects
Continue as-is *Implement planned changes.*	• Implement all the planned changes • No inflationary increases during the plan period (for most products. • Make no further rebalancing of fees and charges, leaving incentives unchanged. • Follow our principles when required – likely to include fee rate increases by 2021 for locals in particular (to keep the model at standalone breakeven).	• Local direct profitability reduced to breakeven by 20/21. • Mains direct profitability reduced by 40% • Retailer demand for local under pressure, but messaging for existing agents can be managed as there is clear rationale for the change and we are sharing the simplification benefits.
Aggressive cuts *5% cut to fees to take effect in FY19/20*	• Implement all the planned changes. • Implement c£15m cut to variable fees.	• Local model is immediately loss-making from moment these changes are introduced. • Mains direct profitability reduced by 55% from current situation. • Multiples likely to hand back significant number of existing locals as there is no way for them to cover their costs. • Significant effect on wider retail s: hand-backs depict Post Offices as a loss-making category that good convenience retailers do not want. • WHSmith possibly unwilling to take on additional mains branches as part of DMB franchising. • Network strategy to have a growing network 'where our customers are' is unsustainable.
Strategic rebalancing *Align incentives, change behaviours and realise savings*	• Implement all the planned changes. • Pursue a staged series of changes to rebalance the paid proposition by introducing charges for certain services, offset by agents' benefits in automation, space and higher fees for certain products.	• Local direct profitability reduced to breakeven by 20/21. • Mains direct profitability reduced by 40%, but accompanied by a change in narrative to encourage agents to take greater control of costs to their advantage: e.g. adopt automation, replace unused counters with retail space. • The cost base for technology and cash variabilised to a certain extent – both agents and Post Office benefit, while both feel pain for cost increases.

14. Figure 4 sets out in more detail the changes we could implement under the third option in Figure 3 above.

Figure 4: Service Changes Proposals

Stages of incentive alignment	Description	Indicative opportunity
1. Further embed payments and penalties for behaviour	Saving not material – included here as important first step which would introduce the principle. Charging for false alarm call-outs and equipment breakages. Small charges to encourage fewer engineer call-outs.	£0.1m
2. Introduce the concept of paying for technology	Use the incentive of in-branch automation to establish principle of paying for tech: retailers lease self-service technology, while Post Office removes a Horizon terminal. Our analysis shows up to 2,000 Mains would benefit; we assume here 1,000 will sign up by 2021. Potential opportunity through current rollout of new branch technology: new base units will be provided to work with existing monitors; agents could opt to pay for a new monitor.	£2m
3. Move to a shared incentive to equip the branch efficiently	Post Office provides without charge the efficient number of terminals that a well-managed retailer needs to operate the Post Office. Retailers could opt for additional terminals but they would be charged. Analysis shows 2-4,000 terminals could be removed or charged.	£0.7-1.4m
4. Incentivise moving payments, cash and banking to the retailer's POS	If it proves feasible to provide cash & banking services from the retail counter through new technology, further terminals could be released. We would expect to pass the benefit to the retailer to establish the principle that they are now paying for those terminals outright.	-
5. Incentivise reduced network cash holdings	Interim step to reduce cash in the network (before moving to stage 7). For branches in deficit, encourage retailers to deposit their own cash 'little and often' into Post Office holdings, reducing the size of the weekly float required and therefore overnight cash holdings. Retailers benefit from reduced cash deposit charges at their bank. Requires high quality, retailer-facing information on cash requirements.	Reduced overnight cash holdings by <£20m
6. Create a shared cost base for cash	Post Office charges individual branches for the cost of providing them with cash so retailers start to 'own' the cost of sorting, transport and overnight holdings. Positive incentives are also improved: banking services rates increase significantly so retailers get more of the benefit of acting as a bank. Retailers can drive down their costs by reusing their retailer cash; each year the savings Post Office can make from reduced demand are shared with the retailers.	£3-5m
7. Leverage retailers' existing card acquirer in new sites	New retailers adopting the partially automated local (see Fig 5 below) sell over-the-counter non-mails products through the retail till, covering their own acquirer fees.	£0.2m
8. Better enforcement of restrictions on offering of competitor products in store	Increase our enforcement of restrictions for agents, particularly in the 3,000 branches with PayPoint terminals. This is heavily dependent on winning the BBC (in order to close the largest immediate product gap) and the rollout of the PayStation replacement to provide an easy-to-use solution with a full range of future growth products such as smart metering and transport ticketing. This is explored further in the Payments Strategy paper.	£0.1-0.2m

13. Overall, we believe these additional measures provide a potential further c£7-9m benefit to Post Office.

14. The effect on retailers of any of the options is significant. However, we believe the strategic rebalancing option – if implemented in a measured way over time – offers the opportunity to go further than the current plan while sustaining our commitment to a growing nationwide network of branches in the right retailers.

Network metrics

15. With 98% of our network run by agents, our ability to maintain and grow our network is dependent on sufficient demand from retailers to take on Post Offices. Monitoring this demand gives us an indication of whether our proposition is valued by retailers – too much demand would suggest potential to reduce pay, while not enough would tell us we need to increase pay or improve the proposition in other ways.

16. In the last financial year, although churn amongst mains and locals was low (around 3%), we had over 100 branches where the old retailer has resigned and a new retailer has not yet been found. In around 30% of cases this is simply due to economic change i.e. there is no longer a suitable nearby retailer. In the remaining cases we have been unable so far to persuade a nearby retailer to take on the Post Office. This illustrates the marginal attractiveness of the proposition to many retailers and how careful we need to be in further changes to the proposition.

What options do we have to change the shape of the network, given the need to meet customer and client needs and improve profitability?

Network shape: blueprint and the model menu

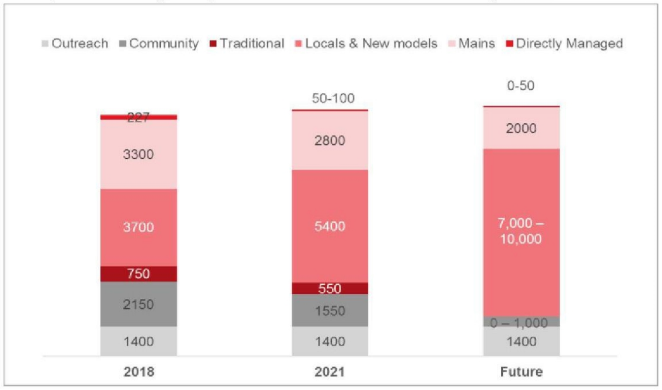
17. We have a clear strategy for network development which the Board approved in October 2016. Since then we have started implementation while also reviewing our plans, particularly given our work with Royal Mail and the new approach we are taking in payments (see Payments Strategy). This section summarises the progress we have made and the options we have to best meet our strategic objectives, particularly focusing on the network models available to us.

18. The network in overall size and depth is relatively stable after decades of reduction. However, this masks a huge amount of change. Most is to the advantage of customers, Post Office and taxpayers while remaining viable for retailers, but there are key areas of strain.

POL00251661

19. The chart below is taken from our Network Development (ND) strategy of 2016 and summaries how we saw the shape of the network evolving.

Figure 5: Network shape changes present-2021 and beyond



20. This remains our ideal path of evolution: rebalancing the network with net growth in total network size. Since Network Development was approved we have started changing our network shape and also made progress in honing the clear set of branch model types we need. With our reconfirmed confidence in the importance of 'USO' mails (the regulated universal service obligation product set) and our partnership with Royal Mail in the offer, it is crucial we have the right network capacity to sell and handle significant parcel volume in a variety of retailer-friendly ways.

Options for network models

21. The two tables below set out our current and potential future network models, all of which we have assessed, both internally and jointly as part of our strategic discussions with Royal Mail. In principle we have the option to continue or stop any existing model and to develop or de-prioritise any new potential model.

Figure 6: Network Model evolution

Model	How it needs to evolve
Main	• Implement ongoing changes to the paid proposition, as above. • Introduce automation to improve sustainability and introduce retailers to paying for technology. • Continue to simplify operations, releasing time and footprint for the retailer. • Expand around them with different models in inner urban areas. • Exploit churn amongst smaller Mains to switch to Locals.
Local	• Primary objective is to reduce the up-front installation costs while retaining the compelling product mix. We believe it will be possible to combine a self-service option with a much smaller counter footprint, using simpler technology, to deliver Mails, payments, cash & banking.

Model	How it needs to evolve
Fully automated mails-only Local	• **NEW:** alternative option to Local in certain inner city and urban mails-intensive locations to open up new retailer types. Small footprint and ease of operation should be particularly attractive in space-constrained inner cities. Where payments, cash & banking are already very well served, these are effectively full Post Offices for the demand in that specific location.
Community	• Community branches with retail are typically sustainable • No-retail branches will continue to reduce in number through natural churn. • Opening local branches in sustainable rural shops currently without a Post Office
Outreach, including mobile	• Provide a core part of our social purpose, where there are genuinely no alternatives • New models in rural retailers across the country will allow outreach to become less of a default option than currently.

N.B. For some time to come, there will be traditional branches with fixed pay where no suitable retailer nearby is willing to operate a Local. These represent locations where we have not been able to find an alternative retailer over the course of Network Transformation. They have no place in our blueprint and will gradually disappear.

22. As described in the mails strategy submitted to the board in May 2017, we have concluded it is vital not to create confusion in the minds of customers or retailers over what the Post Office brand represents. Our brand is synonymous with posting letters and parcels: mails, including our USO services, must be offered in every outlet. Given this, and our limited financial and management resources, we have therefore deprioritised some feasible alternatives.

Figure 7: Deprioritised alternative models

Potential model	Possible use-case	Reason for de-prioritisation
Mails-only counter service Post Office	Inner city mails-intensive areas	Feasible option, but deprioritised because we believe the automated option will be more attractive to retailers (due to the lower staffing and training requirements).
Cash-free counter service Post Office	Inner city mails-intensive areas – lots of businesses/ marketplace sellers but where demand for cash and banking already well served	Once you remove all cash transactions, this is effectively a mails-only Post Office, as above.
Payments & 'Pick up & Drop Off'	Collect+ clone for certain inner city mails-intensive locations to improve PUDO accessibility. Primary attraction over Local or automated option is low cost to implement; will revisit if Local expansion stalls.	Limited customer appeal/ high levels of confusion (as demonstrated by unsuccessful trial branches in 2014): the Post Office brand is synonymous with posting things. Removes Post Office value-add from mails, damaging our overall positioning with Royal Mail.
Retailer cash local only (no Post Office Supply Chain deliveries or pick-ups)	In theory, any local, but would require a particular balance of cash and banking which did not require large amounts of cash to be delivered or removed.	Complete balancing between Post Office and retail only works for small Post Offices.

POL00251661

Network shape: core components of the plan

23. The key principles underpinning our strategy are to continue to meet the national access criteria and to maintain the overall size of our retail network. We have a customer and competitive imperative to 'be where are customers are', opening new outlets in both the urban and rural areas. This does not mean replacing branches with like-for-like provision in the same location where customer usage is very low.

24. This financial year, we have made a solid start to our plans to grow network headroom in new retail locations: the first 15 contracts for new 'whitespace' locals have signed in the first two months, with more than 90 having chosen to enter the application process following our sales visits. A further c300 are in the pipeline to be visited and we are on track to meet our target of 150 new Post Offices by year end. The majority of these will be in urban areas around the country, but we are also focusing on rural locations. In addition, we are working with the Plunkett Foundation to engage with community-run shops in rural areas and have c30 where we plan to introduce a Post Office.

25. The introduction of self-service technology remains one of our top priorities. It has three key advantages:
    - Customers – and mails customers in particular – are used to using self-service in many directly managed branches (where 69% of mails transactions are now through self-service) and in the wider retail environment;
    - Retailers can secure significant benefits both in reducing staff costs (increasingly critical in light of the National Living Wage) and moving to an out-of-hours solution for mails that has lower training requirements; and
    - Post Office can leverage the significant benefits to the retailer to move to a different charging model for self-service technology, leasing the equipment to a retailer and removing a Horizon terminal.

26. We have trialled our existing self-service technology in an agency main in London: this has proved the operational concept of a single kiosk (as opposed to the hosted banks of SSKs in DMBs); and early customer migration and feedback has been very positive: the branch received 5 customer 'wows' in the first week. The challenge is to make self-service technology cost-effective. We are engaged in a market-testing exercise at the moment to benchmark against our incumbent provider NCR. From the NCR pricing we know that we can create a viable leasing model that generates sufficient value for larger branches that they benefit and Post Office profits from the lease; cutting costs further will make this attractive for more branches and support the push for lower-cost easier-to-operate partially automated Locals and fully automated mails branches.

27. Our current Network Development strategy forecasts higher churn in parts of the network where we want to see change. That is indeed the case: excluding the effects of NT, in FY16/17 churn of traditional and community branches ran at around 6%, nearly twice the rate we see in our larger mains and locals. When added to small mains, this churn of c300 of the branches we want to replace was slightly ahead of the plan. We continue to expect higher churn amongst this group, particularly those with limited retail, as a result of the aggregate effects of National Living Wage and business rates increases, the ongoing expiry of NT fees assurance three years after conversion, continued decline in some traditional transactions (e.g. POca) and the actual and psychological impact of changes to the remuneration model.

28. There are significant benefits to opening Locals instead of mains and outreaches when branches churn: they bring £3-6k p.a. DPC for Post Office. However locals currently require an expensive suite of equipment, leading to costs of c£17k each to open. We believe the partially automated local option described in the section above is particularly suited to new operators: it has a smaller footprint, lower staffing costs and lower training requirements for staff. We are working with potential suppliers to develop low-cost automated mails options (such as the card-only small footprint kiosk); our ambition is to be able to deploy into new sites for less than £17k.

29. There are currently 278 directly managed branches. We are mid-way through a programme of a further 51 branches being franchised, leaving us with 227 branches by FY18/19. Moving a further 177 branches into the agency network by end FY20/21 would cost £102m and generate around £25m annual benefits. Clearly our ability to deliver further franchising on this scale will be dependent on the availability of funding.

30. We continue to consolidate our analytical understanding of the relevant retail markets (particularly convenience) to ensure that the changes we make are optimal i.e. the right models in the right locations, taking into account customer demand, competition and changing retail patterns. But our ambition needs a lot of new sites and experience continues to show it is a challenging process to persuade retailers to go through the disruption and learning process of taking on a Post Office, even when the proposition is attractive. The Payments Strategy paper sets out a potential opportunity to work with Payzone to provide additional sites for upgrading to Post Offices.

Appendix 1

Retail offer benchmarking comparisons

IGD (the Institute of Grocery and Distribution) has helped Post Office quantify the overall economics of the following benchmark comparisons.

Main

3,500 outlets in the UK. c.2,500 in retailers

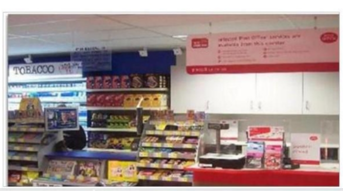
SUBWAY

2,200 outlets in the UK. c.750 outlets now in retailers, especially convenience stores – a growing focus for expansion

Preparation of area	Retailer cost		Retailer cost
Equipment & fit-out	~£30k (50:50 share)		~£70k
Dedicated space:	200 sq ft		200+ sq ft
Staffing:	Dedicated 3-4 FTEs, with high levels of training, standards and regulations to be met etc.		Dedicated 4-5 FTEs, with high levels of training, standards and regulations to be met etc.
Footfall value:	2,000 customers each week High propensity to spend in retail = ~£65k p.a.		1,000 customers each week Medium-high propensity to spend in retail = ~£30k p.a.
Commercial outcomes:	£75k p.a., offset by ~£55k staff and other costs		£225k p.a. @ 50% gross profit. 20% net profit
Direct profit:	**£20k p.a.**		**£45k p.a.**
Total value	**£85k p.a.**		**£75k p.a.**
Brand:	Destination brand: high likelihood to be in store because of mails offer		Destination brand: high likelihood to be in store because of Subway offer

Local Post Office

4,000 outlets in the UK.



Paypoint with Collect+

6,000 locations

Lottery and stamps

35,000 locations

			Part 1 (20%)	**Part 2 (20%)**
Preparation of area	Retailer cost		Retailer cost	Retailer cost
Equipment & fit-out	Varies 0-100% retailer contribution to £17k		£10/month	None
Dedicated space:	40 sq ft		4 sq ft	12 sq ft
Shared staffing:	20-30 hours of counter time needed each week, need to make sure all staff trained		3-4 counter hours, minimal training required	3-4 counter hours, minimal training required
Footfall:	~700 customers per week High propensity to spend in retail = £50k p.a.		250 customers per week Med-high propensity = £20k p.a.	200 customers per week Med-high propensity = £15k p.a.
Commercial outcomes:	£19k p.a., offset by ~£17k staff and other costs		£2k p.a., offset by 2k cash/tech costs	£5k p.a. offset by £2k bank and staff costs
Estimated profit:	**£2k p.a.** + cash flow benefit in stamps		**£3k p.a.**	
Total value	**£52k p.a.**		**£38k p.a.**	
Brand:	Destination brand: high likelihood to be in store because of mails offer		Destination brand for both payments and mails	Destination brand for lottery Stamps secondary brand

POL00251661

Post Office mails only SFK

Costa Express coffee machine

Preparation of area	**Retailer cost**	**Retailer cost**
Equipment & fit-out	Free (cost to POL up to £10k)	Free (cost to Costa unknown)
Dedicated space:	12 sq ft	12 sq ft
Staffing:	Mails accepted at the retail till Consumables restocked	Coffee bought at the retail till Consumables restocked
Footfall:	150 customers each week Medium propensity to spend in retail = £5k p.a.	150 customers each week Medium propensity to spend in retail = £5k p.a.
Commercial outcomes:	£2k p.a.	£3.5k p.a., offset by £1k of milk
Estimated profit:	**£2k p.a.**	**£2.5k p.a.**
Total value:	**£7k p.a.**	**£7.5k p.a.**
Brand:	Destination brand: high likelihood to be in store because of mails offer	Secondary brand: partly impulse purchase, partly regular destination

Appendix 2

Summary of the key findings from the IGD research

IGD (the Institute of Grocery and Distribution) undertook a research and benchmarking exercise on our behalf in May 2017, focusing on examples from five types of partnership organisation:

- Symbol groups – soft/transactional partnership (e.g. Premier);
- Symbol groups – hard/brand partnership (e.g. Spar);
- Retail franchise – turn key partnership (e.g. One Stop);
- Mission solutions – bolt-on brands, store with a store (e.g. Subway); and
- Category solutions – category add-ons (e.g. Cuisine de France).

There are six key findings we have taken from the research results:

1. Retailers appreciate clarity on the offer from the potential partner and the consistency to which that offer is applied across the network. It is not common practice to negotiate and customise the offer for each new store.

2. Incentive-based remuneration is a crucial part of how many category/ symbol offers work for retailers. Incentives can reward good behaviour and be strong: poor conformance with standards, for example, could remove incentives to the extent of materially affecting profitability. For some partnerships, continued poor conformance may cause the partner to end the agreement.

3. Every retailer chooses from a range of categories to fill their store. Partners should maximise value per unit space taken, so we should not try to 'second guess' their cost of space as each retailer may value this differently. Low cost, low risk, low maintenance options (such as Costa Express) are naturally popular, and retailers will accept a subordinate role in the management of that space, and tolerate a minority share in profitability as the flip side of this (as long as the cash value is attractive).

4. Every additional service category promises additional retail value from footfall. Footfall is crucial to the offer. But a category being profitable itself also matters: retailers will not 'pay' for the footfall effects.
   - Retailers are willing to invest significantly where they see a clear opportunity for enhanced profitability
   - Retailers are also willing to take on additional operational complexity to implement solutions that offer clear opportunity for significant incremental sales and profitability

5. Retailers want technology in their stores that is easy to use and provides valuable information and insight. The value of the data to the category provider sometimes means technology is provided to the retailer for free.

POL00251661

Network Strategy & Funding 2017-21

Author: Kevin Seller   Sponsor: Kevin Gilliland   Meeting date: 29th September 2016

Executive Summary

Context

The Post Office network of 11,650 branches is constantly evolving, reflecting demographic, economic and population change. It must be actively managed or face the prospect of decline. Our strategy is to be where customers are: hosted by the right retailers in the best urban and rural locations. At the June Board, the long-term opportunities were discussed to advance this strategy and more profitably realign the network around the needs of customers, retailers and clients. This paper turns those high-level principles into specific approaches to be taken from April 2017 and identifies the associated funding requirements.

Questions addressed in this report

1. How do we see the network evolving to 2021 to best serve our customers, support our commercial strategies and social purpose as well as to service demand more profitably?
2. What are the key transition paths we will follow to deliver this roadmap?
3. What enabling actions do we need to take to give us the best chance to deliver it?
4. What are the investment requirements and what will be the effect on P&L?

Conclusion

Our strategy is to have a network in the best urban and rural locations – of around 12,000 branches – bringing together vibrant retail with Post Office and banking services.

1. We see the network evolving in three ways: improving the proposition for agents to operate a Post Office; changing the shape of network to reflect our customer-focussed strategy and reduce the number of stand-alone Post Offices; and enabling these changes by increasing retailer demand for a Post Office.
2. We will introduce simplification and automation to make having a Post Office easier and more profitable for a retailer; we will share in these benefits through reductions in agents' remuneration. We will commercially manage the expected increase in the churn of branches without retail, enabled by new network headroom. We propose to continue to convert the Directly Managed network to more profitable agency models, supporting our drive to a more variable cost base.
3. We will improve retailer demand to allow us to open new Post Offices in urban and rural retailers and be more agile to competitive threats in the market. Growing and promoting our 'waiting list' of more than 1000 existing prospective agents, particularly through relationships with symbol groups such as Booker, and communicating the retail value of the proposition through improved evidence will enable us to attract and retain the best retailers.
4. Investment of £286m generates up to £65m of annual EBITDAS and mitigates the prospect of declining branch numbers and/or increasing subsidy requirements arising from the market challenges facing the business and our agents.
5. These activities will give rise to significant stakeholder challenge. A communications and stakeholder strategy is being developed, underpinned by a clear narrative that describes the benefits of the changes.

Input Sought

The Board is asked to approve the proposed network interventions so they can be included in the overall 5 Year plan to 2021.

The Report

What do we propose to do and why?

The proposal

1. Post Office must continue to evolve to be an excellent complementary category for retailers. The traditional model of standalone Post Offices continues to decline – and generally we do not see a place for such Post Offices in the long run. Good retailers maximise the profit of their business by using the Post Office footfall twice – for Post Office and their retail, with stronger benefits for customers and communities. Our mind-set as Post Office needs to be aligned to this approach.

   The network strategy consists of three inextricably linked components:
   - Improving profitability through simplifying the agent proposition
   - Improving profitability through changing the shape of network
   - Enabling these changes by increasing retailer demand

2. We will simplify Post Office transactions, branch and support processes, including the initial application process. Changing the retailer proposition through simplification will improve profitability directly - sharing in the retailers' benefit (maintaining footfall while cutting staff costs) by reducing overall agent remuneration - and indirectly by driving a change in mind-set amongst agents that will lead to higher levels of churn, particularly from branches with poor or no retail. We need to actively drive model change to improve profitability and improve long term sustainability for Post Office, for host retailers and therefore our customers. We will use research evidence to communicate the value of a Post Office more effectively. We need to increase retailer demand for Post Offices so that we can create headroom in the network; without new Post Offices the other changes would simply lead to overall network decline.

3. **Improving profitability through simplifying the agent proposition**
   Simplifying the agent proposition is based on three initiatives; transaction simplification, operating simplification and automation. These need to be launched in a planned, coordinated manner with a clear articulation of the true value of a simpler-to-run Post Office for our agents and the NFSP. The narrative must also stir agents into action so that they realise the benefits that simplification and automation bring during a proposed period of associated fees assurance (a transitional payment to support agents).

   3.1. Transaction Simplification: Work is underway to simplify the top 100 product journeys, of which the top 5 show a saving of 710k hours which equates to £11m of agents' remuneration. The remaining journeys are being 'hot-housed' and will be completed in October 2016. Initial work shows that it will allow us to remove a further 1.4m hours, equating to circa £21m of agents' remuneration. Agents will not be able to realise all of these savings, so we have modelled a realisable benefit of ~£16m for an investment of ~£5.3m plus an exceptionalised fees assurance of ~£16m.

   A further revenue opportunity for customer referral transactions exists worth circa £1.3m per annum for an investment of £150k.

POL00251661

3.2. Operating Simplification: 18 branch processes, with a primary focus on cash and stock, have been reviewed and show that we can simplify these by removing between 3 and 16 hours of office admin per month per branch. This is work that must be completed in order to operate a Post Office and simplifying it will make it easier and more profitable for new and existing retailers, further supporting the case for savings from Transaction Simplification. We are validating the analysis and expect it to be finalised in October 2016.

Time spent on key branch admin activities

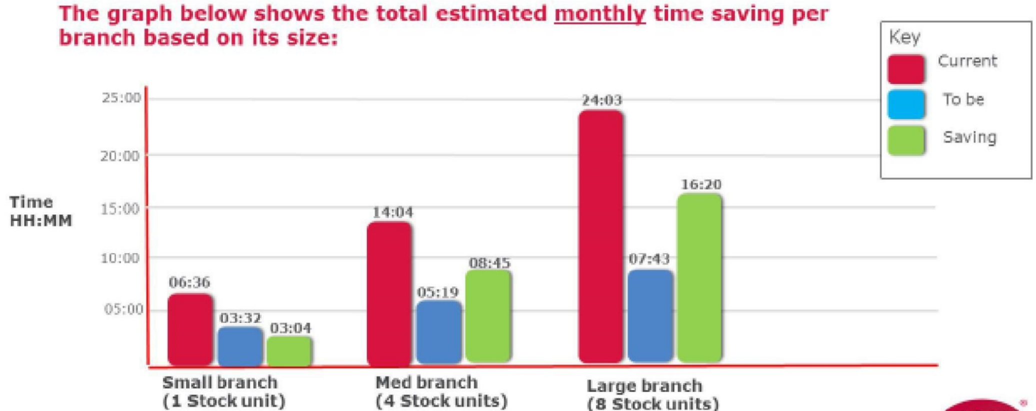
Activity	Est as is time (Seconds)	Est to be time (Seconds)	Saving (Seconds)
Logon	60	30	30
Stock Unit End of day transaction cut offs	100	93	7
Stock Unit End of week transaction cut offs	70	0	70
Stock declaration	300	100	200
Cash declaration	45	35	10
Stock Unit Balance & Rollover	300	0	300
Logoff	40	4	36
Order cash (phone call)	300	45	255
Cancel cash order (phone call)	180	10	170
Order currency	360	60	300
Order stock	900	180	720
Receive cash remittance	30	25	5
Send cash remittance	60	45	15
Receive stock remittance	150	75	75
Office balancing	915	600	315
ATM Balancing (Horizon only)	90	0	90
Rem Discrepancy Reporting	420	60	360
Send stock remittance	180	90	90
Total	4500 01h:15m:00s	1452 00h:24m:12s	3048 00h:50m:48s

3

POST OFFICE

Potential impact on Network

The graph below shows the total estimated monthly time saving per branch based on its size:



4 CONFIDENTIAL

POST OFFICE

In addition, initial work has identified ~£4m EBITDAS benefit from the potential to work with agents to optimise the cash supply chain for a ~£9m investment. This includes initiatives such as using retailer cash, 'hub and spoke' and alternative cash delivery methods. Initial pilots are planned in two cash centres.

3.3. Automation: The potential to offer self-service automation to agents – based on existing and proven self-service kiosks (SSKs) – providing ~£4.5m EBITDAS benefit by 2020/21 for ~£14.2m investment, if 2,000 branches take up this opportunity. We believe this is a compelling offer and would expect Agents each to benefit by an average of ~£9k p.a. These costs are based upon a lease model for SSKs; an outright purchase option is also undergoing financial appraisal.

Large mains	2000	4 counters or more; sufficient staffing to enable duty rebalancing and use of automation
Small mains with retail	1000	Rebalancing of duties between dedicated counters and combi. Automation may work for some branches.
Small mains without retail	500	This group will find it most difficult to adjust. N.B. NT has already tested they can survive a 20% reduction. That said, as per the paper we expect to see an increase in churn through selling or service issue, as result of this *plus* external factors like minimum wage
Locals	3700	Already implemented shared staffing between retail & Post Office at the combi counter
Unconverted	750	Already communicated that these branches do not have a long-term place in the network. Although limited ability to handle, they keep their fixed pay for now, so the effect is only around £1k or 3% of pay
Large community	500	Limited impact <£1k or 3% of pay
Small community & outreach	3000	Very limited impact due to high proportion of fixed pay

3.4. We know that there are features of our models that detract from the benefits of Post Office footfall for some retailers. We have begun working on improving key elements of the proposition to agents, but this will continue over an extended period.

- Simplification: has two further benefits to agents over and above reduced staffing needs – faster transactions and easier non-customer facing processes (both areas of concern for retailers).
- Automation: moving transactions away from the counter reduces staffing requirements and makes serving customers out-of-hours easier.
- Better, more accessible, training: developed with remote access in mind, always-on and including modules for product specialists.
- Space: we are working with partners to optimise the space that they have. Simplification, automation, model change and potentially moving the sale of some products onto retail tills (through ePOS integration, with an optimised cash supply chain) all contribute to reduced space and improved customer flow for certain retailers.

4. **Improving profitability through changing the shape of the network**

We will manage the shape of our network to focus on where customers are, to meet our social obligations and minimise cost to the taxpayer. Doing nothing will result in an inevitable decline in branch numbers, customer service and accessibility.

Directly managed to agency branches

POL00251661

4.1. The Directly Managed (DM) network strategy is consistent with the core network strategy. We can provide a more sustainable, cost effective and convenient service to customers by converting branches to agency models, co-locating with vibrant retailers and moving away from standalone Post Offices, as such we do not see a long-term future for DM branches.

4.2. In order to deliver this strategy, we will need to take a firm stance in the face of substantial external stakeholder opposition. Timing and sequencing will be critical, as will the need for a compelling storyboard to support the changes.

4.3. Direct franchising to agency branches will continue to play the primary role in replacing the DM network. However, we cannot solely rely on this approach as many branches are very large and retailers are not willing to give up large volumes of profitable retail space, particularly in city centre sites where there are limited convenience stores and property prices are high. In these situations, we will open agency branches in close proximity to the DM branch to cannibalise its customer traffic and subsequently franchise the DM branch. We will also offer a package to our agents that includes appropriate remuneration for lost retail space when franchising large branches and self-service kiosks (in line with the agency automation offer) to help them to manage their business cost structure.

4.4. The DM strategy has been developed to maximise EBITDAS benefit to the business while still supporting our Commercial and FS strategies.

4.5. 227 DM branches will remain after delivery of all the approved business cases for franchising under the Crown Network Development Programme and the latest WH Smith deal. The table below sets out our recommendation to secure funding to franchise all 227 branches. Two alternatives are also included as an example of future decisions we might take to maximise the ROI for Post Office.

Scenario	**Branches retained**	**One-off cost (£m)**	**One-off benefit (£m)**	**EBITDAS (£m)**	**Payback (years)**
Franchise all branches	0	IRRELEVANT			
Retain branches with payback >15 years	28				
Retain branches with a payback >10 years	46				

*In progress pensions consultation may reduce EBITDAS benefit by £1.6m. Cost and benefit assumptions are aligned to the emerging FS distribution strategy, details of which will be presented to the October Board.
**Draft legislation related to Employers' NI for settlement agreements may come into law in April 2018 leading to a one-off cost increase of ~£2.2m.

POL00251661

One off costs	**£k**
Settlement agreements	IRRELEVANT
Strip out and dliapidations	
Leashold holdover	
Marketing & Agents Fees	
RM site separation	
Project team & legal	
Central cost reduction delivery cost	
Total Staff & Property Costs	
New branch setup (POL share)	
SSK re-location & installation	
ATM re-location & removal	
FS CRM build costs	
Training & Migration Support costs	
New Model set up costs	
AEI relocation	
CTO	
Marketing	
Total One off costs	

Recurring EBITDAS Benefits

Recurring benefits	**£k**
Staff costs saved	IRRELEVANT
Property costs saved	
Branch variable income lost	
Branch variable income migrated	
Agents pay on migrated variable incom	
Allocated income lost	
Allocated income migrated	
Agents pay on migrated allocated incoı	
Franchising Top-Up	
Supply Chain costs increases	
Misc, Consumables & Other Non-Staff	
FS CRM sales model run costs	
Central cost reduction	
Total Recurring Benefits	
One-off benefits (£k)	
Undiscounted Payback	

POL00251661

Pillar	FY16 Budget (£k)	Post Migration (£k)	Net income effect	Migration rate
FINANCIAL SERVICES	IRRELEVANT			
PFS				
Travel				
Other				
GOVERNMENT SERVICES				
MAILS & RETAIL				
TELECOMS				
Total				

Category	Benefit (£k)
SK's	IRRELEVANT
Crown Direct Costs – Losses etc	
Channel Admin (Crown Support Team)	
Financial Services Support Costs	
Property and Facilities	
IT Infrastructure	
Central Support Team - PE	
Central Support Team – Finance	
Central Support Team – Retail	
Total	

One-off benefits:

Property type	Disposal confidence	Number of branches	Disposal Value (£k)	Adj. Disposal Value (£k)	Disp Value in model (£k)
Freehold	Low	IRRELEVANT			
	Medium				
	High				
Long Leasehold	Low				
	Medium				
	High				
	Total				

Mains to locals

4.6. We propose to transition smaller Mains to Local branches onsite, delivering an EBITDAS benefit of ~£6.5k per branch, by:

- Changing the terms for smaller Mains, so that they can only sell their business to an operator willing to operate a Local.
- Negotiating with multiples partners and strong independent retailers to transition to Locals.

POL00251661

4.7. For the past five years branches that would otherwise have been sold by agents or closed have been replaced as part of NT; it is only now we are getting a measure of the behaviour of these new models in BAU. Over the past twelve months there has been a consistent level of change in ownership of around 3% of converted smaller Mains (through sales) and around 2.5% service issues (through agent retirements and resignations, etc.)

4.8. We expect these rates to increase primarily in smaller Mains due to:

- National Living Wage policy: around 5% wage inflation for each of the next four years (which particularly impacts Mains who cannot spread the impact of the increase as they have little or no retail)
- Lost NT fees assurance: for smaller Mains this is ~£3k (7% of remuneration)
- Continued decline in traditional transactions
- Both the psychological and direct impact of variable remuneration reduction through simplification (which particularly impacts Mains with little or no retail, who are our most disengaged agents according to independent research)
- Larger Mains (~2-2,500) are better engaged, and better able to respond by taking action to realise the opportunities from simplification and automation.

4.9. We anticipate small Main churn rates to increase: service issue rates peaking at 5% (from 2.5% today). These Mains would also be replaced by Locals, delivering an EBITDAS benefit of £6.5k per branch.

Managing traditional branches left after NT

4.10. There are approximately 750 remaining unconverted branches that will not become either Mains or Locals under NT as they could not be replaced in a nearby retailer. Churn is expected to increase following a period of suppressed rates in recent years as branches signed up for enhanced compensation for closure under NT, which will now not be forthcoming. As a result, we expect that this may increase from 2% today, peaking at 7-8% in the next five years, as many postmasters simply resign or retire and sell their premises.

4.11. We believe that there will be two ways in which these branches can be replaced. Firstly, by re-approaching the nearby retailer who has so far refused: when faced with local pressure that there will be no Post Office, we expect some to change their mind. In this situation we believe there is a risk that compensation may be necessary in some circumstances. Secondly, by relying on suitable headroom to sustain overall network numbers and the access criteria. In either scenario the traditional branch will be replaced by a Local, giving a benefit of c.£10k.

4.12. We will need to resist the pressure to reopen a de facto community branch on site when the branch closes. Our approach should be clear: we continue to expand actively in good retail hubs but do not open subsidised branches where there are suitable retailers.

Managing change in the community network

4.13. We propose to realise savings to Post Office through reductions in Core Tier Payment (CTP) fixed remuneration for approximately 500 Community branches supported by both a viable retail business and receiving in excess of £10k CTP p.a. We propose to reduce these rates by 10% for each of the three years from April 2018, with fees assurance protections offered to agents. The EBITDAS benefit of fully achieving this reduction in fixed remuneration will be an average of approximately £3k per branch, giving a total saving of ~£1.4m per annum with transitional payments of ~£2.1m. This change is particularly likely to encounter significant political and stakeholder pressure, given that the impact will be largely felt by rural retailers with strong links into local and national politicians and readily mobilised interest groups.

4.14. Although Community contracts have remained unchanged and, in theory, have not been impacted by Network Transformation, their closure rate has been supressed in recent years as branches held out to see if they might be compensated. Since it has been made clear that this is not an option, we have seen an increased level of closures over the past year, and particularly in the past few months.

4.15. The current closure rate is far higher for branches without a strong retail offering, at a rate of greater than 10%. For those with a viable retail offer it is also relatively high, at around 3-5% closure rates. External cost pressures will sustain this elevated rate in the medium term.

4.16. This level of churn represents both a challenge to sustain the network reach and access criteria in some rural communities, as well as an opportunity to deliver a more sustainable and profitable network by opening Locals, which will generate EBITDAS benefit of ~£9k per branch.

4.17. As we will have opened new Post Offices in vibrant retail hubs where customers shop, we will need to resist the pressure to open an outreach for every community branch that closes where there is no retail. In some remote geographies an outreach will be appropriate, but in many the wider area will be well served and we will be meeting all our access criteria and network numbers. We will stress that our approach is to continue to expand actively in good rural retail hubs that customers already use but do not open subsidised branches where there are suitable retailers.

Generating network headroom

4.18. A key principle underpinning our strategy is to take a more dynamic approach to meeting local customer demand while continuing to meet the national access criteria. This means scaling back provision where customer usage is very low, not necessarily replacing branches with like-for-like provision in the same location, and opening new outlets in both the urban and rural areas where we can better meet customer demands.

4.19. We are growing four types of headroom and have identified more than 2,000 potential sites with symbol groups:

- Urban symbol group and multiple convenience stores in under-served parts of towns and cities. We have opened more than 100 Locals so far in FY16/17 as a result of service issues (including 30 in greenfield sites).
- Inner urban retailers to improve capacity and reduce demand in Directly Managed offices.

- Rural symbol group convenience stores. Successful commercially operated convenience stores should be targeted in parallel with their urban counterparts.
- Rural independent and community-run shops. There are at least 120 community-run shops without Post Offices (on top of over 200 already open); a policy that all community-run 'last shops' are entitled to a Post Office not only builds rural headroom but also supports the message that our community branches should be co-located with retail.

4.20. Although there are one-off costs with installing more full-time Post Offices, there are significant benefits to doing so where appropriate. Whist outreach services enable us to serve customers cost effectively in remote locations without any retailers, where rural retail does exist it is better for the customer and more profitable for Post Office to establish a rural Local. In most cases therefore, even allowing for a generous allowance to set up a rural Local, it would cost only £5m more to open 1,000 Locals – generating an annual EBITDAS benefit of £3-5m – rather than equivalent outreach services.

What are the enabling actions we need to take to give us the best chance to make the network roadmap deliverable?

5. We are improving the evidence for and communication of our value proposition to retailers. New research has shown that:

5.1. Post Office customers have a higher propensity to shop in a host retail store (78% for Post Office vs 66% for PayPoint) and tend to buy items with a higher margin.

5.2. 78% of Post Office customers also buy an average of £6.77 of retail goods as part of the same visit. Of these, 73% are in the shop *because* it is a Post Office. So the additional value driven by an average Main amounts to £350k a year of turnover, or £70k profit at 20% margin. The additional value from hosting a Local branch amounts to £140k of turnover a year, or nearly £30k profit.

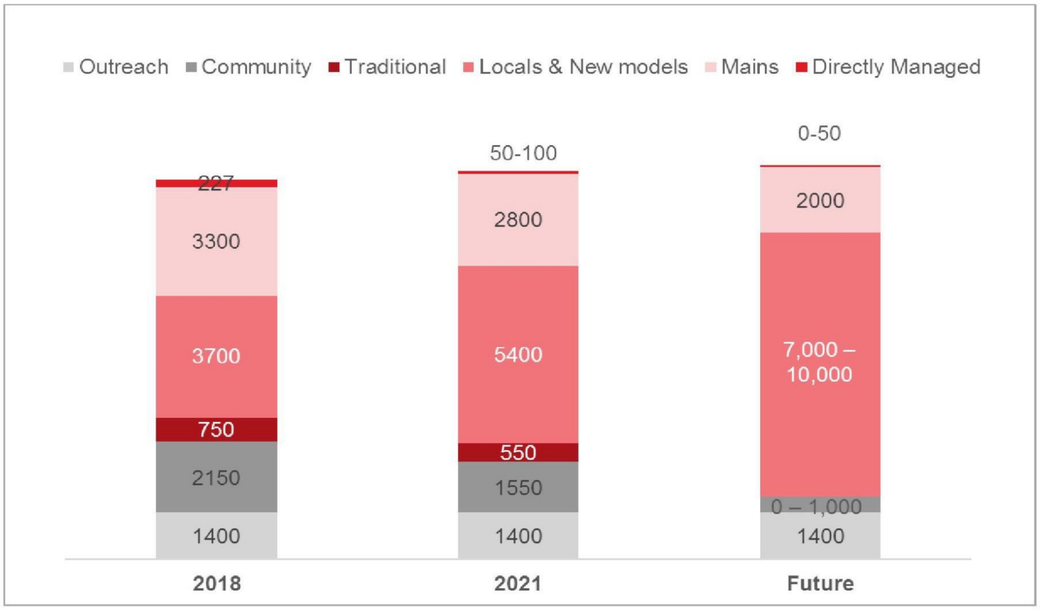
5.3. Our brand impact is strong: the net promoter score ('would you recommend to a friend') is higher in retail stores with a Post Office than those without (80 vs 50).

5.4. Post Office has the most positive impact on a local area.

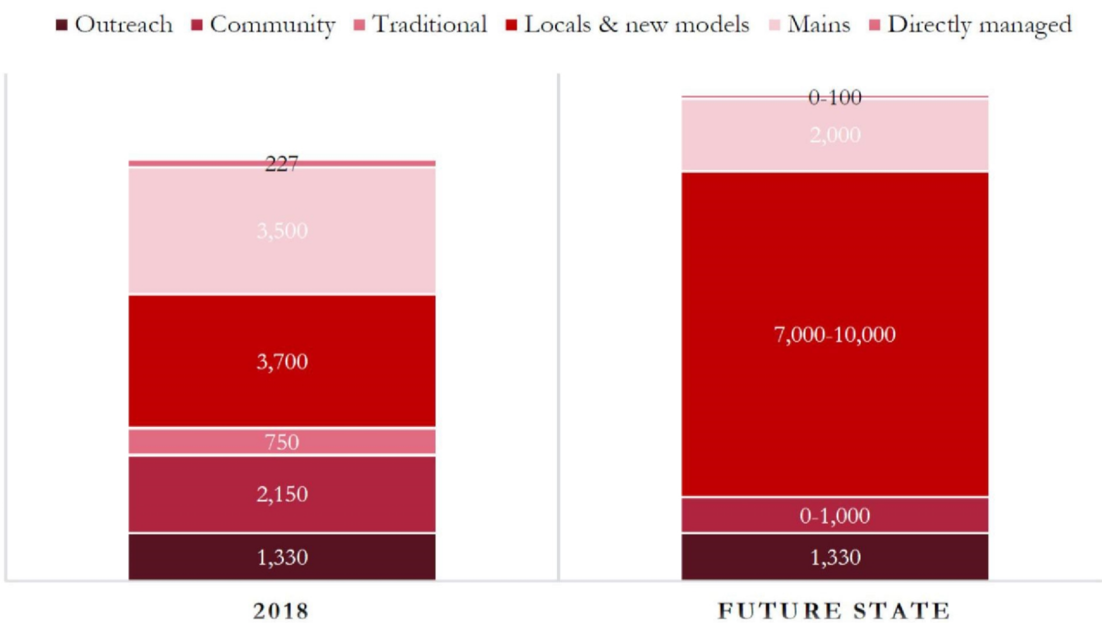
6. We are formalising the 'waiting list' of already more than 1000 interested retailers from all the interactions we have with retailers. We are building relationships with symbol groups in particular to make adding a Post Office a straightforward potential option for all retailers joining their networks. We have seen a marked increase in demand since the implementation of new branch types under NT.
7. As set out in Section 3, we are also developing an improved value proposition for new and existing agents, that will benefit from simplified transactions, self-service automation, improved training and the opportunity to release additional space for retail.

How do we see the network evolving through to 2021?

8. By the end of the next funding period in March 2021, significant progress can be made towards the long term 'ideal' network. We believe such progress is possible without imperilling the sustainability of the network – which remains the defining source of our competitive advantage. This is set out in the table in Appendix 1.



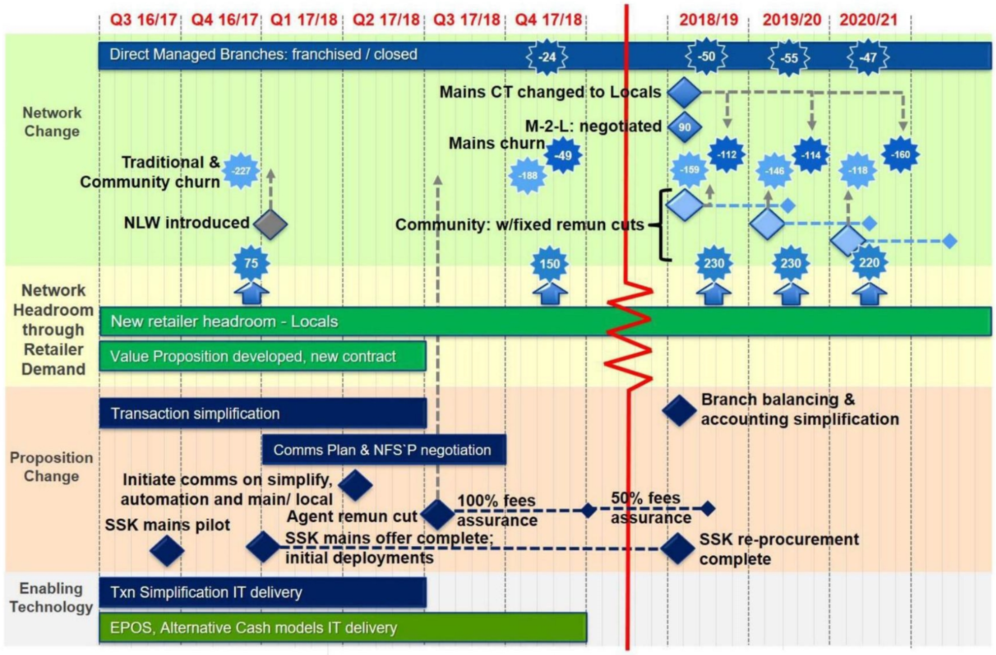
This is also broadly aligned with the high-level position set out in the June Board paper below:



What are the key transition paths we will follow to deliver this roadmap?

9. We have developed a challenging potential implementation roadmap to realise benefits quickly but in a coordinated way that is feasible within the network. An illustration of this is set out in Appendix 2.

POL00251661
POL00251661



What are the investment requirements for these changes and what will be the effect on P&L?

10. The table below shows our view of what could be delivered by 2023 at the latest, but we are looking to accelerate and maximise benefit realisation within the next funding period:

	by 2023 or earlier		***Undated future state as communicated in June***	
Area	**Upfront costs**	**EBITDAS**	**Upfront costs**	**EBITDAS**
Agents' Proposition	£66m	£28m	£40m	£20-50m
Directly Managed to agency	**IRRELEVANT**			
Mains to Locals	£18m	£4m	£40-60m	£0
Community to Locals	£43m	£10m	£30-40m	£4m
Total	**£286m**	**£65m**	**£260-290m**	**£42-72m**

Next Steps

Between now and the October Board we finalise investment requirements and benefits by financial year to inform the 5-year plan and the funding ask from government.

Risks

The network changes put forward in this paper have the potential to raise stakeholder opposition (particularly given the political environment that may be in place in the run up to the 2020 election). Implementation will therefore need to be carefully managed and sequenced and the development of the network will need to be supported by a clear overall external narrative. An outline of the suggested narrative is included in Appendix 4. It will be important to emphasise the alternative to careful implementation of these changes is a network that becomes increasingly fragile, struggling to meet customer needs and government requirements, which itself will provoke significant stakeholder concern and opposition.

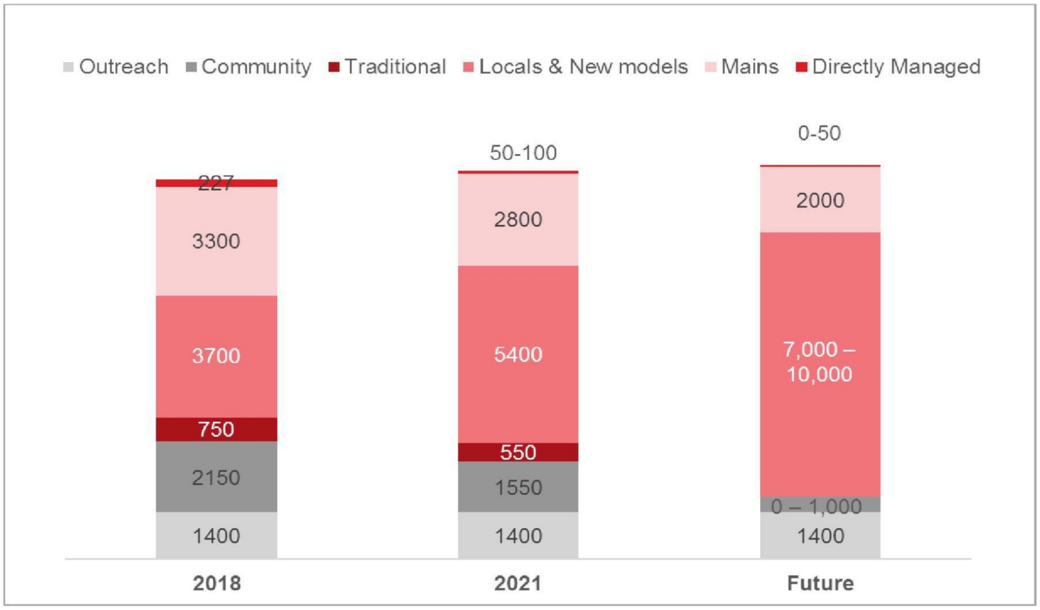
POL00251661

RISK	***MITIGATION***
Irrespective of the actual financial effect on the viability of the reductions in agent remuneration, a national campaign (similar to the recent PayPoint campaign) is launched against the changes by the NFSP or others. This may be accompanied by a major retail partner handing back their Post Offices.	We will take a coordinated and planned approach to communicating all the proposed proposition changes, focusing on the benefits to communities, customers and retailers of the changes as a whole. The reductions in remuneration will amount only to a proportion of the workload removed. Agents benefit from reduced off-counter workload – and we will launch the opportunity for agents in larger branches with the highest staff costs to install self-service.
The ongoing decline of the rural network - driven by factors outside Post Office's control - leads to an uncomfortable level of political pressure, considering this government's commitments. Even the small changes to fixed remuneration in viable community branches comes under pressure.	A key plank of the proposal is to invest in the national network of rural shops that exist e.g. community-run shops championed by Plunkett. We will work with the Corporate Comms team to ensure that these benefits are clearly understood by local and national opinion formers, we will then use the External Affairs team to engage with them to counter negative responses and continue to build a nationally focussed story on the changes we are making.
Further franchising of the DM network will lead to increased political and public pressures, including adverse media coverage where transformation of the network is viewed as job losses and back-door privatisation. Some customers view a Crown as giving their town status and will therefore campaign against change.	We will work with the Corporate Comms team to seek to ensure that opposition remains localised to the area impacted and does not spill over into national opposition or campaigns. We will also use successful examples of recently franchised branches to bring to life the benefits and counter negative messaging. We will continue to develop an over-arching narrative that places these changes in the context of our vision for the future Post Office – the provider of essential services under one roof, making life easier for customers by bringing Post Office, banking and retail together.

POL00251661

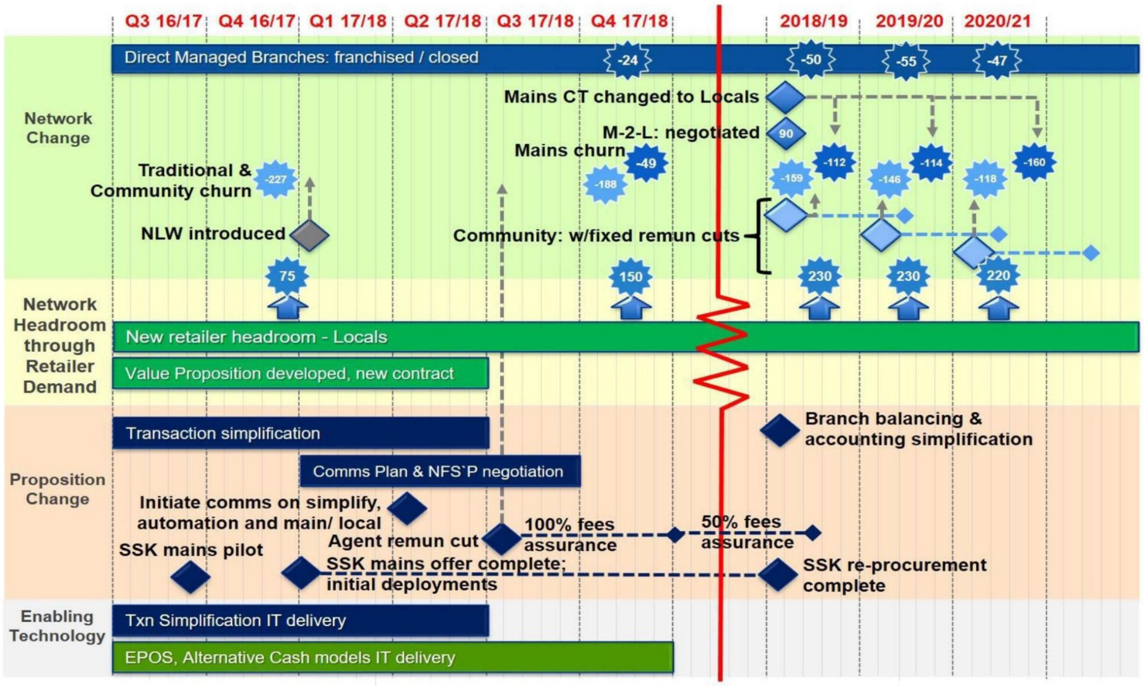
Appendices

1. Indicative network evolution from 2018 through 2021 towards the ideal future state



POL00251661

2. Network development transition paths: proposed roadmap



3. Alternative Approaches Considered

<u>Directly Managed branches:</u>
To improve the profitability of the DM network in line with the EBITDAS benefit delivered by franchising you would need to reduce the staff and property costs by over 25% or increase the income by a third without increasing costs.

Income growth in the 3 Year Plan has been modelled against the DM network and it will not begin to deliver the level of growth needed. Declines in both Government and Mails plans are only marginally offset by growth in FS, Telecoms and Retail.

Previous DM network strategies have included assumptions around pay including pay freezes and buy-downs. Given the level of cost reduction and the current Union regime we do not believe that a buy-down is feasible. Over the last 5 years we have tightly managed our property costs, re-locating to cheaper premises where possible. Further reductions in property costs would attract significant one-off re-location costs and lead to us moving to more tertiary locations.

<u>Agency branches:</u>
A number of alternative scenarios were considered for each of the categories of agency branches considered in line with the network strategy approach set out to the Board in June.

We considered business-as-usual for smaller Mains and the most viable Community branches, but accounting for aggravating factors such as the impact of the National Living Wage. However, this would forgo EBITDAS benefit to Post Office and fail to proactively manage the network in line with our strategy of seeking to ensure branches are hosted in the best retailers and where customers are.

POL00251661

In addition, we have considered an extremely aggressive approach across the network that might maximise EBITDAS benefit. This would imperil Post Office's ability to meet its access criteria, require compulsory contract terminations and would generate a significant national campaign of opposition.

Therefore, we have proposed a carefully balanced approach that weighs the risks and rewards of each initiative and enables us to sustain a compelling narrative for the future of the Post Office that appeals to consumers, clients and retailers.

Approach Scenarios	BAU-plus	Mid-intervention	Aggressive
Mains to Locals (1100)	**304 branches. Exploit increased churn to replace with Locals.** Investment (£6m) EBITDAS (20-21) £1.4m	**525 branches. Also ensure CTs are to Locals in this population.** Investment (£11m) EBITDAS (20-21) £2.4m	**940 branches. Convert or give 18 months notice to leave. 100 stay.** Investment (£23m) EBITDAS (20-21) £4m
Traditional to Somewhere (750)	**180 branches. Exploit increased churn to replace with headroom.** Investment (£5m) EBITDAS (20-21) £1.7m	**Also fixed pay -10% p.a. for 3 years. Increased churn to 250.** Investment (£7m) EBITDAS (20-21) £3.2m	**Wait for max. churn then close with compensation (18 months).** Investment (£36m) EBITDAS (20-21) £7.7m
Community with Retail to Somewhere (500)	**43 branches. Exploit increased churn to replace with headroom.** Investment (£0.1m) EBITDAS (20-21) £0.5m	**Also, fixed pay -10% p.a. for 3 years. Increased churn to 80.** Investment (£2m) EBITDAS (20-21) £2m	**Wait for max. churn then convert or close with comp (1 year CTP).** Investment (£14m) EBITDAS (20-21) £1.7m
Community without Retail to Somewhere (1500)	**350 branches. Exploit increased churn to replace with headroom.** Investment (£1m) EBITDAS (20-21) £3.8m	**Also, fixed pay/hrs -10%. Increased churn to 500.** Investment (£1.4m) EBITDAS (20-21) £5.7m	**Also, close another 200 smallest branches w/comp (1 year CTP).** Investment (£8m) EBITDAS (20-21) £6.4m
Underpinned by £19m investment in headroom branches (Locals and Outreach) and £9.5m to cover project costs based on recommended approaches			

4. Draft Network Development core narrative

Objective: To present a compelling argument to early audiences (government, MPs) for supporting our ongoing network development programme.

Post Office Ltd is unique: a commercial business with a public purpose. For 370 years we have been at the heart of communities around the UK. Over 90% of people in the UK live within a mile of a post office; in deprived, urban areas, the figure is over 99%. Our 11,600 branches, mainly independent businesses, employ over 50,000 people and form a key element of the UK's social and commercial infrastructure.

This huge network with its unrivalled access provides communities with essential services – not only bill payment and postal services, but access to cash and financial services; these are particularly vital in communities where banks have closed their branches, or where there is no other retail outlet. Meanwhile small businesses look to their local post office for convenient banking and access to the mail system for online orders.

Over the last decade, we have invested in and changed the way we offer our services; Over 6,300 branches have already made the transition to become main or local post offices, with nearly a thousand more signed up to the programme. Besides being local, we have made our opening hours more convenient. We have increased our opening times by 205,000 hours – the equivalent of opening nearly 4,500 new post offices. Nearly 4,000 branches now open on Sundays, making us the largest retail business in the country to do so. And our partnership with WHSmith is helping us to find a more cost-effective way to offer our services in high streets and city centres around the UK.

We are committed to maintaining and growing our network; we have stabilised branch numbers branch numbers are at their most stable for decades, and have in fact opened a number of new post offices this year. At the same time, we have improved productivity and managed down cost, reducing our operating losses by over 75% in just four years. Beyond delivering an important public purpose we have consolidated our position as the UK's top mails provider in the face of aggressive competition; and we have built up a fair, competitive and growing financial services offer including mortgages, personal insurance, savings and credit cards.

But since we began to modernise our network, a lot has changed. The digital economy has transformed the way people shop, opening up new channels and diverting trade from traditional outlets. There is increasing competition in core areas such as parcel services (CollectPlus, DPD, Hermes) and bill payment (PayPoint). But we still believe there is a vital, social and commercial role for post offices. Research tells us that for communities to thrive they need three things – a bank, a post office and a convenience store. Our post office network offers all three on the same premises.

Customers primarily connect with us nowadays as a core service in a local store. These partnerships are good for retailers, good for customers and for Post Office too, and the data shows it. Retail businesses with post offices are seeing sales rise – with revenues for our modernised local branches up 15%, compared to 7% for mains.

This is we need to continue the evolution of the branch network, building further on the firm foundations we've created, to extend our reach, protect and potentially increase our network, and complete our transformation to a commercially sustainable model. Given how our network has evolved and prospered so far, we believe that the best way to do this is by offering our services in a way that customers find convenient, and is commercially attractive to local retailers.

Customers tell us they want simple, convenient services, and the ability to buy them while on a normal shop rather than make a special journey. Retailers tell us that, while they value our brand and the footfall we bring, our often complex products and processes can make it harder to do business with us. They want simplicity and flexibility in how they use their space and their staff. They want systems that integrate with their own. And they want a simple, commercial proposition that lifts us above our key competitors.

We intend to deliver a number of network initiatives that will build on what we have learned from Network Transformation and give more customers and retailers what they want. These will include:

- Evolving our network further, giving more communities access to our successful local branch model
- Offering a new, simpler service model built around essential Post Office products (mails, government services and payments), that offers retailers the simplicity and customers the convenience they are looking for
- A further, 'specialist' product set to be offered by in-branch 'specialists', through our larger branches or online, to ensure customers still have access to the full range of Post Office services
- Flexible IT packages, which retailers can integrate with their own systems if they want to
- A clear, simple package that makes retailers actively want a post office in their store

To achieve this, we need to develop our network still further. We will need to review our supplier contracts; convert some main branches to locals. We remain committed to serving communities across the country, no matter how remote, and in doing so we need to explore the most effective ways to service these communities. We also need to rebalance the way we pay our agents, to reflect the changes to our systems and the wider opportunities having a post office brings them. Above all, to deliver further change we will need to make further investment.

The prize, though, is a future where local stores are even more enthusiastic about taking on a post office, enhancing our convenience and making our services more accessible for customers across the country. A future where however markets change, our network is resilient and prosperous enough to continue to serve communities as their needs and expectations change. A future where the local post office continues to play an essential role as a service provider, as a small business hub and as a cornerstone of communities across this country as part of largest retail network in the UK.

The Future of Cash – our opportunity

Author: Martin Kearsley Sponsor: Nick Kennett Meeting date: 23 November 2017

Executive Summary

Context

1. The **value** of cash in the UK economy continues to grow. Whilst the **use** of cash is expected to decline by 43% by 2026, cash will remain vital to the UK economy for many years to come.
2. Banks continue to restructure and close branches, the eventual aim is to run them without cash, relying instead on a multi-channel mix of online, mobile, and (through partnership) access to cash through other means, placing our branch network in a very favourable position.
3. IRRELEVANT Bank has approached us to consider taking all of their over the counter cash transactions. In conversation with other UK major banks, most are considering similar options.
4. The continued demand for cash, allied to the reduced locations to get it, creates a unique opportunity for Post Office to become THE counter cash partner for UK Banking.

Questions addressed in this report

1. What is happening in the wider 'cash market' in the UK?
2. What is the opportunity for Post Office?
3. What is the impact on our Operating model and proposition?
4. How are we proposing to proceed and over what timescale?

Conclusions

5. IRRELEVANT
6. By 2025 Post Office could once again be truly vital in every community, best known for two leading business themes: Mails and Banking
7. The implications of this opportunity are significant and need to be worked through in detail, including integrating the increased branch cash requirements to support our emerging POCA and ATM strategies.

Input sought

8. Detailed analysis of the cross-company implications is required, the objective being to present a fully integrated Cash Strategy for Board approval in March 2018.
9. This analysis will require focussed resources from Operations, Treasury, Network, Supply Chain, Marketing and Finance teams and close cooperation between Banking, POCA and ATM teams.

The Report

What is happening in the wider 'cash market' in the UK?

10. The value of cash in the economy is increasing by 10% per annum (source: Bank of England). Although the number of cash transactions is falling, expected annual growth will increase cash in circulation from £70bn today to c.£80bn by 2025. The UK is not unique in this growth – US, Canada, Australia, and the Euro Area are all experiencing year-on-year growth in cash of between 5% to 10%.

11. The Bank of England stated 2.7 million people (5% of UK adults, spread relatively evenly across age groups) will continue to rely almost entirely on cash. Victoria Cleland, the chief cashier at the Bank of England stated in June 2017 "it is clear that cash is very much alive and kicking".

12. The ATM operating model (through LINK) is becoming increasingly challenging which could potentially reduce the number of ATMs in the UK by 2025. Banks continuing to consolidate their branch networks, already leaving over 3000 communities without any bank branches. Industry analysts propose an 'ideal' bank network to be 600-650 branches, which will see a further reduction from c.5000 branches today to c.2500 by 2025. (source: Nationwide, 2017, Guardian, Sept 17, CACI report 2016).

13. As closure programmes complete, the banks intend their remaining branches to be 'cashless', moving as many of their staff as possible to sell high value financial products.

14. It is clear that Retail banking is rapidly changing; over the counter cash transactions are no longer a core activity. For the Post Office, over the counter transactions are, and will remain, a key part of our business.

What is the opportunity for Post Office?

15. Our existing Banking Framework supports IRRELEVANT transaction per annum, growing at c.8%. Raising awareness of Post Office banking services will see this grow organically, potentially to between IRRELEVANT transactions by 2025.

16. IRRELEVANT has asked Post Office to consider taking over ALL their over-the-counter cash transactions. In 2016, this totalled IRRELEVANT transactions, across retail and business customers – a 66% expansion of our service from just one bank.

17. All four major High St banks are pursuing similar medium term 'cashless branch' strategies.

18. By taking on the other large banks' transactions and adding to our existing volume augmented by IRRELEVANT we could increase our total volume to IRRELEVANT transactions per annum. The Banking Framework has now made each transaction profitable on a standalone basis, so the EBITDAS impact of this enhanced growth would be significant.

19. IRRELEVANT might act as our 'ambassador' to the rest of the industry to encourage a similar migration.

20. There is a clear and deliverable opportunity for Post Office to become <u>the</u> counter cash provider for UK banking.

POL00251661

21. This new model would lead to a much more positive and bank-led marketing campaign, publicly declaring increased access to bank accounts through our partnership.
22. Supported by a large branch network and a cash supply infrastructure covering the whole of the country we are uniquely placed to take advantage of this opportunity.
23. All our services to support this opportunity are already 'live' and scalable, and although investment would be required to enhance the infrastructure to support the volume, the transactions themselves remain the same.
24. This expansion would radically change and enhance the role that the Post Office plays in society. It would provide a second core product category alongside mails that will support the existence of the Post Office for many years to come and enable key revenue and footfall growth for Postmasters.

What is the impact on our operating model and proposition?

25. This is a unique, significant and timely opportunity for Post Office to capitalise on the changes underway in the banking industry. We are evaluating the operational and other implications and the resulting investment requirements:

What are the potential supply chain impacts?

26. IRRELEVANT

What are the potential network impacts?

27. The increase in the number of banking transactions could have a significantly positive impact on the attractiveness of the retail model, with increased revenue and footfall for agents, providing we can continue to make it simpler and easier for our Agents to handle this.
28. The retail strategy recently presented to the board reaffirmed our intention to grow the network with Local and new retail models, and where possible replace small Main branches that close with Local branches. This increase in banking transactions, and in particular business banking, would lend itself more to the Main model.
29. We will therefore need to consider if the retail model mix set out in the strategy is still appropriate in all geographic areas, with the attendant impact on network planning and our approach to pursuing new and replacement branches. We will also need to consider our retail models (Locals, Mains etc) and whether additional models may be warranted.
30. We will therefore need to undertake further work to better understand the cost of processing banking framework transactions to our agents, particularly business banking. This would feed into a review of agents' remuneration for banking transactions, with various potential options to consider.

POL00251661

31. We will need to consider the complexity of in branch transactions and if there are opportunities to simplify in branch activities to cater for a significant increase in transactions.

32. Additional equipment in branch may be required that we will need to invest in to support this, from a volume and from a security, discrepancy or fraud perspective. This may include coin and note counters, additional fortress positions and larger safes to store large deposits.

33. Additional security arrangements may be required, and the costs associated with this. If this moves ahead, a working group would be established to consider physical security issues and input from an experienced 3rd party may be sought.

What are the potential IT impacts?

34. There are three key considerations for IT – will additional functionality be required, will the infrastructure be able to support the significant increase in volume of transactions, and does the architecture have sufficient resilience designed in?

35. If additional functionality is required (such as new transactions or additional MI and data analysis capability), we will need to consider where in the development pipeline it can be accommodated, and how this would affect the timeline for taking on the transactions from IRRELEVANT

36. We will also need to consider if additional 'White label' solutions and applications may be required to support a wider range of functionality in branch, particularly for business banking.

37. Further work is required to consider impacts on system capacity and whether additional resilience will need to be built into the system to reduce any downtime that may be encountered.

What are the potential impacts on our back office processing functions?

38. If the transaction types remain the same as under the banking framework and the complexity is not significantly increased, then the increase in transactions brought from taking on IRRELEVANT Bank would likely be covered by redeploying existing resources as part of a restructuring currently underway. Potentially one or two additional resources may be required over time.

39. If we are to take on additional transactions that result in more complexity resulting in back office support then further work would be required to model how the teams would take this on.

What are the potential working capital and funding impacts?

40. The impact of the changes on network cash, client debits and client payables will all need to be modelled to fully understand the impact on working capital. This modelling will be complex, will require significant engagement from the Supply Chain team and will only be available in the next phase of work.

41.

IRRELEVANT

42.

POL00251661

IRRELEVANT

Next steps

43. A full business case discussing the impacts on Supply Chain, Network, Operations, Treasury, Finance, and IT – linking together the Cash, ATM and POCA strategies will be created, to be brought back to the March Board meeting. In parallel, we will respond positively back to IRRELEVANT that we are moving ahead with the complex analysis, intending to deliver a commercial and operational proposal towards the end of Q1 2018.

POL00251661

Replacement of HR SAP and Payroll systems

Author: Martyn Lewis   Sponsor: Martin Kirke   Meeting date: 23rd November 2017

Executive Summary

Context

Post Office currently operates an extremely old and heavily customised SAP system for payroll and HR processes. The support for this system will be discontinued by SAP in April 2018. The programme commenced 2016/17 prioritising the transition of business critical Payroll and HR data management from our existing system to a new system called SuccessFactors. As well as providing a more technically robust and stable IT system there will be a reduction in ongoing IT costs. Design and build of the Payroll and business critical HR processes (Wave 1) modules commenced to agreed schedule and continued into Test Phase. The changes to system and processes will also ensure we embed the requirements of GDPR regulatory changes.

During the Test Phase the results showed a substantial risk of large numbers of inaccurate payments being made to employees due to the system design not meeting key requirements. A decision was made that the legal, regulatory, IR, financial and reputational risks were too great to risk implementation until the system was fixed. As a result, the programme has incurred delays and resultant increased cost whilst additional work has been undertaken to fix the problems. Go Live was postponed from July 2017 and is planned for January 2018. However we propose a contingency of Go Live in March 2018 if the system testing results indicate too greater risk with Go Live in January.

Questions addressed in this report

1. What is the need or opportunity and why now?
2. What do we propose to do and why?
3. What has caused the delays, lessons learnt and what has already been done to address this?
4. What would the impact be of delaying or rejecting the decision to progress?
5. What results have already been achieved?

Conclusion

Protecting our People database and payroll application is critical. This paper requests an additional IRRELEVANT to complete the delivery of Wave 1 in January '18.

Provision to the responsibility of the Programme Steering Committee is sought to allow draw down of a further IRRELEVANT to cover the scenario of a 2 months further testing period on payroll IRRELEVANT to March'18 go-live should this be required.

Total draw down funds requested is IRRELEVANT It should be noted that the programme benefits currently remain unaffected as a result of the changes to the programme and will deliver savings of IRRELEVANT over the course of the business case.

This paper includes some brief lessons learnt which will be implemented to prevent any recurrence with other system changes. We also propose a Post Implementation Review. This will be presented to the Audit & Risk Committee.

Input Sought

The Board is asked to authorise the above funding request IRRELEVANT and note the revised go-live date of Quarter 4 2017/18.

Input Received

Input to date has been received from;

- Change Approvals Group
- Business Design Authority,
- Employee and agents pay SMEs,
- Business process SMEs,
- HR Services SMEs,
- HR SMEs,
- IT,
- Information Security & Data Protection.

POL00251661

The Report

What is the need or opportunity and why now?

1. In January 2016, Post Office signed an agreement with SAP which included licences for SuccessFactors. The current HR IT landscape includes the core payroll system (SAP HR) supplemented by a number of additional systems to support HR processes e.g. Recruitment and Performance Management. Support for the current SAP HR system expires on 6th April 2018. HR SAP is used as the master for employee and agent people data as well as employee payroll and agent remuneration. Both processes will need to be transitioned away from SAP HR prior to the end of life date in April.
2. Current committed annual support and license costs for applications in scope of this programme run at IRRELEVANT per annum, upon programme completion and benefits realisation, the support and license costs will be IRRELEVANT
3. On completion of this programme, SuccessFactors will be used to host all people data including;
   - employees,
   - Payroll Data,
   - Compliance and training status,
   - Agents,
   - Agent's assistants and
   - Contractors.

   It will also process Payroll related deductions for agent remuneration for IRRELEVANT agents who remain on PAYE contracts[1].
4. The implementation of SuccessFactors provides the opportunity to simplify the IT landscape, reduce operating costs and improve user experience by moving away from the current disparate supplementary systems. It also reduces the risk profile of running on the existing SAP HR system which is 18 years old, heavily customised, poorly documented configuration and in extended support.
5. The programme will deploy many modern simple self-service functionality removing the manual activities by introducing automation and workflow.
6. GDPR regulation represents a significant challenge for data driven modern businesses. These considerations are essential for HR Information Systems. In implementing SuccessFactors as our people master data record, we will embed compliance with GDPR requirements both from a technology point of view and a data management perspective.
7. Upcoming regulatory changes from the FCA in relation to vetting and Fit & Proper may also impact people data recording which SuccessFactors which we expect SuccessFactors to accommodate.

[1] The sales commission calculations and agent remuneration payments will be made by CFS. This change will be delivered through the Back Office Transformation programme.

POL00251661

What do we propose to do and why?

1. To date, the Design and Build of the Wave 1 modules has been completed. Testing and payroll validation is continuing through to the end of November. If results continue to provide the same level of confidence as are currently being achieved, payroll validation will be accepted and endorsed by the business senior stakeholders, allowing the HR and Payroll solution to go live in January 2018. If the required level of quality is not achieved in this testing cycle, a further iteration will be required before a go live of the HR and Payroll solution.
2. Whilst the programme have been signalling to the Group Executive for a number of months the overrun and delays to implementation, a final revised business case has not been submitted until the successful completion of data migration was achieved and a high degree of confidence in the payroll comparison results.

What has caused the delays, lessons learnt and what has already been done to address this?

1. The key causes of delay have been an underestimate of the scale and complexity of changing from the existing system, compounded by the contract signed with IRRELEVANT and a lack of technical skills and knowledge.
2. A number of key business change initiatives took place during the initial Test window which impacted the core data that the programme team needed to test and reconcile. In addition to the planned changes for Auto Enrolment and the transition of weekly to monthly pay, the business undertook an organisation wide restructure as well as the closure of the defined benefit pension scheme to future accrual. All of which significantly changed the data that the programme was reliant on for testing.
3. Significant changes have been introduced to the programme to improve competence and skills, improve vendor management, expedite decision making, co-ordinate financial control and visibility of accountability within the programme.
4. The Programme governance model has now been altered to address identified deficiencies such as; a new GE Programme sponsor, address lack of vendor management as the Solution Integrator (SI) contract was not fit for purpose and was without involvement from IT when signed; SI management changes have been made to improve ways of working; additional experienced programme resource have been introduced. The product knowledge and system documentation for legacy HR SAP was found to be missing and caused incorrect planning and technical assumptions. Deficiencies identified in the future state licensing model have been addressed.
5. A key constraint on the programme's ability to deliver to time and budget has been the contractual relationship agreed with Accenture, as well as the licencing agreement reached with SAP in January 2016.
6. A Post Implementation Review has been commissioned with the support of the Change Risk & Assurance team and Internal Audit. The output will be reported to the Audit & Risk Committee.

The revised go-live of January '18 will require the approval of IRRELEVANT taking the total programme spend to IRRELEVANT this also includes the extension of the programme resources until the end of March '18 to support the BAU activities, programme closure and Early Life Support (Hyper Care) to ensure the embedding of the business processes and tools.

Change Made	Outcome
Change in Delivery leadership	New Programme sponsor actively involved in the progress and delivery of the programme
Increased capability within the programme team	Specific expertise drafted in to increase capability and delivery confidence.
Improvement working with IT leadership	Leverage existing IT skills and experience into delivery roles.
Additional Formal and Informal programme governance meetings	Improved schedule tracking schedule and management of resources.
Improved business Engagement through weekly business readiness presentations and Programme team co-residing in impacted business units	Brings aware of the Business Change; Improves resource planning; Improves End user engagement and aware of the processes and tools being implemented and helps identifies dependencies.
Regular leadership reviews of Capital Programme costs to track Actuals and Forecast	Programme Management Office producing reports to track actuals comparing to forecast, ensuring the completeness of the forecasting model
Review of the Benefits realisation plan	Changes in scope and schedule being evaluated to ensure Benefits realisation is protected.
Improved and simplified Programme Variation process	Closer control of Change Control and financial management to track agreed changes from demand through to resource planning and Financial tracking.
Weekly formal review of Programme Risks, Issues, Dependency and Action Logs	Improve the response times Capture, asses and manage Risks and Issues as they are raised. All have assigned owners to improve accountability.
Weekly strategic review meeting with Delivery Partners	Engaging and acting on the advice from principle third party delivery partners focusing on suggestions to improve ways of working and Programme delivery.

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

1. Delaying the programme would;
    - Postpone the Go-live date currently scheduled for January '18. Delays with the HR SAP migration will have a knock-on delay on the exit from the IRRELEVANT data centre (where HR SAP is hosted), delaying benefits and incurring further costs.
    - Continue the reliance on an end of life HR SAP application to calculate payroll for over IRRELEVANT staff and tax and NI deductions for IRRELEVANT Agents.

POL00251661

2. Rejecting the Decision would;
    - Increase the business ongoing operating costs and inflate the risk due to requiring existing legacy applications, support models and processes be extended.
    - Increase the ongoing support and maintenance costs to HRSAP as currently in extended support.

What results have already been achieved?

1. To date, the programme has already achieved a number of key milestones, delivering improvements
    i. Auto Enrolment – Legislative requirement to ensure Post Office meets its legislative compliance for pensions, ensuring robust processes were in place to meet our staging date of 1st May '17.
    ii. Weekly to Monthly pay – Modernisation of our pay landscape for employees, moving over 800 colleagues from weekly to monthly payroll.
    iii. Learning module implementation – Successful implementation of the SuccessFactors Learning module, reducing IT operating costs, simplifying access to learning and driving up compliance training completion from low levels of compliance to close to 100% completion rates.

POL00251661

Appendix 1- Financial Summary

				Investment			
£k	Sunk costs	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Capex							
Exceptional							
Opex							
Client Funded							
Total POL Investment							

IRRELEVANT

				Drawdown Request			
£k	Approved Prior years	Approved 17/18	New 17/18	New 18/19	New 19/20	New 20/21	Total
Capex							
Exceptional							
Opex							
Client Funded							
Total Drawdown Request							
Total New Request							

IRRELEVANT

			Impact on EBITDAS				
£k	2016/17	2017/18	2018/19	2019/20	2020/21	Total	Benefit Owner
Net Income							
Direct Product Costs							
Cost Saving							
Recurring Costs							
Total Impact on EBITDAS							

IRRELEVANT

Economics	
Hurdle Rate	
Business Case	

IRRELEVANT

Appendix 2- Business Benefits

Programme Benefits

A table that shows the cause and effect between the project/programme solution and the benefits triggered by its implementation (Ben Cooke IT, Joe Connor Ops)

Solution	Impact	Benefit (financial and non-financial)	Benefit Owner
Migration away from legacy end of life SAPHR platform	*Legacy applications will be retired to be replaced by the SuccessFactors product Suite.*	***Financial benefit:*** *Reduction of operating costs from* IRRELEVANT *P/A*	*Ben Cooke*
Automated variable pay calculations and robust annual leave management processes and calendar.	*Removes the need for manual calculations and failure demand in the HR Service Centre, improving the accuracy of payments right first time), with line managers owning their people processes*	***Non-financial benefit:*** *Cultural shift with people owning their own data, HRSC shifts from failure demand queries to value add.*	*Organisation wide benefit*
Manager Self Service tool	*Mobile applications and web-based self-service tools will allow managers to be directly responsible to the day to management of teams and productivity.*	***Non-Financial benefit:*** *Improved quality of HR data and timely reporting of Absence, Recruitment and On Boarding through Manager Self Service portal*	*Joe Connor*
Employee Self Service Tool	*Employees will be able to review and update their details, avoiding the need to contact the HR Service Centre, enter their leave requests*	***Non-Financial benefit:*** *Employees will be able to amend their personal data, enter leave requests and view their position within the company Org structure. Employees will be able to continue to access payslips online,*	*Joe Connor*
Security and Audit of Personal Data	*HR data will be mastered in a single location to improve data quality and ensure compliance with PL data protection policies.*	***Non-Financial benefit:*** *HR and Payroll will be controlled by application administrators, business processes and compliance in-line with the annual external audit review*	*Joe Connor*
Consolidated IT Estate	*Consolidated IT estate to support and manage*	***Non-Financial benefit:*** *No longer require contract to host in a third party data centre by making use of the secure cloud tools available*	*Ben Cooke*
Reduced number of support organisations	*Fewer support organisations to support the business*	***Non-Financial benefit:*** *Simpler and more efficient working with fewer partners and processes to support change.*	*Ben Cooke*

POL00251661

Solution	Impact	Benefit (financial and non-financial)	Benefit Owner
Migration to Digital tools to replace Paper based processes	*Improved customer service, quality of data and response times;* *Increased Employee engagement through awareness of progress of all requests and actions.*	***Non-Financial benefit:*** *Workflows will be enabled to streamline processing of New Starters, update of personal Contact details, leavers plus approve additional ad-hoc payments and workflows*	*Joe Connor*
Provision on a Self Service Expenses for all Employees	*Any Post Office Employee will be able to claim expenses due using any internet enabled PC or mobile device and track the approval of the claim*	***Non-Financial Benefit:*** *Improved Employee Engagement though use of technology to empower the end user.* *Significantly reduce number of data errors through transposing of claim records*	*Joe Connor*

Benefits Realisation

The approved paper in Feb 2017 stated a Go-live date of July 2017, with benefits as stipulated below;

	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21
OPEX Savings					
Headcount savings					
Salary Sacrifice[2]					
Total Savings					

IRRELEVANT

The revised programme schedule will impact the benefits realisation in the following way;

	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21
OPEX Savings					
Headcount savings					
Salary Sacrifice					
Total Savings					

IRRELEVANT

Benefits realisation schedule has not been significantly impacted by the delayed delivery of the programme. Additional OPEX items have been identified that were not known at programme blueprint phase which impact the Benefit case;

[2] A salary sacrifice arrangement is an agreement between an employer and an employee to change the terms of the employment contract to reduce the employee's entitlement to cash pay. This sacrifice of cash entitlement is usually made in return for some form of non-cash benefit in this case an increased pension contribution.

POL00251661

Increase in OPEX licensing beyond original Programme plan;	FY 18/19	FY 19/20	FY 20/21
Additional EC Licences	IRRELEVANT		
SABA etc.			
Archiving/Decommissioning Solution(SAP HR)			

- The additional EC licenses were identified due to better understanding of the SuccessFactors licensing model which to date has been lacking in detail from SAP.
- The SABA licensing needs to be extended until April 2019 in line with Performance Management go-live, hence an additional year of Licensing (£128k).
- Original Business case did not contain any provision for OPEX costs for Archiving/ Decommissioning with the assumption this would be within the Back Office Transformation business case. The solution for Archiving/Decommissioning of HRSAP continues to be managed by the Back Office programme.

Whilst the Programme Delivery costs have been impacted by the additional scope items, the identified benefits realisation plan stipulated recognition was triggered by the ceasing of the legacy HR SAP licenses on 6th April 2018. This remains unchanged.

The complexity of HR SAP previously restricted Post Office's ability to implement a salary sacrifice scheme. With the enhanced capability of SuccessFactors, this has been included in the scope of the programme.

POL00251661

Post Office Limited Sealings

Author: Jane MacLeod Meeting date: 23 November 2017

Executive Summary

Context

The Directors are invited to consider the seal register and to approve the affixing of the Common Seal of the Company to the documents set out against items number 1592 to 1603 inclusive in the seal register.

Input Sought

For the Directors to resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1592 to 1603 inclusive in the seal register is hereby confirmed.

POL00251661

POST OFFICE LIMITED

Date 17.11.2017

Register of Sealings

Company Number 21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1592 / Agreement for Sale	06/11/2017	02/11/2017	Agreement for sale relating to 17 - 18 Cornhill, Bury St Edmunds, IP33 1AA between Post Office Limited (Vendor) and St Edmundsbury Borough Council (Purchaser). Seal x1	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1593 / TR1	06/11/2017	02/11/2017	Transfer of whole registered title in respect of property 17 -18 Cornhill, Bury, St Edmund, IP33 1AA (Title no SK273026). Transferor: Post Office Limited; Transferee: St Edmundsbury Borough Council. Seal x1	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1594 / Capital Allowances Collection	06/11/2017	02/11/2017	Capital Allowance Collection of 17 - 18 Cornhill, St Edmunds, Bury, IP33 1AA between Post Office Limited (Seller) and St Edmundsbury Borough Council (Buyer). Seal x1	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1595 / Deed of variation	09/11/2017	08/11/2017	Deed of variation between Post Office Limited and Vow Retail Limited in relation to the agreement for the supply of goods for wholesale and online sales and associated services dated 1 August 2011. Amendment to the notice period. Seal no. 1595 (x2)	Jane McLeod, Company Secretary	CoSec contract repository
1596 / Lease	10/11/2017	09/11/2017	Lease of Units 3 and 4, and part of unit 2, 112-124 Camden High Street London NW1 between Post Office Limited (Tenant) and Jemorland Limited (Landlord) together with signed Stamp Duty Land Tax Release consent (HMRC Land Transaction Return).	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1598 / Underlease	10/11/2017	10/11/2017	Underlease between Post Office Limited and Rizwan Salahuddin and Chaudhry Zulfiqar Ali Cheema and Vasantikumari Damen Patel in respect of 290 - 292 Seven Sisters Road Finsbury Park London N4 2AB. (x2)	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1599 / Licence to underlet	10/11/2017	10/11/2017	Licence to underlet between Post Office Limited and The Ancient Order of Foresters Friendly Society Limited and Rizwan Salahuddin and Chaudry Zulfiqar Ali Cheema and Vasantikumari Daman Patel in respect of 290 and 292 Seven Sisters Road, Finsbury Park N4 2AB. (x2)	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1597 / Agreement for Surrender	13/11/2017	10/11/2017	Agreement for Surrender between Elanmore Limited and Post Office Limited for 28/29 Topsfield Parade London N8 8QB	Jane MacLeod	Jean Reynolds
1600 / Deed of Surrender	13/11/2017	10/11/2017	Deed of Surrender relating to 28/29 Topsfield Parade Tottenham Lane London N8 8QB	Jane MacLeod	Jean Reynolds
1601 / Form of Election	15/11/2017	15/11/2017	Form of Election under Section 198 of the Capital Allowances Act 2001 relating to 1 Woodfield Street, Morriston, Swansea, SA6 8AQ	Victoria Moss	Jean Reynolds
1602 / TR1 Form	15/11/2017	15/11/2017	Transfer of whole registered title of 1 Woodfield Street, Morriston, Swansea, SA6 8AQ	Victoria Moss	Jean Reynolds
1603 / Agreement for Sale	15/11/2017	15/11/2017	Agreement for Sale relating to 1 Woodfield Street, Morriston, Swansea, SA6 8AQ	Victoria Moss	Jean Reynolds

Performance Review – Health and Safety

Authors: Martin Hopcroft   Sponsor: Al Cameron   Meeting date: 23rd November 2017

Executive Summary

Context

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

1.2 Our Health & Safety performance has improved significantly in the past 6 years and we have a rolling 3-year plan to drive compliance, targeting a reduction in safety metrics including accidents; lost time accidents; days lost; and personal injury claims. Our H&S reporting and safety management system is measured against the externally recognised standard, OHSAS 18001. We also recognise the importance that wellbeing can play in creating engaged and motivated employees.

Questions this paper addresses:

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

Conclusion:

3.1 Accident Performance, including absence accidents and lost days have returned to normal (see Report-H&S Metrics). Benchmark data has been received from suppliers / insurers and overall Post Office performance is favourable. Post Office has also participated in a BSIA exercise to benchmark performance across the industry.

3.2 Mitigating action has reduced road risk which remains at a low level. An overarching Road Risk Policy has been developed for all business drivers (company and personal cars). Online awareness training has also been issued and the Mobile Phone whilst Driving Policy reiterated.

3.3 CViT attacks remain lower in 2017/18 with 13 v 17 (2016/17), Post Office robberies remain high with a number of initiatives being deployed in hot spot areas. The Board and GE have requested a review to assess risk across the Network, following an ONS report that shop theft is increasing across the industry. This will look carefully and analyse Post Office robberies, attacks, losses and customer migration following local bank closures.

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

3.5 A number of actions are being progressed following the GE H&S deep dive review, including a review of road policy, guidance for lone workers, safety of vacated buildings, competency and statutory compliance. A 3rd Party Audit will be arranged in Q3 to review the Post Office Safety Management System.

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

Input Sought

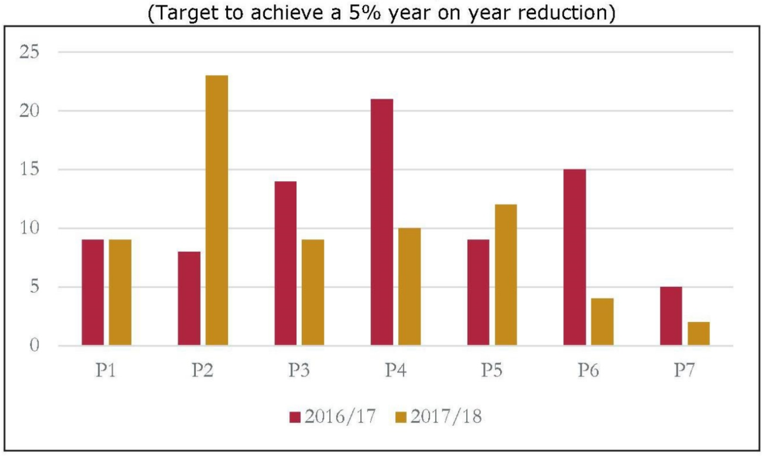
The Post Office Board are requested to **note** the current health safety performance and content of this report.

POL00251661

The Report – H&S Metrics

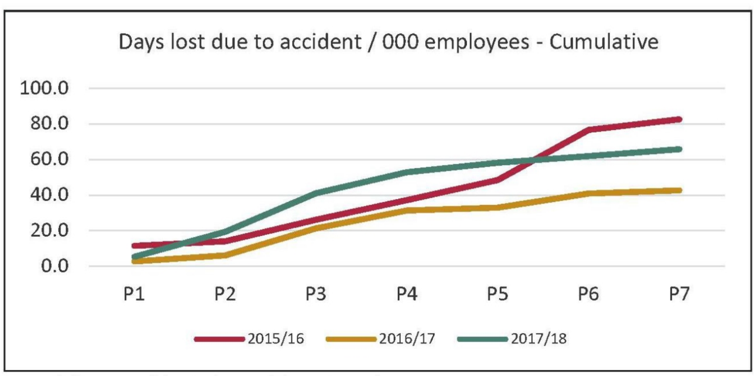
Summary of Safety Performance - YTD Period 7 (October 2017)

All Accidents – Monthly - Period 7
(Target to achieve a 5% year on year reduction)



Accidents have returned to normal levels and are consistent with 2016/17. There have been 69 accidents YTD compared to 81 in 2016/17. Causation is consistent with previous years in DMBs and due to falls indoors, lifting and handling and stepping and striking. Whilst stepping and striking and non RTA vehicle related accidents have increased in Supply Chain recently, lifting and handling related incidents have reduced.

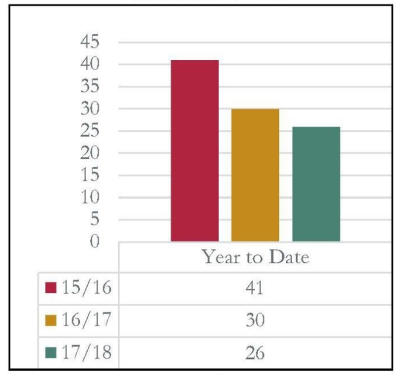
There was 1 lost time accidents reported in P7 with **12 lost time accidents** YTD 2017/18 and 331 total lost days. Cumulative Trends can be seen per 000 employees in the graph below. Total lost time / 000 employees has risen by 50%. **Trauma** related total lost days, following an attack, are 70% down (37 days 17/18 v 130 in 16/17).



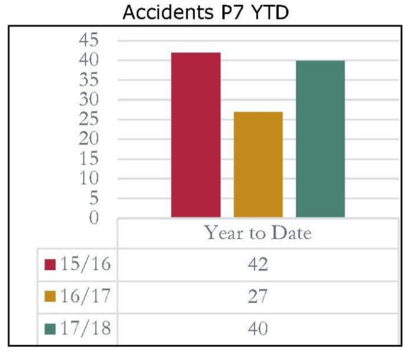
Post Office total lost days: 20 in Period 7
DMB total lost days P7 YTD : 156 (96 in 16/17) – 1 slip/trip, 1 lifting, 1 fall
Supply Chain tot lost days P7 YTD: 169 (165 in 16/17) 2 RTA, 3 falls, 1 lifting
Support total lost days P7 YTD : 6 (6 in 16/17)

Post Office CViT Robberies – P7 (Oct 17)
There were 1 incident reported in Oct v 2 in 2016/17 and over a rolling 12 mth period there have been 16 incidents v 30 in 16/17. Trend is being monitored closely. 3 incidents YTD have used violence with 1 injury. 4 used weapons v 6 in 2016/17 YTD. Task Force vehicles have been deployed in usual hot spots with cross pavement observations. Merseyside identified as current industry hot spot area. Regular Security team attendance at monthly 'Operation Guardian' meeting to highlight and mitigate against CViT criminality in area.

Directly Managed Branch
Accidents P7 YTD



Supply Chain
Accidents P7 YTD

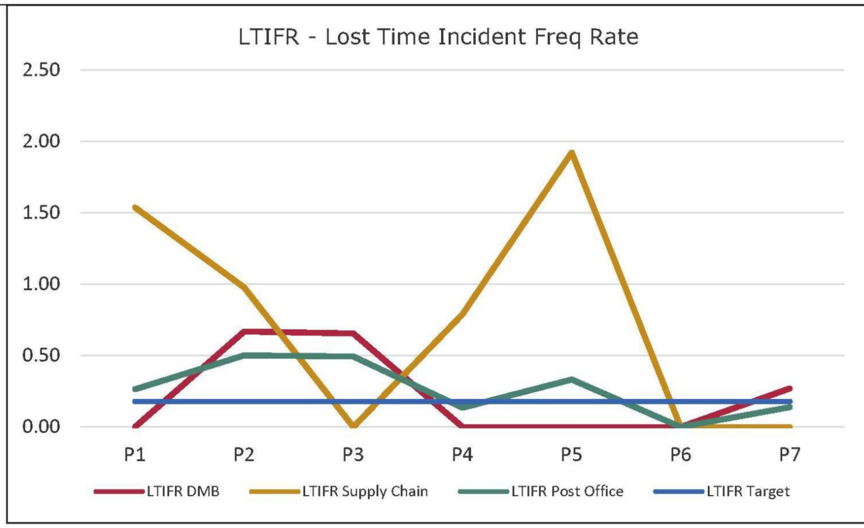


Post Office (All branch types) Robberies – P7 (Oct 17)
There were:
May - 15 incidents v 7 (16/17)
June - 8 incidents v 11 (16/17)
July - 4 incidents v 8 (16/17)
Aug - 8 incidents v 12 (16/17)
Sep - 13 incidents v 9 (16/17)
Oct – 14 incidents v 6 (16/17)
88 robberies YTD v 57 in 2016/17
179 compared to 107 rolling 12 mth

Violence – 2 vs 4 last year
Injuries – 1 vs 1 last year
7 injuries YTD v 6 (2016/17)
Weapons - 9 (2 firearm) vs 5 last year (2 firearms)

There has been a 10% increase in bladed robberies and a 2% reduction in firearm robberies over rolling 12 month period. TORCH visits are being made to hot spot branches to verify for compliance to security standards. A further review has been requested by GE to assess the impact of bank closures on the risk profile of branches and CViT operations and compare with data of attacks and losses.

POL00251661



Lost Time Injury Frequency Rate (LTIFR) – Period 7 YTD

Supply Chain
YTD P7 – 0.753
2016/17 out turn – 0.590
2017/18 target – 0.500
Absence accidents/000 SiP: 7.39 YTD v 6.80 (16/17)

All Post Office – Employee
YTD P7 – 0.260
2016/17 out turn – 0.168
2017/18 target – 0.180
Absence accidents/000 SiP: 2.37 YTD v 1.87 (16/17)

Road Risk

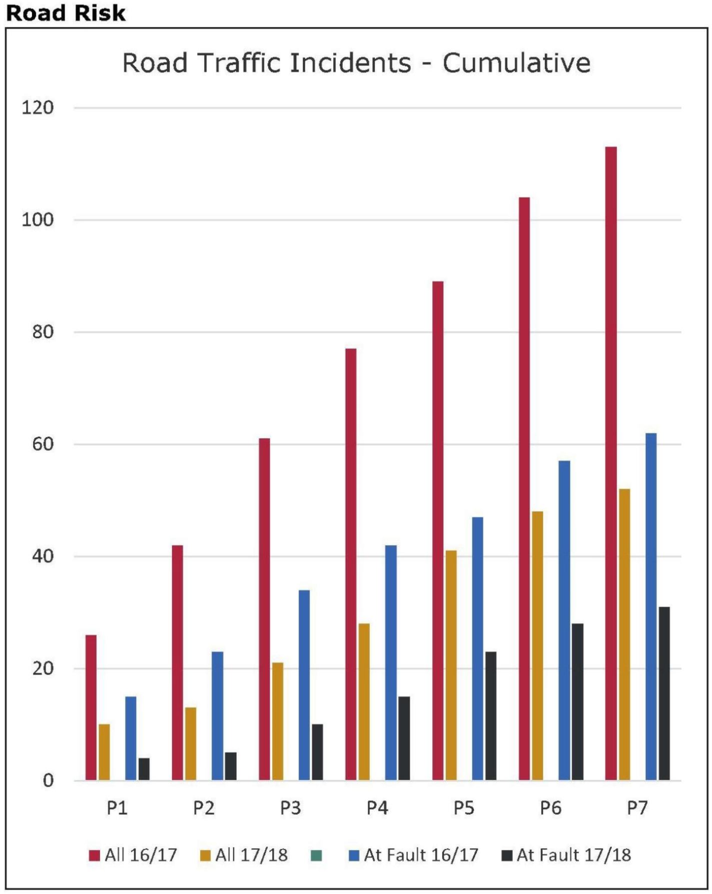
P7 Road Traffic Collisions

- 4 Road Traffic Incidents in P7
- 3 at fault, 1 not at fault

Comparing 17/18 v 16/17
There were 46 RTCs YTD in 2017/18 v 97 (16/17), a 53% reduction YTD.

At fault RTC's were 55 in 2016/17 and have reduced to 28 in 2017/18, a 49% YTD improvement. Initiatives include:

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



POL00251661

Summary of Wellbeing Performance - YTD Period 7 (Oct 2017/18)

- The overall Post Office attendance level remains stable at 96.4% YTD P7 (October 2017/18). Short Term absence is 1.0% YTD and long term absence has increased to 3.0% YTD. Supply Chain short term and long term sick absence has reduced during P7 October.
- Mental health related absence remains the most common cause of long term absence and there is an increase in lost days in Directly Managed Branches. Some additional analysis is being undertaken by our Occupational Health and HR Service Providers to understand trends and areas of concern to target intervention.
- Proactive activity across the business, includes 'positive mental health awareness' sessions for colleagues, additional awareness training being piloted for line managers and the introduction of Mental Health First Aid initiatives.

Business Area Absence Performance v Target – P7 YTD 2017/18

2017/2018	Sick Absence %ge							
	Period 01	Period 02	Period 03	Period 04	Period 05	Period 06	Period 07	Y.T.D Totals
CENTRAL	**0.0%**	**0.0%**	**5.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.6%**
STRATEGY OFFICE	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
CHIEF FINANCE & OPERATIONS OFFICE	**3.4%**	**3.3%**	**3.2%**	**3.6%**	**4.0%**	**4.8%**	**4.6%**	**3.8%**
FIN: SUPPLY CHAIN	4.0%	3.7%	3.9%	4.1%	5.1%	5.8%	4.7%	4.4%
FIN: CHANGE MANAGEMENT	0.2%	1.0%	3.2%	6.6%	6.4%	2.5%	2.3%	3.2%
FIN: HRSC	0.8%	3.6%	1.1%	2.6%	4.4%	4.7%	9.1%	3.9%
FIN: NO CONTACT CENTRES	3.7%	1.9%	2.5%	5.4%	4.1%	6.6%	9.4%	4.6%
FIN: NETWORK OPERATIONS	2.1%	3.6%	2.0%	2.1%	1.9%	1.8%	2.5%	2.3%
FIN: FSC	4.0%	1.7%	2.1%	1.9%	2.0%	6.6%	4.9%	3.3%
RETAIL OFFICE	**3.5%**	**3.1%**	**3.5%**	**4.1%**	**4.4%**	**4.2%**	**4.2%**	**3.8%**
RO: DIRECTLY MANAGED BRANCHES	3.9%	3.4%	3.8%	4.6%	4.9%	4.7%	4.6%	4.2%
RO: AGENCY SALES & CRM	3.8%	4.9%	4.1%	1.4%	3.0%	3.8%	6.3%	4.2%
RO: NETWORK DEVELOPMENT	1.2%	1.0%	1.2%	1.4%	1.5%	1.0%	1.0%	1.1%
COMMUNICATIONS & CORPORATE AFFAIR	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
HUMAN RESOURCES	**0.0%**	**0.3%**	**1.8%**	**1.3%**	**1.3%**	**0.5%**	**2.5%**	**1.1%**
GENERAL COUNSEL	**0.1%**	**0.0%**	**0.0%**	**0.7%**	**1.5%**	**1.5%**	**0.0%**	**0.5%**
FINANCIAL SERVICES & TELECOMS	**3.0%**	**2.3%**	**1.9%**	**2.1%**	**1.7%**	**1.1%**	**1.3%**	**1.9%**
FST: POST OFFICE MONEY	6.0%	4.5%	3.8%	4.1%	3.3%	2.2%	2.5%	3.8%
CHIEF INFORMATION OFFICE	**2.7%**	**3.1%**	**2.6%**	**5.2%**	**5.4%**	**5.6%**	**4.4%**	**3.8%**
Post Office Ltd	**3.3%**	**3.0%**	**3.2%**	**3.7%**	**4.0%**	**4.1%**	**4.1%**	**3.6%**

POL00251661

Post Office Limited Board Meetings

Author: Jane MacLeod Meeting date: 23 November 2017

Executive Summary

Context

The Directors are requested to note the future meetings dates scheduled in respect of Post Office Limited Board meetings.

Input Sought

The Board is requested to note the future meeting dates.

The Report

2018

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

POL00251661

Post Office Board Agenda - Draft

Date	
29th January 2018	
Start Time	**Finish Time**
11.45hrs	16.30hrs
Comments	
Papers are due 22nd January 2018	

Present	In Attendance	Apologies
• Tim Parker (Chairman) • Richard Callard • Tim Franklin • Virginia Holmes • Ken McCall • Carla Stent • Paula Vennells • Alisdair Cameron	• Jane MacLeod • Marla Balicao • Nick Kennett (item 6, 7 & 8) • Martin Kirke (item 10)	None

Agenda Item		Action Needed	Purpose	Lead	Timings TBC
1.	**Minutes of previous Board and Committee meetings including Status Report**	Decision	Minutes formally agreed.	Jane MacLeod	
2.	**CEO Report** Including IR update	CEO report noted	CEO to update the Board on the report.	CEO	
3.	**Financial Report**	For noting	CFO to update the Board on the report	CFO	
4.	Provisional Approval of Annual Budget 2018/19 (TBC)				
5.	Review of 2018/19 Scorecard and Bonus (TBC)				
LUNCH					30 mins
6.	**CE Performance Report – Retail**	For information and Input	To review the performance of Retail SBU.		
7.	**CE Performance Report – FS&T**	For Information and input	To review the performance of FS&T SBU.	Nick Kennett	
8.	**MoneyGram**		(Board action from meeting on 31st October 2017)	Nick Kennett	
9.	**DMB Strategy**				
10.	**Project Jay**			Martin Kirke	

POL00251661

Post Office Board Agenda - Draft

Agenda Item		Action Needed	Purpose	Lead	Timing
11.	**Board Committee Chair updates (verbal)**	For noting	To update Board		
12.	**Ratifications of decisions made by correspondence** (TBC)				
13.	**Items for noting**				
	13.1 Sealings	For noting	Board aware of the affixing of the seal		
	13.2 Health & Safety	For noting	To update Board		
	13.3 Conflicts of Interest	For noting and agreement	For Board to review their respective Conflicts of Interest and advise any amendments.		
	13.4 Meeting dates and forward agendas				
14.	**AOB**				
	CLOSE				