Group Executive Agenda

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Date
Thursday 17th December 2015

Start Time	Finish Time
10.30hrs	17.15hrs

Location
Room 1.19 Wakefield, Finsbury Dials

Present	In Attendance		Apologies
• Paula Vennells (Chair) • Alisdair Cameron • Neil Hayward • Nick Kennett • Martin George • Kevin Gilliland • Jane MacLeod • David Hussey • Alwen Lyons	• Tom Wechsler Performance Session: • Chris Broe • Mark Davies • Pete Markey (+ Items 7 & 8)	Other attendees : • Dave Carter (Items 1 & 5) • Tom Moran (Item 3) • Amber Kelly (Item 3) • Aidan Alston (Item 4) • Martin Edwards (Item 5) • Robin Gregory (Item 5) • Allan May (Item 7) • Radha Davies (Item 8)	None

Agenda Item		Action Needed	Purpose	Lead	Timing
1.	**Performance - Update**				10.30 – 11.50
	1.1 Customer (Incl. Complaints)	For information	Monthly update	Pete Markey	(20 mins)
	1.2 Sales	For information	Monthly update	Kevin	(20 mins)
	1.3 Financials	For information	Report P7 Flash Results to GE	Dave Carter	(20 mins)
	1.4 Operations	For information	Monthly update	Al / Chris Broe	(20 mins)
2.	**GE Minutes & Action log**	Minutes agreed	To review and agree	Alwen	11.50 – 12.00
3.	**Engagement Strategy**	Brief GE on the new engagement strategy for review, input and sign off	To agree the future engagement strategy for the business.	Tom Moran / Amber Kelly	12.00 – 12.30
4.	**SLT Composition**	Approach agreed	Discussion on the composition of the SLT	Neil / Aidan Alston	12.30 – 13.00
LUNCH					13.00 – 13.30
5.	**Initial discussion on the 2016/17 budget and outlook for the 3YP**	GE to agree initial direction and timetable	Initial discussion on the new year plan, agreeing the programme of work prior to sign-off with the Board in March	Al / Martin Edwards / Dave Carter & Robin Gregory	13.30 – 14.45

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	Agenda Item	Action Needed	Purpose	Lead	Timing
6.	**Sales Strategy (including FS)**	For information	To update GE on the Sales Strategy.	Kevin	14.45 – 15.15
7.	**Retail Strategy**	For information	Update GE on Retail Strategy and Performance.	Pete Markey / Allan May	15.15 – 15.40
BREAK					15.40 – 15.50
8.	**Innovation** 8.1 Digital 8.2 New Crown Office Prototypes			Martin / Pete Markey / Radha Davies	15.50 – 16.30
9.	Pensions	For information	To update GE on the Sales Strategy.	Neil	16.30 – 17.00
10.	**AOB** 10.1 Health & Safety 10.2 RCC Minutes 26/10/15 10.3 Prosecutions policy	 For noting For noting For noting	 Health & Safety report RCC Minutes from meeting held on 26 Oct 2015 Prosecutions policy		17.00 – 17.15
CLOSE					17.15

GE Performance Report –Customer P8

Author: Andy Viggars   Sponsor: Pete Markey   Date: 9/12/15

Executive Summary

Context
This is the Period 8 Voice of the Customer report for the Group Executive.

Questions this paper addresses
1. What is our performance vs. target on our key scorecard metrics?
2. What movements have there been in the data vs last period and where relevant, what is the performance by Network segment?

Conclusions
P8 has been positive overall with continuous improvement across the key customer metrics and all metrics remain above target year-to-date. The Effort measure is at its highest level so far this year. However there are indications of a decline in Effort scores for some Mails customers in Crown, which could pose a risk for P9 performance as footfall in branches increases.

Summary table below:

KPIs	SOURCE	CURRENT PERIOD (P8)	LAST PERIOD (P7)	YTD	P8 TARGET	2015/16 Target
Effort (% saying Post Office is Easy to do business with) [bonus measure]	VOC	69%	68%	66%	64%	64%
NPS	VOC	+64	+63	+63	+60	+57
CSAT (Top 3 Box)	VOC	89%	88%	88%	88%	87%
Wait time (% served inside 5 minutes)	VOC	81%	79%	80%	82%	78%
FS NPS [bonus measure]	FS NPS survey	+30	+27	+27	+25	+25

- **At a Network level, there have been improvements across all KPIs this period, with all metrics ahead of target YTD.**

- **Effort – performance improved by 1% to 69% in P8 reaching its highest score this year. 7 in 10 customers in P8 said we were 'Easy to do business with'. The Effort measure remains ahead of target for both the period and YTD.**

  - **Agency and WHSmith drive this improvement in P8**. Both are showing +2pp increases and Effort is at its highest level yet this year. (72% and 68% respectively)
    - Within Agency, Effort scores continue to be higher in Mains branches, +1pp to 72%. However Locals are closing the gap, increasing scores by +3pp to 69% this period.
    - Within WHSmith, both Franchised and Core branches see improvements, by 1pp to 68% for Franchised and by +2pp to 67% for Core.
  - **Crown is stable in P8 at 67%**, maintaining the YTD high score that was achieved in P7.
  - **Looking at Effort by product, there has been an improvement in all major products this period:**
    - **Passports** continue to be the service with the highest Effort scores. All three branch segments contributed to this strong performance in P8. Crown is stable, while WHSmith and Agency both saw +6pp uplifts, albeit from a smaller base for Agency.

- **In Travel Money** there was a small uplift (+1pp) this period to 69%, driven by Agency (+7pp) and Crown (+1pp). However, the overall uplift is held back by a decline in WHS (-6pp), a trend also seen in the other KPIs.
    - Results in Crown could be further improved by addressing wait time acceptability and 'Time & Effort' for Travel Money customers, which declined in P8.
- **For Mails** there was a small improvement in P8 of +1pp to 67%.
    - **Both Agency and WHSmith show small uplifts for Mails**: +1pp to 69% for Agency; +2pp to 67% for WHS.
    - **Crown scores for Mails declined by 1pp this period to 64%** but remain ahead of target.
    - **Within Crown, SSK customers' Effort score is up +4pp. However, Effort for Mails transactions at counters falls by -3pp.**
        - This is aligned to a decline in Personalisation (friendly welcome and goodbye) for these customers. Verbatim comments show frustrations with the length of time it took to get served.
        - A number of customers mention the lack of proactive response to queues at peak times as well as a perceived lack of staff to man counters. There is also some frustration with a perceived lack of activity to cover for increased customer volumes in the lead up to Christmas.

NPS - At a Network level, NPS increased by 1pp to +64 and is ahead of target by 4pp.
- Crown NPS scores hold at +67, while Agency improved by +4pp to +60, across all products and there have been improvements across all pillars of customer experience.
    - In WHSmith, NPS declined by -2pp to +60, reflecting declining scores in the following pillars of customer experience: Expectations, Personalisation and Empathy.
    - The decline seen in Effort amongst Mails counter customers in Crown is mirrored in NPS for Mails counter customers (a decline of -3pp).

- **CSAT – Customer satisfaction reaches a year-to-date high of 89%, exceeding the P8 target by 1%**. The score in Crown holds for a fourth consecutive period at 92%, ahead of target for the month and year and Crown continues to be the highest scoring segment for satisfaction. Agency improved its score by +2pp this period to 89%, driven by improvement in all customer experience pillars. WHSmith holds at 89% for a second month, exceeding its target by 2%.

- **Wait time (% served inside 5 mins) – The percentage of customers served in less than 5 minutes improved by +2pp this period, to 81%.**
    - WHS performance declined by 2pp this period to 74%, the same level as seen in Crown. Tied to this, WHS customers are less likely than Crown customers to say that the wait time was acceptable (87% vs 90% in Crown).
    - Crown and Agency % served inside 5 minutes remained stable in P8 (74% and 88% respectively)

- **FS NPS** – Positive uplift of 3pp from previous period, continuing an upward trend. The increase this period is driven by the insurance business, Travel & Home specifically. Sales & service experiences are being reported slightly more positively (back book customers have remained stable).

Action plans are in place across all three network segments to address underperformance and seek to improve scores in P9 and beyond.
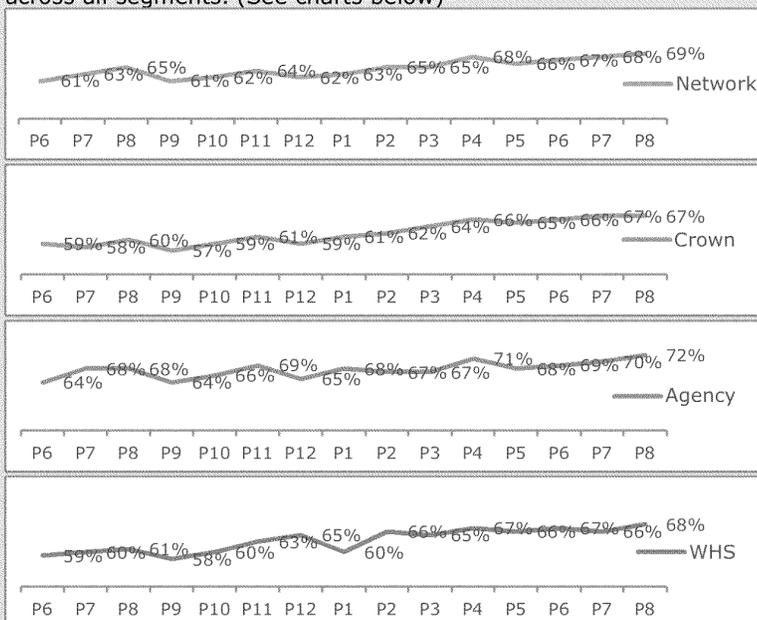
Input required
For GE to review and note.

The Report

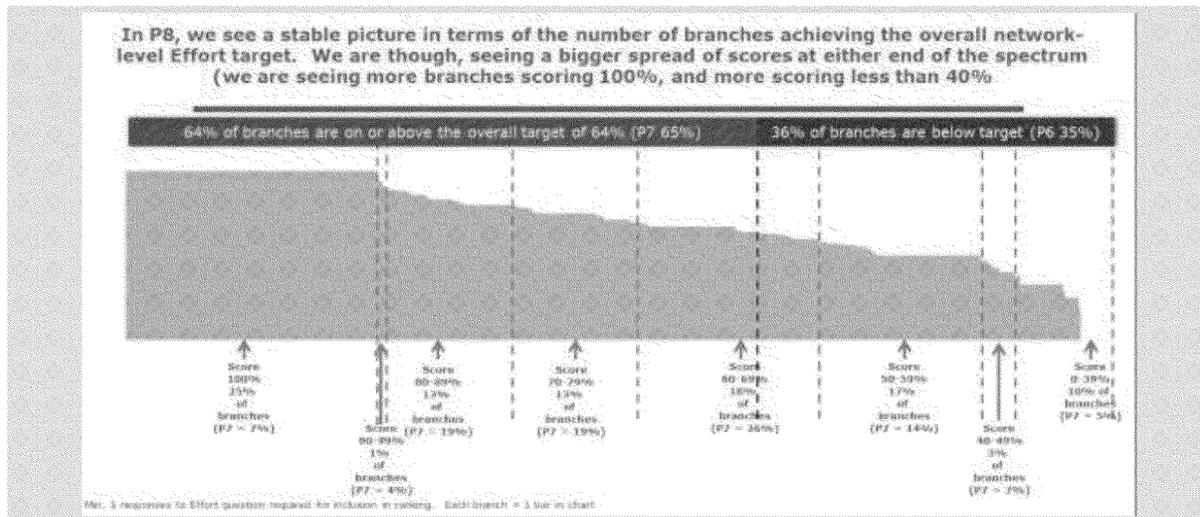### Looking Back

WHAT HAS GONE WELL?

- Performance on key metrics remains positive; all showing uplifts and all above target YTD.
- Particularly strong performance on Effort, where we continue to see a long term upward trend across all segments. (See charts below)

Network: P6 61%, P7 63%, P8 65%, P9 61%, P10 62%, P11 64%, P12 62%, P1 63%, P2 65%, P3 65%, P4 68%, P5 66%, P6 67%, P7 68%, P8 69%

Crown: P6 59%, P7 58%, P8 60%, P9 57%, P10 59%, P11 61%, P12 59%, P1 61%, P2 62%, P3 64%, P4 66%, P5 65%, P6 66%, P7 67%, P8 67%

Agency: P6 64%, P7 68%, P8 68%, P9 64%, P10 66%, P11 69%, P12 65%, P1 68%, P2 67%, P3 67%, P4 71%, P5 68%, P6 69%, P7 70%, P8 72%

WHS: P6 59%, P7 60%, P8 61%, P9 58%, P10 60%, P11 63%, P12 65%, P1 60%, P2 66%, P3 65%, P4 67%, P5 66%, P6 67%, P7 66%, P8 68%

- 1 in 4 branches are now achieving Effort scores over 90%.
- Network continues to show great focus on customer (and Voice of Customer), seeking to drive improvements in both the experience and the KPIs. For example:
  - Detailed, specific customer plans are in place to address underperformers.
  - Increase in SSK migration (customers using SSKs) to improve wait time performance/perception.
  - Area Managers monitoring wait time on every visit.
  - Sharing of best practice, overall, and by individual branches.

WHAT HAS NOT GONE WELL?

- **Some declines in KPIs for P8 specifically:**
  - WHSmith wait time performance declined by 2pp this period to 74%.
  - WHSmith Travel Money Effort declined in P8, tied to a decline in wait time for travel money customers.
  - Mails counter customers' Effort and NPS scores have declined in Crown, relating to perceptions around wait time and lack of proactive response to queues at key times, as well as a perceived lack of staff to man counters.
  - P8 saw a drop in personalisation (friendly welcome/goodbye) being delivered at counters for Mails customers in Crown.
  - Frustrations for Mails customers around wait time and perceived lack of action by colleagues to address wait times have increased in P8 within Crown. This represents a significant risk as branch footfall increases during P9.
- Although improving, there is still an inconsistency for Effort scores across the network. (See chart below)

> In P8, we see a stable picture in terms of the number of branches achieving the overall network-level Effort target. We are though, seeing a bigger spread of scores at either end of the spectrum (we are seeing more branches scoring 100%, and more scoring less than 40%

Looking Ahead

OPPORTUNITIES?

- To deliver a great Christmas customer experience: Network aspiration to maintain YTD scores, rather than accept lower P9 targets, combined with daily reporting in the run up to Christmas is helping make sure customer (and VOC) is even further up the agenda.
- To further increase Effort scores by focusing on key drivers in branch: Pace, Service, Experience of Government Services and Environment.
- SSK users reported increased Effort scores in P8. P9 is a critical period to introduce new customers to SSKs and to manage a positive experience with the support of Christmas Makers in branch.
- Proactive deployment of colleagues and Christmas Makers to show customers how we can help them. This is also an opportunity to improve customer perceptions that we are responding to increased volumes of customers and acting to both reduce wait times and improve the customer experience.
- To increase the proportion of branches achieving targets, by focusing on areas of underperformance (already being actioned with network colleagues).
- Opportunity to further develop and learn from customer projects (Branded Experience pilot, Concept Stores).

RISKS OR CONCERNS?

- Scores have historically declined at Christmas so it is important we do all we can to deliver a great experience at the busiest time of the year, especially for Mails, where Effort scores are lower.
- Queue times historically increase in P9 and we know that 'Time and Effort' is the biggest driver of customer NPS. WHSmith have already seen an increase in queue times in P8.
- Customer comments in P8 suggest frustrations for some Crown customers that we are not being proactive enough to manage queues, man counters and serve customers quickly at busy times and ahead of the Christmas period. We need to demonstrate to customers that we are acting to address and manage wait times during P9, in order to maintain Effort and NPS scores for Mails customers in December.
- During the peak and busy period, it is critical that counter colleagues continue to deliver a warm and friendly service for all transactions, when customers reach the counter.
- The daily VOC reporting to the business during December that we have introduced this year, should be used by Network to monitor and address performance during P9.
- Although there has been a strong performance YTD, there are two points we must consider: It is really important that we retain focus on customer service in the last few months of the year and we need to bear in mind our position in the Nunwood CEE Index and that we improve further relative to other brands.
- There is work in train to address both of these points.

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In Conclusion

CONFIDENCE?	IMPLICATIONS?
If current work continues, we're confident that we will hit full year targets, especially with the commitment to maintaining service levels during the peak period.	In doing so, we'll be giving a positive platform on which to build further, strategic improvements in customer experience and drive profitable growth.

GE Performance Report

Author: Karl Oliver & Mike Elliott   Sponsor: Kevin Gilliland   Date: 12/15

Executive Summary

Context
The Period 8 & YTD Sales Performance Report for the General Executive (GE)

Questions this paper addresses
1. How are we trading through a 'volume' lens?
2. What are the implications for our outlook and plans?

Conclusion

Mails & Retail performance achieved target in the period (100.5%) compared to the P7 performance of 105%. Our P8 performance has reduced the YTD position against target by 0.3% now at 103.2%. The P8 Mails performance is short of the full year forecast run rate (+£7.7m against original target) by £0.4m, leaving us £0.3m behind the YTD forecast.

Telecoms continued its strong performance of 115% against target for the period driven by the strong HomePhone proposition. This brings the YTD vs Target position to 100.5%, positive against target and last year for the first time this year (103% vs LY).

Financial Services followed the pattern of P7 with P8 improving performance against Travel Money (101% of target & 105% of LY) and Credit Card, driven by digital performance of c.900% vs LY, achieving 142% of target. A very strong digital Savings performance in the period delivered 25k new savings accounts against a target of 10k. Mortgage performance has declined to 36% of target in P8 from 68% in P7 (P8 vs LY 147%).

Government Services maintained above target performance of 101%. The expected drop back to target levels of Secure Collect bringing overall performance back from the spike in P7 (108% in P7). We expect to achieve target for Government Services.

In summary, we expect to 'over achieve' sales target for Mails & Retail and 'achieve' our Telecoms and Government Services targets. Financial Services sales volumes remain 'high risk'.

Input Sought
For GE review and note.

Looking Back

WHAT HAS GONE WELL?

- Travel Money continued the improvement seen in P7 with P8 performance at 102% of target and 105% vs Last Year (P7 98% of target, 88% in P6)
  - → Continued strong digital performance, a stabilisation of FX exchange rates and no destination capacity issues outside the peak period contributing to improved performance
  - → Click & Collect - The initial phase of 250 Branches shows performance of 200% against LY. Expansion to 1500 branches completed on 8th Dec (additional 750 branches). Further analysis of results is required and will be fed back in the P9 GE report
- Credit Card (Digital)
  - → Improved proposition delivered in P7 has driven P8 online performance to 175% of target (900% vs LY). Overall Credit Card performance for P8 is 141% of target (515% vs LY) bringing the YTD position to 89% (up 12% on the YTD position at the end of P7)
  - → SmartSearch on MoneySuperMarket (MSM) went live on 30th October and this has driven a 10% increase in MSM acceptance rate (56% up from 46%). The 2 weeks of sales data we have so far shows an additional 250 sales per week
- HomePhone/BB
  - → Continued strong performance in P8 with all channels achieving target
  - → 144% against overall target for the period and 107% YTD
  - → Growth to the base for the last 3 periods of 11k new customers reflecting the success of the campaign and achieved during the 'Price rise' and call centre migration.
- MoneyGram
  - → We continue to outperform the market with transactions up over 19% YoY (market is growing at c 6%). The main driver is strong performance to East-European countries
  - → Launch of New MoneyGram Plus card from the mid October making future transactions quicker and easier (Originally planned to launch in January 2015)
  - → Additional functionality including a 'Delayed send'; 'Cash direct to Bank Accounts'; extended ID list; staff discount & 'Promotional' code capability. Trials of all of these features will take place in Q4 to allow quantification of opportunity

WHAT HAS NOT GONE WELL?

- Mortgage Sales
  - → Application performance in P8 was our lowest YTD with Branch achieving £17.5m vs target of £90m (19%); Online achieved £22.5m vs £95m (23%); Contact centre £32.8m vs £40m (82%)
  - → Pricing / competition: in July/Aug our product range had c20 products with market leading rates, some under-cutting the next best lender by 20 basis points driving strong applications. Our current range includes a number of best buys & performs strongly in aggregator search results and will be refreshed on 11th December
  - → Hub & Spoke – P7 report stated the intention to roll-out to a total of 100 Branches in P8. We have rolled out to a total of 60 Branches. A software problem (Anti-Virus) has meant a pause to the roll-out. It is expected that this will be resolved during January allowing us to move to the planned 100 Branches by the end of Jan/early Feb
- Travel Insurance
  - →
  - → **IRRELEVANT**
  - →
  - →

- Motor Insurance
  - →
  - →

IRRELEVANT

  - →

Looking Ahead

OPPORTUNITIES?

- January Promotional Offers
  - → 750k 'Offer' booklets to be distributed in December with the aim of building awareness/consideration and revisits in January. The booklets contain either new offers i.e. MoneyGram discount or highlight our strongest propositions i.e. Credit Card
  - → Coupled with and to support the Christmas Maker activity, this is a test & learn exercise with a total print cost of £56k. Unique offers will be tracked and outcome fed back
- Savings Q4 campaign
  - → Opportunity to capture greater market share by focusing marketing and network staff around natural churn times when savings are front of mind for many customers
  - → Looking for compliance agreement to train an additional 500 Product Champions in the Agency Network to support the primary campaign in Q4
- Credit Card Mobile Application form launched end of November
  - → Digital development fully funded by Bank that mitigates an increasing risk
  - → MSM see 50% of their CC searches come from a mobile device and previously we've not had a mobile friendly web/app to optimise these searches
- Home Shopping Returns
  - → Increased opportunity from post-Black Friday week-end, Xmas & shift to e-sales
  - → Product added to Self Service Kiosks (SSKs) in November
  - → Amazon and ASOS branded returns posters in branch (6 brand names including M&S)

RISKS OR CONCERNS?

- Mails Xmas performance
  - → We have entered the peak period following a drop in overall performance in P8, dropping £0.4m against forecast (now £0.3m year behind our end forecast)
  - → International Standard YTD position is -8.6% vs target. This has continued to be driven by exchange rate impact, increased competition from MyHermes and eBay's global shipping programme (Week 31 expansion to additional 11 countries)
  - → Timing of Christmas suggests a later start to 'peak' volume. Daily tracking of performance shows some signs of recovery and a clearer picture will be provided at the GE meeting
- Travel Money
  - → The increasing concern surrounding recent terrorist attacks e.g. Paris, Egypt & London may result in a downturn in overseas travel in the coming months
- Savings sales
  - → Following recent product re-pricing, movement has been insufficient to re-cover savings shortfall. Current performance levels would see Network achieve 53% of volume targets
  - → Online Saver and Online Bond removed from sale to new customers on 12/11 as a result of October sales exceeding volume expectations, resulting in price reductions and restriction of sales to 'existing customers' to temper inflows and avoid tranche breach

In Conclusion

CONFIDENCE?	IMPLICATIONS?
We expect to hit three of the four product pillars with FS missing across a range of products	We are looking to overachieve against opportunity products and channels to compensate for the shortfall in FS sales

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Telecoms	Period P08						YTD to P08					
	Actual	Target	Vs Target	Vs Target (%)	Vs Last Year	Vs Last Year (%)	Actual	Target	Vs Target	Vs Target (%)	Vs Last Year	Vs Last Year (%)
HomePhone	11,550	8,008	3,542	144.2%	3,473	143.0%	75,610	71,102	4,508	106.3%	11,686	118.3%

IRRELEVANT

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POST OFFICE LIMITED

Performance Report

November 2015

Produced By : Financial Control

For Queries & Comments Contact : Robin Gregory or Kam Bassra

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Headlines
November 2015

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Headlines

Period 8

EBITDAS of [IRRELEVANT] is [IRRELEVANT] favourable to budget, driven by lower project opex. BAU EBITDAS is [IRRELEVANT] adverse driven by lower income.

Net income is £(2.6)m adverse to budget, due to adverse variances across all pillars; Financial Services is £(1.3)m adverse driven by travel insurance, Telecoms is £(0.6)m adverse, Mails is £(0.3)m adverse and Government Services is also £(0.3)m adverse.

Total expenditure is £2.6m favourable; projects opex is £1.8m favourable due to timing and underlying reduced costs (Mobile and Invest to Grow), postmaster costs are £1.4m favourable, non staff is £(0.3)m adverse and staff costs are £(0.2)m adverse.

Below EBIT impairment is favourable due to capex being [IRRELEVANT] behind plan, driven primarily by EUC which is [IRRELEVANT] behind. Exceptionals are [IRRELEVANT] behind budget and the government grant which although budgeted throughout the year, was fully utilised by P6.

YTD

EBITDAS is [IRRELEVANT] which is [IRRELEVANT] adverse to budget. This is due to lower income [IRRELEVANT] adverse, lower FRES income [IRRELEVANT] adverse, offset by lower costs [IRRELEVANT] favourable.

Net income is £(7.0)m behind budget. Financial Services is £(7.2)m adverse, Telecoms is £(2.8)m adverse, and Supply Chain is £(3.5)m adverse, partially offset by Mails £4.7m favourable and Government Services £1.0m favourable.

Total expenditure is £8.2m favourable consisting of postmasters' costs £8.8m favourable, due to fixed pay savings as a result of converting more branches through NTP in 2014-15, variable costs favourable as a result of Mains conversions, product mix and timing. Staff costs £(1.8)m adverse due to the pension rate adjustment, reflecting year end market conditions. Non staff costs are £(1.4)m adverse with underlying adverse variances from £(1.8)m higher card transaction costs, £(1.2)m FX losses and £(1.0)m property charges, partially offset by one off benefit of £3.7m from Fujitsu of compensation, lower IT costs, consultancy charges and marketing costs. £3.0m YTD accrued for the unbudgeted Mails Segregation penalty. Project One Off Costs are £2.5m favourable, due to the movement of some costs to capital.

FRES is £(1.4)m behind budget due to timing and this is expected to be close to budget at year end.

Below EBIT impairment is [IRRELEVANT] behind plan driven by lower capex in Front Office which is [IRRELEVANT] behind, NTP which is [IRRELEVANT] behind, EUC which is [IRRELEVANT] behind and replacement capex which is [IRRELEVANT] behind. Exceptionals are [IRRELEVANT] overspent, driven primarily by postmasters' compensation, onerous leases and redundancy costs.

YTD vs. PY

EBITDAS is [IRRELEVANT] favourable to last year.

Net income is £3.9m favourable with this time last year (excluding NSP). Telecoms is £5.4m favourable due to the price increase, Financial Services is £5.5m favourable driven by Insurance, Savings and MoneyGram. Mails is £(3.9)m adverse driven primarily by the reduced fixed fee from Royal Mail and lower lottery income. Supply Chain is £(1.9)m adverse driven by lower warehousing income and lower High Value Mails income from Royal Mail. Government Services is £(1.4)m adverse due to DVLA income.

Total expenditure is £30.7m favourable consisting of staff costs £9.2m favourable due to lower headcount, postmasters' costs £19.3m favourable due primarily to NT impact, non staff costs are £(3.8)m adverse due primarily to higher IT cost, partially offset by reduced Property and Branding costs. Project costs are £6.0m favourable reflecting spend management.

Below EBIT higher exceptionals due to higher postmasters' compensation in 2015-16 and lower government grant by [IRRELEVANT] in line with the Funding Agreement.

Income: Budget vs. Actual
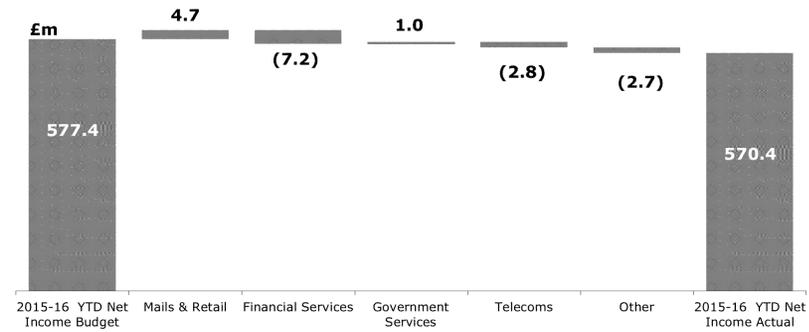
Key/Bonus Scorecard Metrics

	Bonus %	Year to Date			Period var.
		Act	Target	Var.	
Total Net Income (excl NSP) £m	10%	570.4	577.4	(7.0)	(2.6)
Earnings before ITDA and Subsidy £m		IRRELEVANT			
Free cashflow £m	-	(20.0)	(81.2)	61.2	105.3
Digital Net Income	10%	15.2	15.8	(0.6)	0.7
Customer Effort	10%	66%	64%	2%	3%
Net Promoter score Financial Services	5%	27	25	2	5
Engagement Index % (October Pulse)	15%	60%	63%	(3)%	-
Crown Profit (Loss) £m	10%	(2.6)	(3.7)	1.1	0.5
NT Branches Transformed In Year	10%	973	1,095	(122)	-48

Scorecard

Cashflow
Cashflow is £61m favourable driven by lower levels of cash in cash centres versus budget phasing, [P7 was £(44)m adverse].

Digital Net Income
Net income is £(0.6)m adverse driven primarily by Travel Insurance.

Engagement
Score shown is for pulse completed in October. PY pulse was 59%.

Crown Profit (Loss)
Crown profit is £1.1m favourable, driven by lower staff and property costs. Crown income is £(0.1)m adverse driven by FS £(1.9)m below budget partially offset by Mails £0.9m favourable and Government £0.8m favourable.

Network Transformation
The programme is (122) adverse to Plan, P7 was (74) adverse.

Profit & Loss Statement Period

November 2015

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£m	Current Month			Q2 Forecast	Variance	Prior Year Period	
	Actual	Budget	Variance			Actual	Variance
TOTAL GROSS INCOME	76.1	78.7	(2.6)	79.4	(3.2)	74.5	1.6
Cost of Sales	(8.8)	(8.8)	(0.0)	(8.7)	(0.1)	(8.2)	(0.6)
TOTAL NET INCOME	67.3	69.9	(2.6)	70.7	(3.4)	66.3	1.0
Staff Costs	(18.1)	(17.9)	(0.2)	(18.9)	0.8	(18.1)	(0.1)
Postmaster Costs	(32.8)	(34.2)	1.4	(32.9)	0.2	(33.5)	0.7
Non-Staff Costs	(22.0)	(21.6)	(0.3)	(23.1)	1.2	(12.4)	(9.5)
Total Expenditure (pre Project OpEx)	(72.8)	(73.7)	0.9	(74.9)	2.1	(64.0)	(8.8)
FRES - Share Of Operating Profits	1.7	1.5	0.2	1.7	0.0	1.4	0.3
IRRELEVANT							
Project OpEx	0.1	(1.7)	1.8	(1.5)	1.6	(1.7)	1.8
IRRELEVANT							
Depreciation	(0.0)	(0.1)	0.0	(0.1)	0.0	(0.1)	0.0
Network Payment	10.0	10.0	0.0	10.0	0.0	12.4	(2.4)
EBIT pre exceptionals items	6.3	6.0	0.3	5.9	0.4	14.4	(8.1)
Interest	0.2	0.0	0.2	0.2	0.0	0.4	(0.1)
Impairment	(13.2)	(17.1)	3.9	(22.5)	9.3	(13.9)	0.8
Exceptionals (incl BT) & Redundancy & Severance Costs	(7.4)	(8.3)	0.9	(15.9)	8.5	(6.0)	(1.4)
Government Grant Utilisation	0.0	12.5	(12.5)	0.0	0.0	0.0	0.0
Profit/(Loss) On Asset Sale	0.0	(0.0)	0.0	0.0	0.0	(0.0)	0.0
Total Profit/(Loss) Before Tax	(14.1)	(6.9)	(7.1)	(32.3)	18.2	(5.2)	(8.8)

Period vs. Budget

IRRELEVANT

- **Lower net income of £(2.6)m** driven by Financial Services £(1.3)m adverse due to lower Travel Insurance and loss of NS&I income, Telecoms £(0.6)m adverse due to price increase bill timing, Mails is £(0.3)m adverse due to lower labels and Government Services £(0.3)m adverse due to lower Verify income.

- **Higher staff costs of £(0.2)m** in the month, driven primarily by the pension rate adjustment.

- **Higher non staff costs of £(0.3)m** driven by increased property maintenance and robberies.

Offset by:

- **Lower postmaster costs of £1.4m.** Fixed lower due to converting more branches than planned in 14/15, and variable favourable from the review of postmasters' pay, delay in launching new products, sales mix, offsetting the additional cost of higher Mails.

Project costs variance of £1.8m favourable is due to £0.6m lower spend on Mobile (Wave), £0.7m lower on 'Invest to Grow' and £0.3m lower on Eagle.

IRRELEVANT

Period vs. Forecast

IRRELEVANT

- **Lower net income of £(3.4)m** driven by Financial Services £(0.9)m adverse due to lower Travel Insurance, Telecoms £(0.8)m adverse due to price increase bill timing, Mails £(1.8)m adverse due to lower Lottery, Retail and Labels and Government Services £(0.3)m adverse due to lower passport 'Check & Send' income.

Offset by:

- **Lower staff costs of £0.8m** in the month, driven primarily by the Q2 forecast for pensions being much higher (FY Budget £7.0m and FYF £13.7m). The period forecast is therefore higher but the actuals are now coming in lower than Q2 forecast and the year end position is also now expected to be below the Q2 forecast.

- **Lower non staff costs of £1.2m** driven by £1.0m in POMS, reflecting capitalisation of costs; closure of POs; and change in accounting treatment for the Junction contract (offset in income). The FY forecast is unchanged. £1.3m VAT rebate for Q2. This is reflected in the FY forecast, but phased incorrectly. £0.4m lower Marketing spend, as full year plans are under review but FY forecast is still held. Offset by:£(1.7)m within IT & Operations driven by Desktop Services (related to EUC delay); Horizon Terminal Services (timing related to RPI adjustment); and Website maintenance (timing of spend). £(0.2)m within Property, relating to timing of planned maintenance spend.

- **Lower postmaster costs of £0.2m.** These are close to budget.

Project costs variance of £1.6m favourable due to lower spend on Mobile (Wave), on 'Invest to Grow' and Eagle.

IRRELEVANT

Profit & Loss Statement YTD

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November 2015

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£m	YTD				Variance	Prior Year		Full Year			Prior Year
	Actual	Budget	Variance	Q2 Forecast	Variance	Actual	Variance	Q2 Forecast	Budget	Variance	Actual
TOTAL GROSS INCOME	642.6	649.9	(7.2)	644.7	(2.1)	638.2	4.4	979.0	986.4	(7.3)	975.9
Cost of Sales	(72.3)	(72.5)	0.2	(72.2)	(0.1)	(71.8)	(0.5)	(109.1)	(111.5)	2.4	(105.9)
TOTAL NET INCOME	570.4	577.4	(7.0)	572.5	(2.2)	566.4	3.9	869.9	874.8	(4.9)	870.0
Staff Costs	(154.8)	(153.0)	(1.8)	(155.6)	0.8	(164.0)	9.2	(232.4)	(226.4)	(6.0)	(234.0)
Postmaster Costs	(276.5)	(285.3)	8.8	(276.6)	0.2	(295.7)	19.3	(415.2)	(429.0)	13.8	(434.9)
Non-Staff Costs	(187.2)	(185.9)	(1.4)	(185.8)	(1.5)	(183.4)	(3.8)	(275.9)	(270.9)	(5.0)	(273.3)
Total Expenditure (pre Project OpEx)	(618.5)	(624.2)	5.6	(618.0)	(0.5)	(643.2)	24.7	(923.5)	(926.4)	2.9	(942.2)
FRES - Share Of Operating Profits	27.8	29.3	(1.4)	27.9	(0.0)	28.0	(0.2)	36.0	36.4	0.0	35.8
					IRRELEVANT						
Project OpEx	(9.2)	(11.7)	2.5	(11.0)	1.8	(15.2)	6.0	(16.8)	(19.3)	2.5	(23.2)
				IRRELEVANT							
Depreciation	(0.3)	(0.4)	0.1	(0.3)	0.1	(0.3)	0.0	(0.5)	(0.6)	0.1	(0.4)
Network Payment	87.5	87.5	0.0	87.5	0.0	107.7	(20.2)	130.0	130.0	0.0	160.0
				IRRELEVANT							
Interest	2.8	(2.0)	4.8	2.7	0.1	4.0	(1.2)	3.9	(4.0)	7.9	4.9
Impairment	(67.7)	(132.3)	64.6	(100.0)	32.3	(94.3)	26.6	(202.4)	(230.2)	27.8	(147.0)
Exceptionals (incl BT) & Redundancy & Severance	(178.7)	(128.6)	(50.1)	(188.6)	15.0	(124.4)	(54.3)	(393.0)	(207.3)	(185.7)	(257.4)
Government Grant Utilisation	150.0	100.0	50.0	150.0	0.0	170.0	(20.0)	150.0	150.0	0.0	170.0
Profit/(Loss) On Asset Sale	0.0	(0.0)	0.0	0.0	0.0	(0.0)	0.0	0.0	(0.0)	0.0	0.3
Total Profit/(Loss) Before Tax	(35.9)	(105.0)	69.1	(77.4)	46.6	(1.3)	(34.6)	(346.4)	(196.6)	(149.8)	(90.2)

YTD vs. Budget

IRRELEVANT

- **Lower net income of £(7.0)m** driven by Financial Services £(7.2)m adverse, Telecoms £(2.8)m adverse, Supply Chain £(3.5)m adverse partially offset by Mails £4.7m favourable and Government Services £1.0m favourable.

- **Higher staff costs of £(1.8)m** due primarily to a pension rate adjustment, reflecting year end market conditions (not budgeted).

- **Higher Non staff costs of £(1.4)m** driven by higher finance costs of £(4.2)m; [£(1.8)m card transaction costs and £(1.2)m FX losses], higher property maintenance costs £(1.2)m and unbudgeted Mails Segregation penalty accrual of £(3.0)m, offset by one off £3.7m relating to Fujitsu Telecoms compensation, Brand and Marketing £2.5m favourable savings and timing and Vehicles £1.2m favourable (driven by fuel, breakdown and lease savings).

Offset by:

- **Lower postmaster costs of £8.8m** favourable, due to fixed pay savings as a result of converting more branches through NTP in 2014-15, variable costs as a result of Mains conversions, product mix and timing.

- **Project costs £2.5m favourable** due to lower than budgeted 'Invest to Grow' spend, which is £3.1m behind plan, offset by higher than budgeted spend for Eagle, Invest to Grow, FS and Transform the Organisation. This is mostly timing.

IRRELEVANT

YTD vs. Forecast

IRRELEVANT

- **Lower net income of £(2.2)m** driven by Financial Services £(0.1)m adverse, Telecoms £(0.5)m adverse, Mails £(1.6)m adverse and Government Services £(0.1)m adverse.

- **Higher Non staff costs of £(1.5)m** driven primarily by software licenses: £(0.9)m adverse – Timing of licenses earlier than planned in the year, further risk of c£500k if additional licences cannot be negotiated down. Desktop Services: £(0.4)m adverse - Overspend is due to the delays incurred moving towards the EUC towers and separation from Royal Mail. Discussions are currently underway regarding credit notes due from Computacenter.

Offset by:

- **Lower staff costs of £0.8m.** This variance is driven by the Q2 forecast for pensions being much higher (FY Budget £7.0m and FYF £13.7m). The period forecast is therefore higher but the actuals are now coming in lower than forecast and the year end position is expected to be below the Q2 forecast.

- **Lower postmaster costs of £0.2m**, which is 0.5% of the cost.

- **Project costs £1.8m favourable** due to lower than budgeted 'Invest to Grow' spend, offset by higher than budgeted spend for Eagle, Invest to Grow FS and transform the Organisation. This is mostly timing related.

IRRELEVANT

Crown Profit & Loss Statement
November 2015

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£m	Period			Prior Year Period		YTD			Prior Year YTD		Full Year	Prior Year
	Actual	Budget	Var.	Actual	Var.	Actual	Budget	Var.	Actual	Var.	Budget	Actual
Income and Distributions												
Variable income												
- Mails	3.3	2.8	0.5	3.0	0.3	22.1	21.1	0.9	23.2	(1.1)	32.4	35.7
- Financial Services	2.3	2.5	(0.2)	2.3	0.0	20.5	22.4	(1.9)	21.6	(1.1)	32.3	30.8
- Government Services	1.8	1.4	0.4	1.4	0.4	14.5	13.7	0.8	14.0	0.5	19.8	20.4
- Telecoms	0.1	0.1	0.0	0.1	0.0	0.7	0.6	0.1	0.6	0.0	0.9	0.9
Fixed income	1.5	1.5	(0.0)	1.8	(0.3)	13.0	13.2	(0.2)	15.1	(2.0)	19.8	23.4
Gamma/ Other	0.6	0.7	(0.2)	0.7	(0.1)	5.1	5.0	0.1	3.7	1.4	8.2	7.9
Renewals and Retentions	1.3	1.5	(0.2)	2.5	(1.2)	12.1	12.1	0.0	12.2	(0.1)	18.2	18.1
Total Income including Gamma/other	**10.8**	**10.6**	**0.2**	**11.7**	**(0.9)**	**88.0**	**88.1**	**(0.1)**	**90.4**	**(2.4)**	**131.5**	**137.2**
Branch costs -												
- Staff	(6.3)	(6.5)	0.2	(6.0)	(0.2)	(56.6)	(58.2)	1.5	(64.4)	7.8	(85.9)	(91.1)
- Property	(1.9)	(1.9)	(0.1)	(1.9)	(0.0)	(15.9)	(16.5)	0.6	(20.4)	4.4	(23.5)	(28.3)
- Other branch costs	(0.1)	(0.1)	0.1	(0.4)	0.4	(1.2)	(1.1)	(0.1)	(1.7)	0.5	(2.4)	(2.4)
Infrastructure costs	(1.1)	(1.0)	(0.1)	(1.9)	0.7	(9.2)	(9.4)	0.2	(15.4)	6.2	(13.5)	(17.9)
Allocated central costs	(1.6)	(1.7)	0.1	(0.2)	(1.4)	(14.3)	(13.7)	(0.6)	(9.1)	(5.2)	(19.7)	(18.8)
Total Expenditure	**(11.0)**	**(11.2)**	**0.2**	**(10.5)**	**(0.5)**	**(97.3)**	**(98.9)**	**1.6**	**(111.0)**	**13.7**	**(145.0)**	**(158.5)**
JV Share of Profits	0.4	0.4	0.1	0.4	0.0	6.7	7.1	(0.3)	7.6	(0.8)	8.6	9.7
Statutory PBIT	**0.3**	**(0.2)**	**0.5**	**1.7**	**(1.4)**	**(2.6)**	**(3.7)**	**1.1**	**(13.1)**	**10.5**	**(4.9)**	**(11.6)**

Summary

Income Month: £0.2m favourable in the month.

Variable sales income: (i) **Mails £0.5m(f)** - Strong performances on standard mails (Labels/Stamp and International), priority services (Special Delivery, Recorded and International Priority) along with Retail are the main drivers behind the Mails uplift, (ii) **Financial Services £(0.4)m(a)** – Travel outturn broadly on target in month but mortgage sales fell further behind target at £(0.2)m(a). Whilst the overall savings position reported an on target performance Premium Bonds reported a shortfall of £(0.1)m(a) as the product is no longer on sale. (iii) **Government Services £0.4m(f)** - resulting from the reporting correction flagged last month.

Fixed income: On target.

Retention income: £(0.2)m(a). This is driven by a shortfall on Homephone retention, due to a lower than planned customer base and ARPU (Average Revenue Per User).

Other income: £(0.2)m(a). Impacted the correction on Government Services variable income, as flagged last month.

Costs Month: £0.2m lower than budget.

Staff costs: £0.2m(f) primarily due to FS/MS staffing levels continuing to run below the template/budget level.

Property costs: £0.1m(f) due to timing of rent reviews against budget, which as previously flagged have now started to unwind.

Other branch costs: £0.1m(f) due to timing of a journal for Concept Stores.

Summary

Income YTD: £0.1m lower than budget.

Variable sales income: (i) **Mails £0.9m(f)** - Strong performances on standard mails (Labels/Stamp and International), priority services (Special Delivery, Recorded and International Priority) along with Retail are the main drivers behind the Mails uplift, **(ii) Financial Services £(1.9)m(a)** – Travel Money and Travel Insurance are both falling short of target by £(0.3)m whilst the shortfall on Mortgages rises to £(0.6)m(a). The overall Savings position YTD is no longer benefiting from the Q1 performance uplift on Premium Bonds and is now £(0.7)m(a) (iii) **Government Services £0.8m(f)** - Following the correction to the income reporting groups Government Services are now reporting a favourable position against target £0.8m(f).

Fixed income: Running slightly behind target £(0.2)m(a) as a result of predicted shortfall against Lottery and POCA interest payments.

Retention income: In line with budget. Higher retention payment for Savings products offsetting a shortfall on Homephone retention, due to a lower than planned customer base and ARPU (Average Revenue Per User).

Other income: Running just ahead of target £0.1m(f).

Costs YTD: £1.6m lower than budget.

Staff costs: £1.5m(f) primarily due to FS/MS staffing levels continuing to run below the template/budget level. Bonuses are also below target.

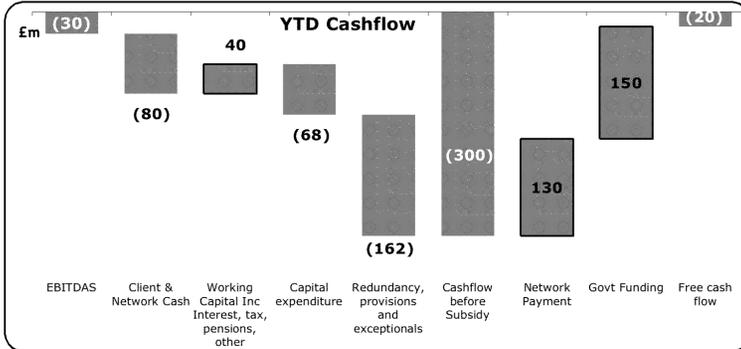Property costs: £0.6m(f) due to timing of rent reviews which have started to unwind.

Other branch costs: £(0.1)m(a) due to high losses. These are being reviewed and expected to unwind though the volatile nature of losses means this does remain a risk for the full year.

Infrastructure costs: £0.2m(f) principally due to one-off underspends on Horizon costs as well as a number of small underspends across Network.

Central Costs: £(0.6)m(a) which aligns to the business position when other upsides in the Crown P&L are taken into consideration.

Cashflow Analysis
November 2015

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YTD Cashflow

£m

(30) | 40 | (80) | (68) | (300) | (162) | 130 | 150 | (20)

EBITDAS | Client & Network Cash | Working Capital Inc Interest, tax, pensions, other | Capital expenditure | Redundancy, provisions and exceptionals | Cashflow before Subsidy | Network Payment | Govt Funding | Free cash flow

YTD Cashflow Variances

£m

102 | (13) | 41 | (20) | (81) | (0) | (69)

YTD Budget | Operating profit | Network Cash | Working Capital Inc Interest, tax, pensions | Client Balances | CapEx and Exceptionals (mainly NT) | YTD Actual

Cashflow YTD Variances

The £280m of government grant was received on 1st April which is the first payment of the 2013 funding agreement with BIS.

P8 cash outflow of £(20.0)m was £61.2m favourable to budget of £(81.2)m outflow. P7 was £(44.1)m adverse.

- Network Cash was £102m favourable. Within this variance cheque and debit card balances were £60m favourable (mainly NS&I impact partially offset by adverse client balances below) and so the underlying cash in Network was £42m higher than expected in P8. This is due to winter fuel payments being paid earlier than expected which has a material impact particularly on branch holdings.

- Capital expenditure was £64m favourable due to underspends and exceptionals are £(23)m adverse because NT spend is ahead of budget.

Offset by,

- Client balances were £(69)m adverse to budget with £60m due to the cessation of NS&I products through the Post Office from 1st August and there will be an adverse full year impact. (This is partially offset by favourable cheque and debit card variance within Network cash noted above).
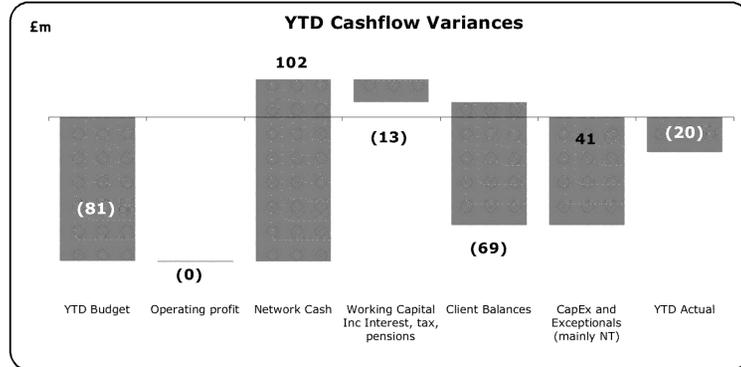
- Working capital was £(21)m adverse due mainly to lower creditors reflecting lagging transformational activity and lower capital spend than planned. (This is mostly driven by the lower capital expenditure variance above).

Cashflow P7 to P8

P7 was £(44)m adverse to budget, P8 is £61m favourable, a favourable movement of £105m.

By far the biggest reason for this is Network Cash which was £5m favourable to budget at P7 and is £102m favourable at P8, a movement of £97m towards the overall total. The two factors behind this are, firstly, machine issues in P7, which meant less cash could be demonetarised, were resolved and, secondly, winter fuel payments in period 8 were made earlier than expected. Bureau cash is a further £10m reduced from last month due to increased management focus on holdings.

Among other categories, working capital improved by £41m over P8 although remains adverse to budget; the improvement coming through lower accrued income and higher accruals generally. This was offset by a worsening Client position - £29m adverse in the month – as the DVLA and Payout creditor balances have reduced (as expected) due to the timing of period end.

£m	YTD				Full Year
	Actual	Budget	Variance	Forecast	Budget
EBIT					
Working Capital					
Client Balances					
Network Cash					
Capital Expenditure			IRRELEVANT		
Government funding					
Exceptional Items					
Other (including interest and tax)					
Operating Cashflow					

Network Cash

£m	Prior Year	Mar-15 Opening	YTD Actual	YTD Budget	YTD var
Retail, Cash Centres	688	546	526	576	50
Bureau	54	64	60	52	(8)
Cheques, debit cards	143	98	73	133	60
Network Cash	885	708	659	761	102

	Opening	YTD
Headroom (£m)	785	609

Business Scorecard
November 2015

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Key Performance Indicators	Current Month			YTD			YTD Prior Year	Full Year Target	2014-15 Outturn
	Act	Target	Var.	Act	Target	Var.			
Growth									
Total Net Income (excl NSP) £m (Bonus 10%)	67.3	69.9	(2.6)	570.4	577.4	(7.0)	566.4	875.0	870.0
Operating profit £m	6.3	6.0	0.3	57.7	57.8	(0.1)	43.4	95.0	100.0
Earnings before ITDA and Subsidy £m* (Bonus 30%)	IRRELEVANT								
Free cashflow £m	106.7	1.3	105.3	(20.0)	(81.2)	61.2	(221.4)	(344.6)	(172.7)
Digital Net Income (measured using Credence) (Bonus 10%)	2.0	1.3	0.7	15.2	15.8	(0.6)	N/A	21.5	15.2
Customer									
Customer Satisfaction	89.0%	88.0%	1.0%	88.0%	88.0%	0.0%	86.8%	88.0%	87.6%
Customer Effort (Bonus 10%)	69%	66%	3%	66%	64%	2%	N/A	64%	63%
Net Promoter score Financial Services (Bonus 5%)	30	25	5	27	25	2	N/A	25	N/A
Net Promoter score	64	60	4	63	57	6	N/A	57	N/A
Queue time % < 5 minutes - Top 1k branches	81.0%	82.0%	(1.0)%	80.0%	78.1%	1.9%	77.8%	78.0%	76.4%
Branch Compliance - Financial Services - basket of 11 measures	20	<=50	-	28	<=50	-	N/A	<=50	62
People									
Engagement Index % (Once a year April) (Bonus 15%)** (P)	Same as YTD			60%	63%	(3)%	58%	63%	62%
Subpostmaster Engagement Index % (Once a year)**				46%	48%	(2)%	47%	48%	46%
New Starter Turnover				26.5%	23.0%	(3.5)%	N/A	23%	26.7%
Representation (Senior Managers) - Gender				35.4%	36.0%	(0.6)%	N/A	36%	35.6%
Representation (Senior Managers) - Ethnicity				7.5%	6.0%	1.5%	N/A	6%	4.8%
Modernisation									
Number of branches (one month in arrears)	Same as YTD			11,558	11,500	58	-	>=11,500	11,634
Crown Profit (Loss) £m (Bonus 10%)	0.3	(0.2)	0.5	(2.6)	(3.7)	1.1	(13.1)	(4.9)	(11.6)
NT Branches Transformed In Year (Bonus 10%)	98	146	(48)	973	1,095	(122)	1,480	1,850	2,039

Bonus worthy metrics
* ITDA Interest, Tax, Depreciation, Amortisation.
** Measured annually with some additional 'Pulse surveys'.
(P) October Pulse Survey Result
5% Tolerance for amber.
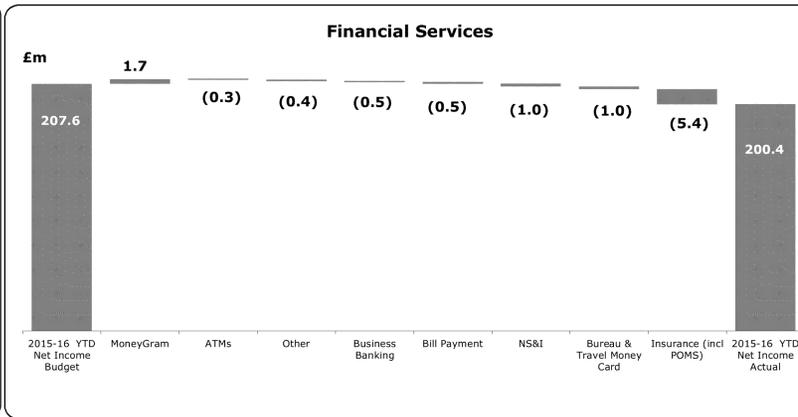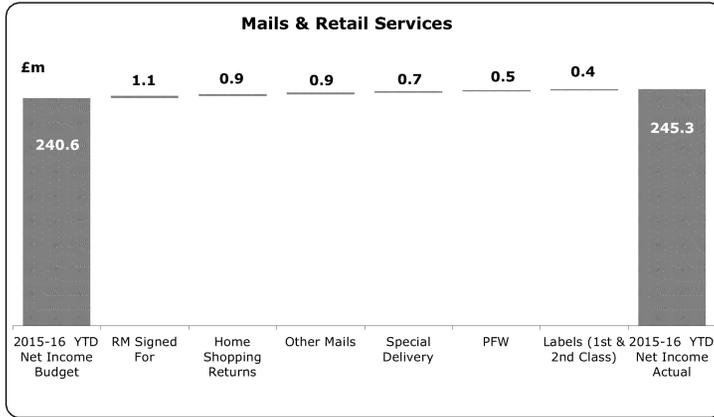
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Appendices

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Income Report

Net Income By Pillar vs Budget YTD
November 2015

POST OFFICE®

Net Income (£m)	Period					Prior Year Period		YTD			Prior Year		Prior Year		Full Year			Prior Year	
	Actual	Budget	Var.	Q2 Forecast	Var.	Actual	Var.	Actual	Budget	Var.	Q2 Forecast	Var.	Actual	Var.	Q2 Forecast	Budget	Var.	Outturn	Var.
Mails & Retail	30.5	30.8	(0.3)	32.3	(1.8)	31.5	(0.9)	245.3	240.6	4.7	246.8	(1.6)	249.2	(3.9)	379.2	370.2	9.0	383.5	(4.3)
Financial Services	23.1	24.4	(1.3)	24.0	(0.9)	21.6	1.5	200.4	207.6	(7.2)	200.5	(0.1)	194.9	5.5	302.3	312.6	(10.3)	289.3	12.9
Government Services	6.8	7.1	(0.3)	7.1	(0.3)	7.1	(0.2)	67.3	66.3	1.0	67.4	(0.1)	68.6	(1.4)	98.8	98.6	0.2	113.0	(14.1)
Telecoms	3.9	4.5	(0.6)	4.6	(0.8)	3.2	0.7	34.5	37.3	(2.8)	35.0	(0.5)	29.1	5.4	55.0	55.9	(0.9)	47.2	7.8
Other	3.0	3.1	(0.1)	2.7	0.3	3.0	0.0	22.9	25.6	(2.7)	22.8	0.1	24.5	(1.7)	34.8	37.5	(2.7)	37.0	(2.2)
TOTAL NET INCOME	67.3	69.9	(2.6)	70.7	(3.4)	66.3	1.0	570.4	577.4	(7.0)	572.5	(2.2)	566.4	3.9	870.1	874.8	(4.7)	870.0	0.1
FRES - Share Of Operating Profits	1.7	1.5	0.2	1.7	0.0	1.4	0.3	27.8	29.3	(1.4)	27.9	(0.0)	28.0	(0.2)	36.0	36.4	(0.36)	35.8	0.3

Mails & Retail Services

£m

2015-16 YTD Net Income Budget	RM Signed For	Home Shopping Returns	Other Mails	Special Delivery	PFW	Labels (1st & 2nd Class)	2015-16 YTD Net Income Actual
240.6	1.1	0.9	0.9	0.7	0.5	0.4	245.3

Financial Services

£m

2015-16 YTD Net Income Budget	MoneyGram	ATMs	Other	Business Banking	Bill Payment	NS&I	Bureau & Travel Money Card	Insurance (incl POMS)	2015-16 YTD Net Income Actual
207.6	1.7	(0.3)	(0.4)	(0.5)	(0.5)	(1.0)	(1.0)	(5.4)	200.4

Government Services

£m

2015-16 YTD Net Income Budget	Other Government Services	ID - Assurance (Verify)	AEI (DVLA & UKBA)	Check and Send	Motoring Services	2015-16 YTD Net Income Actual
66.3	0.8	0.5	0.1	(0.1)	(0.3)	67.3

Telecoms

£m

| 2015-16 YTD Net Income Budget	Other Telecoms	HomePhone/Dual & broadband Customers	2015-16 YTD Net Income Actual
37.3	0.2	(3.1)	34.5

YTD Pillar Performance vs. Budget

Mails & Retail Services - £4.7m Fav
Special Delivery £0.7m fav due to increased volumes.
HSR £0.9m fav due to higher volumes.
RM Signed For £1.1m fav due to higher volumes.
Other Mails £0.9m fav. This is driven by back billing Certificate of Posting income.
Retail & Lottery - flat with budget.

Financial Services - £(7.2)m Adv
Insurance (incl POMS) £(5.4)m adv due to lower travel insurance volumes.
Bureau & TravelMoney Card £(1.0)m adv due to lower bureau volumes.
Offset by:
MoneyGram £1.7m fav due to higher volumes.

Government Services - £1.0m Fav
ID Assurance (ID Verify) & Verification £0.5m fav due to higher ID Verify volumes than budgeted.
Other £0.8m fav due to Rod & Game licences and other ID services.

Telecoms - £(2.8)m Adv
Homephone £(3.1)m adv due to lower ARPU and timing of bills with increased charges

Other - £(2.7)m Adv due to Supply Chain challenging growth target now at risk.

FRES Profit Share - £(1.4)m Adv due to timing. This is expected to be close to budget at year end.
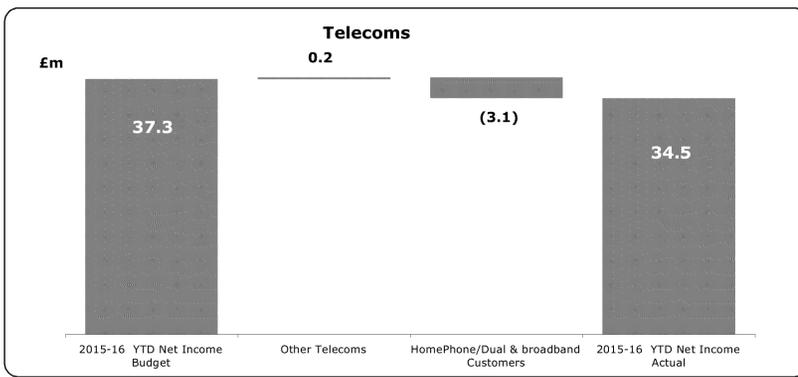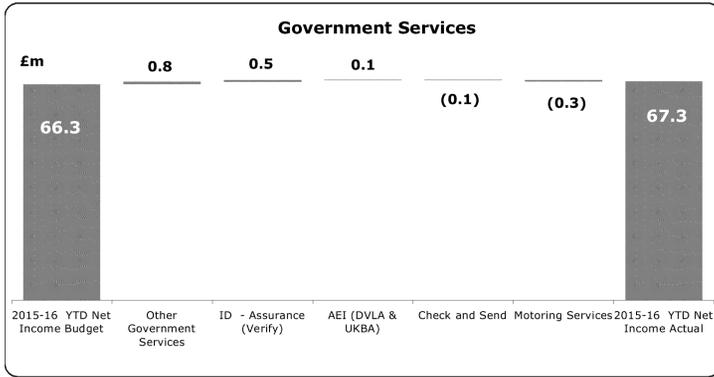
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Cost Report

Staff Cost By Function
November 2015

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Staff Cost by Function £m	Period Actual	Budget	Var.	Q2 Forecast	Var.	Prior Year Actual	Var.	YTD Actual	Budget	Var.	Q2 Forecast	Var.	Prior Year Actual	Var.	Full Year Q2 Forecast	Budget	Var.	Prior Year Outturn	Headcount %	Actual
Central	(1.0)	(1.1)	0.1	(1.4)	0.4	(0.7)	(0.3)	(9.8)	(8.8)	(1.0)	(9.3)	(0.5)	(8.9)	(1.0)	(15.0)	(12.8)	(2.2)	(9.1)	0%	3
Commercial	(0.7)	(0.6)	(0.1)	(0.7)	0.1	(0.7)	0.1	(5.1)	(5.2)	0.1	(5.1)	(0.0)	(6.0)	0.9	(7.9)	(7.9)	0.0	(8.4)	2%	104
People & Engagement	(0.6)	(0.5)	(0.1)	(0.6)	(0.0)	(0.6)	0.0	(4.3)	(4.1)	(0.2)	(4.3)	0.0	(6.6)	(0.5)	(6.6)	(6.1)	(0.5)	(6.3)	2%	104
HR - Centrally Held Bonus Payments	(1.2)	(1.2)	0.0	(1.2)	0.0	(0.9)	(0.2)	(9.2)	(9.2)	0.0	(9.2)	0.0	(5.5)	(3.7)	(13.8)	(13.8)	0.0	(7.2)	-	-
Finance	(4.2)	(4.2)	(0.0)	(4.2)	(0.0)	(4.8)	0.6	(38.3)	(38.2)	(0.1)	(38.3)	(0.1)	(42.3)	3.9	(54.7)	(55.0)	0.3	(62.2)	22%	1,456
Supply Chain	(4.0)	(4.0)	(0.1)	(4.0)	(0.0)	(4.3)	0.3	(36.1)	(36.0)	(0.0)	(36.2)	0.1	(38.3)	2.2	(51.9)	(52.0)	0.1	(56.6)	21%	1,393
Finance (central and Procurement)	(0.2)	(0.3)	0.1	(0.2)	(0.0)	(0.5)	0.3	(2.3)	(2.2)	(0.1)	(2.1)	(0.2)	(4.0)	1.7	(2.9)	(3.0)	0.2	(5.7)	1%	63
Property	(0.1)	(0.1)	0.0	(0.1)	0.0	(0.2)	0.1	(1.0)	(0.7)	(0.2)	(0.9)	(0.0)	(1.8)	0.9	(1.3)	(1.1)	(0.2)	(2.7)	0%	27
Service Centres	(0.9)	(0.9)	(0.0)	(0.9)	(0.1)	(1.0)	0.1	(7.7)	(7.4)	(0.2)	(7.6)	(0.1)	(8.5)	0.8	(11.1)	(11.1)	0.0	(12.7)	4%	291
IT& Operations	(0.5)	(0.4)	(0.1)	(0.5)	(0.0)	(0.5)	(0.0)	(3.5)	(3.7)	0.1	(3.7)	0.1	(3.6)	0.1	(5.7)	(5.5)	(0.2)	(5.3)	2%	103
Financial Services	(0.3)	(0.3)	(0.0)	(0.4)	0.1	(0.3)	(0.0)	(2.8)	(2.6)	(0.2)	(2.9)	0.0	(2.4)	(0.4)	(4.4)	(3.9)	(0.5)	(3.6)	1%	62
POMS	(0.2)	(0.3)	0.1	(0.2)	0.0	0.0	(0.2)	(0.5)	(0.8)	0.3	(0.6)	0.1	0.0	(0.5)	(1.5)	(1.9)	0.4	(0.0)	0%	
Network	(7.7)	(7.5)	(0.2)	(7.9)	0.2	(7.5)	(0.2)	(66.0)	(65.4)	(0.6)	(66.7)	0.8	(73.1)	7.1	(99.8)	(96.9)	(2.9)	(105.5)	56%	3,704
Crowns	(6.3)	(6.3)	(0.0)	(6.4)	0.1	(6.0)	(0.3)	(55.5)	(56.3)	0.7	(56.0)	0.5	(63.9)	8.4	(83.3)	(83.1)	(0.2)	(91.4)	49%	3,228
Other Network	(1.4)	(1.2)	(0.2)	(1.5)	0.1	(1.5)	0.1	(10.4)	(9.1)	(1.3)	(10.7)	0.3	(9.1)	(1.3)	(16.5)	(13.8)	(2.7)	(14.1)	7%	476
CTP and NTP Heads (Costs in exceptionals)																			10%	659
Corporate Services	(0.5)	(0.5)	0.0	(0.6)	0.1	(0.6)	0.1	(4.3)	(4.5)	0.1	(4.5)	0.2	(4.6)	0.3	(6.8)	(6.6)	(0.2)	(6.9)	1%	88
Transformation (Change Management)	(0.2)	(0.3)	0.1	(0.3)	0.1	(0.3)	0.1	(2.1)	(2.5)	0.4	(2.5)	0.3	(2.9)	0.7	(3.7)	(3.7)	-	(4.1)	1%	36
Total Staff Costs	**(18.1)**	**(17.9)**	**(0.2)**	**(18.9)**	**0.8**	**(18.1)**	**(0.0)**	**(154.8)**	**(153.0)**	**(1.8)**	**(155.6)**	**0.8**	**(164.0)**	**9.2**	**(232.4)**	**(226.4)**	**(6.0)**	**(234.0)**	**95%**	**6,637**

PY Actual	7,192
PY Variance	555

YTD vs. Budget are £(1.8)m adverse.
This variance is driven by the unbudgeted £(3.5)m adverse variance for the pension rate, reflecting year end market conditions, partially offset by lower staff costs due to lower headcount, specifically Financial Specialists and Mortgage Specialist churn.

YTD vs Forecast are £0.8m favourable.
This variance is driven primarily by the Q2 forecast for pensions being much higher (FY Budget £7.0m and FYF £13.7m). The period forecast is therefore higher but the actuals are now coming in lower than Q2 forecast and the year end position is also now expected to be below the Q2 forecast.

YTD Vs. Prior Year
The staff costs are £9.2m favourable to prior year driven by the lower headcount (555 lower), specifically in the Network.

Non Staff Cost by Type
November 2015

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Non- Staff Cost by Function £m	Period					Prior Year		YTD					Prior Year		Full Year		
	Actual	Budget	Var.	Q2 Forecast	Var.	Outturn	Var.	Actual	Budget	Var.	Q2 Forecast	Var.	Outturn	Var.	Q2 Forecast	Budget	Var.
Central - Centrally Held	1.3	(0.5)	1.8	(0.3)	1.6	6.1	(4.8)	(1.3)	(1.2)	(0.2)	(2.1)	0.8	5.6	(7.0)	(4.1)	(3.1)	(1.0)
Commercial	(3.0)	(2.4)	(0.6)	(2.7)	(0.3)	(5.3)	2.3	(18.9)	(19.0)	0.2	(17.3)	(1.5)	(26.4)	7.5	(25.6)	(25.3)	(0.3)
Finance	(1.5)	(1.3)	(0.2)	(1.5)	0.0	(4.9)	3.4	(12.2)	(13.1)	0.9	(12.5)	0.3	(14.5)	2.3	(18.7)	(18.6)	(0.1)
Supply Chain	*(1.3)*	*(1.0)*	*(0.3)*	*(1.2)*	*(0.1)*	*(1.3)*	*0.1*	*(10.3)*	*(10.6)*	*0.3*	*(10.2)*	*(0.1)*	*(12.1)*	*1.8*	*(15.0)*	*(14.9)*	*(0.1)*
Finance (central and Procurement)	*(0.2)*	*(0.3)*	*0.1*	*(0.3)*	*0.1*	*(3.5)*	*3.3*	*(1.9)*	*(2.5)*	*0.6*	*(2.4)*	*0.4*	*(2.4)*	*0.5*	*(3.7)*	*(3.7)*	*0.0*
Property	(4.6)	(3.9)	(0.7)	(4.4)	(0.2)	(2.7)	(1.9)	(37.4)	(35.7)	(1.8)	(37.3)	(0.1)	(22.0)	(15.4)	(55.4)	(52.1)	(3.2)
Service Centres	(1.0)	(0.8)	(0.2)	(1.0)	0.0	1.1	(2.1)	(9.1)	(7.4)	(1.8)	(9.4)	0.3	(8.3)	(0.9)	(14.3)	(11.3)	(3.0)
IT& Operations	(11.6)	(9.4)	(2.2)	(9.9)	(1.7)	(8.7)	(2.9)	(84.2)	(84.8)	0.6	(83.2)	(1.0)	(83.3)	(0.9)	(121.4)	(122.4)	1.0
Financial Services	(0.1)	(0.5)	0.4	(0.3)	0.2	(0.6)	0.5	(2.3)	(4.4)	2.1	(2.6)	0.3	(5.8)	3.5	(3.5)	(6.5)	3.1
POMS	(0.4)	(1.4)	1.0	(1.4)	1.0	0.0	(0.4)	(5.2)	(5.8)	0.7	(6.5)	1.3	0.0	(5.2)	(12.1)	(10.9)	(1.2)
People & Engagement	(0.4)	(0.7)	0.3	(0.5)	0.2	(0.5)	0.1	(6.0)	(6.3)	0.3	(6.1)	0.2	(8.4)	2.5	(8.4)	(9.0)	0.6
Corporate Services	(0.6)	(0.5)	(0.1)	(0.6)	(0.0)	(0.3)	(0.3)	(5.0)	(4.3)	(0.7)	(4.3)	(0.7)	(2.9)	(2.1)	(7.0)	(6.5)	(0.4)
Network	(0.8)	(0.6)	(0.2)	(0.8)	(0.0)	0.3	(1.1)	(6.9)	(6.6)	(0.4)	(6.6)	(0.3)	(24.4)	17.5	(9.5)	(9.2)	(0.3)
Crowns	*(0.1)*	*(0.2)*	*0.0*	*(0.2)*	*0.0*	*(1.3)*	*1.2*	*(1.7)*	*(1.5)*	*(0.1)*	*(1.7)*	*0.0*	*(21.3)*	*19.6*	*(2.0)*	*(2.3)*	*0.3*
Other Network	*(0.6)*	*(0.4)*	*(0.2)*	*(0.6)*	*(0.0)*	*1.7*	*(2.3)*	*(5.3)*	*(5.1)*	*(0.2)*	*(4.9)*	*(0.3)*	*(3.1)*	*(2.2)*	*(7.5)*	*(6.9)*	*(0.5)*
Transformation *(Change Management)*	0.0	0.3	(0.3)	0.3	(0.3)	0.9	(0.9)	2.1	2.7	(0.5)	2.4	(0.2)	2.2	(0.1)	3.9	4.0	(0.1)
*Central - Other	0.6	0.0	0.5	0	0.6	2.1	(1.5)	(0.9)		(0.9)		0.0	(0.9)	4.6	(5.5)	0.0	0.0	0.0
Total Non Staff Costs	**(22.0)**	**(21.6)**	**(0.3)**	**(23.1)**	**1.2**	**(12.4)**	**(9.5)**	**(187.2)**	**(185.9)**	**(1.4)**	**(185.8)**	**(1.5)**	**(183.4)**	**(3.8)**	**(275.9)**	**(270.9)**	**(5.0)**

Non- Staff Cost by Type £m	Period					Prior Year		YTD					Prior Year		Full Year		
	Actual	Budget	Var.	Q2 Forecast	Var.	Outturn	Var.	Actual	Budget	Var.	Q2 Forecast	Var.	Outturn	Var.	Q2 Forecast	Budget	Var.
Staff & Agent Related Costs	(0.7)	(0.9)	0.2	(1.0)	0.2	(0.6)	(0.1)	(7.8)	(8.0)	0.2	(7.7)	(0.1)	(7.1)	(0.7)	(11.2)	(12.0)	0.8
Brand & Marketing	(1.7)	(3.3)	1.5	(2.1)	0.4	(5.5)	3.8	(17.5)	(21.5)	4.0	(16.9)	(0.5)	(22.8)	5.3	(24.1)	(30.6)	6.4
Consultancy & Advisory Services	(0.1)	(0.1)	(0.1)	(0.1)	(0.0)	0.9	(1.0)	0.0	(1.1)	1.1	(0.1)	0.2	1.1	(1.1)	(0.6)	(1.2)	0.7
Skills Group offcharge	*(0.1)*	*0.3*	*(0.3)*			*0.8*	*(0.9)*	*0.3*	*1.8*	*(1.5)*			*(4.8)*	*5.0*	*0*	*3.0*	*(3.0)*
Consultancy and Skills Group	*(0.0)*	*(0.3)*	*0.3*			*0.0*	*(0.1)*	*(0.3)*	*(2.9)*	*2.6*			*5.9*	*(6.1)*	*0*	*(4.3)*	*4.3*
Legal Costs	(0.0)	(0.2)	0.2	(0.3)	0.3	(0.2)	0.2	(1.6)	(1.8)	0.2	(1.8)	0.1	(1.1)	(0.5)	(3.3)	(2.6)	(0.7)
Property & Facilities Management	(4.7)	(4.1)	(0.5)	(4.9)	0.2	(3.4)	(1.3)	(36.9)	(35.8)	(1.0)	(37.3)	0.4	(40.9)	4.0	(57.9)	(53.1)	(4.7)
Vehicles	(0.4)	(0.6)	0.2	(0.5)	0.1	(0.6)	0.2	(3.7)	(4.8)	1.2	(3.8)	0.2	(4.6)	0.9	(6.0)	(7.2)	1.2
IT Infrastructure & IT Services	(8.9)	(8.4)	(0.6)	(8.6)	(0.3)	(6.6)	(2.3)	(69.5)	(73.0)	3.5	(69.4)	(0.1)	(59.9)	(9.6)	(103.8)	(106.0)	2.1
Finance & Losses	(0.1)	(1.3)	1.2	(1.1)	1.0	5.2	(5.3)	(14.1)	(9.9)	(4.2)	(15.6)	1.5	4.1	(18.2)	(19.6)	(16.2)	(3.3)
Other Operating Costs	(5.3)	(4.4)	(0.9)	(4.5)	(0.8)	(1.5)	(3.8)	(36.2)	(40.0)	3.8	(33.2)	(3.0)	(52.3)	16.0	(49.5)	(58.6)	9.1
Non Staff Cost Efficiency Target	0.0	1.6	(1.6)	0	0.0	0.0	0.0	0.0	10.0	(10.0)	0	0.0	0.0	0.0	0	16.6	(16.6)
Total Non Staff Costs	**(22.0)**	**(21.6)**	**(0.3)**	**(23.1)**	**1.2**	**(12.4)**	**(9.5)**	**(187.2)**	**(185.9)**	**(1.4)**	**(185.8)**	**(1.5)**	**(183.4)**	**(3.8)**	**(275.9)**	**(270.9)**	**(5.0)**

Period vs. Budget
Non staff costs are £(0.3)m adverse to budget (including a £1.6m efficiency target).
The adverse variance is driven by higher IT costs £(0.6)m, higher property costs £(0.5)m for maintenance costs and unbudgeted Mails Segregation penalty accrual of £(0.3)m, offset by lower finance costs £1.2m due to the quarterly VAT rebate, Brand and Marketing £1.5m favourable and Vehicles £0.2m favourable.

Period vs. Forecast
Non staff costs are £1.1m favourable to forecast. The variance is driven by lower finance costs £1.0m due to the quarterly VAT rebate, Brand and Marketing £0.4m favourable due to savings drive and Legal costs £0.3m favourable due to timing, partially offset by higher IT costs £(0.4)m due to software licences, higher property costs £(0.2)m for maintenance costs.

Period Vs. Prior Year
Higher non staff costs of £9.5m driven primarily by the £11m higher VAT rebate last year and higher IT costs this year.

YTD vs. Budget
Non staff costs are £(1.4)m adverse to budget (including a £10.0m efficiency target).
The adverse variance is driven by higher finance costs £(1.8)m card transaction costs and £(1.2)m FX losses, higher property costs £(1.0)m for maintenance costs and unbudgeted Mails Segregation penalty accrual of £(2.9)m, offset by one off £3.7m relating to Fujitsu Telecoms compensation, Brand and Marketing £4.0m favourable savings and timing and Vehicles £1.2m favourable [driven by fuel, breakdown and lease savings].

YTD vs. Forecast
Non staff costs are £(1.5)m adverse due primarily to IT costs, partially offset by £1.5m lower finance costs driven by the timing of the quarterly VAT rebate.

YTD Prior Year
Higher non staff costs of £3.8m driven primarily by higher IT costs and also higher finance costs as a result of higher FX losses and card transaction fees.

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Transformation Report

Project Costs (OpEx)
November 2015

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£m			Current Month			YTD			Full Year		
OpEx	**Themes**	**Programmes**	**Actual**	**Budget**	**Var.**	**Actual**	**Budget**	**Var.**	**Outlook**	**Budget**	**TFCG Approved**
	Other	Flow Through	0.1	0.0	0.1	0.3	0.0	0.3	(0.2)	0.0	0.0
		Sparrow	(0.4)	(0.3)	(0.2)	(1.9)	(2.2)	0.3	(3.3)	(3.3)	0.0
	Reduce & Variablise Network	NTP	(0.0)	0.0	(0.0)	(0.0)	0.0	(0.0)	0.0	0.0	0.0
		Other R&V	(0.0)	0.0	(0.0)	(0.2)	0.0	(0.2)	(0.1)	0.0	0.0
	Commercial	Customer Management Programme	0.0	0.0	0.0	(0.0)	0.0	(0.0)	(0.3)	0.0	(0.3)
		Digital	(0.0)	(0.0)	0.0	(0.2)	(0.2)	(0.1)	(1.7)	(0.2)	(0.6)
		Mobile (Wave)	0.4	(0.2)	0.6	(1.0)	(1.3)	0.3	(2.1)	(1.9)	(0.5)
		Other Invest to Grow	(0.1)	(0.5)	0.4	(0.8)	(4.3)	3.5	(3.4)	(6.2)	(2.7)
		POCA (Maypole / Iliad)	(0.1)	(0.1)	(0.1)	(0.7)	(0.4)	(0.3)	(1.5)	(0.6)	(0.8)
	Reduce Central Costs	Other Central Costs	0.1	0.0	0.1	(0.4)	0.0	(0.4)	(0.4)	0.0	(0.4)
		Project IRIS	(0.0)	0.0	(0.0)	(0.1)	0.0	(0.1)	0.0	0.0	(1.4)
	Grow Financial Services	Eagle	(0.0)	(0.4)	0.3	(2.1)	(1.9)	(0.2)	(2.5)	(4.0)	(2.3)
		Hawk	0.2	0.0	0.2	0.1	0.0	0.1	0.0	0.0	(0.7)
		Invest to Grow FS	0.0	(0.3)	0.3	(1.6)	(1.4)	(0.1)	(1.5)	(3.0)	(3.0)
	Replacement CapEx	IT Risk & Resilience	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.0	(0.0)
		Property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		Separation	0.0	0.0	0.0	(0.0)	0.0	(0.0)	(0.0)	0.0	0.0
		Supply Chain vehicles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Transform the Organisation	People & Organisation	(0.0)	0.0	(0.0)	(0.4)	0.0	(0.4)	(0.1)	0.0	(0.8)
		Transformation Office	0.0	0.0	0.0	(0.1)	0.0	(0.1)	(0.3)	0.0	0.0
Opex Total			**0.1**	**(1.7)**	**1.8**	**(9.2)**	**(11.7)**	**2.5**	**(17.3)**	**(19.3)**	**(13.5)**

OpEx - £2.5m Under Spend YTD

Headlines:
£3.5m under spend in Commercial Invest to Grow due to transfer of spend to Capex & Exceptional. This has flowed through to the FYF.
This is offset by unbudgeted spend;
£0.4m for Reduce Central costs and
£0.4m for Transform the Organisation

OpEx - £2.0m Under Spend FYF vs Budget

Underspends £6m:
£2.9m Invest to Grow - pressure to reduce costs.
£1.5m Invest to Grow FS - pressure to reduce costs.
£1.5m Eagle - moved to capex.

Overspends £4m:
£1.4m Digital - new business case - increased focus on this.
£0.9m POCA - Maypole
£0.4m Other Central - unbudgeted
£0.3m Customer Management - unbudgeted
£0.3m Transformation Office - unbudgeted
£0.2m Flow through - unbudgeted
£0.2m Mobile
£0.3m Others

Project Costs (CapEx and Exceptionals)
November 2015

Strictly Confidential

POST OFFICE®

Capex
£m

Themes	Programmes	Current Month Actual	Budget	Var.	YTD Actual	Budget	Var.	Full Year Outlook	Budget	TFCG Approved
Other	Flow Thro	(0.4)	0.0	(0.4)	0.1	0.0	0.1	(1.4)	0.0	0.0
	Fujitsu extension contingency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(13.0)	0.0
	Other Replacement Capex	(0.0)	0.0	(0.0)	(0.4)	0.0	(0.4)	(0.2)	0.0	(0.3)
	Sparrow	0.0	0.0	0.0	(0.0)	0.0	(0.0)	(0.0)	0.0	0.0
Reduce & Variablise Network Costs	CTP1	(0.8)	0.0	(0.8)	(1.9)	0.0	(1.9)	(2.5)	0.0	0.0
	CTP2	(0.1)	(1.0)	0.9	(0.3)	(5.2)	4.9	(6.2)	(9.3)	(7.7)
	Front Office	(2.4)	(0.7)	(1.7)	(12.4)	(25.5)	13.1	(37.9)	(39.2)	(39.6)
	NTP	(0.9)	(2.3)	1.4	(13.8)	(23.9)	10.1	(27.3)	(37.8)	(33.9)
Commercial	Customer Management Programme	0.0	(0.1)	0.1	(0.6)	(1.3)	0.6	(1.3)	(2.3)	(1.1)
	Digital	(0.1)	(0.6)	0.5	(2.6)	(6.5)	3.9	(2.6)	(11.6)	(3.8)
	Mobile (Wave)	(0.1)	(0.0)	(0.1)	(0.7)	(0.1)	(0.6)	(0.2)	(0.2)	(0.1)
	Other Invest to Grow	(0.1)	(0.3)	0.2	(1.1)	(3.1)	2.0	(3.2)	(5.5)	(1.8)
	Winning in Retail	(0.1)	(0.4)	0.3	(0.4)	(3.8)	3.4	0.0	(6.7)	(3.4)
Lean IT	Back Office	(0.0)	(1.4)	1.4	(0.1)	(4.7)	4.6	(10.0)	(7.0)	(0.9)
	EUC	(1.2)	(4.9)	3.7	(9.3)	(20.4)	11.1	(45.6)	(39.6)	(33.4)
	Networks	(2.1)	(2.8)	0.7	(3.5)	(8.9)	5.4	(8.1)	(11.7)	(8.2)
	TPOM	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.5)
Reduce Central Costs	Other Central Costs	0.0	0.0	0.0	(0.0)	0.0	(0.0)	(2.1)	0.0	(0.7)
	Reduce Central Costs	0.0	(0.2)	0.2	0.0	(1.4)	1.4	0.0	(2.1)	0.0
Grow Financial Services	Eagle	(0.0)	0.0	(0.0)	(0.4)	0.0	(0.4)	(1.7)	0.0	(0.3)
	Invest to Grow FS	(0.3)	0.0	(0.3)	(1.8)	0.0	(1.8)	(2.4)	0.0	(0.8)
Replacement CapEx (Including Separation)	IT Risk & Resilience	(4.1)	(1.1)	(3.0)	(14.8)	(13.1)	(1.7)	(33.7)	(18.7)	(24.4)
	Other Replacement Capex	(0.1)	(0.8)	0.7	(0.4)	(7.0)	6.6	(3.0)	(10.4)	(1.7)
	Property	(0.1)	(0.6)	0.5	(0.3)	(5.1)	4.8	(6.2)	(7.5)	(0.5)
	Separation	(0.3)	0.0	(0.3)	(2.9)	0.0	(2.9)	(3.1)	0.0	(3.0)
	Supply Chain vehicles	0.0	0.0	0.0	(0.1)	(2.2)	2.2	(3.5)	(7.6)	(5.8)
Transform the Organisation	People & Organisation	0.0	0.0	0.0	0.0	0.0	0.0	(0.8)	0.0	0.0
	Transformation Office	(0.0)	0.0	(0.0)	(0.0)	0.0	(0.0)	(0.0)	0.0	(0.1)
Capex Total		**(13.2)**	**(17.1)**	**3.9**	**(67.7)**	**(132.3)**	**64.6**	**(203.1)**	**(230.2)**	**(172.1)**

Capex - £64.6m Under Spend YTD (excl Hawk).

Headlines :

£26.1m under spend in Network. £13.1m of which is delay in Front Office and £10.1m due to NTP slippage. £3.0m over spent in CTP.

£9.4m under spend in Commercial mainly due to Winning in Retail and Digital activities being behind plan.

£21.1m under spend in Lean IT due to the implementation of all the Towers being behind plan.

£9.0m under spend in Replacement CapEx £6.6m of which is in Other. Property is £4.8m under spent. Partly offset by £2.9m over spend in Separation

Exceptionals
£m

Themes	Programmes	Current Month Actual	Budget	Var.	YTD Actual	Budget	Var.	Full Year Outlook	Budget	TFCG Approved
Other	Flow Thro	0.0	0.0	0.0	0.8	0.0	0.8	(0.0)	0.0	0.0
Reduce & Variablise Network Costs	CTP1	(0.2)	0.0	(0.2)	(4.4)	0.0	(4.4)	(6.2)	0.0	0.0
	CTP2	(0.1)	(0.9)	0.7	(0.6)	(14.0)	13.4	(6.7)	(17.7)	(2.5)
	Front Office	(0.1)	(0.1)	0.1	(0.9)	(2.6)	1.7	0.0	(4.0)	(0.1)
	LBD	(0.0)	0.0	(0.0)	(6.7)	0.0	(6.7)	(6.0)	0.0	0.0
	NTP	(4.8)	(4.5)	(0.3)	(120.6)	(88.1)	(32.5)	(318.2)	(149.8)	(154.0)
Commercial	Digital	0.0	0.0	0.0	0.0	0.0	0.0	(7.6)	0.0	0.0
	Other Invest to Grow	0.0	0.0	0.0	(0.9)	0.0	(0.9)	(3.0)	0.0	(0.1)
	Winning in Retail	(0.2)	0.0	(0.2)	(1.4)	0.0	(1.4)	(5.3)	0.0	0.0
Lean IT	EUC	0.2	0.0	0.2	(0.0)	0.0	(0.0)	(0.2)	0.0	0.0
	Back Office	(0.0)	0.0	(0.0)	(0.0)	0.0	(0.0)	0.0	0.0	0.0
	TPOM	(0.6)	(0.2)	(0.4)	(2.7)	(0.8)	(1.9)	(2.7)	(1.5)	(2.9)
Reduce Central Costs	Other Central Costs	(0.0)	0.0	(0.0)	(18.8)	0.0	(18.8)	(21.2)	0.0	(13.7)
	Project IRIS	0.0	0.0	0.0	0.0	0.0	0.0	(1.7)	0.0	0.0
	Reduce Central Costs	0.0	(2.2)	2.2	0.0	(12.4)	12.4	0.0	(21.7)	0.0
Grow Financial Services	Eagle	0.0	0.0	0.0	(0.0)	0.0	(0.0)	0.0	0.0	(0.1)
	Hawk	0.0	0.0	0.0	(1.2)	0.0	(1.2)	(1.4)	0.0	0.0
Replacement CapEx (Including Separation)	Other Replacement Capex	(0.1)	0.0	(0.1)	(0.2)	0.0	(0.2)	(0.1)	0.0	(0.9)
	Separation	(0.9)	0.0	(0.9)	(6.0)	(6.4)	0.4	(6.1)	(6.4)	(3.4)
Transform the Organisation	People & Organisation	0.0	(0.1)	0.1	0.0	(1.0)	1.0	(1.5)	(1.5)	(1.8)
	Transformation Office	(0.4)	(0.4)	(0.0)	(1.7)	(3.2)	1.5	(4.4)	(4.8)	(4.7)
Central Exceptional Adjustments	Central Exceptional Adjustments	(0.2)	0.0	(0.2)	(13.2)	0.0	(13.2)	0.0	0.0	0.0
		(7.4)	**(8.3)**	**0.9**	**(178.7)**	**(128.5)**	**(50.1)**	**(392.4)**	**(207.3)**	**(184.3)**

Exceptional - £(50.1)m Over Spend YTD

Headlines :
£(28.4)m over spend in Network as Postmasters' compensation charge is based on liability but budget set on payments basis.

£(6.6)m over spend in Reduce Central Costs mainly due to the Wave 2 provisions accounted for.

£(14.0)m of Property related onerous contracts have been provided for earlier - at point of decision rather than point of exit.

Supplementary Information

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Cashflow Statement & Balance Sheet Summary

POST OFFICE ®

November 2015

Balance Sheet

£m	Mar-15	YTD Actual	YTD Budget	YTD Var.
Fixed Assets	76	114	114	0
Debtors	245	167	159	8
Cash	708	659	761	(102)
Client Balances	(293)	(164)	(233)	69
Trade Creditors	(293)	(329)	(392)	63
Pension (deficit)/surplus	205	182	208	(26)
Provisions	(63)	(120)	(54)	(66)
Investments, Funding	120	60	51	9
Loan	(310)	(268)	(320)	52
Net Assets	394	302	295	7

Reserves	Mar-15	Actual	Budget	Var.
Capital and Reserves	(394)	(302)	(295)	(7)
	(394)	(302)	(295)	(7)

Cashflow Statement

£m	YTD Actual	YTD Budget	YTD Var.	Full Year Forecast	Full Year Budget	Full Year Var.
Operating Profit	57.7	57.8	(0.1)	95.0	95.0	0.0
Depreciation	(0.3)	(0.4)	0.1	(0.5)	(0.6)	0.1
Working Capital	71.7	92.9	(21.2)	66.4	66.4	0.0
Client Balances	(129.0)	(59.7)	(69.3)	(27.5)	(27.5)	0.0
Network Cash	48.9	(53.5)	102.4	(135.9)	(135.9)	0.0
FRES profit share/ dividend	8.5	7.1	1.4	0.0	0.0	0.0
Capital Expenditure	(67.7)	(132.2)	64.5	(230.4)	(230.4)	0.0
Government funding	150.0	150.0	0.0	150.0	150.0	0.0
NSP in advance	42.5	42.5	0.0	0.0	0.0	0.0
Exceptional Items	(162.4)	(139.1)	(23.3)	(207.2)	(207.2)	0.0
Pensions & Other	6.6	0.4	6.2	0.0	0.0	0.0
Proceeds from asset sales	0.0	0.0	0.0	0.0	0.0	0.0
Provision movement	0.0	0.0	0.0	(5.4)	(5.4)	0.0
Project Hawk	(43.9)	(45.0)	1.1	(45.0)	(45.0)	0.0
Operating Cashflow	(17.4)	(79.2)	61.8	(340.5)	(340.6)	0.1
Interest	(2.6)	(2.0)	(0.6)	(4.0)	(4.0)	0.0
Tax	0.0	0.0	0.0	0.0	0.0	0.0
Free Cashflow	(20.0)	(81.2)	61.2	(344.5)	(344.6)	0.1

Cash Management Table

£m	Prior Year YTD	Mar-15 Opening	YTD Actual	YTD Budget	YTD Var.
Retail, Cash Centres	688	546	526	576	50
Bureau	54	64	60	52	(8)
Cheques, debit cards	143	98	73	133	60
Network Cash	885	708	659	761	102

	Opening	YTD
Headroom (£m)	785	594

Cashflow budget

The 2015-16 budget was reviewed at £354m outflow, prior to the 2014-15 year end and noting the year end outturn may result in changes being required. The budget of £344m shown in this pack reflects the year end outturn impacts.

Income By Product Groups & Pillar
November 2015

Strictly Confidential

The YTD £(7.0)m adverse variance is primarily driven by Financial Services £(7.2)m, Telecoms £(2.8)m and Supply Chain £(3.5)m offset by Mails which is £4.7m and GS £1.0m favourable.

POST OFFICE®

Net Income £m	Current Month			Q2 Forecast	Var.	Prior Year		YTD			Q2 Forecast	Var.	Prior Year		Full Year		Prior Year Outturn
	Actuals	Budget	Var.			Period Actual	Pd. Var. (Yr On Yr)	Actual	Budget	Var.			Outturn	YTD Var. (Yr On Yr)	Q2 Forecast	Budget	2014/15 Outturn
Parcelforce	1.8	1.7	0.1	1.7	0.1	1.8	0.0	13.6	13.0	0.5	13.3	0.2	13.8	(0.2)	20.6	20.2	21.4
Special Delivery	3.9	3.8	0.0	3.9	(0.1)	3.9	(0.1)	33.1	32.4	0.7	33.3	(0.1)	33.0	0.2	50.4	49.2	50.1
International Priority & Standard	2.7	2.9	(0.2)	2.9	(0.2)	3.0	(0.3)	19.6	19.5	0.1	19.9	(0.3)	20.6	(1.0)	32.2	31.6	33.2
Stamps (1st & 2nd Class plus other stamps)	2.5	2.5	(0.0)	2.5	(0.0)	2.7	(0.2)	15.3	15.2	0.1	15.2	0.1	16.3	(1.0)	27.0	27.0	28.4
Labels (1st & 2nd Class)	6.9	7.3	(0.3)	7.4	(0.4)	7.3	(0.4)	58.0	57.6	0.4	58.4	(0.3)	57.7	0.4	88.5	87.4	87.7
RM Signed For	1.9	1.7	0.1	1.8	0.0	1.8	0.0	15.0	13.9	1.1	15.0	0.0	14.7	0.3	22.3	20.7	22.0
RM Mail Fixed	3.9	3.9	0.0	3.9	(0.0)	7.9	(4.0)	34.1	34.1	0.0	34.1	0.0	41.9	(7.8)	50.7	50.7	57.1
Retail & Lottery	3.6	3.6	0.0	4.4	(0.8)	3.4	0.3	28.3	28.2	0.0	28.7	(0.5)	30.0	(1.7)	43.5	43.0	44.0
Home Shopping Returns	0.9	0.8	0.1	1.0	(0.0)	0.7	0.2	7.5	6.6	0.9	7.5	0.0	6.0	1.5	11.7	10.2	9.2
Mails Other	2.4	2.6	(0.2)	2.8	(0.4)	(1.1)	3.5	20.8	19.9	0.9	21.5	(0.7)	15.3	5.6	32.5	30.3	30.5
Total Mails & Retail	**30.5**	**30.8**	**(0.3)**	**32.3**	**(1.8)**	**31.5**	**(0.9)**	**245.3**	**240.6**	**4.7**	**246.8**	**(1.6)**	**249.2**	**(3.9)**	**379.2**	**370.2**	**383.5**
Other Telephony	0.3	0.3	(0.0)	0.3	(0.0)	0.4	(0.1)	2.7	2.5	0.2	2.8	(0.1)	3.2	(0.5)	4.1	3.7	0.0
HomePhone /Dual & Broadband Customers	3.6	4.1	(0.6)	4.3	(0.8)	2.8	0.7	31.8	34.8	(3.1)	32.2	(0.4)	25.9	5.9	50.9	52.2	47.2
Total Telecoms Services	**3.9**	**4.5**	**(0.6)**	**4.6**	**(0.8)**	**3.2**	**0.7**	**34.5**	**37.3**	**(2.8)**	**35.0**	**(0.5)**	**29.1**	**5.4**	**55.0**	**55.9**	**47.2**
Motoring Services	0.6	0.5	0.1		0.6	0.7	(0.1)	5.8	6.1	(0.3)		5.8	11.0	(5.2)	0.0	8.3	16.7
Card Account	4.0	4.0	(0.0)	4.5	(0.5)	4.4	(0.4)	33.4	33.5	(0.0)	34.3	(0.9)	34.2	(0.7)	51.1	49.0	59.8
Check and Send	1.0	1.0	(0.0)	1.7	(0.7)	1.0	0.1	15.2	15.3	(0.1)	21.6	(6.4)	14.1	1.2	31.9	22.6	22.3
AEI (DVLA & UKBA) ukbi and dvla Digital	1.0	0.9	0.1	0.7	0.2	0.6	0.3	7.8	7.7	0.1	7.3	0.5	6.1	1.7	10.6	11.1	9.3
ID - Assurance (Verify)	(0.0)	0.2	(0.2)		(0.0)	0.0	(0.0)	1.1	0.6	0.5		1.1	0.0	1.1	0.0	2.1	0.0
Other Government Services	0.3	0.5	(0.2)	0.2	0.1	0.4	(0.1)	3.9	3.1	0.8	4.1	(0.2)	3.3	0.6	5.2	5.5	4.8
Total Government Services	**6.8**	**7.1**	**(0.3)**	**7.1**	**(0.3)**	**7.1**	**(0.2)**	**67.3**	**66.3**	**1.0**	**67.4**	**(0.1)**	**68.6**	**(1.4)**	**98.8**	**98.6**	**113.0**
Bill Payment Services Direct	0.6	0.8	(0.2)	0.1	0.6	0.7	(0.0)	5.2	6.5	(1.3)	0.6	4.7	6.3	(1.1)	0.8	10.0	9.9
Bill Payment Services Reseller	1.7	1.7	(0.0)	1.8	(0.1)	1.9	(0.2)	15.5	14.8	0.7	15.1	0.3	17.0	(1.5)	22.1	21.2	24.2
Postal Orders	1.6	1.6	(0.0)	1.6	(0.1)	1.8	(0.2)	13.4	13.3	0.1	13.1	0.3	17.5	(4.1)	19.7	19.4	25.7
Payment Services	1.0	0.6	0.5	0.6	0.5	0.6	0.4	2.9	2.8	0.1	2.6	0.3	2.3	0.7	5.4	5.2	5.9
Personal Banking Clients	2.5	2.5	0.0	2.6	(0.1)	2.3	0.2	21.3	20.7	0.6	21.6	(0.3)	19.2	2.1	32.0	30.8	28.7
DWP Exceptions	0.0	0.0	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	0	0.0	0.0
Business Banking	2.2	2.1	0.1	2.0	0.1	2.0	0.2	16.5	17.0	(0.5)	16.3	0.2	17.7	(1.1)	23.8	24.6	25.5
ATM	2.6	2.8	(0.2)	2.8	(0.2)	2.5	0.0	23.4	23.7	(0.3)	23.6	(0.2)	22.3	1.1	34.7	34.8	33.2
PFS-Savings	4.6	4.6	(0.0)	4.6	0.0	4.2	0.4	36.6	36.6	0.0	36.5	0.1	33.8	2.8	55.0	55.2	51.0
Insurance (incl POMS)	1.8	2.6	(0.8)	2.7	(0.9)	1.1	0.7	19.1	24.5	(5.4)	20.5	(1.4)	13.7	5.4	34.2	37.1	19.5
PFS-Lending	1.0	1.0	(0.0)	1.0	0.0	0.5	0.5	6.6	7.1	(0.5)	6.4	0.2	6.4	0.2	11.2	11.2	9.3
Bureau & Travel Money Card	1.5	1.5	(0.0)	1.4	0.1	1.5	0.0	17.3	18.3	(1.0)	17.1	0.2	18.0	(0.8)	23.2	24.9	25.1
MoneyGram	1.9	1.87	0.1	2.2	(0.3)	1.8	0.2	17.8	16.2	1.7	17.6	0.2	14.9	2.9	26.9	24.0	22.6
NS&I	0	0.7	(0.7)	0	0	0.7	(0.7)	4.5	5.5	(1.0)	4.5	0	5.7	(1.2)	4.5	8.2	8.5
Other	0.1	0.1	0.0	0.7	(0.7)	0.0	0.1	0.1	0.5	(0.4)	5.0	(4.9)	0.1	0.0	8.6	5.9	0.1
Total Financial Services	**23.1**	**24.4**	**(1.3)**	**24.0**	**(0.9)**	**21.6**	**1.5**	**200.4**	**207.6**	**(7.2)**	**200.5**	**(0.1)**	**194.9**	**5.5**	**302.3**	**312.6**	**289.3**
Other Income	0.5	0.3	0.1	0.4	0.1	0.4	0.0	3.6	2.8	0.8	3.4	0.2	3.3	0.3	4.9	4.2	5.4
Supply Chain	2.6	2.8	(0.2)	2.3	0.2	2.6	(0.0)	19.3	22.8	(3.5)	19.4	(0.1)	21.2	(1.9)	29.9	33.4	31.6
Net Income	**67.3**	**69.9**	**(2.6)**	**70.7**	**(3.4)**	**66.3**	**1.0**	**570.4**	**577.4**	**(7.0)**	**572.5**	**(2.2)**	**566.4**	**3.9**	**870.1**	**874.8**	**870.0**

POMS P&L
November 2015

POST OFFICE®

£k	Period			YTD			Full Year
	Actual	Budget	Var.	Actual	Budget	Var.	Budget
GROSS INCOME	2,028	2,589	(561)	13,456	17,574	(4,118)	30,189
COST OF SALES	(252)		(252)	(539)		(539)	
NET INCOME	1,776	2,589	(813)	12,917	17,574	(4,657)	30,189
Staff costs	(213)	(273)	60	(521)	(783)	263	(1,875)
Staff & Agency Related Costs	(1)		(1)	(163)		(163)	
Consultancy & Advisory Services	(6)	(11)	5	(60)	(87)	27	(130)
Brand & Marketing	(108)	(733)	624	(1,013)	(2,455)	1,442	(4,910)
Legal Costs	184	(12)	196	(357)	(252)	(105)	(280)
Property & Facilities Management	10		10	(9)		(9)	
IT Infrastructure & IT Services	(244)	(137)	(107)	(2,890)	(1,937)	(953)	(2,530)
Finance & Losses	(51)	(8)	(43)	(349)	(67)	(283)	(100)
Operating Costs	(151)	(500)	349	(324)	(1,000)	676	(3,000)
Projects							
Total Non Staff costs	(366)	(1,400)	1,035	(5,167)	(5,798)	631	(10,950)
Interbusiness Costs	(579)	(717)	138	(5,804)	(5,739)	(64)	(8,609)
TOTAL EXPENDITURE	(1,158)	(2,391)	1,233	(11,491)	(12,320)	829	(21,433)
OPERATING PROFIT	618	199	420	1,427	5,254	(3,827)	8,756

Period vs. Budget
Management accounts prepared on a gross income basis for Car/Van/Home products.

• **Income:**
Income is (£813k) adverse in the month due to :
1) Travel (£171k) adverse - due to lower performance in branch/online channels (£130k), delayed launch of CDW product (£40k).
2) Car/Van/Bike (£43k) adverse - due to lower renewals income.
3) Over 50s/Life (£191k) adverse - due to lower than budgeted sales in the branch.
4) Cost of Sales (£252k) adverse - Budget classification variance. Budget is included within Brand & Marketing line whereas Aggregator spend is posted against cost of sales.

• **Staff costs:**
Staff costs are favourable in the month by £60k due to lower FTE's (20 vs. 23)

• **Non staff costs**
General Insurance (Hawk) products was allocated a full year non staff cost budget of £6m (Marketing-£3m, operating costs - £3m). This budget is held centrally and not allocated to individual products.
Non Staff costs are £1,035k favourable in the month due to:
1) Staff & Agency costs in line with budget - £3k Travel related costs, £2k Payroll service provider costs offset by (£4.5k) recruitment costs due to PO closures.
2) Consultancy & Advisory Services £5k favourable - £5k correction of a P7 posting for Dalesridge costs.
3) Brand & Marketing £624k favourable - lower PPC spend £548k, £150k reversal of costs allocated to POMS in P7, offset by unplanned Doc & Literature spend (£49k) and database management (£25k).
3) Legal £196k favourable - transfer to exceptional costs £132k, Zeus legal costs capitalised £107k, offset by unplanned legalcosts (£43k).
4) IT Infrastructure & IT Services (£107k) adverse - due to higher WebHelp contact centre costs (£271k), offset by lower and service costs £52k (transfer to exceptionals) and IT integration costs £117 (due to closure of POs).
Budget for all Junction operating costs is held centrally against Other Operating costs line whereas Junction contact centre actuals are posted against IT infrastructure line.
5) Finance & Losses (£43k) adverse - unplanned Bank Charges (£27k) and Customer Bad Debts (£15k).
6) Other operating costs £349k favourable - Budget reclassification variance. see point 4.

• **IB costs**
Interbusiness costs (£246k) adverse - Unplanned POL commissions on General Insurance products.and higher MSA costs.

• **EBITDAS (excludes Exceptional costs)**
POMS EBITDAS (Earnings before Interest, Tax, Depreciation, Amortisation) of £618k is **£420k favourable** due to the net impact of the above.

Exceptional costs
Exceptional costs (£142k) adverse - transfer of costs from Legal and IT..

• **EBT (includes Exceptional costs)**
POMS EBT (Earnings before Tax) of £477 is **£278k favourable** due to the net impact of the above.

Capital Expenditure
Capex (£58k) adverse - unplanned * expenditure on Strategic insurance platform project
* No approved business case for Real time interface and Strategic Insurance platform projects.

YTD vs. Budget

• **Income:**
Income is (£4,657k) adverse due to :
1) Travel (£4,205k) adverse - due to lower performance in branch/online channels (£3,888k), delayed launch of CDW product (£313k).
2) Car/Van/Bike £115k favourable - due to higher income in online/contact centre channels
3) Home £125k favourable - due to higher income in online/contact centre channels
4) Over 50s/Life (£158k) adverse - due to lower than budgeted sales in the branch.
4) Cost of Sales (£539k) adverse - Budget classification variance. Budget is included within Brand & Marketing line whereas Aggregator spend is posted against cost of sales.

• **Staff costs:**
Staff costs are favourable by £262k due to lower number of POMS employees in H1 (budget assumed 5.5 FTE's).

• **Non staff costs**
General Insurance (Hawk) products was allocated a full year non staff cost budget of £6m (Marketing-£3m, operating costs - £3m). This budget is held centrally and not allocated to individual products.
Non Staff costs are £631k favourable YTD due to:
1) Staff & Agency costs (£163k) adverse - unplanned recruitment costs (£162k) for the Compliance & Insurance team.
2) Consultancy costs £27k favourable - lower FCA fees . FCA fees have only been charged since P4.
3) Brand & Marketing £1,442k favourable - lower PPC spend of £1.79m, offset by Doc & Literature spend of (£350k).
4) Legal (£105k) adverse - higher Thistle costs.
5) IT Infrastructure & IT Services (£953k) adverse - YTD costs are made up of: £2.5m WebHelp contact centre costs (£2.4m totalless £300k treated as exceptional in relation to review of contact centre to ensure FCA compliance in readiness for Hawk). £401k of software and application services costs (mostly relating to Dalesridge TI technical support, IPA system, and interim policy admin). £33k of other costs including £116k software and application licenses costs (mostly Healix costs).
6) Finance & Losses (£283k) - unplanned Bank Charges (£147k), Professional Indemnity Insurance (£101k) and Customer Bad Debts (£35k).
7) Other operating costs £676k favourable - Budget reclassification variance.

• **IB costs**
IB costs are (£64k) - lower POL commissions on General Insurance products offset by higher MSA costs.

• **EBITDAS (excludes Exceptional costs)**
POMS EBITDAS of £1427k is **(£3,827k) adverse** due to the net impact of the above.

Exceptional costs
Exceptional costs (£1,208k) adverse - Peachtree £262k, Beachcroft £20k, Thistle contact centre £542k, WebHelp contact centre £288k, JMR £52k.

• **EBT (includes Exceptional costs)**
POMS EBT (Earnings before Tax) of £219k is **(£5,035k) adverse** due to the net impact of the above.

Capital Expenditure
Capex (£961k) adverse - unplanned * expenditure of (£224k) on Real time interface project and (£761k) on Strategic insurance platform project, offset by a favourable spend of £25k on Finance system project.
* No approved business case for Real time interface and Strategic Insurance platform projects.

Digital Net Income
November 2015

Strictly Confidential

POST OFFICE®

Sales Pillar	Sub Pillar	Product	Income	Target	%	Income Variance to Target (£)	2014-15	TY v LY %	FYT	% FYT achieved	% Annual Target allocated
FS	General Insurance	General Insurance Other	£1,934	£3,990	48%	-£2,056	£2,309	84%	£7,168	27.0%	55.7%
		Home Insurance	£1,927,686	£1,700,860	113%	£226,826	£979,153	197%	£2,560,561	75.3%	66.4%
		Life Assurance	£93,620	£218,346	43%	-£124,726	£219,705	43%	£307,738	30.4%	71.0%
		Motor Insurance	£1,509,697	£1,255,889	120%	£253,808	£2,301,101	66%	£1,992,907	75.8%	63.0%
		General Insurance Total	£3,532,937	£3,179,085	111%	£353,852	£3,502,267	101%	£4,868,375	72.6%	65.3%
	Mortgage and Transaction Services	Credit Card	£947,625	£1,072,696	88%	-£125,071	£687,792	138%	£1,669,500	56.8%	64.3%
		Loans	£4,725	£6,075	78%	-£1,350	£25,353	19%	£9,000	52.5%	67.5%
		Mortgage Offer	£955,241	£1,579,200	60%	-£623,959	£1,517,213	63%	£2,328,900	41.0%	67.8%
		Mortgage and Transaction Services	£1,907,591	£2,657,971	72%	-£750,380	£2,230,358	86%	£4,007,400	47.6%	66.3%
	Payment Services	POMC	£0	£7,976	0%	-£7,976	£595	0%	£11,850	0.0%	67.3%
		Payment Services Total	£0	£7,976	0%	-£7,976	£595	0%	£11,850	0.0%	67.3%
	Savings	Instant Access Saver	£9,470	£14,986	63%	-£5,516	£9,239	103%	£22,924	41.3%	65.4%
		ISA	£16,538	£167,508	10%	-£150,971	£38,827	43%	£252,238	6.6%	66.4%
		Fixed Rate ISA	£61,001	£190,286	32%	-£129,286	£41,622	147%	£272,589	22.4%	69.8%
		Online Bond	£616,468	£339,002	182%	£277,466	£437,018	141%	£535,500	115.1%	63.3%
		Online ISA	£400,400	£163,709	245%	£236,691	£0	N/A	£292,000	137.1%	56.1%
		Online Saver	£1,751,398	£1,844,493	95%	-£93,095	£1,673,095	105%	£2,690,992	65.1%	68.5%
		Reward Saver	£13,119	£23,364	56%	-£10,245	£8,962	146%	£35,325	37.1%	66.1%
		Savings Total	£2,868,393	£2,743,349	105%	£125,044	£2,208,763	130%	£4,101,568	69.9%	66.9%
	Travel	Travel Insurance	£2,737,589	£5,301,614	52%	-£2,564,025	£3,215,157	85%	£6,449,780	42.4%	82.2%
		Travel Money	£1,939,040	£1,910,778	101%	£28,262	£1,601,110	121%	£2,583,709	75.0%	74.0%
		Travel Total	£4,676,629	£7,212,392	65%	-£2,535,763	£4,816,266	97%	£9,033,489	51.8%	79.8%
	FS Total		£12,985,550	£15,800,773	82%	-£2,815,222	£12,758,249	102%	£22,022,682	59.0%	71.7%
Government	Government Services	Government Other	£348,257	£165,000	211%	£183,257	£285,263	122%	£300,000	116.1%	55.0%
		Government Total	£348,257	£165,000	211%	£183,257	£285,263	122%	£300,000	116.1%	55.0%
	Government Total		£348,257	£165,000	211%	£183,257	£285,263	122%	£300,000	116.1%	55.0%
Telecoms	Telecoms	HomePhone	£630,560	£569,056	111%	£61,504	£352,080	179%	£871,360	72.4%	65.3%
		Telecoms Total	£630,560	£569,056	111%	£61,504	£352,080	179%	£871,360	72.4%	65.3%
	Telecoms Total		£630,560	£569,056	111%	£61,504	£352,080	179%	£871,360	72.4%	65.3%
	Grand Total		£13,964,367	£16,534,828	84%	-£2,570,462	£13,395,592	104%	£23,194,042	60.2%	71.3%

Government	Government Services	Verify	£1,211,574	£1,736,688	70%	-£525,114	£0	-	£3,000,000	40.4%	57.9%
Grand Total including Verify - Business target including additional stretch			£15,175,941	£18,271,516	83%	-£3,095,576	£13,395,592	113%	£26,194,042	57.9%	69.8%

Grand Total including Verify - Bonus target as in Scorecard (original target)			£15,175,941	£15,787,341	96%	-£611,401	£13,395,592	113%	£21,495,534	70.6%	73.4%

Period 8 Financial Results

Dave Carter

17th December 2015

Period 8 Financial Performance

Context

For 2015/16 the Post Office has an EBITDAS budget of ⌐IRRELEVANT⌐ The Q2 re-forecast achieves the same level of EBITDAS. Net income was reduced by ⌐IRRELEVANT⌐ with improved Mails performance partially offsetting the impact of lower Travel insurance and the withdrawal of NS&I. Expenditure was reduced by ⌐IRRELEVANT⌐ with reduced Postmaster costs, offsetting the impact of higher pensions and card fees. Project expenditure was reduced by ⌐IRRELEVANT⌐. For Period 8, our EBITDAS forecast was ⌐IRRELEVANT⌐

Questions

- What was the financial performance of the business in P8 compared to budget and forecast?
- What are the implications of variances to forecast on our full year outlook?

Conclusions

- EBITDAS of **IRRELEVANT** better than budget and forecast in the period.
  - At BAU level, EBITDAS was £(1.3)m below forecast driven by Net Income ⌐IRRELEVANT⌐ below, partially offset by ⌐IRRELEVANT⌐ lower expenditure, mainly in Non-Staff costs. Project Opex was ⌐IRRELEVANT⌐ lower than forecast

- Net Income was significantly lower than expected in the period due to lower volumes in Mails, weaker renewals income in Insurance, and the phasing of the forecast in Telecoms & Lottery
  - Mails volumes were impacted by customer spending patterns around Black Friday and a significant shift online, and by continued lower volumes and increased competition in international.
  - Motor and Home insurance income from renewals was below forecast, both in volume and rate.
  - Within Telecoms, the November 8th price rise was not fully realised within billings cycle, with 3 weeks of additional income still to be recognised. This will be captured in the next billing or accrued.
  - Lottery income for the launch of the new game was incorrectly phased within the period

- The majority of the variance to forecast is driven by timing of income and costs. We have not adjusted our full year expectations, but there exist some risks & opportunities.
  - The commercial teams are reviewing Mails volumes over P9 to assess the FY impact of P8 volumes
  - The POMS teams are reviewing Motor & Home renewals, but are currently confident in the forecast
  - Project Opex spend in Invest to Grow is below forecast YTD. Expected full year spend is being assessed.

2

Period 8 EBITDAS was ahead of forecast, with lower income offset by lower costs and project spend

£m	Current Month			Q2 Forecast	Variance
	Actual	Budget	Variance		
TOTAL GROSS INCOME					
Cost of Sales					
TOTAL NET INCOME					
Staff Costs					
Postmaster Costs					
Non-Staff Costs					
Total Expenditure (pre Project OpEx)					
FRES - Share Of Operating Profits					
EBITDAS - BAU					
Project OpEx					
EBITDAS		IRRELEVANT			
Depreciation					
Network Payment					
EBIT pre exceptionals items					
Interest					
Impairment					
Exceptionals (incl BT) & Redundancy & Severance Costs					
Government Grant Utilisation					
Profit/(Loss) On Asset Sale					
Total Profit/(Loss) Before Tax					

- Net Income [IRRELEVANT] below forecast driven by lower mails volumes, lower insurance renewals and forecast phasing across Telecoms and Lottery.

- Total Expenditure [IRRELEVANT] favourable driven by:
  - Staff Cost - lower than forecast headcount and pension costs
  - Non Staff Costs – Q2 VAT return, lower POMS and Marketing spend, partially offset by higher IT costs

- Project Opex is [IRRELEVANT] favourable, driven by capitalisation of Mobile costs and lower than forecasted spend within Invest to Grow

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The majority of the variance to forecast is driven by timing. Underlying, the full year impact in Mails and Insurance is uncertain

£m	Variance to Forecast			Of Which:					
	Actual	Q2 Forecast	Variance	Estimated Timing	Estimated Underlying				
---	---	---	---	---	---				
TOTAL NET INCOME									
Staff Costs									
Postmaster Costs			**IRRELEVANT**						
Non-Staff Costs									
Total Expenditure									
FRES									
EBITDAS - BAU									
Project OpEx									
EBITDAS									

Underlying variances:

Income
Items still under review:
• Black Friday impact
• Intn'l mails volume IRRELEVANT
• Insurance renewals
More certain:
• SSK Accruals IRRELEVANT
• POMS accounting IRRELEVANT

Staff Costs:
• Pension run rate IRRELEVANT

Non Staff Costs
• POMS accounting IRRELEVANT

Project Opex
• Run rate IRRELEVANT

- Within Net Income we currently expect to recover £(1.7)m against forecast, mainly:
  - Telecoms £(0.8)m – the full impact of November 8th price will be captured in future billing cycle
  - Lottery IRRELEVANT – due to phasing of forecast for the new lottery game

- Underlying, we are still reviewing the full year impact of the lower volumes within Mails and lower Insurance renewal income. The forecast remains unchanged as we assess P9 performance

- Operating costs variance to forecast is driven by phasing or timing of spend, with no significant FY impact. Underlying, pension costs are running below the revised forecast due to lower headcount.

- Our run rate on Project Opex suggests we will spend less than forecast over the remainder of the year. Full year expenditure forecasts are being reviewed - we are currently estimating a potential IRRELEVANT saving against forecast.

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Mails revenue was impacted by weak international volumes and a negative effect of Black Friday and Cyber Monday

£m	
Stamps	
Labels	
Specials	
Home Shopping returns	
Other	
Variable Mails	
Fixed Mails	
Total Mails	
Retail & Lottery	
Mails & Retail	

IRRELEVANT

Mails net income is IRRELEVANT adverse to forecast reflecting lower than expected volumes across most Royal Mail services. Volumes are being monitored daily over P9 to assess the full year impact

- Volumes in the last 2 weeks of the period were impacted by customer spending patterns in the build up to Black Friday – resulting in lower parcels and returns.

- International mails performance reflects the generally lower volumes; impact of exchange rates; and increased competition from My Hermes and eBay's global shipping programme.

- Inland parcels (labels) of IRRELEVANT partly reflects provision for SSK overbilling of IRRELEVANT taken in the period [full year impact IRRELEVANT

Lottery net income is IRRELEVANT adverse to forecast reflecting the aggressive phasing of the impact of the new lottery game. This is expected to recover in period 9

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Telecoms is impacted by the timing of billing relative to the price increase. Customer numbers are ahead of plan

£m	Period 8				
	P8	Q2 Forecast	Var to Q2 Forecast	Budget	Var to Budget
HP&BB	3.6	4.3	(0.8)	4.1	(0.6)
Other	0.3	0.3	(0.0)	0.3	(0.0)
Total Telecoms	**3.9**	**4.6**	**(0.8)**	**4.5**	**(0.6)**
DVLA	0.6	0.7	(0.1)	0.5	0.1
POCA	4.0	4.5	(0.5)	4.0	(0.0)
Home Office	2.0	1.7	0.3	2.0	0.0
ID Services	(0.0)	0.1	(0.1)	0.2	(0.2)
Other	0.3	0.0	0.2	0.5	(0.2)
Total Government Services	**6.8**	**7.1**	**(0.3)**	**7.1**	**(0.3)**

Government Services are £(0.3)m adverse to forecast due to:

- POCa impacted by incorrect forecast phasing with no full year impact. POCa account numbers are being maintained.

- Verify volumes are 69% behind plan in P8.

- Offset by strong UKVI performance reflecting continued strong Secure Collection and Biometric Residency Permits volumes

Telecoms net income is £(0.8)m adverse to forecast.

- The price rise was effective from Nov 8th. The billing cycle resulted in 3 weeks of the additional revenue (£0.5m) not being realised in the period - this will be accrued in future periods. No impact to FY forecast.

- Stronger trading performance has added 3000 more customers than forecasted in the period.

- Higher additions and a marginal change in mix has resulted in £(0.3)m lower net income than forecast due to higher up-front connection charges.

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Within FS, Motor and Home Insurance are behind forecast in the period, but the full year outlook is unchanged

£m	P8	Q2 Forecast	Var to Q2 Forecast	Budget	Var to Budget
Mortgages & Transactions					
Savings					
Insurance					
Travel					
Banking & Payments					
Stretch/Other					
Total					

Period 8

IRRELEVANT

£m	P8	Q2 Forecast	Var to Q2 Forecast	Budget	Var to Budget
Travel					
Motor					
Home					
Life					
Other					
Insurance					

Period 8

IRRELEVANT

Financial Services Income is IRRELEVANT adverse to budget. Included in the forecast were:

- The cessation of NS&I IRRELEVANT; and
- Write back of Postal Order breakage (unredeemed) of IRRELEVANT

POMS net income is IRRELEVANT adverse to forecast driven by:

- Motor insurance income from renewals has worsened due to lower volumes and lower rates – this is under review to assess the full year impact;
- Home insurance reflects a correction of prior month estimates;
- A change in the accounting treatment between income and costs for under the Junction contract. Net nil impact to EBITDAS.
- Over 50s insurance performed well in the month and is expected to continue

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Costs are lower than forecast predominantly due to the timing of spend or phasing of the forecast

		Period 8				
	P8	Q2 Forecast	Var to Q2 Forecast	Budget	Var to Budget
Postmaster Costs					
Staff Costs			**IRRELEVANT**		
Non Staff Costs					
Total Costs					

- **Staff Costs** are ⎡IRRELEVANT⎤ favourable to forecast in the period driven by lower headcount ⎡IRRELEVANT⎤ and lower pension costs as a result ⎡IRRELEVANT⎤ The higher full year pension costs, due to unfavourable market conditions at the year end has now been built into the forecast.

- **Non Staff Costs** are ⎡IRRELEVANT⎤ favourable to forecast, driven by the timing of spend or forecast phasing
  - ⎡IRRELEVANT⎤ in POMS, reflecting capitalisation of costs; closure of POs; and change in accounting treatment for the Junction contract (offset in income). The FY forecast is unchanged.
  - ⎡IRRELEVANT⎤ VAT rebate for Q2. This is reflected in the FY forecast, but phased incorrectly.
  - £0.4m lower Marketing spend, as full year plans are under review but FY forecast is still held.

  Offset by:
  - ⎡IRRELEVANT⎤ within IT & Operations driven by Desktop services (related to EUC delay); Horizon Terminal Services (timing related to RPI adjustment); and Website maintenance (timing of spend).
  - ⎡IRRELEVANT⎤ within Property, relating to timing of planned maintenance spend.

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Project Opex is currently below plan which may result in lower full year costs

£m		Current Month			YTD			Full Year
Themes	**Programmes**	**Actual**	**Budget**	**Var.**	**Actual**	**Budget**	**Var.**	**Outlook**
Other	Flow Through							
	Sparrow							
Reduce & Variablise Network	NTP							
	Other R&V							
Commercial	Customer Management Programme							
	Digital							
	Mobile (Wave)							
	Other Invest to Grow							
	POCA (Maypole / Iliad)							
Reduce Central Costs	Other Central Costs							
	Project IRIS							
Grow Financial Services	Eagle							
	Hawk							
	Invest to Grow FS							
Replacement CapEx	IT Risk & Resilience							
	Property							
	Separation							
	Supply Chain vehicles							
Transform the Organisation	People & Organisation							
	Transformation Office							
Opex Total								

IRRELEVANT

- Project Opex is IRRELEVANT below plan in the period due to the capitalisation of Mobile costs, and lower than planned spend within Invest to Grow projects.

- Year to date spend is IRRELEVANT below plan. The expected full year spend across Opex and Capex is currently being re-assessed

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Capital Expenditure continues to track below budget due to delayed expenditure across the key IT towers

£m		Current Month			YTD			Full Year
Themes	Programmes	Actual	Budget	Var.	Actual	Budget	Var.	Outlook
Other	Flow Thro Fujitsu extension contingency Other Replacement Capex Sparrow							
Reduce & Variablise Network Costs	CTP1 CTP2 Front Office NTP							
Commercial	Customer Management Programme Digital Mobile (Wave) Other Invest to Grow Winning in Retail							
Lean IT	Back Office EUC Networks TPOM							
Reduce Central Costs	Other Central Costs Reduce Central Costs							
Grow Financial Services	Eagle Invest to Grow FS							
Replacement CapEx (Including Separation)	IT Risk & Resilience Other Replacement Capex Property Separation Supply Chain vehicles							
Transform the Organisation	People & Organisation Transformation Office							
Capex Total								

IRRELEVANT

- Year to date Capex is IRRELEVANT below plan.

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Exceptionals remain IRRELEVANT higher than budget driven by Postmasters' Compensation, Restructuring & Onerous Contracts

Exceptionals

£m

Themes	Programmes	Current Month			YTD		
		Actual	Budget	Var.	Actual	Budget	Var.
Other	Flow Thro						
Reduce & Variablise Network Costs	CTP1						
	CTP2						
	Front Office						
	LBD						
	NTP						
Commercial	Digital						
	Other Invest to Grow						
	Winning in Retail						
Lean IT	EUC						
	Back Office						
	TPOM						
Reduce Central Costs	Other Central Costs						
	Project IRIS						
	Reduce Central Costs						
Grow Financial Services	Eagle						
	Hawk						
Replacement CapEx (Including Separation	Other Replacement Capex						
	Separation						
Transform the Organisation	People & Organisation						
	Transformation Office						
Central Exceptional Adjustments	Central Exceptional Adjustments						

IRRELEVANT

- Postmasters' compensation (within NTP) reflects the charge for the year calculated at point of liability, but budgeted at point of exit. The restatement of the provision will not be posted until finalised.

- Reduce Central Costs, net IRRELEVANT adverse, are mainly due to Wave 2 redundancies, with budget phased across the year.

- Central adjustments IRRELEVANT adverse reflect the earlier than budgeted provisions for property onerous contracts, where we plan to exit loss making crown branches.

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Cash flow is [IRRELEVANT] favourable to budget mainly due to earlier Winter Fuel Payments than expected

£m — **YTD Cashflow Variances**

IRRELEVANT

YTD Budget   Operating profit   Network Cash   Working Capital Inc Interest, tax, pensions   Client Balances   CapEx and Exceptionals (mainly NT)   YTD Actual

- In Period 8, cash outflow of **IRRELEVANT** favourable to the budgeted outflow of [IRRELEVANT]

- Network cash at [IRRELEVANT] below budget;
  - [IRRELEVANT] of this is attributable to the cessation of NS&I products meaning reduced cheque and debit card holdings. This is fully offset within lower Client Balances.
  - Combined branch and cash centre holdings are [IRRELEVANT] below budget, due to winter fuel payments being paid earlier than expected, having a material impact on branch holdings.

- Capex and Exceptionals are [IRRELEVANT] below budget, with delayed capital spend across the key IT towers, partially offset by higher than budgeted exceptional items.

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Some of our Scorecard metrics remain challenging, impacted by lower income in Period 8

Key Performance Indicators	Current Month			YTD			YTD Prior Year	Full Year Target	2014-15 Outturn
	Act	Target	Var.	Act	Target	Var.			
Growth									
Total Net Income (excl NSP) £m (Bonus 10%)									
Operating profit £m									
Earnings before ITDA and Subsidy £m* (Bonus 30%)									
Free cashflow £m									
Digital Net Income (measured using Credence) (Bonus 10%)									
Customer									
Customer Satisfaction									
Customer Effort (Bonus 10%)									
Net Promoter score Financial Services (Bonus 5%)									
Net Promoter score									
Queue time % < 5 minutes - Top 1k branches									
Branch Compliance - Financial Services - basket of 11 measures									
People									
Engagement Index % (Once a year April) (Bonus 15%)** (P)									
Subpostmaster Engagement Index % (Once a year)**									
New Starter Turnover									
Representation (Senior Managers) - Gender									
Representation (Senior Managers) - Ethnicity									
Modernisation									
Number of branches (one month in arrears)									
Crown Profit (Loss) £m (Bonus 10%)									
NT Branches Transformed In Year (Bonus 10%)									

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Bonus worthy metrics
* ITDA Interest, Tax, Depreciation, Amortisation.
** Measured annually with some additional 'Pulse surveys'.
(P) October Pulse Survey Result
5% Tolerance for amber.

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Appendices

14
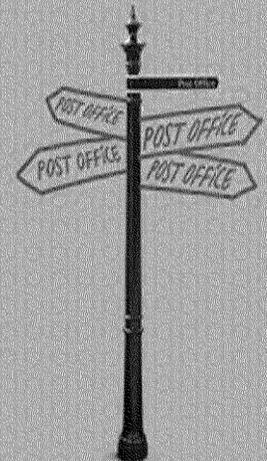
Q2 P&L Phasing

	Q1	Q2	P7	P8	P9	P10	P11	P12	Q2 FY Forecast
Mails	80,059	79,308	34,037	31,801	41,035	31,966	28,378	29,310	355,895
Retail	10,740	9,966	454	479	617	399	353	324	23,331
Govt	27,709	24,375	8,192	7,097	6,278	8,682	8,309	8,198	98,840
Telco	12,858	12,388	5,078	4,635	4,693	5,906	4,685	4,758	55,001
Other	105	112	32	32	32	32	32	32	409
Commercial	**131,471**	**126,150**	**47,793**	**44,043**	**52,655**	**46,985**	**41,757**	**42,622**	**533,477**
Mortgages & Transactions	1,866	2,529	974	987	850	893	1,035	2,062	11,196
Savings	15,745	16,170	4,571	4,576	4,572	4,565	4,605	4,743	59,547
Insurance	3,287	3,038	2,364	2,213	2,974	3,480	2,395	2,515	22,267
Travel	9,936	11,928	2,975	1,863	1,861	2,030	2,133	2,442	35,167
Banking & Payments	42,399	42,530	16,249	14,347	15,277	14,983	13,596	14,697	174,077
Stretch/Other									
FS	**73,234**	**76,195**	**27,133**	**23,985**	**25,534**	**25,950**	**23,764**	**26,460**	**302,254**
Supply Chain	6,519	7,264	3,322	2,327	2,400	3,039	2,395	2,645	29,911
Other Income	773	1,416	350	350	350	350	350	350	4,289
Net Income	**211,996**	**211,026**	**78,599**	**70,705**	**80,939**	**76,324**	**68,266**	**72,077**	**869,930**
Agents Pay	- 104,469	- 101,495	- 37,772	- 32,913	- 40,823	- 35,325	- 30,810	- 31,592	- 415,200
Staff Costs	- 59,433	- 57,128	- 20,113	- 18,888	- 19,119	- 20,811	- 18,512	- 18,370	- 232,374
Non Staff Expenditure	- 80,132	- 58,390	- 24,469	- 23,109	- 23,300	- 23,143	- 22,082	- 21,803	- 276,428
Invest to Grow	- 4,781	- 4,430	- 268	- 1,544	- 1,554	- 1,663	- 1,556	- 864	- 16,660
Dep'n	107	107	63	63	63	63	63	- 18	1,110
FRES	10,568	13,087	2,505	1,708	1,846	1,771	2,158	2,357	36,000
EBITDAS	**- 26,145**	**2,776**	**- 1,456**	**- 3,980**	**- 1,948**	**- 2,784**	**- 2,473**	**1,788**	**- 34,221**

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Q2 Forecast Commercial Income phasing
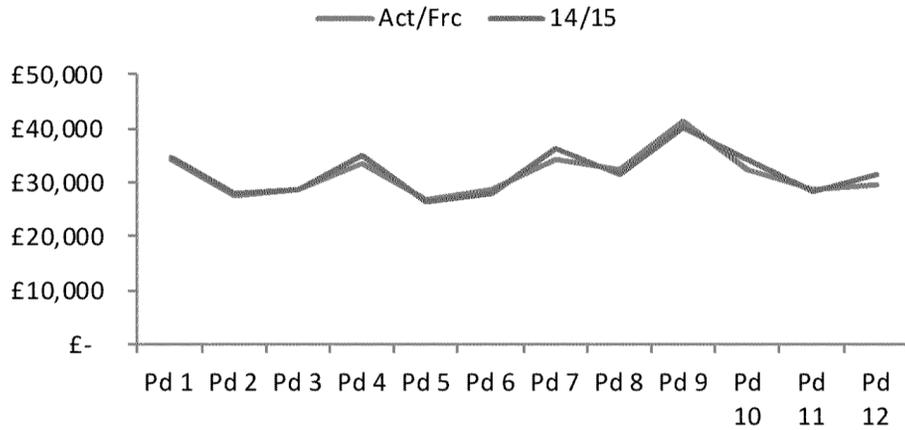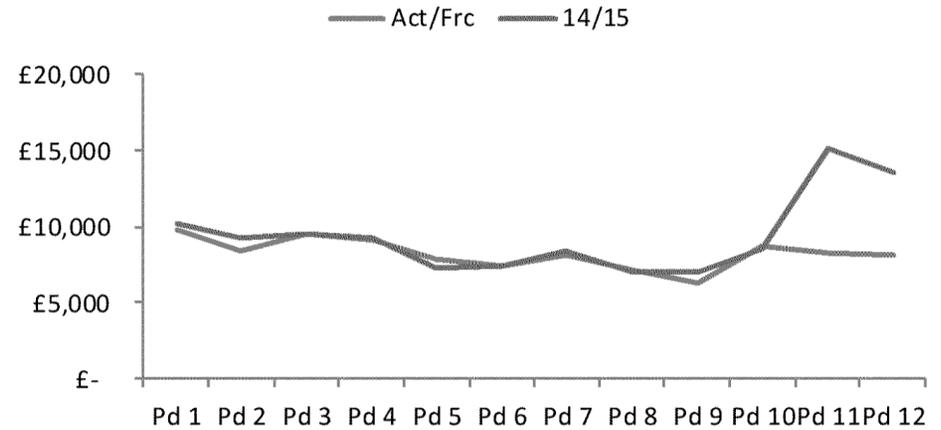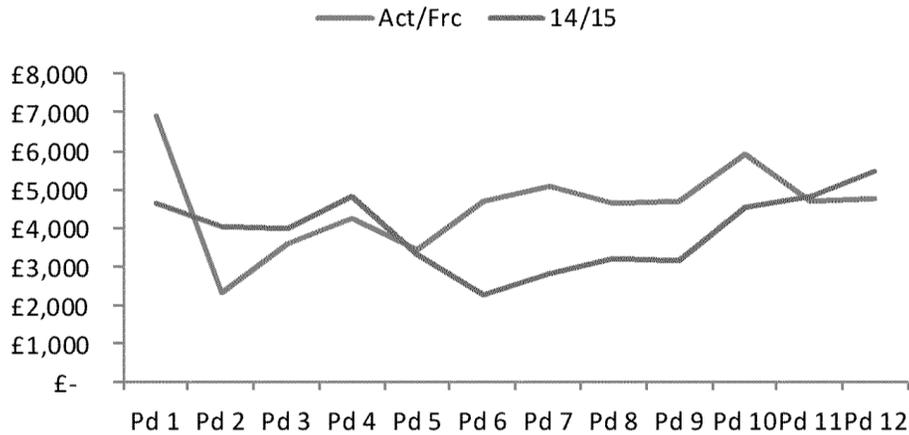
Q2 Forecast FS Income Phasing

Mortgages & Transactions
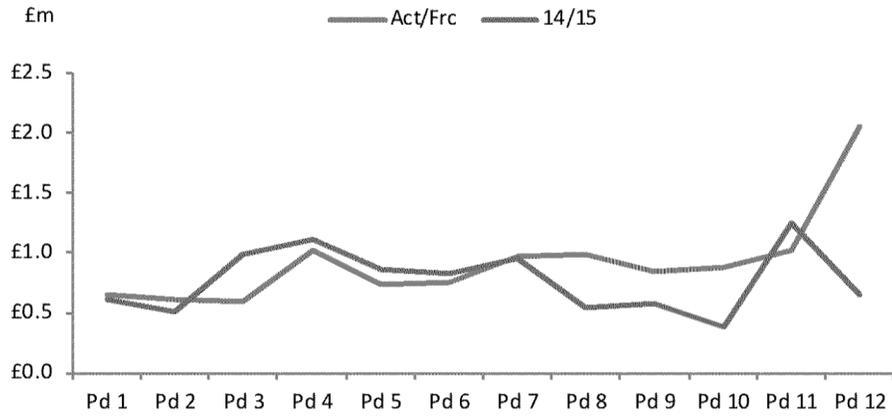
Savings
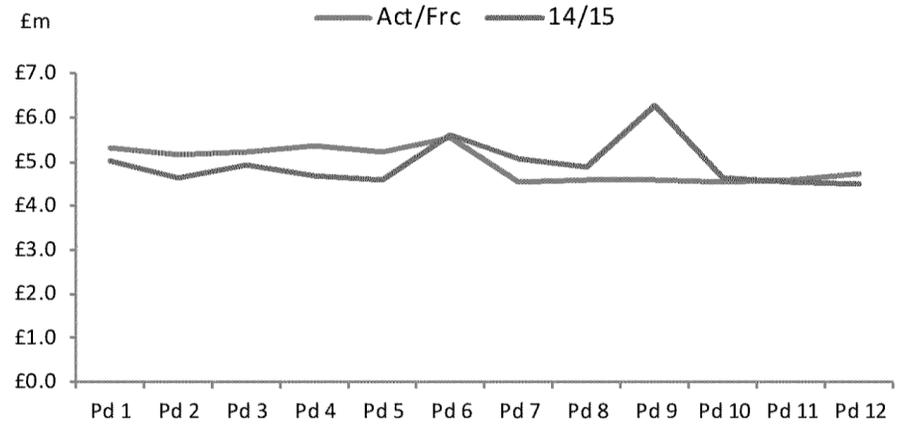
Insurance & Travel
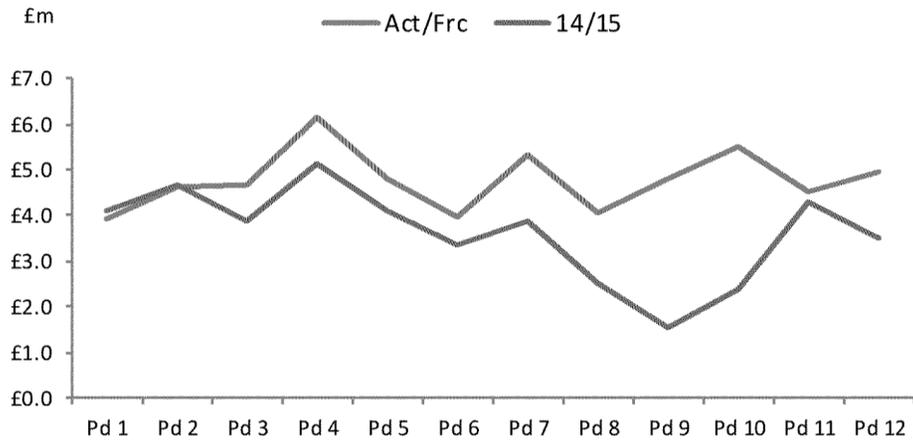
Banking & Payments
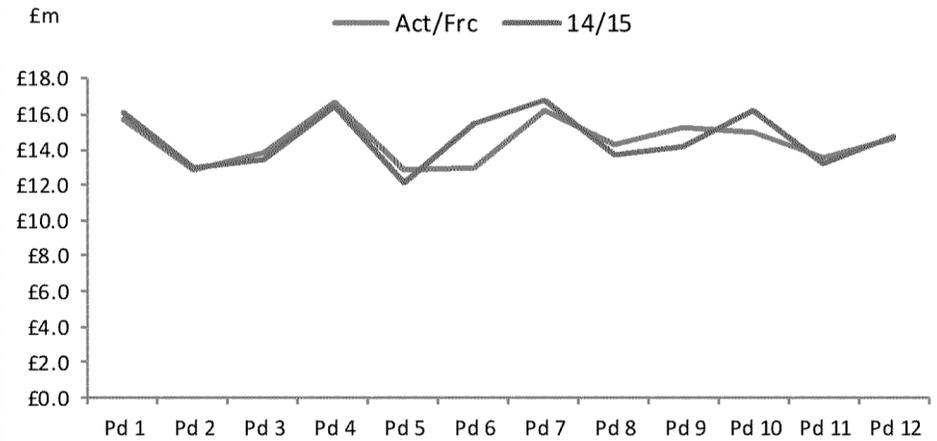
Operations Update

Al Cameron

December 2015

Summary

Context
- We agreed to start explaining performance in our Operations to enable a shared understanding of where we are and ensure focus on improvement

Questions
- What do our latest KPIs tell us for Supply Chain, Support Services and IT for period 8?

Conclusions

- Supply Chain
  - Accidents are higher than target in the period resulting on 30 days lost. Year on year is improved due to increased focus on health & safety.
  - There has been a 45% reduction in Road Traffic Incidents (and 55% reduction in blame worthy). New training has been launched for low speed manoeuvring.
  - Quality of service remains below target. Three sites are responsible for a high proportion or service failures due to high levels of absence or staff on rehabilitation

- Support Services
  - People engagement scores are green, despite the ongoing Support Services transformation programme;
  - Customer service levels continue to perform below target, driven by a spike in calls due to product changes (Moneygram) and high sick absence rates. This is in transition with the agreed transformation programme due to complete by Q1.

- IT
  - The number of severity level 1&2 incidents dropped slightly, but remain at a high level. A significant number of system stability issues were concentrated within Supply Chain. An overarching improvement plan has been developed between Supply Chain and IT.
  - Some service partners continue to operate outside agreed service levels – a service improvement programme has been launched with ATOS

2

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Supply Chain KPIs

MEASURE	PDA	Actuals	Variance	Target	Prev Year	YTD Actuals	YTD Var	YTD Target	Prev Year
PERIOD - 7 / 8 Progress									
Accidents (H&S Site Report)	P7	9	1	8	12	53	-5	58	67
Accidents - LTIFR (Lost Time Injury Frequency Rate)	P8	0.76	0.01	0.75	N/A	0.86	0.11	0.75	N/A
Accidents - Number of Accidents Per 100,000hrs	P7	3.54	3.54	No Target	N/A	3.05	3.05	No Target	N/A
Accidents Causing Absence (H&S Site Report)	P7	6	6	No Target	4	13	13	No Target	23
Days Absence as a result of Accidents (H&S Site Report)	P7	30	-8	38	14	163	-103	266	106
Sick Absence - %age	P8	4.09%	0.69%	3.40%	3.93%	3.82%	0.42%	3.40%	3.71%
Number of Road Traffic Incidents	P8	18	-6	24	24	189	0	189	185
Number of Blameworthy Road Traffic Incidents	P8	9	-3	12	16	113	14	99	99
Budget Performance - Actual Costs / Expenditure £k	P8	£5,293	-£336	£4,957	N/A	£46,228	-£399	£46,628	N/A
Revenue - Actual / Plan £k	P8	£2,599	-£172	£2,771	N/A	£19,279	-£3,528	£22,807	N/A
CVIT Quality of Service - POL	P7	97.96%	-0.24%	98.20%	98.30%	97.39%	-0.81%	98.20%	98.31%
CVIT Quality of Service - EXTERNAL	P7	94.33%	-3.87%	98.20%	97.08%	95.78%	-2.42%	98.20%	97.20%
CVIT Quality of Service - OVERALL	P8	95.85%	-2.35%	98.20%	97.57%	96.40%	-1.80%	98.20%	97.64%
Cash & Coin Centre Quality of Service	P8	100.00%	1.80%	98.20%	100.00%	99.96%	1.76%	98.20%	99.97%
Stock Centre Quality of Service	P8	99.92%	1.72%	98.20%	99.60%	99.43%	1.23%	98.20%	99.00%
High Value Mails Quality of Service	P8	99.73%	1.53%	98.20%	100.00%	99.78%	1.58%	98.20%	99.23%
Inventory Team Grade of Service	P8	48.88%	-21.12%	70.00%	N/A	34.51%	-35.49%	70.00%	N/A
Customer Management Centre Grade of Service	P8	59.46%	-10.54%	70.00%	N/A	54.14%	-15.86%	70.00%	N/A
Complaints	P7	48	14	62	50	334	95	429	385
Gross Hours - Year on Year Reduction*	P7	193,131	-22,660	215,791	N/A	1,739,732	-153,221	1,892,952	N/A
Total IT Incidents Logged	P8	43		No Target	N/A	262		No Target	N/A

NOTE: Period 7 data has been shown / used where Period 8 data is not available yet

N/A	For items shown with this, data is not available or has been requested and is being waited for

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Supply Chain: KPI Commentary

Accidents – P7 had 9 accidents with 30 days lost / LTIFR down 0.11 YTD.
- ➤ Predominately caused by improper lifting & handling technique & Vehicle slow manoeuvring errors. *Corrective action:* Reminder of techniques through local training

Absence – P8 is a 0.3% improvement on P7.
- ➤ 1 site has 13% of SC absence hours – mainly stress/anxiety related
- ➤ 41% of SC absence requires mandatory ATOS referral (Stress/Muscoskeletal)

Road Traffic Incidents – 45% reduction in incidents, 55% reduction in blameworthy.
- ➤ Slow speed driving is still the main cause. Corrective actions: (i) New training pack developed for low speed manoeuvring (ii) investigation to explore where there are blindspot issues with vehicles

Quality of Service – Three sites responsible for 2.78% of service failures.
- ➤ Staffing – High levels of absence / Staff on Rehab (11FTE per week)

System Stability – Overarching improvement plan developed in conjunction with IT
- ➤ Major POLSAP & Transtrack Issues – National and local issues
- ➤ Manual Contingencies invoked for Outward Remittance
- ➤ Largest depot without Transtrack for 5 days

Support Services Scorecard: Financial Performance

Key Performance Indicators		Current Month			YTD			YTD Prior	Full Year Target	Full Year Forecast
		Act	Tgt	Var	Act	Tgt	Var			
Financial Performance	Staff Costs	-£935,061	-£911,510	(23,551)	-£7,674,703	-£7,435,243	£(239k)	-£12,702,044	-£11,132,495	(11,132,495)
	Non-staff Costs	-£1,007,507	-£806,249	(201,259)	-£9,140,554	-£7,357,679	£(1,783k)	-£12,013,782	-£11,335,895	(14,335,895)
	Total Costs	-£1,942,568	-£1,717,759	(224,810)	-£16,815,257	-£14,792,922	(2,022,335)	-£24,769,411	-£22,468,390	(£25,468,3)

Total Staff Costs: £(239k) adverse.
FSC: £(134k) adverse – Mainly due £(20k) Severance costs (ill health), £(114) temp agency overspend and £(146k) efficiency target, offset by £114k vacancies and £32k pension savings.
HRSC: £(30k) adverse – £36k savings offset by £(67k) staff efficiency target.
Contact Centres: £(10k) adverse – £158k temp agency staff underspend, £92k savings on pensions, £39k staff savings offset by £(18k) Severance costs and £(381k) efficiency target.
Agency Contracts: £35k favourable: Mainly due to staff working on SSTP

Total Non-Staff Costs: Overall, non-staff costs are showing as £(1,783k) adverse, the main reasons can be explained as follows:

FSC: £(1,897k) adverse - £(1,906k) higher card processing costs and £(282k) efficiency target, recruitment fees £(28k), offset by £289k underspend on the cheque processing costs, £51k underspend on small IT changes.
HRSC: £(21) adverse – £(55k) efficiency target, £(41k) overspend on computer services, partly offset by £77k underspends on recruitment, T&S, stationery and postage.
Contact Centre: £4k favourable – £42k underspend on computer services, £11k T&S, offset by £(53k) customer compensation.
Agency Contracts: £131k favourable – mainly £51k postage, £30k T&S and £20 Gains/Losses savings.

Support Services Scorecard: People

Key Performance Indicators		Current Month			YTD			YTD Prior	Full Year Target	Full Year Forecast
		Act	Tgt	Var	Act	Tgt	Var			
People	Employee Pulse Oct 15*	70%*	63%	7%	70%	63%	7%	N/A	63%	70%

People:

High level of engagement maintained despite being in midst of Support Services transformation. However variances across the team :

- Contact centres 62%
- FSC 69%
- HRSC 85%
- Other 40% (issues with report as responses from CIO area included).

Support Services Scorecard: Customer (1 of 2)

Key Performance Indicators		Current Month			YTD			YTD Prior	Full Year Target	Full Year Forecast
		Act	Tgt	Var	Act	Tgt	Var			
Customer - NBSC	Calls answered within 20 secs	28% / 10065	70%	-42%	46% / 147075	70%	-24%	53% / 214238	70% / 520524	40% / 544864
	Average handling time	346	342	-4	302	320	18	316	320	320
	Calls abandoned	18% / 7783	5%	-13%	14% / 51859	5%	-9%	11% / 45803	5%	12%
	Ave time in queue (secs).Indicator not target*	178	N/A*	N/A	112	N/A*	N/A	85	N/A*	N/A
Customer - POEX	Calls answered within 20 secs	57%	70%	-13%	52%	70%	-18%	79% / 227200	70% / 396418	48% / 411551
	Average handling time in seconds	246	279	33	271	241	-30	248		280
	Calls abandoned	9% / 2722	5%	-4%	11% / 30733	5%	-6%	5% / 14118	5%	13%
	Ave time in queue (secs) Indicator not target*	56	N/A*	N/A*	64	N/A*		25	N/A*	N/A
Customer - CCU	Total Closed Complaints	3120			28120					
	Complaints Closed in 10 days – 95%	96%	95%	1%	86.50%	95%	8.50%		95%	90%
Customer - ECT	Number of cases received	132			1207					1600
	Cases resolved within 10 calendar days	35.61%	95%	60%	55%	95%	40%			60%

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Support Services Scorecard: Customer (2 of 2)

Key Performance Indicators		Current Month			YTD			YTD Prior	Full Year Target	Full Year Forecast
		Act	Tgt	Var	Act	Tgt	Var			
Customer - HRSC	Calls answered within 20 secs	73.70%	80%	6.30%	58%	80%	-22%	71%	80%	65%
	Calls resolved at tier 1	90%	80%	10%	87%	80%	7%	N/A	80%	87%
	Calls abandoned	0.97%	5%	4.30%	3.80%	5%	1.20%	n/a	5%	4%
	CPSI	95%	90%	5%	95%	90%	5%	91%	95%	95%
Customer - FSC	Invoices paid on time	92%	81%	11%	69%	66%	3%	< 40% tbc	75%	76%
	Customer settlements on time	100%	100%	-	100%	100%	-	100%	100%	100%
	Customer enquiries – open items (millions)	2.6	3	-0.4	24.6	24	0.6		36	36
Customer – Agency Contracts	Number of audits				509*			714		
Indicators	Agents suspended as a result of audit	7	N/A	N/A	37	N/A	N/A	29	N/A	56
	Terminations/notice given	0	N/A	N/A	12	N/A	N/A	14	N/A	18
	Non-suspension cases	9	N/A	N/A	86	N/A	N/A	95	N/A	130
	Amount of losses recovered from non-suspension	£126.3k	100%	0%	£839.7k	100%	0%	£460.8k	100%	£1258.5k

Support Services: KPI Commentary – Customer

Customer:
NBSC – Grade of service has been impacted throughout the year as the number of FTE has not been sufficient to cope with the volume of calls within business as usual. Period 8 saw an increase in call volumes of 3000 over forecast which was largely due to product issues such as Moneygram product changes, Moneygram outage and launch of 2D barcoding in 5000 branches. This was also at a time when lines had to be closed on 9th November due to system issues.

POEX – Grade of service being largely affected by the sickness levels within the team – upward trend (c.10%) since transformation announcement

CCU – The team are back on track in Period 8 regarding closing complaints within SLA and have worked to clear the backlog from Periods 5 and 6.

ECT – Whilst the team always respond to the stakeholder within 10 calendar days, the complexity of some of the cases usually means that the case cannot be classed as resolved within the 10 days. There has been an issue with resolving telephony Flag Cases and a revised resolution process has been implemented with Managed Services.

IT: Severity Level 1 & 2 incidents

Business Areas	Service	Aug	Sep	Oct	Nov	Total
Branches	AEI			3		3
	DVLA	1	1			2
	Horizon	1	2	2		5
	MoneyGram			1		1
	Paystation		1			1
	POCA			1		1
	Self Service Kiosk		1	1		2
	BT - Telephone				1	1
	Lottery				1	1
	GlobalPay				1	1
Contact Centres	POLSAP		2			2
	HPBB Services		2	1		3
	NBSC Services	1		1		2
Finance Service Centre	Credence / MDM		1	3	2	6
	POCA				1	1
	PODG – File Transfer	1	2	1	1	5
	POLSAP		1			1
Mails	Local Collect	1				1
	Track & Trace	1				1
Office	SharePoint, Internet & Drives	1			2	3
Post Office Mobile	WAVE / Top-up	1	1	8	7	16
Supply Chain	POLSAP	6	2	2	8	18
	Transtrack	2	3	6	5	16
	Internet				1	1
	Shared Drive				1	1
Website	CDP	7	2	6		15
Grand Total		23	21	36	31	111

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Incidents by Service Partner

11

Post Office Ltd – Confidential

GROUP EXECUTIVE			Reference: GE 12/11/15	
Date: 12/11/15	Venue: Finsbury Dials		Time: 09.30	
Present:				
Paula Vennells	(PV)	Chairman (items 1.2 onwards)	In Attendance	
Alisdair Cameron	(AC)		Tom Wechsler	(TW)
Neil Hayward	(NH)		Chris Broe (item 1)	(CB)
Kevin Gilliland	(KG)		Mark Davies (item 1&4)	(MD)
Jane MacLeod	(JM)		Radha Davies (item 1.1)	(RD)
Martin George	(MG)		Andrew Viggars (item 1.1)	(AV)
David Hussey	(DH)		Michael Brown (item 3)	(MB)
Nick Kennett	(NK)		Amber Kelly (item 4)	(AK)
Alwen Lyons	(AL)		Martin Kearsley (item 6)	(MK)

Agenda Item 1.1

Performance - Customer

Purpose

To update the GE on the customer performance for period and 6 and share the flash reports for period 7

Discussion

AV gave a summary of the customer report with performance above target on all measures, and although 2 areas showed slight decline the longer trends were positive.

- Effort remained above target in the period and ytd, with improvements in all segments. MG recognised the Network for the focus on the cause and effect to drive improvements and KG in turned thanked RD and the team for the support being provided. An analysis of the correlation between 'effort' and individual branch P&L was requested.
- KG explained that the worsening in WHS queue times had been caused by higher migration from converted Crown branches, plans were being drawn up to mitigate the short term effect, although higher migration was good news. AC was concerned that the perception of queue times had worsened KG assured the GE that this was monitored closely.
- AV explained that the queue target at Christmas was reduced and that he was working with Andrew Thompson on Crown Office queueing at Christmas. It was agreed that the 'Christmas Maker' training should include a focus on Customer.
- Travel Money differentiated pricing was causing VOC complaints. PV asked for a piece of work to be undertaken to understand the issue and propose a solution.
- FS NPS had fallen in the month but was still above target. RD explained that work was underway with BoI to understand NPS at a product level
- RD explained that the Nunwood data would be reported on a quarterly basis, with the full index produced annually.
- AC thanked RD and KG, on behalf of PV, for the fantastic teamwork which was delivering these results. The right behaviours were driving the right outcomes on scores thanks to VOC and effort across the network.

Outcomes

GE agreed the following actions:
- Produce a branch by branch analysis of the correlation between 'effort' and P&L.   **RD?**
- Include customer focus in the Christmas maker training   **KG**
- Produce a paper for the GE explaining: What is the Travel Money customer proposition and promise and how does it tie back to Post Office values and the pricing policy? What are the current problems and the options available to overcome them? What is the proposal to mitigate the complaints **NK**/RD/KG

.

Agenda Item 1.2

Performance - Sales

Purpose

To update the GE on the period 7 and ytd sales results and the implications for the plan

Discussion

Post Office Ltd – Confidential

KG reported the period 7 sales performance, focussing on:
- **Mails & Retail** maintaining its performance with a result of 105% against target for P7. International Standard mail was 10% down on target which may be driven by the unfavourable exchange rate. RMG are planning an advertising campaign to promote the product.
- **Guiding Coalition** now rolling out to a further 2000 branches 5000 in total. The underperforming members of the group are also being tackled.
- **Telecoms** strong performance in P7 & the start of P8 meant the product would be above target for the year in P8.
- **Travel Money** had performed better against a lower target in P7. NK explained that competitors had reverted back from their reduced margins during the peak summer period, making the PO rates more competitive. FRES were anticipating a similar move next year and were considering how to respond.
- **Insurance** flash sales trial going well. The GE discussed the data capture initiative and how it could drive sales. It was important that effective data was captured with the customer's knowledge and consent.
- On-line **Credit card** sales were above target, after an improvement in the web journey, but in branch sales had become more difficult since the regulator change.
-

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- KG reported that 90 branches were trialling new Point of Sale the results of which he would bring back to future meeting.
- **Mortgage** sales are below target and KK was asked to ensure that the report to the Board included the market information which helped to explain the reduction in sales despite being in best buy tables.
- **SSK** resilience and availability was discussed. CB explained the process for logging issues. He accepted that there needed to be an enhanced SLA response over the Christmas period, and a focus on keeping SK's working.
- CB was asked to produce a detailed plan identifying; the accountable SLT person; what has been agreed with the suppliers who provide the helpline and in-branch engineers; and what should be done if an SSK fails during the Christmas period (including considering the option to provide branches with 'kit' to make simple repairs themselves).

Outcomes

GE agreed the following actions:
- Provide a paper for December GE to give comfort that the customer data capture would ensure proper customer awareness and consent. **KG**
- Include the mortgage market changes in the sales report for the Board **KG**/NK
- Include a section on 'what to do if the SSK goes wrong' in the Christmas Makers briefing **KG**
- CB was asked to produce a detailed plan; identifying the accountable SLT person; what has been agreed with the suppliers who provide the helpline and in-branch engineers, and what should be done if an SSK fails during the Christmas period (including considering the option to provide branches with 'kit' to make simple repairs themselves). **CB**/ KG

Agenda Item 1.3
Performance - Financial
Purpose

To update GE on the Financial performance P8 (flash results) full results to be discussed at GE on the 16/11

Discussion

AC reported that the flash results showed a good performance for P8. Income ahead of budget and staff and spmr costs below. Non-staff remained adverse but GE would discuss on the 16th November with a session on forecast on the 23rd November

Outcomes

Agenda Item 1.4
Performance - Operations
Purpose

To update GE on the Operations performance.

Discussion

AC explained that this was the first Operation report produced and asked the GE to feedback what was useful and any omissions
- **Supply Chain** focus on safety wasmaking good progress with fewer accidents so far compared with last year. However there are issues with quality of service and complaints which are made worst by the high

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- level of absence. AC was asked to provide a breakdown of complaints showing those from spmr and external customers.
- The Quality of Service is made worse for external customers by issues with Sunday attendance and implementation of new routes. Project IRIS is being presented to the January Board and will be discussed at GE in January.
- **IT.** Incidents increasing. There is a need to report incidents from a customer impact perspective eg lost hours, or no of branches unable to trade, no of AEIs down, number of SSKs down. Commercial Committee are looking at the top 20 products and the effect of IT on these product sales, so that product teams look at the effect of IT on their customers.
- IT infrastructure is an ongoing problem for the Supply chain.
- **Support Services.** Call centre performance not acceptable with too many abandoned calls. A specific Camelot issue drove calls from spmr in period 7 and Pete M and Angela VDB are dealing with this product issue. AC proposed that a strategic review of the PO call centre provisions would be undertaken towards the end of the financial year
- NH proposed that he provide the report on the HR service centre to be included in the pack.

Outcomes

GE agreed the following actions:

- AC explained that this was the first Operation report and asked the GE to feedback what was useful and any omissions in the pack **ALL/AC**
- Breakdown Supply Chain complaints into spmr and external customers **AC**
- Report the IIT incidents from a customer impact perspective **CB**
- Include the report on the HR service centre performance in the pack **AC**
- A strategic review of the PO call centre provisions would be undertaken towards the end of the financial year. **AC/AVDB**

Agenda Item 2

Minutes and Action Log

Purpose

To agree the minutes and review the action log

Discussion

The Minutes of the GE meeting 14th October 2015 were agreed

The action log was discussed and the following input agreed

- Christmas planning SSK action overtaken by SSK action from 12/11 closed
- Succession planning put back to January (to be agreed by NH)
- Christmas makers action closed
- Governance action closed
- Prosecutions policy explanatory note on risk management to GE in December **JM** Dec
- Telco customers churn issue to be picked up by commercial committee closed
- Customer complaints circulate a note to GE to close the action
- Christmas investment closed
- Christmas lunchtime cover, not a union issue as PO already have agreement to keep time to a minimum and have casual support over the lunch period closed
- CEO meetings with Santander and Nationwide organised closed
- AL to pick up issue of organising Board session on political context for the Business January
- RMG mandate, date changed needed for January January
- Access criteria shared closed
- Weighting VOC metrics to be considered for next year's target closed

All were asked to updated actions before the meeting.

Outcomes

GE agreed the following actions:

- The Minutes of the Meeting
- Action log to be updated as agreed **AL**
- Actions to be updated before the meeting in time for papers to be distributed **ALL**

Agenda Item 3

Business Transformation

Purpose

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To review and take input into the draft Transformation update for the November Board

Discussion

DH explained the CQC approach to the paper setting out the plan and its 'pinch points'.
- In the context that the Board had seen the 2013 strategy and how the transformation contributes to the 3 year plan. The paper would explain the outcome of the planning activity and the consequences of the subsequent delay. The complexity of the IT would be made clear. The plan would be positioned as deliverable but still full of risk, including the cost risk
- NH suggested that the paper would be clearer if it was set in the context of the transformation narrative, to help storyboard the plan, even if this narrative was provided in the reading room to set out why the hard yards are worth it. In his opinion the paper needed to; set out the plan milestones; drill down into the areas of risk including impact on financials.
- JM challenged that the detail was very executive, and proposed that the paper should focus on what was trying to be achieved, why it had changed and what were the consequences for the 3 year plan, through delay and cost.
- GE discussed the scope and context of the transformation and whether it should include other big programme beyond IT and front and back office. AC believed that Business transformation included all the areas with a material impact on funding, IT and Network as these were the scarce resources. With the main spine being IT.
- The Board may challenge capability and capacity to deliver, so the paper needs to give them confidence that we believe we can deliver the new plan, give them reasons to believe it is now realistic.
- Need to clear about why the original plan has slipped, and who is at fault, how are we challenging over ambitious suppliers?
- AC proposed a narrative which explained; why we procured the way we did; what looks different now; what are the consequences; what we are doing to mitigate; what contingencies will cost in time and money and how this aligns with the 3 year plan
- The paper should to be set in the context of the big change programmes already delivered including NT, CT and HAWK.

Outcomes

GE agreed the following actions:
- DH would redraft the paper taking account of the above for discussion with a smaller group of GE Monday 16th November   **DH**

Agenda Item 4

Engagement mid-year Pulse Survey results

Purpose

To brief GE on the Pulse Survey results in advance of cascading to all employees

Discussion

AK summarised the headline pulse survey results.
- 60% of employees at PO are engaged which is a 2% decline from the 2015 full survey and a 1% increase since the pulse last year. The 76% response rate was very encouraging.
- The key areas of focus highlighted in the last survey had all seen an improvement, although 'decision are made without undue delay' was still only up to 25%
- Biggest area of concern was the Band 4 and 3A leaders with a significant decline of 10% in their engagement.
- This group of managers were less 'motivated to go the extra mile' Band 4 down 20% and Band 3A down 19%
- AK thought we were focussing on the right areas, employees who know their engagement champion are more engaged than those who don't, as are employees who believe we have taken action since the last survey.
- MG shared the Commercial team results with the GE and believed the effect of not providing basic equipment and space in the building was having an adverse effect. AK agreed to analyse the results to see if basic hygiene factors are effect peoples engagement
- The results would go live on the 13th November with a blog from Neil to SLT members to direct them to the portal for the results. Support would be given to managers with the offer of deep dive sessions and targeted briefings
- Additional work was needed to test with lead teams what areas of decision making were a problem, and why there was a perceived view that decisions were not made quickly

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Outcomes

GE agreed the following actions:
- Each GE member to spend time with AK to understand their teams results, collate the plans and come back to GE with next steps   **AK/All**
- GE members to ensure they have engagement champions in each part of their business.   **ALL**
- GE to ask lead team members for they views on why decision making was perceived to be slow **GE**
- GE members to review plans at monthly team meetings   **All**
- AK to analyse the results to; see if basic hygiene factors are affecting peoples engagement; understand the significant shift in Band 4 and 3A results; and identify the 5 things we should focus on as a business to fix quickly   **AK**

Agenda Item 5

Sales Strategy

Purpose

To update the Network on the Sales strategy, and work underway

Discussion

KG explained:
1. The Sales strategy would be presented at the GE in December, with an explanation on Network sales segmentation and the techniques being used to drive sales. KG would report on the trials underway and how performance ties back to the 3 year plan, identifying any gaps or opportunities.
2. Work was underway on FS growth, which was broadly flat and below plan. A team was looking at performance at a product level to understand why the Business growth strategy was not working
3. The FS Sales and Marketing forum and FS pricing forum had been put on hold and the work taken over by a more strategic meeting of KG, NK, PM with Gordan Gourlay (MD PO Businesses BoI) and Mike Joyce (BoI Head of Product). This would ensure a more strategic approach.

AC supported this change as it should mean that issues raised at the joint SEC (PO & BoI Board) would enable better debate, help clear the ground for the renegotiation, and ensure in future we take action before we are behind the plan.
AC stressed that it was important that the PO were seen to agree on the sales strategy and performance before starting discussion with the BoI.

PV asked AC to finish the FS product sales review and then look at lessons learned to understand how we could have avoided another crisis in the future.

In the run up to the BoI renegotiation it is important that any contact with BoI is coordinated. All to check with NK before any meeting

Outcomes

GE agreed the following actions:
- AC feedback the lessons learned during the FS product sales reviews to PV to understand what could have been done differently   **AC**
- All to check with NK before any meeting with BoI   **ALL**

Agenda Item 6

Banking Services Framework (BSF)

Purpose

To update the GE on the status of the banking services framework and seek input

Discussion

NK explained the BSF currently being negotiated with the banks to move from existing arrangements onto the BSF. NK explained the economics of the proposal and the inclusion of a collar and cap arrangement.
- MK explained the range of views and commercial concerns held by the banks and their perception that their costs were increasing by 50%.
- The negotiations were reaching the final crunch point and the Business needed to decide whether it would reduce the price or stick to its original offer and give notice to the banks if necessary
- IRRELEVANT had agreed to the new BSF and would pay the commission and fee when it was agreed.
- AC asked if PO could be an ex-cash Business, and NK said that he had been clear to the banks that we would withdraw the service. KG stressed that the thing that differentiated PO from its competitors was cash and mails and without these retailers might look for alternative to the PO
- The last Govt. were supportive of BSF as they saw it as supporting the PO, but this Govt. supported BSF because of customer financial inclusion, could we asked for more visible SoS support?

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- KG stressed that we should not underestimate our competitors ambitions, as we have seen them manage green giros in the past, although we might not think they have the infrastructure to deal with large sums, cheques and business banking.
- GE members had different views on whether to stick to the BSF offer and giving notice to the banks who would not sign
- There was a real concern that we should not jeopardise the work that we do for the banks and make them look for alternative providers
- The following suggestions were made:
1. Exploring political support; SoS intervention (SoS has a meeting with the Chairman which could be used to make the BSF point (PO subsidising Bank profits as they are allowed to close leaving the cost for the tax payer!)
2. lobbying Mark Russell (CEO BiS) delivery of SGEI products
3. lobbying rural MPs who's constituents are losing their banking services (possible PMQ)
4. Chairman to Chairman contact with the banks

Outcomes

GE agreed the following actions:
- NK to recalibrate the Board paper; to pull back from asking for a decision on withdrawal of banking services if BSF is not agree; to explain the steps being considered – political-PR- influencing and to options for negotiation, including threats from competitors if PO withdraws from the market

Agenda Item 7

Financial Services Strategy

Purpose

To update the GE on the status of the Financial Services Strategy and seek input

Discussion

NK explained that preliminary conversations are underway with the BoI looking for a model which might work better for both Businesses post 2023. There is currently duplication of activity making growth difficult. There are also structural and capability issues. There is a challenge that two Businesses' strategies are not aligned
- MG suggested that the paper should set out our aspirations and how the current relationship stymies these
- NK explained that there was alignment in the medium term but that there were day to day constraints
- The proposal moves PO to a direct relationship with the BoI P&L and a position where PO would benefit from BoI growth. To achieve this would mean a much longer relationship past 2023.
- NH suggested including the information on what has not gone well in the current relationship and the inability to respond to changes in the market
- MG suggested that the paper should include a refresh of the strategy for the next year including the effect on products.

Outcomes

GE agreed the following actions:
NK would update the Board paper taking account of the GE discussion

Agenda Item 8

AOB

Purpose

To cover issues raises as AOB

Outcomes

- **End User Computers EUC** AC explained the new computing equipment being provided and the timescales. GE asked NH to ensure that the communication going out to colleagues does not oversell the kit.   **NH**

- JM reported that the **Prudential Regulation Authority (PRA)** had requested a meeting with the COO, so AL and CB were due to meet them. It is thought that they do not fully understand the PO and BoI relationship, although the exact questions are not yet know.

- NK explained that a number of small **products**, such as home help schemes had been closed, but this had led to some issues especially in Scotland where there is a very traditional view of PO, NK to bring to Monday's GE

- NH to bring **IR** issues including Pensions and Christmas Eve to Monday's GE

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- All **Board papers** to be received by Company Secretary by close of play Wednesday 18th November. **All**

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Post Office Limited Group Executive

Status Report as at: 30/11/2015

Board	REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/ Closed
POL GE	16/04/2015 Capability Development Action 5	Have succession plans in place for GE, GE-1 and GE-2 levels by the end of the calendar year.	Neil Hayward / **Sarah Malone**	GE in February 2016	On agenda to be discuss at GE on 20th August – on going and needs to be reviewed again in February 2016	Open
POL GE	14/10/2015 Sales Performance Action 2	To check the customer profile of new telco customers to understand how best to manage churn.	**Peter Markey**	March 2016 GE Meeting	Telco customer profile to come to Commercial Committee. Report back to GE in March.	Open
POL GE	14/10/2015 Public consultation on our social purposes Action 3	To organise a session for the Board to give them the political context for the Business.	**Alwen Lyons**	January 2016 Board Meeting.	To be discussed with the Chairman	Open
POL GE	12/11/2015 Performance - Customer Action 1	Produce a branch by branch analysis of the correlation between 'effort' and P&L.	**Radha Davies**	GE on 11th January	This action is on the agenda for GE on 17/12	Open
POL GE	12/11/2015 Performance - Customer Action 3	Produce a paper for the GE explaining: What is the Travel Money customer proposition and promise and how does it tie back to Post Office values and the pricing policy? What are the current problems and the options available to overcome them? What is the proposal to mitigate the complaints	**Nick Kennett**/Radha Davies/Kevin Gilliland	GE on 11th January		Open

POL GE	12/11/2015 Performance - Sales Action 1	Provide a paper for December GE to give comfort that the customer data capture would ensure proper customer awareness and consent.	**Kevin Gilliland**	Initials update at GE on 17th December	A summary to be provided that describes the actions in place in preparation for the outcomes from the PIA. We have pre-empted the outcomes of the PIA and have actions prepared to take us in to Q4.	Open
POL GE	12/11/2015 Performance - Operations Action 2	Breakdown Supply Chain complaints into subpostmaster and external customers	**CFO**	GE on 11th January		Open
POL GE	12/11/2015 Performance - Operations Action 3	Report the IT incidents from a customer impact perspective	**Chris Broe**	GE on 11th January	Introductory report prepared for QBR covering the "basics" will be enhanced in the move customer – centre KPIs 6 next version.	Closed
POL GE	12/11/2015 Performance - Operations Action 5	A strategic review of the PO call centre provisions would be undertaken towards the end of the financial year.	**CFO**/Angela VDB	GE on 10th March		Open
POL GE	12/11/2015 Minutes and Action Log Action 1	Actions to be updated before the meeting in time for papers to be distributed	**Group Executive**			Open
POL GE	12/11/2015 Engagement mid-year Pulse survey results Action 1	Each GE member to spend time with AK to understand their teams results, collate the plans and come back to GE with next steps	**Amber Kelly**/Group Executive	GE on 17th December	**Action taken** – three areas that had seen the greatest decline in engagement (commercial, business transformation and corporate services) have all spent time with AK to understand results. Deep dive sessions for these three areas carried out, findings and recommended next steps shared with each GE member. Other GE members supported by Heads of HR.	Open

POL GE	12/11/2015 Engagement mid-year Pulse survey results Action 2	GE members to ensure they have engagement champions in each part of their business	**Group Executive**	GE on 17th December	BT have 4	Open
POL GE	12/11/2015 Engagement mid-year Pulse survey results Action 3	GE to ask lead team members for they views on why decision making was perceived to be slow	**Group Executive**	GE on 17th December	BT Deep Dive sessions scheduled for 10th and 14th December.	Open
POL GE	12/11/2015 Engagement mid-year Pulse survey results Action 5	AK to analyse the results to; see if basic hygiene factors are affecting peoples engagement; understand the significant shift in Band 4 and 3A results; and identify the 5 things we should focus on as a business to fix quickly	**Amber Kelly**	GE on 17th December	**Action taken** – AK conducted 1:1 phone calls and ran five deep dives sessions (36 people). Findings and recommendations have been completed and are being addressed as part of the engagement strategy. In addition to the key themes from the survey, a number of basic hygiene factors arose that are impacting senior managers, they are: 1. We do not have the technology in place to fully support agile working 2. No telephone directory, really difficult to find a colleagues phone number 3. 15 minutes to load laptop everyday 4. New starts are waiting for weeks before received work equipment – poor induction and	Open

					breaches information security as confidential documents are being held on personal devices 5. SLT/GE do not seem to support agile working culture (visibility remains important), trust issue. 6. Meeting rooms that are empty but unavailable as reserved for GE member/project team **Points 1 to 4** - sent to Chris Broe. **Points 5** – GE to communicate clearly what we mean by agile working to their lead teams to disseminate and encourage. **Point 6 –** Review block booked meeting rooms to see if there can be any removal or compromise on block booking	
POL GE	10/09/2015 Paddington Action 1	GE to revisit PO approach to travel hubs as a separate issue	**Kevin Gilliland**	End of December	This has been discussed as part of the Paddington negotiations and further conversations regarding this will be part of the next phase of discussions.	Open

Improving Engagement in Post Office – Our Strategy

Author: Amber Kelly   Sponsor: Tom Moran   Date: 10 December 2015

Executive Summary

Context

Compelling evidence demonstrates the business value of engagement. Analysis from our Crown Offices shows our income, customer experience and productivity measures are all better in branches where employees are highly engaged: sickness absence is 32% lower; customer satisfaction is 5% higher; and we deliver better income performance (total 280k a year difference in income vs target).

The challenge is to improve engagement levels right across Post Office - a great business to work with and for – as the pace of change within Post Office drives our transformation programme. We have seen a gradual increase in engagement levels over recent years but they are still lower than in comparable retail and FS businesses, and we have seen concerning signs of disengagement in our most recent survey. Engagement will only improve if the clear strategy and detailed implementation plans we now have are fully and publicly supported at all levels of the business.

Questions this paper addresses

1. What is engagement and why is it important?
2. How engaged are our employees and agents?
3. How are we going to engage our people better?

Conclusion

1. Engagement means having a strategic narrative for our people, backed well by managers and seen by everyone as having integrity. Engagement is important as it improves the 'top line' and the 'bottom line', improving business performance.
2. Our most recent engagement surveys show our employees and postmasters are not as engaged as we would like and less engaged than competitors' employees.
3. Our strategy is based on the four key themes which make up effective engagement. It will use our engagement surveys, action plans and champions to make engagement integral, drawing on what is already working well, and best practice from outside Post Office.
4. We have a clear strategy and detailed plan, ready for roll-out from January 2016. It is part of the People & Engagement Strategy which underpins our transformation. Managers, and particularly the GE, need to give it their backing.

Input Sought from GE

The GE to review, endorse and actively implement this strategy. This does not mean any additional funding – what we need is further commitment to tackle some of the key issues that are getting in the way of engaging our people.

1. What is engagement and why is it important?

Engagement at Post Office is the same as in any other workplace or organisation. Extensive research has proved four key themes essential to having colleagues[1] who are committed to the organisation, advocates for working at Post Office, and willing to apply discretionary effort in their work.[2]

1: Strategic narrative

Strong, visible, strategic narrative about the organisation, underpinned by empowering leadership, provides a strong story about where we have come from and where we are going. This gives a line of sight between the job and the organisation's vision.   The story is communicated clearly, consistently and constantly.

2: Engaging managers

Managers offer clarity, appreciate employees' effort and contribution, and treat their people as individuals. They organise work efficiently so employees feel valued, equipped and supported to do their job. As well as coaching and mentoring their people, engaging managers deal with dysfunctional behaviour fairly and firmly.

3: Voice of the people

A consistent voice for people throughout the organisation, allowing us to reinforce and challenge views between functions and externally. A business which sees employees and postmasters as a key asset – not a problem. Employees and postmasters feel they are able to voice their ideas and are listened to, both about how they do their job and how the business is run. Problems are shared and so is a commitment to arrive at joint solutions.

4: Integrity

The values on the wall are reflected in day-to-day behaviours. There is no 'say–do gap'. Employees feel the organisation lives its values, resulting in trust and a sense of integrity.

Our strategy focuses relentlessly on these four enablers of engagement. Section 3 sets out what steps we have already taken and will take to achieve them.

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[1] Post Office has c7000 employees and thousands of staff in the c11,500 Agency network. This Strategy is aimed at all these people. The phrases 'people', 'workforce' and 'colleagues' apply to both employees and postmasters, unless otherwise specified.
[2] 'Engaging for Success', David MacLeod & Nita Clarke for the UK Government, 2009.

The value of engagement

A growing body of evidence demonstrates the value of getting engagement right. We have conducted research on our Crown branches which confirms this for our business [3] Detailed analysis of the links between engagement scores in Crown branches and a variety of key performance measures (attendance, customer experience and sales) shows a clear positive correlation. For the first time, we can show a clear link between engagement and performance in the Post Office.

Figure 1: Crown Branch Engagement Analysis 2015 - Headlines[4]

Engagement reduces absence...

...improves customer satisfaction...

...and increases sales.

Absence

The lowest quarter of Crowns by Engagement (73) cost £120k p.a. more in sick pay than the (70) Crowns in the highest quarter. This is an average difference of c£1,685 per branch

Customer satisfaction

This is 5% higher in Crowns in the top third (those with engagement of 70%+) than it is in Crowns in the bottom third (those with engagement of 55% or less).

Income

The highest third of Crowns by engagement (70%>) earn £280k p.a. more (difference in **income** vs target) than the lowest third (<55%). This is an average difference of c£1,600 per branch.

2. How engaged are our employees and postmasters?

To know what success looks like, we need to understand the trend and history of engagement in the Post Office and how we compare with our competitors across similar retail and Financial Services (FS) businesses.

At present, Post Office employee engagement is stable, but lower than the benchmarked average for similar retailers and FS businesses – the so-called 'retail norm' and 'FS norm'.[5] The UK retail norm is 64% and the high-performing norm is 73% – Post Office engagement is at 60%. The UK FS norm is 66% and the high-performing norm is 73% - here Post Office engagement is 54%.

While our future is as a retailer with a strong FS offering. We also need to recognise our legacy as a public sector and largely public-funded organisation. The

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[3] Crown Branch Engagement Analysis 2015, Post Office December 2015. Conducted by Stillae Ltd using industry best-practice analytical tools to identify key trends. The Engagement Team has worked with the Crown team on this work and will be sharing it with Crowns and the wider business.
[4] See Appendix 1 for more detail.
[5] Hay Group Engagement Survey Benchmarking Data, 2015. For Retail, this covers 10 UK organisations including Tesco, Specsavers, Dixons. For FS, this covers 24 UK organisations including Barclays, HSBC, Aviva, Santander, Standard Life, Prudential.

Civil Service engagement score is 58%, having remained stable over the last five years.[6]

There are also significant variations between parts of the business.

Postmaster engagement is significantly lower than we would like (56% in the 2014/15 survey) but we have a more fundamental problem – not enough postmasters complete our survey for it to be reliable.[7] We are working closely with the Communications team, Agency support teams, NFSP and postmasters themselves to increase response rates.

Employees
The 2015 engagement survey showed 62% of employees at Post Office were engaged. The most recent mid-year 'Pulse' survey[8] showed a 2pp decline to 60%. Based on the sample size, this decline is seen as stable. Moreover, the last three years have seen engagement levels increase. However, this still leaves us below our comparators and the headline scores mask concerning signs of disengagement particularly within the senior manager population.[9]

Figure 2: Post Office Employee Engagement Results 2013-15
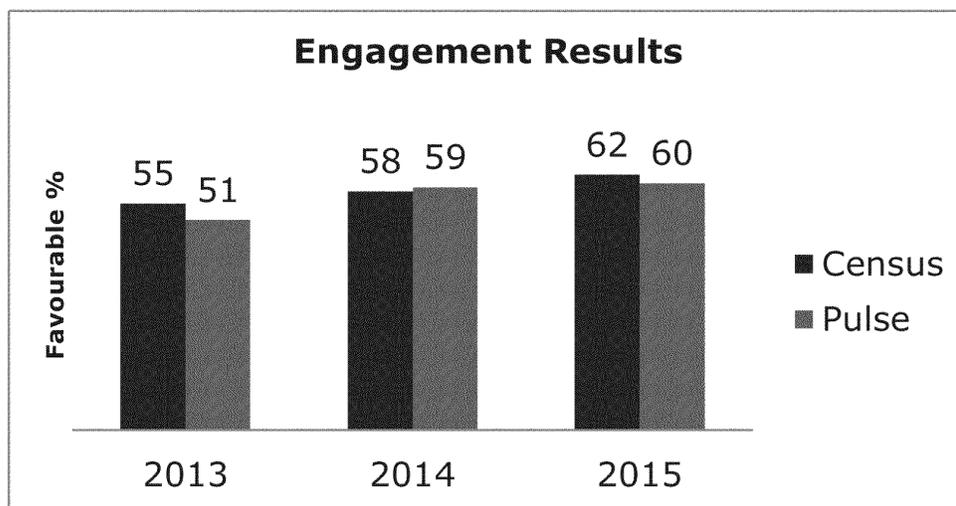
Engagement represents employees committed to the organisation, being advocates for working at Post Office and willing to apply discretionary effort in their work.

There were also significant differences between teams. Engagement levels in our Crown and Supply Chain networks are holding up well despite significant levels of change.[10] However engagement has declined quite significantly among some of our central support teams, including Commercial, Business Transformation and FS Sales.[11]

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[6] Institute for Government, Civil Service Engagement Index, IoG 2014.
[7] Only 26% of postmasters replied to the 2014/15 survey.
[8] All employees are surveyed in the full-year survey. c25% are surveyed in the Pulse survey.
[9] Engagement scores for senior managers (Band 4 and 3a) declined by 10pp to 52% and 57% respectively.
[10] Crown Network: Pulse 62% vs. Census 62%, Supply Chain: Pulse 57% vs. Census 54%.
[11] Commercial: Pulse 42% vs, Census 53%, Business Transformation: Pulse 38% vs. Census 48%, FS Sales: Pulse 60% vs. Census 70%.

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Postmasters

The 2015 postmaster opinion survey[12] reported 56% of postmasters as highly or moderately engaged. However this was based on a response rate of just 26%.

The low response rate compares unfavourably to other franchise businesses - Smith and Henderson, our survey supplier which specialises in these surveys for franchised businesses, reports an average response rate for 2015 of 77%. This is partly explained by some key differences:

- Their largest franchisor client has c400 franchisees, far fewer than Post Office; and
- All but one of these companies have email addresses for each franchisee to drive up response rates and wider engagement. We are addressing this as part of our Strategy.

Figure 3: Post Office Postmaster Engagement Results 2015
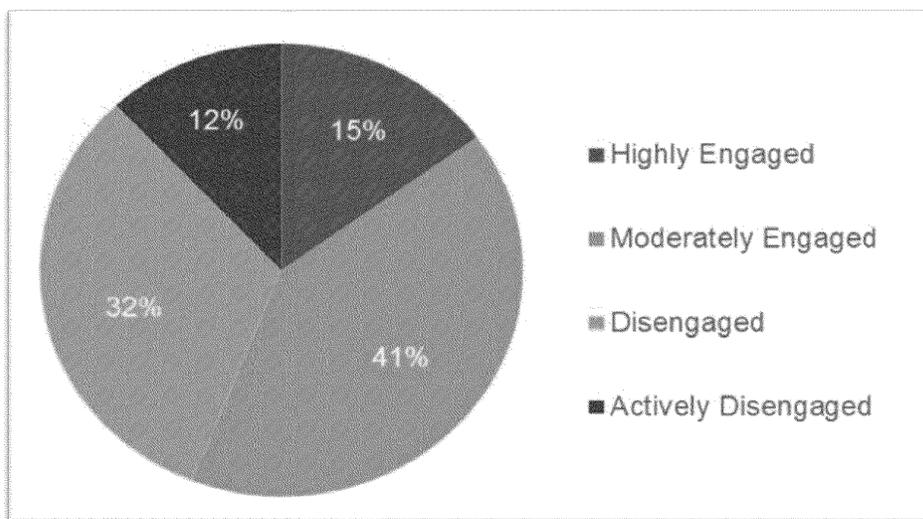
Based on Engagement Index: Highly Engaged mean answer > 4.0 (Agree); Moderately Engaged mean answer > 3.0 (Neutral), Disengaged mean answer > 2.0 (Disagree); and Actively Disengaged mean answer < 2.0 (Disagree)

3. What is our engagement plan?

This Engagement Strategy is shaped by the four key components of engagement we define at Section 1. The key areas of focus are summarised below and the detail of our approach below that. Delivering this and improving engagement is critical to taking our workforce with us as we transform the Post Office.

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[12] Conducted by Smith & Henderson.

Our first step has been to use the 2015 Pulse survey as a catalyst for focusing on engagement within each team. We – working closely with the Communications team - have carried out a series of 'deep dive' sessions in priority areas to identify the root causes of disengagement. This involved:
- 9 separate 'deep dive' sessions;
- Over 80 Band 4 and 3a colleagues;
- All business areas, with 3 sessions devoted to priority areas: Commercial, Corporate Services Transformation;
- Additional support on engagement from the Engagement Team and relevant Head of HR
- A series of CEO lunches with open discussions on where we are as a business. These will continue in to 2016 and demonstrate the commitment we have to listening to our colleagues. The Engagement Team will capture key themes and feed them back in to Action Plans.

This activity has resulted in bespoke Engagement Action Plans for the three priority areas and refresh of all other existing plans, which are owned personally by the relevant GE member.

The key themes that emerged have been embedded into this strategy, along with the action that needs to be taken. The actions set out below combine engagement-specific work with wider business activity which will affect engagement. This combination is crucial to the success of our Engagement Strategy and means we need the full support of the business.

1: Strategic narrative

Current situation: A key theme emerging from the deep dive sessions is that the strategy and direction for Post Office is unclear. People want to know what the future plans are and how they align themselves to that. We need to be clear on our story.

Actions to enable strategic narrative:
- Our Transformation Narrative has already been launched to the Senior Leadership Team (SLT). We will be launching it across the business in January through 'immersion sessions' with managers;
- We will work closely with the Communications team to support the launch of the Transformation Narrative by developing case studies of best practice relating to the Narrative and events for our Engagement Champions so they can be advocates for it in their teams; and
- Our new Communications channel, 'One', launched in November 2015. One will reach to the edges of Post Office and make sure all employees and postmasters are getting clear and consistent communication messages
- A new approach to engaging our senior leaders which addresses declining engagement and communication indices (strategy understanding drops from SLT [85%] to Band 4 [66%]) and sets the business up for the forthcoming communication of our Transformation Narrative.

    This proposal will be discussed by the GE separately to this strategy and would involve dissolving the SLT in its current format. In its place, would be the Leadership 300, an expanded group that would meet twice a year to communicate business priorities. In addition, there would be a smaller Group Leadership Team [GLT]; the c20-30 roles that would directly support GE define strategy, lead transformation and organisational culture.

2: Engaging managers

Current situation: Not all our colleagues have the skills and support needed to improve engagement confidently. We will shine a light on best practice across our business through the development of best practice case studies, highlighting what good looks like at Post Office.

Actions to enable engaging managers:
- Our new People Management Fundamentals training programme launches in January 2016. It will focus on developing managers across the business with key messages about engagement in the mandatory 'My impact as a leader' module, accredited by CMI;
- Engagement objectives will be included in an individual's PDR and PDP from 2016/17;
- We want to roll out the new 'Dynamic' performance and talent review process - successfully piloted in Commercial – to the whole business for 2016/17. This would address a key issue from the deep dive sessions – senior managers highlighted the current PDR process as poor;
- A service extension from Adviser Plus (My HR) goes live in January. This innovative model provides advice and guidance, coaching and case management for line managers. The result is enhanced commercial performance, line manager capability, and quality of HR advice; and
- We launch the Post Office Learning Academy in April 2016. The Academy will put learning in the hands of colleagues and postmasters, giving them the skills they need for the future. Learning will be available on-line, 24/7 and with specialist face-to-face learning where it is needed. Our best leaders are already showing the way, constantly challenging to improve their teams and themselves.

3: Voice of the people

Current situation: We have two suppliers in place to deliver the employee and postmaster surveys. Our service from Smith & Henderson (postmasters) is excellent, from Hay (employees) less so. We need to move away from a focus on the survey to what we do with the results, throughout the year. The survey is a check point, not an end point; the catalyst to start a conversation.

Actions to enable voice:
- We have revised the annual survey for employees and postmasters with input and sign-off from business leads;
- An online portal for survey results access, action planning and resources will go live in April;
- We are tendering for a provider for employee and postmaster engagement surveys. Our aim is better service and value for money. The new provider will be in place by July 2016;
- Communication plans in place (developed and approved by the Communications and Agency support teams) to promote both employee and postmaster surveys and raise response rates, particularly amongst postmasters. This year we will use postmasters' personal email addresses as well paper surveys for the first time. We will monitor survey response rates daily and share with relevant teams to drive up response rates and work with Regional Sales Development

Managers (RSDMs) and Area Sales Performance Managers (ASPMs) to ensure they are encouraging participation in the survey;
- We currently have around 100 volunteer Engagement Champions – but varying levels of knowledge and experience and no clear charter on way of working. We are re-launching the Champions network with an event in January 2016. At this event we will agree what the role is, agree our ways of working and set the tone for engagement going forward. This will be followed up with quarterly champion events to ensure champions are fully supported;
- The new One platform will offer a two-way channel to communicate with employees and postmasters. Using One, we will create online communities to listen, inform and share best practice; this will not replace face to face interaction. To enable voice our default position is collaboration with our people, through a continuous commitment to talking to our people directly and often.
- A quarterly engagement forum that includes key stakeholders from the agency network, unions, internal functions and postmasters will keep engagement on the agenda and ensure planned activities are joined up.

4: Integrity

Current situation: We aspire to be a business where the best people can thrive, in line with our common values – commit, challenge and care. Those that succeed will be recognised, rewarded and able to thrive, whether as employees or postmasters. The recent deep dive sessions, and our survey data, show decision making remains an obstacle.

Actions to enable integrity:
- An engagement masterclass will clearly define what engagement is, why it is important and how we can improve it. Rollout will being in January.
- Our new Target Operating Model (TOM) will determine how the business will be structured in the future. We are working with the Transformation team on the TOM, using the feedback from the deep dive sessions to inform the ongoing review of accountabilities and decision making so the new model(s) address the concerns we have heard.
- We will ensure unethical behaviour can be escalated without fear. We have heard reports of employees being pressured into completing the survey while a manager has stood over them, and of surveys being completed on behalf of employees – and of examples of managers trying to identify individuals who have completed the survey. This is unacceptable. We will promote the Speak Up line for both employee and postmaster surveys and throughout the year to report unethical conduct.
- Employee wellbeing is associated with high levels of employee engagement and performance. We already undertaken a broad range of wellbeing activities, notably: personal health checks; 'at work' referrals to occupational health; mental health awareness work; and our 'Lifestyle Online' wellbeing self-assessment tool. Our next phase will include a new 'Self Service Wellpoint', extending our wellbeing self-assessment to all agents and improved support to employees and agents who suffer trauma. The Head of Engagement will work closely with the wellbeing team to support a refreshed approach to wellbeing.

<u>Additional activity to engage postmasters</u>
Most, but not all, of the activity outlined above will apply equally to employees and postmasters. As some activity (eg. the new PDR process) will not apply to postmasters, we have identified some additional activity to drive engagement in this area, based on feedback from the postmaster engagement survey and other channels such as the Agency support team and the NFSP.

We already have a postmaster-specific Engagement Action Plan, owned by the Network & Sales Director and delivered by their team, with oversight and support from Engagement. This is on track at present but not yet as high-profile or ambitious as it could be – this Strategy and the new 'One' approach to Communications give us an opportunity to demonstrate the value of engagement to our postmasters.

There is a joint commitment from Post Office and the NFSP to support Postmasters better in their small business challenges, through advice, coaching, mentoring, business/financial education, tools, and to create services.

To deliver on this promise, we are funding additional support to Postmasters from Franchise Finance, a leading franchise/small business practitioner which we asked to carry out a more in-depth research project to further refine precisely what could best support Postmasters. We will review this regularly with the Agency team to identify the impact on engagement and the Agency Sales Strategy. The activity is proposed to be a 3-month pilot of a number of support initiatives as follows:
- Business Health Checks for 50 postmasters;
- Business Plans for 10 Prospective Sub Postmasters and for them to attend the FF 'Understanding Business Finance and Accounts' course;
- Arranging Finance;
- Understanding Business Finance and Accounts Courses for both Post Office & NFSP; and
- A Help Line for NFSP (3 month pilot).

This postmaster-specific activity will be delivered through close working with the Agency support team which is charged with delivering the Agency Sales Strategy which has to deliver £60m in incremental contribution from the agency network by March 2020. This includes:
- Our Financial Services Strategy which focusses on the CRM Program;
- Our Mails Strategy which focused on the 2 key areas of
   - Increasing our Mails ATV; and
   - Winning New Business outside the doors of our branches (New Business Development Model);
- Our Retention Strategy and how we will ensure we keep our customers doing business with us into the future.

In summary, the successful delivery of the Strategy is designed to create a culture of engagement in Post Office. The expected behaviours are explicit and bought into by all – 'the way we do things'. It becomes part of the Post Office DNA.

4: What do we each need to do now?

We have a clear strategy and detailed plan, ready for roll-out from January 2016. This builds on the work that is already ongoing. Appendices 2 and 3 provided a high-level timeline and a detailed, month-by-month, implementation schedule for reference.

All the planned activity in this paper is already funded from existing Engagement or other team (eg. Communications) budgets. What we need is therefore the full backing of all parts of the business to make the Strategy a success. The matrix below demonstrates this. The Engagement team is responsible for co-ordinating and over-seeing this Strategy but it can only delivered by the business as a whole.

<u>Figure 4: Responsibilities for delivering the Engagement Strategy</u>

	Group Executive	SLP	Band 4/3a	Line Managers	Eng. team	Eng. Champions	Team members	Postmasters /RSMs & ASPMs
'Buy-in' and promote Strategy								
Prompt action on Action Plans and Deep Dives								
Encourage responses to engagement surveys								
Own and re-enforce Transformation Narrative								
Complete surveys and contribute to Action Plans								

<u>Criteria for success</u>
Our ambition is to exceed the retail norm for people engagement within our 1000 day transformation journey. That means improving to at least 64% by 2018.

We have also set ourselves challenging targets across the activities we need to improve engagement overall. These are set out below.

In addition to these targets, we will build on the first ever detailed analysis of the links between engagement and performance and make it annual. This Post Office Engagement Value Index will measure the impact and value of high and low engagement. Over time, we can use this as a predictor of future performance.

Figure 5: Engagement Strategy Targets and Success Criteria

Now	2016	2017	2018
Employee Engagement - **62%**	Employee Engagement - **63%**	Employee Engagement - **64%**	Employee Engagement - **65%**
Line Manager Engagement Index - **69%**	Line Manager Engagement Index - **70%**	Line Manager Engagement Index - **72%**	Line Manager Engagement Index - **74%**
Employee Response Rate - **89%**	Employee Response Rate - **80%+**	Employee Response Rate - **80%+**	Employee Response Rate - **80+**
Postmaster Response Rate - **26%**	Postmaster Response Rate - **40%**	Postmaster Response Rate - **45%**	Postmaster Response Rate - **50%**
Action Plans	Action Plans - **100% in place and implemented**	Action Plans - **100% in place and implemented**	Action Plans - **100% in place and implemented**
Engagement Comms - **Limited to Survey Results**	Engagement Comms - **Quarterly 'You Said, We Did'**	Engagement Comms - **Quarterly 'You Said, We Did'**	Engagement Comms - **Quarterly 'You Said, We Did'**

Key Risks and Mitigation

1. *The business does not 'buy-in' to and promote the engagement strategy*. At GE level, the presentation of this strategy is designed to secure support by demonstrating the value of engagement. Across the business, we will use this compelling evidence from Crowns to get buy-in. And our network of Engagement Champions will keep colleagues interested - just as the Agency support team will with postmasters.

2. *The degree of wider business change disengages our employees.* This is our largest risk and not one we can mitigate by simply stopping our transformation activity. Given this, it is best mitigated through the successful landing of our transformational narrative and implementation of this engagement strategy.

3. *Feedback from 'Deep Dive' sessions is not acted on – or seen to be acted on – by senior managers.* This would be hugely damaging to engagement and we are pleased to have secured personal commitments from all relevant GE members as part of developing this Strategy. The Engagement team will support each GE member in delivering their Action Plans and making sure they are communicated to their teams so the differences are noticed.

4. *The response rate to the postmaster survey remains low, making it hard to get accurate feedback and act on it.* This is partly a practical problem and partly a 'buy-in' issue. On the practical side, to date we have not been able to offer Postmasters an on-line option for completing their survey and we will resolve this for 2015/16 and future years. On 'buy-in', we will use our Comms channels to demonstrate the benefit to Postmasters of completing the survey.

5. *Basic 'hygiene factors' such as the 'on-boarding' process for new employees are not good enough, disengaging people despite improvements elsewhere.* Basic hygiene factors (getting laptops, phones not set up etc) must be addressed to ensure we engage and retain new employees –and minimise the number of employees who are engaged in their jobs but do not feel enabled to do them properly. The Engagement Team is working with each relevant function identified as part of our engagement feedback (surveys, deep dives etc) to highlight these so they can be resolved. Examples include IT (for employees' equipment and IT helpdesk),the NBSC (for day-to-day postmaster support) and issues with desk space and meeting rooms at the customer support centre. For example, the implementation of the new desktops/laptops in Q4 of 2016 should address a number of the IT equipment issues raised in the deep dive sessions.

Post Office Engagement Team
December 2015

Appendix 1: Findings from the Crown Branch Engagement Analysis 2015

We commissioned Stillae, analytical experts specialising in engagement and business performance, to look at our Crown network and identify key trends and links. This is the first time we have conducted this type of research within the Post Office.

This work followed a rigorous scientific methodology. Approach which included over 90% of all Crowns. Some were excluded based on objective criteria relating to BAU considerations, not engagement results.

Figure 1: Engagement linked to absence
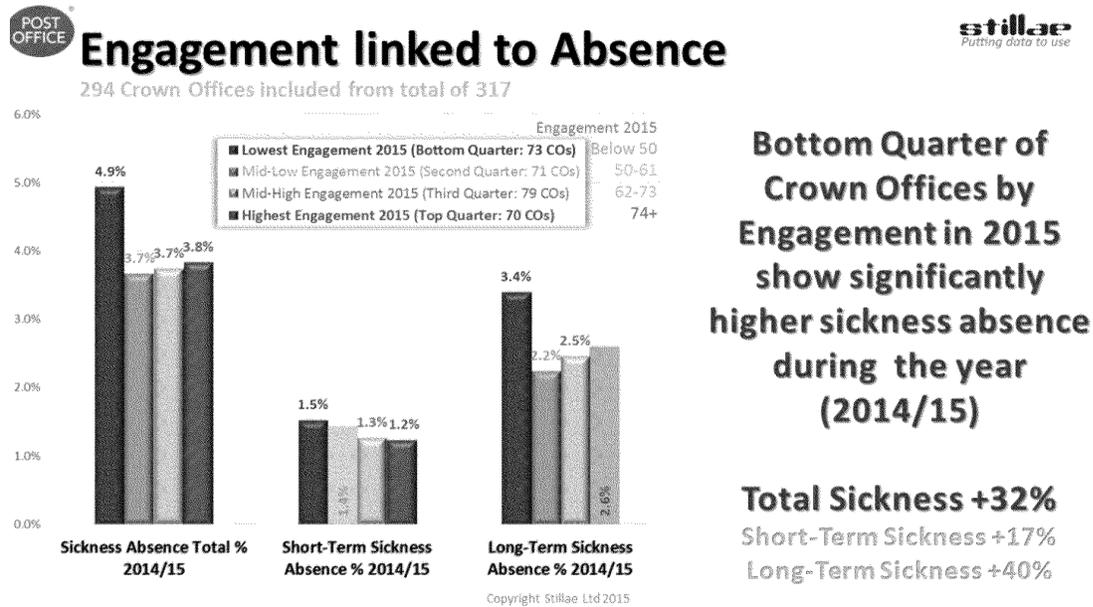
Figure 2: Engagement linked to income
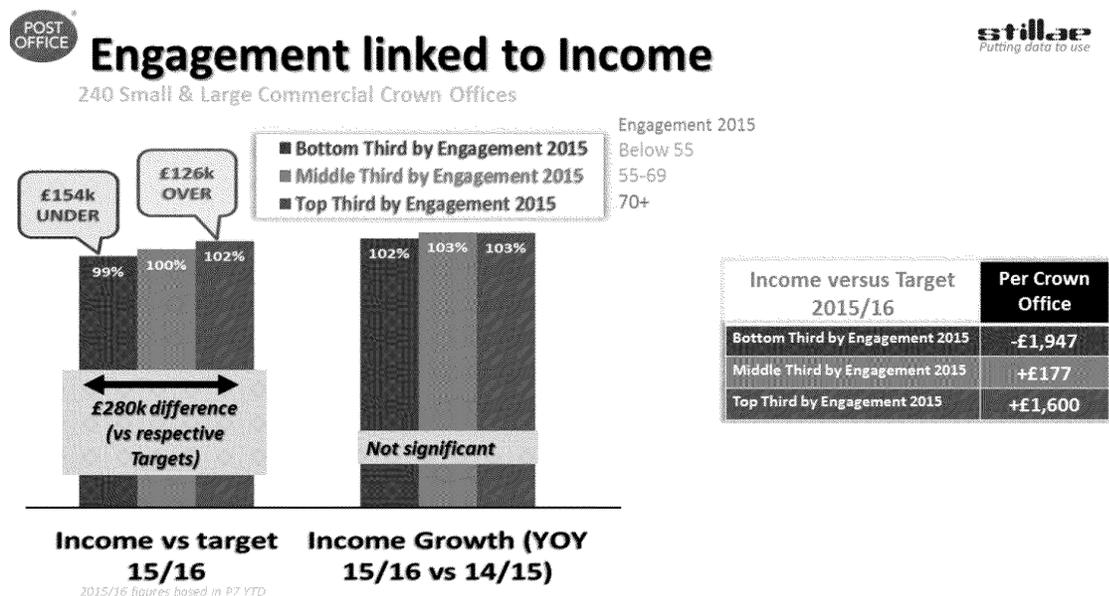
Figure 3: Engagement linked to customer advocacy

Engagement linked to Customer Advocacy
240 Small & Large Commercial Crown Offices

- Bottom Third by Engagement 2015
- Middle Third by Engagement 2015
- Top Third by Engagement 2015

Engagement 2015
Below 55
55-69
70+

80% 82% 84%

Cust Sat (14/15)

Customer Satisfaction is 5% higher in the Top Third (by Engagement), compared to the Bottom Third

Copyright Stillae Ltd 2015
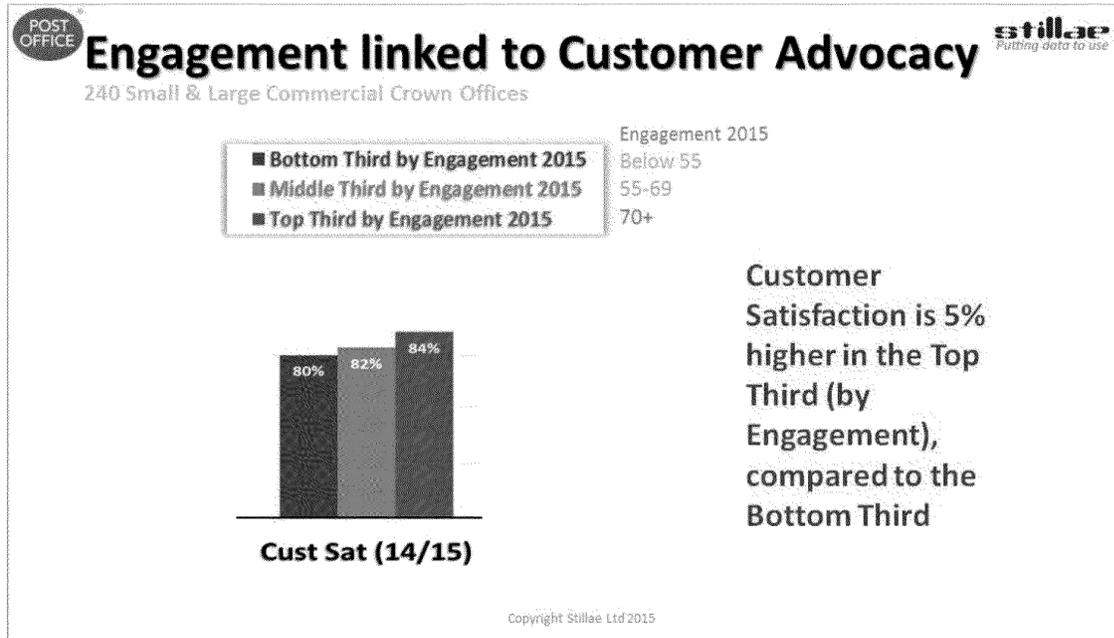
Appendix 2: High-level timeline for implementation

	Dec-15	Jan-15	Feb-15	Mar-15	Apr-15	2016/17 Ongoing activity
Strategic Narrative		First engagement case study published	Produce a leadership guide on Engagement / Produce a bank of Engagement Resources			Engagement objectives in PDRs
Engaging Managers		Engagement Champions launch event / Engagement collateral included in Management Development Programme / Roll out of engagement masterclass to SLT & managers	Pre-survey comms pack issued to managers	Quarterly Engagement Forum launch	Survey results portal live to managers with teams of 5+ / Engagement Champions event	Survey Action Plan reminders issued
Voice of the People	Deep dive sessions on Pulse results; Band 4, low scorers	Procurement of new Postmaster and Employee Engagement Survey supplier / Use 'One' to create engagement community / Paula & SLT engagement sessions	Ongoing communications for Postmaster and Employee Surveys / Launch revised Postmaster Survey / Launch revised Employee Survey		Engagement awards issued	Mid-year Pulse survey / New survey supplier in place
Integrity	Present deep dive recommendations to GE / Seek input and sign off from GE on Engagement Strategy	Launch Engagement Masterclasses / Promote speak up line in Survey communications	You Said, We Did' communication shared with Postmasters & employees		Share survey results with GE	

Appendix 3: Detailed month-by-month timeline for implementation

Month	Activity
December 2015	• Deep dive sessions on Pulse results with Band 4, Commercial, Corporate Services and Business Transformations. • Present key recommendations from deep dive session to Group executive. • Paula SLT sessions • Seek input and sign off from Group Executive on engagement strategy. Including first review of the business linkage analysis • First engagement case study published • Utilise One channel to create online communities for champions
January 2016	• Comms for both surveys through One • Circulate infographic for postmasters on action taken as a result of 2015 survey • Pre-Survey comms pack sent to managers and champions with key messaging about why the survey is important, best practice and FAQs. Include Speak Up details so unethical behaviour can be reported • Engagement champions launch event • Begin roll out of engagement masterclass to leaders and managers • Management development programme launched across the business. The 'my role as leader' module will contain engagement collateral, supplied by the Head of Engagement, to ensure consistent messages are being given to all managers. • Launch postmaster survey • Management development programme launches, to include consistent content on engagement • MY HR, with additional services, goes live
February 2016	• Launch employee survey • Produce a bank of engagement resources • Produce a leadership guide on engagement • Engagement forum launch
March 2016	• Share survey results for postmaster and employees with Group Executive • Survey comms pack for managers and champions
	•

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April 2016	• Survey results cascade
	• Online portal goes live
	• Engagement awards issued, with supporting communications to the wider business
	• Post Office Learning Academy launches
Q1 to Q4 (All action ongoing)	• Action plan reminders and monitoring
	• Champion events
	• Masterclasses
	• Case studies
	• Mid-year Pulse survey
	• New survey provider in place
	• New PDR process rolled out
	• New Apprentice scheme

Leadership Team Composition Decision Paper

Authors: [Aidan Alston and Mark Davies]   Sponsor: [Neil Hayward]   Date: [10/12/2015]

Executive Summary

Context

The senior leadership team (SLT) has grown in the last three years from an initial cohort of 49 (2012) to a current population of 73 (Dec 2015). The current format has lost some clarity on its purpose and is experiencing declining engagement (down 3%ppt to 67% in October Pulse). With the forthcoming launch of our Transformation Narrative, now is the time to revisit our approach to senior engagement.

Questions addressed in this report

1. What is the purpose of the SLT?
2. What roles should be in the SLT?
3. How do we engage with senior leaders outside of the SLT?
4. What is our recommended approach?

Conclusion

1. The SLT exists to provide business leadership. They are the most senior group that support GE to deliver the strategy, to lead transformation and to set the tone in the way we do things.

2. The roles included in SLT should be the most senior positions leading customer facing teams, revenue generating business units or support functions with business wide impact. There are a number of ways this can be defined; current format (73 roles), job size (60 SLP roles with 950 Hay Points), reporting lines (52 GE direct reports at Band 4 and above) or a more fluid identification of business critical roles (c.20-30 roles).

3. In addition to SLT, is the need for a broader senior forum to address declining senior engagement (⬇ 10%ppt at Level 4 and 3a to 52% and 57% respectively). In response, we propose to create the Leadership 300, a broader collective of senior roles that would meet twice a year (Annual and Interim results) as a senior communications forum.

4. We recommend dissolving the SLT in its current format. In its place, we recommend forming the Leadership 300, an expanded group that would meet twice a year to communicate business priorities. In addition, we recommend establishing a smaller Group Leadership Team [GLT]; the c.20-30 roles that will directly support GE define strategy, lead transformation and organisational culture.

Input Sought:
GE is asked to support the proposals put forward in this paper.

Input Received:
This paper has been formed through discussion with AC, DH, NK, TW, AL, MG, JM and PV

The Report

What is the need or opportunity and why now?

1.1: Over the last 3 years the senior leadership team has grown by almost 50% to its current population of 73; with on-going requests in place to add further members. As a result of this growth and an evolving senior structure (e.g. ExCo to GE) the collective has lost some of its clarity, purpose and ultimately effectiveness.

1.2: On the back of declining engagement and communication indices (strategy understanding drops from SLT [85%] to Band 4 [66%]) and the forthcoming communication of our Transformation Narrative; now is the time to reposition our approach to senior engagement.

1.3: External benchmarks (e.g. ITV, Dyson[1]) identify the purpose of an SLT is generally to communicate business priorities to the critical senior audience to enable them to implement locally. In addition, there is also often a smaller team that exists to provide strategic support to the Executive Team.

1.4: External benchmarking also indicates our SLT to be comparatively large as a leadership group and small as communications forum. In the current format it represents 1.1% of employee base (73 from 6634) which is significantly above leadership forum benchmarks such as Lloyds (Top 40 from 76,000 employees is 0.05%) and Serco (Top 60 from 125,000 employees is 0.05%); however it is comparatively smaller than senior communication forums at organisations such as ITV (200 from 4600 employees is 4.3%).

2. The proposal

2.1: We recommend dissolving the SLT in its current format and replacing it with the Leadership 300 (L300) and Group Leadership Team (GLT).

Group Executive (GE)

Purpose: (Executive Team) To run the business

Group Leadership Team (GLT)

Purpose: (Leadership Forum) To support GE define strategy, transformation and culture.

Leadership 300 (L300)

Purpose: (Communications Forum) To understand business priorities as part of leading implementation locally.
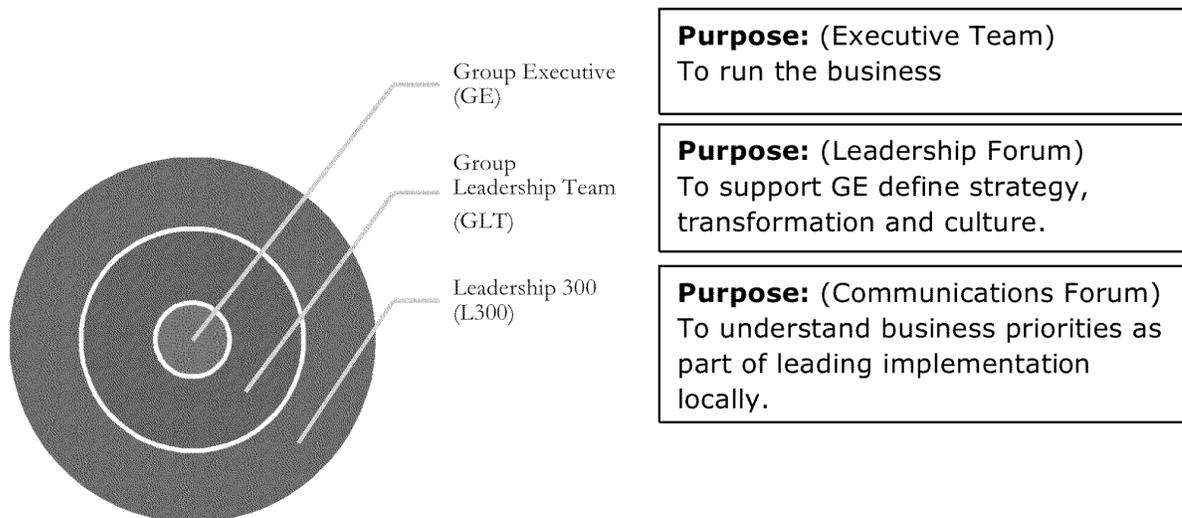
[1] *Benchmark data provided by T-Three Consultancy (http://www.t-three.com/clients/client-stories.php)*

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2.2: Feedback from GE members and external benchmarks both support the formation of a broader senior communications forum. We therefore propose to form The L300, a group made up of senior operational and support centre roles (appendix 1) that would meet twice a year (July and November) in alignment with Annual and Interim results. This would provide consistent business updates to the critical population in cascading them; as well as support declining Band 4 engagement.

2.3: By purposing the L300 clearly as a communications forum, a smaller group can exist to provide strategic support to GE. We propose to form the GLT, a group made up of the most senior business roles (appendix 2) that would meet every two months. This would provide a platform for strategic updates/debate (e.g. Mails or IT strategy) that critical business leaders need to know (but may not be appropriate to a wider audience) as well as responding to critical business issues (e.g. declining senior engagement) outside of GE.

	Purpose of group	Role of group members	Frequency	Membership
Group Leadership Team (GLT)	Business Leadership Group	To support GE to: o define and deliver strategy o lead transformation o set the tone in how we do things	Meets for a half-day every two months to provide strategic updates (e.g. Mails Strategy) or respond to critical business issues (e.g. declining senior engagement levels, slow decision making)	The most senior positions leading customer facing teams, revenue generating business units or support functions with business wide impact (c.20-30 roles)
Leadership 300 (L300)	Senior Communications Forum	To lead and communicate business priorities locally	Meets for a full-day twice a year in alignment to Annual and Interim results (July and November)	✓ SLP grades (60) ✓ Level 4 roles (211) ✓ Other large ops managers (c.20-30)

3. Risks and Mitigations

3.1: The primary risk associated with this proposal is the disengagement of excluded members in the transition from SLT to GLT (c.40-50 roles removed). This risk will be mitigated however by a) positioning of the L300 as an expansion of SLT and b) providing transparent criteria on GLT purpose and membership to enable GE to brief their direct reports.

3.2: The secondary risk associated with this proposal is the time and cost required to run a GLT and L300. This risk will be mitigated by establishing a Steering Group (Comms Director, Director of LRT, Head of Engagement, Transformation Director, Head of Strategy, Company Secretary) who will work together to ensure senior engagement supports business priorities.

4. Timetable

4.1: Based on GE support, we propose to communicate the formation of the GLT and L300 in January. As part of launching the L300 we would gather them together in January to launch the Transformation Narrative; and thereafter they would come together in alignment with Annual and Interim results. The first GLT event would be in February (appendix 3). Both audiences would be supported through the year by the broader communications channels (e.g. TeamTalk, In the Loop).

5. Conclusion

5. 1: The current SLT format is unclear and has declining engagement levels (3%ppt drop to 67% in October Pulse). Based on this, and the forthcoming launch of the Transformation Narrative, now is the time to reposition our approach to senior engagement.

5.2: External benchmarks identify a common approach of establishing a senior leadership group that gathers together at key points in the year to hear key business messages (e.g. ITV, Lloyds, TfL). This exists as a senior communication forum and is typically a population of 200-500 depending on organisation size. In addition to this, organisations also often have a smaller group that gather more frequently to provide strategic support to their Executive Team.

5.3: We propose to create the L300, a senior communications forum that would meet twice a year in alignment to the Annual and Interim results. The purpose of this is to directly communicate key business messages with the senior leaders who will cascade them locally.

5.4: In addition to this, we propose to form the GLT, a business leadership group that would meet every second month to provide strategic business updates and address critical business issues to support GE deliver the strategic plan. This would provide the talent pool for GE succession with direct exposure to business strategy formation; as well as the opportunity to push decision-making down from GE.

Appendix 1: L300 Composition

Purpose:
Communicate business priorities to leadership population key to local implementation.

Proposed Roles (c.300)

- Current SLP (60)
- Band 4 Managers (211): This includes:
    - Crown Area Managers (10)
    - Regional Network Manager (2)
    - NT Regional Network Manager (2)
    - Regional Sales Managers (2)
    - FS Regional Managers (3)
- Non-Band 4 Operational Leaders (e.g. Supply Chain Area Managers)
- POMS Management Team

A full list of roles and individuals to be included in the L300 will be sent to Directors and Heads of HR for confirmation.

Appendix 2: GLT Proposed Roles

| **Purpose:** | Support GE to deliver the strategy, to lead transformation and set the tone in the ways we do things |
| **Inclusion criteria:** | The most senior positions leading customer facing teams, revenue generating business units or support functions with business wide impact |

Proposed Roles (30)

	Role	**Incumbent**
1	Chief Financial Officer	Al Cameron
2	Finance Controller	Dave Carter
3	Chief Information Officer	Chris Broe (interim)
4	Supply Chain Director	Mark Ellis
5	Director of Support Services	Angela Van Den Bogerd
6	Strategy Director	Martin Edwards
7	Group People Director	Neil Hayward
8	Communications and Corporate Affairs Director	Mark Davies
9	Head of Agents Development and Remuneration	Nick Beal
10	Director of Learning, Talent and Resourcing	Jonathan Cormack (starts Jan 11)
11	Director, Employee Relations and Engagement	Tom Moran
12	General Counsel	Jane MacLeod
13	Head of Risk and Assurance	Mike Morley-Fletcher
14	Company Secretary	Alwen Lyons
15	Chief Commercial Officer	Martin George
16	Head of Mails	Mark Siviter
17	Head of Government	Chris Doutney
18	Chief Marketing Officer	Pete Markey
19	Head of Telephony	Geoff Smyth (interim)
20	Director Financial Services	Nick Kennett
21	Director Post Office Money	Henk Van Hulle
22	Network & Sales Director	Kevin Gilliland
23	General Manager Network Development and Transformation	Kevin Seller
24	General Manager Agency	Michael Larkin
25	Head of FS Sales	Jeremy Law
26	General Manager Crown Network	Roger Gale
27	Group Business Transformation Director	David Hussey
28	Head of Change Management	Alison Thompson
29	Chief of Staff	Tom Wechsler
30	Chief Executive	Paula Vennells

Appendix 3: Timetable

- Following GE endorsement (17 December) the new approach to senior engagement will be communicated. This will include a guidance note for GE on how to brief their direct reports about the shift from SLT to GLT, with clear definitions on purpose and membership. There will also be guidance and support provided on managing the disengagement risk of those not in GLT.

- The Leadership 300 will be launched in January as part of launching the Transformation Narrative; and will then meet twice a year to coincide with Annual and Interim results.

- The first GLT will be held in February, with membership and agenda confirmed to GE in January.
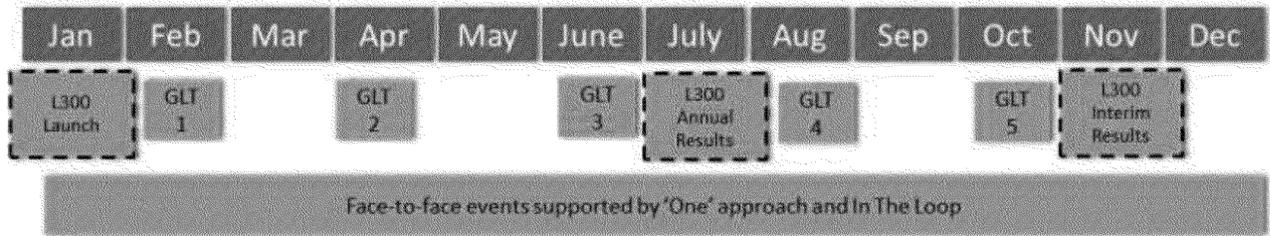
Update on the 16/17 Budget

Al Cameron, Dave Carter

17th December 2015

Purpose:
Review the 2016/17 plan submission and agree next steps

Context
In July 2015 we confirmed our 3 year plan. Our target is £(10)m EBITDAS in 16/17 and break-even in 17/18, with an aspiration to bring forward break-even to 16/17. Achieving our 3 year plan target is critical, both in terms of the credibility of the management team, and to protect our cash position.

The budget process takes us through to board sign-off in March 2016. At this stage, we have consolidated the first submissions for early review at GE.

Questions
1. How does the first submission compare to the 3 year plan and the 2015/16 full year forecast?
2. What are the key movements in Income and Costs versus last 2015/16 and the 3 year plan?
3. How realistic is our income forecast?
4. What is the size of the challenge to come back to plan?
5. What would we have to believe to close the gap and what are we going to do about it?
6. What are the next steps and how will we talk to the Board in January?

Conclusions
1. First submission has EBITDAS of £(88)m in 16/17, £(78)m below the 3YP target and £(54)m lower YoY.
2. Net Income £(14)m lower than 3YP, £(6)m lower YoY. Forecasts seem less optimistic.
3. Costs are £(65)m higher than the 3YP, and £(46)m higher YoY
4. We are recommending a cost reduction target of £110m to give contingency against break-even. The pack sets out what this would look like and the anticipated projects.

Input Sought
- Key Question: Do we agree to the collective challenge and the steps to March?

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The 3yr plan showed us achieving an EBITDAS profit in 2017/18. Our aspiration is to break even in 2016/17

Legend: Investment funding — Network Subsidy Payment (NSP) — EBITDAS
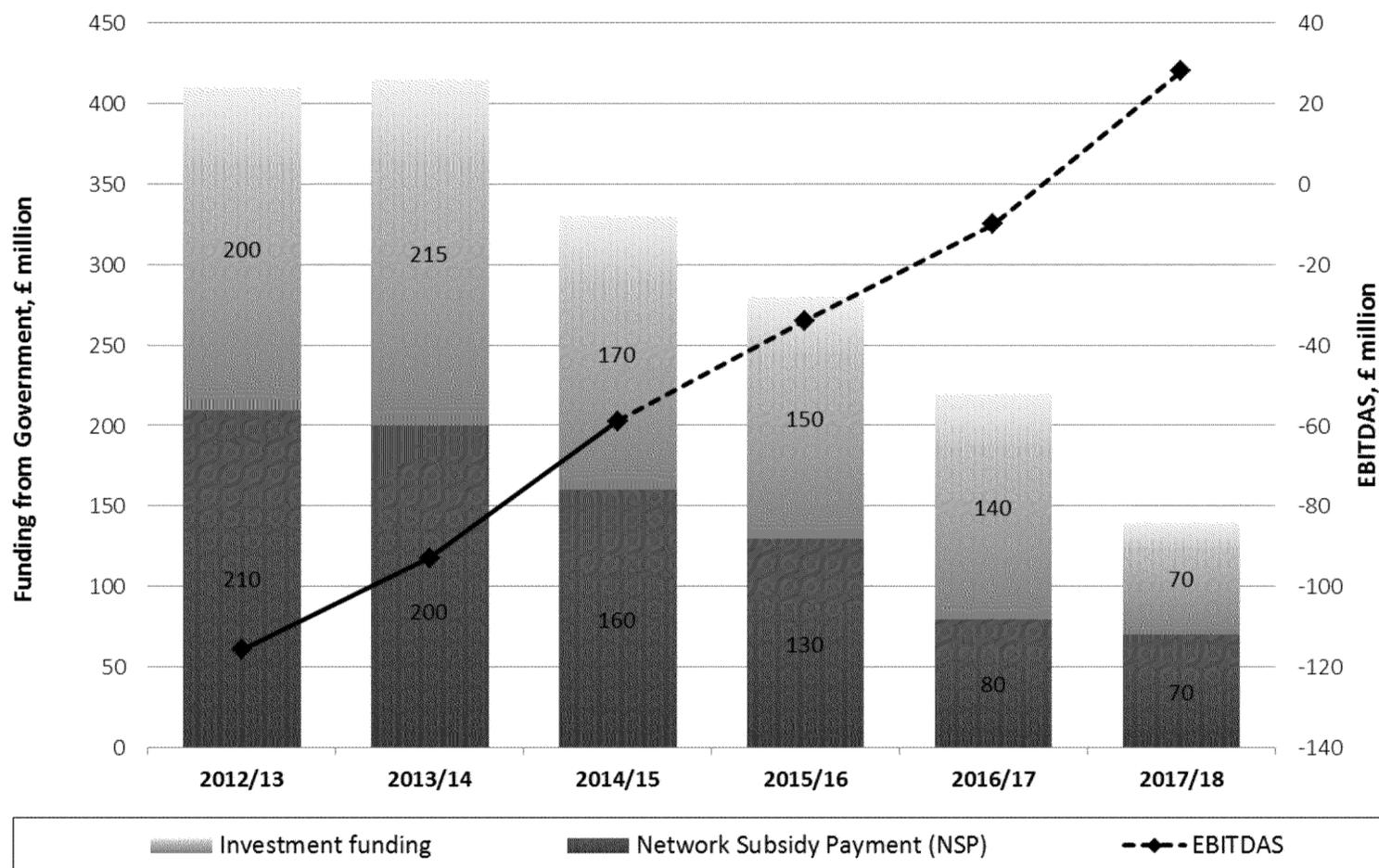
The 16/17 budget submission falls short of break-even by [IRRELEVANT].
This is [IRRELEVANT] below the 3YP and [IRRELEVANT] lower year on year.

	16/17 Submissions	15/16 Q2 Forecast	Var to 15/16	2016/17 3 yr plan	Var to 3yr Plan
Financial Services (inc Poms)					
Mails & Retail					
Gov Services					
Telecoms					
Supply Chain & Other					
Total Net Income					
Agents pay					
Staff Costs					
Non-Staff Costs					
Total Expenditure					
Dep'n					
ITG					
FRES					
EBITDAS					

IRRELEVANT

- Income forecasts look realistic (prudent?) - subject to product reviews in Q4

- Costs will need to be addressed before we finalise our budget

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Key movements to 15/16 – Income and Costs

Income £m

IRRELEVANT

15/16 Q2 forecast
Postmasters
Payrise
Pension reduction
Impact of NI
FY Impact POMS
Crown 15/16 flowthrough
Crown - Paddington
Crown 16/17 Savings
Supply Chain
Digital & Analytics
Corp Services
Bonus adj to 100%
IT Licenses
IT Towers operating costs
IT Dual Running costs
POMS operating costs
Marketing Bau uplift
Corporate services Bau Uplift
Property increase in ATM maintenance
Telco Bad Debt increase
HP&BB operting costs (volume driven)
Mobile running costs
FS BAU cost grow to support income
One offs in 15/16 (Fujitsu & FS)
Other
16/17 budget

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Financial Services growth impacted by the removal of the savings underpin and NS&I. Insurance is well below 3YP

	Vs 15/16 Forecast	Vs 3yr plan	
Mortgages			Mortgages are Flat YOY due to a rate cut in commission IRRELEVANT offset by a higher MS & productivity numbers. Versus 3yr plan income is down due to lower MS headcount, productivity and lower commission rates
Credit Cards			Versus 3yr plan sales volumes have been reduced following low branch sales in 15/16 and less optimism in banks willingness to consistently provide top tier products
Current Accounts			Variance to 3yr plan due to delay by BOI in national roll out of Current Account products
PO Money card & Personal Loans			Moneycard no longer on sale following agreement with IRRELEVANT and personal loans now a soft launch in 16/17 due to restrictions by IRRELEVANT
Savings			Adverse to 15/16 due to removal of NS&I (£5)m and savings underpin IRRELEVANT partially offset by higher than expected back book position IRRELEVANT Variance to 3yr plan due to he size and mix of the savings back book.
Investments	IRRELEVANT		IRRELEVANT
Insurance			Positive on 15/16 due to FY impact of Hawk. However behind 3yr plan due to delays in new product launch and momentum on Travel Insurance. The 3yr also plan excluded cost of sales from aggregators IRRELEVANT
Travel			Bureau Flat on 15/16 and to 3yr plan. MoneyGram continues to grow up on 15/16 IRRELEVANT and to 3yr plan by IRRELEVANT
Banking			Versus 15/16 & vs 3yr plan Banking framework drives IRRELEVANT of income growth
Payments			Versus 15/16 Bill payment decline IRRELEVANT (14%) due to rate reduction and ongoing market decline. Postal orders also declines by IRRELEVANT due to market trends. Versus the 3yr plan income is down due to delayed rollout of Digital Wallet IRRELEVANT and faster declines in Bill payments and postal orders IRRELEVANT
Stretch			Stretch position linked to improvements in digital experience yet to be embedded
Financial Services			

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Lower than expected decline in Mails and growth in Telecoms, Retail & Verify. Faster migration of Government services online

	Vs 15/16 Forecast	Vs 3yr plan	
Mails Variable			Reduction on 15/16 due RM product portfolio, no price increase and competitors stronger digital solutions. However decline is at a lower rate than the 3% assumed in the 3yr plan and we enter 16/17 with momentum IRRELEVANT favourable to 15/16 budget).
Mails Fixed Fee			IRRELEVANT Reduction in annual count
Lottery & retail			New lottery game IRRELEVANT; improved retail offering on packaging, collectibles and greeting cards
Government (ex Verify)	IRRELEVANT		Vs 15/16 decline is linked to migration of POCA and lower interest rate on card account balance IRRELEVANT combined with decline across DVLA, UKVI & passport services IRRELEVANT The 3yr plan assumed a higher migration of POCA customers improving the position by IRRELEVANT offset by: - Digital passports IRRELEVANT in 16/17 3YP - ID Assurance assumed faster access to Govt Depts than has been evident IRRELEVANT - Faster decline across DVLA IRRELEVANT
Verify			Increase on 15/16 Assumes 50% market share and 60% successful registrations Higher prices – increasing from IRRELEVANT for a new registration and IRRELEVANT for reregistration Reduction vs 3yr plan due to risk in Government departments' delivery of new services.
Telcoms			Vs 15/16 driven by price increases to HP&BB £5m and Mobile rollout £1m; offset by lower Etop up £(1m) . Vs 3yr plan higher HP&BB income of £3m resulting from increased prices being offset by lower mobile income (£5m)
Net Income			

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Other Income - Supply Chain expected to remain flat on 15/16, reduction in Gamma following conclusion of Hawk

	Vs 15/16 Forecast	Vs 3yr plan	
GAMMA			
Supply Chain			
Net Income			

IRRELEVANT

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Our view of our current year costs is being grouped into seven key areas of spend

2015/16 COST BASE - Q2 FULL YEAR FORECAST *(Work in progress for debate)*																	Service Centre			
Function £000)	Cost of Sales	Staff costs	Bonuses	Pension scheme payment	Other Non-Staff costs	Property	Marketing	Managed Services	P&E (excl Comms & Corporate Affairs)	Losses & MDA	Security	FSC	Contact Centre	HR Service Centre	Agency Contracts	Projects	Total
Commercial support																	
Telephony																	
Government services																	
Mails, retail and lottery																	
Digital and other																	
Financial services																	
POMS																	
Card processing																	
Marketing																	
1 Total commercial suppor																	
2 Crowns																	
3 IT																	
4 Supply chain																	
Central																	
Finance & procurement																	
Central HR																	
Chief executive office																	
Centrally managed																	
VAT																	
Corporate services																	
5 Total central																	
6 Network support																	
Transformation																	
Total																	
7 Postmaster costs																	
Gross income																	
FRES - share of operating profits																	
EBITDAS loss																	

IRRELEVANT

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Costs are forecasted to deteriorate in 2016/17 and against the 3YP

		Vs 15/16 Forecast	Vs 3yr plan	
Group Wide Costs				
1. Commercial Support Costs				
2. Crowns / 6. Network Support				
3. IT Costs				
4. Supply Chain Costs				
5. Central Costs				
Agents Pay				

IRRELEVANT

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To hit break-even with IRRELEVANT contingency, we would have to take costs out on this scale.

Cost Grouping	Cost Area	Possible impact £m	Contributing Programmes
1. Commercial Support Costs	Project Expenditure (doing less)		
	Cost of sales		Product Profitability
	Commercial Support Costs		Cost review
2. Crowns Cost	Crowns		Paddington / CNDP
3. IT Costs	IT (reduce run costs to 3yr plan levels)		Trinity, back office
4. Supply Chain Costs	Supply Chain		IRIS
5. Central Costs	Central and Back Office costs		Cost review, back office programme
6. Network Support Costs	Sales and Network Support (including FS/MS)	**IRRELEVANT**	Learning academy
7. Agents Pay	Agents Pay		Paddington, GCAN, Product Profitability
Group Wide Costs	Terms & conditions		Crescent
	Pensions		Pathfinder
	Property		Shape of Estate, Paddington
	Total Costs		
	Income		
	TOTAL		

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Some projects already exist, and we are looking to sign off the plan (1 of 2)

Question	Accountability & owner	Proposed Timing
1. Crowns a) More radical options beyond Paddington/CNDP? b) Retail strategy for the Crowns c) What is the right model for FS/MS	Kevin Gilliland/Roger Gale *(team supported by Berkley)* Pete Markey on retail	GE discussion February March Board (3YP)
2. Supply chain (Iris) a) Sale / Outsource / JV b) Productivity, automation, review of external contracts c) Demand management – more radical options	Al, Mark Ellis (supported by Martin Edwards, KPMG & Assay)	GE and Board discussion in January to agree next phase of work
3. Costs of employment (Pathfinder, Crescent)	Neil Hayward/Tom Moran	Consultation process underway in January; formal GE/Board decision in May (update March)
4. Costs of IT a) Run costs of IT b) Transformation: Trinity; Trinity implications; aiming off; back office (see below) c) Can we reduce the technology costs of the two AEI products?	Al, Chris Broe/Nick Sambridge *(external support required on cost drivers?)* AEI: Chris Doutney, working with IT team	Trinity: January GE & Board Costs and implications: February GE & March Board (3YP)
5. Back Office a) Efficiency b) Transformation and outsourcing	Angela Van-Den-Bogerd/Irvin Newbit for IT	Back office IT decisions required by 23 January
6. Site strategy (informed by 1, 2 and 5 above which drive shape of estate)	Kevin Seller + leads of 1, 2 & 5	February GE & March Board (3YP)
7. Commercial support a) Optimal structure, managed services, cost of sales b) Partner alignment – mails c) Partner alignment – BoI (shared cost base?) d) Marketing & investment projects – zero-based review of value	Al to Chair, Martin & Nick to co-ordinate overall process, working with relevant leads in Commercial & FS *(external support required)*	February GE & March Board (3YP)

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Some projects already exist, and we are looking to sign off the plan (2 of 2)

Question	Accountability & owner	Proposed Timing
8. Network strategy & agents' remuneration: a) What are the options for reducing fixed pay for non-converted branches? b) What is the strategy for the second half of NT? When do we stop the current programme and start the new one (see below)? c) Cheaper operating models for unconverted/loss-making branches	Kevin Gilliland, Kevin Seller, Martin Edwards *(supported by Berkley)* *Linking to 'Transforming Agents' Pay' project – see below*	February GE & March Board (3YP)
9. Sales strategy in branches a) Have we got the right model for the rest of the network?	Kevin Gilliland/Jeremy Law *Informed by FS strategy developments*	February GE & March Board (3YP)
10. Central costs – how do we reduce, is there a different model – radical realignment?	Dave Carter to co-ordinate process (external support required?)	February GE & March Board (3YP)
11. Should we be rewarding or charging customers to optimise payment methods?	Alan Smith, working with network and product teams	February GE & March Board (3YP)
12. Can we simplify the Mails product set, especially ParcelForce?	Mark Siviter/Debbie Smith	Part of February GE and March Board submissions
13. What new products? (Mobile, Current A/C, Digital Wallet, Investments, Insurances, Move Mate)	Martin Edwards to co-ordinate process from strategy perspective, working with David Hussey from transformation perspective & relevant product teams/FDs	February GE & March Board (3YP)
14. Are there products we should stop or be better remunerated for? (Credit Cards; Mortgages; Phonecards; Prepaid stationery; Custody of Pouches; Inland Express; Vehicle Licensing; Health Lottery)	Relevant FDs to lead review of products in their areas	February GE & March Board (3YP)
15. Government: how do we seize the opportunity of digital and spending reductions?	Martin George/Chris Doutney, supported by strategy team	February GE & March Board (3YP)
16. What is our identity strategy?	Martin George/Chris Doutney	February GE & March Board (3YP)

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On the 24th March we will present to the board our final budget & updated 3yr plan – next steps are:

Date	Budget	3yr plan
11th January GE	• GE 2nd review of budget • Update on cost position • Identify budget deep dives which will be completed during January & early February • Agreement of KPI's for 16/17 scorecard • Review of Marketing & Customer objectives for 16/17	• First draft 3YP - 2016/17 to 2018/19 • Identify strategy deep dives which will be completed during January & February to inform final 3YP – covering both income and cost opportunities • First view of 3-year investment/transformation budget, including key choices and cash implications
21st January Board	• Update on status of budget	• Update on outlook for the 3yrs (both cash & EBITDAS) and explain the programme of work to March Board
18th February GE (papers due 12th February)	Draft budget document • Updated 16/17 budget • Income by pillar and channel • Review of product profitability • Cost review by category (Bakewell) • Review of transformation costs and benefits	Draft of full 3YP document, including: • Updated financial projections • Outputs of strategy deep dives • Explanation of customer strategy – linking target customers, product propositions and channels plans (this will be WiP) • Explanation of how resources and activities are being prioritised to deliver strategic priorities (and what are we not doing as a result) • Identification of KPIs and milestones which underpin the financial projections, as the basis for future performance management • Identification of major risks to the 3YP and how these will be managed
• 10th March GE and 24th March Board	• Final review of budget prior to Board approval	• Final review of 3yr plan prior to Board approval

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Update on the 16/17 Budget Appendices

Al Cameron, Dave Carter

17th December 2015

Commercial Key movements to 15/16

	15/16 Q2 Forecast	16/17 Budget	Var YOY	% Var YOY
Mails				
Retail				
Govt	IRRELEVANT			
Telco				
Other				
Commercial				

IRRELEVANT

15/16 Q2 forecast	Mails - Back Billing COP & Change Requests	Mails - Fixed Fee	Mails volume reduction	Mails - Home Shopping Returns Market Increase	Mails - E-bay / RM Risk	Mails - Barcoding	Retail	Lottery	Telco - Price increase from 15/16 and 16/17	Telco - Cost of promotion	Telco - Customer volume and mix	Telco - Mobile	Telco - Etopups	Gov't - Volume reductions	Gov't - Verify (volume and price increase)	16/17 budget

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Mails market holds steady to deliver close to flat year on year trading income, while retail and lottery continue to grow

	2015/16 Q2 forecast	2016/17	2016/17 3yr plan
Stamps			
Labels			
Specials			
Home Shopping returns			
Other			
Total Variance Income			
Fixed Income		**IRRELEVANT**	
Total Mails			
Retail			
Lottery			
Total			

Assumptions vs 15/16	Vs 3 yr. plan
• Price increase – no increase for 16/17 • Annual count will reduce year on year. • Marketplace (e.g. eBay) assumes that growth is less than market due to poor SME offer (Drop & Go. Competitors such as My Hermes, Collect+, Parcles2Go and RM; continue to attract customers to its online channel. Returns continue to grow strongly. • RM will not fundamentally change its portfolio or pricing	Marketplace (e.g. eBay) volumes will grow but at a slower rate than assumed in the 3 year plan

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Government Services migration from established services partly offset by Verify

	2015/16 Q2 forecast	2016/17	2016/17 3yr plan
POCA Volumes			
POCA Income			
Verify volumes	**IRRELEVANT**		
Verify Income			
Passport Services			
UKVI			
DVLA			
Other (inc Rod & Game, local)			
Total			

Assumptions vs 15/16	Vs 3 yr. plan
Identity (Verify) : • Assumes 50% market share and 60% successful registrations • Higher prices – increasing from IRRELEVANT for a new registration and IRRELEVANT for re-registration **POCA** : • The migration of accounts started in P6 2015/16 this is assumed to continue at current migration rates. Interest rate income on card account balances is 12% lower at IRRELEVANT **UKVI:** • Main migrant volumes expected to decline by 25% • 27% increase in volumes driven by students – continuing 15/16 trend	• Slower migration of Poca Customers • Digital passports assumed to deliver income of IRRELEVANT in 16/17 • ID Assurance assumed faster access to Govt depts. than has been evident • Rod and Game contract not extended past March 2016

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Telecoms: Full year and ongoing price increases drive net income

	2015/16 Q2 forecast	2016/17	2016/17 3yr plan
HP&BB Base	468k	472k	502k
HP&BB Gross Income	£125.7	£137.7	£153.4
Cost of Sales	£(74.9)	£(82.1)	£(101.4)
HP&BB Net Income	£50.8	£55.6	£52.0
Etop Ups	£3.8	£3.3	£3.5
PO Phone cards	£0.4	£0.4	£0.0
Mobile (see next slide)	£0.1	£1.2	£6.5
Total	£55.0	£60.5	£62.0

Assumptions vs 15/16

- A segmented price increase scenario:
  - 15/16: £1 on line rental for Home phone & BB (£2 on line rental saver from February 2016); £1 Evening & Weekend tariff; £1.25 on Anytime tariff
  - 16/17: £1 on line rental for BB only; 50p on each of Evening & Weekend, and Anytime tariffs.

- ARPU increases from a H2 Q2F of £23.71 to an average of £24.36 in 16/17

- Broadband remains on promotion for full year

- PAYG Mobile is rolled out nationally from April 2016 (PAYM launch delayed until Nov 2017)

Vs 3 yr. plan

- Postponed Mobile rolled out in 15/16 causing delay to benefit profile vs 3yr plan and business case.

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Telecoms – Mobile P&L

	2015/16 Q2 forecast	2016/17	2016/17 3yr plan
Mobile base	6.8k	65k	
Gross Revenue	£0.3m	£6.5m	£9.8m
Cost of Sales	£(0.2)m	£(4.3)m	£(3.3)m
Net Income	£0.1m	£2.2m	£6.5m
Direct Costs	£(1.1)m	£(3.1)m	
Contribution	£(1.0)m	£(0.9)m	
Investment & other		£(1.1)m	
EBITDA	£(2.0)m	£(2.0)m	

Assumptions vs 15/16	Vs 3 yr. plan
• Investment relates to ongoing roll out costs • Marketing spend in branch only	• Roll out delayed by one year.

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FS - underlying growth of 6% YoY

	15/16 Q2 Forecast	16/17 Budget	Var YOY	% Var YOY
Mortgages & Transactions				
Savings				
Insurance		**IRRELEVANT**		
Travel				
Banking & Payments				
Stretch/Other				
FS				

IRRELEVANT

Q2 Forecast	Mortgage & Credit Cards	Gift Cards	Savings Underpin	Savings & Investments	NS&I	POMS Insurance	MoneyGram	Bill Payments	Postall Orders	Banking Framework	Other	16/17 budget

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Mortgages & Transactions – up yoy but short of 3YP

	2015/16 Q2 forecast	2016/17	2016/17 3yr plan
POL sales			
Mortgage Income			
Credit Card Sales	IRRELEVANT		
Credit card Income			
Current Accounts			
Loans			
Money Card			
Total			

Mortgages: Income

IRRELEVANT

2016/17 Plan *
2016/17 Plan * (Non Sales)
2014/15 Actual
2015/16 Act & Forecast
2015/16 Budget

Credit Cards: Income

IRRELEVANT

2016/17 Plan *
2016/17 Plan * (Non Sales)
2014/15 Actual
2015/16 Act & Forecast
2015/16 Budget

Assumptions vs 15/16	Vs 3 yr. plan
Mortgage rate cut of IRRELEVANT impact, compensated for by higher MS numbers and productivity	• Mortgages: 3YP assumed more Mortgage Specialists, higher sales per MS and higher income rates, IRRELEVANT • 3YP initiatives delayed include Current accounts, Loans, PO Moneycard, Total income shortfall IRRELEVANT

Savings – no underpin in 2016/17 has a significant impact on income

	2015/16 Q2 forecast	2016/17	2016/17 3yr plan
POL balances (y/end)			
Back book Income	IRRELEVANT		
Top up			
Investments			
NS&I			
Total			

Savings: Income

IRRELEVANT

- 2016/17 Plan *
- 2016/17 Plan * (Non Sales)
- 2014/15 Actual
- 2015/16 Act & Forecast
- 2015/16 Budget
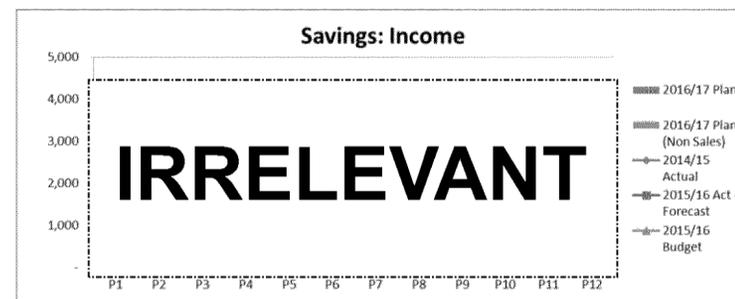
Assumptions vs 15/16	Vs 3 yr. plan
• No BoI savings underpin IRRELEVANT yoy • No NS&I income in 2016/17 IRRELEVANT	• The size and mix of the book as we exit 2015/16 drives a IRRELEVANT income shortfall.

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POMS Insurance (Group basis) – up yoy but not enough to achieve the 3YP target

	2015/16 Q2 forecast	2015/16 Run-rate	2016/17	2016/17 3yr plan
Travel insurance				
Car and Van				
Home		IRRELEVANT		
Life				
Other (including new products)				
Cost of sales				
Total				

The mid-year 2015/16 acquisition of the POI (Hawk) has a distorting effect on year-on-year comparisons. To remove that distortion, a restated 2015/16 comparator has been calculated on a run-rate basis to give a more like-for-like view.

Assumptions vs 15/16 Run rate

- Travel: Volumes are planned to grow by 13% YoY, is based on implementing a simplified Branch sales process,
- Home: Continuing strong growth with renewals volumes 34% YoY following strong new sales performance in 2015/16
- Car: New sales volumes are planned to be (7)% down YoY and renewals down (26)% YoY. This is a result of our response to the hardening Car market
- Life & Life (over 50s): Sales volumes are expected increase in Life but decrease in Life (over 50s). Taken together, net income is broadly flat YoY whilst we re-engineer the life business model.

Vs 3 yr. plan

- The key differences are that the 3YP assumed significant net income IRRELEVANT from new products versus IRRELEVANT in the 2016/17 Budget. Introducing products these is dependent on the Strategic Insurance platform and that is delayed by a year.
- Additionally, the 3YP did not anticipate the drop in travel insurance sales experienced in 2015/16, nor include any cost of sales from aggregators IRRELEVANT

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Travel – Ahead of 3YP due ongoing strong growth in MoneyGram

	2015/16 Q2 forecast	2016/17	2016/17 3yr plan
Distributed currency			
Bureau Income			
Travel Money Card	IRRELEVANT		
Money Gram			
Total			

Travel Money: Income

IRRELEVANT

- 2016/17 Plan *
- 2016/17 Plan * (Non Sales)
- 2014/15 Actual
- 2015/16 Act & Forecast
- 2015/16 Budget

P1 P2 P3 P4 P5 P6 P7 P8 P9 P10 P11 P12

MoneyGram: Income

IRRELEVANT

- 2016/17 Plan *
- 2016/17 Plan * (Non Sales)
- 2014/15 Actual
- 2015/16 Act & Forecast
- 2015/16 Budget

P1 P2 P3 P4 P5 P6 P7 P8 P9 P10 P11 P12
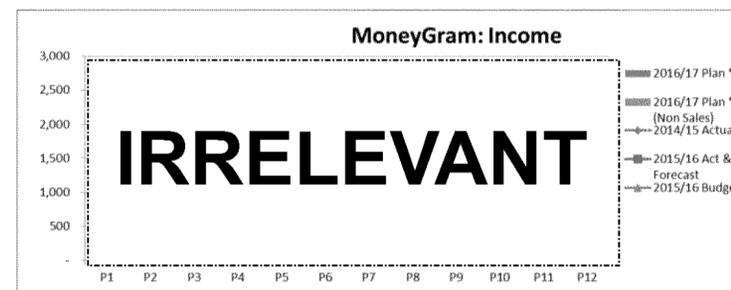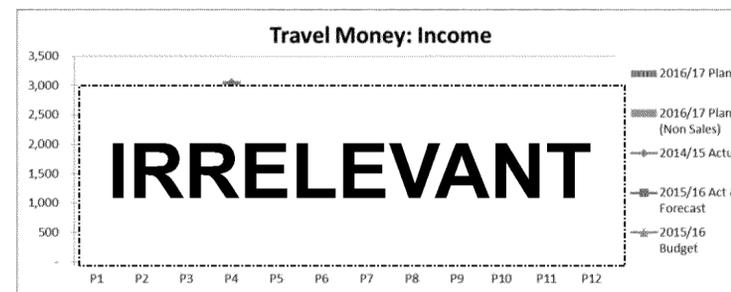
Assumptions vs 15/16	Vs 3 yr. plan
• MoneyGram up IRRELEVANT (10%) continued strong trading in "send" transactions to eastern Europe	• The increase in MoneyGram income was not anticipated in the 3YP, driving a IRRELEVANT upside.

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Payments & Banking – ahead of 3YP due to new Banking Framework

	2015/16 Q2 forecast	2016/17	2016/17 3yr plan
Bill payments			
Postal Orders			
PO Uncashed			
Digital wallet	**IRRELEVANT**		
Other Payment Services			
ATM			
Banking services			
Framework fee			
Total			

Bill Payment - Direct: Income

IRRELEVANT

Bill Payments - Reseller: Income

IRRELEVANT

ATMs: Income (£k)

IRRELEVANT

Assumptions vs 15/16

- Bill payments down IRRELEVANT (-14%) due to rate reductions and on-going market decline.
- Postal orders down IRRELEVANT (-10%) continuing the declining trend.
- New banking framework IRRELEVANT YoY
- Reduction in Personal and Business banking is due to a faster than anticipated decline in Santander business banking and IRRELEVANT of one-off income in 2016/17.

Vs 3 yr. plan

- 3YP initiatives delayed /cancelled include Digital wallet. Income shortfall IRRELEVANT
- Faster declines in Bill Payments (volume and rate) and Postal Orders drive a IRRELEVANT shortfall.
- The key element in the positive variance to the 3YP is the income from the new Banking Framework IRRELEVANT which the 3YP did not include.

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Staff Costs increase by £4m on 15/16

IRRELEVANT

| Q2 Forecast | Payrise | Pension reduction | Impact of NI | FY Impact POMS | Crown 15/16 flowthrough | Crown - Paddington | Crown 16/17 Savings | Supply Chain | Digital & Analytics | Corp Services | Bonus adj to 100% | 16/17 budget |

		15/16 Q2 Forecast	Rebased 15/16 After transfers	budget 16/17	Var to Rebased 15/16

IRRELEVANT

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Non Staff Costs increase by [IRRELEVANT] on 15/16 – driven primarily by IT [IRRELEVANT] , POMS [IRRELEVANT] Increase in BAU [IRRELEVANT]

IRRELEVANT

| Q2 Forecast | IT Licenses | IT Towers operating costs | IT Dual Running costs | POMS operating costs | Marketing Bau uplift | Corporate services Bau Uplift | Property increase in ATM maintenance | Telco Bad Debt increase | HP&BB operting costs (volume driven) | Mobile running costs | FS BAU cost grow to support income | One offs in 15/16 (Fujitsu & FS) | Other | 16/17 budget |

	15/16 Q2 Forecast	Rebased 15/16 After transfers	budget 16/17	Var to Rebased 15/16
Central				
Commercial				
Finance				
Property				
Corp Services				
FS (inc Poms)				
IT & OPS				
Crown				
Network				
P&E				
Supply Chain transformation				
Total				

IRRELEVANT

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Network Sales Strategy

Author: Jeremy Law   Sponsor: Kevin Gilliland   Date: 12/15

Executive Summary

Context

Sales through the Network channel operate within the context of current commercial strategies (mails, FS etc.) and current marketing and customer strategies. Network must drive the most effective sales strategy for its channel within this context. We intend to adjust the network sales strategy as the commercial, customer and FS/MS strategies are developed. This paper is supported by supplementary slides which are provided for reference only, with key slides highlighted in the paper.

Question(s) this paper addresses

1. What is the network sales strategy and what are we doing to deliver it?
2. What are our dependencies on others?
3. What are the next steps?

Conclusion

1. Our Network Sales strategy is a balanced composite of three parts: improve the performance of the agency network to drive up the penetration of sold-products; improve the performance of our existing specialist sales teams to increase the number of products sold per week; increase the reach of our specialist sales teams to more of the Network making them accessible to a wider customer base.
2. We expect to deliver approximately £20.9m incremental income against a gap of approximately £21.3m[1] in FY17/18 through delivering the following initiatives:

Improve the performance of the agency network	Improve the performance of our existing specialist sales team	Increase the reach of our specialist sales teams to more of the Network

• Guiding coalition (£8m)
• Customer data capture (£0.7m)
• Business development managers (£2.3m)
	• FS productivity improvement (£4.2m)	• Hub & spoke
		  • CRMs (£0.6m)
		  • Mobile MS (0.3m) or MS Digital face to face (3.8m)
		• MS productivity improvement (£1.0m)

3. To deliver the Network Sales strategy we will require collaboration from teams across the business, including: other channels, marketing, product pillars, technology, finance, clients and information security.
4. We will iterate this strategy as inputs to it are updated. In the immediate term, this will include: the Customer Strategy, the review of economics of the FS/MS sales team and the update to the FS strategy.

Input Sought

We would welcome the GE's input regarding this strategy, specifically: Do you agree with the balance of our strategic sales focus? Will you support us in delivery?

---

[1] See section 1 of "The Strategy" for an explanation of how we reached £21.3m

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The Strategy

1. This strategy is positioned against the sales targets set out in the 3 year plan. These sales targets have been derived top-down, for each product but without a specified channel split. For the purpose of this paper we have (for the first time) attempted to split the channel income and build a bottom-up plan extrapolating some of the key pilots and initiatives. To understand the Network components of the FY17/18 income we have assumed a smooth transition from the actual channel splits in recent years to the FY19/20 projections (where available) in the commercial strategies.

2. What is the environment in which this sales strategy is framed?

2.1. **Market:** The income from our Network has been declining in recent years as a result of a number of factors: A Mails market facing a shift in dynamics; Government services customers shifting online and away from POL; Payments customers moving to other channels through direct debit and other payment methods; A number of PFS products moving to other channels. Furthermore, footfall in the high-street is in decline putting pressure on our sales teams to get more from the footfall we do have.

2.2. **Branch**: Through our transformation activities, our Network is being transformed into a retail environment that is more conducive to sales with a better retail environment and longer opening hours. Sub-postmasters are also better incentivised to drive sales through variable pay. These factors are all having a positive impact on the sales of both convenience and sold products with: Mains income is up 7% when compared with a control group that is 1% down; Locals income is 1% down when compared with a control group that is 6% down.

2.3. **Commercial:** Our commercial strategies illustrate our Network sales challenge: slowing the decline of our traditional markets and growing our capabilities to sell more sold-products in the appropriate segments of the network. Meeting this challenge will enable the network to deliver its components of the commercial plans.

Network income

	2014/15	2017/18 (est)
Network - sold-products	148	169
Network - core products	459	408

1. Grow our capabilities to sell sold-products

2. Slow the decline of our traditional makrkets
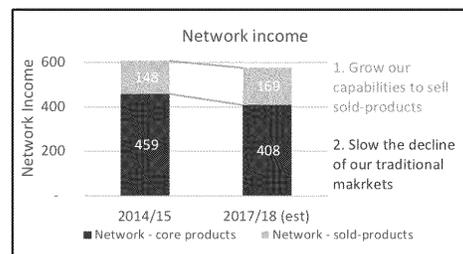
3. What is the network sales strategy?

3.1. Our sales approach is tailored to our broad and diverse product range which have different sales requirements:
   - Some sold-products are about convenience (e.g. Mails, Travel money);
   - Some sold-products require a higher level of sales conversation effort and/or a compelling customer value proposition and/or higher brand awareness (e.g. Insurance, other PFS).

3.2. We have a clear sales strategy based on 3 components to represent the multi-dimensional aspects of our Network:
   - Improving the performance of the agency network to drive up the penetration of sold-products by helping Agents to build their own businesses with both

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      regular customers and local SMEs (with strategies and techniques appropriately deployed dependent on the branch model and size);

- Improving the performance of our existing specialist sales teams;
- Increasing the reach of our specialist sales teams to more of the Network (e.g. MS, FS, CRM).

3.3. To ensure we continue to focus on our medium and long term targets, we will maintain a balance in effort between capability expansion and performance improvement. We will remain nimble and adaptive to the commercial strategy while focussing our efforts at the most commercially viable opportunities.

4. What are we doing to deliver the strategy?

4.1. Improving the performance of the agency network to drive up the penetration of sold-products by helping Agents to build their own businesses with both regular customers and local SMEs:

Initiative	Description	KPIs (by end of FY17/18)	Benefit (p.a. at end FY17/18)	What would you have to believe?	Cost estimates
Guiding coalition	**Coaching** from the top SPMs for their peers. Complimented by the **Branch standards team** ensuring agents are having the right sales conversations to provide customers with the right service, which in turn drives **sales of high-value mails products.**	0 branches at the beginning of FY15/16 to 5k branches	£7,190k to £8,400k (ref slide 27)	• The level of benefit being realised by the existing GC branches can be sustained (running at £6.9m pa). • The remaining 1000 branches in phase 2 will provide the same level of benefit as the first 1000.	£300k - £500k pa depending on the number of mystery shops required per branch to maintain performance.
Customer data capture	Increasing the volume and quality of **in-branch data capture** to ensure we contact the right customer for the right reason.	From 160k to 460k leads pa	£550k - £870k (ref slide 28)	• Capture an additional 300k leads per year. • Improve conversion rate from 0.56% to 0.68% through email validation of renewal dates after data capture.	£75k pa (25p per lead).
Business development managers	Actively supporting the SPM community to generate **more, local SME business**, through BDM coaches in targeted, high potential branches.	From 200 to 600 branches	£1,690k to £2,810k (ref slide 29)	• We will build 200 new branches per year. • We will be able to achieve the same level of benefit as we did in the BDM trial (£1.5m pa).	£370k (providing one BDM per region).

4.2. Improving the performance of our existing specialist sales teams:

Initiative	Description	KPIs (by end of FY17/18)	Benefit (p.a. at end FY17/18)	What would you have to believe?	Cost estimates
FS productivity improvement	Equipping our FSs with the required tools and support through: • Improving **performance management;** • **POM academy** educating the wider business in PFS; • **Enabling POM branches** (customer data in branch); • Increasing **lead generation** to build the sales pipeline; • Improving **POM brand** awareness.	From: 4.5 end FY14/15 7-9 end FY15/16 9-10 end FY16/17 11+ end FY17/18 & From c200 FS to c300	£2,200k to £8,240k (ref slide 30)	• Increase in the number of FS from c200 now to the template of 238 by the end of FY16/17, then c300 by end FY17/18.	TBC and subject to business case finalisation and submission. Costs next year are estimated at £1m-£1.5m. Ongoing pa costs in FY17/18 are not yet confirmed.

4.3. Increasing the reach of our specialist sales team to more of the network:

Initiative	Description	KPIs (by end of FY17/18)	Benefit (p.a. at end FY17/18)	What would you have to believe?	Cost estimates
Hub & Spoke	Developing "Spoke" branches with **Customer relationship managers** in branch to: • **Capture leads** and book referral appointments for the MS community; • Provide customers with a route to **self-serve online through a tablet in-branch**; • Provide sub-postmasters with information that helps them see the benefits of sales and leads.	From c340 CRMs to c900 (approx. 40% POM supported)	£300k to £1,350k (ref slide 34) **Note: the baseline performance will be revaluated prior to business case submission which may drive the benefit up**	• POM supported CRMs are able to achieve an average of 4.25 sales per week. • ASPM supported CRMs are able to achieve 2.5 sales per week.	Tablets will require an initial investment of approximately £1m up front and an annual maintenance of £250k pa. Additional ASPM support and VMS £600k pa.
	Developing "Spoke" branches within MS areas for a **mobile MS workforce** and convert the leads captured by the CRMs.	c1000 mortgage leads pw	£270k to £970k (ref slide 35)	• CRMs will refer 1.2 mortgage leads per week • Our lead to completion conversion rate remains at 7%.	Costs to be confirmed once branches identified.
Mortgage specialist reach expansion	Deliver a **Digital face-to-face technology** solution for a centralised team of MSs to serve customers. This is designed to both drive up income and improve efficiency of our MS workforce, reducing costs.	Mortgage sales from c0.3 pw to c0.53	£2,280k to £5,330k (ref slide 36)	• Centralising the team will reduce the total number of MS required • Enough leads are supplied to meet the demand.	Awaiting business case confirmation. Current estimates are £905k for POC and £12m over 5 years for roll-out.
MS productivity improvement	Improving mortgage product journeys, which will be delivered through a re-built BoI mortgage platform and an improved web lead journey.	Mortgage sales up by 0.2 sales ppw	£560k to £1,460k (ref slide 37)	• Enough leads are supplied to meet the demand.	Costs to be confirmed.

4.4. The mid-range scenario level of benefit is illustrated in the diagram below:
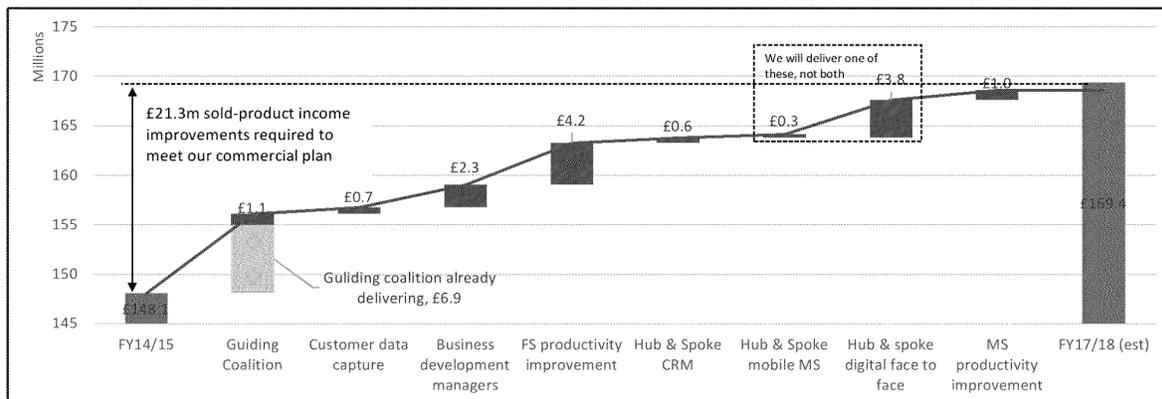
5. What are the key risks to delivering the strategy?

Risk	Impact	Mitigation
A number of the initiatives are currently in business case or pilot stage and the benefits may not be delivered when scaled up.	Benefits are lower than modelled. A low-range scenario has been modelled which results in £6.6m lower benefit in FY17/18.	Our approach is one of flexibility. We will monitor all initiatives and focus our resources on those that are proving to deliver the greatest benefit, while maintaining an appropriate balance between performance improvement and capability reach expansion.
Declining high-street footfall is more dramatic than industry research suggests.	Fewer customer interaction from which to up-sell higher value products.	Greater focus on driving referrals to the specialist sales teams from the Network and other channels.
Required volume and quality of PFS leads for both FS and MS are not possible and/or sustainable.	The level of sales and hence benefit will be lower than the modelled £0.6m.	Increase the levels of support for the CRM community to increase the quantity and quality of leads captured.
Investment funds for digital face-to-face are not available.	£3.8m of additional income modelled in the mid-range benefit scenario would not be achieved.	Continue with the mobile MS (hub & spoke) plan to ensure MSs have a wider reach by travelling to multiple branches.
Economic review of FS/MS (due mid-January) indicates our current operating model is inappropriate.	PFS products make up £4.2m of the proposed benefit. This may not be achieved at all or considerably reduced.	Top 30% of FS are currently achieving an average of approx. 8.3 sales per week. There is a case that can be put forward to retain the top performers.
The BDM benefits already achieved are not replicable in other areas.	A reduction in the level of £2.3m benefit stated in FY17/18.	Benefits stated take a realistic view with only 400 of the 600 branches achieved.
Products are not competitive in price and/or features.	Cannot achieve FS productivity improvements as customers either do not come to branch to buy or take a better deal elsewhere.	Commercial teams to work with Network our clients to ensure we have products that are competitive in the Network environment.

6. What are our dependencies on others?

6.1. Delivering our sales strategy and achieving the benefits we have outlined is dependent on support from across the business:

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- We must ensure we have the right marketing to raise awareness of Post Office as a PFS provider as well as local promotion of the specialists we have in store;
- We are dependent on the product teams developing customer value propositions that are compelling;
- We must ensure the implications of sales are considered when the commercial teams develop the contracts we sign with our clients (e.g. restriction clauses within contracts can constrain our sales teams' abilities to cross-sell);
- We are dependent on technology to help provide our sales teams with the tools and the data to enable a more informed and complete conversations with our customers;
- Finally we are dependent on risk and information security to help find the right, compliant way for us to capture and use customer information.

7. What are the next steps?

7.1. This strategy is defined in the context of current commercial strategies (mails strategy, FS strategy etc.), marketing and customer strategies as well as the currently understood channel economics of the FS/MS sales team. As these strategies are refreshed, this Network sales strategy will also be refreshed, starting with the FM/MS economics review mid-January.

7.2. We will use the outputs from this strategy to inform the business planning process for next year and to validate our bottom up view of income channel splits in the 3 year plan.

7.3. We will validate which of the expected costs are already included in the 3 year plan and which are incremental as part of the business planning process in the New Year.

7.4. Where not already in place, appropriate business cases will be submitted for each initiative outlined in this document.

Post Office
Network Sales Strategy

December 2015

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Scope and inputs to the Network Sales Strategy

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Inputs to this process

Customer strategy → **Product strategy** → **Channel strategy** → **Direct channels** / **Network**

The channels strategies are inter-dependent as they reinforce each other in a multichannel environment

Current state: These exist to varying degrees across the business and where available, assumptions within the commercial plans have been used as inputs to this process

Network strategy

Network sales strategy

- Deciding the mix of models to fulfil our commercial (e.g. longer opening hours) and social obligations (e.g. meeting access criteria)
- Driving improvements in network sustainability e.g. through retail support for sub-postmasters to improve their profitability
- Reducing costs through transformation programmes and exploiting natural churn to put in place more profitable models

This operational strategy
- Leveraging the capabilities of our various branch models to deliver the network component of the commercial targets

The Network Sales Strategy is dependent on a number of up-stream inputs. As and when these change we will need to revisit our strategy to ensure we are aligned

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1. Scope

2. **Context and background influences on the strategy**

3. Network sales strategy

4. What we are doing to deliver the strategy

5. Dependencies on others

6. Financial benefit and the 3 year plan gap

7. Next steps

8. Supplementary analysis

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Context of Network income in the overall scheme of POL growth

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POL income growth

Legend:
■ Network - core products   ■ Network - sold-products   ■ Digital
■ Contact centre   ■ Non-channel income

Our challenge is to grow our sold income fom the network by £21.3m

Legend:
■ Network - sold-products
■ Network - core products
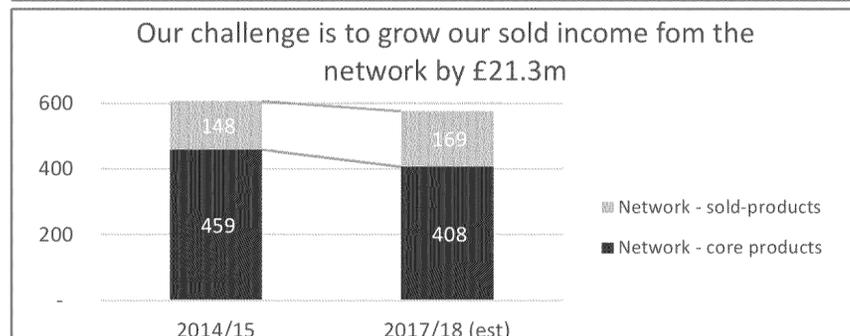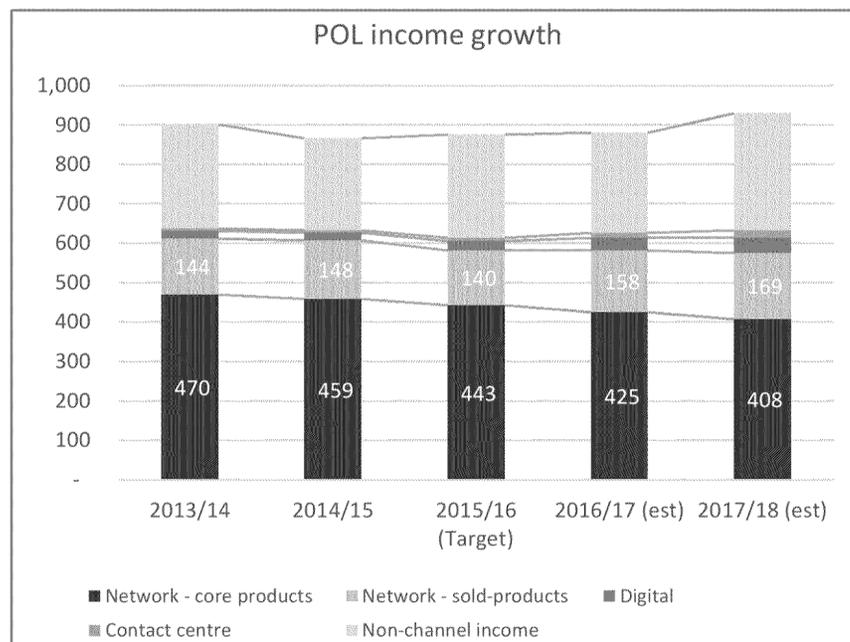
Note: channel splits defined from:
- FY14/15 – actual income
- FY15/16 – Current in year target
- FY16/17 – Early submission of targets for next year
- FY17/18 – projection based on current performance & strategic plans

The market context

- As stated in our 3 year plan, we intend to grow POL income.
- However, we have seen network sales declining due to:
  - A Mails market facing a shift in dynamics;
  - Government services customers shifting online and away from POL;
  - Payments customers moving to other channels through direct debit and other payment methods;
  - A number of PFS products are moving to other channels;
  - Footfall in the high-street is in decline, however, closure of high-street banks is sending some banking customers to POL.
- This decline in our footfall driving transactions (Mails and Bill pay) has put further pressure on our sales teams to get more from the footfall that remains.

The sales role of Network going forward

- The network has an important role to play to minimise the impact of declining markets and grow in the Financial Services and Telephony markets.
- Our network sales challenge is to:
  - *Slow the decline*: While the mails market is declining, to reduce the rate of POL's Mails income decline; To deliver new Government Services when they are available;
  - *Grow our capabilities*: to sell more, high value (PFS and Telephony) products to enable the network to deliver its components of the commercial plans.

4

Our Network strategy is delivering branches open for longer and with a better retail sales environment

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Mains

	Key Performance Indicators	Actual	Control Group	Var
POL	Total Income: Post vs Pre Conversion			
	Branches live 6–12months	6%	(0)%	7%
	Branches live 12–24months	7%	(1)%	8%
Agent	Agents Remuneration: Post vs Pre Conversion			
	Branches live 6–12months	5%	(2)%	7%
	Branches live 12–24months	3%	(3)%	6%
	Customer Sessions			
	Branches live 6–12months	2%	(2)%	4%
	Branches live 12–24months	(2)%	(7)%	5%
	Operator Feedback on Retail Sales Performance	5%		
	Operator Satisfaction	91%		
			Target	
Customer	Average Increase in Opening Hours	44%	20%	24%
	Customer Satisfaction	97%	90%	7%
	Queuing Times	1m17s	< 5 mins	3m43s

Mains performance continues to show sustained improvement

Crowns

- Introduction of FS and MS sales teams with an environment in which they can hold PFS sales conversations (averaging 5.6 sales per week across all FS and MS in weeks 1-33 this year);
- Automation has driven down costs and allowed our counter colleague team to focus on sales.

Locals

	Key Performance Indicators	Actual	Control Group	Var
POL	Total Income: Post vs Pre Conversion			
	Branches live 6–12months	(1)%	(5)%	5%
	Branches live 12–24months	(1)%	(6)%	6%
Agent	Customer Sessions			
	Branches live 6–12months	5%	(1)%	6%
	Branches live 12–24months	9%	(5)%	14%
	Operator Feedback on Retail Sales Performance	11%		
	Operator Satisfaction	71%		
			Target	
Customer	Average Increase in Opening Hours	110%	80%	30%
	Customer Satisfaction	98%	90%	8%
	Queuing Times	50s	< 5 mins	4m10s

Locals performance has steadied at a level above expectations

There is still room for improvement as we improve merchandising in new format branches to promote the full suite of products available in a less formal environment.

We are building a retail environment that helps slow the decline traditional markets and provides an environment more conducive to sales:

- Longer hours help to slow the decline of convenience based products;
- Private conversation areas provide an environment more conducive to PFS sales;
- Screenless counters promote a more natural and personable sales conversation;
- Variable pay is incentivising agents to sell .

We now need to utilise this improved environment to deliver our sales strategy

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Our top branches give us a yard-stick to measure the potential of the rest of the network

Sales volume penetration of	..when selling	Crowns		1000 Large mains		2266 Smaller mains		Converted locals		Unconverted locals		Community branches	
		Top 10%	Next 90%	Top 10%	Next 90%	Top 10%	Next 90%	Top 10%	Next 90%	Top 10%	Next 90%	Top 10%	Next 90%
Travel insurance	Passport applications	15.83%	15.11%	10.33%	9.70%	8.50%	5.11%		Not sold				
TMC	Bureau sales	11.64%	9.47%	7.45%	6.24%	5.61%	5.15%						
Car insurance	10 MVL's processed	10.13%	9.28%	1.37%	1.32%	1.31%	1.29%						
Home insurance	200 Bill payments	90.73%	57.56%	3.62%	2.75%	2.51%	2.66%						
HomePhone & Dual Apps	100 Bill payments	32.25%	28.19%	7.96%	5.96%	5.75%	4.34%						
Special Delivery	Labels	27.75%	25.10%	26.21%	17.51%	15.89%	13.15%	8.72%	8.77%	11.79%	10.82%	11.59%	10.76%
International Priority	International standard	35.56%	31.76%	32.60%	29.93%	30.48%	30.26%	26.77%	24.65%	36.32%	28.89%	33.84%	28.44%

1. There is an opportunity to **improve the performance** of branches to achieve the sales penetration of their peers

2. There is a considerable opportunity on improving the sales performance of sold-products across pillars in actively managed branches

3. Recent Guiding Coalition activity in Mails show that we can bring **actively managed branches** up to the standard of the Crown network

4. The "tail" of branches are less actively managed, providing a lesser opportunity to drive up penetration across the estate

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Selling high value products requires a more specialist skill set currently present in only a few branches

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Sales routes for Key Products in the future state network

Crowns   Mains   Locals and Community...

PFS	Mortgages	
	Life Assurance	
	Savings	
	Motor and Home...	
	Life Cover 50+	
	Credit Card	
Telephony	Home phone	
Travel	Travel insurance	
	Travel money	
	Moneygram	
Premium Mails	Special delivery	
	Recorded delivery	
	International priority	

Initial investment made in branch and application sent for approval

Data capture

0   2000   4000   6000   8000   10000   Number of branches

- Advised sales (MS)
- Assisted Sale (FS/MS)
- Counter colleagues
- Introduced Sale (CRM/CRM with POM support)
- Leaflets or data capture
- Application packs
- Current branch reach (made at least 1 sale in last 12m)

How we up-sell and cross-sell

- Counter conversations driven by linked products/ transactions with counter colleagues providing leaflets and/or referring customers
- Hosts in branches opening up a more relationship based sales conversation
- Data capture for selected products with appropriate margin
- Specialists selling products

* Note: this represents the capabilities in the future network once transformation is complete. Some products such as Savings and Life Cover 50+ are currently available in some unconverted Locals

To sell more high-value products, we must both expand the reach of our product specialists and improve their productivity

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Our sales strategy will focus on building our income on sold-products from both product specialists and counter colleagues

Our sales approach is based on our broad and diverse product range with different sales requirements:

- Some sold-products are about convenience (e.g. Mails, Travel money);
- Some sold-products require a higher level of sales conversation effort and/or a compelling customer value proposition and/or higher brand awareness (e.g. Insurance, other PFS);
- Non-sold, convenience products require branches open at times that are convenient to the customer with the best possible retail environment (being delivered through the Network strategy).

Our Network sales strategy focusses on sold-products and is made up of:

1. Improving the performance of the agency network (using strategies and techniques applicable to each branches model and size):

   - Drive up the penetration of sold-products;
   - Help Agents to build their own businesses with both regular customers and local SMEs.

2. Improving the performance of our existing specialist sales teams;

3. Increasing the reach of our specialist sales teams to more of the Network (e.g. MS, FS, CRM);

1. To deliver the network components of the commercial plans, we will improve the performance of the wider network in high volume, up-sell products

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Improve the performance of our counter colleagues in actively managed branches

- Actively managing upsell of high volume products (predominantly mails and travel money);
- Actively targeting high volume customers of low value products (SME mails customers);
- Exploiting our knowledge base by sharing best practise of the high performing branches with their peers.

Capabilities we will target

- MI to measure and manage our top potential branches;
- Greater commercial awareness of our agents;
- Credible commercial penalties for continuous under-performers

Branch income performance

Crowns | Mains | Locals

Areas of focus

Counter colleagues up-sell

Less actively managed branches

Branch income: £0 – £1,200

Number of branches: 0 – 10000
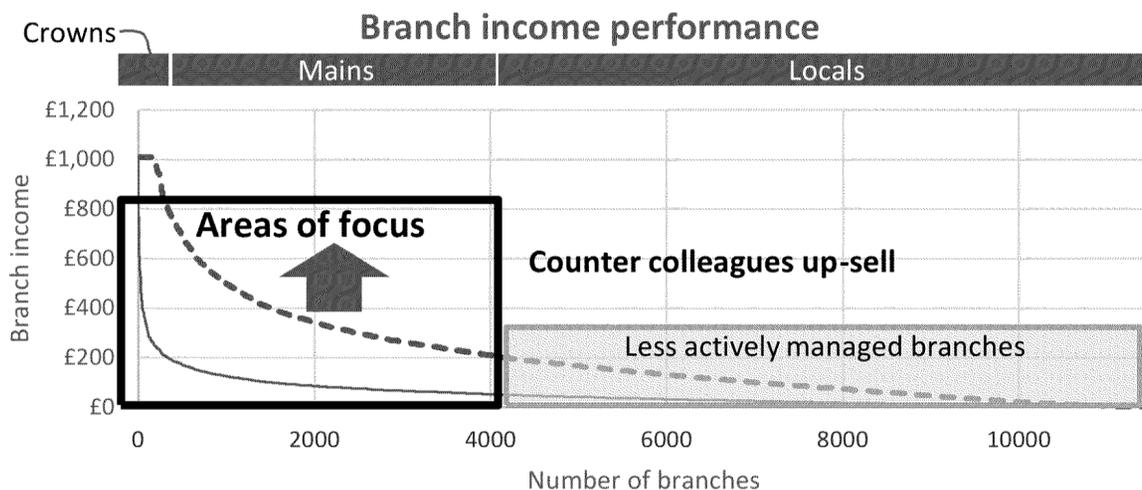
However we will limit our focus to the actively managed areas of the network

- Guiding coalition is driving £6.9m pa from the top 3000 branches, but the return per branch has been lower for the next 1000 branches.
- Our initial focus will be on the higher opportunity branches within the ASPM network to drive better compliance to their contractual obligations, up-selling mails products to customers.
- Our investment of management and training time will be proportional to the level of benefit we feel it will achieve.

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2. AND we will improve the performance of our existing specialist sales teams

Improve the performance of our specialists

We will improve the performance of our current specialist sales team by:

- Improving the tools and training they have;
- Increasing the number and quality of leads available to them;
- Boosting the knowledge of our sold-products across the business;
- Increasing targeted marketing focus to drive more customers into specific branches
- Ensuring they are compliant with regulators

Specialist	Current average sales per week
Mortgage specialist	0.3 mortgages per week
Financial specialists	6.2 products per week
POM supported CRMs	3.6 products per week*
ASPM supported CRMs	2.3 products per week*

Sales routes for Key Products in the future state network

Crowns   Mains   Locals and Community...

100 Mortgage Specialists

c200 Financial Specialists

c340 CRMs

Legend:
- Advised sales (MS)
- Assisted Sale (FS/MS)
- Counter colleagues
- Introduced Sale (CRM/CRM with POM support)
- Leaflets or data capture
- Application packs
- Current branch reach

PFS: Mortgages, Life Assurance, Savings, Motor and Home, Life Cover 50+, Credit Card sales and Apps
Telephony: Home phone
Travel: Travel insurance, Travel money, Moneygram
Premium Mails: Special delivery, Recorded delivery, International priority

Number of branches: 0, 2000, 4000, 6000, 8000, 10000

Capabilities we will target

- Relationship based sales driven by higher tenure of specialist sales team;
- Supported by improved lead capture;
- Improved access to customer data in branch;
- Improved product journeys in branch
- Data driven leads
- Local marketing and visibility
- Linked product journeys
- Multichannel journeys

Post Office®   * Includes both PFS and Telephony products   IN THE STRICTEST COMMERCIAL CONFIDENCE

3. AND we will increase the reach of our specialist sales team to more of the Network

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Extend the reach of our specialists

We will extend the reach of our current specialist sales team in a cost effective way by:

- Increasing skills and knowledge of non-specialists in the high opportunity branches
- Enable each FS/MS to have access to a wider set of branches and customers
- Ensuring they are regulation compliant

Sales routes for Key Products in the future state network

Crowns | Mains | Locals and Community...

- Advised sales (MS)
- Assisted Sale (FS/MS)
- Counter colleagues
- Introduced Sale (CRM/CRM with POM support)
- Leaflets or data capture
- Application packs
- Current branch reach (made at least 1 sale in last 12m)

Number of branches

Branch income performance

Area of focus
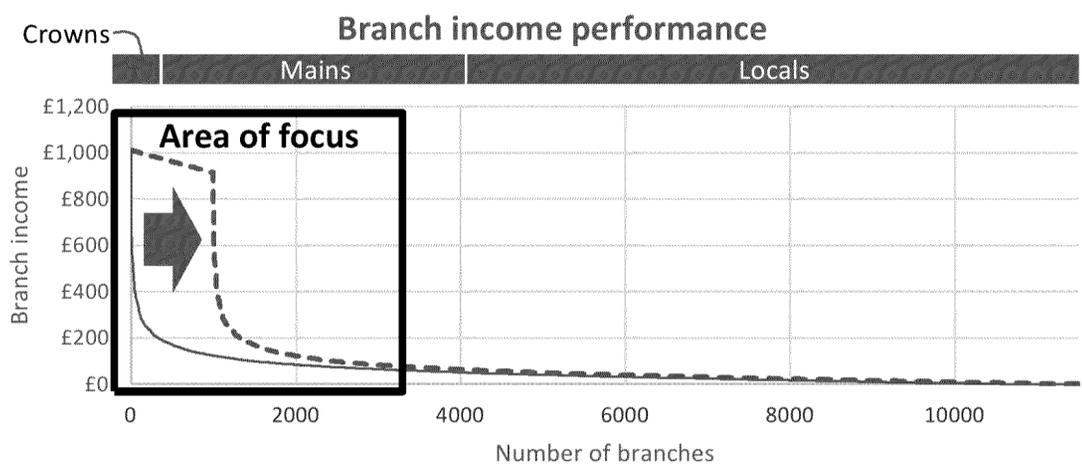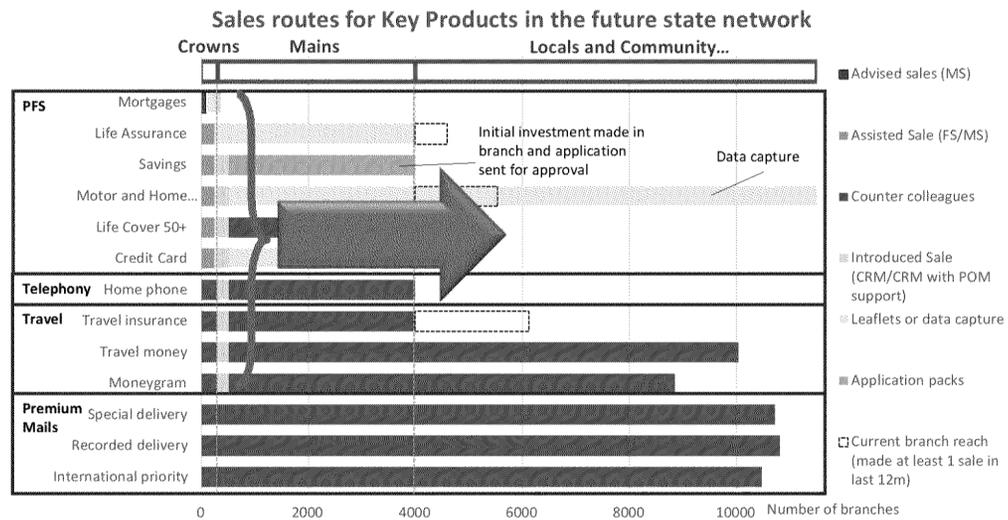
Capabilities we will target

- Remote access to wider branch network
- Digital remote mortgage advice
- Customer access to digital and contact centre channels in branch
- Private conversation areas available in more of the right branches
- Multichannel journeys (e.g. appointment booking online joined up across branches)
- Next best action based on customer data available at the counter

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The balance we strike between capability expansion and performance is dependent on a number of factors and we need to remain nimble to respond

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Competition
- Traditional banks leaving the high street driving personal and business banking services customers to POL

Speed of structural market decline
- External factors over which we have little control

Client contractual conditions
- Influencing when and how we are able to open customers up to cross-sell opportunities

Commercial strategy decisions
- Adapted through the annual commercial planning process

Footfall is in decline
- General high street footfall is in decline. A factor over which we have little control

Network

Customer buying behaviours
- Dependent on the outcome of the customer strategy
- High street customers are moving to other channels

Regulatory environment
- The regulatory environment continues to change and is beyond our control

Improving both capability and performance is mutually reinforcing.

To focus on only one or the other will lead to missed opportunities, however we must ensure we are focussed on the greatest areas of long term benefit for POL.

IN THE STRICTEST COMMERCIAL CONFIDENCE

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③　Network sales strategy

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⑤　Dependencies on others

⑥　Financial benefit and the 3 year plan gap

⑦　Next steps

⑧　Supplementary analysis

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We will target a number of initiatives to deliver our strategy in the 3 year plan period

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Initiative		Crowns		Mains		Locals & Community
		FS	MS	WHS	Other	

Improving the reach of our specialists & improve their performance

Sales routes for Key Products in the future state network

Sales routes for Key Products in the future state network

Initiative	Description	Crowns FS	Crowns MS	Mains WHS	Mains Other	Locals & Community
Hub & Spoke	"Spoke" branches with **Customer relationship managers** to: • **Capture leads** and book referral appointments for all products for MS • Provide customers with a route to **self-serve online through a tablet in-branch**	▬				
	"Spoke" branches with MS areas for a **mobile MS workforce** leading to **MS productivity improvement**		▬			
Mortgage specialist reach expansion	Leveraging the Hub and Spoke branches, deliver a **Digital face-to-face technology** solution for a centralised team of MSs to serve customers. This is designed to both drive up income and improve efficiency, reducing costs		▬			
FS productivity improvement	Equip our FSs with the required tools and support from the network through • Improved **performance management** • **POM academy** educating the wider business in PFS • **Enabling POM branches** (customer data in branch) • Increased **lead generation** increasing the sales pipeline • **POM brand** awareness improvement	▬				
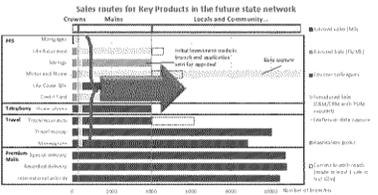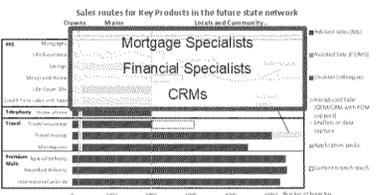
Improve the performance of the wider network in high-volume products

Branch income performance

Initiative	Description	Crowns FS	Crowns MS	Mains WHS	Mains Other	Locals & Community
Business Development Managers	Active support for the SPM community to generate **more, local SME business**					▬
Guiding coalition	**Coaching** from the top SPMs. **Branch standards team** to ensure agents are having the right sales conversations to **up-sell high-value mails products**.					▬
Customer data capture	Increase the volume and quality of **in-branch data capture** contacting the right customer for the right reason					▬
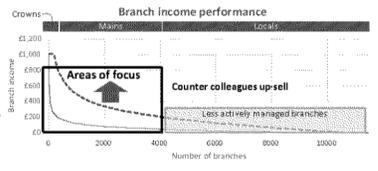
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1. Scope

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3. Network sales strategy

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Delivering our strategy is reliant on your help

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	Marketing	Product teams	Sub-postmasters	Technology	Clients	Risk & info sec
Customer data capture	Exploit the leads captured		Agents to capture leads £75k pa	Transition from Excel to MI strategic solution	Products with market leading marketing mix	Approved storage and use of data
Business Development Managers					No direct cost to POL	
Guiding coalition			Investment of SPM/ staff time for training	Transition from Excel to MI strategic solution	Manage exclusivity constraints	
Hub & Spoke CRM		Induction training development and delivery		Tablets to deliver digital journeys in branch and capture leads £1m In 1 yr	BoI to provide product coaches	
FS productivity improvement	Marketing FS/MS activity		Upgrade of FS/MS areas in branch £240k to £400k In 1 yr	Salesforce dev £950k In 1 yr WiFi Included in EUC	No direct cost to POL	Approved storage and use of data
Hub & Spoke Mobile MS			No direct cost to POL			
Hub & Spoke digital face to face	£500k pa	New product journeys and digital face-to-face technology (pilot) £950k In yr1				
		New product journeys and digital face-to-face technology (roll-out) £12m Over 5 yrs				

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Contents

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Our planned initiatives target performance improvement in sold-products to grow overall network income in a declining core market

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Millions

Optimistic estimates of income improvement

Realistic estimates of income improvement

£175.6m

£21.3m Sold-product income improvements required to meet our commercial plan

We will deliver one of these, not both

£3.8

£168.6m

Potential income gap of £7.3m.

£0.6

£0.3

£4.2

Delivering all initiatives will help to meet our targets

£162.1m

£2.3

Pessimistic estimates of income improvement

£169.4

£0.7

Guliding coalition already delivering, £6.9

£148.1

| | +/- 20% | +/- 25% | +/- 30% | +/- 40% | +/- 40% | +/- 40% | +/- 60% | +/- 60% | |
| FY14/15 | Guiding Coalition | Customer data capture | Business development managers | FS productivity improvement | Hub & Spoke CRM | Hub & Spoke mobile MS | Hub & spoke digital face to face | MS productivity improvement | FY17/18 (est) |

The commercial team plans to introduce new products (e.g. Investments) are not included in this projection and would reduce the target income to be delivered through these initiatives.

(There are further unknown elements we have not been able to include in our benefit estimates such as the market dynamic (footfall decline on the high-street), marketing efficiencies etc)

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Next steps

- Continuous adaptation of this strategy:

  - The upcoming **customer strategy** that is being developed should inform the product strategies including the **refreshed FS strategy**, which in turn will require us to revisit this strategy to ensure we are meeting our customer needs and focussing our sales efforts correctly;
  - **Channel economics for Financial Specialists and Mortgage Specialists** are due to be reviewed mid-January. Any outputs from this will need to feed into our sales strategy.
  - We will also aim to feed into these strategies with input on:
    - Which products do customers not want to buy in branch and why;
    - Which products are our sales constrained due to a poor product journey;
    - Have we got the right salesforce to meet the customer demand.

- **New product impacts on network income**: Work with the product teams to understand and quantify the network income that will be derived from new products over the coming years. The 3 year plan can then be updated with channel splits derived in unison with the product teams.

- Engage with other functions by **sharing the network sales strategy**: This strategy cannot be delivered by the Network team alone, we will engage with other directorates within the business, gain feedback and adapt where appropriate and clarify our dependencies on them:
  - Increase POM brand awareness;
  - Deliver the required technology;
  - Ensure we are compliant;
  - Improve customer journeys.

Contents

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Supplementary analysis contents

1. Challenges to developing sales in the Network

2. Customer data capture assumptions

3. FS productivity improvement assumptions including:
    1. Ratios of FS:MS:CRM
    2. FS break even analysis
    3. Strategy excerpt of FS productivity improvements

4. Hub & Spoke CRM assumptions

5. Hub & Spoke MS mobile workforce assumptions

6. Hub & Spoke MS digital face to face assumptions

7. Guiding coalition assumptions

8. Business Development managers assumptions

9. Definition of "sold-products" to support the financial difference between Sold and Core

10. FS historical sales analysis

Challenges (blockers) to developing counter and specialist sales in the Network

Challenges for both counter and specialist sales
1. Customer awareness of the broader Post Office range is low
2. Customer strategy – there is no defined customer strategy driving product proposition development or marketing in POL. This is completed on a product by product basis making cross sales challenging
3. Customer journeys – many journeys cannot be completed in branch and require either paper applications to be completed by customers or for them to transfer to Digital/Telephony channels
4. Cross Sale made challenging by
   a. Customer propositions aligned to different target markets
   b. Lengthy sales process that starts again each time
   c. Poor customer journey
5. Customer data – we have no understanding of a customer's POL product holdings at point of sale, which means we cannot tailor our conversations to customers

Specific challenges for specialist sales

1. Marketing – there is limited/no local marketing capability driving conversations into our specialist capability
2. Servicing – all servicing is done remotely. Our Specialist population cannot respond to customer queries which is not conducive to building customer relationships
3. Leads – we have limited/ no lead generation capability outside of counter conversations (save for Mortgage web leads) in the Network. Other organisations have sophisticated and targeted data led lead generation
4. For FS Savings (previously Premium Bonds) is the only product that drives footfall – this is either a 'feast' or a 'famine', depending on BoI balance sheet requirements, which is not conducive to driving capability
5. Regulation – we are in an increasingly regulated environment in all our business lines, however, FS is where this has the broadest impact

Differing levels of specialist capability in branches creates a different customer experience

The customer journey can be inconsistent for the same product across different types of branch.

- A number of products can only be sold by specialists to ensure the sale is compliant. In the case of a specialist not being available, the lead capture and/or referral of customers to a specialist is inconsistent
- Where data is captured for customers, the customer data is used to a limited degree in some cases

Losing the opportunity to convert the customer at the outset considerably diminishes the likelihood of a sale at a later date.

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Differing levels of specialist capability in branches creates a different customer experience

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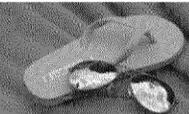
		Travel Money — 5k hold € only, 2.5k hold € and $, 2.5k on demand, 1k no currency	Telephony	Car Insurance
Crowns/ Mains	**With an FS/MS (Crown only)**	Sold through Horizon only. Hand-off to counter colleagues	Sold through Horizon only. Hand-off to counter colleagues	I'd like to buy now / I'm interested; Details captured on FS laptop / Capture details in Salesforce; Live quote / Follow up when appropriate; Sales complete
	Counter colleagues	I'd like to buy now / I've ordered online; Branch has stock; Order to arrive tomorrow — Yes; Sales complete	I'd like to buy now / I'm interested; Details captured in Horizon / Provide a brochure; Line test and quote / Customer can complete in any channel; Sales complete	I'd like to buy now / I'm interested; Capture details / Provide a brochure; Refer to FS/MS in branch or; Provide a brochure / Customer can complete in any channel
	With a CRM (when tablets available)	Sold through Horizon only. Hand-off to counter colleagues	I'd like to buy now / I'm interested; Provide tablet for self-serve app / Capture details; Provide a brochure; Live quote; Sales complete	I'd like to buy now / I'm interested; Provide tablet for self-serve app / Capture details; Live quote / Book an appointment with an FS/MS or; Provide a brochure; Sales complete
Locals		As per Mains/ Crowns process; Sales complete	Lead captured in Horizon / No downstream process to process lead ⚠	Lead captured in Horizon / Near renewal date • Over 50s DM • Under 50s EM
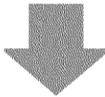
Post Office® — IN THE STRICTEST COMMERCIAL CONFIDENCE — *Note: sales of FS products are constrained by regulations and colleagues having had the right level of training/supervision

Guiding coalition

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Process improvement

£8.0m

+/- 20%

- Continuation of the existing Guiding coalition success
- However, as we have launched phase 2, we have seen a lower success rate as we move into the smaller and less actively managed branches with lower opportunity. This has demonstrated that there are diminishing returns in actively managing the tail of the network and our efforts are better served in driving more income from the top branches at the outset

Proposed improvements

- Continue to drive sales through the top 3000 branches (GC Phase 1) of £6.9m pa
- Expand the current 1000 GC phase 2 branches to an additional 1000

Supporting data

- For each product on which we have focussed (SD, International Express, International Priority, 1C labels, 2C labels, 1C stamps, 24/48, Recorded) we have measured the uplift in sales of the GC group of branches against the rest of the Network.

- For Phase 1 (the initial 3000 branches) in the first 33 weeks of the year:

Target FY	£4,500,000
Target current point	£2,855,769
Total income achieved YTD	£4,012,159
Running at	140.5%
Number of weeks measured	33

- For Phase 2 (the next 1000 branches) in weeks 22-33:

Target FY	£1,000,000
Target 12 months	£1,500,000
Target current point	£366,667
Total income achieved YTD	£222,488
Running at	60.7%
Number of weeks measured	11

Sensitivity analysis

Level of Phase 1 targets	160%	1,194,000	1,494,000	1,944,000
of £4.5m we can hit	140%	294,000	594,000	1,044,000
(currently at 140%)	120%	- 606,000	- 306,000	144,000
		60%	80%	110%
		Level of Phase 2 targets of £1.5m we		
		can hit (currently at 60%)		

What would you have to believe?

- That the level of benefit currently being realised by the existing Guiding Coalition is sustainable year on year
- We will be able to drive similar levels of benefit from the Phase 2 group. Note: we have assumed a low end case for the GC benefits profile of £1.1m annualise rather than the target of £1.5m stated for Phase 2 due to the lower than expected returns we are seeing from the smaller branches

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Customer data capture (currently capture approx. 160k car and home insurance leads per year through Horizon)

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Process improvement

£660k

+/- 25%

| Capture customer details in branch | → | Email customer to validate details & offer the opportunity to provide additional renewal dates for other products (Home, car, mortgage) | → | Email/Direct mail customer prior to renewal date |

| **Proposed improvements** | **Current process step**
• Use of ASPMs and MI to improve the level of data capture | **New process step**
• Validate data captured increasing accuracy
• Increase the number of products marketable to each customer
• Increase consent to contact rates
• Improve the blended income factor for lead generation by including higher value products (mortgages) | **Current process step**
• Improve the content of EM/DM using Adobe campaign
• Include outbound calls where appropriate |

Supporting data
- 440 branches captured >100 leads by week 33
- 1021 branches had captured 6-100 by week 33

Sensitivity analysis

New leads	845,044	887,270	1,027,190	1,307,031
	296,145	553,974	663,595	882,836
	112,775	442,631	542,130	741,127
		10%	20%	40%
		Conversion rate improvements		

What would you have to believe?
- The 1021 engaged but underperforming branches would capture an additional 300k leads per year

- Adobe campaign developments early FY16/17
- We will capture an extra 0.2 products per customer
- Consent to contact from 59% to 65% for over 50s and from 5% to 25% for under 50s
- Introduction of mortgage leads would increase the blended income factor from £68.33 to £97.77

- Adobe campaign developments early FY16/17

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Business development managers

Process improvement		
£2.3m **+/- 30%**	• We will coach 200 branches per year with a team of BDMs • Previous experience of the BDM approach in Birmingham raised over £1.5m incremental income for 200 branches	• The objective is to both grow new business with new customers and retain/grow business with existing customers

Proposed improvements	• BDMs will coach the SPMs to go out into the local community and find new business • The focus is to bring in more high-volume (but low item value) customers – predominantly SMEs	Sensitivity analysis at year end FY17/18 – note: as the number of branches increases during FY17/18, the total £3m benefit will not be realised in year

Number of branches	600	3,000,000	4,500,000	6,000,000
	400	2,000,000	3,000,000	4,000,000
	200	1,000,000	1,500,000	2,000,000
		5,000	7,500	10,000
		Additional income per branch per year		

What would you have to believe?	• The successes in Birmingham can be replicated in other regions • There are sufficient SPMs willing to take part in the sales initiative • This could be delivered and maintained by a team of 6 BDMs (at a cost of £370k per year)

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FS productivity improvements

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Productivity improvement

£4.2m

+/- 40%

- We have c200 Financial Specialists
- There is a template for 238
- FS currently started the year selling 4.5 products per week and now sell 6.4 products per week on average constituting of ->
- Using product LTVs this equates to an average FS income of £400.75 per week

Motor insurance	0.7
Home insurance	0.5
Life 50+	0.5
Term life	0.3
Credit cards	0.8
Savings	3.2
Current account	0.5

Channel economics for Financial Specialists and Mortgage Specialists are due to be reviewed mid-January as part of broader Bank of Ireland negotiations
A number of options will be considered, including:
- the size of the specialist salesforce
- the mix between MS / FS / CRM
- the role of Virtual Advisor in delivering advised sales

Proposed improvements

Performance management
Concerted effort to manage out underperformers faster
New formal PDR moderation exercise in place
New incentive scheme that compensates FS specialists for sales, compliance and customer service

Staff training /Academy
Invest in POM Academy to develop/execute initial training and continuing professional development
Clarify FS/MS role requirements to attain/ maintain competence and interventions to support development
Increase recruitment support, in particular for Specialist roles

Post Office Money Brand
Launch a visually distinct PO Money brand
Invest in branch promotional material and increase awareness and consideration of Post Office for financial services products

Customer data capture/ Sales tools
Improve front line data capture in branches of customer information
Invest in SalesForce to support and digitise sales processes
Profile customers, understand their needs and anticipate next product
Present customer overview to FS / MS and provide next likely product prompts

Increased lead generation
Increase tenure of FSs allows them to establish deeper relationships with counter staff /customers
Enable customers to book in branch appointments
Implement tablet sales tool to front line sales staff with product applications through CPD
Support sales of complex products through the Hub & Spoke specialist model, targeting high value locations

What would you have to believe?

- We will increase the number of FS from c200 now to the template of 238 by the end of FY16/17
- We will get to a steady state of 292 FS by end of FY17/18 once we have proven we can hit the sales targets in the current population
- We will get to 11+ sales per week per FS by end FY17/18
- Sales per week improvements held on the next slide

Sensitivity analysis (note: the performance improvement will be reached at the end of FY17/18 and the total benefit will not be realised in year)

	600	8,375,675	14,574,777	20,773,878
Number	**400**	4,368,175	8,500,909	12,633,644
of FS	**292**	2,204,125	5,221,021	8,237,917
	237	1,102,063	3,550,708	5,999,353
		6.4	**9.7**	**13**
		Sales per week		

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FS productivity improvements
FS Strategy – grow the number of specialist sales teams

Need to align the right size specialist salesforce with the broader Network strategy

50 MSs taken from the FS population

Legend:
- CRMs (ASPM Supported)
- CRMs (POM Supported)
- MSs being on-boarded
- Mortgage Specialists
- FS being on-boarded
- Financial Specialists

Chart data:

Year	Values
2010	432
2011	357
2012	345
2013	296 / 50
2014	202 / 80 / 60
2015 YTD	175 / 32 / 90 / 6 / 100 / 147

Average FS sales per head:

2010	2011	2012	2013	2014	2015 YTD
2.7	6.5	5.6	5.0	5.2	6.4

Average FS sales per head, minus savings:

2010	2011	2012	2013	2014	2015 YTD
0.95	1.79	1.96	1.94	2.24	3.11

Post Credit Crunch aftermath. BoI raise liquidity using leading savings rates

Underlying productivity has improved significantly

FS productivity improvements
Channel – Branches: To recover fully loaded costs, FS specialists need to complete ~9 transactions per week

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Credit Cards ■ Current Accounts ■ Savings ■ Home insurance ■ Loans ■ Motor insurance ■ Life insurance

Break even analysis

Product mix   Avg. product income

Break-even sales per FS per week,

Current product mix

6.0   7.8   9.6   11.6   ◀ 4.5²

Product mix: 3 / 17 / 55 / 0 / 7 / 6 / 12

Avg. product income: 68.4

2019/20 projected product mix

5.4   7.1   8.7   10.5   ◀ 4.5

Product mix: 12 / 47 / 22 / 3 / 7 / 10 / 0

Avg. product income: 75.5

Base salary	Base salary + 30%	Fully loaded[1]	Fully loaded + 20% margin[3]
21.3	27.7	34.3	42.2
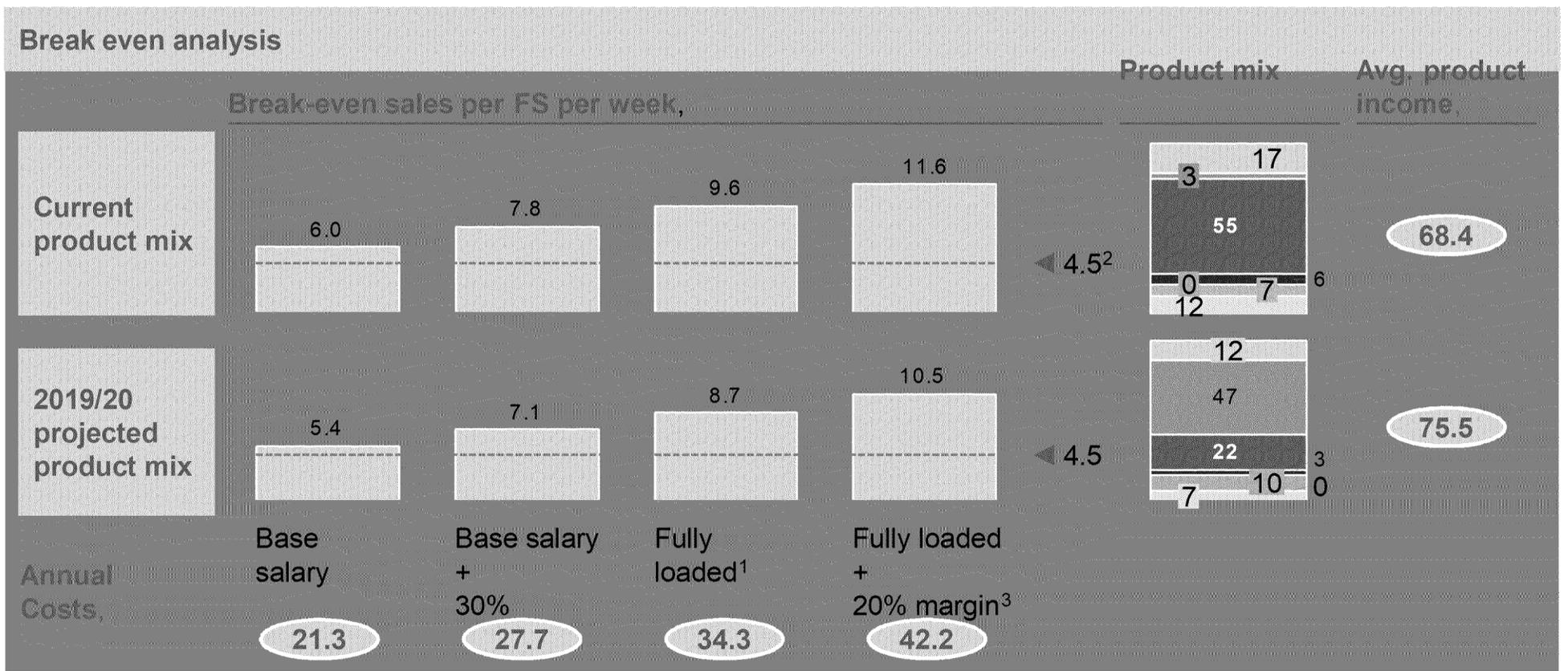
Annual Costs,

Note: excludes costs associated with driving higher FS productivity (e.g. Academy, SalesForce)
1 Fully Loaded costs include £21k base salary; 30% increase for pension, HR, NI; £1,200 annual sales licence and £450 p/m for real estate
2 Average productivity per week for rolling twelve months; 3 Based on 2014/15 YTD EBITDAS margin

FS productivity improvements
The FS 2020 Strategy highlighted a need to invest c£4m per annum to achieve our growth plans

Key actions		Progress To Date	Impact on Productivity
Current productivity			4.5
Performance management	• Concerted effort to manage out underperformers faster • New formal PDR moderation exercise in place • New incentive scheme that compensates FS specialists for sales, compliance and customer service		3.0
Staff training /Academy	• Invest in POM Academy to develop/execute initial training and continuing professional development • Clarify FS/MS role requirements to attain/ maintain competence and interventions to support development • Increase recruitment support, in particular for Specialist roles		2.0
Customer data capture/ Sales tools	• Improve front line data capture in branches of customer information • Invest in SalesForce to support and digitise sales processes • Profile customers, understand their needs and anticipate next product • Present customer overview to FS / MS and provide next likely product prompts		2.0
Increased lead generation	• Increase tenure of FSs allows them to establish deeper relationships with counter staff /customers • Enable customers to book in branch appointments • Implement tablet sales tool to front line sales staff with product applications through CPD • Support sales of complex products through the Hub & Spoke specialist model, targeting high value locations		2.0
Post Office Money Brand	• Launch a visually distinct PO Money brand • Invest in branch promotional material and increase awareness and consideration of Post Office for financial services products		1.0
Plan productivity			14.5

All figures average sales per week for Financial Specialist

Hub & Spoke CRM

Process improvement

£560k

+/- 40%

- We have c340 CRMs with approximately 40% being POM supported and selling approx. 2.8 products per week with an average income of £108
- The remaining CRMs are ASPM supported CRMs and are currently selling approx. 2.3 products per week with an average income of £62

CRMs are
- Trained in "Introduced Sales" only
- Employed by agents but with some Post Office training

Products sold:
- Mainly lead generation
- May sell simplest products
- Armed with tablets will enable them to provide customers with digital self-service sales in branch

Proposed improvements

- Ramp the number of POM supported and ASPM supported CRMs over the next 3.5 years

CRM numbers ramp up
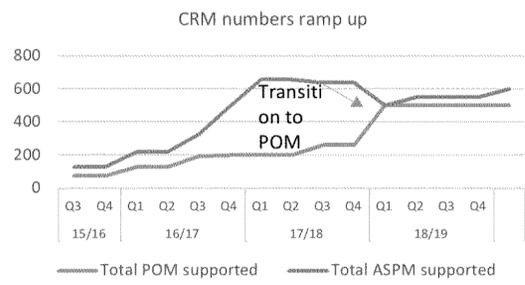
- CRMs will generate additional leads for MS's and FS's
- We will need to recruit 6 more ASPMs to cope with the additional work (£300k)
- Training schemes will need o be put in place requiring administration of £60k per year
- Video mystery shopping (£160 per CRM) is required as well as customer validation calls (£10 per CRM) at a total cost of £100k per year

What would you have to believe?

- We can get POM supported CRM sales per week up to 3
- We can maintain ASPM supported CRM sales at approx. 2.3
- We can recruit and maintain 200 POM supported CRMs by end of FY16/17 and ramp up to 500 by end of FY17/18
- We can recruit and maintain 600 APSM supported CRMs by the end of FY18/19"

- An income factor uplift of 5%-13% is experienced by all branches where a CRM is introduced by a shift in product mix towards higher value products (as per current state)
- BoI will supply additional coaches for high volumes of POM supported CRMs, or POL will create their own coaching capability
- CRM leaflets will be issued in each branch to promote the initiative

Sensitivity analysis (by steady state in FY19/20)

Number of CRMs	1100	1,074,464	1,295,819	1,766,504
	676	556,938	689,668	976,430
	251	39,413	83,516	186,357
		2.72	2.84	3.14
		Sales per person per week (weighted

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Hub & Spoke Mobile MS workforce

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Process improvement

£330k

+/- 40%

- We have 100 MS's at present
- They sell on average 0.3 mortgages per week
- They sell on average 1.8 other products per week constituting of ->

0.2 Motor
0.4 Home
0.2 Life 50+
0.3 Term life
0.4 CC
0.3 Mortgage
1.5 Savings
0.2 Current account

- The average loan value is £180k
- Post office currently take 60pbts and pay the agent 10bpts. We expect this to drop to 50bpts next Feb
- We currently get approximately 1.8 mortgage leads per week per CRMs plus another 250 per week from Crown counter referrals

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Proposed improvements

- Through the increase in CRMs we will increase the number of leads available for MS's
- We plan to drive mortgage sales up to approximately 4 mortgages completed per month per MS.
- An increase in CRMs will open up the possibility of increasing the number of MSs to 200 in the longer term (unlikely to occur during the 3 year plan period)

Sensitivity analysis (note: the performance improvement will be reached at the end of FY17/18 and the total benefit will not be realised in year)

CRM referals per branch per week				
	0.5	81,900	163,800	327,600
	1	163,800	327,600	655,200
	1.2	196,560	393,120	786,240
	3.56	583,128	1,166,256	2,332,512
		50	100	200
		Number of MS		

What would you have to believe?

- Each CRM will generate 2.2 leads per week each
- Web leads will increase in proportion to CRM leads as a result of a greater MS presence through "Spoke" branches – i.e. more locations to book an appointments
- 1 MS can complete 0.7 mortgages per week under their current process and with the current quality of leads
- Assumes that POM Supported CRMs will not be able to make compliant mortgage referral without Digital POM Branches

MS processing capacity(current stats):
- 80% of appointments are screened out at telephone interview (0.5 hours per phone call)
- 20% go to first appointment which takes approx. ¼ of a day (including travel)
- 50% of the 1st appointment make it back for a second appointment, which takes ¼ of a day
- 70% of the 2nd appointments result in a completed mortgage

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Hub & Spoke MS Digital face-to-face

Process improvement **£3.8m** **+/- 60%**	• We would begin with a trial then roll out subject to the trial success

> **Note: a more detailed business case is being submitted to the investment committee**

Proposed improvements	• Technology will be rolled out to existing MS areas and within selected "Spoke" branches to enable an MS to carry out mortgage appointments digitally • MS's would be co-located in a central contact centre allowing them to be deployed to the customer digitally, driving location based efficiencies

What would you have to believe?	• A majority of our current MS will be centralised between now and 2020 • The total number of MS required would reduce by 30% due to efficiencies (however, if the required levels of leads are made available, we would maintain our current levels to maximise the opportunity) • Customers will be willing to carry out mortgage interviews via digital face-to-face rather than in person (Note: this technology is already deployed in Nationwide and has proven a success • A higher number of leads will be converted as the ease of finding an appointment slot convenient for the customer is greatly increased • We will be able to deliver in a compliant way	• Finances are available £900k for the trial and £12m for roll-out • The business case is signed off and the trial is a success • There are enough mortgage leads to satisfy the pipeline and meet the increased capacity of the MS's • There are cost savings in centralising the team through compliant supervision in one geography and more efficient deployment of our MS resources

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MS productivity improvement

Process improvement **£1.0m** **+/- 50%**	• We have 100 MS's at present • They have the capacity to sell 0.7 mortgages per week (see previous slide) • By improving the quality of the leads and the processing efficiencies we can drive this up to 1 mortgage sale per week per MS
Proposed improvements	• Utilisation of a rebuilt Bank of Ireland mortgage platform (Project Rome) • Mortgage end to end case tracking and reporting (lead to completion) • Rebuilt web to lead journey significantly increasing branch appointments • MS scorecards and incentive scheme in Salesforce • Discovery Workflow to enable broader relationship based conversations • Customer Portfolio Dashboard. Enabling a customer conversation informed by existing holdings • Multi Product Sales capability - to add further product sales without re-entering customer data

What would you have to believe?

- Each MS has the spare capacity to sell 1 mortgage per week through to completion
- There will be leads of sufficient volume and quality to meet this sales rate
- We will not increase beyond the current 100 MS (although in a proven model, we would hope to ramp up to 200 at some point before FY19/20)

Sensitivity analysis

Number of MS	200	1,127,711	2,027,711	2,927,711
	150	845,783	1,520,783	2,195,783
	100	563,855	1,013,855	1,463,855
		0.8	0.9	1
		Improvement to		

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Definition of "sold-products" used to evaluate the network income

Core network products

GS	AEI - UKBA
	Government Other
	Passports
	Secure Collect
Standard FS	ATM Withdrawal
	Banking Other
	Bill Payments
	Cash Withdrawals
	Payment Services Other
	POMC
Standard mails	1st Class Labels Vol
	1st Class Stamps Val
	2nd Class & Other Stamps Val
	2nd Class Labels Vol
	Home Shopping Returns
	International Standard Vol
	Lottery
	Mails Other
	Recorded Delivery
	Retail

Sold network products

	Product	Specialist?
PFS	Credit card	Required
	Current Accounts	Required
	General Insurance Other	More likely sale
	Growth Bonds	More likely sale
	Home Insurance	More likely sale
	Instant Access Saver	More likely sale
	ISA	More likely sale
	Life Assurance	More likely sale
	Loans	Y
	Mortgage	Y
	Motor Insurance	More likely sale
	Savings	More likely sale
Premium mails	International Express	
	International Priority	
	Parcelforce 24/48	
	Special Delivery	
Telephony	HomePhone	
	PO Mobile SIMS	
	PO Mobile Topups	
	Telecoms Other	
Travel	Moneygram	
	Travel Insurance	More likely sale
	Travel Money	

Definition of non-channel income streams

Financial Services	ATMs (other) PO cash		Supply chain	All supply chain income
	Uncashed Benefit		Mails & Retail	Int'l Acceptance
	Gift Vouchers - corp			UK Acceptance
	Moneycard Youth Card			Dangerous Goods Int
	Electronic Postal Order			Dangerous Goods UK
	New reseller - Capita			Custody of pouches
	Profit Share			RML Fixed Fee
	Intermediary			PFW Fixed Fee
	Backbook			Mailwork
	Back book and other income			RM Other
	Easy saver + bonus			Camelot Fixed Fee
	Loyalty Bonds			Health Lottery Fixed
	Online Account			Retail - Other
	Online Reserve		Government Services	Digital ID Serv SIA
	New Investments, structures & annuities			New DD
	Other savings		Telecoms	Homephone retention
	Motor Insurance Renewals			Dual - H/phone & BB
	Home Insurance Renewals			
	Life Insurance Retention			
	Lifestyle Protection			
	Business Insurance Renewals			
	Pet Insurance (renewals)			
	Unallocated TI			
	Bureau - Vol (fixed)			
	Moneygram Fixed income			

IN THE STRICTEST COMMERCIAL CONFIDENCE

Financial Services
Historical sales analysis

November 2015

Savings (excluding online only products)

Sales volumes

Source: Credence (Sales Planning & Analysis Team)

Online only Savings products

Sales volumes

IRRELEVANT

	2013/14	2014/15	2015/16	Forecasted outturn (% Tgt)	2015/16 Target
Online			IRRELEVANT		

Source: Credence (Sales Planning & Analysis Team)

Mortgages

Sales value (£)
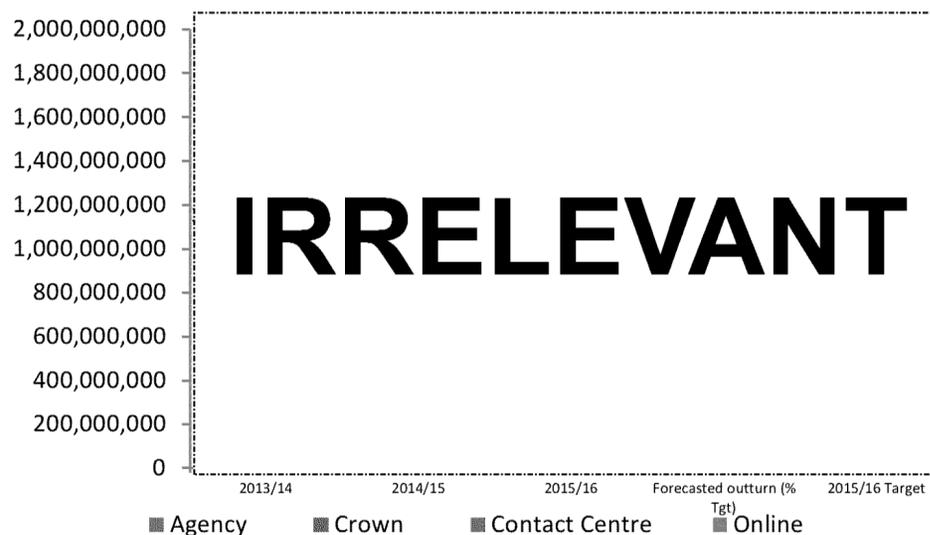
	2013/14	2014/15	2015/16	Forecasted outturn (% Tgt)	2015/16 Target
Agency					
Crown		IRRELEVANT			
Contact Centre					
Online					

Source: Credence (Sales Planning & Analysis Team)

Credit Cards

Sales volumes

IRRELEVANT

	2013/14	2014/15	2015/16	Forecasted outturn (% Tgt)	2015/16 Target
Agency					
Crown					
WH Smith		IRRELEVANT			
Contact Centre					
Online					

Legend: ■ Agency ■ Crown ■ WH Smith ■ Contact Centre ■ Online

Source: Credence (Sales Planning & Analysis Team)

Current Accounts

Sales volumes
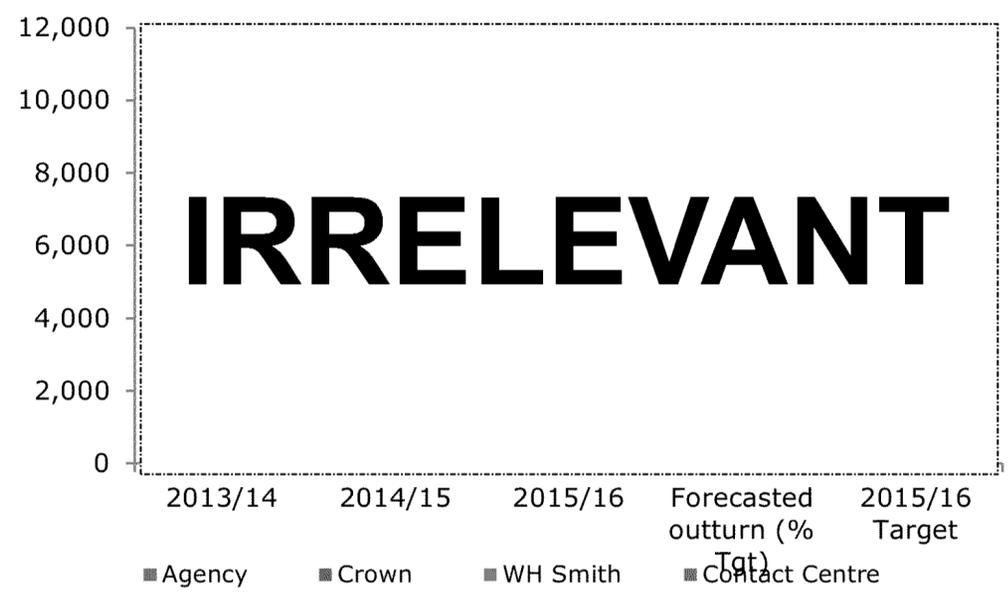
IRRELEVANT

IRRELEVANT

Source: Credence (Sales Planning & Analysis Team)

Home Insurance (NET)

Sales volumes

	2013/14	2014/15	2015/16	Forecasted outturn (% Tgt)	2015/16 Target
Agency					
Crown					
WH Smith	**IRRELEVANT**				
Contact Centre					
Online					

Source: Credence (Sales Planning & Analysis Team)

Motor Insurance (NET)

Sales volumes

Source: Credence (Sales Planning & Analysis Team)

Life Insurance (NET)

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Sales volumes

	2013/14	2014/15	2015/16	Forecasted outturn (% Tgt)	2015/16 Target
Agency					
Crown					
WH Smith		**IRRELEVANT**			
Contact Centre					
Online					

Source: Credence (Sales Planning & Analysis Team)

Travel Money

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Sales value (£)

| | 3,500,000,000 |
| 3,000,000,000 |
| 2,500,000,000 |
| 2,000,000,000 |
| 1,500,000,000 |
| 1,000,000,000 |
| 500,000,000 |
| 0 |

IRRELEVANT

| 2013/14 | 2014/15 | 2015/16 | Forecasted outturn (% Tgt) | 2015/16 Target |

■ Agency   ■ Crown   ■ WH Smith   ■ Online

	2013/14	2014/15	2015/16	Forecasted outturn (% Tgt)	2015/16 Target
Agency					
Crown					
WH Smith					
Online					

IRRELEVANT

Source: Credence (Sales Planning & Analysis Team)

Travel Insurance

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Sales Volume

Travel Insurance

IRRELEVANT

| | 2013/14 | 2014/15 | 2015/16 | Forecasted outturn (% Tgt) | 2015/16 Target |

■ Agency   ■ Crown   ■ WH Smith   ■ Contact Centre   ■ Online

	2013/14	2014/15	2015/16	Forecasted outturn (% Tgt)	2015/16 Target
Agency					
Crown					
WH Smith					
Contact Centre					
Online					

IRRELEVANT

Source: Credence (Sales Planning & Analysis Team)

HomePhone

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Sales Volume

HomePhone

120,000
100,000
80,000
60,000
40,000
20,000
0

IRRELEVANT

| | 2013/14 | 2014/15 | 2015/16 | Forecasted outturn (% Tgt) | 2015/16 Target |

▓ Agency   ▓ Crown   ▓ WH Smith   ▓ Contact Centre   ▓ Online

	2013/14	2014/15	2015/16	Forecasted outturn (% Tgt)	2015/16 Target
Agency					
Crown					
WH Smith					
Contact Centre					
Online					

IRRELEVANT

Source: Credence (Sales Planning & Analysis Team)

Retail

Author: Allan May   Sponsor: Pete Markey/Martin George   Date: December 2015

Executive Summary

Context

Retail contribution was declining as a result of poor buying, merchandising, supplier management and a lack of internal specialism meaning this area under indexed in recent years. 2015/16 was forecast to be its lowest performance in recent Post Office history at £3.2m income.

Having made significant progress to address these issues, the performance is now on track to be over £1m up against budget at year end.

Question(s) this paper addresses

1. What approach has been taken to drive stronger retail performance?
2. What is the longer term strategy to drive ongoing performance for retail and what role do strategic partnerships play in this success?

Conclusion

1. Introduced new Dashboards and trading meetings focussed on margin, range and process to improve profitability.
2. Delivering on our new retail strategy will ensure Post Office is:

A *Specialist* retailer tripling retail income to £10 Million in 2017/18 step changing Crown profitability and driving additional footfall, a Customer *Destination* through:
    a) Direct Supplier relationships
    b) Industry leading partnerships
    c) Margin, range and process improvements
    d) Improved online shop with Click & Collect.

Input Sought

Ongoing GE support for delivery of the retail strategy.

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2015 Strategy
"A Retail Specialist"

December GE update

1

Executive Summary: Retail

Context

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   d) Improved online shop with Click & Collect.

Input sought: Ongoing GE support for delivery of the retail strategy

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2

April 2015: SWOT

Weaknesses

- Retail was a declining area, trading from 7% less branches Year on Year and 10% less retail space overall post CTP
- Branch Standards and consistent retail execution
- Long queues
- Poor Customer journey
- Silo Management
- Poor service from current supplier
- Poor margins due to dealing with 3rd party
- Procurement rules
- Too many products not aligned to our purpose
- Retail was a low business priority
- Limited POS opportunity for retail inside and out
- Collectibles poorly executed and loss making (£40k loss - £1M sales in 2014/15)
- Seasonal activity was loss making (£83k loss on £953k sales in 2014/15)
- Poor relationship with Network
- Low credibility in Crown and Agency
- Poor Online experience

In Summary, lots to go for.

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3

Roadmap

Roadmap for the first 90 days created beginning with SWOT analysis then followed by our Vision, Strategy and Plan.

Day 1

Groundwork before Day 1

Day 30

Seek to Understand

Day 60

Introduce Strategy

Day 90+

Drive Performance

Short term performance initiatives

Mystery Shop	Meet Stakeholders	Engage Senior mgmt	Day Job
Meet the team	Understand issues	Evaluate partners	Drive performance
SWOT analysis	Develop plan & Wheel	Stretch partners	Execute plan
Plan first 90 days	Introduce Steering	Launch Vision	Expect more
Understand Role	Prioritise big wins	Launch Plan	Accelerate roll outs
	Agree Vision & Plan	Roll out initiatives	Plan procurement
	Develop Dashboards		Explore Agency

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Ongoing Compelling vision of becoming a Retail Specialist

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4

Today

Short term impact

Retail Income up £743K (+38.2%) vs. budget YTD after P8:

·Budget for full year £3.2M
·Expected if maintain run rate £4.4M (initiatives rolling out now)

Short term strategy was to focus on margins, range and processes with particular focus on Packaging.

·YTD up £470k on Packaging versus Budget (Full year £1M)
·YTD up £130k on Cards/Stationery/Mint/Travel combined versus Budget

·Packaging initiatives on following slides

*Chart shows possible outlook for remainder of this year and next assuming static branch numbers and a new partner.

*Direction of Travel

78% improvement

Chart x-axis: 15/16 Budget | 15/16 Run rate | 16/17 Budget Submission | 16/17 Budget+New Partner

■ Income £M

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5
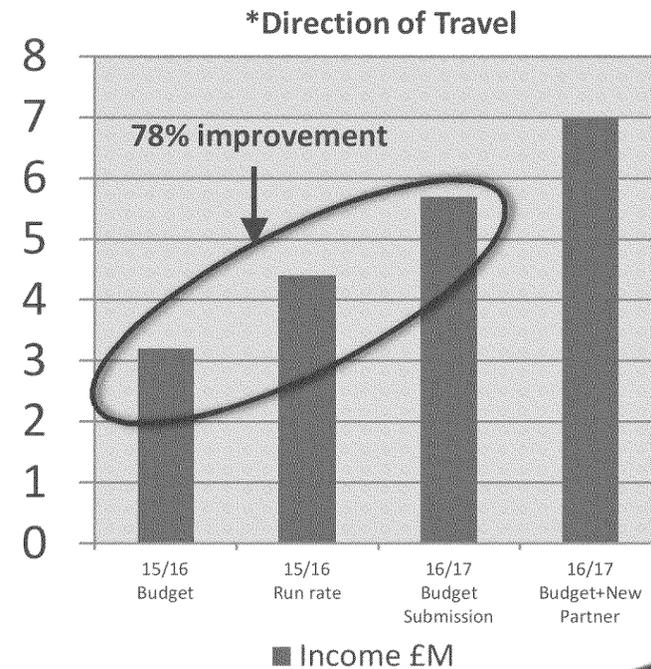
Margin, Range and Process
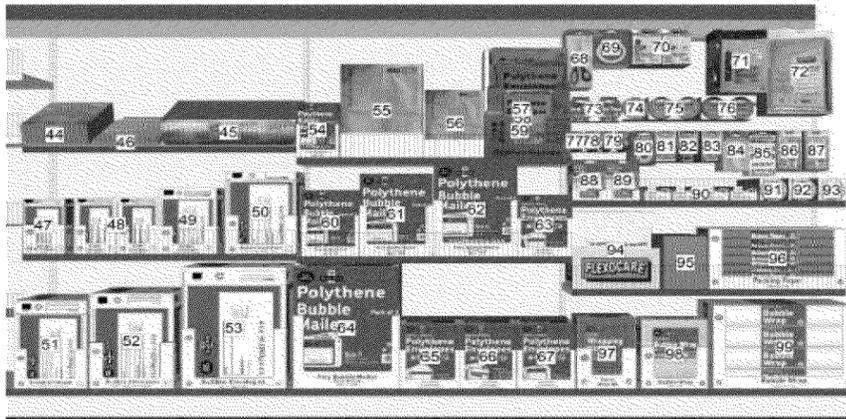
A Packaging Specialist

We are improving the mailing proposition in approx 200 branches this year in a combination of the following areas

✓Increase in range from 56 to 103 SKUs in same space
✓Launch of higher density fixtures increasing range up to 100% in 200 branches
✓Launch of Best Better Good ranging
✓Launch of wider fashion range
✓Price alignments
✓Briefing lead teams
✓Dashboard management at SKU and branch level
✓New mailing Customer journey trial (Manchester/Croydon)
✓Auto replenishment
✓Seasonal ranges
✓Gift packaging ranges

·The above has improved margin from 41% in P1 to 54% in P8

·Packaging income levels should be £1M ahead of budget for the year.

·This represents 80%+ of our income.
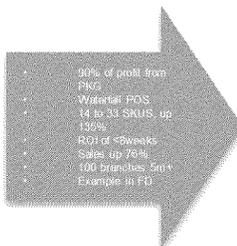
6

A Deliberate Customer Journey

Concepts:
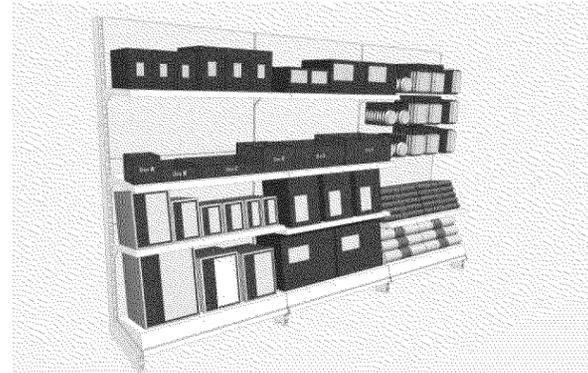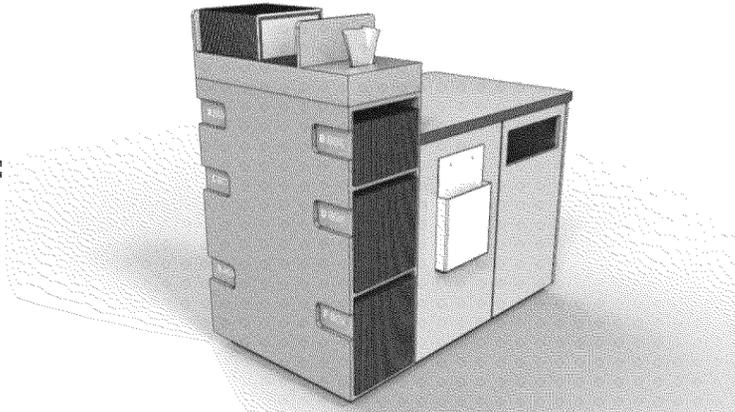
Trial:

7
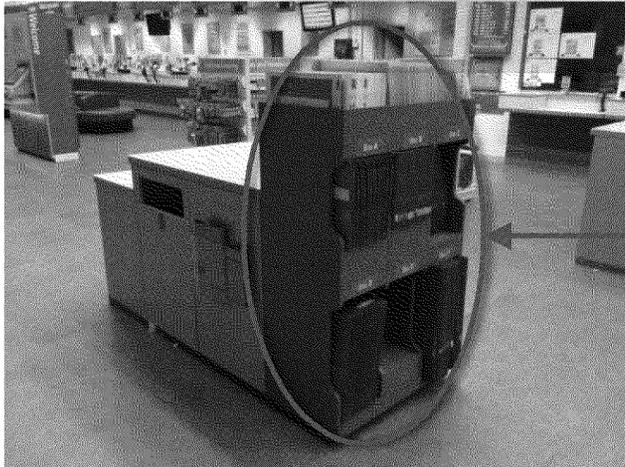
A Retail Specialist: VOW
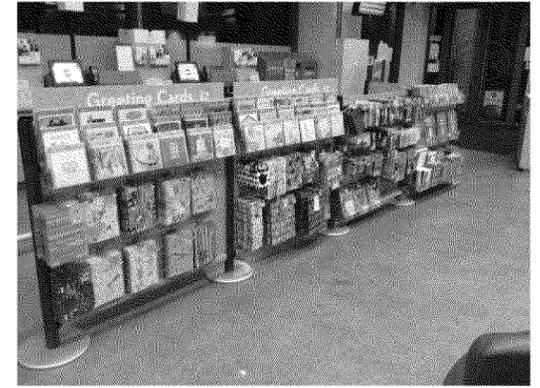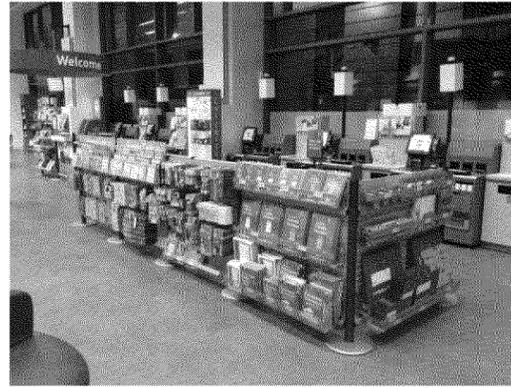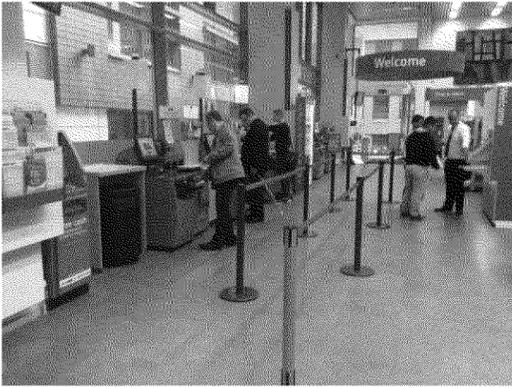
2 Branches in trial: Informs Procurement

A Retail Specialist: WHS

7 Branches in trial: Informs Procurement

Direct Supplier Relationships

A Collectibles Specialist

10

Summary

Slide 2 Context

Retail contribution was declining.

Poor buying, merchandising, supplier management and a lack of internal specialism meant that this area under indexed in recent years. 2015/16 was forecast to be its lowest performance in recent Post Office history at £3.2m income.

Summary

•Beginning with a SWOT analysis in April we have now developed and launched a comprehensive strategy to make the Post Office a Specialist Retailer

•In addition to the above we have focussed on Margins, ranges and process to step change the short term performance with the following highlights
  •Income +38% against Budget
  •Margins have increased by 12% to 54%
  •The Customer proposition is markedly better
  •We have 9 Best practice branches that will help us select the right partner in 2016
  •We have launched a significantly improved proposition in Packaging and Greetings Cards
  •Initiatives are still rolling out

I believe that we are on the right path to being a Specialist retailer but there is much more to come

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11

Digital Update

Author: Jeff Smyth   Sponsor: Pete Markey / Martin George   Date: December 2015

Executive Summary

Context

During 2015/16, Digital has achieved a number of trading breakthroughs; 6 consecutive weeks of income greater than £500,000, a highest ever trading week of £584,000 and achievement of 2014/15 full year revenue (£15m) by week 35. Digital income for 2015/16 is currently (week 35) trading at 95% of target and is forecasted to achieve a £21.5m full year out-turn – provided we retain focus on product competitiveness, maintain platform stability and execute planned customer journey enhancements.

Progress in Digital during 2015/16 has principally been achieved by an incessant focus on "executing the basics well"; successfully launching a rebranded website, improving customer journeys and using deep data analytics to maximise sales conversion. These fundamentals underpin high performance digital trading and, in tandem with a stable digital on-line platform, form the bedrock of success which will reinforced (again) in 2016/17.

Question(s) this paper addresses

As we reach the mid-point of Q3 2015/16, the Digital team are re-appraising their performance and future plans, specifically:

1. How we have performed in 2015/16 (trading and operationally) and what is required from whom to achieve year end income?

2. The emerging shape and composition of the Digital Delivery roadmap for 2016/17 and how to deliver that plan?

3. How to evolve longer term digital focus to support a balanced contribution across growth, cost reduction and innovation goals?

Conclusion

1. This update describes Digital 2015/16 in-year performance and our delivery intent for 2016/17.

2. The proposed Digital Delivery Roadmap aligns directly with growth objectives for 2016/17 and provides key enablement for Mails (Drop & Go), MoveMate (subject to business case approval), Digital Passports and Travel Hub (Travel Money & Travel Insurance combined in a Mobile Application).

3. In addition to the delivery roadmap, Digital have a broader aspiration to complement the growth and income protection agenda by acting as a key enabler of cost reduction and innovation – aligning our activity to corporate strategy and priorities.

Input Sought

Digital are seeking GE confirmation that the proposed Digital roadmap agenda matches GE expectations and is aligned with broader strategic business priorities. We are particularly interested in any GE guidance that is available to endorse and mobilise Digital contribution to cost reduction or targeted innovation priorities.

Executive Summary

Context

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Input

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1

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Key Achievements 2015/16

Trading & Income Improvement	Customer Experience
Holistic focus on achieving income commitments: • Embedded trading discipline and weekly review tempo • Extensive use of web analytics and sales funnel data • Increased decision making velocity to drive performance **Leading to:** • Record digital income >£500K on 6 consecutive weeks • Highest ever weekly digital income of £584K • 2015/16 income exceeding 2014/15 income by week 35	**Continuous improvements to customer experience:** • Successful Web Site rebrand and CMS upgrade • Mobilisation of a Digital Centre of Excellence with BoI • Improvements to Verify, Broadband and Mortgage (Dec) journeys • Enablement of customer Next Best Action product cross sell and Multi Variant Test/Optimisation of web pages • Better quality data for Branch Finder (on opening hours) • Internalisation of SEO, copywriting skills to improve web collateral and organic search rankings

People & Behaviours	Control & Stability
Building stronger relationships : • Senior leadership team with a deep Digital pedigree • Culture of service, agility and high response to support fast rate changes and quick change cycles • Proactive out-reach to 3rd party partners to share best practice on user centered design and optimization • Closer relationships with FinProm / Compliance • Tight coupling of decision making between Digital Marketing Spend /Sales Conversion review cycles	**A more stable operating environment has enabled:** • Improved trading infrastructure, less web site downtime by eliminating avoidable (i.e. non-DDoS attack) from 18 incidents over rolling 3 months to zero since 19/10/15 • Faster response cycle to web problem resolution through deeper relationships with Accenture, Atos and POL IT • Better DDoS attack response management (30min ramp up of countermeasures) and close integration of customer messaging through Social Media • Zero tolerance of web site downtime – all incidents are quickly reviewed to ensure understanding of issue triggers and resolution learning's

Digital have made excellent progress by consistently "executing the basics well"

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2

Web Site Rebrand

Old www.postoffice.co.uk

New www.postoffice.co.uk
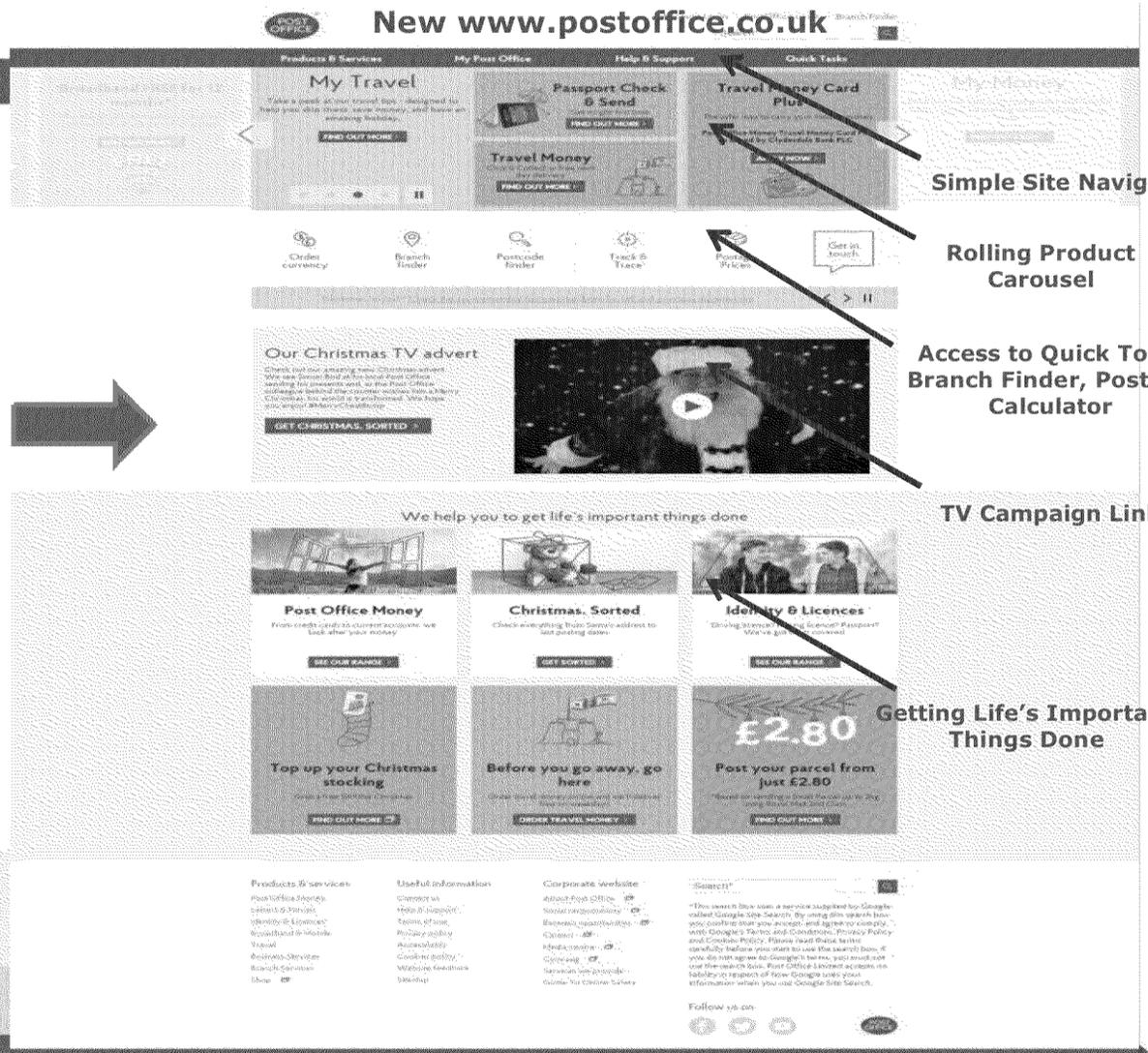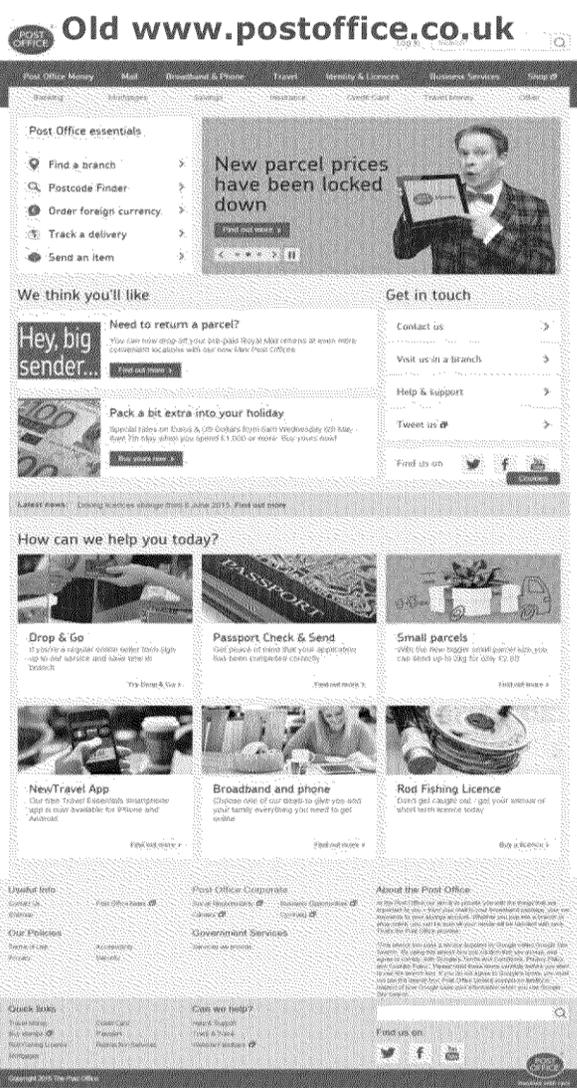
Simple Site Navigation

Rolling Product Carousel

Access to Quick Tools Branch Finder, Postage Calculator

TV Campaign Link

Getting Life's Important Things Done

Web Site Rebrand provides consistency with PO Money branding and a fresh intuitive interface for users

3

Digital in Action : Journey Optimisation

Issue:

- Travel Insurance Digital sales have been behind target since week 1
- The Digital journey on portable devices was converting extremely poorly: **~1%**
- The previous mobile journey was simply a squashed version of the website page
- Mobile users would have to zoom in and out of and scroll left and right on in order to complete the form: **>80% of users simply gave up!**

Impacts:

Approach:

- Create a new **mobile optimised** application process for buying Travel Insurance
- Customers trying to buy Travel Insurance from their mobile will have a clear and intuitive experience designed specifically for mobile user
- A combination of responsive and adaptive build methods were used in order to expedite delivery
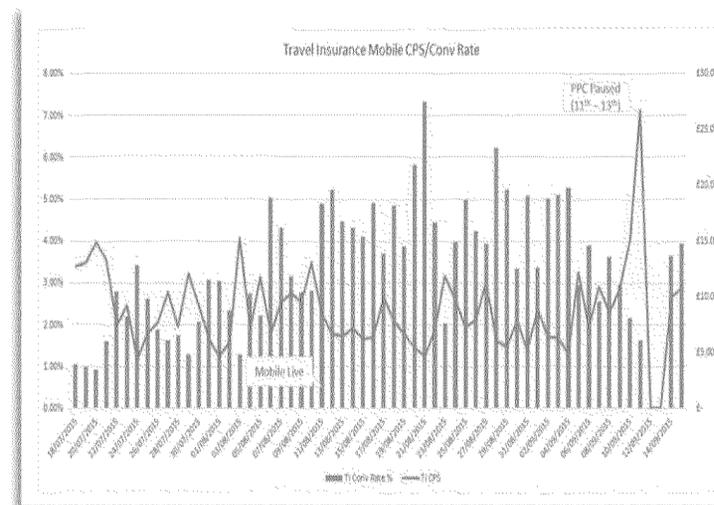
- Mobile share of sales increased by **87%**
- Journey conversion rate improved from **~1% to 4%**
- Portable devices now accounts for **>35%** of TI applications

Improvements to the mobile journey have also made our Digital Marketing more cost effective:

- Paid Search conversion rate has improved by **>80%**
- Driving more traffic to the mobile site via mobile ads
- Reaching new audiences that our b[...] has not previously enabled us to d[...]

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Journey improvement is being used to enhance conversion performance of underperforming products

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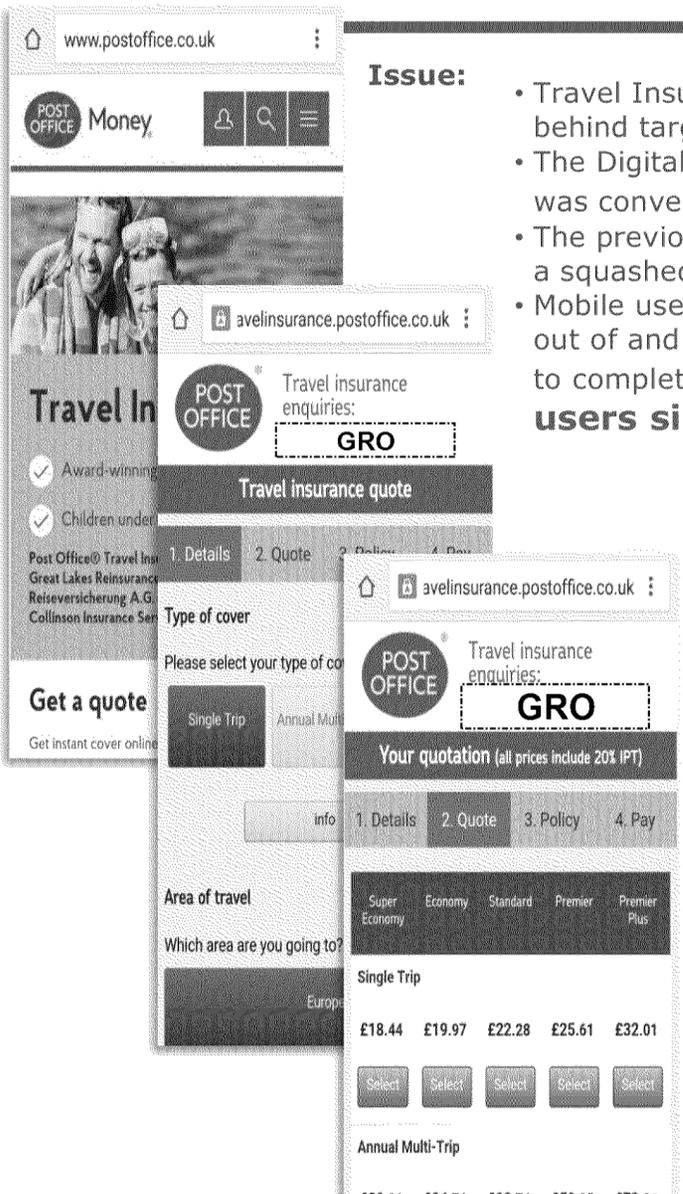
Digital Journ...
improvements...
significantly...
improved th...
performance...
Credit Card...
HomePhone...
Broadband proc...

June
July
August
September
October
November
YTD

IRRELEVANT

April
May
June
July
August
September
October
November
YTD

April
May
June
July
August
September
October
November
YTD

Income has improved significantly in Q2/Q3 – focus and attention is required to secure our FY target

5

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Achieving our FY Digital income target

Digital performance YTD has steadily improved :

-
-
-
-
-

IRRELEVANT

Although YTD performance to date has been encouraging, achieving the 2015/16 FY Digital target is not yet guaranteed and all teams need to work closely to ensure Q4 income is delivered:

What does Digital need to locally execute?
- Deliver customer journey improvements: Mortgages, Travel Insurance, Savings, Broadband/Homephone
- Work our conversion optimisation capability agenda harder – execute more multi variant testing (MVT) of pages
- Improve our SEO rankings by creating a richer portfolio of relevant content optimised for Google search

What do Digital need from Digital Marketing?
- Continue to deliver paid traffic from Aggregators, Affiliates and PPC that satisfies Cost To Acquire objectives
- Spot and capitalise on any tactical marketing opportunities to drive more traffic to our website
- Ensure that any Aggregator presence gaps (like Travel Insurance) are addressed at the earliest opportunity

What do Digital need from IT?
- Continued stability and a consistent end user performance experience for the web site
- No loss or filtering of customer traffic when the new DDoS solution is implemented
- A fast resolution response to any web infrastructure incidents or outages

What do Digital need from Product Teams?
- Competitive savings products (e.g. On Line Saver and On Line Bond) on sale to new customers
- Continued rate competitiveness of Credit Cards and Travel Money
- A significant uplift in Verify trading volumes during Q4

Achieving our 2015/16 FY income target IRRELEVANT *still requires significant co-ordination and effort*

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Extending our Capabilities

Digital will continue with "executing the basics" and we have identified extended enablers to support development of Digital Income and organizational capabilities

Make the customer experience brilliant

Be Digital everywhere

Use personalization and loyalty to delight our customers

Growing Digital d ↗ D

Provide easy omni-channel and assisted digital experiences

Think and be Mobile 1st in everything we do

Offer leading edge Digital products and services
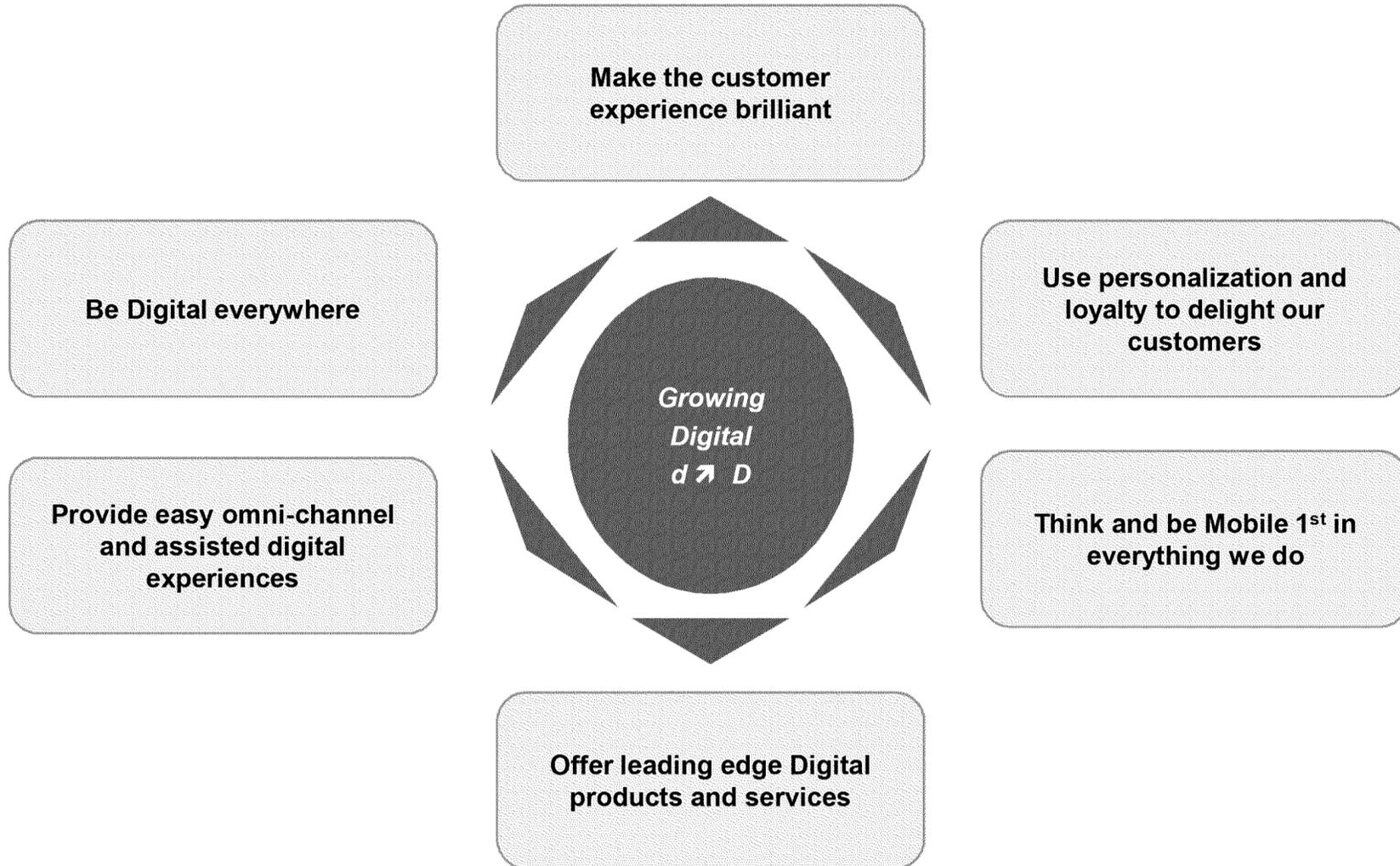
Our forward agenda builds out from "basics" to extended capabilities that increases value and impact

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7

Digital Centre of Excellence

As-Is: Transactional

Current operating model

- Ad hoc partner interactions
- Inconsistent, sub optimal customer journeys
- Reliance on external agencies
- No ownership of end-to-end customer journey
- Limited end-to-end analytics
- Slow pace of change

High cost to acquire customers, low return

- Increase marketing spend
  - Send more customers into a leaky funnel
  - Lose more potential customers
  - Increased costs
- Frequent changes of product rates
  - Less profitable
  - Reactive
  - Not customer centric

To-Be: Relationship

Planned Operating Model

- Collaborative PO/BOI relationships
- Integrated, seamless and consistent end-to-end journeys
- Common Design authority
- Expert in-house team and retained knowledge
- Rich data on E2E journeys, systematically delivered
- Rapid and agile change

Commercial sustainability

- Spend less
  - Reduce agency costs
  - FTE/C is more cost effective
- Reduce cost to acquire
  - More effective customer journeys
- Engage and convert more customers
- Fewer tactical product changes
  - Customer centric products
- More agile speed to market approach
- Use insight and data to target and personalise cross sales and up sales

DCoE has now been mobilized with BoI: now focused on improvements for Mortgages & Savings

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DCoE – Iterative Improvement Model

Business requirements
Competitor analysis
User research
User testing
Key messaging
User journeys
Wireframing
Prototyping
User testing

ITERATIVE PROCESS

Post Office
• Brochureware

Start

Data & Insight
• Web analytics
• ACoE outputs
• eBenchmarkers
• Complaints
• User testing

Brief Creation
• Customer journeys
• Wireframes
• Visual designs
• Prototype
• Requirements

Change Delivery

Testing & Implementation
• Functional
• Customer
• UAT
• Compliance
• Business comms

Live

3rd Party
• Application forms

DCoE are now using an iterative improvement model to incrementally improve journeys and sales

9

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Forward Digital Agenda

There are three key domains where Digital can focus attention.: Growth –Cost –Innovation.

Most Digital attention to date has been focused on growth and income protection activity.

Going forwards the Digital agenda should be fully aligned with transformation priorities including cost reduction driven initiatives or innovation enablers that POL needs to achieve to support customer, network or sales strategies

Moving from little d to Big D : Execute the Basics and Extend our Capabilities
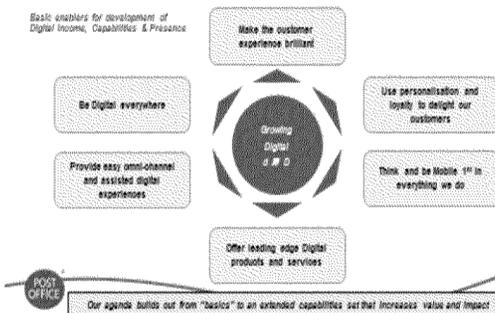
Digital intend to work with FinTech and Logistics incubators and technology accelerators to identify novel disruptive technologies for direct application , investment or white labeled branding – that are strategically aligned to our forward business agenda

① **Growth & Income Protection**

- How can Digital support the top line growth of existing products?
- Which new Digital products will be launched and how does Digital enable trading success?

Digital have consistently achieved YoY revenue growth – however this trading objective will become increasingly difficult without an expansion of the Digital product portfolio. The proposed Digital roadmap for 2016/17 is skewed to this activity domain.

② **Cost Reduction**

- Where does PO need to strip out cost and how can Digital support this work?
- How does Digital gain a mandate to contribute to cost reduction across the full value chain ?

Digital could be used to enable network cost reduction – however this would require an explicit mandate and line of sight alignment with Network strategy objectives.

③ **Innovation**

- In which key areas does PO need Digital innovation to support
- How does Digital gain a mandate to contribute to cost reduction across the full value chain ?

Digital can focus on a broad range of innovation enablers: Block Chain, Internet of Things, Big Data - however, if our to-be business model is principally "white label" then most innovation plays will be sourced from 3rd parties relationships rather than indigenous breakthroughs PO

Agreeing a range of strategically aligned Digital focus areas for Innovation & Cost Reduction is a priority

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Digital Delivery Roadmap 2016/17

ID	Task Name	Start	Finish	Duration	Q4 15				Q1 16			Q2 16			Q3 16			Q4 16			Q1 17		
					Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar			
1	CDP Customer Data Encryption Go-Live	01/12/2015	01/04/2016	89d																			
2	Post Encryption Stability Chill Period	04/04/2016	31/05/2016	42d																			
3	Drop & Go Online Account Go-Live	01/01/2016	01/06/2016	109d																			
4	Change Requests (Manifest 1)	01/12/2015	01/06/2016	132d																			
5	MoveMate Pilot Go-Live (Subject to Business Case Approval)	01/02/2016	01/07/2016	110d																			
6	Digital Passports	01/03/2016	01/07/2016	89d																			
7	Branch Finder Enhancements	01/01/2016	02/06/2016	110d																			
8	Change Requests (Manifest 2)	01/02/2016	01/07/2016	110d																			
9	MoveMate Scale-Up Go-Live	15/07/2016	15/08/2016	22d																			
10	Travel Hub Mobile (Basic)	01/12/2015	01/04/2016	89d																			
11	Travel Hub Mobile (+ MyAccount)	01/06/2016	01/09/2016	67d																			
12	Travel Hub Mobile (+ Loyalty)	03/10/2016	01/02/2017	88d																			
13	EA & RMG Tariff Changes	01/01/2016	01/04/2016	66d																			
14	BRANDS / Single Customer View (SCV) Options Assessment	01/07/2016	30/09/2016	66d																			
15	Change Freeze & Moratorium	01/09/2016	01/02/2017	110d																			
16	CDP Transition from Accenture to IBM	01/09/2016	01/02/2017	110d																			
17	Post Transition Stabilisation Period	01/02/2017	01/03/2017	21d																			
18	First IBM Developed Release	01/03/2017	01/03/2017	0d																			

The proposed Digital Delivery roadmap for 2016/17 is directed towards income generation & growth

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Digital Delivery Roadmap 2016/17

The Digital Delivery roadmap has been compiled to ensure common understanding and alignment to the proposed digital projects portfolio that will underpin income protection and growth in 2016/17. The plan anticipates 4 core Digital/CDP platform releases in 2016/17 – executed by Accenture prior to a change freeze that will allow IBM to assimilate the CDP environment and prepare for support transition in January 2017. Portfolio headlines include:

- An initial CDP backbone project release (1) executed by Accenture that encrypts all customer data on the platform. The final stage of this progressive bank of improvements will go-live in April 2016. Mandatory annual tariff changes for Royal Mail Group & Environmental Agency in April 2016 will occur in parallel

- A 2 month post go-live stabilisation period to confirm the efficacy and integrity of encryption changes

- A Release 2 (in June 2016) which comprises:
  - Drop & Go (Small Business Club) on-line enhancements (top-ups and activity statements)
  - Enhancements to the BranchFinder tool data set and website presentation
  - An initial package of mid-sized change requests that have been backlogged since September 2015

- A Release 3 (in July 2016) which comprises:
  - A MoveMate pilot (subject to Business Case approval) to prove out system dependent processes
  - Launch of Digital Passports (subject to final interface requirements confirmation by January 2016)
  - A second manifest of change requests

- A Release 4 (in mid-August 2016) to support the scale up of MoveMate, prior to a change freeze in September 2016 to faciliate transition to IBM in January 2016

- There will also be 3 non-CDP dependent Travel Hub releases of a PO Mobile Application (for Apple and Android) that will provide a full mobile enabled purchasing experience for Travel Money and Travel Insurance

This is an challenging roadmap for 2016/17 and extensive work is underway in December 2015 to mobilise delivery resources and assemble detailed delivery plans. PO is currently focusing significant attention on development of the Core Business Model, Customer, Product and Channel strategies and those outputs may influence this Delivery Roadmap and the broader forward Digital agenda.

Digital Delivery roadmap for 2016/17 focus is entirely on income generation and compliance activities

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Questions

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PAGE 1 OF 2

Concept Stores

Author: Radha Davies   Sponsor: Pete Markey/Martin George   Date: December 2015

Executive Summary

Context

- In 14/15 we have been focussed on delivering our customer promise through five customer focused concept stores which vary in cost, scale and ambition. They have all been designed to test the impact of a better branch environment on customer satisfaction, brand perception, effort metrics and NPS.

- The purpose of trialling different components in the different concept stores was to try and isolate the value of the different elements – i.e. their relevance, impact and hierarchy of importance to customers. The pilots have been evaluated using Voice of the Customer against our core metrics (e.g. Effort) as well as Nunwood's six pillars.

Question(s) this paper addresses

1. How have all the branch pilots performed?
2. What have the key learnings from the pilot been?
3. What are the next steps?

Conclusion

1. The pilots have delivered strong results overall with key learnings to take forwards. Customer metrics and revenue metrics have improved. Key learnings can be taken from Kennington Park and Oxford whilst the immaturity of the 3 more recent concept branches means it is too early to conclude on their performance.
2. Positive elements of the trials include better external design, improved in branch way finding, better open plan environment and use of digital screens inside and outside branch. Open plan desking and use of teller cash recycler have been less effective but were not material to the pilots. In Kennington Park, footfall has increased (12% up this year vs 4% down last year for rest of Crowns) and average weekly sales are up (13%) although underlying income is down due to sales mix. In Oxford, product recall has increased from 8% to 42% (due to use of new poster design) and branch sales are now up 8.7% YOY (vs 5.5% pre pilot) delivering an ROI of £5 for every £1 spent.

Board Intelligence Hub template

3. Learnings from Oxford now being rolled out into branch comms (including this Christmas). All other Oxford learnings now being rolled into new WH Smith franchises (working with the network team). Currently planning wider roll out of learnings with the network including business case for 16/17. Kennington Park early learnings incorporated into the 3 more recent concept branches. The go forward plan for concept branches is to work with network on taking key learnings into a further 20+ branches, then a further +75 with wider application from there. These plans are currently being shaped with network colleagues including a business case for 16/17.

Input Sought

We would welcome the GE's support to shape a more detailed plan to take the key learnings forwards and operationalise in the network in 16/17

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Concept Stores

Store Design & Development

GE Update
December 2015

Concept Stores were developed to deliver our customer promise through our branch environments

Context

- In FY 14/15 we have been focussed on delivering our customer promise (Helping you get life's important things done) in all the key areas shown in our 4 box model.

- To trial how we best deliver the customer promise in our Environments pillar, we developed 5 customer focused concept stores this year which vary in cost, scale and ambition.

- They have all been designed to test the impact of a better branch environment on customer satisfaction, brand perception, effort metrics and NPS.

- The purpose of trialling different components in the concept stores was to try and isolate the value of the different elements – i.e. their relevance, impact and hierarchy of importance to customers.

- The pilots have been designed to impact 3 of the Nunwood six pillars of customer experience excellence: **Expectations, Time and Effort**, **Personalisation.** The others are Integrity, Resolution, Empathy and we will endeavour to impact these through other initiatives in 16/17 as part of the wider customer strategy work.

- The components of the concept stores have been evaluated using Voice of the Customer against our usual metrics as well as Nunwood's six pillars. We will use this evaluation to develop cost effective, repeatable models for roll out to drive profitable growth.

2
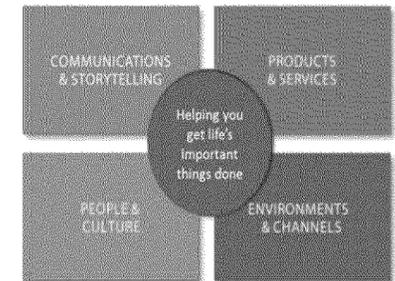
Kennington Park was our flagship concept branch

- Kennington Park 'test and learn' components included the following:
  - **New store front and facia** to impact on **Expectations**:
    - Customers can see into the store so they feel it is more relevant to them and their expectations of better service are improved.
    - They can see the store is more modern and appealing, increasing perceptions of credibility.
  - **Digital screens** to drive **Personalisation** by advertising products relevant to customers in that area (we ran analysis of local customer demographics, product requirements to achieve this)
    - In addition, screens promote products and raise awareness even when the store is closed, driving increased consideration from passing 'potential customers'
  - **Clear zoning** to impact on **Time & Effort** by dispersing the queue into appropriate service areas
    - Self - service customer journey was improved by clear signposting and ordering the journey in a logical sequence (retail display, wrapping station, SSK, postal slots) improving ease for the customer.
    - Slower paced transactions were also given their own zone, ensuring that customers received a higher level of staff attention because of open plan desking
    - Teller cash recyclers (automated cash desks) introduced to improve speed of service and reduce cash losses
  - More prominence given to PO Money throughout the store, with a branded ATM outside the store. There is also a private consultation room enabled to run 'virtual advisor' (ie remote selling of FS products (trial pending)

3

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Kennington Park

Before

After

Oxford was our low cost model concept branch model to understand the impact of way-finding and signage alone on the same metrics as Kennington Park

Oxford

- The Oxford concept store was different to Kennington Park in that it was limited to a one month trial in September.
- No exterior structural changes made to the store.
- All changes were intentionally restricted to interior way-finding signage and in branch communications
- The purpose of this was to identify low cost improvements which could positively impact the customer journey and be more cost effective to roll out at scale across the network.
- The customer journey was evaluated using state of the art heart rate monitors to measure the pain points, resulting in recognition that there are 4 phases to the customer journey in store.
  1. Approach 2. Welcome 3. Wait 4. Achieve (completion of your mission)
- Improvements were made to each phase of the customer journey

5

Oxford – 4 week trial only

Before
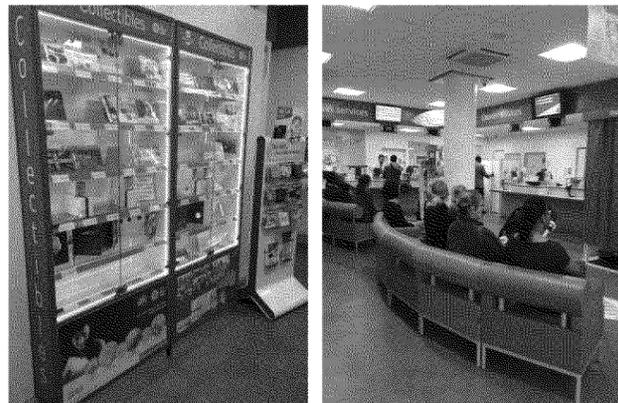
After

1. Approach : From an empty vestibule to one that communicates our customer promise and set expectations for the journey
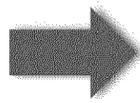
7

Maximising impact and establishing helpful tone and purpose

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2. Welcome: From cluttered and confusing wayfinding signage to clearly demarcated zones that helps customers navigate their options to complete their mission

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Clarity of navigation and consistent language - Translating customer experience into user experience
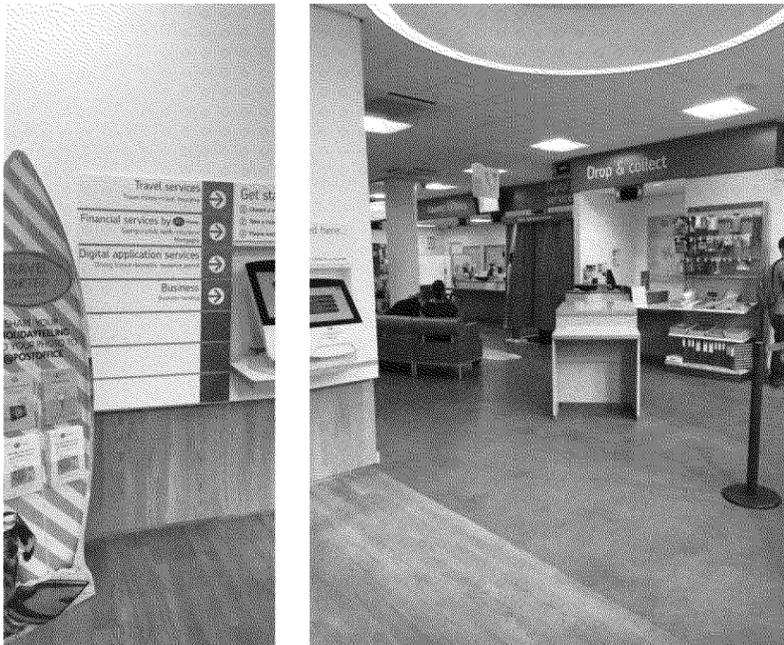
3. Wait: Simplified communications around the branch to make product messages more memorable and impactful.

Utilising a screen to deliver key messages and helpful product information and drive sales

9

4. Achieve : Using counter positions to complete the mission and leveraging messaging to prompt a colleague conversation and drive consideration rather overwhelming with details

Focused messaging that informs rather than advertises services

10

The final three concept stores have gone live at the end of October

- The purpose of the remaining three stores is to test and learn similar components as KP and Oxford, in very different customer contexts (customer demographics, priority products, store shape/size) in order to evaluate whether the learnings are repeatable and therefore relevant to the broader Post Office network
- We are testing combinations of the different components in the remaining three stores in order to drive isolation of impact of these components so we can evaluate them more robustly

- East Dulwich:
  - **Improved Shop Front** - New and more open shop front with digital screen and clearly highlighted ATM.
  - **Improved Signage** Over clad old and damaged counters, make counter screens less cluttered and introduce tablets and screens to promote our products and services and educate and inform customers whilst they wait. There is no space to do more than this internally
- Raynes Park:
  - **Improved Signage** Over clad old and damaged counters, make counter screens less cluttered and introduce tablets and screens to promote our products and services and educate and inform customers whilst they wait
  - **SSK Signage Improvements** through a more logical self service area layout
  - **Shop Front Improvements** In order to isolate the impact of the shop front components, changes will be implemented in two phases
    - Phase 1 - Fascia added in early Q4 to test the impact vs without
    - Phase 2 – Shop Front added in late Q4 to test the impact vs without
- Port Talbot
  - **New retail proposition** developed with the Retail Team taking learnings from the new 'Stationary by WHSmith' as per Paddington Quay
  - **Improved Signage** Over clad old and damaged counters, make counter screens less cluttered and introduce a screen to promote our products and services and educate and inform customers whilst they wait

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East Dulwich - Completed in P7

Before

After

Test & Learn:

Improved Shop Front - New and more open shop front with digital screen and clearly highlighted ATM (collar to be installed – date TBC)

Improved Signage Over clad old and damaged counters, make counter screens less cluttered and introduce tablets and screens to promote our products and services and educate and inform customers whilst they wait

Improved area behind the counters More organised and tidy reflect a more professional image
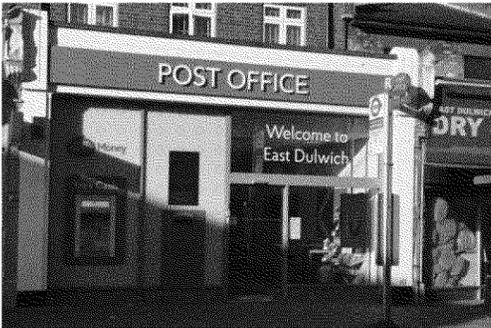
Raynes Park – Completed P7

Before
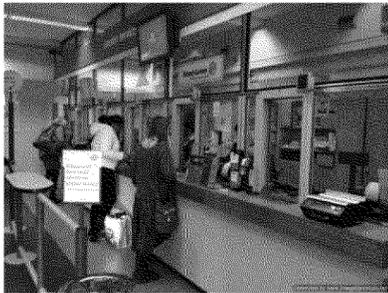
After

Test & Learn:

Improved Signage Over clad old and damaged counters, made counter screens less cluttered and introduced tablets and screens to promote our products and services, educating and informing customers whilst they wait for service

SSK Signage improved to be more informative and the layout of the journey has been done in line with KP learnings.

Next: Improved Shop Front–(we will make these changes in phases in order to evaluate impact on customer of the different component parts)

Phase 1 - Fascia added in early Q4 to test the impact vs without
Phase 2 – Shop Front added in late Q4 to test the impact vs without

Port Talbot - Completed P7

Before

After

Test & Learn:

New retail proposition developed with the Retail Team taking learnings from the new 'Stationary by WHSmith' as per Paddington Quay

Improved Signage Over clad old and damaged counters, make counter screens less cluttered and introduce a screen to promote our products and services and educate and inform customers whilst they wait

Questions

- This presentation seeks to answer the following questions in order to update the GE:

  - How have all the branch pilots performed?
  - What have the key learnings from the pilot been?
  - What are the next steps?

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Conclusion - How the different pilots performed

All concept stores are live and there has been a variety in the performance of different components in the trials with vital learnings from each at this stage:

Positive Learnings and elements that were effective:
- Open glazed store frontage has had a very positive impact on perceptions of modernity, appeal, ease and credibility as a financial service provider.
- Improved way finding, signage ad creation of clear zones for different types of transactions is a low cost and easy solution which has seen an 8% uplift in sales performance (ROI £5 at the Oxford concept store)
- Opening up the store facades (ie glazed frontage) and new prominent signage have positively impacted perceptions of modernity (+38%), ease (+26%), appeal (+31%) and credibility as an FS provider (+23%)
- Digital screens have been very positive in creating a more modern perception for the brand and therefore we will be integrating learnings across the existing technology roll out of AMScreen, and are currently evaluating the income potential of selling media space using these screens.

Elements that were less effective:
- Open plan desks & use of teller cash recycler instead of normal cash drawer has been less successful and therefore withdrawn. Learnings are that the TCR would be excellent to reduce till cash losses and speed up transaction times, however we cannot realise these benefits with the existing horizon terminals and therefore we have withdrawn these components until such time as new front office is live

16

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Research conducted Sept 2015 shows that reception to the new Kennington branch front was very positive; almost all customers preferred the new design, while scores for all aspects of design were significantly more positive vs. the old one

Old Design –
% completely/strongly agree

External Branch Front

New Design –
% completely/strongly agree

Old Design	
Stands out	18%
Looks modern	15%
Appealing to me	15%
Clear what kind of transactions/services can do	15%
Makes it easier for customers	13%
PO is a credible provider of financial services	13%

Kennington Park Before

Kennington Park After

4%

prefer Old Design

96%

prefer New Design

New Design	
Stands out	50%
Looks modern	53%
Appealing to me	46%
Clear what kind of transactions/services can do	42%
Makes it easier for customers	39%
PO is a credible provider of financial services	36%

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QB1/2. Thinking about the element you have just seen, how far do you agree with the following statements? **Base:** all seeing elements 1-3 (193)

Kennington Park performance metrics

- Voice of the customer data is the lead measurement tool for customer feedback in branch:
  - NPS has increased by 30% YOY. This is significant as this was previously a 'problem branch'. NPS is now at 55% and the network target is 57%
  - Easy to do business with (Effort) has increased by 46% vs same period last year

- Impact on sales performance is masked by underlying sales decline YoY. What we are seeing however, is a reduction in income decline which we believe is attributable to the better branch experience reported through VoC data:
  - Income is down YTD @ P8 vs P8 in 14/15 by -12.1%, however this deficit has narrowed since P6 when it was -15%.
  - Income in P8 15/16 is down 3.8% vs P8 14/15
  - But average weekly sales are up 13% in P8 compared with the rest of 15/16
  - Average weekly footfall over the last 4 weeks in Kennington is up 12% versus the rest of 15/16 despite being 4% down on the same period last year compared to the overall crown network which has seen static figures.

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Oxford concept store pilot results were strong

- Number of customers served in under 5 mins up by 35%
- Continued levels of SSK migration (exceeding Crown KPI's)
- +24% increase in customers agreeing the branch offered an easy experience
- +49% increase to customers agreeing that store signage was very clear
- +34% customers correctly recalling current campaign materials
- +8.4% increase in branch sales during the period of the trial
- Branch sales up 8.5% and overall ROI of £5 for every £1 spent

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| Reduction in queues | Increased use of services | Improvements to customer satisfaction | Better awareness of key product campaigns | Increased sales |

Customers served in <5 minutes
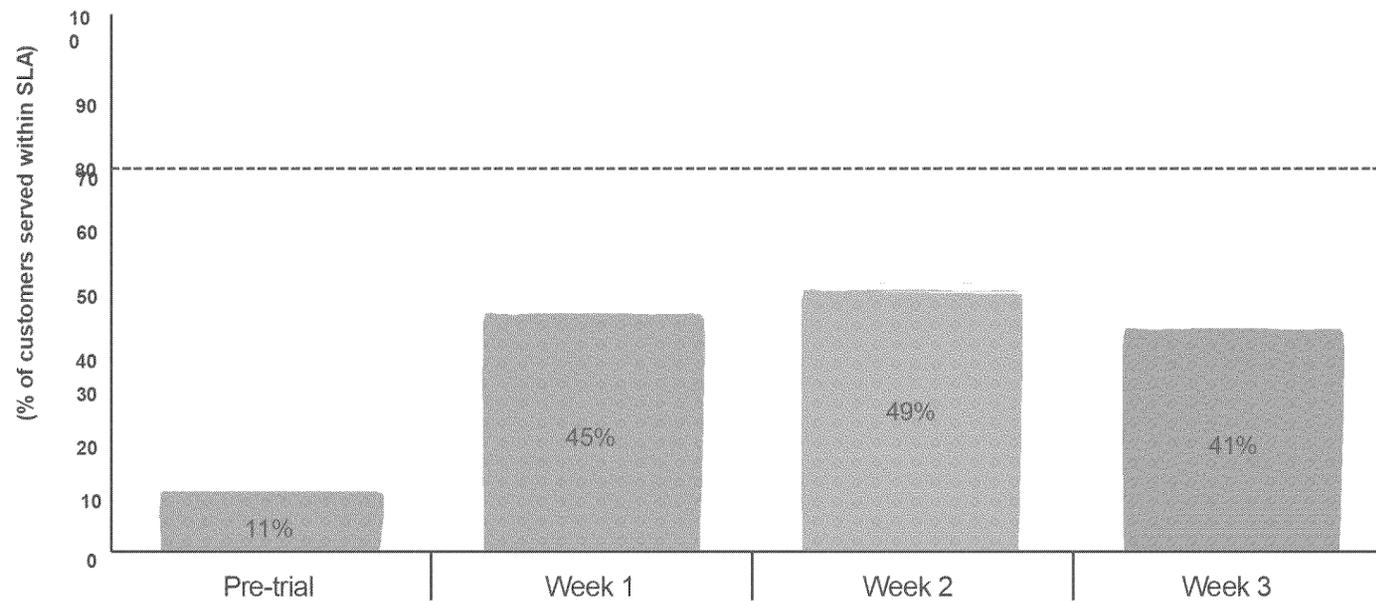
35%avg

Crown network KPI (71%)

Clarity of store zoning and simple service messages direct customers through the ticketing process in the most efficient way, maximising the efficiency of a system that had been previously lost or obscured.

Y-axis: (% of customers served within SLA)

X-axis: Pre-trial (11%), Week 1 (45%), Week 2 (49%), Week 3 (41%)

Reduction in queues	Increased use of services & systems	Improvements to customer satisfaction	Better awareness of key product campaigns	Increased sales

SSK migration

Migration (%)

78% 79% 80% 81% 79% 81% 77% 79% 72% 78% 77% 80% 82% 82% 81% 75% 80% 58% 79%

90%
70%
50%

6   8   10   12   14   16   18   20   22   24

Pre-trial | Week 1 | Week 2 | Week 3

KPI (80%)

Oxford
Control Group

Network KPI 60%

Ticket machine usage

(% of customers served successfully)

100
90
80
70
60
50

Pre-trial 73% | Week 1 72% | Week 2 74% | Week 3 71%

KPI (80%)
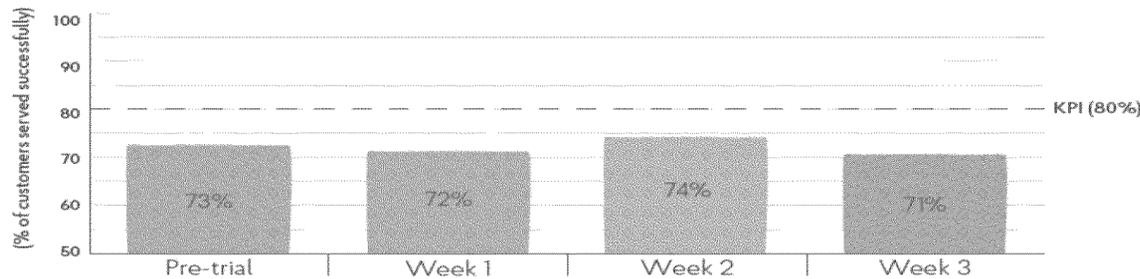
High usage of the ticket machine needed to be maintained in order to ensure customers were identifying and using the store systems correctly

| Reduction in queues | Increased use of services | **Improvements to customer satisfaction** | Better awareness of key product campaigns | Increased sales |

Customers who agreed the Post Office was an 'easy' experience
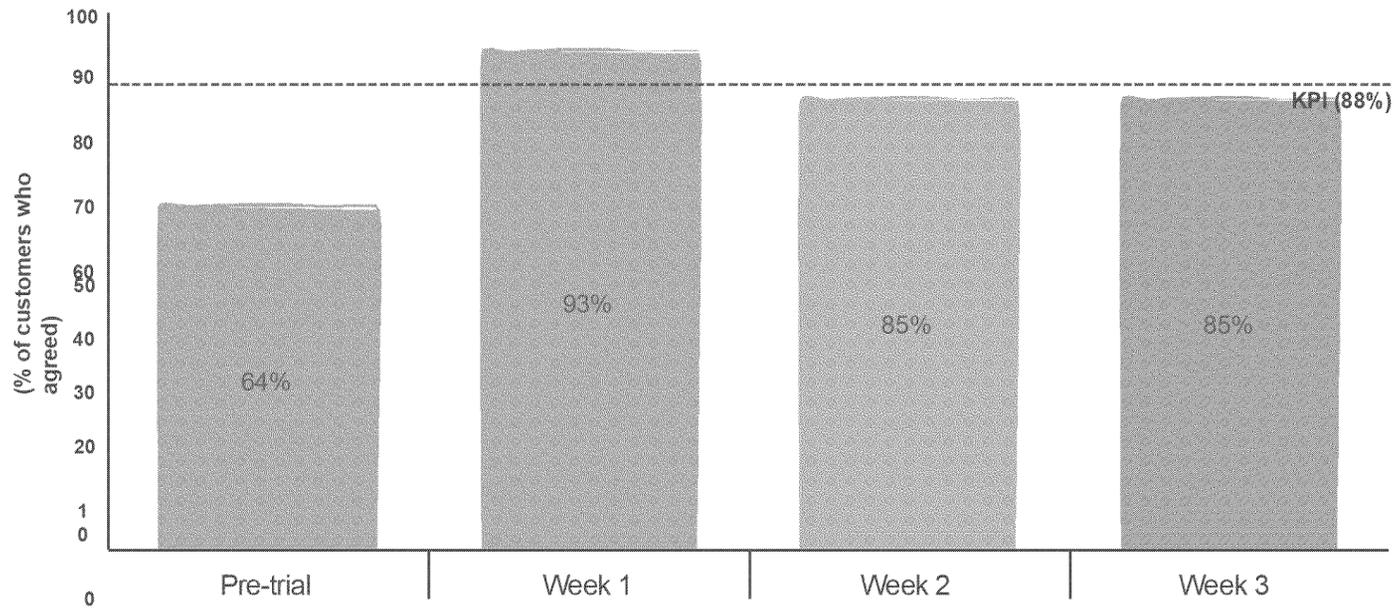
Significant increases throughout the trial as clarity of information and access have been improved. (in store research n=120)

Reduction in queues	Increased use of services	Improvements to customer satisfaction	Better awareness of key product campaigns	Increased sales

Signage clarity and campaign product recall

Avg increase of 49% of customers agreeing signage by store zone as being clear or very clear

Avg increase of 34% of customers correctly identifying current campaign information

Clarity KPI (80%)

Recall KPI (40%)

Clarity of signage

Recall of campaign product

Pre-trial: 42%, 8%
Week 1: 96%, 44%
Week 2: 91%, 41%
Week 3: 87%, 40%

| Reduction in queues | Increased use of services | Improvements to customer satisfaction | Better awareness of key product campaigns | Increased sales |

Sales income

Last 4 weeks vs same weeks last year

Avg. wkly income last 4 weeks vs YTD

Full Network	-8.0% / -6.1%
Crown network	-10.2% / -6.4%
Oxford	8.7% / -5.5%
Control group	-5.5% / -7.1%

Axis: -15.0%, -5.0%, 5.0%, 15.0%

Uplift

Overall the branch sales were up 8.7% YOY, the best results yet

Sources: VOC data, PO measurement in store research 2015

Our final three concept stores have gone live in P7

- We do not yet have any data for these stores as they have only been live for a month.
- We will be evaluating the performance monthly and reporting them on a dashboard similar to that for Kennington Park.

Conclusion: Next Steps

- The learnings from the Oxford pilot on changes to in branch communication has already been put into action in all branch comms developed to support product campaigns, including Christmas
- The zoning, wayfinding and signage learnings are being rolled out into new WHSmith franchises (working in conjunction with Julie Thomas' team). We are now working with the network team on their broader application
- We have rolled out learnings from Kennington Park concept store to the remaining three concept branches but it takes a couple of periods for the changes to bed in so we do not yet have robust evaluation to report.
- Once we start to get data back in Q4 on these stores, we propose that for the next financial year we would develop a roll out plan in two phases.
    - **Phase 1** will test and validate the benefit of the above solutions across a more diverse range of branch environments and customer's demographics. As agreed with Kevin Gilliland, this is critical to ensure that the learnings from the concept stores are validated and stress tested.   This would be for 20 branches (which have all been identified in partnership with Roger Gale and Julie Thomas)
    - **Phase 2** will then roll out further to the top 75 crown stores (strategically essential and most profitable) as this will give us the most impact.

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Input Sought

- We would welcome GE's support to shape a more detailed plan to take the key learnings forwards and operationalise in the network in 16/17

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Performance Report – Health and Safety

Author: Simon Eldridge   Sponsor: Neil Hayward   Date: 17th December 2015

Executive Summary

Context

1.1 Keeping our employees healthy and safe is fundamental to Post Office success. This is reflected in the Post Office Board's legal responsibilities – directors can be personally liable when health & safety duties are breached and members of the board have both collective and individual responsibility for health and safety. This paper gives the Board a comprehensive update on our health & safety performance and our work to promote wellbeing.

1.2 Our Health & Safety performance has improved significantly in the past 5 years and we have a rolling 3-year plan to drive health and safety compliance and risk reduction. The key risks of driving and robberies are the subject of mitigating activities. Our reporting and safety management system is measured against the externally recognised health and safety standard – OHSAS 18001. We recognise the importance that wellbeing can play in creating engaged and motivated employees and have developed and implemented an extensive wellbeing plan.

1.3 The aim for 2015/16 is to continue the year-on-year improvement by targeting a reduction in four key safety metrics: accidents; lost time accidents; days lost; and personal injury claims.

Questions this paper addresses

2.1 How are we doing against the four key safety metrics?
2.2 What are we doing to mitigate the key risks of driving and robberies?
2.3 What are we doing to improve the health and wellbeing of all employees?
2.4 Are there any significant emerging risks?

Conclusion

3. There is strong performance against three of the four key health and safety metrics. The exception is days lost, which is adverse to target due to 3 longer term absences resulting from sprain/strain injuries associated with relatively low risk activities. There is an extensive range of mitigating activities to reduce road risk although current performance remains slightly adverse to target. The majority of incidents are minor bumps and scrapes. There is also an extensive range of controls to reduce the risk of robberies and the number of robberies is currently at an all-time low.

4.   The roll-out of a second programme of health checks to all employees via face-to-face clinics and the use of stand-alone digital wellbeing kiosks continues across the Post Office with positive feedback from all areas. The emerging non-compliance and health and safety risks related to facilities management are assessed as low and are being mitigated by a programme of checks and inspections.

Input Sought

4   We ask the Group Executive to **note** the current safety and wellbeing performance.

The Report

Looking Back

WHAT HAS GONE WELL?

- Accident and lost time incident performance for the half year remains relatively strong. Accidents and 'lost time' accidents are down 29.7% and 23.1% respectively, on last year. (APP. I – Table 1)
- The volume and value of injury claims is another indicator of the effectiveness of the safety management system. The number of personal injury claims over the year remains at a very low level both from employees and members of the public.

IRRELEVANT

- Robberies involving Post Office Cash and Valuables in Transit (CViT) crews are significantly down on last year from 20 to 4 for the first 7 months of the year – an unprecedented low level of robberies. One of the incidents involved a robber with a gun. We are pleased to report that there were no significant physical injuries.
- A programme of wellbeing activity has been running for the past 12 months. Part of the plan has been to raise awareness of mental health conditions and the support available to those affected and those supporting them. Mental health conditions remain the single most common cause of longer term absence. The trend is positive with a reduction in days and incidents of 36% and 30.5% respectively.

WHAT HAS NOT GONE WELL?

- The number of days lost due to accidents has gone up compared to last year. Last year's performance was exceptionally strong. The increase relates primarily to three minor incidents involving low risk activities. The injuries have taken longer to heal than anticipated. Two of the three have now returned to work. The increase in days lost is not considered to be an indicator of a longer term overall increase in risk. In all cases the incidents were investigated and mitigating action taken to prevent a repeat including re-training, improved housekeeping and contact with the customer on whose premises the incident occurred. (App I - Table 2)
- The total number of road traffic collisions (RTCs) for the first 7 months of 2015/16 is up 8 from 159 to 167 compared to last year, Post Office driver 'at fault' incidents are up 18 from 82 to 100 on last year. (App II - Table 3)

Strictly Confidential

Looking Ahead

OPPORTUNITIES?

Road Risk: Driving activities have the potential for high impact/loss and therefore remain as a significant residual risk. We are mitigating this risk through the following opportunities:
- ➢ Road risk forum to scope and develop road risk reduction initiatives and activities supported by the risk management division of our insurers;
- ➢ Analysis and deployment of interventions for reversing incidents to mitigate the increased incidence rates, including yard assessments and technical accident reduction interventions on new vehicles e.g. Reversing aids to reduce accidents;
- ➢ Analysis and evaluation of data including risk profiling to identify drivers who need additional support and to determine further generic accident reduction interventions;
- ➢ Weekly case conferences to ensure consistent approach to accident investigation, follow up activity and sharing of good practice;
- ➢ Programme of driving and road risk communications to raise awareness of current and emerging risks;
- ➢ On-site coaching to improve slow manoeuvring skills e.g. reversing;
- ➢ Revised approach to incident management to be introduced in April including:
  - Driver welfare discussion;
  - In depth incident analysis with driver and risk profiling;
  - Training needs analysis and provision; and
- ➢ 'How's my driving' initiative introduced to provide other road users with a feedback channel via a contact number.
- ➢ Governance of all three areas of vehicle use (commercial, business car and private vehicle) is being tightened to mitigate the associated risks.
- • In addition, A 'road risk' manager is to be appointed within the Post Office Fleet Team to manage all aspects of road risk and driving safety within Post Office. Road risk remains one of the more significant 'residual risks' for Post Office.

Robbery Risk: Robberies have the potential for high impact/loss and remain as a significant residual risk. We are mitigating this through the following opportunities:
- ➢ Active liaison activities with the police to understand 'at risk' areas and to deploy surveillance teams;
- ➢ Increased use of 'advertising' on vehicles of new deterrent technologies e.g. DNA taggant – a solution that contains a unique identifier that is released automatically in the event of a robbery, spraying those involved and enabling identification of the individuals involved in the robberies;
- ➢ Piloting new point of transfer arrangements to reduce exposure at Post Office counters as the majority of robberies take place at the point of transfer which in Post Office's is the counter. The new arrangements allow for the cross pavement protection box to be emptied or filled in a secure location;
- ➢ Significant reduction in opportunities for duress-type robberies linked to the introduction of single person vehicles – single person vehicles eliminate the opportunities for Supply Chain employee duress incidents which historically have been the most violent and likely to involve significant injury; and
- ➢ Reduced access to ATM cassettes to mitigate the 'high prize' risk
- ➢ Ongoing monitoring of the risk profile to inform the assessment of the need, or otherwise, of body armour.

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Health and Wellbeing: We recognise the benefits that wellness can bring to the organisation and therefore there is an extensive programme of healthcare interventions to all areas of the business. Examples are:
- ➢ Second wide ranging programme of visits to Crown branches, Supply Chain units and Admin offices to offer health checks using equipment that provides a wide range of indicators on physical wellbeing. The anonymised data is used to develop future health and wellbeing campaigns and targeted interventions.
- ➢ Piloting of electronic health check kiosks for use in larger units
- ➢ The programme of visits is supported by an online 'Lifestyle on line' health check tool as a 'self-help' option. Active use is above the expected 'norm'.
- ➢ Ongoing campaign of communications to promote a range of different wellbeing issues
- ➢ Wellbeing events to promote general health, exercise and dietary initiatives – recent event at Finsbury Dials attracted significant interest
- ➢ Working with our Occupational Health Service partners to enhance the service provision and increase value for money

RISKS OR CONCERNS?

Property: Following the change in facilities management from ROMEC to Norland an element of regulatory non-compliance remains in terms of certification for lifts, lifting equipment, electrical testing etc. An urgent programme of lift inspections has taken place and a schedule for further 6 monthly inspections is being developed. A programme of 5 yearly electrical system testing is being undertaken. To date there have been no reports from the inspections and testing that has been carried out that would suggest that a significant health and safety risk exists.

In Conclusion

CONFIDENCE?

There remains some residual risk in relation to driving operations and CViT/Network robberies, both of which have the potential for high impact/loss. Any significant change in Supply Chain risk profile or service provision will require a full re-assessment of the position on body armour. Recognising this, we have robust mitigating activities in place to control these risks. All metrics indicate health, safety & wellbeing performance remains generally strong with effective safety management and mitigating activities where significant residual risks do exist.

Appendix I.

Table 1: Accidents and Absence (Lost Time) Accidents (Cumulative).
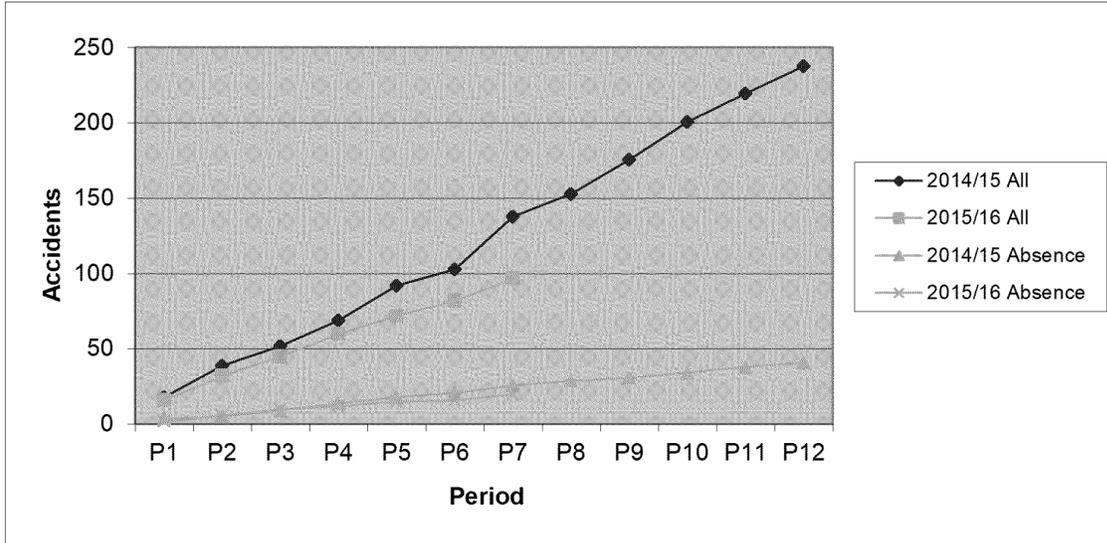
Table 2: Days Lost as a result of absence accidents (Cumulative).
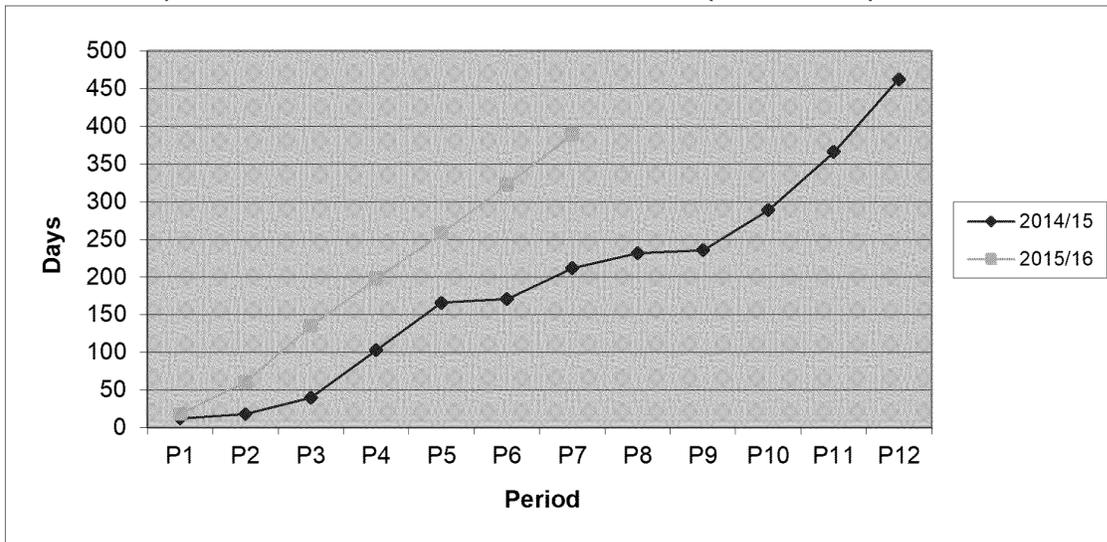
Appendix II.

Table 3 Road Traffic Incidents
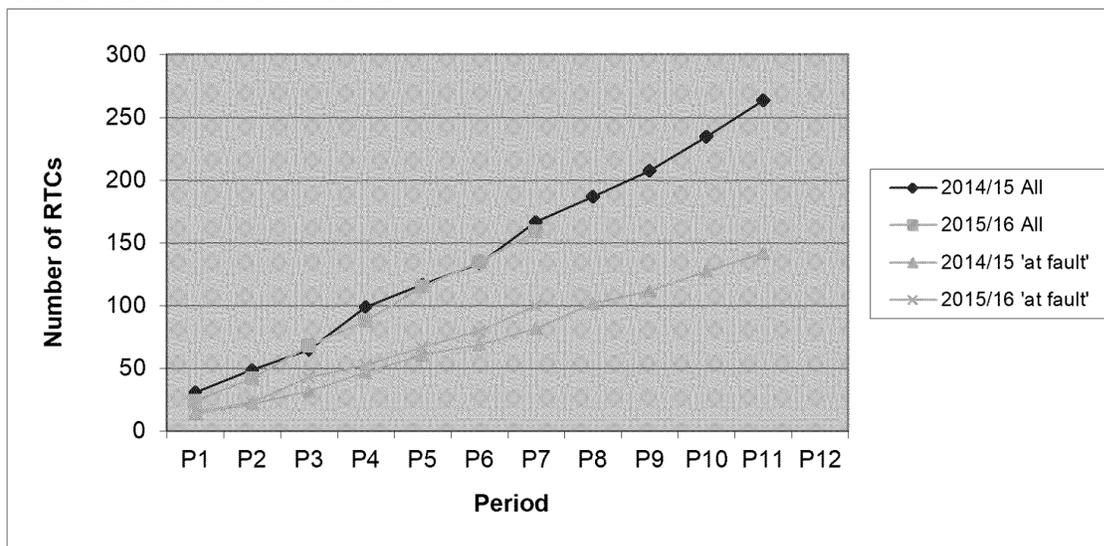
Table 4 – Injury Claims – Pre and post separation from RMG.
Pre 2012

Underwriting Years	Policy Class	Claim Count	Paid	Open Reserves	Incurred
Pre 2012	Employers' Liability	61	£502,593	£273,940	£776,533
	General Liability	19	£63,376	£130,700	£194,076
	Total	80	£565,969	£404,640	£970,608
Total	Total	80	£565,969	£404,640	£970,608

Post 2012

Underwriting Year	Policy Class	Claim Count	Paid	Open Reserves	Incurred
2012	Employers' Liability	8	£25,482	£36,707	£62,189
	General Liability	17	£70,736	£39,598	£110,334
	Total	25	£96,219	£76,305	£172,524
2013	Employers' Liability	10	£22,877	£113,045	£135,922
	General Liability	20	£36,785	£94,128	£130,913
	Total	30	£59,662	£207,173	£266,835
2014	Employers' Liability	22	£11,591	£158,456	£170,047
	General Liability	6	£0	£45,387	£45,387
	Total	28	£11,591	£203,843	£215,434
Total	Total	83	£167,472	£487,321	£654,793

Note: 13 of the 22 claims during 2014 relate to minor respiratory conditions associated with dust during Crown Branch Office improvement work at three offices.

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Risk and Compliance Committee (R&CC)		Reference: R&CC Oct 15
Date: 26 October 2015	Venue: Boardroom, Finsbury Dials	Time: 12:00 – 14:00
Attending:		
Jane MacLeod (JM)	General Counsel	Chair
Dave Carter (DC)	Financial Controller	On behalf of CFO
Paula Vennells (PV)	Chief Executive Officer	Member
Neil Hayward (NH)	Group People Director	Member
Alwen Lyons (AL)	Company Secretary	Member
Nick Kennett (NK)	Financial Services Director	Member
Mike Morley-Fletcher (MMF)	Head of Risk and Assurance	Report
Steve Miller (SM)	Head of Risk	Report
Garry Hooton (GH)	Head of Internal Audit	Report
Georgina Blair (GB)	Risk Business Partner	Minutes
Ola Omoyele (OO)	Portfolio Risk Manager	Report (Item 5)
John Scott (JS)	Head of Security	Report
Julie George (JG)	Head of Information Security	Report (Item 7)
Jonathan Hill (JH)	Head of Risk, Banking Regulation &	Report
Apologies:		
David Hussey	Transformation Director	
Alistair Cameron	Chief Financial Officer	

The Chair declared the committee quorate and opened the meeting.

Agenda Item 1, RCC minutes and actions

The Committee agreed the minutes of the previous meeting and the attached actions.

Re Action 1684, JM noted that a paper on the approach to compliance with the Corporate Governance Code would be going to the November ARC, but would be discussed at GE rather than RCC due to timing constraints.

Agenda Item 2, Risk framework implementation timetable

MMF explained the next steps in the implementation of the risk framework, which included working with GE and SLT to
- finalise the PO risk universe
- re-prioritise the risks on a net basis (after the application of controls) to produce a revised PO Risk Profile
- review our existing risk practices (tools and techniques) to determine what we need going forward and making sure this is used consistently across the business.

In addition, MMF explained that the Risk team were reviewing our General Control Framework (the key pervasive controls we have to direct and control the business) so that we can ensure we are gaining best benefit from it in managing our risks. The Committee noted that this control framework would be a useful input into the Total Operating Model.

Agenda Item 3, Policy framework

SM explained the proposed approach to developing a policy framework, a "top-down" view of our key policies. It was noted that the business was receiving an increasing number of due diligence requests from our banking partners and that many of our policies were no longer fit for purpose and needed to be reviewed. Having suitable policies is fundamental to demonstrating that POL is a well-controlled business in the regulated world in which POL now operates.

The Committee discussed the timetable, noting that it seemed ambitious given how much else was going on in the business at the same time. It was clarified that the timetable was split into two

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phases, i) defining the policy framework, and ii) remediating policies, and that the timetable applied to policies belonging to Corporate Services, who would be trialling the approach. The timetable for remediating policies for the rest of the business was yet to be determined.

The Committee noted that completing the policy framework and refreshing the key policies in the business would depend on engagement from the business and policy owners having resource available to update policies, and that the real challenge would be at the end of the timeline when it came to the implementation and training of policies.

The Committee discussed whether cybersecurity should be pulled out as a separate category because of its importance, but noted that the risk categories were those which had been presented to the Board in January.

DC asked whether there was a code of conduct for the business which covered things like conflicts of interest; he had newly joined the business and had not yet seen one. NH confirmed that there was a Code of Business Standards which had been refreshed this year. The Committee requested that NH ensure that an introduction to the Code of Conduct is part of the employee induction programme; that it is prominent (and easily located) on the intranet, and that it is reviewed regularly (annually) to ensure that it remains appropriate (Action 1689).

SM explained he was now starting to collect details of policies and that he would report back to the next RCC with an update on progress (Action 1690).

Agenda Item 4, Risk incidents

SM presented the summary of risk incidents which had been reported since the last RCC, noting that in particular two (restricted internet connectivity and limited SharePoint capacity in Leeds) incidents highlighted risks to the timetable of the Network Transformation Programme.

The Committee discussed the incidents, and asked if these issues had been known for some time, and if anything was being done about them. GB confirmed that the connectivity problem had been going on for up to a year, but that the problem with the SharePoint site was that it was slowing down as it was near capacity, and when it reached capacity the results could be very severe as the site held a lot of material that was key to achieving the aims of the NT programme. Enquiries had been made as to a solution but the SharePoint package was not supported by a third party at the moment so there was no support to help in moving any data out of the existing site.

The Committee noted that it was unclear where operational risks, for example the Leeds SharePoint capacity issue, were flagged and resolved in the business. The Committee discussed whether it was intended for the RCC to discuss operational issues and whether representatives from Network and IT should be present. The Committee agreed that it was important for the Committee to have an overview of the sorts of things that go wrong in the business, and to understand the processes in place to resolve them.

JM asked members to consider how the Committee should address its two objectives: (1) oversight of the management of risk across the business, and (2) review of papers before they are submitted to ARC. JM to review membership and function and provide updated annual agenda (AP1691).

The Committee requested that the incident reporting table be modified to include an update from the incident owner on current status (AP 1692).

Agenda Item 5, Business Transformation risk report

OO presented an update on Business Transformation risk. The Committee discussed the report and recommended modifications before it was presented to ARC.

Agenda Item 6, Security and Financial Crime risk report

JS presented an update on Security and Financial Crime risk. The Committee discussed the report and recommended modifications before it was presented to ARC.

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Agenda Item 7, Information Security risk report
JG presented an update on Information Security risk. The Committee discussed the report and recommended modifications before it was presented to ARC. Committee requested that the communications readiness (both message and resources) to respond to a potential data security breach should be reviewed to ensure we are well prepared (AP 1693).

Agenda Item 8, Financial Services risk report
JH presented the Financial Services risk report. The Committee discussed the report and recommended modifications before it was presented to ARC.

Agenda Item 9, Pensions risk report
JM explained that the Pensions Committee had now been disbanded so the pensions risk update would now go to the ARC, and therefore to RCC. The latest valuation of the pension had not been available for RCC, but would be included in the next update to ARC.

Agenda Item 10, Internal Audit report
GH updated the Committee on recent audit activity and asked Committee members for input into the audit planning phase, which was about to begin. GH to send NH the forward plan (AP 1694).

Agenda Item 11, Any other business
The Committee agreed that the Board Intelligence reporting format needed further modification. Risk team to work with report authors to improve risk report format (AP 1695).

Agenda Item 12 – Noting paper, POMS RCC minutes
The Committee were asked to note the POMS RCC minutes.

Agenda Item 13 - Noting paper, BCP & incident management update
The Committee were asked to note the BCP update.

Agenda Item 14 - Noting paper, Modern Slavery Act – briefing paper
The Committee were asked to note the briefing on the Modern Slavery Act.

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Action Summary and Updates					
Date	**Ref**	**Action**	**Lead**	**By**	**Update**
26/10	1695	Work with risk report authors to improve risk report format	Steve Miller	12 Jan	
26/10	1694	Send forward audit plan to Neil Hayward	Garry Hooton	1 Nov	Included in October RCC papers – ACTION CLOSED
26/10	1693	Review communications readiness (message and resources) to respond to a potential data security breach and update Committee.	Neil Hayward	12 Jan	
26/10	1692	Include update from incident owner on current status in incident reporting table	Steve Miller	12 Jan	
26/10	1691	Review membership and function of RCC and provide updated annual agenda for review	Jane MacLeod	12 Jan	
26/10	1690	Provide an update on progress of Policy Framework	Steve Miller	12 Jan	
26/10	1689	Ensure that introduction to the Code of Conduct is part of employee induction programme; that the Code prominent (and easily located) on the intranet, and that it is reviewed regularly (annually)	Neil Hayward	12 Jan	
07/09	1688	Obtain clarity on relationship between IT, ATOS and ISAG.	Jane MacLeod/ Julie George	26 Oct	AC & JM met Julie George and Colin Plett to discuss. ACTION CLOSED.
07/09	1687	Clarify how POMS will assure itself that POL is complying with POM's compliance requirements	Susie Hayward	12 Jan	Paper is being prepared for POMS Board and will be shared with RCC when ready.
07/09	1686	Require owners of audit actions to complete or update actions	Garry Hooton	26 Oct	Included in Agenda Item 10. ACTION CLOSED.
07/09	1685	Complete work covering assessment of current business continuity planning within IT, Network and Property; coordinate business wide incident management planning with work on buildings incident management	Mike Morley-Fletcher	30 Sept	Action completed – update Agenda Item 13. ACTION CLOSED.
07/09	1684	Prepare a paper for GE & then Board about approach to compliance with the Corporate Governance Code	Jane MacLeod	26 Oct	Paper in preparation. Will go to GE and then ARC due to timing constraints. ACTION CLOSED.
07/09	1683	Amend format of RCC Incident Reporting to include details requested by Committee	Steve Miller	26 Oct	Included in Agenda Item 4. ACTION CLOSED.
07/09	1682	Submit paper to September	Mike	16 Sept	Paper submitted to

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		ARC explaining next steps in improving the risk assessments	Morley-Fletcher		September ARC. ACTION CLOSED.
07/09	1681	Meet individually with Committee members and risk champions to improve articulation of top risks	Mike Morley-Fletcher	12 Jan	
08/15	1674	Provide a regular short update on Vulnerable Customer approach until this work is completed	Martin George	12 Jan	Work is underway – update will be given in January
05/15	1666	Conduct Risk Audit (FS) to be presented to the Committee	Garry Hooton	26 October	Included in Agenda Item 10. ACTION CLOSED.
01/15	1655	Prepare and implement a communications plan to raise awareness of the whistleblowing line	Steve Miller	26 October	Policy will be updated in line with policy framework review (see Agenda Item 3). Comms will be tailored to requirements of policy. ACTION CLOSED.

Next Meeting – 12 January 2016 Room 1.19 Wakefield 14.00 – 16.00

Group Executive
New Prosecutions Policy Proposal

Author & Sponsor: Jane MacLeod   Date: 17 December 2015

Executive Summary

Context

Prior to separation, RMG prosecuted suspected criminal activity in the Post Office network in England and Wales. Since separation, Post Office has assumed this function, adopting essentially the same policy as previously applied by RMG. Prosecuting suspected criminal activity in the Post Office network assists the protection of Post Office assets by deterring criminal activity.

As good housekeeping following separation from Royal Mail, and in light of public criticisms of Post Office which arose in relation to 'Project Sparrow', we have reviewed the Post Office prosecutions policy to ensure that the policy is robust and meets best practice.

Questions addressed in this paper

1.   What are the key points to note about the new policy?
2.   What are the implications for the board and the business?
3.   What happens to cases that are not approved for prosecution?

Conclusion

1.   The new policy replaces the previous policy which was inherited from Royal Mail.   It sets out the requirements which much be met before Post Office can launch a prosecution including in particular, the Code for Crown Prosecutors (issued by the Director of Public Prosecutions) which require the prosecution to be in the public interest, and for there to be evidence sufficient to provide a realistic prospect of conviction
2.   The fact of adoption of the new policy will not materially change the approach adopted in practice by Post Office. Set out in the Appendix is a summary of the approach being taken by Post Office where losses are suspected in branch.
3.   Where a case is not approved for prosecution in accordance with the Policy, it is likely that civil proceedings would be brought for recovery of debts as well as other steps as described in the Appendix.

Input Sought: The Group Executive is requested to approve the Policy.

Input Received: The draft policy has been reviewed by Post Office legal, Cartwright King (Post Office Limited's legal advisers on criminal matters to) and Brian Altman QC

…

The Report

Why do we need to create this policy?

1. On 26 February 2014, the Post Office Board formally approved "pursuing a prosecutions policy focussed only on high value cases/cases involving vulnerable members of society, and engaging with the police in relation to other matters". Adopting the updated Prosecution Policy Post Office will enable continue to be able to bring private prosecutions focussing on high value cases and/or those involving vulnerable members of society..

2. The proposed policy sets out the approach that Post Office will take when considering whether to commence a prosecution. The final decision as to whether Post Office Limited should commence prosecution will be taken by the General Counsel.

What are the key points to note about our new policy?

3. The draft Policy:

    - explains Post Office's approach to suspected criminal activity against Post Office business in England and Wales;
    - expressly states that a prosecution can only be brought where the evidence in the case passes the same two-stage test used by the CPS;
    - lists a number of public interest factors which might support bringing a prosecution; and
    - empowers Post Office's General Counsel to authorise prosecutions.

What are the implications for the board and the business?

4. No particular steps are required to roll out and embed the policy as this will be the responsibility of Post Office Legal and its external advisers on criminal law.

5. However we have been advised that the policy should be available on the Post Office Limited website, and that this is consistent with the practice of other organisations which conduct their own prosecutions.

6. Where an investigation is conducted and there is deemed to be sufficient prima facie evidence to support a charge and meet the public interest test, the investigation case papers are referred to Post Office's external lawyers who review the case against the same criteria and provide formal advice/opinion and a recommendation on whether to prosecute or not. The General Counsel is the business decision maker on the final decision of prosecution.

7. Where a prosecution is commenced, the case is kept under constant review to ensure that it continues to meet the evidential and public purpose tests; if not, the case is withdrawn.

How will we monitor compliance with this policy?

8.   It will be the responsibility of the General Counsel to ensure compliance with the Policy. A report will be provided to the Risk & Compliance Committee and the Board Audit & Risk Committee annually detailing the number of cases that have been referred to prosecution and confirming that in each case the requirements of the Policy have been complied with.

What will the impact be on our wider business?

9.   We do not expect there to be any adverse impact on Post Office business, however the existence of the Policy may assist in discouraging criminal activities within Post Office.

APPENDIX

What happens to cases that are not approved for prosecution?

1. As a result of lessons learned through Project Sparrow, Post Office has sought to identify potential issues earlier, provide more training and support to postmasters, and seek other responses to irregularities before considering prosecutions.

2. Two key objectives have been to (a) improve the way that we identify and monitor high risk branches, and (b) adapt the way that we deal with any subsequent interviews and recoveries. This is to ensure that the current resource and systems are utilised as effectively as possible to target intervention at high risk branches. There has also been more collaborative working within various teams in the business to drive this approach forward. This has been achieved through a Quarterly Governance Forum consisting of representatives from Security, Audits, Contracts and Cash Management and is responsible for ensuring that the risk of loss in branch is monitored, managed and mitigated in a consistent and effective manner, whilst maintaining an audit trail of investigation and decision making. This also provides a supportive forum to ensure a joined up approach in dealing with high risk branches.

3. In addition, the following have also been introduced or improved:
    *   HORice (a Fujitsu development) is a tool which facilitates the earlier identification of losses, and although it hasn't proved to be fit for purpose in identifying risk branches across the network, it does give further depth to individual branch analysis / problem solving and allows access to 6 months of data rather than the 3 months of data available on Credence.
    *   FAT reports / processes – review and re-engineering of identification and analysis processes, improved management information and measurement of results.
    *   Security / Agent Debt Team - Security Financial Investigator is supporting the Agent Debt Team in respect of debt recovery by sharing access to Land Registry, Equifax and Companies House. Agent Debt Team has shared access to 192.com.
    *   Branch Technology Transformation Programme – input into requirements and attendance at workshops to try and simplify some of the transactional and process issues and to reduce areas where losses can occur or be hidden.

4. Where losses are identified in branch as a result of risk profiling, there are a series of options available to Contract Advisors including further training, inclusion on a watch list, audit and (precautionary) suspension. In all cases the objective is to minimise losses and where possible, recover actual losses from the Sub-Postmaster.

5. Depending on the outcome of an investigation, and depending on whether the sub-postmaster is on a New Model or Traditional Contract, there are further options, the ultimate contractual sanction being termination.

Impact of Sparrow on Prosecutions

6. Up until 2013, Post Office averaged c.250 investigations into possible criminal conduct each year, of which c.50 resulted in prosecutions.

7. Post Office supported many of these prosecutions with expert evidence provided by a Fujitsu employee. Following the publication of Second Sight's first report in July 2013, Post Office was advised that in order to successfully prosecute cases that relied on Horizon data, it would need to identify and instruct a new, independent expert who could provide evidence confirming the reliability, integrity and robust nature of the Horizon system.

8. Post Office was also advised that the new expert should produce a report collating all known information about Horizon (including defects and their resolution). Without such a report, Post Office would be unlikely to satisfy the "evidential stage" of the CPS two stage test (such that the prosecution should not be started) and would be unable to comply with its duties of disclosure as a prosecutor which include recording and retaining information relating to the integrity and robustness of equipment.

9. Obtaining this expert evidence has proved difficult given Horizon's age and complexity. Without it, Post Office's ability to bring prosecutions is severely proscribed. For example, only two prosecutions were brought in 2015, neither of which required evidence from Horizon.

10. Accordingly, Post Office increasingly relies on civil remedies (e.g. contract termination and debt recovery action) to address wrongdoing and recover losses.

11. Investigations and prosecutions have significantly dropped since the publication of the Second Sight report. The investigation resource has also reduced accordingly, from 30 FTEs down to 15 FTEs (Wave 1). These roles are multi-skilled with the primary focus on situation crime prevention for physical attacks and post incident management, with limited capacity for investigations.

Risks

12. There are a number of resource constraints on Post Office's ability to detect, monitor, and investigate potentially criminal activity:
   - Within the Security team this is the responsibility of the Financial Crime Team who are also responsible for monitoring money laundering activity;
   - The team currently responsible for conducting branch audits have Transformation activity as their primary responsibility. Accordingly, the number and timing of risk based audits is constrained. For example, the number of scheduled audits (110 audits) has been reduced from 50 to 30 per month, and in each of the last 2 years no 110 audits have been conducted between December and March.

POST OFFICE LIMITED

PROSECUTION POLICY FOR ENGLAND AND WALES

TABLE OF CONTENTS

Section   **Page**

1. INTRODUCTION

1.1   Post Office Limited is a private limited company, wholly owned by Government.

1.2   It has been entrusted by Government to provide a number of services of general economic interest to the public through its branches across the UK.

1.3   Criminal offences against Post Office Limited's business, in particular theft, fraud and false accounting, adversely impact its customers and commercial partners, and challenge the viability of the services Post Office Limited provides.

1.4   Post Office Limited is committed to deterring and reducing criminal offending against its business by investigating offences, and by taking such action as it considers appropriate in the circumstances of the case.

2.   POLICY SCOPE

2.1   Post Office Limited has been an independent company since its separation from Royal Mail Group on 1st April 2012, retaining an investigative and prosecution function.

2.2   In England and Wales, Post Office Limited performs both investigative and prosecuting functions using external service providers for some of these functions.

2.3   In Scotland and Northern Ireland, Post Office Limited's Security Team carries out investigations and decides whether to refer a matter to the Crown Office and Procurator Fiscal Service in Scotland, or to the Public Prosecution Service in Northern Ireland. Post Office Limited does not make the decision to prosecute, nor does it carry on prosecutions, in Scotland or Northern Ireland.

2.4   The present policy is intended to explain the approach that Post Office Limited will adopt when it is suspected that crime has been committed against its business in England and Wales.

2.5   This policy applies equally to Post Office Limited employees, postmasters, operators, contractors and customers, as well as to any other person alleged to have committed a criminal offence against its business in England and Wales.

3. POLICY OBJECTIVES

3.1 The general objectives of this policy are to:

3.1.1 ensure that Post Office Limited takes a fair, consistent and proportionate approach to criminal enforcement;

3.1.2 provide Post Office Limited decision makers with guidelines enabling them to reach appropriate criminal enforcement decisions;

3.1.3 inform the public and our commercial partners of the general principles Post Office Limited will use to guide its criminal enforcement decisions;

3.1.4 deter and reduce the commission of criminal offending against Post Office Limited's business;

3.1.5 preserve and maintain the viability and integrity of the services Post Office Limited provides to the public which criminal conduct comprises;

3.1.6 protect Post Office Limited's physical and financial assets; and

3.1.7 recover monetary losses and assets resulting from criminal conduct committed against its business.

4.   ENFORCEMENT OPTIONS

4.1   Post Office Limited's "**Contract Breach**" policy document [1] sets out how Post Office Limited decision makers may act in relation to serious breaches of contract by postmasters operating postmaster contracts, and by operators of the New Model Contracts.

4.2   Where applicable, Post Office Limited will have regard to the terms of the "**Contract Breach**" policy before considering whether or not prosecution will be the most appropriate response to an allegation of crime.

4.3   If a criminal investigation is considered appropriate, it will be conducted by Post Office Limited's Security Team in accordance with the "**Conduct of Criminal Investigations Policy**" document.[2]

4.4   Post Office Limited often works in partnership with police forces and other enforcement agencies, particularly in cases where offences are alleged to have been committed by persons who are not Post Office Limited staff, agents or contractors, or where violence is alleged to have been threatened or used against Post Office Limited personnel or property, or where offences are alleged to have been committed against both Post Office Limited assets and/or personnel and assets of another agency.

4.5   In cases of the type referred to in paragraph 4.4, Post Office Limited may:

4.5.1   invite the police and/or other enforcement agencies to investigate the allegation(s);

4.5.2   pursue a joint investigation with police and/or other enforcement agencies;

4.5.3   investigate the allegations without recourse to police or other outside agencies;

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[1] Version 5.0 dated 7th April 2014, as revised or re-issued from time to time.

[2] Issued 29th August 2013, as revised or re-issued from time to time.

4.5.4   invite another prosecuting agency to prosecute the matter;

4.5.5   pursue a joint prosecution with another prosecuting agency; or

4.5.6   pursue a prosecution without recourse to another prosecuting agency.

4.6   The choice of enforcement option may depend on factors such as, but not limited to, those matters set out in paragraphs 5.7 and 6.3 below, as well as the likelihood of non-compliance with, and the likely effectiveness or consequences of, any other enforcement options available.

4.7   Where the nature of the offence is so serious or the shortage or loss so substantial that enforcement action other than criminal action is inadequate and might lead to delaying criminal investigation and enforcement, Post Office Limited may move expeditiously to take criminal enforcement action.

5.   GENERAL PRINCIPLES OF CRIMINAL ENFORCEMENT

5.1   When making any decision whether to prosecute a person for a criminal offence, Post Office Limited will apply the Code for Crown Prosecutors issued by the Director of Public Prosecutions,[3] as well as the further considerations set out in this policy document.

5.2   The decision whether to prosecute in any individual case will be taken with due diligence and expedition.

5.3   Post Office Limited will have regard to the Human Rights Act 1998 and the European Convention on Human Rights.

5.4   Post Office Limited will comply with the:[4]

- disclosure obligations under the Criminal Procedure and Investigations Act 1996 (and the Code of Practice issued thereunder);
- Protocol for the Control and Management of Unused Material in the Crown Court;
- Attorney General's guidelines on Disclosure and on the Disclosure of Digitally-Stored Material;
- Criminal Procedure Rules and the Criminal Practice Directions;
- Attorney General's guidelines on the Acceptance of Pleas; and

5.5   Each case will be approached according to general principles of fairness, consistency and proportionality.

5.6   Fairness and consistency do not require Post Office Limited to take a uniform approach in every case; rather it means adopting a similar approach in similar circumstances to achieve similar ends, taking into account the particular circumstances of each case.

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[3] Currently the 7th Edition, issued January 2013, but revised and re-issued from time to time.
[4] As may be revised and re-issued from time to time

5.7 Proportionality means that Post Office Limited action will be proportionate to the seriousness of the offence, the strength of the evidence against the alleged offender, the harm done by the offence, the impact of the offence on the community and on the services Post Office Limited provides and its business, taking into account the costs to Post Office Limited of investigation and prosecution as weighed against the likely outcome.

6. THE DECISION TO PROSECUTE

6.1 A prosecution can only be brought where the evidence passes the two-stage test for prosecution set out in the Code for Crown Prosecutors. [5]

6.2 In order to satisfy the two-stage test referred to above (the "Full Code test"):

6.2.1 there must be evidence sufficient to provide a realistic prospect of conviction (the "evidential stage"); and

6.2.2 the prosecution must be in the public interest (the "public interest stage").

6.3 Where the evidential stage of the Full Code test is satisfied, in addition to the public interest factors set out in the Code for Crown Prosecutors, additional public interest factors that might justify a prosecution by Post Office Limited include where:

- members of the public have suffered loss;
- a victim of the offence was particularly vulnerable (for example by reason of age, infirmity or physical or mental disability);
- the offence involves a serious or significant breach of trust;
- the actual amount of the shortage or loss to Post Office Limited, in particular where the conduct has resulted in a significant or substantial financial shortage or loss;
- the offence has or is likely to have an adverse impact on Post Office Limited's business, brand, image or reputation;
- the offence (or the concealment of the offence) is sophisticated, involves multiple transactions, or was committed over a lengthy period of time;
- there is a history of similar past offences or misconduct;
- an innocent party has been falsely blamed or accused;
- the particular circumstances of the offender (such as his/her age, physical or mental condition, his/her general character or

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[5] Currently the 7th Edition, issued January 2013, but revised and re-issued from time to time.

reputation, whether there is an absence of evidence of any previous offending or default);

- the particular circumstances of the offence (such as the pattern of offending, and whether it was, for instance, the result of deliberately calculated acts to benefit the offender);

- whether any or all of the shortage or loss has been (or realistically will be) repaid to Post Office Limited;

- any early voluntary disclosure or confession by the offender;

- the deterrent effect of a prosecution on the offender and others;

- any unreasonable or inordinate delay by Post Office Limited in reaching a decision;

- the cost of prosecution to Post Office Limited relative to the likely penalty on conviction and likely recovery of loss or shortage (although no decision will be made on this factor alone).

6.4   Following a decision to prosecute, Post Office Limited will keep the case under continuous review. Should it appear to Post Office Limited at any time that the case no longer satisfies the evidential stage of the Full Code test, or should Post Office Limited conclude that a prosecution no longer satisfies the public interest stage of the Full Code test, then Post Office Limited will discontinue the case without undue delay.

6.5 No prosecution will be commenced or continued in circumstances where it is, or it becomes likely, that the courts may regard the prosecution as oppressive, unfair or an abuse of the process of the court.

7. DECISION MAKING

7.1 The decision to authorise prosecution, or any other decision under this policy, will be taken by the General Counsel for Post Office Limited, or any other member of the Post Office Legal Team to whom the General Counsel may delegate that authority, acting from time to time on the advice of external lawyers.

7.2 The decision to prosecute will be taken openly and transparently. The decision and the underlying reasons for it will be recorded in writing and retained by Post Office Limited until the expiry of a period of not less than six years following the conclusion of the case.

7.3 Prosecutions in the Magistrates' Court and the Crown Court are conducted by Post Office Limited's in-house lawyers, external lawyers or appointed agents.

8. RECOVERY: CONFISCATION, COMPENSATION AND COSTS

8.1 Post Office will in each case consider whether or not to exercise its rights to recover any shortage or loss resulting from the offender's criminal conduct, as well as the costs of prosecution, subject to the general principles of fairness, consistency and proportionality.

8.2 Where Post Office Limited seeks to exercise its rights to recover a shortage or loss, it will do so by seeking orders for:

- Restraint against assets owned or controlled by suspects;
- Confiscation under the provisions of the Proceeds of Crime Act 2002;
- Compensation;
- Costs covering the investigation and prosecution; or
- Any combination of such or similar orders.

9. THE ACCEPTANCE OF GUILTY PLEAS

9.1 In appropriate cases prosecutors will consider whether any offer of a plea to any particular charge meets with the scope and objectives of this Policy.

9.2 The decision whether to accept any offer of a plea or pleas rests with Post Office Limited only, acting on the advice of the prosecutor.

9.3 In cases where a defendant seeks to admit guilt on a basis other than that advanced by the prosecutor, Post Office Limited will only consider an offer of a plea or pleas where the offer is expressed in writing and in the form of a recognised 'Basis of Plea' document signed by the defendant or on his/her behalf by his/her representative. Post Office Limited is not bound to accept any such offer of plea or pleas.

9.4 In cases where the charges are expressed in the alternative and the defendant accepts the prosecution case without qualification, Post Office Limited will consider whether to accept a plea or pleas of guilty to particular charges by reference to the scope and objectives of this Policy.

9.5 In cases where the charges are expressed in the alternative and the defendant seeks to admit guilt to particular charges on a basis other than that advanced by the prosecutor, paragraph 9.3 of this Policy will apply.

9.6 In any case where a defendant seeks to enter a guilty plea or pleas on a basis not agreed by Post Office Limited, Post Office Limited will invite the court to hear evidence to determine the facts upon which the defendant is to be sentenced.

10.   REVIEW

10.1   This policy supersedes any previous Post Office Limited criminal enforcement action or prosecution policy document.

10.2   This policy will be reviewed annually.

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Policy version:

Policy owner:

Date of policy implementation:

Date for review of this policy:

Formal approval of policy by:

Signed: Name:

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