

Post Office Board Agenda



Date	
25 September 2018	
Start Time	Finish Time
11.45hrs	16.00hrs
Location	
1.19 Wakefield	

Present	In Attendance
<ul style="list-style-type: none"> • Tim Parker (Chairman) • Paula Vennells • Ken McCall • Alisdair Cameron 	<ul style="list-style-type: none"> • Tom Cooper • Tim Franklin • Shirine Khoury-Haq • Carla Stent
	<ul style="list-style-type: none"> • Jane MacLeod (Company Secretary) • Veronica Branton (Minute Secretary) • Owen Woodley (CEO, FS&T) • Debbie Smith (CEO - Retail) • Tom Moran (Network Development Director)
	<ul style="list-style-type: none"> • Martin Kearsley (Banking Framework Director) • Rob Houghton (CIO) • Mark Siviter (Director of Mails)

Agenda Item	Action Needed	Purpose	Lead	Timings
1. Welcome and conflicts of interest	Noting	To note any new declarations of conflicts of interest.	Chairman	11.45 – 11.50
2. Minutes of previous Board and Committee meetings including Status Report	Approval	Minutes formally agreed.	Jane MacLeod	11.50 – 11.55
3. CEO Report	Noting and Input	Group CEO to update the Board on the report.	CEO	11.55 – 12.15
4. Financial Performance Report	Noting and Input	CFOO to update the Board on the report.	CFOO	12.15 – 12.35
5. Government Spending Review	Discussion	To discuss the Government Spending Review.	Al Cameron	12.35 – 12.55
6. FS&T Performance Report	Noting and Input	To update the Board on FS&T performance.	Owen Woodley	12.55 – 13.15
Lunch				13.15 – 13.45
7. Banking Framework 2	Noting and input	To update the Board on the Banking Framework. <i>Additional papers are located in the reading room.</i>	Debbie Smith / Martin Kearsley	13.45 – 14.45
8. Project Solar	Approval	To seek the Board's approval of the Project Solar Business Case	Debbie Smith / Tom Moran	14.45 – 15.00
9. Mails Strategy Update	Noting and Input	To update the Board on the Mails Strategy.	Debbie Smith / Mark Siviter	15.00 – 15.15
10. Back Office Transformation	Approval	To seek the Board's approval of the additional drawdown.	Al Cameron/ Rob Houghton	15.15 – 15.35
11. Modern Slavery Act	Approval	To seek the Board's approval of PO Limited's statement on the Modern Slavery Act.	Jane MacLeod	15.35 – 15.45

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12.	Postmaster Litigation (Verbal)	Noting and Input	To update the Board on the Postmaster Litigation, including contingency planning.	Jane MacLeod	15.45 – 15.50
13.	Items for Noting				15.50 – 15.55
	13.1. Sealings	Noting	For the Board to be aware of the affixing of the Seal.	Jane MacLeod	
	13.2. Health & Safety	Noting	To update the Board on Health & Safety.	Al Cameron	
	13.3. Future Meeting Dates	Noting	For the Board to note the future meeting dates for 2018.	Jane MacLeod	
	13.4. Forward Agendas	Noting	For Board to note.	Jane MacLeod	
14.	Any Other Business				15.55 – 16.00
CLOSE					



POST OFFICE LIMITED BOARD MEETING

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 31 JULY 2018 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 11.45 AM

Present:	Tim Parker	Chairman (TP)
	Paula Vennells	Group Chief Executive (PV)
	Ken McCall	Senior Independent Director (KM)
	Tom Cooper	Non-Executive Director (TC)
	Tim Franklin	Non-Executive Director (TF)
	Shirine Khoury-Haq	Non-Executive Director (SK)
	Carla Stent (by phone)	Non-Executive Director (CS)
	Alisdair Cameron	Chief Financial and Operations Officer (AC)
In Attendance:	Jane MacLeod	General Counsel & Company Secretary (JM)
	Veronica Branton	Minute Secretary (VB)
	Cathy Mayor	Finance Director, Retail (CM) (items 8&9)
	Roger Gale	Network & Sales Director (RG) (item 8)
	Martin Kearsley	Banking Director (MK) (item 9)
	Ben Foat	Legal Director (BF) (item 10)
	Jonathan Hill	Compliance Director (JH) (item 10)
	Angela Van-Den-Bogerd	LRG (A VDB) (item 11)
	Owen Woodley	CEO – FS&T (OW) (item 12)
	Jeff Lewis	IT (JL) (item 13)

Apologies: None

ACTION

INTRODUCTION AND CONFLICTS OF INTEREST

- a) A quorum being present, the Chairman opened the meeting.
- b) The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

1. BOARD RE-APPOINTMENT

The Board **NOTED** the decision of the Department of Business, Energy and Industrial Strategy (BEIS) to re-appoint Tim Parker as Chair of Post Office Limited for a four year term until 30 September 2022.

The Board congratulated Tim on his reappointment.

2. ANNUAL REPORT AND ACCOUNTS 2017/18 (ARA):

- a) Report from the Audit, Risk and Compliance Committee (ARC)

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Tim Franklin provided an overview of the discussion at the ARC meeting held earlier in the day. Three adjustments had been approved and the EBITDAS figure for 2017/18 had been confirmed as £35.46m. The wording of the group litigation statement had been discussed and a slightly shortened CEO statement had been received. Discussions had taken place with the auditors in the meeting and in the closed session.

The Board **RESOLVED**, on the recommendation of the ARC, to **APPROVE** the ARA 2017/18, subject to finalisation of the CEO's report and other minor changes, and to delegate signing authority to the Chairman, Group CEO and CFOO.

b) Report from the Remuneration Committee ('Remco')

Ken McCall provided an overview of the discussion at the Remco meeting held earlier in the day. The Committee had discussed the outturn of the annual (Short Term Incentive) bonuses for 2017/18; outturn of the LTIP payments for 2015/18; and LTIP measures and targets for the 2018/21 performance period noting the proposed EBITDAS "on target" figure for 2020/21 was £90m. The Committee had agreed also to submit the proposed base pay increase (2.5%) for the CEO and CFOO to UKGI.

The Board

- NOTED the annual bonus outturn for 2017/18 and performance under the LTIP 2015/18 and the resulting payments for the Executive Directors based on an EBITDAS figure for 2017/18 of £35.46m (rounded up to £35.5m)
- **RESOLVED**, on the recommendation of Remco: to **APPROVE** the LTIP measures and targets for the 2018/21 performance period.

3. APPOINTMENT OF EXTERNAL AUDITORS

AC reported that EY had not participated in the tender process. Only PwC and Deloitte had bid and based on the scoring criteria, PwC had ranked highest on both service quality and cost. The Board noted the following potential conflicts and proposed mitigations:

- PwC were remuneration advisers to Remco – based on the advice of the Chairman of Remco this was not considered to be a material conflict;
- The lead partner in the PwC team was also the lead partner at Morrisons where Paula Vennells was a Non-Executive Director. To ensure that PwC retained sufficient independence it had been agreed that an additional partner would attend some PO Limited ARC meetings. PwC were also the auditors for each of BoI and FRES (where Paula Vennells was the Chairman of the Board). It was noted that each of those audits was undertaken by a separate team and accordingly the Board considered that although there was a potential conflict, this could be managed.

It was reported that PwC were not on the government framework so potential conflicts with other advisory work were limited.

The Board **RESOLVED**, on the recommendation of the ARC, to **APPROVE** the appointment of PwC as the provider of Post Office Limited external audit services and to delegate authority to the CFOO and Micheal Passmore, Finance Director, to resolve the minor outstanding contractual issues prior to signing the contract, and authorised the signing of the Engagement Agreement.

4. MINUTES OF PREVIOUS BOARD AND COMMITTEE MEETINGS INCLUDING STATUS REPORT

The minutes of the meeting of the Board held on 24th May 2018 were **APPROVED** and **AUTHORISED** for signature by the Chairman and the notes taken of the discussions at the

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Strategy Day were **NOTED**.

5. CEO's REPORT

a) Paula Vennells updated the Board on of the following recent issues:

- the deployment of branch counter hardware was due to be completed in September 2018 in line with the current 95%+ roll-out success rate. Jason Black had driven through much of this work and the Board and asked for their thanks to be conveyed to him
- the Everest discussions had moved forward and change control notices were being prepared for signature. Work was underway to operationalise these changes.
- a meeting had taken place with the CEO of Verizon who had agreed service credits for delivery failures
- performance for Travel products was behind plan largely due to the warm weather resulting in increased 'staycations'. Performance in August was not expected to be impacted to the same extent as much of the business in that month related to pre-booked family holidays
- we had advised Bol that we would not discuss the sale of the credit card book until we had agreed the wider negotiations. Bol had agreed that we needed to have signed off a deal by the end of October 2018
- Kelly Tolhurst MP had formally taken on the PO brief
- PV had met Andy Furey from CWU last week. CWU were keen to agree a pay deal and, while they disagreed with DMB franchising, this was not the primary focus of their current discussions with PO Limited.

b) A number of points were raised, including:

- The extent to which underperformance in Travel was linked to disruptors in the market and whether Post Office could challenge market insurgents sufficiently. It was reported that we did adjust rate to be competitive in identified branches. We did not seek to adjust online rates to match firms like Revolut which had very low often zero profit margins. However, our pricing was dynamic and we could adjust quickly when required. This marketplace was changing rapidly and it was requested that the background information provided for the away day should be updated and circulated to the Board. **OW**
- next steps for the negotiations with RM. It was reported that Paula Vennells was going to have a follow up meeting¹ with the new Chief Executive of RM to discuss opportunities for developing the contract. PV was also meeting Sue Whalley, the UK Chief Executive of RM, in the next week. RM had its next Board meeting in September 2018 and were keen to have made progress with contract negotiations by then
- Mo Kang's CV would be circulated to those Board Members who were not Members of the Nominations Committee **VB**
- Martin Edwards should be invited to give a half hour demonstration on the digital identity developments before the next Board Dinner **VB to**
- whether there had been a full shut down test of the Belfast data centre. It was reported that there had not been a full shut down test and that we did not wish to do this until we had migrated off POLSAP. Shirine Khoury-Haq would discuss our hot back-up arrangements with Rob Houghton **liaise with ME**
- an item on cyber security would be added to the Board agenda in October or November 2018 **RH**
VB to
liaise
with RH

¹ The Chairman and Chief Executive had meet the Chief Executive of RM following his appointment to the role.

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- c) The Board **NOTED** the CEO's report.

6. FINANCIAL PERFORMANCE REPORT

- a) The CFOO introduced the report and highlighted a number of issues:
- trading figures were on target taking account of the Telco budgeting error. Mails were holding up well. FS&T should come back on plan. The higher fees for POca had only just been triggered. Verify was trading well but Government had flagged it wanted to reduce the fee. The main concern was IT costs where it had proved harder to drive costs out than we had initially estimated.
- b) The Board **NOTED** the Financial Performance Report.

7. UKGI QUARTERLY REPORT

- a) The CFOO introduced the report and highlighted a number of issues:
- we were around £8m underspent against funding in the last quarter. We had involved the Finance Directors from across the business in planning for the next quarter. The nature of the portfolio was changing and we were aware of the need to improve our change planning processes now that much of the work was cross silo
 - funding for Payzone would come out of trading profit and not funds provided by UKGI.
- b) The Board **APPROVED** the submission of a request for £50m of Q2 funding from UKGI.

8. CE PERFORMANCE REPORT - RETAIL

- a) The Chairman welcomed Cathy Mayor and Roger Gale to the meeting. CM introduced the report on behalf of Debbie Smith, Chief Executive Retail. The following were reported:
- b) It was reported that overall Retail performance was holding up well. The following issues were raised:
- POca numbers had now reduced below the threshold at which higher fees were triggered².
 - RMG had previously flagged that as a result of GDPR they expected mail volumes to reduce (with a consequential impact on their UK trading profit) and it was queried whether this had eventuated?
 - the Competition and Markets Authority (CMA) continued to raise questions in relation to the panther acquisition, although the formal Merger Clearance process had not yet been triggered. We continued to believe that the earliest we would receive clearance would be towards the end of September 2018³. Market rumours suggested that Paypoint was likely to challenge the acquisition on state aid grounds;
 - Discussions with RMG continued and the focus was on loosening exclusivity. It was noted that it would be helpful for the Board to understand what the opportunities might be if this were to happen (for example, what we could do with Payzone, where there other brands/products that may become available that we couldn't engage with today etc.
 - there was significant competition in the international mails market and we were watching this closely
 - the Board was pleased to see very positive customer feedback. The target had been increased from 78% last year to 82% this year and were running slightly ahead of the new target. Feedback was collected primarily through Voice of the Customer, a service which was managed for us. 36,000 individual pieces of customer feedback had been collected but there was also some focus group feedback. Post Masters were encourage to listen to what customers were telling them and respond to that.

² It was reported that we had done an interest rate swap in the Spring so that around 50% of the impact of a rate change was hedged; therefore, we would not gain as much from an interest rate rise as we would have done previously.

³ provided that we were not required to proceed to stage 2 of their process.

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c) The Board **NOTED** the report.

9. BANKING FRAMEWORK

a) The Chairman welcomed Martin Kearsley to the meeting. MK introduced the paper and highlighted a number of issues:

- since discussing the future of cash earlier in the year management had considered further how we would negotiate with the banks on the value of the service we were providing them through the Banking Framework. We had looked at how the framework was working at the moment and how we could develop new revenue lines
- From a timing perspective there was only one opportunity to change the framework [IRRELEVANT]s and we were [IRRELEVANT]. The contract operated on a [IRRELEVANT]. [IRRELEVANT] The first opportunity for the banks [IRRELEVANT] was [IRRELEVANT] f [IRRELEVANT] however management believed that there were compelling reasons for the banks to want to [IRRELEVANT]
- We are proposing a [IRRELEVANT] from the increased closure of bank branch closures. [IRRELEVANT] that would sit side by side with our [IRRELEVANT] There was also scope to consider how the banks might wish to invest in technology which could enable PO Limited to offer a fully automated route in branch as well as a counter based service.

b) A number of points were raised, including:

- the potential total value of the development of the Banking Framework, and the estimated trading profit per annum. It was noted that Post Office should maximise the potential benefits. The banks would not wish to [IRRELEVANT] [IRRELEVANT]
- whether there had been similar types of structural changes in other industries and if so, whether there was a model and methodology that could be relevant? For example, [IRRELEVANT] It was noted that often had started to describe this as a [IRRELEVANT] and looking at how it and we run this
- knowledge of the marketplace was critical for us at this stage and the team now included individuals with relevant banking experience. We needed to understand the pros and cons, the size, and the delivery feasibility of each model we considered. We then need a delivery strategy
- we needed to understand at what point the banks would consider the Post Office [IRRELEVANT] [IRRELEVANT]
- the banks would be looking at the [IRRELEVANT] and we only played a small part in this; however, we needed to understand their [IRRELEVANT] view. They might be willing to take a [IRRELEVANT] and we needed to find a [IRRELEVANT] as a business seeking to be commercially sustainable. We also needed to understand the implications of the banks [IRRELEVANT]s
- it was recognised that this was a complicated piece of work which needed to be properly resourced; however, the transactional part of the [IRRELEVANT] and [IRRELEVANT] [IRRELEVANT] or we would [IRRELEVANT] with the banks
- it was noted that online transactions would grow exponentially and that was why the long-term position was so important. We did not want to [IRRELEVANT] [IRRELEVANT]

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- we needed more [REDACTED] within the banks and drawing on Board contacts to do this would be very helpful. [REDACTED] and [REDACTED] could [REDACTED].
 - an update was requested for the September Board Meeting and it was noted that it would be helpful to have a timetable against which progress could be measured. [REDACTED] should be involved in the discussions as our negotiation proposals were developed.
- c) The Board **NOTED** the report.

10. CORPORATE STRUCTURES I

- a) The Chairman welcomed Ben Foat and Jonathan Hill to the meeting. Jane MacLeod provided an overview of the rationale for changing the corporate structure and how this might evolve. The proposal to set up a holding company above Post Office Limited was pre-emptive to facilitate known strategic developments (such as Peregrine). Two parallel work streams were proposed:
- 1) getting approvals to set up the holding company. This would be required from the Special Shareholder, as would FCA approval because establishing a holding company would lead to a technical change of control for PO Insurance
 - 2) analysis of options for both the development of the group structure and the future group operating model
- b) A number of points were raised, including:
- whether there were any alternatives to setting up a holding company. It was reported that theoretically Post Office's current business operations could be hived down into one or more subsidiaries or Post Office Limited itself could, in theory, become regulated, but both of these options was less attractive
 - the importance of ensuring that any resultant structure was 'simpler to run'
 - the need to replicate the protections the Special Shareholder currently had in place under the current corporate structure and it was **AGREED** that this would be added to our design principles. Oversight of group activities had to remain with the holding company
 - ensuring that the current VAT arrangements remained in place was critically important
- c) The Board **RESOLVED** to **APPROVE**, in principle:
- the creation, of a Holding Company above PO Limited, noting that further approval would be sought before putting into operation the new structure, e.g. transferring / restructuring employees, assets, governance, subsidiaries etc.

BF/ JH

11. POSTMASTER LITIGATION (including contingency planning) –Subject to Legal Privilege

- a) The General Counsel Jane MacLeod noted that during July Post Office Limited had received a claim from 123 Post Masters that they should be accorded 'worker status' and that they had made an unquantified claim for unpaid holiday pay. Work was underway to assess the impact and defend the claim, and a QC had been appointed. Some claimants were also part of the PM litigation

In relation to the Postmaster Litigation, the GC provided the following update:

- witness statements were being gathered and were due to be exchanged during early August
- Following receipt and review of the witness statements our QCs would be able to update the Merits Opinion
- The application for Security for Costs (arising from our view of the flawed terms in the Claimants' insurance policy) continued. We expected that this issues would be addressed during September 2018

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- the two IT experts continued to review documents relating to the issues to be addressed for the Horizon trial. We expected the scope of the Horizon trial to be agreed in the next month.
- contingency planning was underway stemming from an analysis of the likelihood and impact of any of the implied contractual terms put forward by the claimants being found against us. 'Likelihood' was assessed by reference to the legal advice we had received and 'impact' a business based assessment.

The GC referred to the development of a contingency planning paper – an example of which was shown to the Board. This categorised four potential areas of response to each risk identified: contractual changes; communications; operational changes (e.g. training); and system changes (e.g. Horizon). The contingency planning would identify what responses could and should be implemented ahead of receipt of the trial judgement irrespective of its outcome, as well as those that would only be implemented following receipt of an adverse judgement. The Board would be provided with updates at subsequent meetings.

c) The Board **NOTED** the update.

12. FRES UPDATE

a) The Chairman welcomed Owen Woodley to the meeting. OW introduced the paper and highlighted a number of issues:

- we had ongoing input from Fenchurch and KPMG in **IRRELEVANT**
- **IRRELEVANT**
- the market was challenging and Fintechs were becoming much more active
- Bol were **IRRELEVANT** however Post Office **IRRELEVANT**
- Perella Weinburg has been appointed by Bol as their firm of advisors
- A further update would be provided at the September 2018 Board Meeting on the wider negotiations with the Bol, however as reported previously, both sides had recognised the need to reach substantive agreement by end of October 2018
- Following conclusion of the wider Peregrine negotiations, we would reconsider whether

b) A number of points were raised, including:

- the argument for resolving the wider Peregrine negotiations before considering the **IRRELEVANT** were compelling. It was also thought that this could be the **IRRELEVANT**

• **IRRELEVANT**

- Bol group was leading on the negotiations now and the indications were that they did not want to re-start the process from scratch. The main points of disagreement were

c) The Board **NOTED** the update and next steps.

13. EVEREST

a) The Chairman welcomed Jeff Lewis to the meeting. JL introduced the report and highlighted the following:

- The objectives for Project Everest (being the re-negotiation of the Fujitsu relationship) had been delivered and were now being operationalised. In particular:
- g the decision to move from Fujitsu's proposed K5 platform to Microsoft Azure. Change notes had been signed which would begin to deliver savings

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- an update on the move from the Belfast Data Centre would come to the September Board
- Fujitsu had agreed to move £3m spend from opex to capex although we had been aiming for £5m.

b) The following points were discussed:

- JL explained that we were working together with Fujitsu to develop digital delivery capability. Fujitsu were not advanced in this area but were developing quickly and bringing in new people with expertise in agile
- JL reported that we were having workshops with Fujitsu regarding the Belfast exit plan. We had received a proposal from Fujitsu which set out a very cautious approach with a long delivery time. We had asked to look at other options.
- The current contract continued until 2023 but the moving to cloud architecture and our ownership of the intellectual property gave us much greater scope to choose a different path in the future.
- whether the penalty measures for any failure by Fujitsu to deliver were appropriate and sufficiently onerous. JL reported that we had built in penalty measures/ service credits but that these were not perfect; however, we were in a good position on intellectual property rights. The risk of non-renewal would become a more effective bargaining chip over time
- whether we were ensuring a modular build such that we would transition more easily to one or more new suppliers over time, and whether there were exit provisions that allowed this. It was noted that the exiting the Belfast data centre and moving onto the cloud was a critical component of being able to move to a new provider in the longer term.

JL

c) The Board **NOTED** that we would:

- close Everest as a project, complete transition and embed the new service models and operating processes
- separate out the Belfast data centre refresh/transition to cloud, and run this as a programme for which would seek separate approval from the Board.

The Board had already agreed the principle of moving to variable cost and migration to cloud architecture and the Belfast exit programme would set out how and when this should take place.

14. BACK OFFICE TRANSFORMATION

a) AC introduced the report and highlighted a number of issues:

- we had said at the May Board that September 2018 was the earliest feasible migration date from POLSAP and we were now targeting October 2018
- integration testing was underway. Some elements including agents' pay and cash processing had already been transitioned from POLSAP and were now being run on different systems. Issues identified in the internal audit report were being addressed. DMW had not identified any red items and most 'amber' items were turning green. We would be testing against 120% of our peak volumes. Prior to go-live we would be getting additional assurance from Accenture's QA team over the deployment plans and would ask DMW to validate test results against our go/no-go criteria. The go live plan has several roll back opportunities.
- Contingency planning was being addressed. POLSAP was not customer facing and would not impact Horizon performance. There were already known manual work arounds in place already to deal with specific types of failures. We therefore anticipated that operational activity could continue through manual interventions and these would allow key processes to continue albeit via labour intensive processes. Cash reconciliations

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across the Network would become more challenging and in all likelihood we would need to further fund the network on a temporary basis in the event of issues. Increased resources in the Bristol cash centre were also being considered, and we were working with Accenture to review whether we could use their offshore resources to build a reconciliation team

- Should it be determined that we could not safely migrate in October, it would be most likely that migration would be delayed until January or February 2019. This was an unattractive proposition as it would cost a further c£5m to run the project that long. We had POLSAP spares for a period of time but would have to look at building more if we were run to February 2019 and this would cost a further £5-6m.
- the report would be circulated to the Board.

RH/ AC

b) The Board **NOTED** the report.

15. ITEMS FOR NOTING

15.1 Sealings

The Board **RESOLVED** that the affixing of the Common Seal of the Company to the documents set out against items numbered 1682 to 1696 inclusive in the seal register was confirmed.

15.2 Health and Safety

The Health and Safety report was **NOTED**.

15.3 Future Meeting Dates

The future meeting dates were **NOTED**.

15.3 Forward Agenda

The forward agenda was **NOTED**. An update on the Banking Framework would also be included on the September agenda and Mails Strategy would be covered under the Retail Strategy item.

Meeting closed at 3.30 pm.

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Chairman

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Date

CEO's Report

Author: Paula Vennells Meeting date: 25th September 2018

Executive Summary

Context

Our target for 2018/19 is to achieve EBITDAS of [IRRELEVANT]. Our areas for future focus will be:

Our key market ambitions

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

Our key measures of success

- **Grow our network**, doubling the number in town and city centres
- Become the **partner of choice for convenience retailers**
- Demonstrate **digital innovation in every transaction**
- Deliver [IRRELEVANT] **profit** to reinvest in our business and communities

Our five priorities to deliver these outcomes

1. **Simplify** the retailer proposition
2. Build **flexible and secure** IT
3. **Modernise our products and services**
4. **Digitise and optimise** the business
5. **Trust our people** to find the best way to do their jobs and help our customers

Input Sought

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

The Report

Looking Back

WHAT HAS GONE WELL?

- **Financial Performance**

- P5 revenue was [IRRELEVANT], £0.6m favourable to plan in the month. Underlying revenue is £0.5m adverse in period and £2.5m adverse YTD.
- P5 trading resulted in a profit of £[IRRELEVANT], £1.6m better than plan. These have been partially offset by one-off costs in the period of c. [IRRELEVANT] YTD trading profit of [IRRELEVANT] is £4.7m ahead of plan.
- Overall, we remain ahead of plan with underlying performance broadly in line. A formal 2018-19 re-forecast will be completed in October. The challenges will be Telco customer numbers, Verify re-pricing and H2 IT costs.

- **Annual report and accounts**

- We published our Annual report and accounts on 13th September which confirmed we have made a profit for the second year running, increasing our year on year trading profit in 2017/18 to £35m from £13m in 2016/17. We have increased turnover by £4m over the prior year, moving from £957m in 2016/17 to £961m in 2017/18.

- **Retail**

- Post Office has retained its title as the 'service that has the most positive impact on the local area' in the 2018 Local Shop Report, which was published this month by the Association of Convenience Stores (ACS). We were voted into the top three 'most wanted services', a useful reference point for us as we seek locations for new Post Offices. (Specialist food shops were voted 1st choice followed by banks as 2nd)

- **Identity Services**

- Identity has had a positive start to the year +5% on prior year.
- Verify YOY volumes have more than doubled, primarily driven by Universal Credit applicants who can now use Verify. Post Office continues to be the market leader with 53% market share. See below for emerging pricing issue.

- **IT – Investing in digital capabilities**

- We have completed a deal with Fujitsu resulting in £19m operational saving, over 5 years. This will be channelled into capex to invest in strengthening our cloud and digital services.

- **IT / Branch network roll out**

- The Branch Counter programme has now deployed 23,053 counters in 9,519 branches and remains on schedule for completion by the end of September, with over 90% of the network now complete.

• **ATMs**

- ATM availability has been consistently improving – target is 96% (industry standard). Our fleet has struggled to achieve better than 94%, but with focussed attention in the past quarter, that has improved to 95%, and in recent weeks has shown consistent daily figures at 96% showing continued progress.
- Discussions with Bank of Ireland to move to a new partner are continuing, likely outcome will be an OJEU tender in Q4 to seek potential new partners to take over our estate and help us move to a new strategic model and relationship.
- Continued change in the wider ATM market (reduced interchange now having an impact) is seeing many ATM's now charging for withdrawals, which will lead to more volume in our estate as we remain free to use.

WHAT HAS NOT GONE WELL?

• **PCI**

- Nettitude QSA raised concerns regarding our PCI data security as a result of auditing Fujitsu and Comptercentre approaches. We have initiated a further PCI data audit and review as a matter of urgency to explore and rectify any security exposures. A joint IT & Business Steering Committee for PCI is working through the recommendation for the ARC in October.

• **Verfiy price reduction**

- On Friday 14th September, GDS issued their new pricing for Verify to take effect from 1st October: our current payment of [RELEVANT] per customer falls to [IRRELEVANT]. While we can still deliver our budget for this year as a result of strong performance in H1, it creates significant challenges for the 2019/20 budget. We are assessing a number of options to mitigate the impact. We will provide a full update on the implications to the Board next week.

• **Chesterfield – water leak**

- Due to a Seven Trent water board issue in Chesterfield, our office was without water for 2-3 days. During the incident we arranged for colleagues to work remotely where possible, and had a skeleton staff working in the building. Colleagues displayed great resilience throughout and our business continuity plans worked well with no visible impact on operations across all areas. I spent a day there to show support, which was well received.

• **Back Office/POLSAP**

- Our testing and planning around the migration continues - we are not in a position to migrate at present. Although initial testing has been encouraging, there are still issues to be addressed for a seamless switch. This will be discussed further in the board meeting.

Looking Ahead

FUTURE FOCUS

• Government Affairs

- I met with Kelly Tolhurst, our new Minister, on 3rd September. The Minister was engaged and showed interest in championing our interests in Government and beyond.
- At the request of BEIS, there is a meeting with the Minister and the Permanent Secretary on 17th October to provide an update on the Group Litigation Order (GLO). Jane MacLeod will provide more detail in the Board meeting.

• Financial Services

- Peregrine - we have negotiating sessions set up over the next four weeks with an aim to reaching outline agreement by the end of October. However, it is clear that Dublin is IRRELEVANT This has resulted in prioritising the sale of the Credit Cards business over everything else. We have maintained our stance that we are negotiating a package.
- Savings - we have agreed a value share for 2018/19 which aligns interests with BoI whilst the wider negotiations progress. A marketing campaign goes live on 17th September, focused on driving network engagement and underpinning savings income in 2018/19.

• Royal Mail

- Debbie and I had a follow up meeting with Sue Whalley, (CEO UK, RM) last month and we have a further meeting arranged later this month. Sue is keen to keep the dialogue open as we discuss our future working relationship. Royal Mail have their Board Away Day on 17th and 18th September. I have a meeting with Rico Back on 17th October.

• Retail Updates

- Our DMB strategy is on track to deliver 80 exits this year as planned. We are currently in negotiations with WH Smith (Project Edgware) and we have an opportunity to secure a deal for further franchising which would deliver significant P&L benefit through our DMB Programme and also address our concerns regarding customer service across the WH Smith Post Office estate. These negotiations are moving quickly and we will provide a verbal update in the Board meeting.
- We have to strengthened the Retail Leadership through recent new external appointments to include: Retail CIO, Liz Robson, (previously at Shop Direct and Halfords); Network & Sales Director, Amanda Jones, (was COO at Conviviality having also been at Nisa, John Lewis and Waitrose); Retail HR Director, Lisa Cherry (formerly at Wyevale Garden Centres, WH Smith and Sainsbury); and Head of Automation, Lisa Watkins, (who led the roll-out of self-service for Tesco). We are also in the process of hiring for the new role of Franchise Director.
- Payzone: We have completed 8 weeks of pre-notification dialogue with CMA. Key questions focused on mobile top market and parcel drop off/returns. This has now progressed into Phase 1 which ends on 19 Oct. There will be 3 potential outcomes; i) unconditional approval, ii) conditional approval, iii) request to progress to Phase 2. We have received positive endorsement from

key bill payment clients and retailers, and the team remain confident in receiving unconditional approval to the acquisition.

- Payzone trading performance is slightly behind 2018 forecasts with P10 YTD (July) EBITDA at £2.9m (-1.8% / -£54k). This is driven by slightly lower than planned mobile top-up revenue. Costs are in line with forecasts. In dialogue with Payzone senior management, an additional 800 agents have been added to the network and they anticipate performance to full year end (Sept) in line with full year forecasts. The core program team are focused on Day 1 readiness and all major work-streams are on track.

• Industrial Relations

- Pay talks with CWU are on-going. The pay anniversary date for non-managers was 1st April 2018. Initially, their request was for an "RPI plus" pay award over 2 years. They are now proposing a 1 year deal at 3.2% (Indications are that they would settle for 3%).
- Our position has been to offer the same 2 year deal we have agreed with Unite for middle managers. (18/19 – 2.6% / 19/20 – 2.5%). We have been open about considering flexing the proposed increase over the two year period but working within the overall quantum that is on offer.
- In the event we are unable to reach a collective bargaining agreement we are taking legal advice regarding the risks associated with imposing the deal. Imposition of pay would lead to a ballot for industrial action.
- CWU also continue to encourage us to sign up to a Collective Defined Contribution pension scheme, having made conference policy to deliver such an agreement with PO. This proposed scheme has not yet been passed as legislation; we are working with our Actuaries to understand how the CDC scheme would operate in the Post Office before giving a full response to CWU.
- It is likely that CWU will attempt to join up issues over pay, pensions and franchising. The IR team's assessment is that CWU will want to cause maximum PR damage to coincide with the Group Litigation in November.
- Should CWU ballot for Industrial Action (IA) it is unlikely to have too detrimental an effect upon customers and the network; contingency plans are currently in place to mitigate sporadic and discontinuous IA.
- If necessary and reluctantly, I would consider a different deal to avoid significant IA during the GLO: protection of the overall business being most important. At present, this is not looking necessary.

• Identity Services

- Our new Digital Check & Send passports service is being tested with live customers this week with full roll-out of the service commencing on a staggered basis from the end of September, reaching 730 branches by the end of October. Alongside improved customer experience the new service should enable us to stabilise and then grow our market share (currently ~30%) versus HMPO's direct online channel (not least because Digital Check & Send will benefit from the same £9.50 price discount). Discussions are already underway with HMPO about the next phases of service innovation, including extending the digital service to first-time applicants and child passports, with the ambition to launch these later in 2019.
- Identity for SMEs is a significant medium to long-term opportunity (>£200m pa revenue potential if we include linked services like digital signing). As a first

step towards this opportunity we have been engaging with BEIS to shape their thinking about a 'Business Passport' concept – essentially a digital identity for businesses which will provide easier access to a wide range of both government services (e.g. grants, procurement portals, tax returns) and private sector products (business banking, lending, payments, utilities etc). BEIS have now agreed in principle to award us a contract to run a joint alpha project over the next ~9 months to develop this concept in more detail. It's an important opportunity, providing us with a more formal mandate to pursue discussions with departments like HMRC and private sector players like the banks.

- **New Leadership group & Strategic view**

→ As part of the work started on culture, we have brought together the senior leaders of the Post Office to form a small subset group of 50 comprising of some of the direct reports of the Group Executive. Recognising the importance of this group to delivering our North Star strategy, we initially plan to focus efforts on this group to develop their Leadership capabilities and ensure that they have a cohesive view of the business strategy and agenda. Some of the activity we have already initiated with them includes regular leadership huddles, 360° feedback process and our first two day Leadership event on 2/3rd October, where we will look at future disrupters, a customer first culture, talent and resource requirements, digital and data focus. Mo Kang will be leading subsequent GE work on organisational shape.

RISKS OR CONCERNS?

- **Group Litigation Order (GLO)**

→ A verbal update will be provided in the Board meeting.

- **Brexit**

→ Work is underway to assess impact of Brexit– particularly in light of the possibility of a 'hard Brexit'. This is being undertaken via a series of business wide workshops coordinated through the Risk team and is considering strategic, operational and financial risks as well as commercial opportunities. We are liaising and sharing information with government, and taking advantage of the work of other commercial organisations such as the CBI. The output from these workshops will be incorporated into the Budget planning cycle for 2019-20, and we will provide an update to the ARC in October on key risks that have been identified, although assessment and planning work will continue as greater detail emerges from government.

August 2018 (P5) – Financial Performance

Author: Micheal Passmore

Sponsor: Alisdair Cameron

Meeting date: 25 September 2018

Executive Summary

Context

The purpose of this paper is to summarise our financial performance in P5, highlighting issues and implications. A more detailed slide-deck, used across the Finance community, is attached.

What is our financial performance in P5 and YTD?

£m	Period 5				Year to Date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Retail								
FS&T (incl. Insurance)								
Telco overstatement								
Identity								
Supply Chain/Other								
Total Revenue								
Cost Of Sales								
Net Income								
Agents Pay								
Staff Cost								
Non staff Cost								
FRES								
Other Income								
Trading Profit								
Network Subsidy Payment								
EBITDA								
Depreciation								
Interest								
Change Spend								
Investment Funding								
Profit On Asset Sale								
Profit Before Tax								

IRRELEVANT

P5 revenue was **IRRELEVANT** £0.6m favourable to plan in the month. This was driven by a one-off accrual release of **IRRELEVANT** following the successful conclusion of the RMG SSK negotiations. Underlying revenue, when you also exclude the Telco budget understatement, is £0.5m adverse in the period and £2.5m adverse YTD but 2% up year on year; the main yoy growth areas are Banking, Mails, Telephony (New Call acquisition timing) and Verify, with the key decline items being in POCa and Home Office.

P5 trading profit was **IRRELEVANT** £1.6m better than plan. As with revenue, the result was helped by the accrual release but we also saw one off costs including bonus catch up within staff costs. YTD trading profit of **IRRELEVANT** is £4.7m ahead of plan, despite the **IRRELEVANT** telco budget error.

YTD Mails is in line with budget and YoY growth expectations.

Travel money continues to track behind budget as Travel Money Online sales were 28% short of budget. Although Travel Money Card shows a slight positive YoY trend in value

terms, the 18/19 budget included a planned 22% increase in new card sales which has not been achieved.

Travel insurance has suffered from the same trends, leaving PO Insurance trading profit £0.5m adverse in the period in spite of lower marketing spend. Volumes from sales, digital and branch combined were 23k adverse to plan; aggregators were 6k favourable but attract higher costs of sale. A deep dive review is planned given the long term plan is for Insurance to grow margin through marketing.

The Telco performance is under pressure. Underlying ARPU is down contributing to £0.5m adverse variance in period; £2.1m YTD. Customers are now 11k behind plan at 497K: competitors are increasingly effective at saving customers we think we have won. A price increase is planned in November to mitigate the ARPU gap but this could increase pressure on customer numbers.

Banking services was adverse to plan in the period but remains favourable YTD due to continued strong deposit growth (+18% on plan).

POCa revenue has started to recover as the higher price has been triggered.

Verify has continued its strong growth, exceeding budget by £0.6m in the month, and £1.6m YTD. YoY volumes have more than doubled, primarily driven by Universal Credit applicants who can now use Verify, and which commands the higher Level of Assurance (LoA2) fee. Post Office continues to be the market leader with market share now at 53% and a conversion rate of 54% for LoA2s. However, we have now received the re-pricing from GDS and it is very severe. We are reviewing the implications.

Non-staff costs was £4.7m favourable YTD and this was a result of reduced Post office Insurance marketing spend and earlier delivery of IT cost saving initiatives which were budgeted for in the second half.

Network numbers (July) were 11,561, being 61 above the commitment and an increase of 14 compared to year end. The reduction of 31 from June driven by 63 temporary closures, 23 re-openings and 9 new network locations. The scale of drop was greater than expected by c. 10 as a result of higher audit closures and a mobile van off-line (6 branches).

Depreciation is higher than budgeted due to IT projects going Live following delivery, earlier than expected. The full year impact is being assessed.

YTD Change spend (Capex and Exceptional) was [IRRELEVANT] £2.2m ahead of forecast (£33.6m behind budget). Although the change spend was more or less in line with the latest forecast, there was a delay of DMB provision calculation and accounting offset by higher than expected spend in EUC branch deployment following settlement with Computercenter.

Net funding position has increased by [IRRELEVANT] from year end due to delay in [IRRELEVANT] Q2 investment funding and FX growth for the summer campaign.

Conclusion

Overall, we remain ahead of plan with underlying performance broadly in line. However, given the headwinds in Insurance and Identity and the expectation that Project Everest will not deliver the planned reductions in IT costs, we now expect the ahead of plan performance to reverse in H2. We will do a full re-forecast after the P6 results.

Input sought

The Board is asked to note the financial performance.



Period 5 FY18/19 Financial Performance

25 September 2018



P5 Scorecard

Pressure emerging on network numbers, change benefits and IT performance

Post Office Business Scorecard - FY18/19

Key Performance Indicators		Period 5				Year to Date				Full Year
Measures	BU	Actual	Target	Var	RAG	Actual	Target	Var	RAG	Target FY18/19
Deliver Profit										
Total Gross Income (excl NSP) £m	All	IRRELEVANT				IRRELEVANT				IRRELEVANT
Trading Profit £m	All									
Headroom £m (vs Board minimum limit)	All									
Change benefit delivery £m (WIP)	All									
Mails - Total Labels Volume m	Retail									
Mails - Home Shopping Returns Volume m	Retail									
Banking Volume (m)	Retail									
Closing Telecoms Customer Base (#)	FS&T									
Grow our Network - Customer										
Number of Branches (mth in arrears)	Retail	IRRELEVANT				IRRELEVANT			IRRELEVANT	
Branch Availability	F&O/IT									
Become the Partner of Choice - Customer										
Ease of Doing Business with (Effort)	Retail	IRRELEVANT				IRRELEVANT				IRRELEVANT
No. of Horizon Customer Sessions	Retail									
# of Sev1/Sev2 Incidents (Rolling average)	IT									
Overall IT Supplier SLA Achievement (mth in arrears)	IT									
Actual Incident Volumes (Rolling average to July)	IT					11,109	10,000	(1,109)		<10,000

Change benefit delivery – YTD variance in delivered benefits is mainly driven from DMB delays in onerous provision along with phasing of Network Delivery savings and POI delay in projects delivering. All programmes are committed to full benefit delivery in the year.

No. of Horizon Customer Sessions – there is currently no target set and historical data only available for last 90 days. Exploring possibility of retrieving archived data in order to set appropriate target.

of Sev1/Sev 2 Incidents – 12 high severity incidents in July; decrease of 6 from June.

Actual Incident Volumes have increased to 10,356 in July from 10,283 in June.



P5 Scorecard

Digital sales channel remains behind, absence has improved

Post Office Business Scorecard - FY18/19

Key Performance Indicators						Period 5				Year to Date				Full Year
Measures	BU	Actual	Target	Var	RAG	Actual	Target	Var	RAG	Actual	Target	Var	RAG	Target FY18/19
Digital Innovation - Customer														
Trading income from customer Hub (£m)	FS&T	IRRELEVANT			●	IRRELEVANT			●	IRRELEVANT			●	IRRELEVANT
# of Registered customers on app	FS&T	IRRELEVANT			●	IRRELEVANT			●	IRRELEVANT			●	IRRELEVANT
# of All Product pages website visits	All	2,845,968	2,071,137	774,831	●	11,043,019	9,644,070	1,398,949	●	20,461,075				20,461,075
Website Conversion ratio	All	8.1%	10.7%	(2.6%)	●	9.8%	10.1%	(0.3%)	●	10.0%				10.0%
Care for our People														
Line Manager Index ¹	All					69%	62%	7%	●	62%				62%
Female Representation in Senior Roles (3a & above) ²	All					40.4%	41.0%	(0.6%)	●	43.0%				43.0%
BAME Representation in Senior Roles (3a & above) ³	All					9.0%	9.3%	(0.3%)	●	11.1%				11.1%
Senior Vacancies filled by Internal Talent	All	12.5%	50.0%	(37.5%)	●	49.3%	50.0%	(0.7%)	●	50.0%				50.0%
Absence	All	3.2%	3.3%	0.1%	●	3.2%	3.3%	0.1%	●	3.3%				3.3%
Safety LTIFR	F&O	0.000	0.200	0.200	●	0.143	0.200	0.057	●	0.200				0.200

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

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

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

Absence – P5 absence split by short term (0.71%) and long term (2.47%). Monthly absence has reduced from 3.36% in P4. YTD absence remains under target at 3.23%.

Safety LTIFR - There were 5 employee related accidents in Post Office during P5 compared to 11 during P5 in prior year. There were zero lost time accidents in P5 and there have been a total of 5 YTD against 10 YTD in FY17/18.



P5 Trading Profit +£1.6m v Budget; YTD +£4.7m

£m	Period 5				Year to Date				P5 YTD Variance Analysis		
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY	Timing	One-off	Underlying
Retail											
FS&T (excl. Telco overstatement)											
Telco overstatement											
PO Insurance											
Identity											
Supply Chain/Other											
Total Revenue											
Cost Of Sales											
Net Income											
Agents Pay											
Staff Cost											
Non staff Cost											
FRES											
Other Income											
Trading Profit											

IRRELEVANT

£1.6m variance to budget driven by income one-off of **IRRELEVANT** with RMG, offset by one-off costs of **IRRELEVANT**

Agents pay continues to benefit from new understanding on the system.



Retail Scorecard

Mails volumes are holding up

	Period 5				Year to Date				Full Year	
	Actual	Budget	Variance	RAG	Actual	Budget	Variance	RAG	Budget	
Gross Income £m	IRRELEVANT			●	IRRELEVANT			●	IRRELEVANT	
Trading Profit £m				●				●		
Mails - Priority Volume m				●				●		
Mails - Total Labels Volume m				●				●		
Mails - Click & Collect Volume m				●				●		
Mails - Home Shopping Returns Volume m				●				●		
Banking All Transactions Volume m				●				●		
Payments Volume m	0.0	0.0			0.0	0.0			0.0	
No. of Horizon Customer Sessions	39.9	0.0			220	0.0			0.0	
No. of Retail Transactions per session	1.6	0.0			0.0	0.0			0.0	
Ease of Doing Business with (Effort)	84.4%	82.0%	2.4%	●	83.0%	82.0%	1.0%	●	82.0%	
Customer Drivers	88.0%	0.0%			87.0%	0.0%			0.0%	
No. Complaints*	3,318	0.0			10,975.0	0.0			0.0	
Number of Branches (mth in arrears)	11,561	11,500	61	●					11,500	
NNL Builds	18	6	12	●	115	113	2	●	338	
Branch standards - Losses Identified in Audit*	0.8	0.0			2.9	0.0			0.0	

*month in arrears



Retail: P5 Trading Profit £3.7m favourable to budget; YTD +£6.2m

£1.5m SSK accrual release; POCa continues to recover; DMB pay award accrual catch up

£m	Period 5				YTD			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Mails Trading	10.5	10.1	0.4	5%	10.5	10.1	0.4	5%
Mailwork								
Mails Other								
RM Annual Fee & Count								
Gift Cards								
Lottery								
POCa								
Payment Services								
ATMs								
Banking Services								
Other Retail								
Total Revenue								
Cost Of Sales								
Net Income								
Agents Pay								
Staff Cost								
Staff & Agent Related Costs								
Brand & Marketing								
Consultancy & Advisory Services								
IT Infrastructure & IT Services								
Managed Services - Penalties								
Postage								
Finance & Losses								
Change Opex								
Other Non-Staff Cost								
Other Income								
Trading Profit								

IRRELEVANT

- SSK accrual release.
- Payment services was adverse in period due to Co-op volumes which were expected to come through other resellers not materialising.
- ATMs' performance adverse to budget driven by below budget volumes (-0.8m) and availability rates below budget at 94.4%.
- Banking services adverse in period due to seasonal activity. YTD remains favourable due to continued strong deposit volumes (+18% on plan).
- Staff costs are adverse to budget in period due to catch up of DMB pay award accrual. YTD staff cost variance relates to timing of efficiency savings in network and sales.
- Non staff costs are favourable due to release of card processing fee accrual due to lower than anticipated average transaction value.

FS&T Scorecard

Telco and Travel Money under pressure



	Period 5				Year to Date				Full Year	
	Actual	Budget	Variance	RAG	Actual	Budget	Variance	RAG	Budget	
Value of Mortgage Applications (£m)	<div>IRRELEVANT</div>									
Value of Mortgage Completions (£m)										
Total value of Savings balances (£m)										
Number of new Credit Card applications										
Credit Card application accept rate										
Number of new Loan applications										
Loan application accept rate										
Travel Money On Demand sales transaction volume										
Travel Money On Demand sales transaction ATV										
Number of MoneyGram Send transactions										
Closing Telecoms Customer Base (#)										
Telecoms ARPU										
Telecoms Customer Churn										
Net Telecoms customer additions										
Net Promotor Score (Telecoms)										
Number of Postal Orders sold										
Policies Sold: Post cooling off period (k)										
Policies Renewed (k)										
Policies In-Force "live" (k)										
Net Promotor Score (Post Office Insurance)										



FS&T: P5 Trading Profit (£2.0m) adverse to budget; YTD (£2.1m)

Travel money and Telephony continue to track below budget due to lower value of sales and reduced customer numbers

£m	Period 5				Year to Date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
PO Money (Savings, Loans)								-4%
Travel Money								9%
MoneyGram								0%
Telephony								9%
Telephony Overstatement								n/a
Postal Orders								-15%
Total Revenue								4%
Cost Of Sales								12%
Net Income								1%
Agents Pay								n/a
Staff Cost								-8%
Staff & Agent Related Costs								-17%
Brand & Marketing								-28%
Consultancy & Advisory Services								-96%
IT Infrastructure & IT Services								123%
Managed Services								-9%
Postage								24%
Finance & Losses								-4%
Other Non Staff Cost								64%
FRES								35%
Trading Profit								-24%

IRRELEVANT

- ① Travel money continues to underperform due to lower value of sales.
- ② MoneyGram Average Rate per Transaction continues to come in below plan which is driving a potential risk to income.
- ③ Cost of sales favourable in period due to reduced take up of Galaxy offer together with lower Telecoms customer number than expected.
- ④ Agent's Pay includes remains favourable YTD, reflecting the lower value of sales than expected.
- ⑤ Permanent staff costs are on budget. Staff costs also includes skills group contractors which is driving adverse variance.
- ⑥ Operating expenses adverse in period to due foreign exchange revaluation.
- ⑦ FRES profit share reflects FRES' actual position.

Post Office Travel App

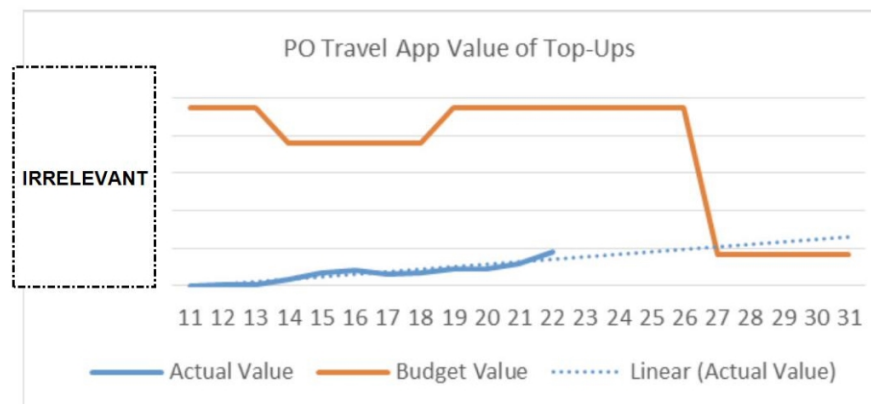
YTD income from Travel App top-ups £330k below budget; extrapolated at current rate YTG risk of [IRRELEVANT] although revised targets are being worked on



Period	Week	Top-Up Volume			Top-Up Value			Top-Up Revenue			Agent's Pay		
		Top-Up Volume	Bud	Var	Act	Bud	Var	Act	Bud	Var	Act	Bud	Var
3	Total	<h1>IRRELEVANT</h1>											
4	Total												
	5												
	5												
	5												
	5												
	5												
5	Total												
	YTD												

①

①



Financial Performance

The Post Office Travel App was launched on 21st June. To date (3/9) there are 45k unique registered users with [IRRELEVANT] linked cards and [IRRELEVANT] Travel Insurance policies sold.

There were [IRRELEVANT] TMC top-ups in P5 with a value of [IRRELEVANT] earning POL commission of [IRRELEVANT]

A weekly Hub trading committee has been set up and initiatives have been identified to increase traffic, downloads and sales. The main focus is to increase the app download ratio which is currently 27% vs the old TMC app.

① Customers are still referred in branch so there is agents pay due on the Top ups. Revenue is earned at 0 [IRRELEVANT] of top up value; agents pay is paid at [IRRELEVANT]

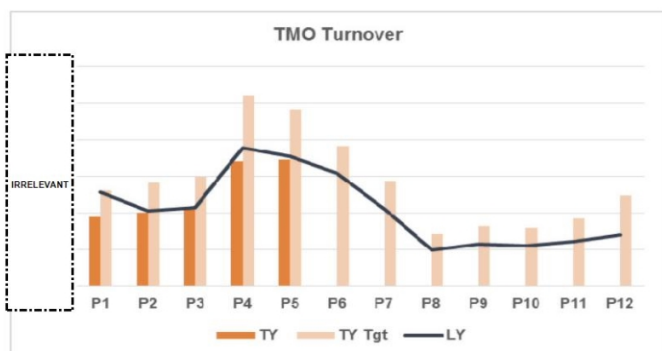
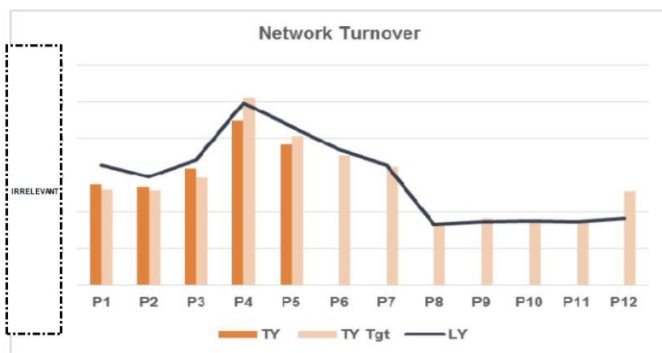
9

Travel Money Sales

TMO sales short of target; TMC positive YoY trend but remains below budget



	P5					P5 YTD				
	Actual	Target	%	FY17/18	TY v LY %	Actual	Target	%	FY17/18	TY v LY %
TMC	IRRELEVANT		92%	IRRELEVANT	109%	IRRELEVANT		83%	IRRELEVANT	105%
On Demand			94%		89%			98%		89%
TMO			72%		98%			70%		91%
Total			88%		94%			88%		92%



Sales Performance

The assumed growth of TMC and revived growth of TMO sales continue to fall short of expectations and as a result P5 turnover is currently short of budget by £10m (13%)

Although TMC shows a slight positive YoY trend in value terms, the 18/19 budget included a planned 22% increase in new card sales. We are currently tracking 9% behind YTD value target and 62k below in new cards volumes.

TMO sales were **IRRELEVANT**, or (28)% short of target so far in P5 with turnover currently trending c.31% behind target. The full year target assumed a 25% increase in turnover from **IRRELEVANT** however volumes are tracking 6% down YoY.

Note: Network sales figures include Click & Collect, however C&C targets are included in Online.



Telephony Analysis

Customer gap is expanding; potential YTG risk of c. IRRELEVANT

	P1	P2	P3	P4	P5	YTD
Actual						
end of period customer						
Avg. customer						
ARPU						
Revenue						
P1 impact (adjusted in P2, P4)						
Underlying Revenue						
Underlying ARPU						
Budget						
end of period customer						
Avg. customer						
ARPU						
Revenue						
Impact in budget						
Restated Revenue						
Restated ARPU						
Underlying customer Gap						
Underlying ARPU Gap						
Underlying Revenue gap o/w volume						
o/w rate						

IRRELEVANT

P5 gap predominantly from volume – c. 11k customer gap IRRELEVANT

YTD gap predominantly from rate – c. £1.3m

YTG risk of c. IRRELEVANT based on underlying customer gap at P5 and restated budget ARPU IRRELEVANT

Planned pricing increase to mitigate ARPU could accelerate the widening customer number gap

Telephony Base Summary

Improved acquisitions and retention rates has slowed base decline



P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	P12	P1	P2	P3	P4	P5
Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
464.7K	463.1K	461.5K	472.4K	518.0K	514.1K	510.4K	508.8K	508.2K	507.1K	506.8K	506.2K	504.4K	501.5K	500.1K	498.7K	498.1K

Average Base Size Since April 17

- In July last year the Post Office acquired the Fuel Telecoms base of 57k customers*
- Since migration to the Post Office we have lost 18k Fuel Telecoms customers leaving 39k remaining on the base
- In late Q3 & Q4 17.18 the introduction of growth fund allowed us to stabilise the base by increasing adds
- Galaxy and Price rise has had further negative impacts on base volumes of around 4k to 5k
- In the last three months the base has stabilised and is now only marginally declining... but still declining
- **Further investment may be requested to grow the base.**

*51k customers were paid for.



Telephony Acquisitions

Orders up 27% YOY but adds up only 18% due to competitor retention activity



	Q1	Q2	H1		Q1	Q2	H1
Order Volumes	25K	32.0K FC	57.0K	Adds Volumes	20.9K	23.0K FC	43.9K
Budget	35.1K	35.6K	70.6K	Budget	27.5K	27.6K	55.1K
17.18 Performance	20.6K	21.0K	41.6K	17.18 Performance	17.9K	18.3K	36.2K
Variance to Budget	-10.0K	-3.6K	-13.6K	Variance to Budget	-6.6K	-4.6K	-11.2K
YOY Variance	4.4K	11.0K	15.4K	YOY Variance	3.0K	4.7K	7.7K
vs Budget	-29%	-10%	-19%	vs Budget	-24%	-17%	-20%
vs YOY	18%	34%	27%	vs YOY	14%	20%	18%

Order volumes are up 27% YOY (34% in Q2) but adds are only up by 18% YOY.

The variance in uplift from our gross orders and net adds position is due to increased competitor retention activity from the likes of Sky, Talk Talk and Plus Net (BT). This has meant we have lost between 4k to 5k of adds in H1.

At a channel level:

- **Contact Centre:** conversion is running 65% higher YOY but calls are down 17% YOY.
- **Online:** conversion nearly double YOY and traffic up 30% YOY
- **Branch:** adds are down 30% YOY but we have seen improvements since we introduced 'managers specials'

Overall a strong YOY performance but work to do to get back to budgeted levels



Telephony Churn

H1 churn 15% down on budget but flat YOY, for which price rise was the key contributor



	Q1	Q2	H2
Churn Volumes	27.3K	23.8K	51.1K
Budget	19.3K	25.0K	44.3K
17.18 Performance	21.8K	28.3K	50.1K
Variance to Budget	8.1K	-1.2K	-6.7K
YOY Variance	5.5K	-4.5K	-1.0K
vs Budget	42%	-5%	15%
vs YOY	20%	-19%	2%



Galaxy and price rise have been key contributors to the churn miss YOY (circa 5k) of the remaining 1.7k deficit we are closing through improved contact centre conversion (up 12% YOY)

40% of our customers are moving to the major triple play providers (Sky, BT & Virgin), however only 1% move to Virgin which perhaps suggests that TV is the driver rather than Fibre or price.

The remaining 60% are moving to value players who are not major players in the TV space although may have an offering. In terms of product We believe that it will be a like for like product in the main but with fibre pricing coming down we would expect to see more customers move to fibre.

Our key point of leverage in this space is price which we hope to take advantage of through the new toolkit design.



Telephony Q3 Core Trading Plan



23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	
September				October					November					December			
				Outbound Telemarketing Launch Phase 1 HGS – WK27 Cross Sell													
Direct Mail to Existing Post Office Customers WK23 Cross Sell																	
					Phix Flow– WK28 New Analytics platform (Gross to net)					Prop 2 Phase 2 – WK33 Launch of new product platform							
No Match - WK27 Update to no match rules													New Product Test – WK36 Credit Declines				
New Retention Toolkit– WK27 Newly designed toolkit to reduce in life churn																	
Growth Fund TBC Aiming to Pitch for funds in September.																	
									Price Rise WK32 Base price rise								



PO Insurance: P5 Trading Profit (£0.5m) adverse to budget; YTD (£0.1m)

Poor travel insurance performance; reduced brand and marketing spend but trading profit loss in period



£m	Period 5				Year to Date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Travel Insurance								
Car Insurance								
Van Insurance								
Home Insurance								
Life - Over 50s								
Life - SLI								
Other Insurance								
Total Revenue								
Cost Of Sales								
Net Income								
Staff Cost								
Brand & Marketing								
Consultancy & Advisory Services								
IT Infrastructure & IT Services								
Managed Services								
Other								
Trading Profit								

IRRELEVANT

① P5 underperformance predominantly from Travel Insurance due to a combination of volume (60%), mix and margin (40%).

Volumes from sales, digital and branch combined are 23k adverse to plan; aggregators are 6k favourable but attract higher cost of sale, hence lower income per policy (IPP). Travel margins are lower as a result of the increase discount supporting the summer campaign.

Total volumes for all products of **IRRELEVANT** were 16k (17%) higher than prior year.

② Non staff costs favourable due to reduced brand and marketing spend. Risk of ineffective marketing spend hindering future growth.





Identity Scorecard

	Period 5				Year to Date				Full Year	
	Actual	Budget	Variance	RAG	Actual	Budget	Variance	RAG	Budget	
Gross Income £m				●	25.1	22.3	2.8	●		
Trading Profit £m				●				●		
Paper Passport Volumes				●				●		
Paper Passport Market Share				●				●		
UKVI Volumes				●				●		
Secure Collect Volumes				●				●		
Tax Renewal volumes				●				●		
10yr Renewal Volumes				●				●		
Service Penalties £				●				●		
LoA2 Volumes	IRRELEVANT				IRRELEVANT				IRRELEVANT	
LoA2 Market Share										
LoA2 Conversion rate										
LoA1 Volumes										
LoA1 Market Share										
LoA1 Conversion rate										
Re-Registration Volumes										
Services Live										



Identity: P5 Trading Profit £0.7m favourable to budget; YTD +£2.5m

Verify continues strong growth; passport volumes above budget

£m	Period 5				YTD			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Home Office								
DFT/DLA								
Identity Services								
Verify								
Environment Agency								
Total Revenue								
Cost Of Sales								
Net Income								
Agents Pay								
Staff Cost								
Managed Services - Penalties								
Postage								
Other Non Staff Cost								
Trading Profit								

IRRELEVANT

IRRELEVANT

① Passport volumes are running 10% higher than budget, overall income is just £0.05m ahead, as they are derived wholly from the paper channel which carries a lower fee than digital. YoY, volumes have dropped by 30% and market share has dropped 12% (to 31%) as HMPO Digital Channel volumes continue to grow. PO Digital Check & Send is set to launch in Q3 to address this area.

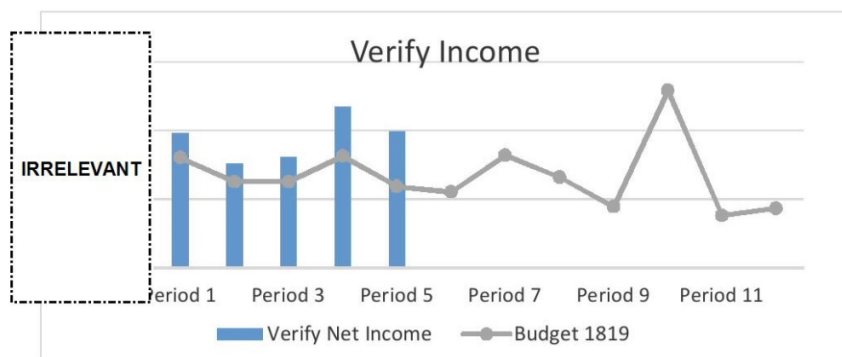
② Verify YoY volumes have more than doubled, primarily driven by Universal Credit applicants who can now use Verify, and which commands a the higher Level of Assurance (LoA2) fee. Post Office continues to be the market leader with 53% market share and a conversion rate of 54% for LoA2s. Marketing and User Experience activities are being implemented to enhance performance further.

Recent discussions with GDS have highlighted Treasury's endorsement for the Verify service, which should help drive volume, but alongside expected downward pressure on price, as the service matures. We are working on pushing back in any price reduction for the current financial year. Any further developments are expected in P6.

③ DVLA penalties reclassified to non-staff costs hence adverse in period (£nil trading profit impact).



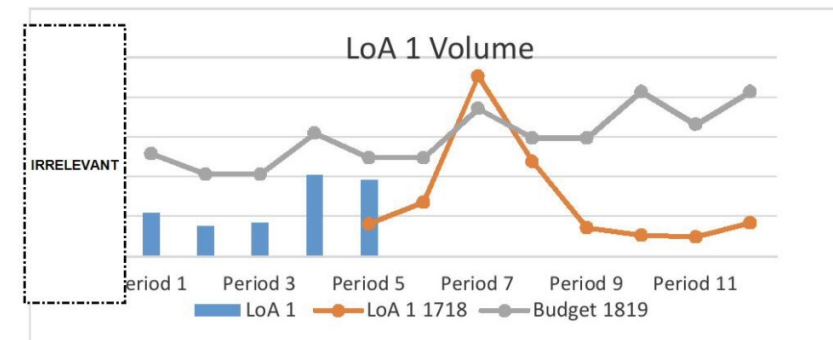
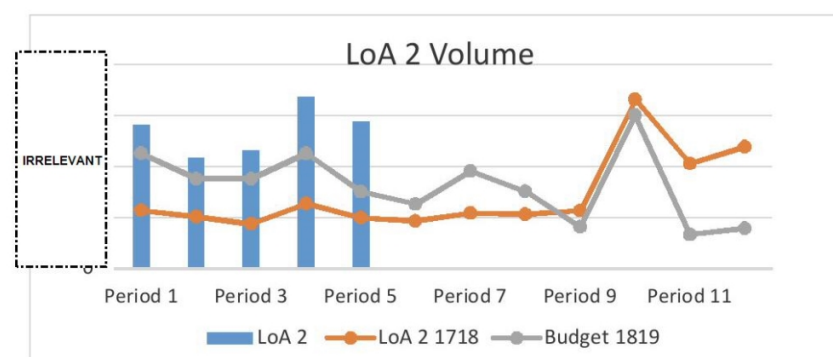
Verify: Income & Volumes



Verify is performing strongly against budget (£0.4m). This is a result of LoA2 volumes continuing to be above budget by 33%. YoY volumes have more than doubled (165%) and are driven by Universal Credit applicants who can now use Verify. Also DBS users are contributing towards this uplift. Through social media, we will be running a Universal Credit campaign to remind people that using Verify reduces the amount of time needed in branch and will be followed up with more awareness campaigns and a refreshed POL website in order to help capitalise on the new volumes.

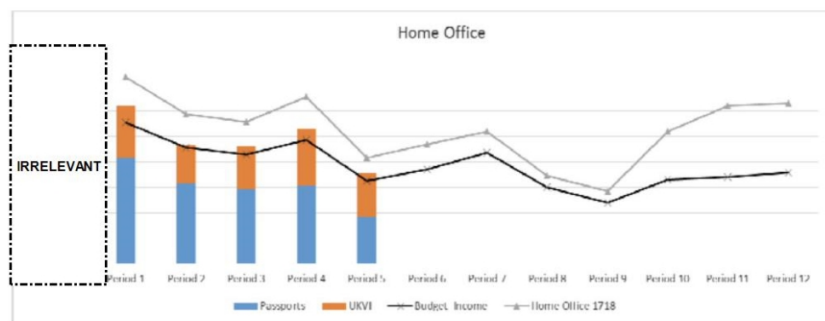
Post Office continues to be the market leader with 54% market share and a conversion rate of 54% for LoA2s. The strong YTD performance will be offset after P6 when the new Call off with GDS will be signed. GDS have stated that they will pursue a significant price reduction in order to achieve savings in accordance to Treasury guidelines. The actual effect on the Verify numbers is being looked into and more clarity will be available after initial feedback from GDS.

LoA1 volumes are not performing as expected, as there are not so many outages at DVLA. We are hoping for more information from GDS on further outages. Get your state pension has gone live as a new service, but GDS estimate only 4% of service users will use the Verify route (LoA1 service). The impact from this set back is not significant compared to LoA2 as net price is 1/3 of LoA2s and volumes just 25% of LoA2.



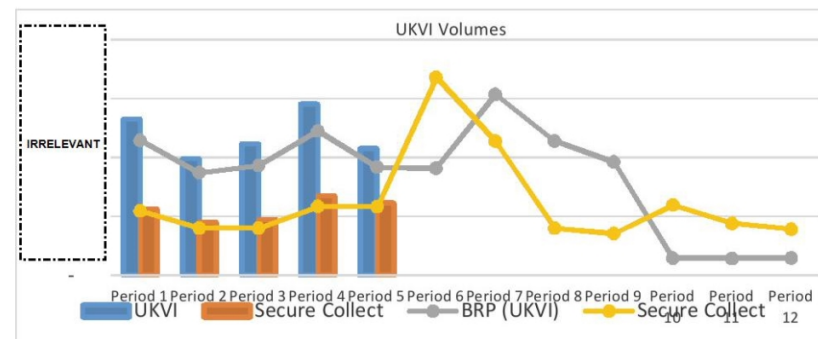
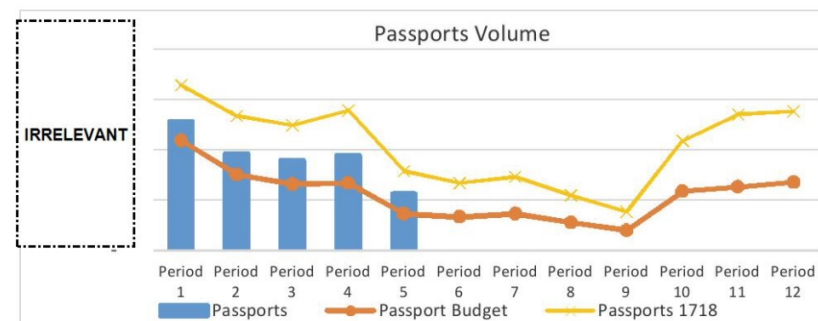


Home Office: Income & Volumes



Period 5 income for all Home Office and related services was £0.1m, ahead of Budget. This positive variance was driven by the UKVI BRP service. BRP services is seeing the early signs of BREXIT with applications through the Home Office slightly ahead of the same period last year and the Home Office seeking to clear backlogs in advance of student surge. YTD UKVI is ahead of budget by £0.54m but the contract with Home Office will expire in P9 creating a risk of £0.9m (EBITDAS) which might be partially offset by higher than budget volumes continuing in Q2 and Q3.

Passports are marginally higher than budget for P5. Volumes are higher than budget (8%), but due to them coming from our Paper Channel rather than both Digital and Paper our overall income is flat (due to £4 price difference). YoY volumes have dropped by 30%. The price differentiation that Home Office implemented earlier this year to its Digital Channel has lifted its market share YoY by 22%* (YoY, YTD figure) whilst Post Office Paper channel has dropped to 31%* (YoY/YTD drop 12%). PO Digital Check and send is set to launch in Q3.



Finance & Operations: P5 Trading Profit (£0.4m) adverse to budget; YTD

IRRELEVANT 1)

YTD trading profit adverse by £0.7m excluding one-off costs for IRRELEVANT EY audit fees overruns and £IRRELEVANT customer compensation



£m	Period 5				
	Actual	Budget	Variance	YoY	
Revenue					%
Cost Of Sales					%
Net Income					%
Staff Cost					%
Staff & Agent Related Costs					%
Property & Facilities Management					%
Postage					%
Stationery					%
Finance & Losses					%
Vehicles					%
Other					%
Trading profit					%

IRRELEVANT

IRRELEVANT

- 1 Rent & rates favourable - some one off credits, various rent reviews not seen an increase and have exited properties (not onerous lease)
- 2 Printer cartridges IRRELEVANT this month; IRRELEVANT YTD also from 24% price increase for paper and delayed benefits from receipt reduction initiative
- 3 Former agents losses that continue to be identified - full year risk as there is as yet no detailed assessment of what is as yet unidentified - provision release could cover this



Operating expenses: IT

£1.2m YTD favourable variance will be used to offset cost challenges in future periods

IT	Period 5				YTD			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	IRRELEVANT							
Staff & Agent Related Costs								
IT Infrastructure & IT Services								
Managed Services								
Consultancy & Advisory Services								
Other								
Total Operating Expenses								

P5 Variances:

Fujitsu savings £0.16m due to ceased services (branch network services)

Security savings due to SOC delay **IRRELEVANT**

Staff cost savings due to catch up on recoveries of project recharges and vacancies not filled

ATOS higher volumetrics **IRRELEVANT**

ATOS prior year accrual released on disputed invoices not required **IRRELEVANT** offset by cost challenge not met

YTD Variances:

FJ savings from ceased BNS - **IRRELEVANT**

CTO Arch Staff costs recovery from projects **IRRELEVANT**

CVM **IRRELEVANT** savings in recruitment and vacancies.

Licences underspend of **IRRELEVANT**

Gemalto negotiated lower variable service management costs **IRRELEVANT**

Safhaven **IRRELEVANT** savings

Security SOC delay **IRRELEVANT**



Operating Expenses: HR, Communications, LRG, Central

HR staff costs adverse variance relates to net impact of FY17/18 bonus.

HR	Period 5				YTD			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	IRRELEVANT							
Staff & Agent Related Costs								
Finance & Losses								
Other								
Total Operating Expenses								

LRG	Period 5				YTD			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	IRRELEVANT							
Staff & Agent Related Costs								
Consultancy & Advisory Services								
Legal Costs								
Other								
Total Operating Expenses								

Communications	Period 5				YTD			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	IRRELEVANT							
Staff & Agent Related Costs								
Brand & Marketing								
Other								
Total Operating Expenses								

Central	Period 5				YTD			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	IRRELEVANT							
Finance & Losses								
Growth Fund								
Brand & Marketing								
Other								
Total Operating Expenses								



Change Spend

YTD spend **IRRELEVANT** ahead albeit **IRRELEVANT** DMB spend has been missed by 1 month

	Actual	Vs Forecast	Actual	Vs Forecast	Total Commitment (Incl. open PO's)	Full Year Forecast	YTD Actual	Vs Budget	Budget FY 1819
Retail									
Mails Programmes									
Cash & Banking Services									
Bill Payments Projects									
Automation									
DMB									
Network Development									
Network Transformation									
Other Retail									
Financial Services & Telecoms									
Eagle									
Telecoms									
Other									
POI									
Identity									
IT & Digital									
EUC Branch Deployment									
IT Back Office									
IT Networks									
Other IT									
Project Everest									
R&R									
Replacement of Counter Receipt Slip									
Solar									
Finance & Ops									
Finance									
Operations									
Property									
Supply Chain									
Human Resources									
Legal Risk & Governance									
Central									
Grand Total									
Anticipated savings or slippages to FY 2019									
Total Change FY 2018/19									
o/w									
Capex									
Exceptional									

IRRELEVANT

- 1 Variance is mainly driven from DMBs provision recalculation one-off cost expected to be signed off in July but postponed for later in Q2
- 2 YTD underspend against forecast is mainly driven by the redundancy provision and bonus payment release and partially driven by phasing/cost saving opportunities
- 3 Underspend is mainly driven from EUM project which is behind plan in the month and now behind YTD target and partially driven from general phasing underspend with saving option to be investigated
- 4 YTD overspend is mainly driven from project Travel Hub tracking ahead against forecast (due to PO 's reviewed & GR'ed) which is now in line with the latest view and P12 balance sheet review adjustments for Project Peregrine
- 5 Underspend is due to the wider Identity Business case submission being rescheduled for September rather than August according to the original planning
- 6 Overspend relates to accrual for final Computacenter milestone payments and payment of settlement in the month
- 7 Overspend against forecast relates to catching up in previous months on cloud platform project costs
- 8 Project is underspending YTD with no cost in month as final costs and roll out is being agreed with Computacenter, catch-up is expected in next month
- 9 YTD variance in delivered benefits is mainly driven from DMB delays in onerous provision along with phasing of Network Delivery savings and POI delay in projects delivering. All programmes committed to full benefit delivery.



Balance Sheet & Cash Position

Net funding position up by **IRRELEVANT** from year end

Balance Sheet

£m	Period 5	P12 FY17	v P12	Period 5 FY17	v PY
Fixed Assets	IRRELEVANT				
Debtors					
Cash					
Creditors					
Pension Surplus					
Provisions					
Other					
Loan					
Net Assets / (Liabilities)					

Net Funding Position

£m	Period 5	P12 FY17	v P12	Period 5 FY17	v PY
Government Loan	IRRELEVANT				
Demonetisation - NCS					
Cash at Bank - POL					
Net Funding Position					

Balance Sheet Headroom

£m	Period 5	P12 FY17	v P12	Period 5 FY17	v PY
Government Loan - Available Amount	IRRELEVANT				
Government Loan - Drawn Amount					
Headroom					
Target Minimum Headroom					
Headroom Above/(Below) Target					

Security Headroom

£m	Period 5	P12 FY17	v P12	Period 5 FY17	v PY
Network Cash	IRRELEVANT				
Cash at Bank - POL *					
Client Debtors					
Trade & Other Debtors - Business Debtors					
Total Security					
Government Loan					
IRRELEVANT					
Total Obligations					
Headroom					

Net funding position has increased by £70m from year end due to delay in investment funding and FX growth for the summer campaign. Network cash after demonetisation has reduced **IRRELEVANT** from P5 in prior year; **IRRELEVANT** reduction from year end.

Balance sheet headroom of **IRRELEVANT** decrease from P12 and **IRRELEVANT** down on prior year P5.

FS&T Board Report - Sept 2018

Author: Owen Woodley

Meeting Date: 25th September 2018

Executive Summary

Context

This report provides an update to GE on the current performance of the products across FS&T together with a full year outlook and an update on strategic initiatives.

Questions this paper addresses

1. How is the FS&T strategy evolving?
2. What is the progress in Customer Hub?
3. How is our balance sheet product set performing?
4. How is our transactional product set performing?
5. How is our Telecoms business performing?
6. How is our Insurance business performing?

Conclusion

Gross income is £6.6m adverse to budget at P5 YTD – this includes the IRRELEVANT overstatement in the budget due to the Telecoms FIN11 report error. Direct profit is £2.2m adverse to budget YTD P5, and full year out-turn is currently forecast to be IRRELEVANT behind budget. Without the Fin11 report error, the profit out-turn estimate would be IRRELEVANT ahead but further action will be required to address the Telco-related gap.

Gross Income (£m)					
	Period 5 YTD			Full Year	
	Actual	Budget	Var	Out-turn	Budget Var
FS&T	IRRELEVANT				
PO Insurance					
Telco Fin11					
Other Income					
Total					

Profit Contribution					
	Period 5 YTD			Full Year	
	Actual	Budget	Var	Out-turn	Budget Var
FS&T	IRRELEVANT				
PO Insurance (Group Contbn)					
Telco Fin11					
Other					
Central Marketing					
Total					

Input Sought

The Board is requested to review and note the report.

The Report

How is the FS&T strategy evolving?

Our competitive landscape is evolving rapidly with digital innovators like Revolut and Monzo becoming increasingly prominent and aggressive in the financial services market. We therefore need to ensure that our business is orientated relentlessly around changing customer needs and service expectations and our approach to our markets needs to continually leverage the unique attributes of the Post Office brand. That demands a strategic vision for FS&T which is much more integrated and joined up at a customer level than the previously more federal strategic positioning of the FS&T product lines.

We are therefore now in the middle of a programme of work to define a new strategy for the FS&T business. This will include a specific (external) piece of work on the strategic options for our Telco business. The outputs will be brought to GE and, as appropriate, to the Board for discussion and challenge. That will include the identification of a clear set of critical capabilities to underpin the delivery of the strategy and our proposed approach to building those capabilities over the next three years. The early emerging view of the key themes is as follows:

- Fewer activities at greater scale to have genuine market impact
- A drive to take more control of the value chain in each of our business areas to enable more control over the customer proposition and experience
- A culture that has continual innovation and digitisation at its heart
- A business that uses brand heritage and trust to be a real market disruptor
- Being significantly more relevant to younger audiences
- Focusing continuously on efficiency, ease and pace

A critical part of our success will be the development of our people and the attraction of new talent in every part of our business. As a start to that journey, we have now appointed a new Group Marketing Director who brings deep experience and credibility to the Post Office and we will shortly be implementing organisational changes to significantly increase the depth and focus of our digital activities for customers. We also have activity in train to increase the talent bench strength in some other parts of the FS&T business portfolio as well.

What is the progress in Customer Hub?

The Post Office Travel app now has more than 45,000 unique registered customers to date, with approximately 1,500 downloads a day. The FRES app was removed from app stores for new customers on 13th August and we have since seen a significant increase in Post Office downloads, top ups and Travel Insurance sales in-app. Migration of existing FRES app customers is starting in early September and further app enhancements are now in train. We have mobilised other customer proposition initiatives alongside Travel. A proof of concept for Mails was presented to the Board in June which received positive feedback and an agile team (bringing together product, digital and coding expertise) is now in place to bring a proposition to market within the current financial year. We are also exploring options in Digital Identity.

How is our Balance Sheet product set performing?

1. The Market

Competitive pressures in the retail banking market remain. The continuing low interest rate environment (notwithstanding recent base rate increases) and the BoE funding schemes have put major pressure on mortgage margins and kept savings rates depressed.

2. Product P&L P5 YTD

	Gross Income (£m)				
	Period 5 YTD			Full Year	
	Actual	Budget	Var	Out-turn	Budget
	IRRELEVANT				
Mortgages					
Cards & Lending					
Savings					
Balance Sheet Products					

	Profit Contribution				
	Period 5 YTD			Full Year	
	Actual	Budget	Var	Out-turn	Budget
	IRRELEVANT				
Mortgages					
Cards & Lending					
Savings					
Balance Sheet Products					

3. Review of Performance

Savings performance will be boosted by the new IRRELEVANT signed with BoI covering IRRELEVANT which locks in IRRELEVANT. In addition, should IRRELEVANT, Post Office will benefit from payments of IRRELEVANT. IRRELEVANT Lending performance is mixed, with IRRELEVANT IRRELEVANT. The expansion of the Post Office brand in the Broker channel will compensate for some of this weakness by year end. Personal Loans volumes continue to show strong performance.

4. Customers

There are four key customer projects underway in Post Office Money:

- Customer Advocacy Programme which aims to enhance end to end customer journey experiences – NPS continues positive upwards trend
- External Benchmarking Survey to highlight areas for improvement vs peer group – results due later this year
- Customer Research Panel to support new product markets & innovation
- Post Office Money 'North Star' Metric to identify a customer centric indicator of performance that fits across both 'Customer' and 'Commercial' metrics.

5. Year End Outlook

We expect to exceed full year income and profit targets.

How our Transactional product is set performing?

1. The Market

The good weather this summer has had a significant impact on UK "staycations", by c40% based on the top two UK holiday providers (Hoseasons and Parkdean). The UK travel money market has been running c9% down YoY based on competitor feedback and so whilst our numbers are lower than expected, they appear to be in line with the market. The predicted natural decline in Postal Orders in 18/19 has not been as sharp as initially thought, running at c.18% YoY vs 21% in 17/18.

2. Product P&L P5 YTD

Gross Income (£m)					
Period 5 YTD			Full Year		
Actual	Budget	Var	Out-turn	Budget	Var
Travel Money					
MoneyGram					
Postal Orders					
Transactional Products					
IRRELEVANT					

Profit Contribution					
Period 5 YTD			Full Year		
Actual	Budget	Var	Out-turn	Budget	Var
Travel Money					
FRES Profit Share					
MoneyGram					
Postal Orders					
Transactional Products					
IRRELEVANT					

3. Review of Performance

Travel Money gross income has fallen behind budget for the reasons set out above. The MoneyGram contract has been re-negotiated resulting in **IRRELEVANT** additional fixed income for the remainder of the contract **IRRELEVANT** in 18/19 of which **IRRELEVANT** has been recognised P5 YTD). Postal Orders are a profitable product with a low level of costs. Volumes are declining but as stated, less steeply than predicted.

4. Customers

MoneyGram customers are holding but Revenue Per Transaction ("RPT") remains under pressure. New pricing for India to drive transactions was introduced in July as were local advertising campaigns in key markets like Romania to drive Post Office awareness as a destination to send/receive. Postal Orders are paper based with associated increasing AML risks and therefore interest from some areas is declining. The MoJ has indicated they will stop accepting Postal Orders but are yet to confirm a date.

5. Year End Outlook

We expect the renegotiated deal with MoneyGram to provide an upside to the overall full year Travel Money & MoneyGram results. However MoneyGram revenue is currently missing budgeted RPT values by 14% causing a risk of **IRRELEVANT** before the additional commissions. TMC & TMO value of sales are currently **IRRELEVANT** behind budget, posing a year-end profit risk of **IRRELEVANT**. Postal Orders are on track to outperform 18/19 budget profit.

How is our Telecoms business performing?

1. The Market

The industry continues to focus on Fibre with BT Openreach (the main network provider) looking to incentivise further uptake on this product, enabling the long term strategy of retiring the ADSL (Broadband) network. There are a number of small challengers in the market (e.g. Cityfibre, Hyperoptic, GigaClear) who are working with partners to rollout a competing high speed network (up to 1Gbps) based on a Fibre to the Premise (FTTP) technology. Post Office is working to secure a long term competitive pricing position on fibre to ensure continued relevance.

2. Product P&L P5 YTD

Gross Income (£m)						
Telecoms	Period 5 YTD			Full Year		
	Actual	Budget	Var	Out-turn	Budget	Var
	63.3	65.3	(2.1)	154.6	159.4	(4.8)

Profit Contribution						
Telecoms	Period 5 YTD			Full Year		
	Actual	Budget	Var	Out-turn	Budget	Var
	12.0	12.0	0.0	30.0	30.0	0.0

3. Review of Performance

The above P&L shows the underlying Telecoms performance, with the Fin11 budget overstatement having been moved to the Other Income line in our P&L. Gross revenue is behind budget expectations due to both lower ARPU than expected, partly driven by less calls being made over the summer period, and lower customer numbers. We are launching more aggressive acquisition and retention offers in October to address the market and mitigate leakage. Cost of Sales are favourable to budget due to the take up of Project Galaxy and overall, direct profit is in line with budget excluding Fin11.

4. Customers

Customer Satisfaction ("CSAT") is showing a positive trend and is now embedded in the Customer First Programme. Month to date score is 77% overall CSAT which is our best-ever level. Consistent improvements are being seen with tNPS and the latest Ofcom numbers show a best-ever performance on published Landline complaints.

5. Year End Outlook

Customer numbers are behind where we expected them to be. ARPU is also lagging behind the budget, even after adjusting the budget for the FIN11 overstatement. Plans are underway to implement a price increase in H2 which will partly mitigate the downward ARPU trend.

How is our Insurance business performing?

1. The Market

The Travel Insurance market is expected to shrink over the next 5 years, leading to the continuation of intensified price competition from a crowded market (current market share is 7.6%). There is market uncertainty in relation to Brexit, with the outcome potentially impacting on how the EHIC operates, foreign exchange and passporting, all of which could

have positive or negative impacts on the market. The Motor Insurance market is expected to grow 1%pa to 2020, with POI current market share 0.4%. The short term outlook for this market is favourable with a short/shallow drop in rates expected as some providers move for growth. The Home Insurance market is expected to fall by 2%pa over the next three years driven by changes in home ownership.

2. Product P&L P5 YTD

Gross Income (£m)				
	Period 5 YTD		Full Year	
	Actual	Budget	Out-turn	Budget
	Var		Var	
Travel Insurance	IRRELEVANT			
Life & Over 50s				
Home, Van, Car & Other				
PO Insurance				

Profit Contribution				
	Period 5 YTD		Full Year	
	Actual	Budget	Out-turn	Budget
	Var		Var	
Travel Insurance	IRRELEVANT			
Life & Over 50s				
Home, Van, Car & Other				
Agent's Pay				
Other Operating Costs				
PO Insurance				

3. Review of Performance

Travel Insurance is currently running 14% behind with trading impacted by Post Office Travel App performance and market conditions. Despite this, total travel sales are up 27% on 2017/18 and digital sales up 13% on prior year following investment in SEO. Protection trading is 5% ahead following two successful branch offer weeks. A DRTV campaign will run from week 26. We are also expanding distribution of protection products to price comparison websites during Period 6. General Insurance outlook is favourable, driven by particularly strong renewals performance for Car, Van & Home.

4. Customers

Net Promoter Score is currently running ahead of plan at 38 and Customer Effort Score is currently at 80, slightly below plan but on an upward trajectory.

5. Year End Outlook

The PO Insurance 3+9F projected group profit stands at **IRRELEVANT** (before Agent's Pay), up £0.2m on budget. PO Insurance is progressing its 6+6F for finalisation and submission in early October alongside the rest of the business.

Appendix 1 – Individual Product Area Strategies

Telecoms The Telecoms business is currently in the process of appointing consultants to understand the long term business options and refresh the previous strategic plan. Important is its strategic fit within Post Office as a whole, what opportunities exist to maximise the value of the business, and what a divestment strategy might look like.

Peregrine We now have formal negotiating sessions scheduled for several dates in September and October and are still aiming to conclude by the end of October (although we should be cautious about this deadline given BoI's **IRRELEVANT** on all of this). BoI have continue to pressurise us to start **IRRELEVANT**, **IRRELEVANT** the rest of the Peregrine negotiations. We have maintained our position that Peregrine is **IRRELEVANT** (subject to the approval of our Board) **IRRELEVANT** **IRRELEVANT** They are still considering this.

Distribution Strategy with Retail Progress is being made to agree what the right distribution capability is throughout the Network for FS&T products. We are currently defining and sizing the potential scenarios.

Digital International Payments Following the contract renegotiation with MoneyGram, Post Office has been released from exclusivity surrounding international digital remittance. Discussions are underway with established companies operating in this space to understand the options to launch a digital account-to-account remittance service. The Business Case is scheduled for completion at the end of October.

PO Insurance We have met with the majority shareholder of **IRRELEVANT** and their newly appointed advisors, **IRRELEVANT** They are setting up the data room and propose a formal process to commence in October; this will be an auction. We have been offered an early view of the data once available and have stated they are open to an offer prior to the formal process commencing. We will revert with a recommendation once KPMGs insurance team have analysed the data and given a view on the valuation. Separately, work continues on exploring market disruption options Home Insurance – we expect to have some early ideas this autumn.

Appendix 2 – A Reminder On How We Make Money

Mortgages Income is based on total completions value: [IRRELEVANT] for contact centre/online and [IRRELEVANT] for brokers. We offer a full range of mortgages across residential (FTB, re-mortgage and home mover) as well as buy-to-let. Our two innovative new mortgage propositions have launched in the FTB and later life borrowing spaces.

Savings We are in a value share where we earn a base income of [IRRELEVANT] and [IRRELEVANT] in [IRRELEVANT] for every basis point BoIs [IRRELEVANT] from the baseline of [IRRELEVANT]. We are developing two new strategic propositions to move away from price-led competition in Savings.

Personal Loans Income is earned at [IRRELEVANT] of written lend. We are developing two new strategic propositions to differentiate our loans offering.

Credit Cards Income is earned at [IRRELEVANT] for every card sold. Our leading product is the Platinum Card which offers zero-fee transactions abroad.

Travel Money Income is earned on a transactional basis [IRRELEVANT] per over the counter FX transaction, [IRRELEVANT] of click & collect turnover, [IRRELEVANT] per new TMC sale and [IRRELEVANT] of TMC top-ups) plus an [IRRELEVANT]. Post Office is the number one provider for in-branch foreign currency sales, with a market share of 25%, and online share of 17%.

MoneyGram Income is earned via three streams: FX margin [IRRELEVANT] of transaction amount), customer fee ([IRRELEVANT] of transaction amount) and a fixed commission of [IRRELEVANT] per transaction. Average revenue translates to [IRRELEVANT] for Send transactions and [IRRELEVANT] for Receive transactions. There is a fixed commission of [IRRELEVANT] per annum, and an additional fixed commission of [IRRELEVANT] recently negotiated to the end of the contract, translating to [IRRELEVANT] in 18/19. Our core proposition is currently in-branch transactions, with a market share of c.13% of cash money transfers, however we are looking at digital money transfer capabilities to drive additional protection.

Postal Orders Income is earned on a transaction basis, with the rate varied by value of the Postal Order: [IRRELEVANT] for transactions up to £4.99; [IRRELEVANT] for transactions between £5 and £9.99; and [IRRELEVANT] of the value for transactions over [IRRELEVANT], capped at [IRRELEVANT]. We also recognise revenue from expired Postal Orders. Postal Orders are in structural decline and subject to a wider strategic review.

Telecoms We offer consumer telephony products and services with varied contract lengths (12/18/24 months). Customer monthly average revenue per user (ARPU) and average tenures vary by product and promotional price points. The HomePhone ARPU is £22.30 over 49 months and Broadband ARPU is £26.69 but over 26 months. ARPU is made up of fixed contract income [IRRELEVANT] and variable income (eg from Call Packages).

In H1 2018/19 we launched our most competitive Standard Broadband (ADSL) price point at £17pm and improved Fibre retail prices to £31pm on our most popular tariffs (supported through wholesale cost reductions negotiated with TalkTalk).

Travel Insurance Revenue is earned through commission, with [IRRELEVANT] from single trip policies with [IRRELEVANT]. The remaining revenue comes from Annual Multi-Trip (AMT) policies which builds [IRRELEVANT]. AMT retention is [IRRELEVANT]. There is also an [IRRELEVANT].

Life & Over 50s Revenue is earned through commission, reflecting the [IRRELEVANT] [IRRELEVANT] and is subject to [IRRELEVANT] for policies [IRRELEVANT]. [IRRELEVANT]. An [IRRELEVANT] [IRRELEVANT] for all policies that continue beyond the [IRRELEVANT] and a [IRRELEVANT]. [IRRELEVANT] is paid to POI as commission on these policies.

Home, Car & Van Revenue is generated through a combination of [IRRELEVANT] [IRRELEVANT] [IRRELEVANT]. Policies generate an [IRRELEVANT].

Banking Framework 2

Author: Martin Kearsley

Sponsor: Debbie Smith

Meeting date: 25 September 2018

Executive Summary

Context

1. The Banking Framework (BF) is a [IRRELEVANT] covering counter-based transactions, with a single [IRRELEVANT] giving a [IRRELEVANT] prior to continuing beyond [IRRELEVANT] should Banks wish to withdraw.
2. Deposit transaction growth is placing increased strain upon existing PO infrastructure and all banking transactions now represent [IRRELEVANT] of counter workload but only [IRRELEVANT] of postmaster fees.
3. Automation of cash services to ease pressure on branch counters requires investment, which needs to be coordinated with all other branch automation programmes to ensure that a coherent, aligned and detailed plan can be presented to the banks.
4. A negotiation strategy has been developed to ensure Banking Framework 2 (BF2) pricing gives POL options regarding what and how to invest in automation, either with or on behalf of banks.

Questions addressed in this report

5. The value the BF counter services deliver to the Banks.
6. The alternatives that Banks are developing and what limitations they might impose on our ability to maximise our revenue.
7. What range of BF2 [IRRELEVANT] are available, what [IRRELEVANT] do they raise and what impacts do they have on participating banks.
8. How forecast transaction growth affects income and trading profit growth
9. Approach to cash automation and self-service and integration into POL wide automation discussions.
10. The resources and team structure required.
11. The time frame for completion of the repricing exercise.
12. Our proposed BF2 negotiating approach with the Banks.

Conclusion

13. BF2 re-pricing scenarios will generate between [IRRELEVANT] and [IRRELEVANT] per annum from [IRRELEVANT] based on FY18/19 volumes not including growth (vs baseline of [IRRELEVANT] in FY18/19).

14. When considering likely growth scenarios the resulting Revenue and Trading Profit could deliver [IRRELEVANT] m and [IRRELEVANT] p.a. respectively in 2022, and provides a base for investment and agent remuneration change.
15. A negotiation strategy and team structure is recommended.

Input sought

16. Discussion regarding BF2 pricing and points at which [IRRELEVANT] [IRRELEVANT] with the Banks.
17. Discussion on timing of negotiating meetings with the banks and potential to give banks until [IRRELEVANT].

The Report

The value of the Banking Framework to the Banks

18. The [IRRELEVANT] for BF2 has been assessed from three perspectives:
- a. [IRRELEVANT]
 - i. Since 2014 the UK branch network of the big 5 banks has shrunk by 3800 (42%) to circa 5170. Estimated savings to Banks of circa [IRRELEVANT] p.a.
 - ii. Optimising their networks to a maximum of 600 branches per brand could see another 1169 closures by 2025 and further savings of up to [IRRELEVANT] p.a.
 - iii. Banks fully loaded costs, per transaction, are between [IRRELEVANT] [IRRELEVANT]
 - b. The feasibility and cost of alternative channels
 - i. Three possible competitor channels to the Post Office banking proposition have been identified:
 - 1. Mobile van branches - which have limited reach and high associated costs and are therefore discounted
 - 2. Alternative counter services such as the PayPoint/LINK tie up.
 - a. Enables cash withdrawals and deposits using Chip & Pin, currently under trial at 15 locations and could provide a ready-made network with reach exceeding the Post Office.
 - b. Mainly small scale and incomplete banking service proposition unsuitable for Business customers. Useful 'convenience cash' role for ad hoc personal

sector withdrawals, and could therefore draw some volume from Post Office counters

3. A 'shared service' automated offer in dedicated premises such as:

- a. Cardtronics and Vaultex (**IRRELEVANT** , **IRRELEVANT**) to pilot a self-service branch capability for businesses. Concept due to pilot January 2019
- b. Banks have ring fenced capital for up to 750 locations. Estimated cost up to **IRRELEVANT** / site **IRRELEVANT** n total) with annual operating costs per site up to **IRRELEVANT** p.a. **IRRELEVANT** p.a. total)
- c. Cardtronics are also proposing to set up a parallel network in conjunction with Retail partners

c. The transactions fees Banks charge their own customers:

- i. Transaction charges are rarely applied to mainstream personal accounts; often waived for new Business customers; and larger Commercial and Corporate customers negotiate individual arrangements.

- ii. **IRRELEVANT**
- iii. **IRRELEVANT**

Framework 2 fee options

19.A range of potential fee levels for each category have been considered against the constraints identified (Major fees only detailed in table below):

- a. **IRRELEVANT**
- b. **IRRELEVANT**

20.Both potential fee levels feature **IRRELEVANT**

- a. **IRRELEVANT**
- b. **IRRELEVANT**

21.There are wide variances in income between key parties in the deposit transaction

DEPOSITS			
Example transaction values	Bank charges to business customer	PO charges to banks	PO pays agent (non-main)
IRRELEVANT			

22.The resultant incremental fees, based on 2018 transaction volumes for each scenario would be:

Total Impact By Bank	2018 fees (£)	Target	Aggressive	Increase based on	Increase based on	Increase based on	Increase based on
IRRELEVANT							
IRRELEVANT							
Total				IRRELEVANT			

23.Over **IRRELEVANT** This reflects the need to address an **IRRELEVANT**

	Fee Increase Scenarios (£m)
Membership Fee	IRRELEVANT
Cash withdrawal	
Cash deposit	
Other fees	
TOTAL	

24 **IRRELEVANT**

25. Without the implementation of self-service and further cash automation we will be unable to efficiently manage increasing SME deposit volumes as the network, customers and the supply chain are adversely impacted as:
- a. Postmasters workload at branch counters (and back office) increases – primarily driven by high value cash deposits
 - b. Customer service experience in branch suffers if queues are created behind time consuming BF transactions
 - c. Supply chain capacity and efficiency is stretched as increased cash deposit volumes turn branches cash positive
26. The cost implications from these issues was addressed in the May 2018 Future of Cash board paper

Impact of growth on framework income

27. Framework volumes are forecast to increase over the next 5 years before starting to decline. The forecast is primarily driven by four elements
- a. Contactless and online driving out cash
 - b. Alternative channels displacing Post Office
 - c. Continuing Bank branch and counter closures
 - d. Automation of LBG and RBS deposit transactions
28. Three scenarios have been modelled; Expected; Optimistic and Pessimistic

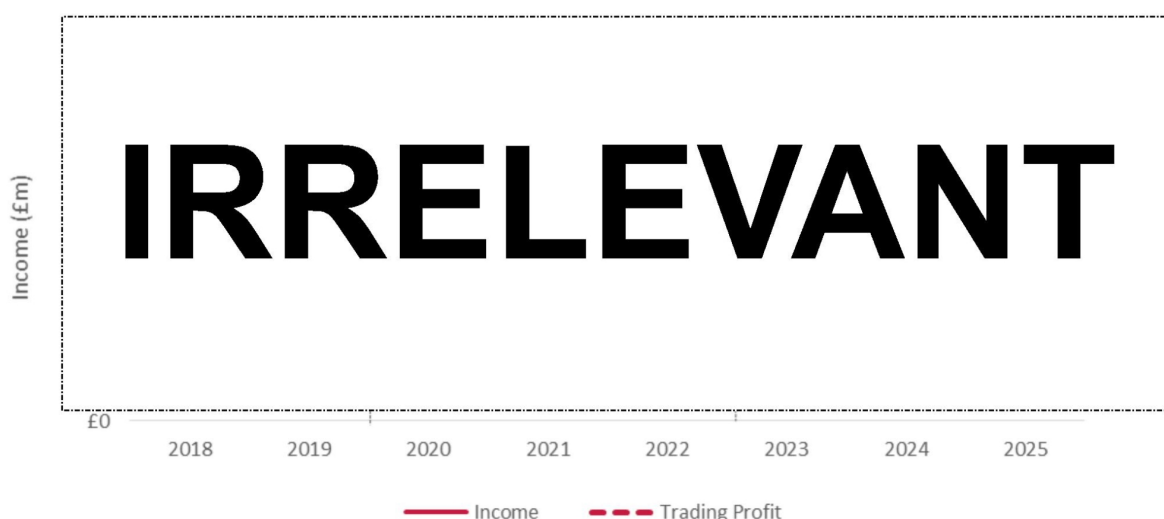


29. When volume increases are combined with £ increases, in the:
- a. most optimistic scenario income would peak at £
 - b. most pessimistic scenario income would peak at
 - c. expected scenario income would peak at

Scenarios	Vol/Inc. (m)	2017	2018	2019	2020	2021	2022	2023	2024	2025
Pessimistic	Volumes	IRRELEVANT								
	Income									
	Baseline Rates									
	Target Rates									
Expected	Volumes									
	Income									
	Baseline Rates									
	Target Rates									
Optimistic	Volumes									
	Income									
	Baseline Rates									
	Target Rates									
	Aggressive Rates									

30. At expected volumes and target BF2 pricing income peaks at **IRRELEVANT** and trading profit at **IRRELEVANT** in 2022 – assumes all costs **IRRELEVANT**

Income and Trading Profit at Target BF2 rates - Expected volumes forecast



31. Trading profit forecasts above exclude the cost of additional supply chain capacity fixed investment, network security upgrades, cash automation and additional increases in agent remuneration

Approach to Self-service and cash automation

32. Adoption of branch automation technology, either as automated cash handling at the counter or as full self-service mail and banking, is under strategic review and will provide output and strategic direction by Q2'19

33. POL will not have a single, coherent view of Branch automation in time for the bank automation component of that to be included into BF2 pricing presentation at the level of detail that every bank will require.

34. It is therefore recommended that any negotiations around providing banking self-service functionality are separated from the BF2 **IRRELEVANT**

35. We will indicate to the Banks our intent to **IRRELEVANT** beneficial proposition by middle of 2019 with a **IRRELEVANT**

IRRELEVANT

Project team structure and resources required

36. An internal team comprising of Martin Kearsley, Nigel Bascombe and Nicole Calder (Finance analyst) lead the analysis work. Supported in negotiation by Andrew Clatworthy. Full engagement with Retail Strategy, Supply Chain and Automation work streams to ensure integrated approach.

Project timeframe

37. BF2 repricing

- a. Work in progress to define **IRRELEVANT** to banks by end of October
- b. Engage banks now, with delivery of final BF2 pricing by end November
- c. Banks responses – accept or terminate **IRRELEVANT**
- d. **IRRELEVANT**

38. Self-service / automation proposals

- a. Complete POL-wide automation strategy by end Q1 2019
- b. Develop detailed pricing, service SLA and proposition details for banking automation through Q2 2019
- c. Detailed Banking cash automation and self-service proposition proposals to Banks by end Q2 2019

Proposed negotiating approach

39. Between now and end of October:

- a. Engage with Banks' operational teams to prepare way for BF2

IRRELEVANT

40. Post October (based on assumed agreement on BF2 pricing at PO Board):

- a. **IRRELEVANT**
- b. Maintain communication channels as above on responses and progress
- c. Amend BF2 proposals if deemed necessary during negotiation

Solar – Building an integrated EPOS

Authors: Tom Moran Sponsor: Rob Houghton/Debbie Smith

Meeting date: 25th September 2018

Executive Summary

Context

We have identified 'Solar' (aka HNGT) as a critical part of developing our Retail and IT Strategies. With it, we can have the flexible, open IT architecture we need to become a more attractive retail proposition for our customers and our agents, respond quickly to threats and opportunities and, in due course, reduce our IT costs by replacing the need for counters with services integrated on retailers' tills, self-service or deliver through customers' own devices.

Questions addressed in this report

1. What is Solar and why is it important?
2. What has the cost been so far and what have we delivered?
3. What are the risks?

Conclusion

1. Project Solar is a strategic initiative to deliver greater access to Post Office products and services through a range of devices owned and operated by retailers, customers and the Post Office. Successful deployment is a key enabler of the Retail Strategy and North Star aims – we need it to be better for customers, be a partner of choice for retailers, grow our network and to digitise and optimise our business.
2. Our development so far has cost just under £6m and we are therefore raising this as we need to secure Board endorsement to be within governance. With this funding we have developed the essential microservices needed as foundations for product development, a Bill Payment pilot and are currently developing a Lottery Transaction Tracking product on retailers' tills, an initiative that has a clear business case and is a priority for agents.
3. Our new approach to joint working with Fujitsu and close working with Retail product owners and agents in developing Solar are designed to mitigate the key risks of a) failing to deliver to time, cost & quality, and b) retailers not taking up the new proposition(s).

Input Sought

1. The Board is asked to approve the money spent to date and note the plan to return to Board with a fuller, costed paper once the product roadmap has been more fully developed.

Input Received

2. Each stage of Solar has been approved by the Group Executive in the last year following extensive input from Retail and IT. The business case has been reviewed and validated independently by KPMG, and Solar has been endorsed from a strategic perspective by the Board at the June Away Day.

The Report

What is Solar and why does the Post Office need it?

1. Our current Post Office transaction engine, 'Horizon', is highly robust, monolithic and over 20 years old. It is based on a 'thick client' running on Windows counter hardware, with business logic and reference data downloaded to the client. Transaction workflow takes place at the branch, with real time interaction with back-end systems before committal takes place. It is a 'one size fits all' solution.
2. We have nearly completed the substantial task of replacing end-of-life 'HNGX' hardware (Windows NT4) with a newer 'HNGA' system running on Windows 10. The renewal programme is over 90% complete and we will have installed the new equipment in all branches by mid-October. Architecturally, HNGX and HNGA are the same.
3. HNGA/X is designed as a stand-alone system and does not lend itself to integration on third-party IT. This requires us to own and maintain a large IT estate on behalf of Agents and Partners. In the vast majority of our estate (all c3700 Locals, the vast majority of our c3400 Mains and most of our c2700 Community branches) this results in separate Post Office and retailer POS equipment, with consequences for retail space, training and rostering of staff and the need for customers to queue twice for Post Office and grocery baskets.¹
4. The core of Project Solar is the 'Horizon Integration Hub' (HIH). HIH uses a Web-Services architecture to connect browser-based, 'thin client', end user devices such as a retailers' till, via a common service interface or 'API', to Horizon. Each microservice performs a specific role in fulfilling the basic 'basket-building' process that is common to e-commerce systems. The generic basket-build process in Horizon, exposed through HIH, is shown below.



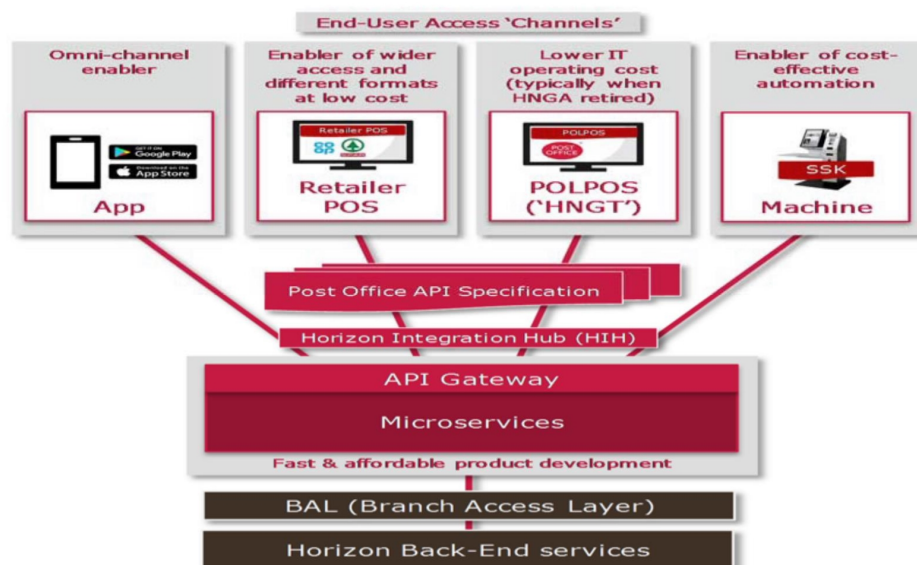
5. HIH gives Post Office the ability to innovate, develop and deploy new and existing products more rapidly and at lower cost than would ever be possible with the current HNGA/X system. As such it is critical to the future sustainability of our Retail network as it enables the new formats we need to develop and roll-out, reduces our IT operating costs and increases our ability to change products and services quickly, as other retailers do (see paragraph 8 below).

BROWSER-BASED ACCESS

6. Having the business logic, reference data and transaction workflow in HIH, rather than in the client as in HNGA/X, allows the use of a simple browser to connect user devices, minimising the integration effort by third-party IT developer teams.

¹ This is the customer journey we demonstrated, along with the planned new one, to the Board at the June 2018 Away Day.

Figure 1: How Solar will allow us to link our Horizon system to multiple channels



7. This makes Retailer-POS integration an attractive proposition which should allow Post Office to increase accessibility (for example in PO Express) at low cost and at a high velocity.

WHY POST OFFICE NEEDS SOLAR

8. Solar will allow us to do the following, none of which are possible through HGNA:

- access Post Office services on an omnichannel basis through a range of devices owned/ operated by retailers, by customers and by the Post Office;
- segment product offer by branch type, location, time of day, operator skill or other factors; and
- innovate and deploy new products rapidly, including those for new strategic partners, as well as to change or improve existing products (for example, price changes).

9. The Retail Strategy describes a segmented customer proposition which moves away from the existing and limited Locals and Mains offers, which are not sufficient to meet customer or agent expectations. Our Retail Strategy stated that *"without mitigating action, our 3YP could potentially be negatively impacted by up to £22m EBITDAS...due to the challenges we are finding in recruiting agents...[which would result in more outreach and temporary-managed branches]."* Solar is needed to enable the new formats set out in the table below and is particularly critical to developing the new proposed 'Kiosk' and 'Express' formats.

10. The approach of the Integration Hub and Post Office retaining the IPR of the development gives us future sourcing options away from Fujitsu. The proprietary HNGA/X application and the Horizon back-end systems are complex and make it impossible for Post Office to access Category procurement savings from the market.

POST OFFICE

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USE OF PAYZONE

11. We are working closely with colleagues responsible for 'Panther' to ensure we are aligned, as acquiring Payzone would give us a new capability and bill payment and other simple 'scan a bar code' transactions could be developed within the Payzone mobile device and systems.
12. Payzone already has a similar target architecture with regards to its development of bill payment microservices and it is expected that these can be integrated into the Post Office architecture in the future through a single API Gateway.
13. The integration planning of the two IT eco-systems continues, with the most cost effective and efficient outcome likely to be an integration of both existing microservice assets rather than one technology replacing the other.

What has the cost been so far and what have we delivered?

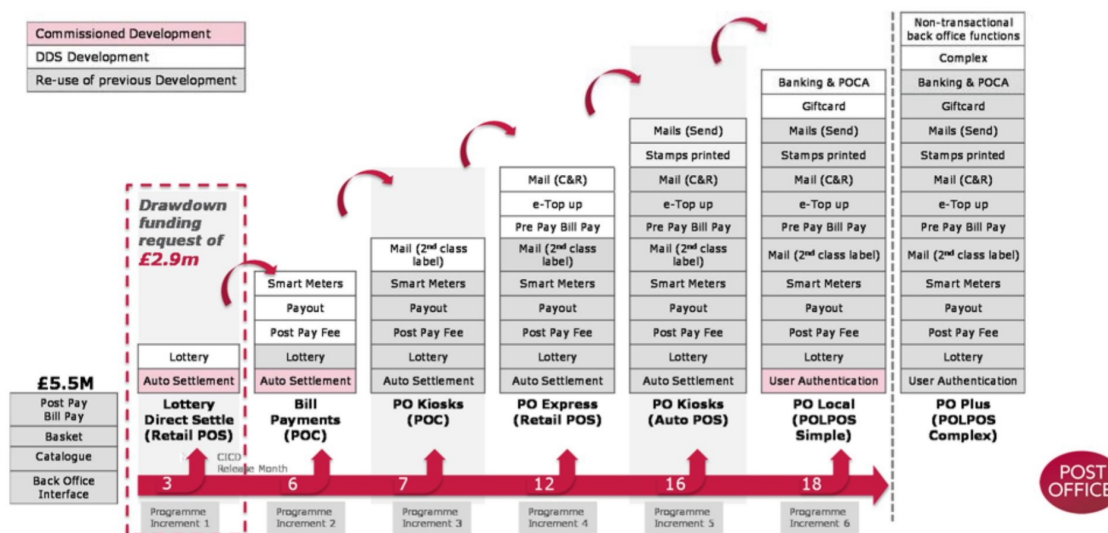
1. The work to date (previously referred to as 'HNGT Lite') developed the key foundation components – known as microservices – of the new HIH (Horizon Integration Hub) architecture. This has been critical work which we had to do before developing the new product journeys, which can then be developed using our Agile delivery approach.
 2. This foundation development represents 90% of the £5,995m expenditure in HNGT Lite, and forms the essential basis for development of the roadmap in the coming Programme Increments. This funding has been approved in stages over the last 12 months through our Investment Committee, which the Group Executive uses to review and approve strategic investments. As the total now exceeds the £5m for which Board approval is required, we are requesting approval for the £5,995m through this paper.
 3. We are not requesting funding for subsequent 'increments' or for Solar as a whole in this paper. We will be returning to Board with a fuller, costed explanation of the programme once we have developed the product roadmap more fully over the next few months. We will ensure all future business cases are subject to the relevant governance approval processes in future.
 4. Our partners for this work are Fujitsu (as well as Retail Data Partnerships, EPOS specialists who operate in the Booker network) and, up to August, we were under the terms of the previous contractual arrangement with Fujitsu. The new Lottery increment is the first major initiative to be delivered as part of the new approach agreed through Project Everest and is intended to set a new standard in joint working and Agile delivery.
- SUMMARY OF ROADMAP TO DATE – LOTTERY, BILL PAYMENT AND MAILS
5. Having developed the necessary microservices to start adding products, we have started our product roadmap. The current work (Increment 1) is developing and deploying Lottery Transaction Tracking in all c1200 Multiple retail partner branches and which will improve the management of Lottery through Post Office to align with contracting direct with Camelot. This will protect £4.1m of at-risk EBITDAS and prove our credibility to our network for reasons set out below. We are working closely with McColls on this (as our largest partner with over 600

Post Offices, McColls have consistently called for EPOS integration and securing their support, which we have done, is crucial to our wider credibility).

6. The prioritisation of products is a business decision driven by our key senior product owners in Retail to align with commercial priorities and our Retail Strategy. The current product roadmap, which we fully expect to be modified on a regular basis, as we review it over the coming months, is below. We have also set out the business case we have identified for each increment at Appendix A.

Figure 2: Solar Product Roadmap as at 17 September 2018

Roadmap



7. Mails products appear later in the product roadmap (see above) as the full Mails suite already exists in the current Mains and Local format which, supported by the deployment of HNGA, satisfies the requirement of the new PO Local and PO Plus model referred to in the Retail Strategy. However, we continue to review the opportunity to bring forward the Collects component, as a minimum.
8. We are also developing the 'Mails App' demonstrated to the Board in June through the Customer Hub. This complements the Solar work and means we can deliver to market quicker – the ambition is to launch Version 1 of the Mails App through Customer Hub prior to peak season whilst in parallel developing further enhancements for launch in Q4.

What are the risks?

1. *The Post Office becomes locked into the current Horizon architecture* – this would be likely if we do not deliver Solar and would make us increasingly inflexible, increase costs and make us less attractive as a partner. Solar is designed to open up our architecture to 3rd parties and devices such as retailer tills and tablets to increase our options.

2. *Partners will not take up the new technology* – we are confident there is a clear need from partners, particularly Multiples and Symbols, for EPOS integration and for the new formats it will enable. Developing this with them is crucial to avoid wasted effort and we are involving them in the development (to date principally Spar on Bill Payment, McColls on Lotto and a range of agents in developing our microservices).
3. *Fujitsu will be unable to deliver to the time and cost we need* – our new contractual position incentivises Fujitsu to deliver through Agile quickly and efficiently. We must also accept our part as a partner and develop the product requirements needed to deliver.
4. *Solar will result in a GDPR-related issue or incident* – we need to consider GDPR in our design approach to be both compliant and mitigate against any potential re-work together with its partners. We have not identified any major issues to date and will keep this under close review.

Conclusion

1. We have identified 'Solar' (aka HNGT) as a critical part of developing our Retail and IT Strategies. With it, we can have the flexible, open IT architecture we need to become a more attractive retail proposition, respond quickly to threats and opportunities and, in due course, reduce our IT costs by replacing the need for counters with services integrated on retailers' tills, self-service or deliver through customers' own device.
2. So far we have developed the essential microservices needed as foundations for product development, a Bill Payment pilot and are currently developing a Lottery Transaction Tracking product on retailers' tills, an initiative that has a clear business case and is a priority for agents. Feedback from independent and Multiple agents has been very positive, giving us confidence we are taking the right approach. Our next increments will focus on Bill Payment and Mails, these being the priority products to address customer and agent needs.
3. As the total now exceeds the £5m for which Board approval is required, we are requesting approval for the £5,995m through this paper. The Board is asked to approve the money spent to date and note the plan to return to Board with a fuller, costed paper once the product roadmap has been more fully developed.

Appendix A: High-level business cases for future Solar Product Increments

Use case/business case driver/benefit	OPEX reduced	EBITDAS increased	EBITDAS maintained	CAPEX avoided	Timing
UC1: Enable PO Express format on Retailer POS	-	-	-	£4.0-13.0m in total	Full benefits achieved over 5 years starting FY2020
UC2: Displace PayPoint from multiples/ symbols	-	£1.2-4.5m p.a.	-	-	Full run rate achieved over 3 years starting Sep 2019
UC3: Reduce cost of Automation	£4.5-9.0m p.a.	-	-	-	Roll out start in FY2021 and full run rate achieved by FY27
UC4: Enable Digital mail back end integration	-	-	-	£2.5-5.0m in total	CAPEX avoided in FY19
UC5: Enable direct settlement of lottery transactions	-	-	£4.1m p.a.	-	Excludes £1m OPEX saving for multiples partners. EBITDAS estimate is for FY2020 assuming FY2018 EBITDAS of £5.1m and 10% yoy decline
TOTAL	£4.5-9.0m p.a.	£1.2-4.5m p.a.	£4.1m p.a.	£6.5-18.0m in total	

POST OFFICE

PA GE 2

Appendix B: Solar benefit map linked to Retail Strategy

Our Customers

I can do my "transactional" services at the Retailers POS in my Post Office

I can use the Self serve machine on my own

I can do my "transactional" services at the Retailers POS at my local store

Our Agents

I can save my operating cost from Lottery

I can give a better service to my customers at lower cost

I use lower skill staff to operate My Post Office counters

Post Office

We can talk to our multiple partners with a live POC in place

We can integrate our App products
We can evaluate the benefit of RPOS

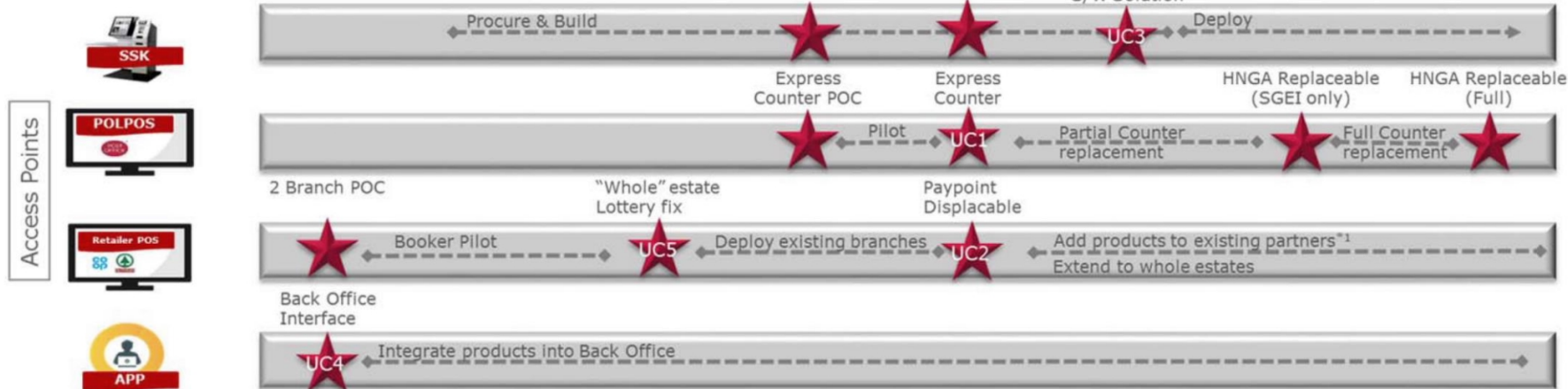
We can save our operating cost from Lottery

We can get our first service integrated into Retailer POS's

We can add our transactional products into Retailer POS's

We can extend our network into whole estates

We can remove the cost of operating HNGA



Royal Mail (RM) MDA Negotiations

Author: Mark Siviter

Sponsor: Debbie Smith

Meeting date: 25th September 2018

Executive Summary

Context

Following Board support to engage early with Royal Mail (RM) to secure the longer term future of the commercial relationship. We are now about to engage in the first round of more formal negotiations in October to explore the broad shape of a possible deal in advance of the formal contractual renegotiation period in 2019.

Questions addressed in this report

1. What progress have we made with Royal Mail?
2. What are our aspirations from a new agreement and why?
3. What does Royal Mail want from a deal, and what outcome do we expect?
4. What are the next steps?

Conclusion

1. Since the changes in Royal Mail leadership in June, there has been greater interest in progressing discussions, resulting in Royal Mail going to their Board in September for permission to enter a first round of formal negotiations exploring what the broad shape of a new deal could look like.
2. Our aspirations are to IRRELEVANT

IRRELEVANT
3. We believe RM will IRRELEVANT with IRRELEVANT

IRRELEVANT
4. Meetings are diarised between October and December for a first round of formal negotiations with the intent of reaching a broad shape of a deal. We will return to GE and Board in January with a more informed mandate to support a second round of discussions.

Input Sought

1. Note progress made to date and the intent to enter the first round of formal negotiations

Input Received

1. RM Negotiations SteerCo, 29th Sept
2. GE 12th Sept

The Report

What progress have we made with Royal Mail?

1. Since early 2018 we have been actively engaged with RM, agreed mutual interest in securing an (**IRRELEVANT**) set out principles and established key topics for discussion.
2. We have achieved our ambition to understand RM's high level interests and identify the key points of difference as RM's desire for (**IRRELEVANT**) and Post Office's (**IRRELEVANT**)
3. **IRRELEVANT**
4. The changes in RM's Executive announced in June resulted in renewed pace from their side, driven by Sue Whalley, RM's new UK CEO.
5. Since June a series of high level meetings have been held between respective CEOs and senior managers to discuss intentions and approach to negotiations. RM have now confirmed they are ready to enter formal discussions in October, subject to their Board approval in September.

What are our aspirations from a new agreement and why?

1. We are well prepared for these negotiations. We have spent significant effort in evaluating the market, understanding our alternatives, RM's alternatives and our financial and commercial asks.
2. The context of a new agreement with RM remain consistent with our previous statements to the Board, specifically:
 - There are no realistic scenarios in which the Post Office and RM would not have a significant ongoing future trading relationship. To our knowledge RM has no viable, comprehensive NBA.
 - **IRRELEVANT**
 - However, it is expected that competitive pressures on RM and Post Office will increase over the term of a new long term agreement.
 - **IRRELEVANT**
3. We have three specific objectives:
 - **IRRELEVANT**
 - **IRRELEVANT**
 - **IRRELEVANT**

4. Our opening position includes the following key asks, in relative priority:

IRRELEVANT

5. In addition we have approximately twenty 'Tier 2' asks covering detailed areas such as segregation, industrial action contingencies and other contractual terms.
6. We recognise these are highly ambitious and securing all or some of them is highly unlikely, however we are seeking to maximise our opening position in order to better protect our absolute red lines of:

IRRELEVANT

7. **IRRELEVANT**

IRRELEVANT

A summary projection is provided in Annex 1.

8. In addition, we believe

IRRELEVANT

IRRELEVANT

IRRELEVANT

(Annex 1).

What does Royal Mail want from a new agreement and what outcome do we expect?

1. RMG have stated their general requirements from a new agreement as;

IRRELEVANT

2. We expect this to translate into six key asks:

IRRELEVANT

3. During this first round of negotiations we have: **IRRELEVANT**

IRRELEVANT

4. **IRRELEVANT**

5. **IRRELEVANT**

6. **IRRELEVANT**

Next steps?

1. Following the latest CEO to CEO meeting a series of formal meetings have been diarised between Oct and Dec 2018 to discuss these key topics in depth.
2. The intention of these discussions is to establish detailed understanding of each party's positions and the zones of potential agreement.
3. The outcome, should there be sufficient common ground, will be the high level outline shape of a deal, which both parties will take back to their respective

Boards for approval prior to moving to the next stage of negotiations where final offers and commitments are made and legal drafting executed.

4. Should insufficient progress have been made, or the outline deal is not acceptable, then we will recommend that second round of negotiations commence in January.
5. In addition we are continuing to develop our optionality and functionality in preparation of a deal, specifically;

-
- **IRRELEVANT**
-

We will update the Board in November on how initial discussions are progressing before bringing a formal recommendation on next steps in January.

Annex 1. Financial projections of very ambitious asks

IRRELEVANT

16-17 17-18 18-19 19-20 20-21 21-22 22-23 23-24 24-25 25-26 26-27 27-28 28-29
See appendix for more detailed analysis and all modelling assumptions

IRRELEVANT

IRRELEVANT

16-17 17-18 18-19 19-20 20-21 21-22 22-23 23-24 24-25 25-26 26-27 27-28 28-29

Back Office Transformation

Authors: Michael Clements **Sponsor:** Alisdair Cameron **Meeting date:** 25 September 2018

Executive Summary

Context

Back Office Transformation comprises the following projects:

- Agent Remuneration – moving agent payment processes from HRSAP to CFS, automating the process, improving data accuracy and visibility
- Cash Processing Transformation – moving cash processing from POLSAP to CWC improving ordering, inventory management, vault and stock management and forecasting processes
- POLSAP Process Migration - migrating the Post Office back office sales and finance processes onto CFS, delivering settlement, billing and reporting from a single set of data and providing a system based view of product profitability

The strategic importance of the transformation is defined in four key areas:

- Risk avoidance – To remove POLSAP before it stops working. Spare parts are increasingly unavailable for our POLSAP system. If it fails, we cannot trade.
- Improvements in information and control – A single view of financial activity that will give us one version of the truth; sales data that is accurate and reliable.
- Reduce OPEX – The bulk of the benefits from getting off POLSAP is an IT OPEX reduction of £3m with £0.4m business simplification.
- Simplification of systems and processes – fewer systems and simpler processes will reduce manual data processing in spreadsheets and improve controls.

In May, the Board approved a cumulative investment of £26.2m to enable the programme to deliver a September Go Live or £27.9m for an October Go Live. In July we confirmed that October was the first possible go-live date.

Questions addressed in this report

- 1) What has happened since the last update?
- 2) What Go Live date are we recommending?
- 3) What is our confidence level?
- 4) Can POLSAP last?
- 5) What does this mean for contingency plans?
- 6) What are the financial implications?

Conclusions

1. The completed agents pay process is operating effectively. The Belfast cash processing trial is stable and operating efficiently. All master data changes and integration are live. We have completed a full dress-rehearsal of Go Live. POLSAP Process Migration has almost completed it's 3rd integration test, run higher than x-mas volumes through the sale-settle-bill process and were it a stand-a-lone project, we would have been confident taking it live in October.
2. In Cash Processing, testing and correcting defects is taking longer than expected. In Transtrack, system changes that we require (there is no off the shelf system that meets our needs) are changed in the core product available to all customers. While this means we avoid a bespoke solution with future upgrade complexity, changes are slow. We are also continuing to create the Cash Forecasting solution. We cannot therefore complete full integration testing or testing Forecasting at volume by October, hence reviewed November and January go-live dates.
3. The additional cost of delaying go-live from November to January is £1.3m. However, for November we would go-live having compromised testing at volume for Cash Processing, with less well designed and delivered training in Supply Chain, and with a less effective Cash Forecasting solution than we have today. In total, November go-live is likely to require an additional £300m of cash outside the vaults, stretching our borrowing facilities to their limits.
4. We are recommending go-live on 28th January, a further three-month delay. The total cost of Phase 1 is now estimated at £37.3m, an increase of £9.4m on the October value of £27.9m. The difference between November and January is smaller than pro-rata because it covers the Christmas period and requires work to be delayed post go-live.
5. We are confident that January can be delivered and that the current infrastructure will be robust for this period.

Input Sought

The Board is asked to approve the additional £9.4m drawdown.

The Report

What has happened since last update?

1. In the last update we flagged three issues preventing a September Go-Live: Horizon interfaces, CFS high volume performance and Cash Forecasting. Two resolved as hoped:
 - **Horizon interfaces:** All interfaces delivered to test broadly on their revised schedule but the delay has affected Cash Processing and Cash Forecasting.
 - **CFS high-volume performance:** Our original design was to operate a monthly billing process. This has proved to be infeasible due to our data volumes. We therefore developed a daily billing process and have subjected that to both integration and volume testing. Having added two more testing cycles, the Sale-Settle-Bill process is in the final stages of testing at peak volumes and will now complete well before morning settlement deadlines.
2. Unfortunately the 3rd remains a challenge, and an accumulation of issues caused a 4th challenge:
 - **Cash Forecasting:** The logic behind the new TransTrack forecasting module is widely used but significantly different to how we currently operate. Whilst the technical delivery and new functionality is comprehensive, there were some key areas where a late change was needed. This required changes to the Horizon interfaces. As a result of this delay, we are unable to confirm performance, or ensure we will not have a branch cash out nor any increases in inventory. While we finalise the solution, the project is concurrently building a "Plan B" forecasting tool that replicates the current approach. Whilst Plan B does not add value over our current forecasting solution this ensures we can allow the rest of the project to go-live without degradation to our ability to manage Network cash. This de-risks January go-live.
 - **Cash Processing:** We have made significant progress with defect resolution times in conjunction with TransTrack. However, as we want to avoid a bespoke solution, this does mean we encounter delays as TransTrack test the fixes with other clients. As noted the Horizon interfaces were delivered 2 months later than originally planned (due to incorrect requirements) and the forecasting components are as a result still undergoing unit testing. The technical integration of Transtrack to our high speed note counters (fundamental to all in-bound cash scripts) contained critical defects resolved 8 weeks late and Transtrack to SAP integration suffered due to late (but mandatory) design specification changes.

3. As a result of the delayed integration testing in Cash Processing (new target 28th September), we do not have sufficient elapsed time to complete user acceptance testing, prepare the training materials and deliver the training the full Supply Chain organisation by 26th October.
4. Whilst it is still possible to Go Live with POLSAP Process Migration, we have re-confirmed that we cannot separate the projects. Whilst theoretically possible, it would require a number of interim interfaces to ensure the ongoing systems alignment. These would require substantial testing and mean a longer delay than for a joint go-live.

What Go Live date are we recommending?

5. In the last update we were evaluating Go-Live dates from October to January. October is no longer feasible. The steering committee recently reviewed detailed options for November and January.
6. We are recommending Back Office Transformation Go Live in January. Across the programme there was unanimous support for January rather than November, reflecting more certainty on cash processing, a better cash forecasting solution, better training for Supply Chain and a reduction in cash usage of some £300m at peak.

	November	January
CAPEX	£36.0m	£37.3m
Benefit Impact	£0.2m reduction for 2019	£0.2m reduction for 2019
Cash impact	Additional £300m in borrowing	Expected nil impact year on year
Quality of training - PPM	Delivered as planned to the user base	Delivered as planned to the user base
Quality of training - Cash Processing	Lower quality as training is delivered before user testing is completed. Delivered during capacity peak, will require 40 FTE backfill	Higher quality as training is delivered after user testing ended. Delivered in January quiet period, may require 20 FTE backfill
Process readiness - PPM	All processes ready to implement. Workarounds in Billing	All processes ready to implement. Fewer workarounds in Billing
Process readiness - Cash Processing	All Cash Processing processes ready Backfill required to process delayed collections and maintain Christmas output after Go Live Cash Forecasting uses temporary and basic standard replenishment process	All Cash Processing processes ready Backfill required to process any collections before Go Live Full Cash Forecasting process either by TransTrack or alternative Plan B solution

What is our confidence level?

7. The full Back Office Transformation Steering Committee unanimously agreed the January Go Live option based on the following:
 - We will implement a full-capability Cash Forecasting solution (either from TransTrack or from the alternative "Plan B") that we expect to have a minimal impact on service or network funding.
 - Volume testing and POLSAP comparison of the full Cash Forecasting solution will be complete.
 - Training materials for Cash Processing will be ready and we will have the maximum possible attendance
 - It has the lowest overall cash impact with the minimum of borrowing and does not require us to delay cash collections during the Go Live period

In summary we are:

- Very confident of achieving January for Sales & Finance
- Very confident of achieving January for Cash Processing
- Hopeful of achieving January for improved Cash Forecasting, confident of a solution similar to POLSAP in its outcome, and very confident of a workable but not optimal solution that would allow the remainder of the project to Go-Live whilst forecast testing continued.

Can POLSAP last until January?

8. We continually review the risks and support arrangements for POLSAP. We had a hardware failure on 11th September. This was reasonably expected based on the volume and age of equipment. It does not lead us to believe the failure rate is accelerating. POLSAP is now running at marginally reduced resilience until the part is swapped and the service is failed back in a planned change window. The failed part will then be returned, internationally, for attempted repair. Our suppliers have confirmed that we are not seeing any systematic deterioration.

What does this mean for contingency plans?

9. Contingency plans largely remain similar to those submitted in last month's board paper. DMW are returning to review our plans with business continuity, project deployment and departmental heads over the coming month.
10. The most significant difference of moving to January is the change in approach to cash collection processing around Go Live. We were (for October or November) going to postpone collections for 3 days which had a temporary borrowing impact of approximately £140m. For January, this is not required and we will work in the first two weeks of 2019 to clear all collections from the network.

11. We will deploy additional support staff between the Supply Chain and Finance teams so that we have sufficient capacity to execute transaction corrections between TransTrack and CFS as a direct learning from the Belfast Go Live.

Financial and other implications?

12. As a result of the plan updates and recommendations per commentary in this paper, an approval of an additional £9.4m of additional funding taking the cumulative investment to £37.3m. The 2019 benefits will reduce by £0.2m as a result of the delayed decommissioning of POLSAP. This £9.4m increase from October is comprised of:

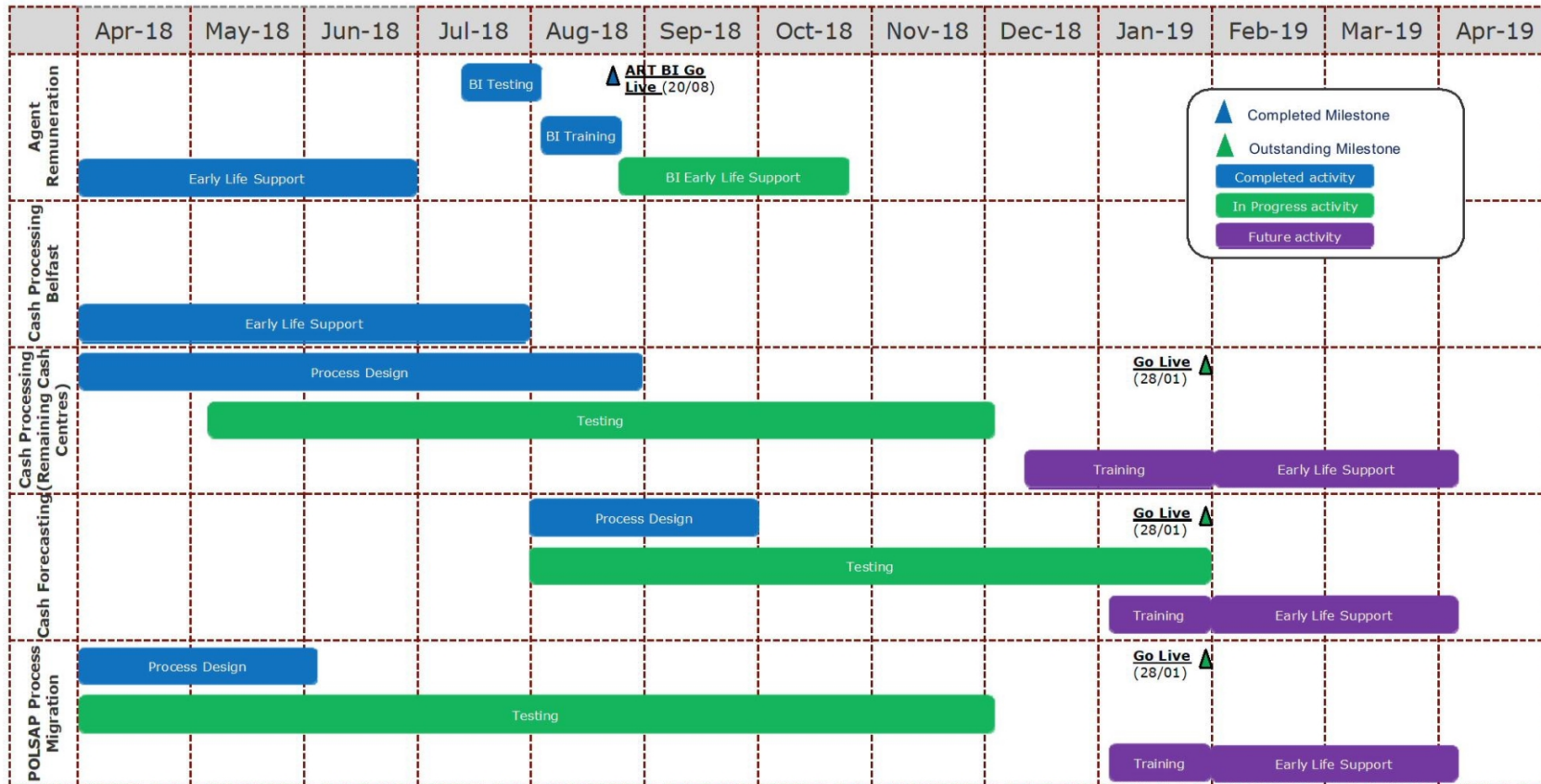
£m	Description	Comments
£2.8m	Cash Processing	Introduction of Agile Forecasting workstream,, Arrow Plan B Forecasting solution, Optimising Cash Forecasting, Cash Processing Training (by Vaultex) and Transtrack additional testing resources
£5.8m	Programme Resources	Additional resource the programme has added predominately due to the accelerating September delivery plans. Resources added for integration and performance testing, business intelligence and change management. Monthly run-rate will reduce from a £2m peak from December to under £1.5m
£0.4m	SAP Buyback	Contractual obligations under discussion; Provision to buy back order form 9 if termination / negotiation is on plan
£0.4m	Infrastructure and Application support	Delay costs from going live with new services opex. Downsizing of project environments Performance Testing uplift
£9.4m	Total	

Appendix 1 (Waterfall sent separately)

		GE Update	Board June	Board June	Board June	Current	Current
Project	Business Case Budget Approved	Go Live June 18 (Sept 17 Update)	Go Live June 18	Go Live Sept 18	Go Live Oct 18 [DLA]	Go Live Nov 18	Go Live Jan 19
Total	20.0	20.9	21.2	26.2	27.9	36.0	37.3
Annualised Direct Benefits (£m)	3.5	3.9	3.1	3.1	3.1	2.9	2.9
NPV (£m)	(12.7)	(13.4)	(15.5)	(16.7)	(17.9)	(23.3)	(24.1)
Payback	5.7 yrs	6.0 yrs	6.8 yrs	8.4 yrs	8.9 yrs	12.6 yrs	13.0 yrs
Cost Movement (£m)			0.3	5.0	1.7	8.2	9.4
NPV Movement			15.5%	7.6%	7.2%	30.3%	34.6%
Payback Movement			13.0%	23.5%	6.4%	41.8%	46.1%
					Movement to Oct DLA		

Appendix 2

Programme timelines



Modern Slavery Act Statement

Author: Janene Mellor & Laurence O'Neill

Sponsor: Mohinder Kang

Meeting date: 25th September

Executive Summary

Context

The Modern Slavery Act 2015 (the Act) challenges slavery, domestic servitude, forced and compulsory labour and human trafficking. Post Office is required to produce an annual slavery and human trafficking statement (Statement) setting out what steps have been taken to ensure its business and supply chains are slavery free. This paper attaches the second Statement which documents progress on our previous year's commitments and outlines the actions that we commit to take in the year ahead.

Questions addressed in this paper

1. Why do we need a Statement?
2. What are the key points to note about our Statement?
3. What are the implications for the board and the business?

Conclusion

1. Post Office has undertaken due diligence on its business and supply chains to identify any risk areas.
2. Post Office has prepared a new Statement for 2017/2018 in line with the Act. The Statement must be published on Post Office's website within 6 months of year end.
3. A steering group was appointed in January 2016 and is responsible for proposing actions, creating relevant project plans and continuing to develop and monitor our approach to the Act.
4. The steering group identified that the highest level of risk is within our Agency network. We have already begun to take action to address this risk including amending our contracts with Postmasters to require compliance with the Act and issuing Postmaster guidelines.
5. The nature of the Act allows for Post Office to build a robust approach to tackling modern slavery. The Act requires that a statement is published which records the steps taken to tackle modern slavery in the previous financial year, although it is common practice for organisations to publish its commitments to tackle modern slavery in the financial year ahead.
6. Although the legal requirement is only to publish a statement, the desire to clearly show the material commitment we are making to tackling modern slavery comes from the scrutiny to which our statement will be subject from the public, the media and from pressure groups.

Input Sought

The ARC are asked to approve the 2017/2018 Statement and endorse the proposed actions for the business to take forward in the 2018 /2019 financial year.

Input Received

We consulted all members of the MSA Steering Group which comprises of representatives across functions including Legal, Postmaster Contracts, Procurement, Risk, Employee Relations and Learning and Development.

The Report

Why do we need Modern Slavery Act Statement?

1. The requirement to publish a Statement applies to “commercial organisations” which (a) supply goods or services and (b) have a total turnover of not less than £36 million. It will therefore not apply directly to Postmasters if their annual turnover is less than £36 million. As Postmasters are part of the Post Office supply chain Post Office must state what steps it has taken to ensure that slavery and human trafficking is not taking place in any of its supply chains or its business.
2. Post Office is required under s.54 of the Act to produce an annual slavery and human trafficking statement listing the steps taken to ensure its business and supply chains are slavery free. This paper attaches the second Statement (Appendix 1) which records what steps we have taken in 2017/2018 and outlines the actions we commit to take in 2018/2019. The Statement must be approved by the Post Office Board and signed by a Director.
3. The due diligence undertaken so far indicates that there is a potential risk of non-compliance within our agency network. This is because there are a large number of people employed by Postmasters (including multiple partners) who are not employees of Post Office or POMS. They work directly for the Postmasters. We do not have visibility on how they are engaged. We have already taken action to begin to address this risk including reviewing our contracts with our Postmasters to require compliance with the Act and raising awareness of their responsibility by communicating Postmaster guidelines on Modern Slavery during December 2017.

What are the key points to note about our updated Modern Slavery Act Statement?

1. Our 2017/2018 statement records the progress we have made against those commitments and lists our commitments to tackle modern slavery across POL and POI for the financial year 2018/2019. The commitments were developed by the MSA Steering Group which includes representatives from Legal, Postmaster Contracts, Procurement, Risk, Employee Relations and Learning and Development. Our commitments are:
 - Raise awareness of Modern Slavery across our supply base.
 - Improve the due diligence assessment for onboarding new suppliers to our systems.
 - Raise awareness of Modern Slavery across Post Office, its suppliers and within the agency network.
 - Educate field teams out in the agency network on spotting the signs of Modern Slavery.
 - Review our supply base and revise our supplier management processes.

2. In formulating our commitments for 2018/2019 we reviewed the commitments made by other organisations in this area and looked at a variety of statements to ensure our approach is consistent. By way of an example:

ACAS [for 2018/2019]

1. Continue to develop a staff awareness strategy for the Act and reporting mechanisms if a case of slavery or human trafficking is suspected.
2. Develop measures (e.g. KPI, assurance) to evidence our commitment to the principles of the Act.
3. Embed the Act into our Whistleblowing Policy and processes.
4. Incorporate the finding and guidance from the UKSBS and BEIS supplier assessment pilot into our procurement process.
5. There are no significant costs identified in fulfilling our commitments for 2018-19.

What are the implications for the board and the business?

1. Aside from the statutory sanctions, one consequence that may result if a business fails to comply or reports in its statement that it has taken no steps to ensure that slavery is not taking place, is damage to the organisation's reputation and brand.
2. Provided our annual statement continues to show a material commitment to tackling modern slavery, we should ensure that we minimise the risks of modern slavery occurring within our business or supply chain and safeguard our reputation.
3. We are confident that the detail in our 2017/2018 statement recording our progress on last year and our proposed actions for the financial year 2018/2019 are appropriate. We will monitor developments, and keep the adequacy of the Statement under review.

Appendix

1. Modern Slavery Statement 2017/2018

MODERN SLAVERY ACT TRANSPARENCY STATEMENT 2017/18

Post Office Limited (Post Office) & Post Office Management Services Limited (POMS).

This statement is made pursuant to section 54(1) of the Act. It sets out the steps taken by Post Office & POMS during year ending 31st March 2018 to prevent modern slavery and human trafficking in its business and supply chains.

Post Office and POMS are committed to combating the risk of modern slavery or human trafficking in our supply chain and business operations. We are committed to taking appropriate steps to ensure that everyone who works for Post Office in any capacity, benefits from a working environment in which their fundamental rights and freedoms are respected.

While this is only the second statement in which we report on our efforts to prevent modern slavery in line with the requirements of the Act, we have focused on the rights and wellbeing of the people who work for Post Office and for our suppliers for many years. Our statement provides details of our policies, our approach and the actions we have taken in the 2017/18 financial year to strengthen our programme and commitment to respect and uphold people's fundamental rights and freedoms.

OUR BUSINESS AND SUPPLY CHAIN

Post Office is the UK's largest retail network and the largest financial services chain in the UK. We have provided services for more than 370 years and currently supply more than 170 products and services Post Office directly manages around 2% of the Network branches. The remainder of the branches are managed on an agency basis by Postmasters and multiple partners. We operate throughout the UK, however our supply chains connect with suppliers with a global reach.

Banking services

Post Office banking services are provided in Post Office branches on behalf of the customers of UK banks.

Postmasters

Postmasters can operate one or more branches. As agent's they have control over how their branches are run on a daily basis. All those working in an agency Post Office branch are employed directly by the Postmaster. The Postmaster is self-employed and typically takes on a Post Office as an adjunct to their own retail business.

Multiple partners

A large proportion of the agency part of our network is run by multiple partners – corporate retail organisations who themselves have a multiple number of high street stores, some with Post Offices.

Trade Unions

In our directly managed branch network, we work closely with the Communications Workers Union (CWU) and Unite (CMA) Communications Managers Association.

Third Party Suppliers

We also procure products and services from a wide range of suppliers, ranging from small and medium enterprises to large multinationals, each one of which has its own supply chain. The majority of the purchasing is controlled centrally by the Procurement team who also set the Supplier Relationship Management standards to ensure our teams maintain a consistent approach to supplier management across Post Office.

OUR BELIEFS AND PRINCIPLES

Respect for the dignity of the individual and the importance of each individual's human rights form the basis of the behaviours we expect in every workplace and are communicated through our Code of Business Standards. We will not accept any form of discrimination, bullying or harassment. We require all our managers to implement policies designed to ensure equality of opportunity and inclusion for all Post Office employees.

OUR POLICIES

We operate a number of policies to ensure we are conducting business in an ethical and transparent manner. These include:

CODE OF BUSINESS STANDARDS

We have a Code of Business Standards which underpins everything we do. The Code is mandatory and extends to everyone employed by Post Office. It requires all of us to act ethically and comply with legal requirements at all times, putting our principles into practice in everything we do. The Code of Business Standards was updated during the 2017 financial year to include references to Modern Slavery.

WHISTLEBLOWING

We operate a Whistleblowing Policy so that all employees know how to raise concerns regarding wrongdoing or dangerous practices. The policy was updated during the 2017 financial year to include references to concerns about Modern Slavery.

There are a number of ways people can report any concerns regarding slavery or human trafficking within Post Office, by either contacting the Whistleblowing Officer or via our anonymous external confidential reporting service 'Speak Up' which is regularly communicated to all employees, suppliers and contractors. This is overseen by our General Counsel (Whistleblowing Officer). Every report submitted is assessed and investigated.

RECRUITMENT POLICY

Our recruitment policy sets out the overarching principles and controls to be followed and applied to ensure that personnel resourcing is conducted in a fair, open and transparent manner, including conducting eligibility to work in the UK checks for all employees.

DUE DILLIGENCE PROCEDURES IN RELATION TO SLAVERY AND HUMAN TRAFFICKING IN OUR BUSINESS AND SUPPLY CHAIN.

Post Office/POMS employs solely within the UK.

Our recruitment procedures ensure that all prospective employees are legally entitled to work in the UK. All successful applicants must produce, on their first day, one of the following: their original passport, driving license or birth certificate. Additionally, to comply with the Asylum and Immigration Act 1996 requirements, if they are from a non-European Economic Area (EEA) country, evidence of a right to reside and work in the UK must be produced.

We carry out reasonable and practical due diligence in the sourcing of goods and services and ensuring that the Act's obligations form part of the procurement process. As part of this process we have conducted a review of the criteria used by Post Office to evaluate whether suppliers meet Post Office's minimum tendering requirements. We have also reviewed our standard form procurement contracts to ensure that they make explicit reference to the Act. Additionally our supplier pre-qualification process requests information from potential suppliers to assess their suitability as a supplier and provide evidence of their compliance with the Act, as well as covering other areas of company information, policies and procedures. This enables the procurement team to assist Business Units to identify and assess any potential risks relating to the goods or services being procured.

IDENTIFYING, ASSESSING AND MANAGING RISK

WHERE ARE THE RISKS OF MODERN SLAVERY AT POST OFFICE/POMS

Post Office understands that our third party supply chains carry with it the risk of modern slavery and human trafficking.

The due diligence we have undertaken so far indicates that there could be a risk of non-compliance within our agency network as there are a large number of people employed by Postmasters (including multiple partners) who are not employees of Post Office or POMS. They work directly for the Postmasters. During 2017 we reviewed the Postmaster Contract of Engagement and have written Guidelines to assist them in complying with MSA legislation. These guidelines were issued December 2017.

GOVERNANCE

We have established a cross-functional steering group through which we develop and coordinate our approach to addressing modern slavery risks within our operations and supply chain. This group consists of expertise from the legal, procurement, compliance and operational functions in Post Office.

TRAINING

We provide annual Compliance Awareness Training to all our employees and postmasters, which is tailored to ensure an appropriate level of understanding of issues such as modern slavery and the Act's requirements.

WHAT DID WE DO THIS YEAR

Proposals from 2017 Statement	Progress on 2017 proposals
Update Postmaster selection and appointment process to address MSA requirements.	We reviewed the Postmaster contract and believe it is robust enough to cover the Act. We also supplemented the contract process with a set of Guidelines for Postmasters.
Amend our standard form procurement contracts.	We reviewed our standard form procurement contracts and believe our 'applicable laws' clause covers POL for breaches of MSA. Our PQQ process has also been amended to take account of MSA and suppliers must confirm that they comply with their obligations under the MSA and provide a copy of their MSA Statement.
Develop a communication plan to ensure our suppliers, staff and agents are aware of Post Office's obligations in relation to Modern Slavery and informing them about the Modern Slavery Helpline.	We sent multiple communications regarding Modern Slavery during 2017/18, including communications to Postmasters. The MSA is referenced in our Whistleblowing Policy and was added to our Code of Business Standards during 2017.
Review of audit and compliance, to develop a relevant Training Plan.	A training plan remains under development. This year, our commitments are focussed on raising awareness. The Steering Group anticipate the training requirement to increase as we move towards 2019/20 as we begin to build a suitable due diligence and compliance capability. We do however provide annual Compliance Awareness Training to all our employees and postmasters, which is tailored to ensure an appropriate level of understanding of issues such as modern slavery and on the requirements of the Act.

WHAT COMMITMENTS ARE WE MAKING TO TACKLE MODERN SLAVERY IN THE YEAR AHEAD

As part of our initiative to identify and mitigate risk throughout 2018/19 we are committed to:

- Improve the due diligence assessment for onboarding new suppliers to our systems
- Review our supply base and revise our supplier management processes
- Raise awareness of Modern Slavery across our supply base
- Raise awareness of Modern Slavery across Post Office, its suppliers and within the agency network.
- Educate field teams out in the agency network on spotting signs of Modern Slavery.

REMEDIATION PROCESSES

If you have any concerns about the issues raised in this statement or if you think you have identified signs of Modern Slavery then please contact us on the below contacts:

- Post Office's Whistleblowing Officer: whistleblowing@postoffice.co.uk or by telephone on: 07900 216851.
- The Government's Modern Slavery Helpline on 0800 0121 700.

We encourage any individual who has concerns about unethical behaviour in any part of our business or operations to speak up and to do so without fear of retaliation. We will review all instances of non-compliance, on a case-by-case basis and will implement appropriate remedial action.

REVIEW

This statement shall be reviewed and published annually

Post Office Limited Sealings

Author: Veronica Branton

Sponsor: Jane MacLeod

Meeting date: 25 September 2018

Executive Summary

Context

The Directors are invited to consider the seal register and to approve the affixing of the Common Seal of the Company to the documents set out against items number 1697 to 1710 inclusive in the seal register.

Input Sought

For the Directors to resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1697 to 1710 inclusive in the seal register is hereby confirmed.

POST OFFICE LIMITED
Register of Sealings

Date
18.09.2018

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1697	01/08/2018	31/07/2018	Licence to Occupy - Post Office, 3 Crown Buildings, Billingham	Jane MacLeod, Company Secretary	Legal
1698	01/08/2018	30/07/2018	Sale of 131 Brent Street, London	Jane MacLeod, Company Secretary	Legal
1699	03/08/2018	01/08/2018	Sale of freehold - 16-18 East Street, Ilminster, TA19 0AJ	Jane MacLeod, Company Secretary	Legal
1700	20/08/2018	20/08/2018	Agreement for surrender relating to part ground floor, basement floor and mezzanine floors, 7/8 St Martin's Place, London between Best Effort Ventures Limited (Landlord) and Post Office Limited (Tenant).	Jane MacLeod Company Secretary	Jean Reynolds
1701	20/08/2018	20/08/2018	Deed of surrender and release relating to part ground floor, basement floor and mezzanine floors, 7/8 St Martin's Place, London between Best Effort Ventures Limited (Landlord) and Post Office Limited (Tenant). GROUND FLOOR SURRENDER DEED.	Jane MacLeod, Company Secretary	Jean Reynolds
1702	20/08/2018	20/08/2018	Deed of surrender and release relating to part ground floor, basement floor and mezzanine floors, 7/8 St Martin's Place, London between Best Effort Ventures Limited (Landlord) and Post Office Limited (Tenant). BASEMENT FLOOR SURRENDER DEED.	Jane MacLeod, Company Secretary	Jean Reynolds
1703	20/08/2018	20/08/2018	Deed of variation relating to part ground floor, basement floor and mezzanine floors, 7/8 St Martin's Place, London between Best Effort Ventures Limited (Landlord) and Post Office Limited (Tenant).	Jane MacLeod, Company Secretary	Jean Reynolds
1704	04/09/2018	04/09/2018	Agreement for sale relating to 117-121 High Street, Bromsgrove, B61 8AA	Al Cameron, Group Chief Financial Operating Officer	Legal
1705	04/09/2018	04/09/2018	Transfer of whole of registered titles relating to 117-121 High Road, Bromsgrove, B61 8AA	Al Cameron, Chief Financial Operating Officer	Legal
1706	04/09/2018	04/09/2018	Notice of an election to use an alternative apportionment relating to 117-121 High Street, Bromsgrove, B61 8AA	Al Cameron, Chief Financial Operating Officer	Legal
1707	11/09/2018	11/09/2018	Deed of release of dilapidations relating to Barry Crown Post Office (3-5 Holton Road, Barry, Glamorgan, CF63 4ZZ)	Jane MacLeod, Company Secretary	Legal
1708	11/09/2018	11/09/2018	Deed of surrender and release relating to a lease of premises known as Great Dunmow Crown Post Office, High Street, Great Dunmow, CM6 1AL	Jane MacLeod, Company Secretary	Legal
1709	13/09/2018	13/09/2018	Deed of surrender and release relating to a sub-underlease of premises known as Ground Floor, 377 Harrow Road, London, W9 3ND. Seal x 2	Jane MacLeod, Company Secretary	Legal
1710	13/09/2018	13/09/2018	Transfer of whole of registered title relating to 377 Harrow Road, London, W9 3ND	Jane MacLeod, Company Secretary	Legal

Performance Review – Health & Safety

Author: Martin Hopcroft

Sponsor: Al Cameron

Meeting date: 25th Sept 2018

Executive Summary

Context

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

We have a rolling 3-year plan to drive compliance, targeting a reduction in safety metrics including accidents; lost time accidents (LTIFR); days lost; and personal injury claims. Our H&S reporting and safety management system has been externally audited and we also recognise the importance that wellbeing can play in creating engaged and motivated employees.

Questions addressed in this report

What are the trends on accidents and on violence across Post Office?

Conclusion

The prevention of accidents has improved materially year in year. However, we are seeing a recent increase in robberies, especially around CViT in Liverpool and in ATM rip-outs. Most worryingly we have seen two recent attacks on Post Offices with a machete and a gun respectively. One was foiled with fogging technology.

There is a 47% reduction in accidents reported YTD to P5 (Aug) compared to 2017/18 (33 v 62) mainly due to a 69% decrease in Supply Chain (11 v 35). Accidents per 1000 employees have reduced by 55% with Supply Chain reducing to 13.5 from 42.9 (69%). Lost time accidents have also reduced and the P5 YTD LTIFR is 0.143 compared to 0.303 in 2017/18. Total lost days are 68 compared to 276 in 17/18, a reduction of 75%.

The Supply Chain safety plan is progressing well with the introduction of safety champions, safety forums and a review of local risk assessments and safe systems of work. Further workshops are planned to support development and share best practice.

Additional Health & Safety training workshops have been provided to DMB and Supply Chain Managers and a plan is being developed to provide similar training and support to Network Operations and Retail support teams.

We have seen a reduction in road traffic accidents in line with the 41% fall in fleet size. Support is being provided to teams adopting the mobile phone whilst driving policy and online driver safety training. Advice and guidance to alleviate fatigue whilst driving is being pulled together for our drivers,

CViT attacks have increased with 24 incidents occurring over the last rolling 12 months compared to 15 during the previous 12 months. There was 1 incident in August with no injury. A review meeting has been held with all parties across supply chain, physical, intel and security operations to deal specifically with the increased risk to CViT in Merseyside. Unfortunately there is little intelligence from Police, who believe that numerous gangs are responsible. The Serious Crime Group NW Police are attending Chester to address crew and management.

Whilst Post Office robberies have been lower over the most recent 12 mths at 117 (v 170), there has been a very recent spike (10 successful and 3 unsuccessful, 5 using fire arms, 2 blades including a machete and 3 blunt instrument with one injury, bruising and cuts to head) and ATM crime (there have been 3 very recent cases that have used vehicle ram raids to access the ATMs). We are about to assess a business case on rolling out additional fogging in branches. We have now introduced an ATM risk model and early indications suggest a positive impact.

The overall risk for property statutory compliance risk assessments remains low at 96.95%.

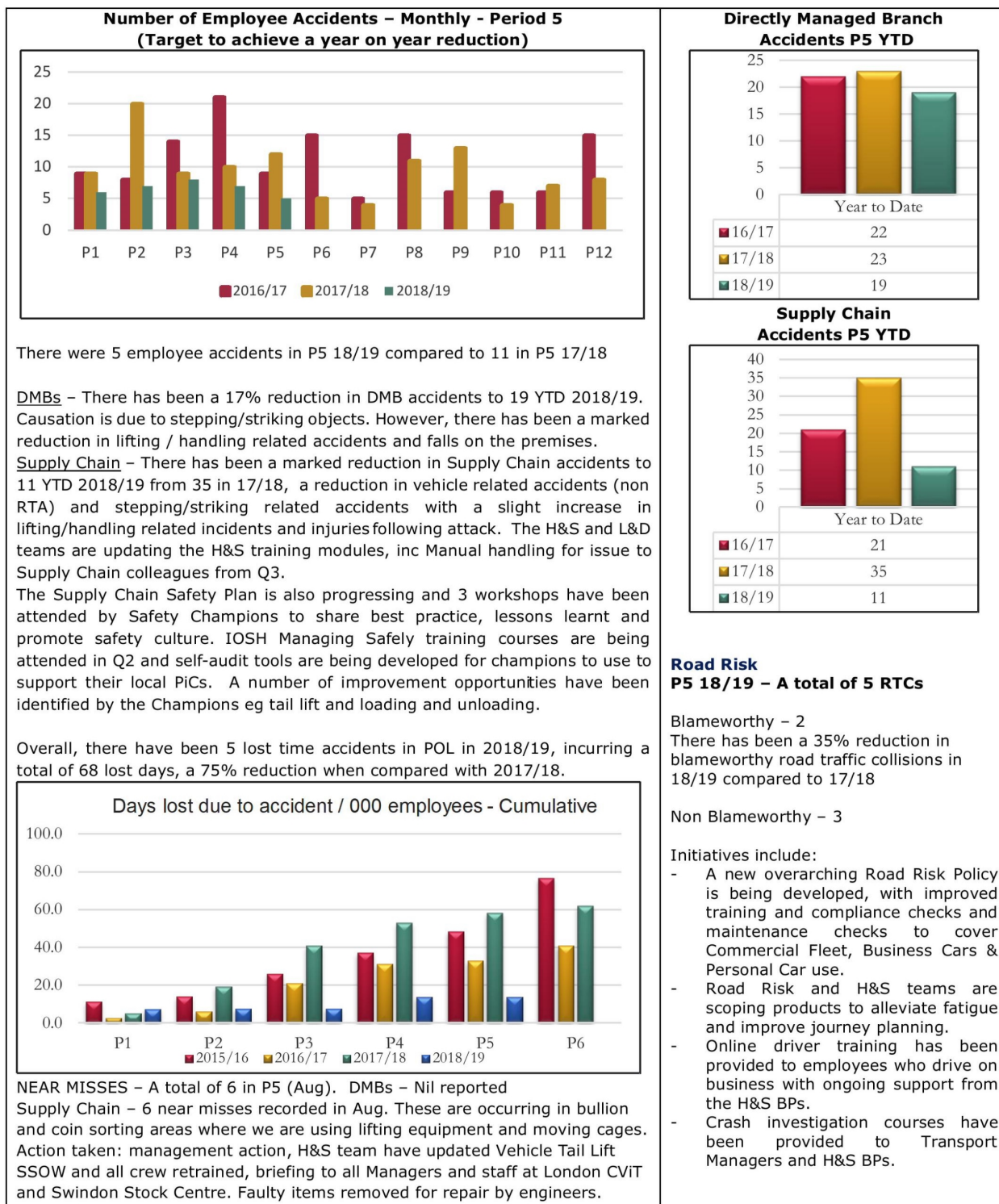
External Fire Risk Assessments have been completed for 2018 and actions are in the process of being closed out. The risk profile has reduced significantly when compared with the number of identified actions reducing by 71%.

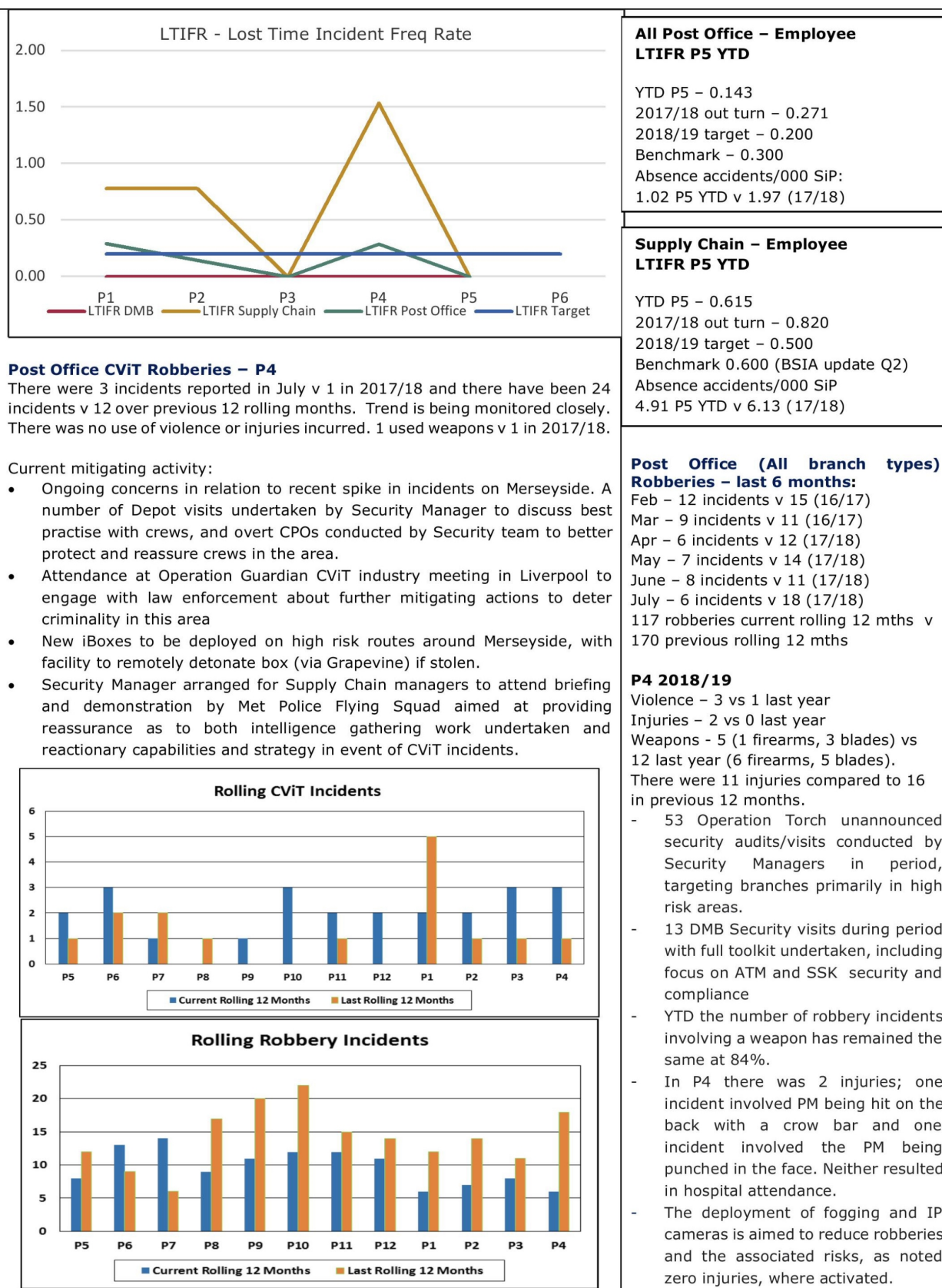
Input Sought

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

Appendix 1

The Report – H&S Metrics – P5 (August) 2018/19





Post Office Limited Board Meetings

Author: Veronica Branton

Meeting date: 25 September 2018

Executive Summary

Context

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

Input Sought

The Board is requested to note the future meeting dates.

The Report

2018/2019

Date			Time	Notes
Tuesday	30 October	2018	11.45 – 16.30	
Tuesday	27 November	2018	11.45 – 16.30	
Tuesday	29 January	2019	11.45 – 16.30	
Tuesday	26 March	2019	11.45 – 16.30	
Tuesday	28 May	2019	11.45 – 16.30	
Tuesday	25 June	2019	13.00 – 18.00	Away Day*
Wednesday	26 June	2019	08.30 – 16.00	Away Day*
Tuesday	30 July	2019	11.45 – 16.30	
Tuesday	24 September	2019	11.45 – 16.30	
Tuesday	29 October	2019	11.45 – 16.30	
Tuesday	26 November	2019	11.45 – 16.30	

* The away day will be moving to July

Draft Board Agenda for meeting on 30th October 2018

Description of Item	Timings	Origin	GE Sponsor	Presenter	Required Outcome
Minutes of previous Board and Committee meetings including Status Report	5	Board action from previous meeting		Jane MacLeod	Decision
CEO Report	20	Standing item		CEO	For Noting
Financial Report	20	Standing item		CFOO	For Noting
UKGI Quarterly Report	20	Standing item	Al Cameron	Cem Oztoprak	Approval
Retail Performance Report	30	Standing item	Debbie Smith	Cathy Mayor	For Noting
Postmaster Litigation	10	Update	Jane MacLeod		For Noting
Conflicts of Interest Policy	5	For Noting	Jane MacLeod		For Noting
Corporate Structures II	30	Decision	Jane MacLeod	Ben Foat/Jono Hill/David Gemmell	Decision
Belfast Exit Business Case	30	Reserved decision	Rob Houghton	CIO	Decision
Peregrine Proposals	30	Decision	Owen Woodley		Decision
Health and Safety	10	Standing item	Al Cameron		For Noting
ATM and Cash Strategy	30	Standing item	Debbie Smith	Martin Kearsley	For noting
Total No Minutes	195				

 Holding slot

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