



Investment Committee

14th November 2018
Wakefield

Version 1.0



14th November 2018 Investment Committee - Agenda

Date reported as		Present	In Attendance	Other Attendees	Apologies
14 th November 2018		<ul style="list-style-type: none"> • Rob Houghton (Chair) • Meredith Sharples • Martin Edwards • Cem Oztoprak • Tim White • Tom Moran • Cathy Mayor • Alistair Roman • Alisdair Cameron 	<ul style="list-style-type: none"> • Michael Brown 	<ul style="list-style-type: none"> • Rob Clarkson • David Gemmell • Jason Black / Ian Robertson • Jamie Butler / Andrew Stevens 	Owen Woodley – Meredith Sharples attending
Start Time	Finish Time				
09:30 hrs	12.30 hrs				
Comments					
Papers are due by close of play on 12 th November 2018					

Agenda Item	Action	Purpose	Lead	Timing	
1.0	Actions Update	Information	• Open actions from previous IC meetings	N/A	N/A
2.0	Approvals				
2.1	Future of Stock	Decision	• Review business case and recommended option. Also approve seed funding	Jamie Butler / Andrew Stevens	09.30 -09.50 (20 mins)
2.2	Home Intermediary	Decision	• Review business case and further approvals required	Rob Clarkson	09.50 – 10.20 (30 mins)
2.3	Data Analytics & Pricing	Decision	• Review business case	Rob Clarkson	10.20 – 10.40 (20 mins)
2.4	PCI Point to Point Encryption	Decision	• Review business case. N.B. This has not been reviewed by CAG due to urgency of submission	Jason Black / Ian Robertson	10.40 – 11.00 (20 mins)
2.5	Legal Entity Optimisation	Decision	• Review business case and approve drawdown for funds to January 2019. N.B. This has not been reviewed by CAG due to urgency of submission	David Gemmell	11.00 – 11.20 (20 mins)
2.6	Mails Strategy	Information	• Drawdown of funding included for information only	N/A	N/A
3.0	Portfolio Update	Information	• BAU portfolio activity update	Tim White	11.20 – 11.40 (20 mins)

- Appendences
- Closed Actions
 - Top 3 Milestones
 - Change Approvals Group and IC decisions
 - Go Lives approval



1. Actions Update



1.0 Open Actions Status

Actions Due and Overdue for Investment Committee Meeting on 14/11/18 and Actions Closed since 31/10/18

Act. ID	Meeting	Action	Owner	Due Date	Progress	Status
184	IC 11-Sep-18	POI: Nemesis (Home Insurance) Owen Woodley to confirm with Al Cameron and Jane MacLeod if Post Office Board approval is required.	Jane MacLeod	28-Sep-18 Complete	[08/11/18] OW: This action has been taken by Jane's team given that it is a Co-Sec/POI Memorandum and Articles issue which needs an independent view. Action owner updated to Jane MacLeod. [29/10/18] SPO chased for an update. [20/9/18] Action to be covered by wider piece of work on POI governance led by Jane MacLeod. Further update for 16th Oct IC	Open
192	IC 24-Sep-18	Portfolio Categorisation : It was agreed that the next steps will be to operationalise the process by calculating the values of spend that will be devolved to each Business Units and listing the projects that make up that devolved amount. Also include clarification regarding how new initiatives are authorised. Tim White to progress	Tim White	08-Oct-18 Complete	[08/11/18] Portfolio prioritisation needs to be completed first before this action can be closed. Preliminary meeting held to agree BU governance requirements. [29/10/18] SPO: Ongoing [19/10/18] First version of report to be provided at IC on 31st of October, however, Retail are not yet ready to provide this information so deferred to next meeting.	Open
177	IC 20-Aug-18	Customer Hub The project must update the Board on the latest position of costs, second vertical and reforecast benefits before the end of the year.	Henke Van Hulle	14-Nov-18 Complete	[08/11/18]: Plan is to go to POL Board in January with an update, as agreed by Owen Woodley. Submission to IC January 14th in order to make the Board submissions deadline. [13/9/18] Emailed Henke to remind him of submission deadlines and he's working on achieving them.	Open



2. Investment Committee Approvals



2.0 Investment Committee Approvals

See separate papers



3. Portfolio Update



3.0 BAU Portfolio Activity – 31st October to 14th November

Area	Activity
Forecast and Funding	<ul style="list-style-type: none"> • Prioritisation needed to reduce spend to bring in line with available funding • GE to review options early December
Approvals	<ul style="list-style-type: none"> • 10 Funding and closure decisions taken at CAG and IC, see appendix for details
Go Live Approvals	<ul style="list-style-type: none"> • 8 Approvals and 1 Deferred see appendix for details
Assurance Reviews	<ul style="list-style-type: none"> • PIRs underway for Automated Workflow and Cash Management



6. Appendices



Appendix A

Closed Actions

Actions Due and Overdue for Investment Committee Meeting on 14/11/18 and Actions Closed since 31/10/18

Act.ID	Meeting	Action	Owner	Due Date	Progress	Status
175	IC 20-Aug-18	<p>Pre gate 2 Change Plan</p> <p>The latest analysis of the top priority projects, as supplied by the Business, provided the insight that activity could be split into three broad categories – BAU, Strategy and Projects (A, B & C). Initiatives were also rated for their progress against 7 key questions.</p> <p>The resulting discussion of this analysis brought general support of the approach and, specifically, agreement to: Gain agreement on A, B, C classification of initiatives (Tim White). Complete the 7 Questions analysis (Tim White).</p>	Tim White	24-Sep-18 Complete 08-Nov-18	<p>[08/11/18] Agreement to devolve achieved and initiatives categorised. Need to agree budgets – see 192. This can now be Closed.</p> <p>[29/10/18] Work on-going to establish budgetary requirements for each Business Unit commencing with Retail. •Data being collated from across BUs but is dependent upon updates from 6+6 and 3-year plan update.</p> <p>[10/10/18] Work ongoing. Will be completed in order to enable OBW devolution. Gain agreement on A, B, C classification of initiatives (Tim White). – Closed - covered under 11th Sept IC agenda Complete the 7 Questions analysis (Tim White). – Open – Ongoing latest position provided in 11th Sept IC papers (availability of key contacts due to holiday has delayed completion)</p>	Closed
190	IC 24-Sep-18	<p>Back Office Transformation</p> <p>Michael Clements to review the seven 'keys for success' developed under project Trafalgar to consider if programme delays would have been avoided if these 'keys or success' had been assessed.</p>	Michael Clements	08-Oct-18 Complete 07-Nov-18	<p>[07/11/18] MC emailed 7 Keys Assessment. Action Closed.</p> <p>[29/10/18] In-progress - MC revised completion date 02/11/18</p>	Closed
196	IC 16-Oct-18	<p>Portfolio Activity Summary – Go Live Summary</p> <p>SPO to include details of benefits enabled by go live decisions and indicate where go live dates are different from planned</p>	Tim White	25-Oct-18 Complete 08-Nov-18	<p>[08/11/18]: New report has been produced for IC 14th Nov. This can now be closed.</p> <p>29/10/18: SPO are working on new format for report, however, no Go-Lives in 2nd half of October to report on. Therefore, report will be submitted in November.</p>	Closed



Appendix B

Top 3 Delivery Milestones By Business Unit



Updated as at:	Please set out your key delivery milestones for the next 6 weeks, highlighting the value being delivered:				12 November 2018	24 December 2018		
	07/11/2018	25/10/2019	dd/mm/yyyy	25/10/2018	02/11/2018	dd/mm/yyyy	02/11/2018	02/11/2018
	Retail	FS&T	Identity	F&O	HR	IT	LRG	Insurance
1	12 November Labels To Go goes live. Mails Team delivery for Royal Mail. Solution enables customers returning parcels to buy postage via Royal Mail online portal, receive a QR code on their mobile phone and present this in branch where the postage label will be printed.	Customer Hub is moving to BAU (Operational Run)	DC&S - Implementation of HMPO adult passport renewals utilising POL AEI network. Following successful testing in model office, HMPO ready for deployment to 14 pilot branches from 01/10, followed by roll-out to all 730 branches by the end of the month.	Back Office Transformation agreed go-live 28/01/19 with Board	People Hub Phase 1: Completion of all High Priority Change requests, including Reporting enhancements, Data quality improvements, Salary Sacrifice, Back-dated Salary award and other changes that drive HRSC efficiencies11	Completion of Branch counter refresh, 25000 counters is on target for 30/9. A small number of cancellations and revisits will remain for October	GDPR: Final GDPR Marketing Changes completed & Live on Horizon. Contracts Remediation works progressing with a view to complete in Q4,calendar year 2018.	Travel Continuous Improvement Programme (Cronus) Iteration 12 goes live on the 11th November
2	22 November final DMB branch franchise of 2018. St Johns Wood will be the 19th branch to be franchised this calendar year under Network Shape business case.	Russet Closure signed of by Steerco - closure report in process of being completed	International Driving Permits assess phase completed. Now moving to printing of documents in November followed by distribution to Swindon in December and then 2,500 branches in January.	Agent Portal delivery on 13/11/2018 to a pilot community of 200-300 Postmasters	People Hub Phase 2: Iteration 1 for Performance Management Completed. Iteration 2 in progress. SAP Quality Assurance provided on TO-BE Process Maps Completed, Pilot to start by 15/11. Compensation calculation to be validated by 30/11	Refreshed receipt printer kit in all branches by Xmas	FIT & Proper: Annual Declarations dispatched for the top 500 branches with c.60 responses received by NBSC. Continued delivery to time of the HMRC Reports. Agreement for the new strategic solution which will result in reduced Opex costs from October 2019	Travel Continuous Improvement Programme (Cronus) Iteration 13 enters Analysis Phase 9th November
3	27 November SSK Simplification Tranche 1 changes go live. Purpose - to improve customer experience and ease of operation and reduce dependency on Hosts to answer queries and resolve customer mistakes.	BRANDS (Strategic Customer Database) moving into design phase (from approved IP)	Digital Identity Business Case to be reviewed by IC on 16th October.	Final delivery of Case Management and project closure in October. RPA migration now on track for November close.	Culture Change: Full organisation and delivery of Post Office People's Awards planned for 8/11- On track to deliver next week GE and Leadership team 360 team analysis on track to complete 30/11- On track Current understanding of Office 365 though the business has been scoped out, training has commenced- On track "Honest Conversations" training now extended. Final session next week- Completed Business Case submitted mid-November- on track	Post Office Security Operational Centre (SOC) operational in October	LEO: Corporate Structure analysis completed and scheduled to go to Board through October. Briefing pack for SoS being scheduled. UKGI had an initial pre-briefing on the proposal. Business case scheduled for CAG w.c 05/11	Updated Insurance Business Case Presenting to CAG 6th Nov



Appendix C

CAG and IC Decisions 30th October to 6th November

Project Name	Request Type	Decision	Funding Requested	Funding Approved	Total BC	ProvBC	Benefits NPV	
POca 17/18 Implementation	Change Request	Approved at CAG	IRRELEVANT			final		
POca 17/18 Implementation	Change Request	Approved at CAG				final		
PCI - Morpheus (Data & Analytics)	Gate 1 - Approve to Design	Approved for IC				final	IRRELEVANT	
PCI - Nemesis (Home Insurance)	Gate 1 - Approve to Design	Approved for IC				final		
Future of POCA	Gate 2 - Approve to Build	Approved at CAG				final		
Legal Entity Optimisation - LEO	Gate 2 - Approve to Build	NA				final		
Payment Cards Industry (PCI)	Gate 1 - Approve to Design	Condition				final		
Future of Stock	Gate 1 - Approve to Design	Condition				provisional		
Mails Strategy	Change Request	Approved at CAG					final	
Change Excellence	Change Request	Approved at CAG					final	



Appendix D – Go live decisions

	Lead Benefits Type	Reviewed by Gating Forum	Original Planned Go Live	Actual/ Planned Go live date	Variance	Decision
ePay (Phases 1 & 2)	Compliance/ Regulatory	31 Oct 18	P1- 21 Sep 18 P2- 24 Oct 18	P1 - 2 Nov 18 P2 – 2 Nov 18	P1 – 6 wks P2 – 2 wks	Approved
Drop & Go (Release 11.1)	Income Protection	31 Oct 18	6 Nov 18	6 Nov 18	-	Approved
Labels To Go	Income Generation	31 Oct 18	12 Nov 18	12 Nov 18	-	Approved
Broadband & Home Phone Proposition 2 - Phase 2	Compliance/ Regulatory	31 Oct 18	12 Nov 18	12 Nov 18	-	Approved
DVLA MoP	Enabler	31 Oct 18	13 Nov 18	13 Nov 18	-	Approved
Local Collect MI	Enabler	7 Nov 18	12 Nov 18	12 Nov 18	-	Approved
POL Swindon Stock Centre	Cost Avoidance	7 Nov 18	9 Nov 18	16-17 Nov 18	1 wk	Approved
EUM - FS Compliance and Hardline Approach	Compliance/ Regulatory	7 Nov 18	5 Nov 18	7 Jan 18	9 wks	Approved
SSK Simplification	Enabler	7 Nov 18	27-29 Nov 18	TBC	TBC	Deferred



BUSINESS CASE – v3.6

Future of Stock S5-046-00

Author:	Jamie Butler
Executive Sponsor:	Alisdair Cameron
Finance Partner:	Shiv Sud/Stuart Nesbit
Benefits Owner:	Russell Hancock

OBW Gate:	<input checked="" type="checkbox"/> Gate 1 (Outline BC) <input type="checkbox"/> Gate 2 (Baseline BC)
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1 Executive Summary

1.1 Context

The National Stock Centre in Swindon stores and provides value and transactional stock to the Post Office network. It also conducts work on behalf of Royal Mail which generates an income of IRRELEVANT

There are a number of issues which place constraints on efficiency and present risks to our ability to serve our branch network with essential stock items;

- The site is nearly 50 years old and requires at IRRELEVANT of additional property investment over the next 10 years.
- Key parts of the IT are over 25 years old, and with no significant investment for over 15 years we experience regular issues and downtime. It is limited in its capabilities, requires bespoke support and has a high risk of critical failure that can't be fixed.
- The site layout is sub-optimal for a modern warehouse operation, and over time changes in demand have reduced the footprint we require.
- The current IT has very limited recourse for performance management which is limiting productivity.
- Stock ordering in branches is seen as difficult and inconvenient and a burden on time.

This paper recommends a way forward to address these issues.

1.2 Questions addressed in this business case

1. Is there a case for change?
2. What is the recommended option for mitigating the issues faced in stock?

1.3 Answers

1. There are a number of critical issues and risks which make the as-is the most undesirable option from a service, people and financial perspective.



BUSINESS CASE

2. We recommend retaining stock operations in house, relocating to a new build site in Swindon whilst bringing in a new IT system. This option offers the best NPV.



BUSINESS CASE

1.4 Financial Summary

NB. Delegated authority for approving funding for change activity is via governance meetings, these are the Change Approvals Group and Investment Committee – BAU expenditure delegated authorities do not apply to change activity.

FUNDING OVERVIEW

£m	Existing Approval		Total Approved	New Request			Total New Request	Total Project
	Prior Years	FY18/19		FY18/19	FY19/20	FY20/21		
Opex	0.000	0.000	0.000	IRRELEVANT				
Exceptional	0.000	0.000	0.000					
Capex	0.000	0.000	0.000					
Total Funding	0.000	0.000	0.000					

BUSINESS CASE FINANCIALS

£m	Sunk Cost	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	TOTAL
Gross Income	0.0	IRRELEVANT						
Income Growth								
Revenue Protection								
Cost of Sales								
Total Direct Contribution	0.0							
Operating Expenses (OpEx)	0.0							
Project Related	0.0							
Recurring								
Reduction								
Avoidance								
Trading Profit	0.0							
Trading Profit [%]	0.0%							
Capital Expenditure (CapEx)	0.0							
Project Related	0.0							
Avoidance								
Exceptional	0.0							
Net Cash Flow	0.0							
Cumulative FCF	0.0							
FCF without Avoidances	0.0							
Avoidance								

With Intangible benefits

Discount Rate [%]	
NPV / Net Present Value (5 years) - [£m]	IRRELEVANT
IRR / Internal Rate of Return [%]	
PBP / Payback Period [years]	

1.5 Input

Input Sought

- Gate 1 Outline Business case requesting **IRRELEVANT** seed funding in order stand up the Project team and get the project to Gate 2 BC submission.
- Outline approval to proceed with the project with a total BC funding of **IRRELEVANT** net after the sale of property) spanned over 3 years to be agreed in principle.

Input Received

- Design Authority and CAG have seen this paper and it has been amended on their advice.
- This is a Gate 1 submission as BRA still needs to be completed. However please note input sought with regards point 3.



BUSINESS CASE

3. Approval of the recommended option.
4. Whilst the IT element of the proposal is at Gate 1, a potential property solution has been identified. The project requests authority to acquire a new build property.

Al Cameron has reviewed this paper.
Concurrences gained.

2 The Detail

2.1 The need or opportunity and why now?

The National Stock Centre, located in Swindon, stores and distributes stock to Post Office branches; including stamps, collectibles, forms, stationery, consumables, and marketing material. Some are critical items without which the branch network would not be able to offer vital services to customers. It's important that the service from Swindon is stable and efficient however, at present, we have some significant issues and risks that need to be addressed.

The centre also conducts work on behalf of Royal Mail Group and this generates an income of c. [IRRELEVANT] for Post Office Limited. The work comprises of two aspects; that covered by the Mails Distribution Agreement (MDA) under which we receive payment for the warehousing of stamps and other RM products intended for use in the Post Office network, and non-MDA work covered under the 'Warehousing Agreement' which is the storage and warehousing of RM product, consumables, forms and engineering parts for the consumption of RM sites and customers.

Both of these contracts are currently being renegotiated and Royal Mail are keen to get the new agreements in place as we are currently working out of contract. The terms discussed align with the MDA and a non-MDA agreement of 5 years.

The building is aged, is not well suited to warehousing and the known remedial work will cost in excess of [IRRELEVANT] over the next ten years.

The stock centre is freehold owned by Post Office Limited however it is co-located with Royal Mail owned buildings within a shared perimeter. The building has stood for nearly 50 years and the condition of the fabric and services to it are aged; the roof requires substantial work and the power supply is aged and difficult to replace as it runs under the adjacent road (internal to site). Property have already identified medium terms works to be completed at an estimated cost of c. [IRRELEVANT] but over ten years it is anticipated that the remedial costs will be in excess of [IRRELEVANT]



BUSINESS CASE

The IT infrastructure is aged, has had no significant investment since the '90s, has limited capabilities and this constrains operational efficiency.

The age of the IT systems means that we require bespoke support; expensive now and will only get worse over time as the number of people who understand how it's built and configured reduces. The age of physical hardware means that many parts are no longer mass produced (or produced at all) and this increases the difficulty of obtaining them. We face a real risk that we'll experience a critical failure that can't be fixed and that would severely impact our ability to serve the branch network and to manage stock inventories for our clients.

We experience regular system issues. We recently had a major issue with Capricorn, the conveyor pick system, which significantly hampered productivity. Due to the age and language of the coding it took a considerable time to understand what was causing the fault. Whilst this is now resolved, Capricorn has multiple daily faults and has a high dependency on maintenance- including two on-site engineers.

In recent years an outage has required us to source parts from online sites such as Ebay. Parts for the system are becoming rare, can be difficult to source and take time to be received.

The Warehouse Control System, 'Galaxy' order management system and Mercia, the demand management application have all had full outages this year. The age of the software requires specialist knowledge which means it is expensive to change or fix.

The systems for IT and conveyor belt picking all require bespoke support due to age and archaic design. The annual operational cost for Swindon IT is IRRELEVANT

The systems also have outdated functionality and limited capabilities for individual performance management information. As examples;

- A modern voice pick system would reduce pick errors and the cost of recovering them by Special Delivery.
- A voice pick system would also provide granular information by individual as to intra-day performance; % utilisation and downtime, pick efficiency, etc. that would mean that we could coach people much more effectively and set standards that need to be achieved.
- A standard warehouse system today can operate a 'designated pick'; grouping together ordered items which are in close proximity to reduce pick time.
- At present our warehouse operatives have to physically write, with a pen, on items to be sent by Parcelforce as to whether it's the 24 hour or 48 hour service as the system can't be updated to do this automatically.



BUSINESS CASE

With all physical roles, it's crucial to get the work environment, IT and equipment working well together to ensure both productivity and the wellbeing of our people is maintained. In the current operation there are limitations to this.

Productivity is 32.6 lines per man hour (and we would expect a minimum of 37 in a standard spec warehouse with a modern item system). The current building and IT platform are limiting factors to our productivity and efficiency.

From a system perspective, the lack of individual performance information makes it difficult to have visibility of when specific individuals may be struggling and in need of short term support, but also difficult to identify those cases when fitness to work has become a clear issue that requires a longer term resolution.

Engagement is also a factor – the last survey conducted with the Swindon team showed that only 35% felt they received clear performance feedback and only 34% believe that poor performance is not tolerated. A modern WMS will give the team the tools to manage and communicate performance.

The site layout is sub-optimal for a modern warehouse operation, and over time changes in demand have reduced the footprint we require.

Changes in network size and item demand over the last 50 years have reduced the footprint we require for stock and the centre is now only utilised to 50%. We are maintaining a building with a lot of empty space and whilst we have sought to maximise opportunities to utilise this, the layout of the site does not lend itself to be able to do this easily or at low cost.

The warehouse layout is not to modern standards; there are no dock levellers, the cross-docking facilities are poor, and there is a low ceiling height meaning that extra movements and space are required compared to a modern building.

Stock ordering in branches is seen as difficult and inconvenient and a burden on time.

Ordering stock through Horizon is not a user-friendly experience. Subpostmasters and field teams report that the process is time-consuming and a far cry from placing an order through any modern website. There is no functionality allowing for the easy viewing of past orders, looking up items, viewing nil-stock dates, building a basket of product or tracking progress of orders.

20% of all stock issues reported to us when we ask subpostmasters are linked to the ordering process being out of date and difficult to use.



BUSINESS CASE

2.2 What we propose to do and why

We propose to retain the current stock warehousing operation in house, relocating to a new build site in Swindon whilst bringing in a new IT system with voice control technology and automated packing. This option provides an annual net cost reduction of [IRRELEVANT] and of the options considered shows the best NPV delta (see table below). The investment required is [IRRELEVANT]. This breaks down to; redundancy payments [IRRELEVANT] the estimated cost for IT renewal is [IRRELEVANT] for property build, [IRRELEVANT] for the automated packing machine, resourcing costs of [IRRELEVANT] and logistic costs of [IRRELEVANT].

The sale of the current site has been valued at [IRRELEVANT] by BNP Paribas however we have taken a conservative approach and used [IRRELEVANT] as the realised revenue from disposal. The direct ongoing benefits will be an annual improvement of [IRRELEVANT] on staff costs and [IRRELEVANT] annual improvement in non-staff opex. The rent on a new build is off-set by reduced IT costs [IRRELEVANT], engineering and maintenance ([IRRELEVANT]), improvement in carriage costs [IRRELEVANT], reduction in facilities management [IRRELEVANT] and [IRRELEVANT] of other cost savings (e.g. consumables etc.).

It will provide a stable and efficient warehousing operation that enables us to meet the needs of the Post Office branch network; helping them to take care of their customers and communities.

A new build option eliminates property risk and gives us control of ensuring an efficient and modern warehousing set up that meets our needs now and in the future. The ability to be involved at the design phase is key to achieving the operational expenditure reductions.

With a new build site we also have future flexibility to bring in other work by easily adding vaulted areas, secure vehicle pens and mezzanine floors for support centre workers. This enables us to do something different with cash bonding, processing and CVIT deliveries should we need to.

By being in the Swindon area we can take advantage of the favourable property lease costs and it helps us retain our key knowledge and expertise.

We have identified 3 development sites in the Swindon area and we need to move quickly in order to secure one at the design & build stage of the process.

The new IT system will bring immediate operational benefits, operational stability, lower cost and simpler maintenance, and increased functionality that will help make us more efficient. The performance management information provided by the new system will be a significant step change in ongoing efficiency improvements.

Integrating the new IT system into a modern warehousing environment cements and enhances the operational efficiencies that are possible. This has the potential to make c.20 roles redundant and this has been accounted for in the business case financials. If roles are made redundant we believe that it could be achieved by



BUSINESS CASE

means of voluntarily redundancy. The remaining staff costs will be reduced through a lower variable staff cost budget currently used to pay for overtime and agency workers to hit peak volumes.

The move also releases the existing site for sale. BNP Paribas have valued the site in the region of [IRRELEVANT]. We have taken a conservative position on the one-off income we can generate from this; assuming [IRRELEVANT] of benefit.

The new site and IT system will help support the wellness agenda we have initiated in the current site; for instance, the voice control technology will free up both hands with which to pick and process stock and this should help reduce physical strain. It's also a much easier technology for temporary staff to use and this gives us more flexibility in the future to look at different staffing models. Performance management information will also help us identify issues earlier on and timely interventions can help bring better outcomes for people and the business.

A modern open-plan layout will also allow for a safer working environment. There are currently 20 crossing points between vehicles (Fork Lifts etc.) and pedestrians within the building. Through better design we can reduce this to zero, significantly lessening the risk of a serious accident.

The addition of the automated packing solution delivers benefits on several levels. As well as being more productive (it can pack an order every 7 seconds at optimal running) it also reduces void fill which allows for smaller, more tightly packed orders which will get to the customer in a better condition. This in turn produces positive outcomes for the environment, not just a reduction in the cardboard used, but also a reduction in plastic both in the form of polylopes currently used for items too small for pre-cut boxes, and in the form of adhesive tape which is applied much more efficiently. A further benefit is then achieved by the carrier who will use fewer vehicles to transport the smaller orders to customers.

The machine fully integrates with WMS systems to confirm dispatch and label the products before they are presented for loading. 2 operatives can comfortably operate the machine in producing the same output as 12 packers. This further 10 FTE saving is included in the numbers and brings the total expected FTE reduction to 27. There are also savings of [IRRELEVANT] in variable staff costs.

We also aim to change the way branches order stock, and introduce two-way communication between front and back office systems. Our proposal is to use Agent's Portal to host the front-end of the stock ordering system. This will give real time information on stock-outs, due delivery dates and order progression.

It will also allow subpostmasters to view order history, build a basket of goods and to look up item codes. As well as being better for our branches, and reducing time taken to place orders, it will also give the Stock Team live visibility of orders being placed. This will allow for better planning in terms of resource and stock. The potential – and as yet undetermined – benefits of this are reduced nil-stocks meaning fewer owings orders dispatched, and closer control of variable staff cost spend.



BUSINESS CASE

This change to ordering processes would also set the front office IT up for future closer alignment of product codes. Currently Horizon does not sell stock using the same item code under which it is ordered. This prevents us from moving to a completely centrally managed system which would auto-replenish stock when offices needed it, as we would have full visibility of what was in branch, what has been sold and what had been returned.

This functionality has the potential to greatly reduce stock orders, and to facilitate the possible change to offices having a stock budget, or to paying for stock. The full change is not in the scope of this project, but it would get the back office element part-way along the road.

An additional benefit would be felt in the NBSC, where call volumes could be reduced and call length shortened. It can currently take 15-20 minutes to place a telephone order for ten items.

Auto-remittance, where stock items are populated into the branch stock upon barcode acceptance of the stock pouch, would help branches not misallocate stock to the wrong product line. They do so for the convenience of local accounting and for ease of sale to the customer. For instance, it is easier to hold and sell all First Class stamp stock under the code for the definitive Queens Head stock, even though it may be a special issue or Christmas stock. Holding stock in the right locations enables inventory to be depleted by sale or return events, and this in turn enables auto-replenishment.

It also improves management information which currently lacks the detail to say how well a particular stamp issue is selling. This may result in over-production of stock (with the costs borne by Royal Mail), as well as increased distribution costs and waste – handling and destroying stamps returned to the NSC. It also means that POL is unable accurately to forecast inventory requirements and remittances for future product issues.

If a full and robust end-to-end inventory management system were implemented it could:

- fulfil client MI requirements
- reduce the cost of over-production
- reduce the cost of distribution and returns handling
- remove current manual interventions in product accounting
- get the right products to the right place based on customer demand
- make branch life easier when ordering, managing and selling stock

reduce fraud.

Benefits Classification

Benefits Classification (Delete as appropriate)



BUSINESS CASE

One off Income		Cost Saving	Cost Avoidance
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Benefits Map

Solution	Impact	Benefit (financial and non-financial)	Benefit Owner
New IT system/New property	Process efficiency	IRRELEVANT reduced staff costs	A Stevens
New IT System	Reduced maintenance / licensing and carriage costs	IRRELEVANT m reduced non-staff spend	B Cooke / A Stevens
New IT System	Removes high risk of critical and unfixable failure	Continuity of service	A Stevens
New IT System	Voice picking has better ergonomics than current way of working	Staff welfare	A Stevens
New Property	Lower maintenance	Avoids IRRELEVANT remedial works over 10 years in current site	Property
Disposal of current site	One off revenue	IRRELEVANT	Property

Optional Enhancements for Gate 2

As we deliver the recommended option we believe we will find further opportunities to improve efficiency, both in the warehouse and in the network. In between Gate 1 and Gate 2 we will be working further with IT, the Retail Strategy group and others to determine what enhancements can be brought into this business case. Initial engagement with Retail Strategy suggests that we are in alignment and can complement the planned changes. Further engagement through the process will aim to ensure that we dovetail strategies along the 3 year roadmap.

We are assessing the need for CTO and Data Architecture resource and how this can add value to transform how we use IT and how data drives more efficiency and a better end-to-end customer journey.

These are optional enhancements as neither issue prevents us from moving the stock centre or upgrading the IT, however whilst we 'have the hood up', they are pieces of work we could incorporate readiness for and we will include the appropriate cost/benefits into the Gate 2 submission.



BUSINESS CASE

2.3 Risks & mitigations

Risk ID	Risk Title / Description	Current			Target			Mitigation Action	Due Date
		I (Impact)/L (Likelihood)							
		I 1 - 5	L 1 - 5	Current (I x L)	I 1 - 5	L 1 - 5	Target (I x L)		
001	There is a risk that the disposal of the property takes longer than in plan and/or achieves less value.	2	2	4	1	1	1	In plan we have assumed only half of the estimated value is achieved in year 2.	
002	There is a risk that the current system has a critical failure before the new IT system is stood up	5	3	15	4	2	8	We have, in plan, an action to work with IT to provide a service wrap to help mitigate this. We will explore other contingencies open to us.	
003	There is a risk that we do not secure either of the locations.	5	2	10	1	1	1	Swift approval and mobilisation of property team. Identify other potential locations.	
004	The IT costs are outline and are being reviewed. These may increase on completion of review.	2	4	8	2	4	8	Reviewing the IT costs. We have assumed only half of the property benefit and believe we could improve on this to counterbalance any IT increase.	
005	There is a risk that the estimated fit cost for the new build warehouse exceeds budget.	2	2	4	2	1	2	As a noted risk the PM will keep a tight control on spend (actual and projected).	
006	There is a risk that resourcing requirements will increase to incorporate CTO and data architecture.	2	2	4	2	2	4	We are reviewing this requirement and costs and will update the business case at gate 2.	
		Critical (5) Significant (4) Major (3) Moderate (2) Minor (1)			Very Likely (5) Likely (4) Possible (3) Unlikely (2) Remote (1)				

2.4 The analytical process

We have analysed and assessed a series of scenarios to understand the best option from an operational and financial perspective.

We engaged with the consultancy firm, Crimson, to provide support in framing and assessing the scenarios. Crimson brought industry warehousing knowledge and specialism in warehousing IT. We also engaged with BNP Paribas for property assessment, and took views from recruitment agencies to understand wage rates across different locations. We complemented all this with essential internal subject matter expertise from the centre itself, from IT, from finance and from the property team. Throughout the process we engaged with Alisdair Cameron as the business sponsor for this for challenge and steering.

In order to understand the future demand for stock services we also talked to a range of stakeholders from across the business and concluded that there were no current business plans which will substantially alter the branch network stock requirements.



BUSINESS CASE

The new stock provision would inherently be more flexible and ready to adapt to changes such as moving to a different retail model or large fluctuations in volumes. The proposed IT systems have modular advancements that can add on financial aspects to ordering stock.

Concurrent with the work undertaken, negotiations on a new warehousing agreement with Royal Mail have progressed (and are de facto in operation). Royal Mail are keen to finalise the warehouse agreement for non-MDA work, with the remaining work covered by the MDA. As such, we conclude that Royal Mail warehousing work is likely to be profitably retained over the period of this business case.

2.5 Alternative options

The options in the table below were considered, alongside combining a new site with CViT units in another area. The incremental benefits of the IT upgrade and the property move can clearly be seen.

Option	Net Investment	Net Cost Reduction	NPV Delta
	Project Cost minus asset sale	Reduction in Opex	
New Swindon Site + Voice + Pack (Preferred)	IRRELEVANT		
Outsource Keep SA (Low probability)			
New Swindon Site + Voice			
Outsource Lose SA			
Existing Swindon + WMS Upgrade			
Existing Swindon + WMS Upgrade + Voice			
As-is			
New Swindon Site + Lose SA			

We examined a range of options. From the first phase of analysis we were able to reject in-branch digital printing and production on the basis of excessive cost, and we discounted a direct-from-supplier model due to cost, complexity and impact on branch time (we have over 50 suppliers and so benefit from a consolidated delivery).

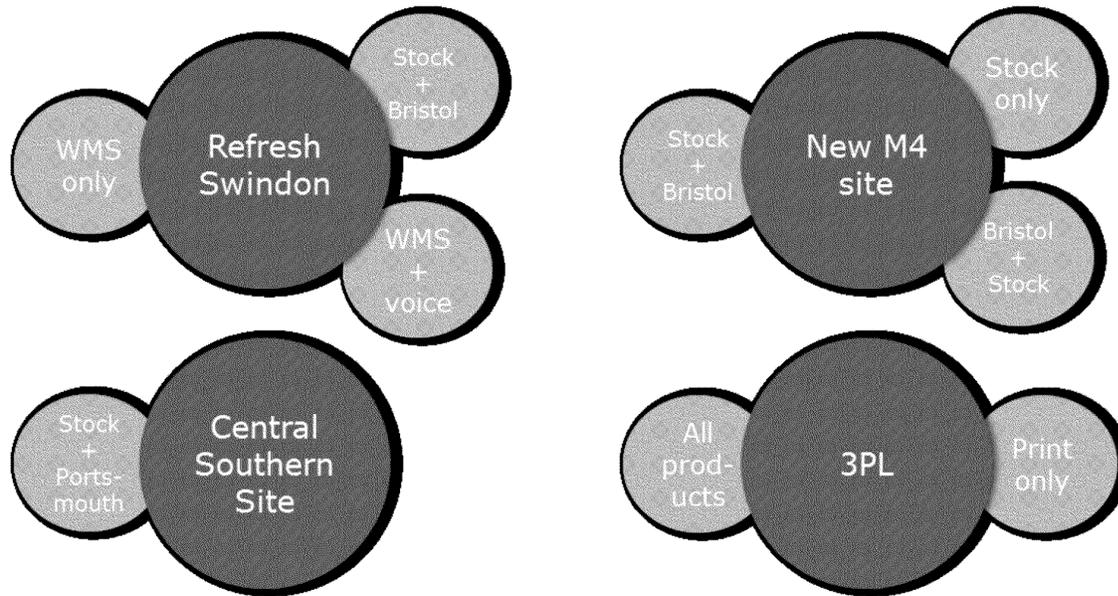
In phase two we honed this down to four options;

- Refresh Swindon (at the current site)
- Relocate to a new site in the M4 area
- Relocate to a Central Southern Site co-locating with Portsmouth CViT
- Outsource to a third-party logistics company

Three of the options had variants based on IT investment and co-location with CViT operations. (See graphic below).



BUSINESS CASE



In all options, the IT needs to be replaced (or in the case of an outsourced arrangement integrated into POL systems). For IT replacement, the numbers and benefits for adding voice pick control into the Warehouse Management System (WMS) consistently bring additional return for the minor uplift in investment.

Refresh Swindon (in current site)

The cost associated with the building as outlined above **IRRELEVANT** for known items, together with the risks of unknown remedial work being high over that term due to the age and condition of the fabric are significant negatives for this option from a financial and service continuity perspective.

The current building is also holding us back in terms of layout – there are no dock levellers and there is a low ceiling height meaning that extra movements and space are required compared to a modern building. It would not be financially viable to bring it up to modern standard.

Whilst it is an aged building to continue operating in, it is an attractive site for redevelopment and has been valued at up to **IRRELEVANT**

IRRELEVANT

For the reasons above we have discounted remaining in the current Swindon site.

Relocate to a new site in the M4 area



BUSINESS CASE

In the M4 area we have three current Supply Chain sites; the stock centre in Swindon, a CViT depot in Bristol, and the Inventory and Order team in an admin location in Bristol. We looked at whether bringing these together could provide additional benefit.

Consolidating the three sites into a Bristol location was discounted.

- Market rates for properties in the Bristol area were up to 30% higher than in Swindon.
- We assessed whether we could take the opportunity to move towards a minimum wage rate for warehousing by rebasing the grade (assuming that all current Swindon staff took redundancy) however the market in Bristol is on average 30% higher than the minimum wage with even the lowest warehousing wages 10% higher.
- With the redundancy of all of the current Swindon workforce there would be a significant risk of having lost all of the knowledge and experience from the team.

Consolidating the three sites into a Swindon location was also discounted at this stage.

- We currently have nine years on the Bristol CViT lease with Royal Mail.
- The redundancy costs for Bristol CViT and Stanway House impact on this options NPV.
- Future changes to the cash ordering process for branches (online ordering via Agents Portal) is likely to reduce the size of the team. It is prudent to futureproof any new warehousing site to be able to be adapted to locate a smaller inventory team however it is not recommended to move the work before this time as the risk would be making redundancies in Bristol, and then hiring new staff only to potentially pay more redundancy with the onset of online ordering.

The recommended option was to relocate the current warehousing operations into a site in the Swindon area as the avoidance of a full redundancy programme and lower property rates made the NPV the best option. It also retains the expertise and knowledge from the current operation, and provides a simpler changeover which will protect service continuity.

Relocate to a Central Southern Site co-locating with Portsmouth CViT

The building in which our Portsmouth CViT operation is located has recently been sold by Royal Mail to a new landlord who has plans to redevelop the building into a mix of retail and student accommodation. As part of the new lease we will be staying on the site however the landlord requires us to move from the first floor to the ground floor. The landlord will be funding this move and had indicated that he would be willing to repurpose this money to support us moving off site.



BUSINESS CASE

A move to the Winchester/Basingstoke area would be operational more optimal for the CViT depot as it would provide a more logistical radius to serve.

We therefore engaged BNP and the property team to assess suitable sites where we could co-locate the stock centre with Portsmouth CViT. They found that there are currently no appropriate sites in the area, and gave an assessment of the market rates for properties to be up to 50% higher than in the Swindon area.

The landlord's offer is time limited and this means that we cannot wait for future property opportunities to arise. As such, we have discounted this option.

Outsource to a third-party logistics company (3PL)

This option was assessed and discounted as;

- Although the investment was lower **IRRELEVANT** the impact on EBITDAS was smaller than the preferred option by **IRRELEVANT**. The investment amount is still high due to having full VR costs and still incurring a proportion of the IT change costs as we line up POL systems and data to a 3PL WMS and dilapidate existing IT.
- **IRRELEVANT** the strong likelihood is that they would simply choose to deal directly **IRRELEVANT** **IRRELEVANT**
- The stock operation is 'big enough' to be able to support the costs of its own IT and premises. We are past the tipping point for 3PL rates. If the operation were half the size then the cost of IT and a dedicated site would not be favourable.
- In the very unlikely scenario that we retained the **IRRELEVANT** **IRRELEVANT** the overall investment would **IRRELEVANT** and the cost saving would be around **IRRELEVANT**
- We would lose flexibility – the stock operation is regularly called upon to adapt to changes in marketing campaigns or failures from suppliers. We can currently avoid a lot of the cost in these instances, a 3PL will often charge for late changes and cancellations.
- We would lose all stock knowledge. Product owners and internal customers across the business rely on the knowledge of the team to produce and order products.
- We also considered only outsourcing the print function and moving the value product to an existing Supply Chain site with spare footprint capacity. Whilst the property costs would have worked out, a stock IT system would still be required which raises costs prohibitively.

2.6 What do we need to do next to progress and deliver the preferred option

1. Recruit a project manager to oversee the whole project and various workstreams.



BUSINESS CASE

2. Engage the property team to identify the best fit site in Swindon, reserve a plot and negotiate a deal. A site has been identified in the area but we need to act quickly to secure it.
3. Engage the IT teams to downselect a suitable IT solution and evaluate additional options to deliver the solution ready for a link to agent portal enabling autoreplenishment for the network.
4. Engage ER team to build the narrative and the plan for people and representative engagement.

Milestone Level	Name/Title	Completion Date
0	Gate 0 (Initiate to Assess) Approved	Completed as part of Back Office Programme
0	Gate 1 (Assess to Design) Approved	Nov 18
1	Business Requirements signed-off	Jan 18
1	Procurement – Supplier Evaluation completed	Jan 18
1	Contract signed with Supplier	Feb 18
1	Project Manager appointed	Nov 18
1	Project Team and Governance set up	Nov 18
1	Technology recommendations and software selection process.	Jan 18
1	IT solution and business approval.	Feb 18
1	IT implementation plan confirmed	Feb 18
1	Property engage locations in the Swindon area	Done
0	Gate 2 submission of detailed business case and BRA completed	Nov 18
1	Preferred location identified and plot secured	Dec 18
1	Property Procurement and Build Plan confirmed	Jan 18
1	ER engaged to build people narrative	Jan 18
1	Communications Plan developed	Jan 18
1	First Communication issued	Feb 18
0	Gate 4 – Go Live	Jan 20
0	Estimated Go Live	Feb 20
0	Gate 5 – Project Closure	Mar 20



BUSINESS CASE

5. Ensure alignment with the Retail Strategy group to ensure that any future developments in that area are taken into account as the new warehouse processes and IT system are developed and built.
6. Key Dates (high level plan with key governance and delivery & commercial obligations' level 0 and 1 milestones).
If this Business Case is outline (Gate 1) you may not have all the details for delivery as yet but you must detail the plan to get to Gate 2 (Baseline Business Case)

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

The impact would be;

- the increasing risk of critical service failure,
- spend on remedial property work,
- Financial benefits are not realised.
- A delay would probably mean we fail to secure the identified site.

2.8 Scope

In Scope;

- Stock Warehouse IT system replacement,
- Stock Centre people relocation,
- Stock Centre process reengineering,
- Stock Centre redundancy exercise,
- Property dilapidation and disposal
- IT alignment between WMS and Agent's portal

Not in scope;

- Agent's Portal front end development
- Branch change management / training

2.9 What are the key (external) dependencies?

N/A

Dependency Title/High level description	Inbound from (Programme / Project)	Impact (of non or late delivery) on Benefits
Agent's Portal functionality	Agent's Portal	Intangible

2.10 Human Resourcing requirements

The resourcing may be subject to change as we are assessing the need for CTO and data architecture resource. This is represented in risk 06.



BUSINESS CASE

Ea		2018/19												2019/20												GRAND TOTAL Ea
Role	Drawn Day Rate	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	
Change Lead (Programme Director)																										
Change Lead (Programme Manager)																										
Project Manager																										
Business Analyst																										
PMO Manager/Lead																										
PMO Sponsor																										
Change Designer																										
Change Business Readiness																										
Change Master Expert (CME) - Business																										
PMO - External Specialist																										

IRRELEVANT

2.11 Intended delivery approach

We intend to follow a standard waterfall approach for all aspects of this business case. Our current proposal is that a new warehouse will be stood up before the existing site closes to allow for a phased transition (for both location and IT system). This will ensure that the IT is fit for purpose and also protect service continuity for the network. We will migrate by product area to the new site.



BUSINESS CASE

3 Approvals

3.1 Governance

It is a requirement for project to obtain approval from all approvers prior to CAG.

Approved By	Commentary	Date
<p>Finance Director Stuart Nesbit</p> <p><small>Add in any comments from the approver and indicate that the project has accepted the comment or explain why not</small></p>	<p>"Please take this as formal approval of the case."</p> <p>Note: adjustments have been made to the Payback period, taking into account the majority of the spend is in 2019/20, reflecting this as year 0.</p> <p>This business case has taken a prudent view that sale proceeds will be 50% of the free hold valuation, taking into account the location of the site. BNP have outlined a way to build a new access road that will isolate this from the Royal Mail premises.</p> <p>Moving to a purpose built site with better IT infrastructure allows Supply Chain to significantly reduce its operating costs by IRRELEVANT IRRELEVANT</p> <p>The improved operating costs also includes moving to a lease hold position and includes annual rental charges. Under IRFS 16, which is due to come into effect from 2019/20 a proportion of lease costs will be reported below "trading profit" resulting in a further improvement to POLs main profit measure. The benefit for this is excluded from the case financials to reflect a "true" cost position.</p> <p>Options over outsourcing have been reviewed and considered too expensive with VR and associated costs coming in at IRRELEVANT IRRELEVANT (assumed lost revenue).</p> <p>In order to realise the operational benefits early a decision is required to ensure we don't lose the site.</p> <p>Approval is give on the direction of the business case, understanding that the project needs to re confirm this will fit in with the Retail strategy.</p>	<p>11/10/2018</p>



BUSINESS CASE

<p>Design Authority <u>DA SharePoint site</u> Add in any comments from the approver and indicate that the project has accepted the comment or explain why not</p>	<p>Status of your submission "Future of Stock" has been changed to Conditionally Endorsed.</p> <p>DA is supportive of the initiative to replace and modernise an ageing warehouse and associated systems, but has a number of conditions which have been adopted into this business case.</p>	<p>17/10/2018</p>
<p>IT Portfolio Office David Gemmell Add in any comments from the approver and indicate that the project has accepted the comment or explain why not</p>	<p>"You have conditional IT concurrence subject to Ben's comments being reflected in the Business Case." These have been adopted into the business case.</p>	<p>16/10/2018</p>

3.2 Business Readiness Assurance

Confirmation that the business readiness assurance process has been completed. This is mandatory for End of Design Gate 2 approval. Outstanding business issues/concerns should be explained in the table below with details of the actions and target dates in place to resolve them.

Approved by	Commentary	Date
<p>IT Portfolio Office Kevin Mackay The project manager must follow the Business Readiness Approval process as detailed in the OBW SharePoint site to demonstrate that all areas of the business have been contacted. The responses from area that are not content should be detailed in the commentary.</p>	<p><i>Business Readiness has to be undertaken and completed for Gate 2.</i></p> <p><i>All concerns or issues raised by impacted business areas should be resolved.</i></p> <p><i>Or</i></p> <p><i>The following issues / concerns have been raised by impacted business areas and are being addressed by the project (details outlined below).</i></p>	<p>Insert date</p>

Once ALL approvals have been obtained send completed file to change.approvals@GRO mailbox



BUSINESS CASE

Appendices

Appendix A- Financial Summary

GBP (m)	Sunk Cost	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	TOTAL
Gross Income	0.0							
DIRECT COSTS								
Total Direct Contribution	0.0							
OPEX	0.0							
Project Related	0.0							
Recurring								
Reduction								
Avoidance								
EBITDAS	0.0							
<i>EBITDAS [%]</i>	<i>0.0%</i>							
IRRELEVANT								
CAPEX	0.0							
Project Related	0.0							
Avoidance								
EXCEPTIONAL	0.0							
Project Related	0.0							
NET CASH FLOWS	0.0							



BUSINESS CASE

PAGE 1 OF 12

PROJECT NAME:	HOME INTERMEDIARY	GATE APPROVAL:	GATE 3: BUILD	BUSINESS UNIT:	INSURANCE
PROJECT NUMBER:		FINANCE LEAD:	Simon Parr	BUSINESS SPONSOR:	Ryan Griffin
AUTHOR:	Nick McCowan	BENEFIT OWNER:	Nick McCowan	DATE:	17/10/2018

Executive Summary

1. Context

- This business case represents a request to draw down on **IRRELEVANT** **IRRELEVANT** to support the development of the Home Insurance re-engineering programme.
- The total costs of the project are **IRRELEVANT** **IRRELEVANT**
- This programme supports the wider POI strategic plan, gaining greater access to the value chains of core products by building an in-house insurance intermediary capability for home insurance.
- It forms one part of a multi-program approach transforming POI's capability enabling double digit revenue and profit growth with benefits being read in conjunction with the full view of our 5 year plan.
- Building the capability in-house enables us to exercise control across the sales and service processes, to build innovative product solutions and optimise sales processes.
- The delivery of our home intermediary solution is dependent on the development of a sophisticated retail pricing capability. This capability is part of a wider build which delivers data analytics and pricing across the product estate and will drive incremental value above this business case – this is detailed in a separate business case being submitted concurrently.
- In this document we have restated the benefits to reflect the latest forecast view of volume and IPP on home insurance (aligned to 6+6).
- Delivery enables further benefits to be generated through the deployment of a separate CVM capability. This will be subject to further business cases which are in development.

2. Questions addressed in this report

- a. What do we propose to do and why; is this a regulatory or mandatory requirement; will this mitigate any enterprise level risks?
 - Using Duck Creek, AIL and UFE technology and supported by Accenture, action as our strategic implementation partner, we will build a home insurance operating system to host the sales and administration of Home Insurance policies integrated with our underwriting partner (selection proves complete) and external data sources



(already identified) to provide an optimal customer experience including enhanced and streamlined claims journeys, dedicated POI contact centre, refreshed products and improved online servicing capability

- These technology platforms will include end to end capability for us to target, acquire, distribute and service home insurance customers

• **IRRELEVANT**

- We will redevelop and modernise the product
- We will take greater control of distribution and exclusively own retail pricing.
- Delivery enables further components of our five year plan including, Customer Value Management and multi-product cross sale. Benefits from these are subject to a separate business case

- What's the financials of the change request?

£k	Sunk Cost	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	TOTAL
Net Income														
Staff Costs														
Non Staff Costs														
Opex - One off costs														
Group EBITDA														
POL Commissions														
POI EBITDA														
Capex														
Exceptional														
POI Cashflow														

IRRELEVANT

The above table highlights the incremental cashflows (income and costs) across 2018/19 - 2029/30 between the current model and our revised forecast for value over the period

On a normalised basis the Home elements account for **IRRELEVANT** on a cash basis vs **IRRELEVANT** the original case submitted to Board – this reflects an increase in the **IRRELEVANT** how totalling **IRRELEVANT** to cover both the **IRRELEVANT** **IRRELEVANT** **IRRELEVANT**



Investment costs (Business case vs 5 year plan)

Investment (£k)	Sunk	18/19	19/20	Total
Capex	IRRELEVANT			
Exceptional				
Budget (£k)				
Capex				
Exceptional				
Variance (£k)				
Capex				
Exceptional				

The investment costs have **IRRELEVANT** to **IRRELEVANT**. The increase is driven by increased implementation costs, premises costs for the programme team and increased migration costs.

Business case Hurdle rates

	Hurdle Rates	Output		
		3 yrs	5 yrs	10 yrs
Discount Rate [%]	12.0%	IRRELEVANT		
NPV / Net Present Value £m	+ve			
IRR / Internal Rate of Return [%]	15%			
PBP / Payback Period [years]	Yr 3			

Due to the strategic nature of the new home insurance operating model, economics have been measured across a 10 year period based on higher investment in the early years and delivery of payback over a longer period of time. The business case delivers a positive NPV and will deliver a payback in year 6.

An additional **IRRELEVANT** resulting in a **IRRELEVANT** (cumulative).

Following comparison analysis between this business case and the discovery work completed in 2017 the business case demonstrates a good degree of confidence in delivering the improved income per policy as per the original submission. The business case has also identified a number of areas of new run costs which were not included in the original 5 year investment case. The incremental benefits have also reduced due to in year trading decisions to slow home volume growth in 17/18 and 18/19 to support the delivery of the wider POI plan.



BUSINESS CASE

Bridge on Home Insurance EBITDA - 5 yr plan vs latest business case

£m	2019/20	2020/21	2021/22	2022/23	
EBITDA - 5 Yr Plan	6.7	9.5	10.5	11.2	
Re-baselined income	IRRELEVANT				due to lower PIF and higher average IPP based on 6+6 forecast
Data enrichment					not included in 5 yr plan projections
DC license uplift					based on latest view from Russ
Infrastructure					based on latest view from Russ
Marketing costs					re-baselined marketing costs
Global Pay					reduction due to less txns via GP
Service Management					assumed to be managed through existing team structure (from Russ)
Contact Centre					higher costs in 19/20 - CC operations assumed to commence in April 19 as opposed to Oct 19
EBITDA - Business case					

All of these costs are necessary to ensure the effective running and commercial viability of the scheme but introduce an in year impact of **IRRELEVANT** in 19/20 & 20/21.

- b. What do we need to do next to progress and what are the key deliverable and milestones?
- System and business requirements gathering commenced in June. Overall programme broken into work packages to support incremental delivery of technology and capability to achieve key milestones and reduce overall risk carried in plan. High level deal terms have been agreed with our primary capacity provider (Ageas) and full deal and contract negotiations will run in parallel with the build with a target completion date of December 2018
 - Procurement for other services (Data Enrichment, Premium Finance and Ancillary products) has been completed with recommendations due to be presented in November ExCo
 - Planning for migration from BGL has commenced and detailed requirements will be completed prior to issuing notice of termination

Input Sought

The decision we would like from the Investment Committee is:

- To approve access to the full funding **IRRELEVANT** to deliver the programme

Input Received

Approval from Steer Co, POI Prod Co, ExCo and Board



The Report

1. What is the problem we are trying to solve?
 - Delivering an in-house intermediated home insurance platform that allows us greater control of customer product, propositions & outcomes.
2. How does it link to and deliver our strategic goals (and the North Star)?
 - It will allow us greater control over our journeys, processes and propositions allowing us to evolve them to meet changing customer demands

3. What are the financial and non-financial benefits and who are their owners?

The financial benefits include:

- **IRRELEVANT** following the removal of Junction from the value chain
- An enhanced capability to expand distribution

Non-financial benefits include the following:

- Improved control over customer products and outcomes particularly at point of quote & claim

4. What are the key success criteria for this change

- Managing the programme to a total cost of **IRRELEVANT**
- Having a product and technology solution allowing us to service new and existing customers by 1st October 2019
- Achieving an **IRRELEVANT** (representing Junction's share of our current revenue)

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

- For key change risks please see appendix 3
- We had identified a risk relating to the application of VAT on Home Insurance which we have subsequently mitigated
- Risk of increased attrition during migration

6. What are the Key Dates and Milestones?

- Owing to the expiry terms of the current home contract we need to be live and managing both existing and new customers by 1st October 2019
- First renewals would need to be issued in the first week of September

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

- Delaying the decision would make delivery for September 2019 highly unlikely necessitating an extension with BGL to maintain service for customers



BUSINESS CASE

PAGE 6 OF 12

- If we were not to progress with this build we would need to seek an alternative arrangement for existing customers with another provider if we wished to continue selling home insurance
8. Scope – What is in scope and out of scope?
- Please see Appendix 4
9. What are the key dependencies (external to this project)?
- Delivery of effective retail pricing and data analytics capability via Project Morpheus – this programme is underway and the requirement to deliver pricing capability for Home Insurance is captured as a key milestone
 - Migration support from BGL – key to the success of this programme will be efficiently migrating our existing customer base from BGLs platform to our own. This will require significant technology and change engagement between teams. The programme team have already begun the process of collating requirements for migration and we are seeking ongoing engagement and resource commitment from BGL to facilitate this



Appendix 1: Concurrences

Business Sponsor

Approved by	Commentary	Date
Ryan Griffin		June 18 Oct 18

Chief Financial Officer

Approved by	Commentary	Date
Simon Parr		June 18 Oct 18

Head of Change Management

Approved by	Commentary	Date
Michelle Downs		June 18 Oct 18

Benefit Owner

Approved by	Commentary	Date
Nick McCowan		June 18 Oct 18

Accountable Exec

Approved by	Commentary	Date
Rob Clarkson		October 18 Oct 18

POL Concurrences

It is a requirement for project to obtain approval from all approvers prior to CAG.

Approved By	Commentary	Date
CFO Simon Parr		
Design Authority <u>Lodge your BC paperwork on the DA SharePoint site</u> <small>Add in any comments from the approver and indicate that the project has accepted the comment or explain why not</small>	Endorsed	26th September 2018
IT Portfolio Office	Concurrence given	July 2018



Kevin Macay Add in any comments from the approver and indicate that the project has accepted the comment or explain why not		
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Once ALL approvals have been obtained send completed file to change.approvals@GRO mailbox

Appendix 2

Financial Summary

The breakdown of **IRRELEVANT** is shown below.

£k	2018/19	2019/20	Total
Accenture	IRRELEVANT		
Resource			
Integration			
Legal & Compliance			
Premises			



BUSINESS CASE

Project has incurred sunk costs of **IRRELEVANT** as part of the Discovery phase of the programme. **IRRELEVANT** are expected to be incurred in **IRRELEVANT**
IRRELEVANT

All costs are assumed to include VAT at the irrecoverable rate of 9%.

Currently there is a risk to the VAT recovery status on the investment costs. The VAT risk has been mitigated by the introduction of a new Home Insurance ancillary product (Home MOT) which is in the scope of VAT.

The benefits from the business case are based on the incremental Home Insurance income from Investment case vs Base Case as defined in the 5 year strategic planning process.



BUSINESS CASE

A detailed view of Income and costs is shown below:

£k		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total
Benefits															
	Incremental income-Home														
BAU operating costs															
	Incremental run costs														
	Total BAU Costs														
One-off costs															
	Capex Investment														
	Exceptional Exit costs														
	Exceptional Sunk Costs														
	Total One-off costs														
Profit															

IRRELEVANT



Appendix 3

Key Risk Log

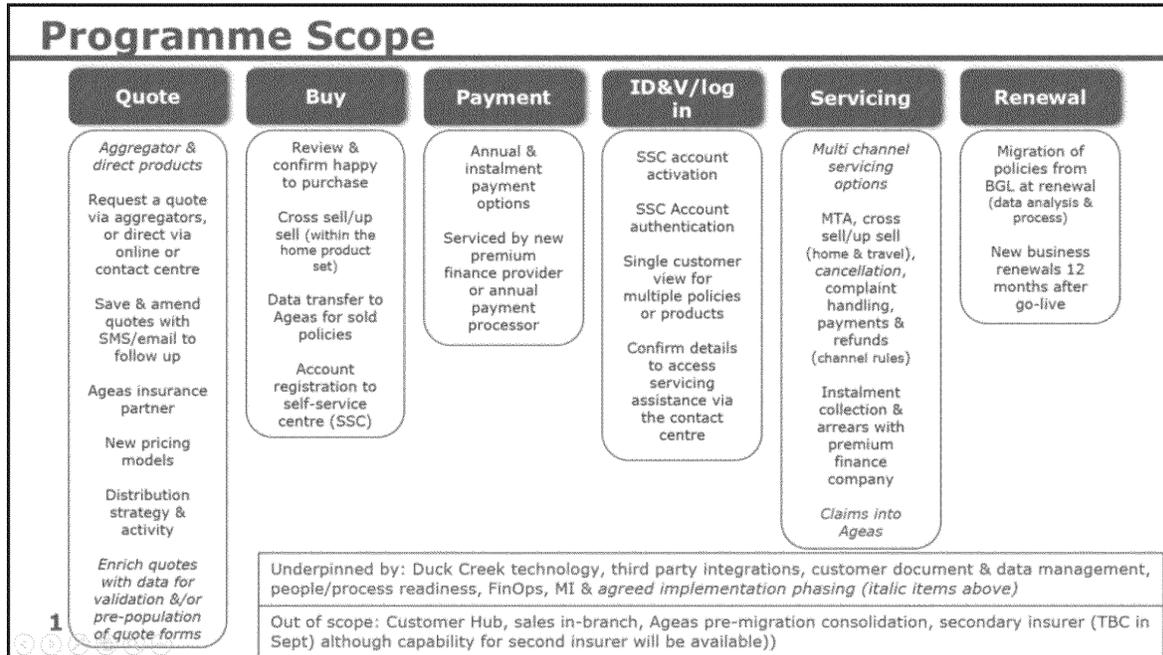
Risk	Impact	Mitigation
<h1>IRRELEVANT</h1>		

Risk	Impact	Mitigation
<h1>IRRELEVANT</h1>		



Appendix 4

Programme Scope





POI Business Cases: Home and Data & Analytics

Rob Clarkson & Nick McCowan

14th November 2018

Executive Summary

- POIs 5YP continues the programme of re-engineering its products and capability to create in-house products and services which deliver greater levels of control and financial return
- Principally this is focused around 3 key areas:
 - Building a home insurance intermediary
 - Create a market leading retail pricing function (supports all core products)
 - Enable CVM across the POI estate to creating incremental distribution and greater customer value
- To enable us to realise the value in our 5YP we are presenting 2 business cases for approval:
 - Home Re-engineering – building an end to end home intermediary model
 - Data, Analytics & Price Optimisation – creating a POI enterprise data warehouse, integrating analytics and pricing toolsets and recruiting high calibre data scientists and pricing analysts
- These are strategic enablers and whilst they don't deliver against 3 year hurdle rates they do deliver considerable value over both a 5 and 10 year horizon.
- They create the capability required to support future growth initiatives (not accounted for in either case)
- Following review at the last IC CVM has been removed from the Home Re-engineering business case.
- The revised case reflects the value achieved from reengineering the value chain
- The CVM elements attributed to the EDW and analytics build are contained within the Data & Analytics case
- A separate CVM product is currently being scoped with reference to group wide CVM considerations

Home Re-Engineering

	Hurdle Rates	Output		
		3 yrs	5 yrs	10 yrs
Discount Rate [%]	12.0%	IRRELEVANT		
NPV / Net Present Value £m	+ve			
IRR / Internal Rate of Return [%]	15%			
PBP / Payback Period [years]	Yr 3			

- Home business case now excludes Home CVM value which is being presented as part of the Data & Analytics business case alongside this one
- On a normalised basis the Home elements account for £30.5m on a cash basis vs £30.8 in the original case submitted to Board – this reflects an increase in the exceptional liability held for exiting the BGL agreement now totalling £1.5m to cover both the cost of marketing and distribution for policies sold in the final year and reasonable BGL costs attributed to affecting the migration
- This delivers an end to end general insurance intermediary capability across all areas including operations and finance as well as redeveloped products and propositions and aligns fully to the strategic direction approved as part of the 5YP process which recommended that POI seek to access more control and value from core product areas
- Building this capability allows us to access 100% of the income generated from home insurance sales and gives us a platform to grow the portfolio as part of future planning years
- Having a scalable and aligned home insurance proposition also supports our plans to grow cross-product holdings via CVM
- Securing the value from our existing customer base and delivering scale growth in the future is also dependant on access to the sophisticated data analysis and pricing capability planned for delivery as part of a supporting programme



Data & Analytics

	Hurdle Rates	Output		
		3 yrs	5 yrs	10 yrs
Discount Rate [%]	12.0%	IRRELEVANT		
NPV / Net Present Value £m	+ve			
IRR / Internal Rate of Return [%]	15%			
PBP / Payback Period [years]	Yr 3			

- Sophisticated data and analytics are crucial to the development and success of scale insurance businesses like POI – in recent years we have benefited from high levels of sophistication provided by our outsourced providers particularly BGL
- In order to secure value from the insourcing of our products and to drive incremental value and scale from our data will require an Enterprise Data Warehouse to store high volume quote and sale data across the POI estate. To support the analysis of this data we will also build an analytics layer which will allow us to access toolsets such as Earnix, R and Python to build propensity models to determine customer behaviour and value
- In addition to supporting pricing on Travel and Home insurance this capability will also support CVM activity – improving campaign efficiency and value and driving cross product holdings across the business
- In the 5YP we committed to delivering c£24m incremental EBITDA from CVM activity – the data and analytics platform will provide the foundations of this activity and will yield c£7m of our target
- Once established we expect to be able to expand on the insights derived from the data in subsequent business cases which will outline the tools and capabilities which will deliver the rest of the value including:
 - Improve and bespoke customer journeys
 - Targeted messaging
 - Cross product service and sales portal





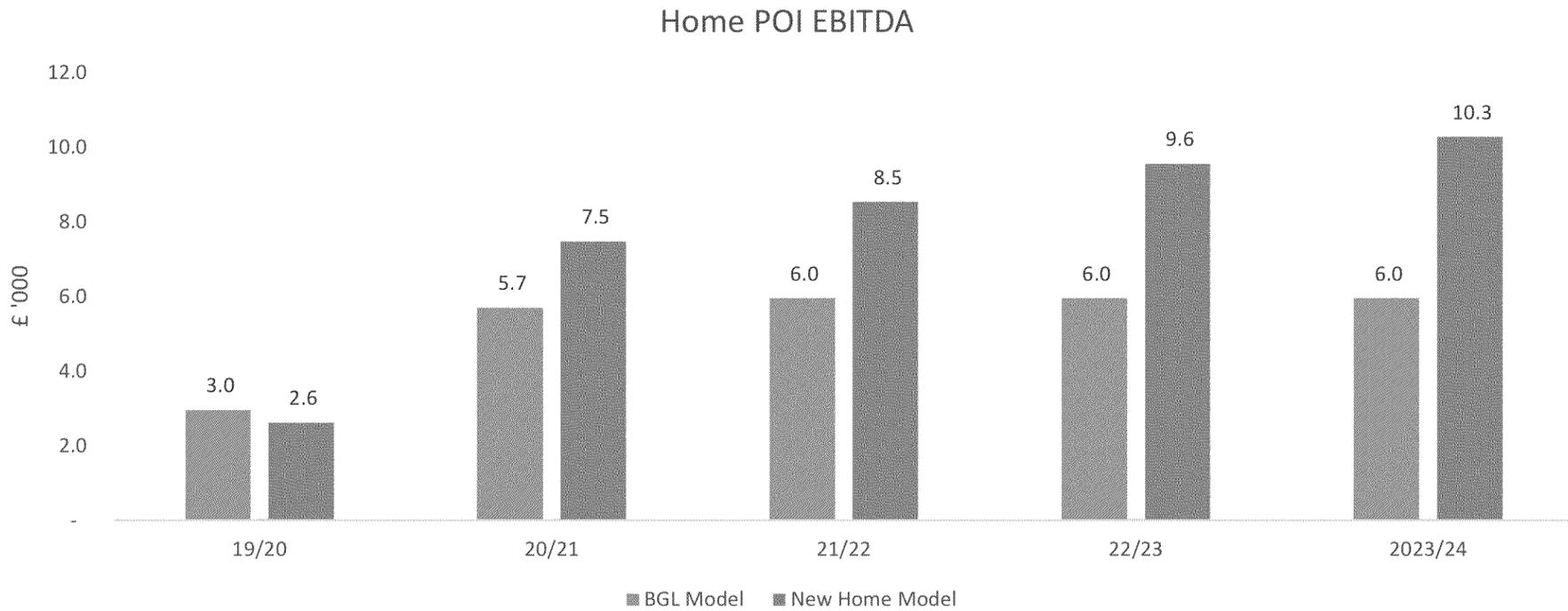
Home Benefits

Executive Summary

- In line with the Board supported strategy POI is seeking to re-engineer its product sets and build supporting capability in house in order to access more of the value chain
- General Insurance is the last product set to go through this process and Home Insurance has been identified as a core product which aligns closely to our other product offerings and should therefore be re-engineered
- To support this we are looking to build and deploy a full home insurance intermediary platform which allows for the quoting, sale and administration of home insurance products
- In doing so we access 100% of the value currently shared with BGL and take full control over product design, distribution and servicing
- To support this activity we will require retail pricing capabilities and data analytics which is being delivered across POI as part of a separate programme



Home POI EBITDA



- 19/20 from Oct19 when new model commences
- First year costs inflated due to overheads following operational setup costs

Home Insurance – Income drivers

Incremental Home (£k)	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	TOTAL
New Operating model	IRRELEVANT											
Base case												
New vs Base case												

- The new home insurance programme is expected to deliver incremental income of **IRRELEVANT** across 2018/19 to 2029/30.
- Key benefit drivers are:
- By building the end to end capability in house POI access 100% of the income from sale and renewals of home insurance policies
- Value is also derived from improved margin for ancillaries and premium finance versus the existing arrangements and the opportunity for profit share in the underwriting agreement
- When combined with the agile and sophisticated data analytics and pricing capability we also gain additional future opportunities for leveraging this across home insurance and to drive additional margin and conversion via pricing or additional cross sell opportunities identified via the CVM activity

What's changed from 5 year plan

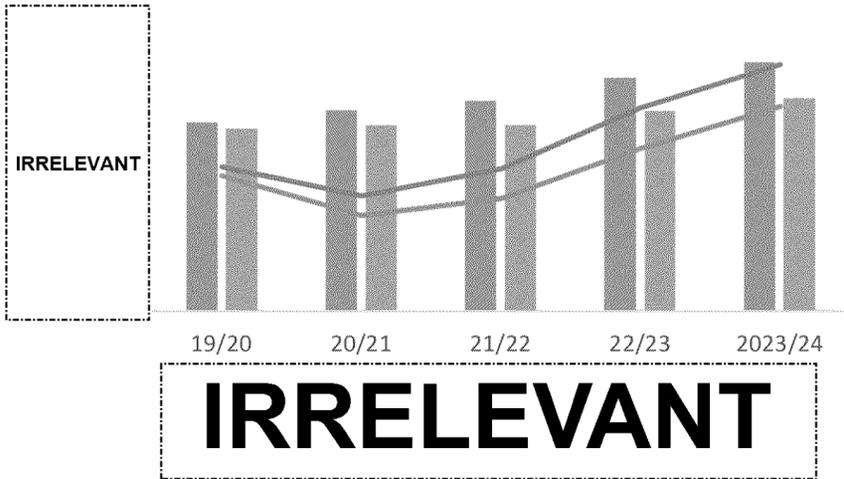
£m	2019/20	2020/21	2021/22	2022/23				
EBITDA - 5 Yr Plan	IRRELEVANT							
Re-baselined income					due to lower PIF and higher average IPP based on 6+6 forecast			
Data enrichment					not included in 5 yr plan projections			
DC license uplift					based on latest view from Russ			
Infrastructure					based on latest view from Russ			
Marketing costs					re-baselined marketing costs			
Global Pay					reduction due to less txns via GP			
Service Management					assumed to be managed through existing team structure (from Russ)			
Contact Centre	higher costs in 19/20 - CC operations assumed to commence in April 19 as opposed to Oct 19							
EBITDA – New Operating Model								

- Original submission was based on a 0+12 view of home performance for 18/19 with POI achieving plan volumes and income
- Due to trading risks on other product lines we chose to right home insurance for additional income (c£1.5m) which reduces the volume of future renewals and therefore future income versus the 5YP
- In additional during the scoping phase we identified a number of additional costs that would be required to support the new home insurance model

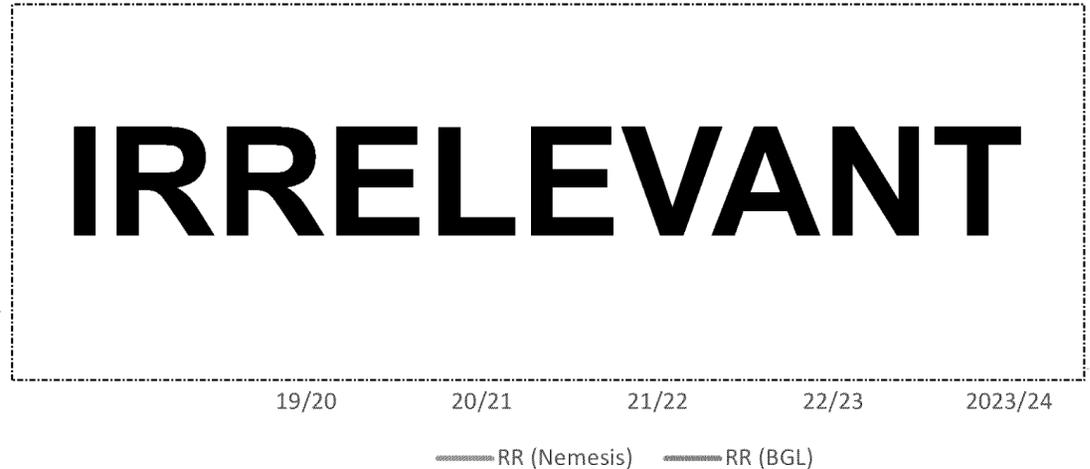
BGL Model vs. Insourced Intermediary

		19/20	20/21	21/22	22/23	2023/24
Plan	NB Volumes	IRRELEVANT				
	RN Volumes					
Business Case	NB Volumes					
	RN Volumes					

Average Commission & Pricing Benefits



Net Retention Rate



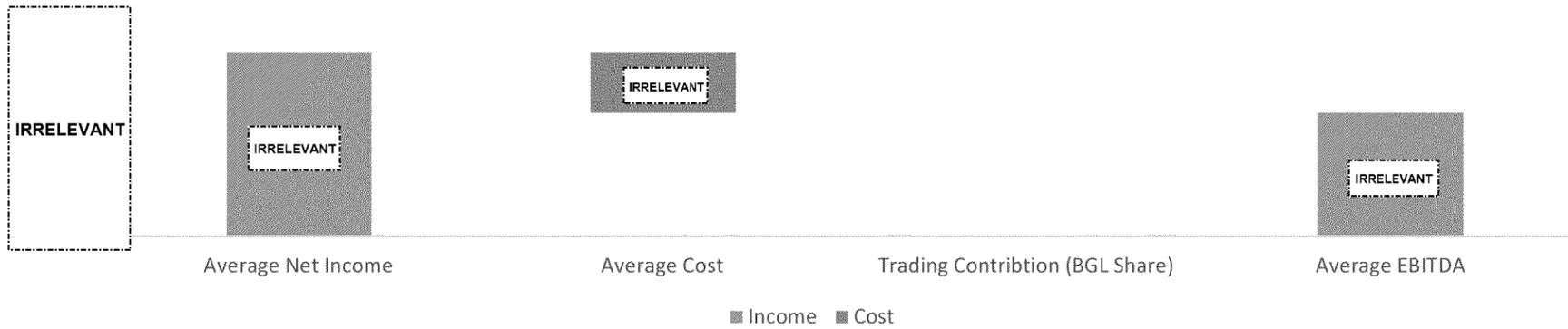
10

- NB volumes remain the same between the two models with improvements in renewal volumes
- Average Commission remains the same with Nemesis providing pricing efficiencies
- Retention rate improvements within the new model increasing to 72.5%

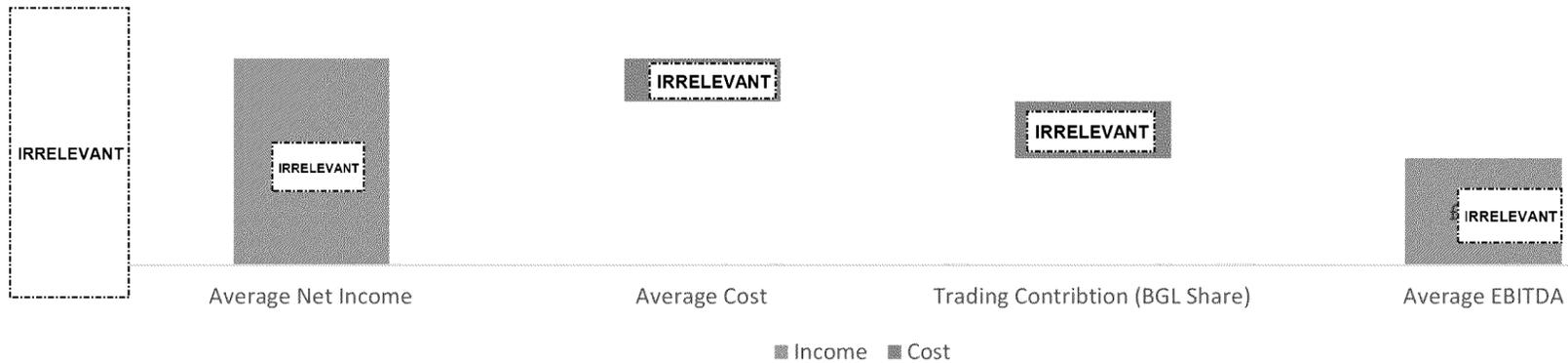


Average Income & Cost Per Policy

Nemesis 20/21

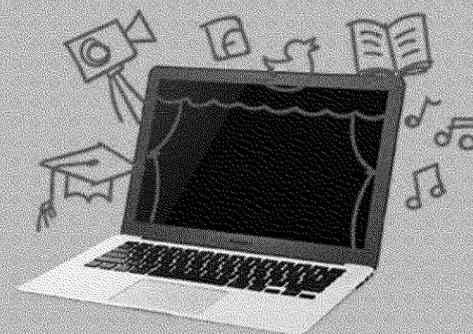


BGL Model 20/21





Appendix



What's Changed from 5YP

		2019/20	2020/21	2021/22	2022/23
5 Yr Plan	PIF				
	NB Volume				
	NB Commission				
	Ave NB Commission				
	Renewals				
	RN Commission				
	Ave RN Commission				
	Retention Rate				
Updated Business Case	PIF				
	NB Volume				
	NB Commission				
	Ave NB Commission				
	Renewals				
	RN Commission				
	Ave RN Commission				
	Retention Rate				
Variance	PIF				
	NB Volume				
	NB Commission				
	Ave NB Commission				
	Renewals				
	RN Commission				
	Ave RN Commission				
	Retention Rate				

IRRELEVANT

New Operating model vs current BGL model

Business Case	19/20*	20/21	21/22	22/23	2023/24	BGL Model	19/20*	20/21	21/22	22/23	2023/24
New Business Commission	IRRELEVANT					New Business Commission	IRRELEVANT				
Renewal Commission						New Business Commission					
Increased Retention						Renewal Commission					
Increased Add-ons						Increased Retention					
Increased Margin						Increased Add-ons					
Cost of Offer						Increased Margin					
Commission						Cost of Offer					
Net Income						Commission					
Costs						Net Income					
Overheads						Costs					
EBITDA	Overheads										
POI Share	EBITDA										
	POI Share										



BUSINESS CASE

PAGE 1 OF 8

PROJECT NAME:	DATA, ANALYTICS & PRICING	GATE APPROVAL:	GATE 3: BUILD	BUSINESS UNIT:	INSURANCE
PROJECT NUMBER:		FINANCE LEAD:	Simon Parr	BUSINESS SPONSOR:	Ryan Griffin
AUTHOR:	Nick McCowan	BENEFIT OWNER:	Nick McCowan	DATE:	17/10/2018

Executive Summary

1. Context

- This business case represents a request to draw down on **IRRELEVANT** budgeted Capex **IRRELEVANT** to support the development of an in house data analytics and retail pricing capability for utilisation across the insurance business
- The total costs of the project are **IRRELEVANT**
- This programme supports the wider strategic objective to optimise the performance of core products through using sophisticated real time pricing and data analytical capabilities across our volume products (Home and Travel).
- The capability builds a greater understanding of customer behaviour and buying habits
- Having agile and sophisticated pricing and data capabilities is crucial to becoming profitable in the general insurance markets particularly in respect of aggregator business. It provides us with the opportunity to deliver incremental value in travel and is an enabler for potential future product and model developments across the insurance business

2. Questions addressed in this business case

- a. What do we propose to do and why; is this a regulatory or mandatory requirement; will this mitigate any enterprise level risks?
 - Following a competitive procurement process, validated by an independent firm, we are recommending that we partnering with Accenture (subject to Board approval) to build an enterprise data warehouse solution and analytics layer and to licence Earnix software for the provision of price optimisation capability
 - This system will include tools to assess buying behaviour, predict future value and identify variables that enable pricing optimisation and acquisition targeting
 - Sophisticated pricing engines are a hygiene factor in the GI market and would be seen as critical to enable the delivery of a number of strategic benefits assumed in our 5 year plan. Further incremental benefits will be released as we apply this capability to the Travel Insurance business and any new product launches not yet considered in our plan
 - A specialist pricing and data function will be a project deliverable to continue to fully leverage benefits once the project concludes. This will be delivered by our



specialist consultants who will finalise the organisational structure, recruit the relevant resource and support the onboarding and training of this team .

- Financial Summary

£k	Sunk Cost	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	TOTAL
Net Income														
Staff Costs														
Non Staff Costs														
Opex - One off costs														
Group EBITDA	0													
POL Commissions														
POI EBITDA	0													
Capex														
Exceptional	0													
POI Cashflow	0													

IRRELEVANT

The above table highlights the incremental cashflows (income and costs) across 2018/19 - 2029/30 between the current model and our revised forecast for value over the period

The table below highlights the movement in benefits and costs between the business case and the POI 5 year plan.

EBITDA (Business case vs 5 year plan)

£m	18/19	19/20	20/21	21/22	22/23	Total
EBITDA - 5 yr plan						
Pricing-Benefits						
CVM-Benefits						
CVM-Marketing costs						
Staff costs						
IT costs						
EBITDA - Business case						

IRRELEVANT

Latest view of potential income improvements based on current performance
 Latest view of CVM value
 Lower Marketing costs driven by lower CVM benefits
 Lower staff costs based on estimate provided by Pearson Ham
 Yr 1 costs are lower as the license fees are capitalised as part of implementation, however license/support costs are higher in future years

	18/19	19/20	Total
Capex - 5 yr plan			
Capex-Business case			
(Over)/Under spend			

IRRELEVANT

Data & Analytics investment costs have increased by driven by increased implementation costs.

IRRELEVANT

Business case Hurdle rates



	Hurdle Rates	Output		
		3 yrs	5 yrs	10 yrs
Discount Rate [%]	12.0%	IRRELEVANT		
NPV / Net Present Value £m	+ve			
IRR / Internal Rate of Return [%]	15%			
PBP / Payback Period [years]	Yr 3			

The economics have been measured across a 10 year period reflecting the strategic nature of the investment. The business case delivers a positive NPV and IRR of 21%. The benefits presented are linked specifically to the development of and EDW, analytics layer and the integration with a pricing toolset. In the case of CVM for example the benefits in the 5 year plan were based on broader customer comms capability in addition to data and analytics – we are actively exploring how best to deliver these additional capabilities and aligning with POLs CVM programme to deliver the remaining benefits.

- b. What do we need to do next to progress and what are the key deliverable and milestones?
- Data and analytics are a key enabler required to optimise performance of our reengineered Home and Travel solutions.
 - Vendor selection was completed internally and has been verified by external specialist consultants. Subject to approval we will commence contract and integration planning in November 2018

Input Sought

To approve access to the full funding of **IRRELEVANT** to deliver the programme

Input Received

Reviewed by POI Managing Director, CFO and Product Director



The Report

1. What is the problem we are trying to solve?
 - Building and hosting an enterprise data warehouse to store POI customer data assets integrated in to an analytics layer where we can deploy analytical toolsets to support retail pricing and customer/behavioural analytics
 - Integrating a best in market price optimisation tool to support Home and Travel Insurance
2. How does it link to and deliver our strategic goals (and the North Star)?
 - It delivers an in-house pricing and data capability aligned to POIs strategic objective to take more ownership of the value chain and is a key dependency of the home insurance re-engineering programme which requires retail pricing
 - Deploying the same capability on Travel Insurance will deliver top quartile capability versus the market

3. What are the financial and non-financial benefits and who are their owners?

The financial benefits include:

- Access to CVM benefits worth **IRRELEVANT** and incremental pricing benefits of **IRRELEVANT** over the next 10 years
- In addition the capability secures the incremental revenue achieved by re-engineering the home insurance business and in-sourcing the product

Non-financial benefits include the following:

- Greater control over customer pricing for home and travel customers at a time when pricing practices are under scrutiny from the regulator

4. What are the key success criteria for this change

- Managing the programme to a total cost of **IRRELEVANT**
- Having a fully performant product and technology solution allowing us to consume data and build models by for home go live
- Have travel pricing in place for summer 2019

5. Details of the key Risks that may have an adverse impact on benefits realisation (taken from programme/project Risk Log)
See appendix 3

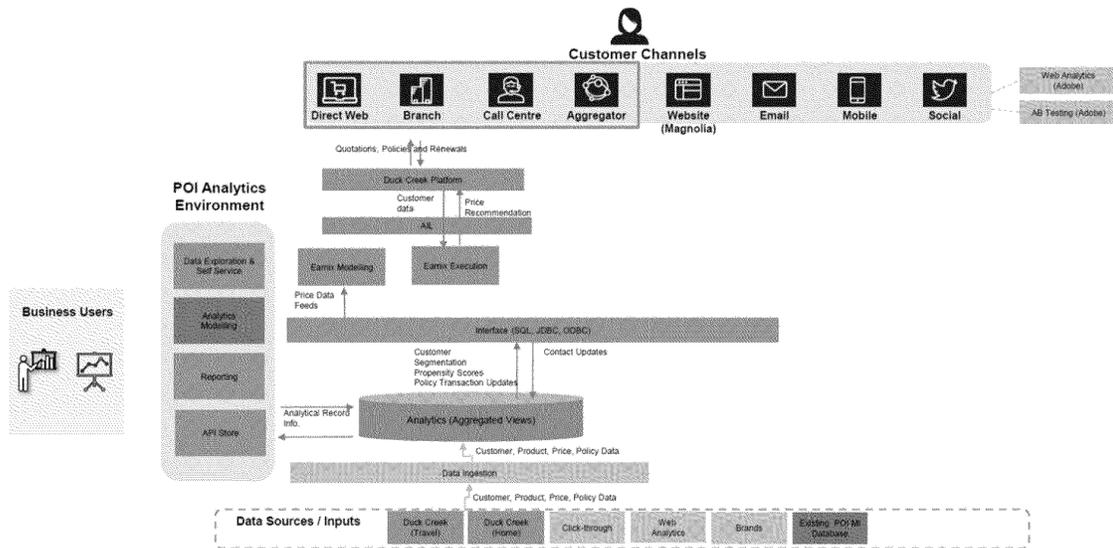
6. What are the Key Dates and Milestones?

- In order to support data collection and model building for home insurance we are targeting a live date of May 2019



BUSINESS CASE

- Travel pricing would be live to customers Home pricing would be live to customers in September for renewals and October for new business
7. What would the impact be of delaying or rejecting the decision to progress?
- Given the dependency for this programme to a number of income generative initiatives (CVM, Travel Pricing etc.) delaying this decision would have an impact on the financial performance of POI in 19/20 and future years
 - In addition retail pricing control is a key deliverable to support the home insurance re-reengineering and without this capability we would not be able to deliver that programme on time or with the benefits identified
8. Scope – What is in scope and out of scope?
- - The scope of this business case includes
 - Creation of a pricing function within POI
 - Integration with Earnix for real time price optimisation
 - Extraction of data from Duck Creek, Earnix and data enrichment sites
 - Transformation and mapping of data extracts
 - Creation of a data repository to run analytics and modelling on
 - Creation of pricing models



Out of Scope

- CVM scope being delivered by central marketing Group single customer view
- In journey next best action execution



9. What are the key dependencies (external to this project)?

Key dependencies are within POI planning the execution of these changes within three change programmes (Data and Analytics, Home Transformation and Travel Continuous

Improvement) **Appendix 1: POI Concurrences**

Business Sponsor

Approved by	Commentary	Date
Ryan Griffin		October 18

Chief Financial Officer

Approved by	Commentary	Date
Simon Parr		October 18

Head of Change Management

Approved by	Commentary	Date
Michelle Downs		October 18

Benefit Owner

Approved by	Commentary	Date
Nick McCowan		October 18

POL Concurrences

It is a requirement for project to obtain approval from all approvers prior to CAG.

Approved By	Commentary	Date
CFO Simon Parr	Approved	October 18
Design Authority <u>Lodge your BC paperwork on the DA SharePoint site</u> <small>Add in any comments from the approver and indicate that the project has accepted the comment or explain why not</small>	Endorsed	31/10/18
IT Portfolio Office David Gemmell <small>Add in any comments from the approver and indicate that the project has accepted the comment or explain why not</small>	Michelle, Thanks for your time. This now has IT concurrence. David Gemmell Programme Director/Portfolio Lead LRG & HR Change Portfolio	31 st October 2018



	(& Temp IT Portfolio Lead) Ground Floor	
--	--	--

Once ALL approvals have been obtained send completed file to change.approvals: **GRO** mailbox

Appendix 2 - Financial Summary

A detailed view of Income and costs is shown below:

Ek		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total
Benefits														
Pricing	Travel													
Pricing	Travel - Stretch													
Pricing	Travel - AMT Retention													
Pricing	Home - New Business (Conv)													
Pricing	Home - New Business (IPP)													
Pricing	Home - Retention (RR)													
Pricing	Home - Retention (IPP)													
CVM Campaign Analytics	TI Call Centre to web intervention													
CVM Campaign Analytics	TI Renewal process improvement													
CVM Campaign Analytics	Term - 121 comms													
CVM Campaign Analytics	Over 50s - 121 comms													
	Total													
BAU operating costs														
Earnix	Earnix licences													
Earnix	Platinum Support Maintenance & support													
Earnix	Cloud Hosting													
Accenture	ETL support -Infra support ,Azur platform and tech													
CVM Campaign Analytics	TI Renewal costs													
CVM Campaign Analytics	Other CVM Costs													
Pricing	Staff													
	Overall BAU Costs													
One-off costs														
Capex	Implementation													
Capex	Earnix license, support, hosting													
Capex	Resource													
Capex	Consultancy													
Capex	Data extract													
Capex	Legal													
	Total One-off costs													
POI Cashflow														

IRRELEVANT

BUSINESS CASE

Appendix 3 Programme Risks

Risk	Impact	Mitigation
<p>Performance: There are a number of new data elements and integrations that create the quote string needed to enable In Transaction price optimisation, <i>there is a risk that if these are not designed and implemented as effectively and efficiently as possible</i> then the customer experience will be implemented and the conversation will not be as expected</p>		<ul style="list-style-type: none"> a) Articulate the NFR's clearly and ensure that these are fully tested and proven ahead of go live b) Use previously proven and tested integrations c) Deliver the integrations as early as possible to allow sufficient performance testing
<p>Pricing Models: As a new function with limited access to historical data <i>the initial models delivered and deployed may not be as effective or deliver the level of sophistication to equal what is currently in place with BGL for home.</i> Which could result in less competitively priced product and lower conversion</p>		<ul style="list-style-type: none"> a) Prioritise the harvesting and storage of data in the project plan b) On Board experienced pricing resources
<p>Decision Making: Changes in the governance approach have delayed the creation and approval of the business case <i>this reduces the overall time frame to on board partners, complete detailed design and deliver a working system within the required timeframes</i> which may increase costs and reduce expected benefit return.</p>		<ul style="list-style-type: none"> a) Commence detailed design as soon as approval is received b) Break the plan into phases to prioritise the priority deliverables first.



BUSINESS CASE

PCI Point To Point Encryption

The name should be consistent with the name stated on the approved 'projects list' maintained by SPO

Author:	Ian Robertson
Executive Sponsor:	Debbie Smith / Rob Houghton
Finance Partner:	Max Jacobi
Benefits Owner:	Rob Houghton

OBW Gate:	<input checked="" type="checkbox"/> Gate 1 (Outline BC) <input type="checkbox"/> Gate 2 (Baseline BC)
-----------	---

1 Executive Summary

1.1 Context

- Compliance with the Payment Card Industry – Data Security Standard (PCI-DSS) is essential for Post Office to continue accepting payment card transactions.
- Audits undertaken in December 2017 show Post Office to be non-compliant and therefore unable to secure a Record of Compliance (RoC)
- Without a Record of Compliance (RoC), Post Office is **IRRELEVANT**
- **IRRELEVANT**
- In the event of a data breach, Post Office would be subject to regulatory investigation and significant financial penalties.
- There is a risk of severe reputational damage to our brand if a breach occurred.
- There is therefore a clear imperative for Post Office to be PCI compliant as the ability to process card payment is at the core of our retail business.

1.2 Questions addressed in this business case

1. What is the need or opportunity and why now?
2. What do we propose to do and why?
3. What do we need to do next to progress?

1.3 Answers

What is the need or opportunity and why now?

4. The payment card industry data security standard ("PCI-DSS") is a set of technical and operational requirements designed to protect payment card account data (referred to as cardholder data) during the processing of transactions where



BUSINESS CASE

- a payment card or cardholder data are involved. PCI-DSS compliance covers any IT systems, physical locations, people and processes involved in processing, transmission or storage of cardholder data.
5. PCI-DSS is owned by the PCI Security Standards Council and endorsed by AMEX, Mastercard, Visa, JCB, and Discover Financial Services. Consequently, all organisations transacting using payment cards on their behalf must be PCI compliant. To not be compliant exposes Post Office to potentially unlimited liability through **IRRELEVANT**, regulatory fines, increased transactional charges, and reputational damage to Post Office brand.
 6. Organisations' compliance to PCI standards is assessed by an external Qualified Security Assessor (QSA) who will then issue a Record of Compliance (RoC)
 7. The QSA audit undertaken in 2017 identified that there was a significant increase in the extent of Post Office's infrastructure that fell into the scope of PCI than had previously been declared.
 8. The QSA identified that: -
 - 8.1. CC's Data centres were now in scope as HNGA has been supplied and managed by CC since May 2017. While there is a **IRRELEVANT** for CC to be PCI compliant on our behalf, the requirement has not been met and Post Office Legal advice has given advice not to pursue this.
 - 8.2. Closer scrutiny of Fujitsu's estate identified multiple systems that are in-scope which had not previously been audited.
 9. The most effective way to obtain a RoC is to move as much of the estate out of Scope of PCI. This can be achieved by having Point to Point Encryption and Network Segmentation as this removes all of CC's data Centres and much of the Horizon Network from the scope allowing us to securely manage a smaller estate with very robust controls.
 10. As well as the Acquiring Bank being directly informed of our current status we are now receiving enquiries from other payment services customers and banks about the current status of Post Office's RoC. We are currently informing those concerned that we have a secure private network but are not currently compliant.
 11. Post Office must progress obtaining a RoC in as short a time as is reasonably possible in order to **IRRELEVANT** and protect our business.

What do we propose to do and why?

The proposal

12. The proposal is to update the existing PIN Pads to a version which supports P2PE and roll these out to the branch estate. The existing Branch Deployment Centre will be retained although as a smaller unit, to manage the appointments and ByBox will be engaged through CC to deliver the refreshed PIN Pads under Chain of Custody to the estate.
13. Fujitsu will update the Horizon infrastructure so that the P2PE tunnel terminates with Ingenico and they will forward all requests for payments to Global Pay



BUSINESS CASE

returning a token and authorisation to the branch terminal allowing us to track the payments.

14. Ingenico will pass Banking Framework Services, POCA transactions, and third party payment services transactions back to Fujitsu through a secure tunnel. FJ will segment the Horizon network and contain the servers that remain in scope for PCI in a secure hosting environment.

15. Client Contract Review:

- a. Our external counsel, CMS, has completed a legal review of **IRRELEVANT**

IRRELEVANT

- b. A cross-functional Working Group, which includes CMS, has been formed. The remit of the Working Group is to liaise with our internal client relationship owners and to manage the communications with our clients - ensuring that all communications regarding our PCI compliance status are handled in a consistent, appropriate and timely manner.

16. Whilst Point-to-Point encryption is delivered, we will continue to discuss the future strategic options with our vendors, including Ingenico. With Ingenico, the aim will be to explore if they would be willing to offset the cost of the Point-to-Point rollout against a future strategic device purchase.

What do we need to do next to progress?

What is required to progress the preferred option?

17. The following steps are required: -

- 17.1. Approve the funding request of **IRRELEVANT** over three years as set out in the business case for onward submission to the Board.
- 17.2. Request the Board to delegate authority to the CE, Retail, to oversee operational deployment and approve drawdowns.
 - c. Engage with FJ to review detailed plan and approach and re-validate proposals.
 - d. Establish Ingenico's capacity to refurbish PIN Pads and engage ByBox to prepare a distribution plan
 - e. Raise a change request to CC to deploy the PIN Pads (via ByBox at cost plus agreed margin)
 - f. Engage with FJ to start segmentation of the network and updating the systems to provide tokenised transaction data.



BUSINESS CASE

1.4 Financial Summary

NB. Delegated authority for approving funding for change activity is via governance meetings, these are the Change Approvals Group and Investment Committee – BAU expenditure delegated authorities do not apply to change activity.

Provide details of funding requirements and benefits – example figures shown below

Insert the completed sections in the tab 'Copy into Business Case' from the Business Case Model.

FUNDING OVERVIEW

£m	Existing Approval		New Request			Total New Request	Total Project
	Prior Years	FY18/19	Total Approved	FY18/19	FY19/20		
Opex	IRRELEVANT						
Exceptional							
Capex							
Total Funding							

BUSINESS CASE FINANCIALS

£m	Sunk Cost	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	TOTAL
Gross Income	IRRELEVANT							
Total Direct Contribution								
Operating Expenses (OpEx)								
Trading Profit								
<i>Trading Profit [%]</i>								
Capital Expenditure (CapEx)								
Exceptional								
Net Cash Flow								

All Business case submissions must be accompanied by the Business case model



BUSINESS CASE

1.5 Input

Input Sought

18. The decision(s) and/or advice we would like from the IC is asked to: -

- (i) Approve the approach to compliance with PCI-DSS and the business case pertaining to Option 4: move to an encrypted design and update the existing pin pad estate;
- (ii) Recommend the funding request of IRRELEVANT over three years as set out in the business case for onward submission to the Board; and
- (iii) Request the Board to delegate authority to the CE, Retail to oversee operational deployment and approve drawdowns.

Input Received

19. The options have been reviewed by:-

- (i) The IT Leadership Team
- (ii) Post Office's in-house legal team endorsed by our external legal team.
- (iii) The third party compliance resource
- (iv) Our external Qualified Security Assessor (QSA)
- (v) Options were reviewed at ARC and proposed recommended option endorsed.
- (vi) CAG review was on the 6th of November and conditional approval given.
- (vii) This business case is being circulated for formal approval prior to GE on the 12th.
- (viii) GE submission will be for 12th November.
- (ix) IC submission is scheduled for 15th November



BUSINESS CASE

2 The Detail

2.1 The need or opportunity and why now?

20. The latest version of the PCI Standard includes updated and much more detailed guidance that mandates how an audit is carried out. As a result, the QSAs that audit businesses are becoming more forensic in their approach. The company that carried out the audit in 2017 discovered that the Post Office PCI scope was significantly larger than had been declared.
21. Our QSA identified that CC's Data centres were now in scope as HNGA is supplied and managed by CC. Although there is IRRELEVANT for CC to be PCI compliant on our behalf, the requirement has not been met.
22. Closer scrutiny of FJ's estate identified multiple systems that are in-scope which had not previously been audited.
23. The most effective way to obtain a RoC is to move as much of the estate out of Scope of PCI and this can be achieved by having Point to Point Encryption and Network Segmentation as this removes all of CC's data Centres and much of the Horizon Network from the scope allowing us to securely manage a smaller estate with very robust controls.
24. As well as the Acquiring Bank being directly informed of our current status, we are now receiving enquiries from other payment services customers and banks about the current status of Post Office's RoC. We are currently informing those concerned that we have a secure private network but are not currently compliant.
25. Post Office must progress obtaining a RoC in as short a time as is reasonably possible in order to IRRELEVANT and protect our business.

2.2 What we propose to do and why

Set out the business case, including, where relevant:

26. The proposal is to update the existing PIN Pads to a version which supports P2PE and roll these out to the branch estate. The existing Branch Deployment Centre will be retained although as a smaller unit, to manage the appointments and ByBox will be engaged through CC to deliver the refreshed PIN Pads under Chain of Custody to the estate.
27. Fujitsu will update the Horizon infrastructure so that the P2PE tunnel terminates with Ingenico and they will forward all requests for payments to Global Pay returning a token and authorisation to the branch terminal allowing us to track the payments.
28. Ingenico will pass Banking Framework Services, POCA transactions, and third party payment services transactions back to Fujitsu through a secure tunnel. FJ will segment the Horizon network and contain the servers that remain in scope for PCI in a secure hosting environment.



BUSINESS CASE

29. Client Contract Review

g. Our external counsel, CMS, has completed a legal review of all the IRRELEVANT

IRRELEVANT

h. A cross-functional Working Group, which includes CMS, has been formed. The remit of the Working Group is to liaise with our internal client relationship owners and to manage the communications with our clients - ensuring that all communications regarding our PCI compliance status are handled in a consistent, appropriate and timely manner.

30. Whilst Point-to-Point encryption is delivered, we will continue to discuss the future, strategic options with our vendors, including Ingenico. With Ingenico, the aim will be to explore if they would be willing to offset the cost of the Point-to-Point rollout against a future strategic device purchase.

Benefits Classification

Benefits Classification (Delete as appropriate)			
Income Growth / Decline	Revenue Protection	Cost Savings / Increase	Cost Avoidance

Benefits Map

A table that shows the cause and effect between the project/programme solution and the benefits triggered by its implementation.

Solution	Impact	Benefit (financial and non-financial)	Benefit Owner
Refurbish existing PEDs	Introduces the capability to have P2PE	Cost Avoidance	R Houghton
Enable P2PE using refurbished PEDs	Allows us to take CC out of scope of PCI.	Cost Avoidance	B Jones
Segment Horizon Infrastructure	Reduces the complexity of the Fujitsu PCI Scope	Cost Avoidance	R Houghton
Enable tokenisation	Reduces the complexity of the Fujitsu PCI Scope	Cost Avoidance	R Houghton
Enable tokenisation	Enables HNG-T deployment	Cost Avoidance	Debbie Smith



BUSINESS CASE

2.3 Risks & mitigations

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

Risk ID	Risk Title / Description	Current I (Impact) L (Likelihood)			Target I (Impact) L (Likelihood)			Mitigation Action	Due Date
		I	L	Current Score (I x L)	I	L	Target Score (I x L)		
		1 - 5	1 - 5		1 - 5	1 - 5			
PCI-R-001	There is a risk that due to our lack of a RoC our clients reject our mitigation plan, seek greater indemnity protection..or worse case... IRRELEVANT	5	1	5	1	1	1	1. There is an extensive Comms program in place to keep clients informed of our progress 2. There is an active schedule of activities to ensure that the environment is secure against external attack so that the issue is compliance and not poor security	
PCI-R-002	There is a risk that Post Office is subject to a data breach leading to regulatory investigation and fines and reputational damage	5	1	5	1	1	1	1. We are carrying out extensive penetration testing across the entire network to identify where we may be at risk and addressing any vulnerabilities. 2. Active steps are being undertaken to reduce our exposure (e.g. removing older insecure processes from our systems.	

2.4 The analytical process

31.PO has been working through a methodical approach led by Rob Houghton of considering a number of tactical and strategic options to understand how best to achieve RoC status in the most expedient manner (See Appendix B)

32.The following were involved in the decision process:

- a. The IT Leadership Team
- b. Post Office Retail Leadership Team
- c. Post Office's in-house legal team
- d. CMS, our external Legal Counsel.
- e. The third party compliance resource
- f. Our external Qualified Security Assessor (QSA)



BUSINESS CASE

2.5 Alternative options

33. The current status of working through the options in Appendix B indicate:
- a. Option 1 (pursue gaining compliance via legal/commercial mechanisms swiftly) is highly unlikely to succeed.
 - b. Option 2 (look to gain a moderated RoC by asking FJ and CC to confirm Attestation of Compliance statements) would cost in the region of **IRRELEVANT** and take between 12-18 months to achieve. This is unlikely to succeed in gaining in a swift resolution.
 - c. Option 3 (go to a more strategic encrypted message state either aligned to new devices or using payzone devices) is unlikely to succeed as no new device solutions have entered the market yet and the payzone solution is unproven.
 - d. Option 4 (move to an encrypted design and updating the existing pinpad estate) would cost in the region of **IRRELEVANT** and could be completed in 9-15 months. This currently looks the most likely option to guarantee achieving RoC status in the medium term but has the disadvantage of having to replace the pinpad estate within 4 years due to obsolescence.
34. Based on current analysis, it is recommended that Option 4 is progressed starting with the smaller counters. We will continue to monitor the progress made on the strategic approach and regularly review the possibility of moving to the new solution. The advantage with options 3 and 4 is that they reduce our exposure on relying on our suppliers to maintain our PCI-DSS certification.
35. We will continue to ensure all new solutions are RoC compliant and aligned with the strategic direction of not holding card data on devices (e.g. Customer Hub has achieved RoC status).

2.6 What do we need to do next to progress and deliver the preferred option

36. The following steps are required: -
- i. Engage with FJ to review detailed plan and approach and re-validate proposals.
 - j. Establish Ingenico's capacity to refurbish PIN Pads and engage ByBox to prepare a distribution plan
 - k. Raise a change request to CC to deploy the PIN Pads (via ByBox at cost plus agreed margin)
 - l. Engage with FJ to start segmentation of the network and updating the systems to provide tokenised transaction data.

1. Please see milestones outlined below

Milestone Level	Name/Title	Completion Date
1	Gate 0 (Initiate to Assess) Approved	Aug 2018
1	Gate 1 (Assess to Design) Approved (inc Business Case)	Nov 2018



BUSINESS CASE

1	Tactical remediation activity complete	Jan 2019
1	POC & Build of Pin Pad refresh solution complete	Jan 2019
1	Start Pin Pad refresh rollout	Jan 2019
1	Decision to move to Transaction Services Framework Solution	Jan 2019
0	Segmentation of Fujitsu network complete	May 2019
0	PAN removal (in Clear) complete	May 2019
0	Customer / Partner interface optimisation complete	May 2019
1	Start Audit for RoC	Oct 2019
0	PinPad refresh complete	Nov 2019
0	Audit for RoC complete / RoC achieved	Dec 2019
1	Gate 5 (Operate to BAU) Approved	Jan 2020
0	Project Closed	Jan 2020

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

Post Office would be at risk of increased transaction charges or lose the ability to transact card payments to the detriment of our business

2.8 Scope

In Scope

- Refurbish all of Post Office's Ingenico IPP350 PIN Pads and upgrade to support P2PE
- Establish a chain of custody to deliver PIN Pads to the Branch Estate
- Engage ByBox through CC to deliver refurbished PEDs and return old devices to Ingenico for refurbishment
- Engage CC to manage ByBox
- Engage Ingenico, through FJ, to terminate the P2PE tunnel securely and forward the request to Global Pay for our merchant transactions
- Engage Ingenico, through FJ, to pass Payment Service, POCA, Banking Framework, and other third party transactions securely to FJ for processing.
- Engage FJ to process tokenised requests and reconcile with merchant transactions
- Engage FJ to process third party transactions securely
- Engage Atos to manage testing.

Out of Scope

- Segmentation of the Network



BUSINESS CASE

2.9 What are the key (external) dependencies?

N/A

2.10 Human Resourcing requirements

Detail the resourcing profile required by this project.

Title	FTE
PM	1.0
Junior PM	1.0
PMO	1.0
BDC	1.0
NBSC Call Centre Resources	3.0
Project Architect	0.4
Project Accountant	0.1
Contracts Manager (2)	0.2
ATOS Resource	0.1
Planner	0.2
Total	8.0

2.11 Intended delivery approach

Delivery Approach

PIN Pad refresh will be a waterfall delivery based on recycling PIN Pads through the Ingenico refurbishment process seeded by 2,000 PIN Pads from the spares pool managed by the existing Branch Deployment Process

Development of the Horizon software will be an Agile approach managed by FJ

Refurbish all of Post Office's Ingenico IPP350 PIN Pads and upgrade to support P2PE
 Establish a chain of custody to deliver PIN Pads to the Branch Estate
 Engage ByBox through CC to deliver refurbished PEDs and return old devices to Ingenico



BUSINESS CASE

3 Approvals

3.1 Governance

It is a requirement for project to obtain approval from all approvers prior to CAG.

Approved By	Commentary	Date
Finance Director Alistair Roman <small>Add in any comments from the approver and indicate that the project has accepted the comment or explain why not</small>	Approval given to move to IC, with the request that particular scrutiny is given over the contracting of works to make sure delivery and IRRELEVANT is minimised.	12 th November 2018
Design Authority <u>Lodge your BC paperwork on the DA SharePoint site</u> <small>Add in any comments from the approver and indicate that the project has accepted the comment or explain why not</small>	DA approval given for submission to IC, however, they would like to clarify some design points in meeting on Wednesday 14 th November (scheduled), in advance of IC review.	12 th November 2018
IT Portfolio Office Maria Opaniran <small>Add in any comments from the approver and indicate that the project has accepted the comment or explain why not</small>	Document has been reviewed with Ian Robertson and all necessary amendments made.	9 th November 2018

3.2 Business Readiness Assurance

Confirmation that the business readiness assurance process has been completed. This is mandatory for End of Design Gate 2 approval. Outstanding business issues/concerns should be explained in the table below with details of the actions and target dates in place to resolve them.

Approved by	Commentary	Date
Go-Live Forum Mark Baldock <small>The project manager must follow the Business Readiness Approval process as detailed in the OBW SharePoint site to demonstrate that all areas of the business have been contacted. The responses from area that are not content should be detailed in the commentary.</small>	<i>Business Readiness has to be undertaken and completed for Gate 2.</i> <i>All concerns or issues raised by impacted business areas should be resolved.</i> <i>Or</i> <i>The following issues / concerns have been raised by impacted business areas and are being addressed by the project (details outlined below).</i>	Insert date

Once ALL approvals have been obtained send completed file to change.approvals@GRO mailbox



BUSINESS CASE

Appendices

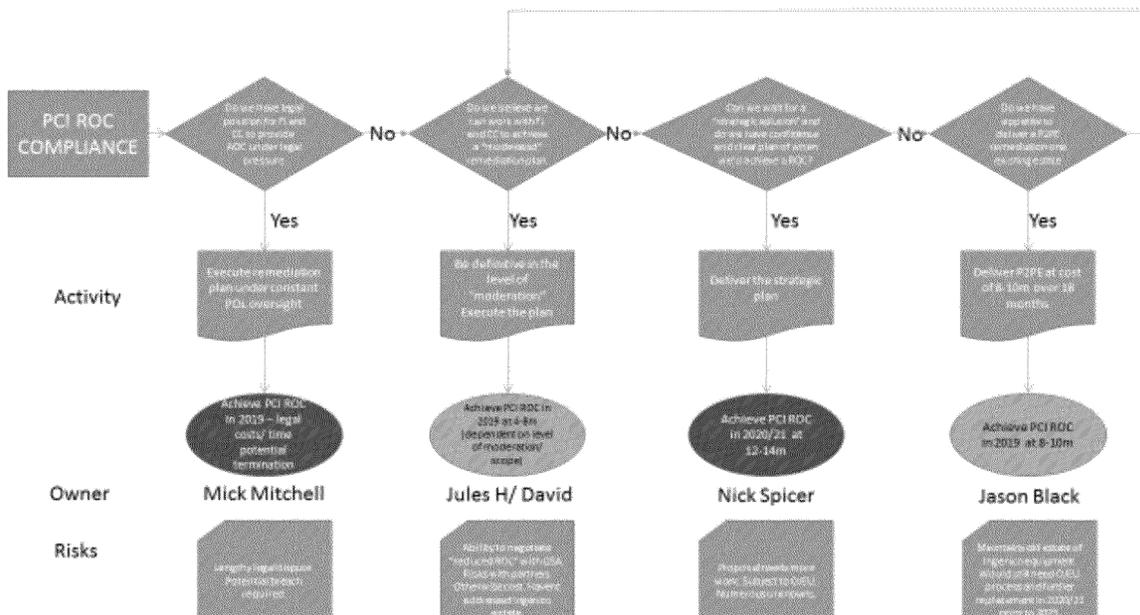
Appendix A- Financial Summary

Insert the completed sections in the tab 'Copy into Business case annex' from the Business Case Model.

GBP (m)	Sunk Cost	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	TOTAL
Gross Income	0.000							
Income Growth								
Revenue Protection								
DIRECT COSTS								
Total Direct Contribution	0.000							
OPEX	0.000							
Project Related	0.000							
Recurring								
Reduction								
Avoidance								
EBITDAS	0.000							
EBITDAS [%]	0.000							
CAPEX	0.000							
Project Related	0.000							
Avoidance								
EXCEPTIONAL	0.000							
Project Related	0.000							
NET CASH FLOWS	0.000							

IRRELEVANT

Appendix B- Decision Process

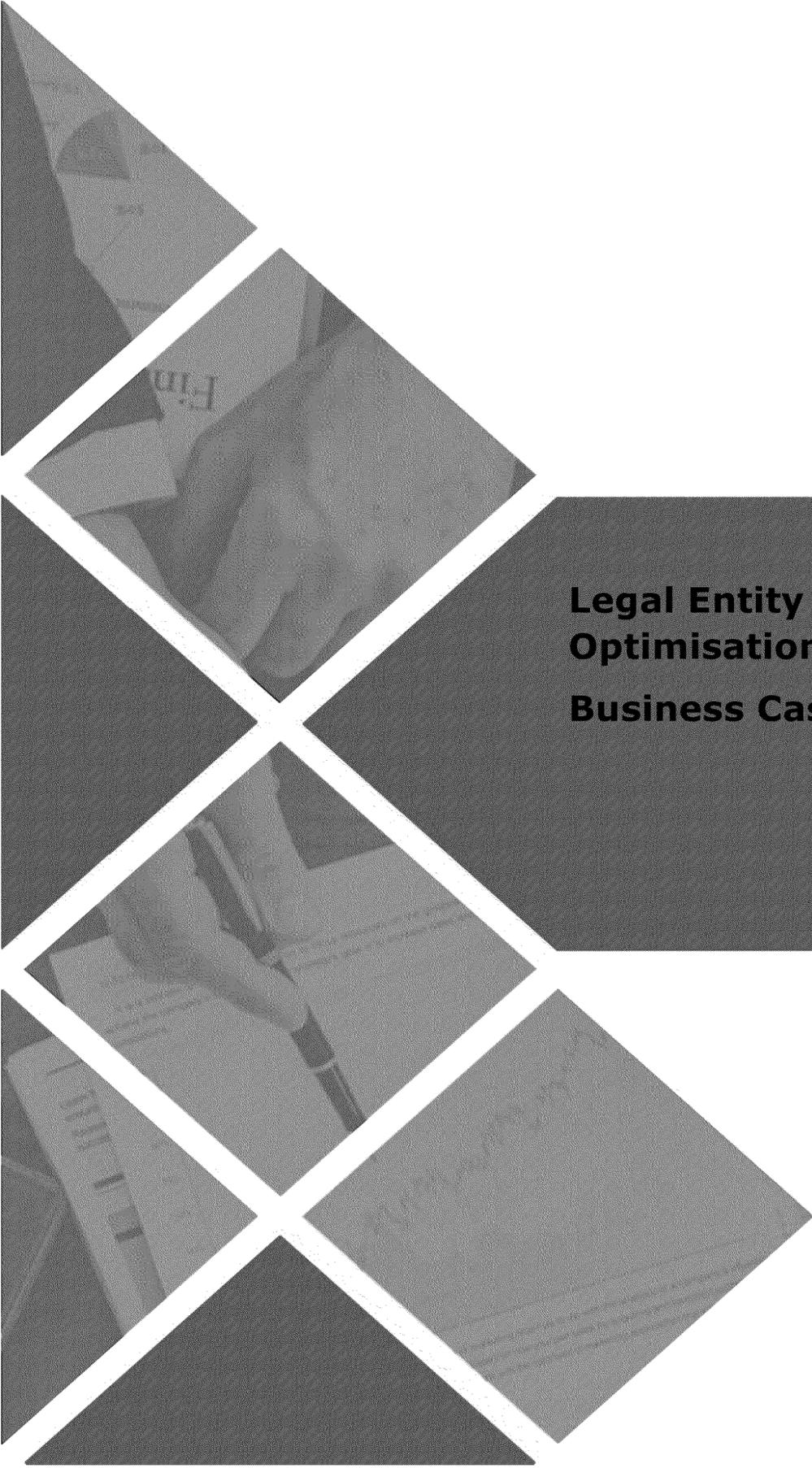




BUSINESS CASE

Appendix C- Plan on a Page



A decorative graphic on the left side of the page, composed of several overlapping diamond shapes. Each diamond contains a different grayscale image related to business and law: a person in a hard hat, a hand holding a document with "Fin" visible, a hand holding a pen over a document, and a stack of books. The diamonds are separated by white borders.

**Legal Entity
Optimisation
Business Case V1.6**



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1. OVERVIEW

Author	
David Gemmell	
Benefits Owner	
Jane McLeod	
Business Sponsorship	
<i>Select ONE</i>	
<input type="checkbox"/> Retail <input type="checkbox"/> FS&T <input type="checkbox"/> IdServ <input type="checkbox"/> F&O <input checked="" type="checkbox"/> LR&G <input type="checkbox"/> Comms&CA <input type="checkbox"/> IT <input type="checkbox"/> HR <input type="checkbox"/> Strategy	
Epic Owner/Executive Sponsor	
Jane McLeod	
Epic/Project Ref	Overall Epic/Project Name
(XX-XXX-XX) S5-028-00	Legal Entity Optimisation

Investment request			
<i>Detail what funding you are requesting now and how much in the future with target return and NPV</i>			
Phase	Activity	Est Cost (£K)	Timeline
Phase 1	Initial Analysis (Complete)	IRRELEVANT	10 wks
Phase 2	Creation of HoldCo above Post Office Ltd		3-6 mths
Phase 3	Movement of POI & Payzone under HoldCo		3-6 mths
Phase 4 & 5	Detailed analysis, TOM & Imp Plan for ServCo and PO Financial Services		3-6 mths
Phase 4	Implementation of ServCo		6-9 mths
Phase 5	Implementation of new Financial Services entity		9-12 mths
	TOTAL		15-18 mths

Executive summary
<i>Summarise the proposal</i>
<p>We are intending to optimise the legal entity structure by</p> <ol style="list-style-type: none"> 1) Executing the creation of a HoldCo. 2) The movement of Post Office Limited, POI (trading as POMS) & Payzone Bill Payments Limited to be subsidiaries of the HoldCo. 3) Detailed production of a Target Operating Model & Execution plan to implement the proposed new entities, a Post Office Financial Services entity and a Post Office Service Company. <p>Overall investment for the programme is IRRELEVANT as stated above. CAG has already approved IRRELEVANT. The current request is for draw down</p>



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of incremental IRRELEVANT until end of December to mobilise Phase 2 & 3 including registration of companies and commencing approval process with UKGI, FCA. The Programme will return to CAG beginning of January 2019 for a further draw down based on GE decision.

Further breakdown of the investment request is available in [Section 4. Investment](#)

What we propose to do

Outline the project

Phase 1: COMPLETED

Phase 2: Create a new Holding Company which would sit over Post Office Limited and other entities with the existing Board & GE moving up to sit at HoldCo level.

Phase 3: Move Post Office Insurance to sit under the new HoldCo and not under Post Office Limited. The POI Board & Governance will be reviewed to ensure it is optimum and remains fit for purpose. The Group CEO would no longer be the Approved Person for the AR of POI, instead we would propose this to be the Chief Executive of Retail, who would need to become a Board member of Post Office Limited.

Move Payzone Bill Payments to be a subsidiary of the HoldCo and not Post Office Limited.

Phase 4: Set up a ServCo (Post Office Services): The new Group companies must continue to operate as one Group serving customers under one brand. To do this we will create ServCo for each company to consume Group services (HR, Finance, LRG, IT, Marketing, Brand & Communications etc). This new Service Company owns all of these functions and provides them as a service to each entity.

Phase 5: The proposed strategy for Financial Services as outlined under Peregrine would see Post Office Limited selling financial services products, manufactured on its behalf by multiple different firms as opposed to today where we exclusively sell BoI products. Our analysis, supported by external advice, concludes that this cannot be done under the existing structure without FCA seeking to regulate all of PO or rejecting our plans to operate with multiple principles. As such it is proposed to create a new



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Post Office Financial Services regulated intermediary entity which would be the enabler for expanding beyond non-BoI products. As it will take up to 18 months to get a new, fully FCA regulated entity in place, it is imperative that LEO and POFS entity setup commence now to allow Peregrine to be executed through 2019/20.

No.	Epic(s)	Type
1	Phase 1: Initial Analysis	Enabler
2	Phase 2: Create HoldCo	Delivery
3	Phase 3: Move POI & Payzone to HoldCo	Delivery
4	Phase 4 & 5: Detailed Design	Enabler
5	Phase 4: Create & Implement ServCo	Deliver
6	Phase 5: Create & Implement PO Financial Services	Deliver

2.STRATEGY AND VISION

Simplify The Retailer Proposition	Build Innovative And Flexible It	Modernise Products And Services	Digitise And Optimise The Business	Modernise Our Skills And Culture
None	None	High	Medium	Medium

How strongly does this Epic support our Corporate Strategy?

Strategic Rationale



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What problem are we solving for the customer?

Our assessment found that the existing legal entity structure could not support the strategy for Financial Services, as such the proposed structure is driven predominantly by the FS Strategy:

- The FS Strategy includes the growth of POI including through acquisition.
- BoIs IRRELEVANT IRRELEVANT or execute Peregrine. Peregrine anticipates Post Office being able to distribute FS products manufactured by other firms on its behalf in addition to/other than BoI.
- In each case, the current structure will not be viable to allow such developments. No change will result in some or all of:
 - (A) FCA regulating all of Post Office with significant incremental cost of oversight across all of PO including the Branch Network.
 - (B) FCA rejecting plans to execute Peregrine &/or POI growth/acquisition.
 - (C) Regulated 3rd parties refusing to enter in to contract with us while we have multiple principle relationships due to their inability to execute their regulatory oversight in such a structure.

What is the value proposition?

Without executing Legal Entity Optimisation we will be unable to execute Peregrine.

While executing LEO, we can explore opportunities to maximize the procurement operating model expanding the number of procurement exercises not subjected to PCR and potentially releasing committed change spend.

What is the size of the market/business opportunity?

Without executing Legal Entity Optimisation we will be unable to execute Peregrine.

What will we do to unlock this opportunity?

Creation of the HoldCo & fully FCA regulated Post Office FS entity.

3. BENEFITS & INDICATORS

Benefits



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	Quantifiable	Non-Quantifiable
Financial	<i>List quantified financial benefits</i> A. £0 B. £0	<i>List non-quantified financial benefits</i> A. B.
Non-Financial	<i>List quantified non-financial benefits</i> A. B.	<i>List non-quantified non-financial benefits</i> A. Enabler to execute Peregrine. B. Enabler to execute POI strategy

Leading Indicators	Business Outcomes
N/A	SoS & FCA approval to revised corporate structure, implemented to enable FCA approval to Peregrine.



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4. INVESTMENT

Discount Rate	NPV (5yrs)	IRR	Payback
12%	£x millions	X%	X Years

Justification for the amount requested now
Request for funding to execute Phase 2 & 3 and detailed TOM & Implementation plan for Phases 4 & 5.

Provide details of funding requirements and benefits – example figures shown below

Insert the completed sections in the tab 'Copy into Business Case' from the Business Case Model.

FUNDING OVERVIEW

£m	Existing Approval		New Request			Total New Request	Total Project
	Prior Years	FY18/19	Total Approved	FY18/19	FY19/20		
Opex	IRRELEVANT						
Exceptional							
Capex							
Total Funding							

BUSINESS CASE FINANCIALS

£m	Sunk Cost	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	TOTAL
Gross Income	IRRELEVANT							
Cost of Sales								
Total Direct Contribution								
Operating Expenses (OpEx)								
Trading Profit								
Trading Profit [%]								
Capital Expenditure (CapEx)								
Exceptional								
Net Cash Flow								
Cumulative FCF								
FCF without Avoidances								
Avoidance								

	With Intangible benefits	With tangible benefits
Discount Rate [%]	12.0%	12.0%
NPV / Net Present Value (5 years)	3.1	3.1
IRR / Internal Rate of Return [%]	N/A	N/A
PBP / Payback Period [years]	N/A	N/A

All Business case submissions must be accompanied by the Business case model

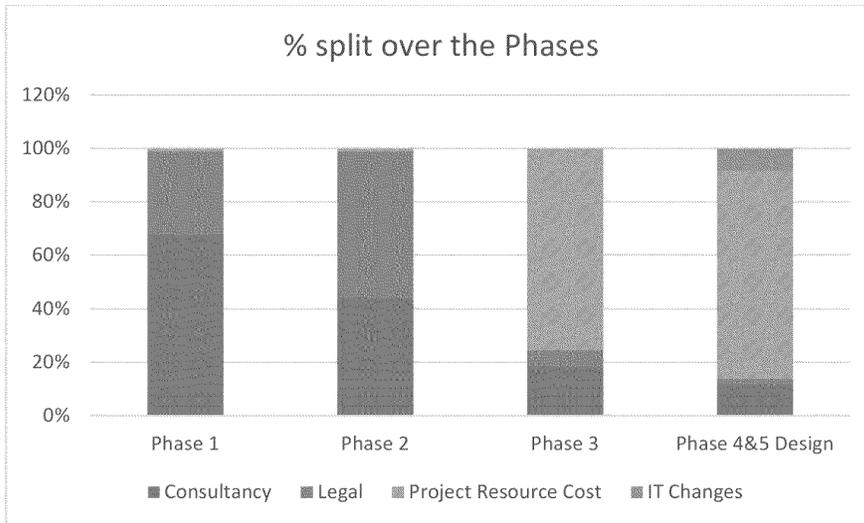
Key split over the Phases:

Percentage usage of key resources (includes consultancies and Legal, IT etc.)



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	Phase 1	Phase 2	Phase 3	Phase 4&5 Design
Consultancy	67%	44%	18%	12%
Legal	32%	55%	7%	2%
Project Resource Cost	1%	1%	75%	78%
IT Changes	0	0	0	8%



Composition of budget allocation by function:

Percentage usage of the budget allocated by functions that are impacted. Consultancies, Legal and System Changes are spread across the phases.

Function	Phase 1	Phase 2	Phase 3	Phase 4 & 5 Design	Phase 4 Implementation	Phase 5 Implementation	Grand Total
Consultancy	68.4%	43.6%	18.0%	11.5%	4.7%	0.0%	16.4%
Customer	0.0%	0.0%	0.0%	13.4%	10.5%	12.6%	9.0%
Data	0.0%	0.3%	25.1%	23.2%	20.9%	12.6%	16.6%
Finance	0.0%	0.3%	25.1%	23.2%	20.9%	25.3%	19.2%
Governance	0.0%	0.3%	25.1%	13.4%	10.5%	26.8%	14.3%
Legal	31.6%	55.4%	6.6%	2.3%	1.6%	7.3%	11.1%
People	0.0%	0.0%	0.0%	12.8%	10.5%	12.6%	8.8%
Regulatory	0.0%	0.0%	0.0%	0.0%	0.0%	2.8%	0.6%
Systems Changes	0.0%	0.0%	0.0%	0.0%	18.1%	0.0%	3.7%
Contingency	0.0%	0.0%	0.0%	0.0%	2.3%	0.0%	0.5%



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Investment Sensitivities:

Consultancy / Strategy Consumption:

In Phase 1 we used KPMG to help us build the overall impact analysis with inputs from every function across PO. Based on the outcome and learnings from this activity, we re-adjusted the budget with a better resource model to reduce the cost, using contractors & internal resources and only using consultants where we needed SME knowledge.

Support from BAU Teams:

There is a considerably complex design required in Phase 4 and 5 which will impact several areas like HR, Governance, FS&T, Legal, and Compliance, Marketing and IT all of which are implemented by LEO. Finance have already made it clear there was no capacity in BAU to support so the project had to fund incremental resources to support. Other areas could be having a similar constraint.

Systems Changes:

As we progress to Phases 4 and 5 i.e. Implementation of ServCo and a new financial services entity, the existing HR, Finance and related downstream and upstream systems will have an impact. From experience most of these changes can vary from £10k for small changes up to £200k for a release. Subjected to a detailed design for Phase 4 and 5, we expect the better model these estimates. The business case represents the best possible estimate available at this point of time derived from learnings from previous changes of similar magnitude.

BAU Ongoing Costs:

At the end of Phase 4 and 5 detailed design, the programme would have a view of the BAU Costs uplift that can be expected post completion of Phase 5 delivery. From our initial analysis, we expect some incremental costs in Co-Sec and Finance. However, the programme will come back to CAG to provide more details behind this.



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5. MAJOR RISKS

Risk	Impact	Mitigation	Owner	Severity	Likelihood
Describe the unwanted event or outcome that might occur	Describe the impact it will have	What can you do to avoid the risk or lessen the impact	Who owns the mitigation	H/M/L	H/M/L
There may be a delay to the implementation of Peregrine if LEO is delayed.	We may be unable to execute Peregrine or delayed impacting the Revenue from the FS business	Gain approval and execute LEO as rapidly as possible to reduce the risk of effecting Peregrine timelines	David Gemmell	M	M
There is a risk of extensive delays due to lack of understanding of requirements or exhaustive requirements of SoS or FCA.	Project will take longer, cost more and impact on benefits delivery from peregrine.	Work with FCA & SoS from the beginning to ensure their requirements are well understood.	David Gemmell	L	M
There is a risk that LEO results in HMRC review of our VAT treatment	1. LEO timelines could be delayed as HMRC review. 2. If HMRC make an adjustment this could impact the VAT payments by up to £20Mpa	Work with Finance to minimise impact & probability. Liaise with HMRC throughout the process	David Gemmell / Mark Dixon	H	L

Highlight only the major risks.



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6. PROJECT DETAILS

Scope		
Features in Scope	Features out of Scope	Non-functional requirements
<i>What's being built</i> Documentation set to enable SoS approval Documentation set to enable FCA approval	<i>What's not being built</i> Peregrine....	<i>Enablers and NFRs</i> N/A

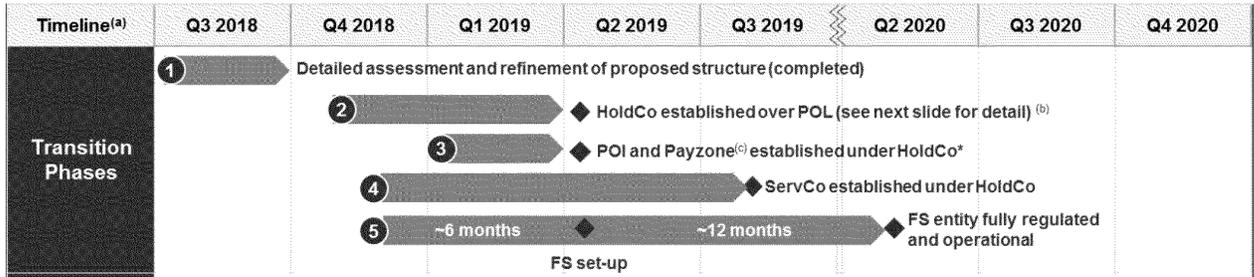
The Alternative Options
<p><i>Summarise the alternatives considered and the rationale for rejecting each one and if relevant, include the option of 'doing nothing'</i></p> <p>We could make no alterations to the Corporate Structure resulting in one or more of the following outcomes:</p> <ol style="list-style-type: none"> 1) FCA insist on regulating all of POL including the entire Branch Network at a substantial increases operational cost due to the significant increase in regulation. 2) FCA refuse to allow Peregrine activities &/or POI growth. 3) Proposed FS partners refuse to contract with POL due to the complexity from multiple regulated principles operating through a single Appointed Representative. <p>We also considered the creation of more entities: Identity Services, TelCo, and Customer Hub but rejected these as there is no strategic imperative and there is a negative tax impact.</p> <p>Whilst standalone ServCo is the optimum structure, there is an option for POL to operate as ServCo. This is more complex operationally and would remove any procurement opportunities, but is less costly to implement.</p>

7. PHASE(S) DETAILS

Below is the high level timeline proposed for the various transition phases.



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8.DELIVERY CONSIDERATIONS

How are going to deliver this Epic/Project?

Summary of delivery method

This project will be delivered by waterfall.
A project team will be stood up with permanent/contract project resources supported by internal SME's, Consultant SME's and external Legal advisors.
The project will deliver in 5 phases, some of which will run in parallel.

Delivery Complexity						
Likelihood will require major IT change or new technology	Likelihood that costs will be uncertain	Will be difficult to source the correct skills	Likelihood will impact a lot of people or some people significantly	Likelihood that POL will be overly dependent on Supplier	Likelihood there will be many links with other projects	Likelihood will impact a lot of Customers (+ve or -ve)
None	Low	Medium	Medium	Low	Low	Low

How complex is this initiative? Score 0 (none), 1 (low), 2 (med), 3 (high)



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9. APPROVALS

Function	Comments	Date
<p>Assuring the quality of the finances in this case: BU Finance Director: Alistair Roman</p> <p>Add in any comments from the approver and indicate that the project has accepted the comment or explain why not</p>	Approved for interim funding until Jan 2019	12/11/2018
<p>Assuring this case supports, or does not undermine, POL goals and strategic intent: BU CIO or Design Authority <u>Lodge your IP on the DA SharePoint site</u></p> <p>Add in any comments from the approver and indicate that the project has accepted the comment or explain why not</p>	Endorsed by DA	31/10/2018
<p>Assuring the IT supply chain is aware and ready for this case: IT Delivery David Gemmell</p> <p>Add in any comments from the approver and indicate that the project has accepted the comment or explain why not</p>	IT Concurrence approval obtained	31/10/2018
<p>BU Portfolio Office Assuring the quality of the project readiness in this case Insert Name</p> <p>The SBU that will lead delivery assure the project is ready to move into delivery and that the Executive Sponsorship has been obtained.</p>	Reviewed by LRG Portfolio Office	31/10/2018



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10. APPENDIX

Additional supporting information

Provide any additional information that supports the business case

One Best Way – Delivering Change

Funding drawdown request – Mails Strategy

Author: Karl Paulins

Exco Sponsor: Debbie Smith

Date: October 18

Finance Director: Cathy Mayor

Finance Lead: Maria Chong

Benefits Owner: Mark Siviter

Document Version: 1.0

Executive Summary

Context

A recommendation to seek early renewal of the Mails Distribution Agreement (MDA) with Royal Mail (RM) was approved by GE and Board in 2017. The Business Case was presented to the Investment Committee on 23/4/18, and drawdown funding approved. In Sep 2018 the Board supported the intent to start formal negotiations during Oct 2018. This new phase in negotiations will require additional drawdown funding. The drawdown request is [IRRELEVANT] and therefore within CAG delegated levels.

Questions addressed in this report

1. What do we propose to do and why?
2. What options did we consider?
3. What is the funding that you are requesting at this stage if it is different from the total investment?
4. What do we need to do next to progress?

Conclusion

1. We propose to carry out a series of negotiation meetings from Oct to Dec 2018, reporting to Jan 2019 Board on recommendations. A new deal will provide certainty to our business, shareholder and agents, and accelerate realisation of negotiated benefits. Securing a renewed agreement is a mandatory requirement, failure to do so would risk the viability of the branch network in addition to incurring negative shareholder and public reaction.
2. We have considered, and ruled out, alternative options. Accenture independently reviewed the Mail Strategy in Sep 2017, and concluded that analysis completed provides all information needed to support negotiation, and that the strategy is sound. This approach is supported by the Board.
3. **We are requesting additional drawdown of [IRRELEVANT] which reflects forecast run costs to end 2018/19.** This drawdown includes [IRRELEVANT] for legal advice, which is subject to scoping. The total cost to deliver this project (including sunk costs and excluding implementation) is likely to be in the region of [IRRELEVANT] to [IRRELEVANT] depending external legal specifications. Deliverables from this investment include strategic analyses and evaluations, modelling and Joint Strategy work. The project presented costs outlook to Sep 2018 GE who confirmed our approach.
4. Negotiations will continue to establish understanding of each party's positions and the zones of potential agreement. We will update the Board in Nov 2018 on how the initial discussions are progressing.

FUNDING OVERVIEW

	Existing Approval		New Request			Total New Request	Total Project
	Prior Years	FY18/19	Total Approved	FY18/19	FY19/20		
£m	IRRELEVANT						
Opex							
Exceptional							
Capex							
Total Funding							

BUSINESS CASE FINANCIALS

£m	Sunk Cost	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	TOTAL
Gross Income	IRRELEVANT							
Cost of Sales								
Total Direct Contribution								
Operating Expenses (OpEx)								
Trading Profit								
Trading Profit [%]								
Capital Expenditure (CapEx)								
Exceptional								
Net Cash Flow								

	With Intangible benefits	With tangible benefits
Discount Rate [%]	12.0%	12.0%
NPV / Net Present Value (5 years)	4.4	4.4
IRR / Internal Rate of Return [%]	N/A	N/A
PBP / Payback Period [years]	1.0	1.0

Input Sought	Input Received
<ol style="list-style-type: none"> 1. We would like CAG to approve the drawdown funding requested 	<ol style="list-style-type: none"> 2. The supporting Business Case was presented to Investment Committee. 3. The paper has been reviewed and approved by Retail Finance.

The Report

What do we propose to do and why?

1. Meetings are diarised between October and December 2018 for a first round of formal negotiations with the intent of reaching a broad shape of a deal.
2. We will return to GE and Board in January 2019 with a recommendation on how to proceed, and potentially a more informed mandate to support a second round of discussions.
3. A new deal will provide certainty to the business, our shareholder and our agents, and to accelerate realisation of negotiated benefits.
4. Securing a renewed agreement is a mandatory requirement, failure to do so would risk the viability of the branch network in addition to incurring negative shareholder and public reaction.
5. Negotiations and recommendation appraisal will require an internal support team and external legal advice.

What options did we consider?

6. The context of a new agreement with RM remain consistent with our previous statements to the Board, namely IRRELEVANT
7. IRRELEVANT
through to a Post Office to RM realignment have been evaluated and presented to GE and Board. Accenture independently reviewed the Mail Strategy in Sep 2017, and concluded that the market understanding and conclusions were robust and consistent with their views of the market. In relation to a long-term contract negotiation, the conclusion was that analysis completed provides all information needed to support the negotiation, and that the strategy is sound. Due to their commercial sensitivity they are not detailed here.

What is the funding that you are requesting at this stage if it is different from the total investment?

8. Forecast costs to complete the new agreement with RM are currently IRRELEVANT **assuming we agree on the broad shape of a deal in the coming round of negotiations.**
9. Should negotiations continue into 2019/20, or contract changes become more complex, IRRELEVANT
10. Current forecast compares to IRRELEVANT, per the Business Case submitted in Apr 2018. The values can be bridged:

Total cost to completion, per Business Case 4/18

Costs of implementation removed – require deal solution
 Lower external spend (legal, secure accommodation, regulatory advice)
 Lower staff costs (NBA and mandate model work removed)

£k

IRRELEVANT

Total cost to completion, current forecast

11. The following specific work packages have been delivered as a result of this investment:
- Detailed market analysis and evaluation including forecast model for Post Office and Royal Mail market shares
 - Detailed assessment and evaluation of Post Office and Royal Mail's **IRRELEVANT** **IRRELEVANT** including detailed market research and conjoint models for the marketplace and e-commerce segments.
 - The first Joint Strategy work with Royal Mail since separation
 - Preparation for the contractual Mid-Term Review in 2017, subsequently superseded by the commitment by RM to full early negotiations
 - Construction of robust and validated financial model to support negotiation preparation and execution, including reconciliation to 2016/17 and 2017/18 actuals.
 - Review of strategy preparation by Accenture

12. Full year forecast costs **IRRELEVANT** drawdown was approved by Investment Committee on 23/4/18, a further **IRRELEVANT** is therefore now requested. **IRRELEVANT**
IRRELEVANT

13. 2018/19 forecast costs are analysed below:

Costs to date P6
Rest of year forecast - staff
Rest of year forecast - external Legal

£k

IRRELEVANT

Total forecast costs 2018/19

The provision for legal fees is before scoping of requirements and is therefore subject to change. Staff costs forecast are as per current run-rate.

14. Detailed cost analyses were presented to GE in Sep 2018. It was concluded that permission would be sought to get the funding to go ahead with the RM negotiations. A process would need to be followed but the aim was to have discussed the major issues by the end of the financial year.

What do we need to do next to proceed?

15. 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.
16. The intention of these discussions is to establish detailed understanding of each party's positions and the zones of potential agreement.
17. 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.
18. 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.
19. We will update the Board in Nov on how initial discussions are progressing before bringing a formal recommendation on next steps in Jan.

Concurrences

Finance Director

Approved by	Commentary	Date
<i>Cathy Mayor</i>	Drawdown request and approach reviewed and approved	<i>10/10/18</i>

Design Authority

Approved by	Commentary	Date
<i>Ben Grey</i>	Concurrence meeting held 28/3/18 with conclusion that separate workshop to be held with Ben Grey, Somita Yogi, Adrian Eales and Mails Strategy project team	<i>28/3/18</i>

IT Portfolio Office (assessment of IT capacity and capability)

Approved by	Commentary	Date
<i>Kevin Mackay</i>	Discussion at CAG on 17/4/18 concluded that OK to proceed with proposal	<i>17/4/18</i>

Business Readiness Assurance (Project/Programme Manager concurrence)

[Confirmation that the business readiness assurance process has been completed. This is mandatory for End of Design Gate 2 approval. Outstanding business issues/concerns should be explained in the table below with details of the actions and target dates in place to resolve them.]

Approved by	Commentary	Date
<i>N/A</i>	<p><i>Business Readiness Assurance is not required at this stage.</i></p> <p><i>The following Subject Matter Experts have been engaged with or identified to support, and will be part of project delivery through Workstream or Black Hat reviews:</i></p> <ul style="list-style-type: none"> • Comms, Brand and Corporate Affairs • Change • Network • Retail (TBC) • Finance • Legal, risk and governance • Supply Chain <p><i>The following Subject Matter Experts have not been engaged with or identified to support, and will not be part of project delivery through Workstream or Black Hat reviews:</i></p> <ul style="list-style-type: none"> • IT • Data and MI • HR • HR Service Centre • FS and Telecoms • Health & Safety • POMS 	<i>N/A</i>

Annex 1- Financial Summary

GBP (m)	Sunk Cost	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	TOTAL
Gross Income	IRRELEVANT							
Income Growth								
Revenue Protection								
DIRECT COSTS								
Total Direct Contribution								
OPEX								
Project Related								
Recurring								
Reduction								
Avoidance								
EBITDAS								
EBITDAS [%]								
CAPEX								
Project Related								
Avoidance								
EXCEPTIONAL								
Project Related								
NET CASH FLOWS								