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EXECUTIVE COMMITTEE
AGENDA
for the meeting to be held on 19 November 2013
in The Dining Room , The Hoxton Hotel

Present: Paula Vennells (Chair), Martin Edwards, Mark Davies, Lesley Sewell, Chris Day, Kevin Gilliland, Sue Barton, Fay Healey, Nick Kennett, Alwen Lyons, Martin George, Chris Aujard

In attendance: Dave Mason, Sarah Hall, Paul Brown, Martin Palimeris, Harry Clarke, Robin Gregory

Start time : 9.00
End: 16.00

| Time | Item | ExCo Sponsor/Presenter |
|---|---|---|
| 09.00 – 09.30 | Update on Horizon<br>• Draft settlement policy for mediation scheme | Chris Aujard |
| 09.30 – 10.00 | Project Wave | Paul Brown/Martin George |
| 10.00 – 10.45 | Sub-postmasters survey results presentation<br>Ipsos MORI will be presenting | Fay Healey/Martin Palimeris |
| 10.45 – 11.00 | BREAK | |
| 11.00 – 12.30 | Risk review and appetite | Dave Mason/Chris Aujard |
| 12.30 – 13.00 | LUNCH | |
| 13.00 – 13.45 | Finance Performance Pack | Sarah Hall/Chris Day |
| 13.45 – 14.15 | Industrial Relations update (verbal) | Kevin Gilliland |
| 14.15 – 14.45 | Strategy and Funding update (verbal) | Sue Barton |
| 14.45 – 15.35 | Noting papers (10mins per item)<br>• Post Office Energy Proposition<br>• Personal Injury Referral Fees update<br>• FS/Network Incentives for front line staff<br>• Update on FM and Grapevine Procurement<br>• Use of Advisors | <br>Paul Brown<br>Nick Kennett<br>Nick Kennett/Kevin Gilliland<br>Harry Clarke/ Kevin Gilliland<br>Robin Gregory/Chris Day |
| 15.35 – 15.45 | Actions Log | All |
| 15.45 – 16.00 | AOB | All |
| | CLOSE | |

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# POST OFFICE EXECUTIVE COMMITTEE

## Horizon - Settlement Policy for the Initial Complaint Review and Mediation Scheme (the "Scheme")

## 1. Purpose

The purpose of this paper is to:

1.1. request approval for a Settlement Policy which sets the framework for making decisions about financial settlements of claims under the Scheme;

1.2. set out the strategy for managing the potential gap between Subpostmasters' expectations about the value of settlements and the amount that Post Office may be prepared to offer (the "Expectations Gap"); and

1.3. seek the Executive Committee's views on this strategy could be developed further.

## 2. Background

2.1. Following the publication of the Second Sight Report in July 2013, Post Office announced a number of steps which it would take to address the issues raised in the Report.

2.2. One step was to create the Scheme to help resolve the concerns of Subpostmasters regarding the Horizon system and other associated issues. Although the Scheme is primarily aimed at applicants who are no longer Subpostmasters, it is also open to existing Subpostmasters provided they have previously raised their complaint with us, and exhausted our internal investigation processes.

2.3. At the time of writing, we have received 94 applications. This already exceeds our original planning assumptions of 75 cases in total. The Scheme closes on 18 November 2013.

## 3. The Scheme

3.1. The Scheme was designed, and is overseen by, a Working Group comprising members of Post Office, JFSA and Second Sight. Sir Anthony Hooper was appointed as the Independent Chair of the Working Group on 18 October 2013.

3.2. The objectives of the Scheme are to:

- provide a mechanism to investigate a Subpostmaster's concerns proportionately and effectively;
- try to achieve a mutual and final resolution of a Subpostmaster's legitimate concerns about Horizon and any associate issues, whether through mediation or direct discussions.

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3.3. The role of the Working Group is to:

- monitor the fairness and efficiency of the Scheme in achieving its objectives;
- ensure the cases progress through the Scheme in a timely manner; and
- review Subpostmasters' cases which may not be suitable for the Scheme and decide whether and how those cases may proceed.

## 4. Ensuring the success of the Scheme

4.1. Post Office has invested time and money in creating the Scheme, and positioned it with the media, MPs and JFSA as the response to the Second Sight Report. It is therefore important that the Scheme achieves its objectives and is generally acknowledged as being successful in answering the concerns of Subpostmasters.

4.2. From the Post Office's perspective the Scheme will have been a success if, when it has completed:

- the media, MPs and JFSA consider that the Scheme fairly investigated and, where appropriate, addressed the Subpostmaster concerns identified in the Second Sight report, even if there is disagreement over the outcome of individual cases;
- Post Office can more robustly defend its use of the Horizon system against criticism by a minority of Subpostmasters who, despite best efforts, remain entrenched in their dissatisfaction with Post Office;
- the cost to Post Office in terms of financial settlements is not excessive, but proportionate and consistent with the proper use of public money; and
- the general body of Subpostmasters retain their confidence in the Horizon system.

4.3. Given there is currently no evidence of any systemic problem with the Horizon system, Post Office's view when designing the Scheme was that excessive compensation payments would be unlikely and, for example, an apology may be a more appropriate remedy. The Scheme documentation itself says that 'compensation is one possible solution that could be agreed by the parties but this will depend on what happened in [the individual] case'.

4.4. However, it is becoming apparent from some of the early cases coming into the Scheme, and comments made by JFSA (in the media and to Subpostmasters), that in some instances a "gap" is emerging between what applicants and JFSA may be expecting, and what Post Office might consider to be an appropriate financial settlement, i.e. the Expectations Gap.

4.5. For the Scheme to provide a successful closure to the Horizon episode, we need to manage both the costs and the Expectations Gap.

## 5. Managing costs

5.1. Each case will turn on its own facts. Whether compensation is appropriate (and if so, how much) must therefore be assessed on a case-by-case basis, and signed off by Post Office Finance.

5.2. It is not possible to accurately assess the overall costs to Post Office until all cases have been investigated and we have a clearer idea of the approach the Working Group will take on the suitability of cases for mediation. We will keep the situation under review given that some mediations are likely to take place before others have been fully investigated.

5.3. Nevertheless, we have always envisaged that some cases will result in a financial settlement. It is therefore important that any payments are justifiable, consistent and proportionate, and that we have an agreed policy in place to facilitate this before we begin considering financial settlements for individual cases.

5.4. The draft Settlement Policy attached at Annex 1 sets out a framework, principles and process for considering cases where it is clear that the applicant is seeking a financial settlement. Applying this policy will allow us to:

- manage and control costs;
- approach financial settlements consistently; and
- provide the Post Office mediation team with a clear mandate for settlement prior to entering mediation discussions (this is a pre-requisite to mediation).

## 6. Managing the Expectations Gap

6.1. The fact that cases have been progressed through the Scheme should lend credibility to their outcomes. Specifically:

- the Scheme was developed collaboratively with JFSA and Second Sight, who are also on the Working Group overseeing the progress of cases through the Scheme;
- the Working Group has an independent Chair with considerable experience in overseeing complex cases;
- applicants are allowed up to £2,750 (plus VAT) towards the fees of a professional advisor to help prepare their case and attend mediation;

- by its very nature, mediation is designed to support parties in finding common ground and therefore is, in itself, a mechanism for managing expectations within the confidentiality of a mediation discussion.

6.2. Still, certain Subpostmasters are claiming millions of pounds, when Post Office's view of potential compensation is much more modest. However, having established a Scheme with no express financial limits, and accepted applications on that basis, we could be criticised for changing the goal-posts if we start publicly suggesting limits at this stage.

6.3. Although confidentiality will be a feature of any settlement agreement, we should expect some detail to find its way into the public domain. Although Post Office could, rightly, be criticised if settlement figures were seen to be high, public and political opinion is generally on the side of Subpostmasters.

6.4. To minimise the risk of Subpostmasters being dissatisfied having come through the Scheme, we need to begin to manage expectations. As well as wishing to avoid adverse publicity, we have a responsibility to help ensure that Subpostmasters are not disappointed when they already feel they have been let down by Post Office.

6.5. In considering how to manage the Expectations Gap it is important to maintain the integrity of the Scheme. In particular we have to consider:

- legal privilege – the Settlement Policy is, and must remain, confidential and privileged. Disclosing all or part of the Policy is likely to cause privilege to be lost. There are therefore strict limits of what information can be disclosed, and to whom;

- public impact on applicants, stakeholders and the media – a perception that Post Office is trying to limit an applicant's freedom to raise whatever complaints they see fit could lead to criticism;

- impact on the Working Group – managing the Expectations Gap may create tensions within the Working Group which affect its collaborative focus;

- evidence based decisions – making public statements about Post Office's expected outcomes for the Scheme may appear to be pre-supposing or undermining the process.

6.6. The Chair, with his judicial background, should understand the need for settlements to be reasonable and based on properly evidenced facts. It is also in his interest to have presided over a successful Scheme. We propose to:

- open discussions with the Chair to take his views on how we might approach the task of managing the Expectations Gap; and

- use opportunities presented in meetings with MPs and others, should the subject arise, to restate our original position in relation to resolutions not necessarily being financial.

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## 7. Examples

7.1. As set out in para's 5.1 and 5.2 above, we do not have sufficient information at this stage to assess the potential overall cost of financial settlements to Post Office.

7.2. However we have worked through two live examples to illustrate how the Settlement Policy might work in practice and how the Post Office approach to settlement might compare with the expectations of individual Subpostmasters (see Annex 2).

7.3. We cannot tell at this stage how typical these examples are, but have provided them to help bring the Policy and proposals in this paper to life.

## 8. Communications

8.1. At present our media position is reactive, and we are avoiding giving regular public updates on the Scheme and the number of applications.

8.2. We are developing a communications strategy to coincide with the first mediation decisions. We will agree our approach with the Chair of the Working Group, and possibly the Group itself. There is every indication that the Chair does not favour media attention and already has plans to try to restrict individual parties to the Working Group making comments about the scheme to the media.

## 9. Conclusion

9.1. The Settlement Policy and an approach to managing expectations, agreed with the Chair of the Working Group, will promote the success of the Scheme.

## 10. Recommendations

The Executive Committee is asked to:

10.1. approve the Settlement Policy

10.2. note the arrangements for managing the Expectations Gap.

**Chris Aujard**
**13 November 2013**

# Confidential and legally privileged

**INITIAL COMPLAINT REVIEW AND MEDIATION SCHEME**

**[DRAFT] SETTLEMENT POLICY**

Version 1.3

[...] November 2013

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**Contents**

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## 1. Document control

### Privilege

1.1 This Policy has been prepared:

1.1.1 To assist Post Office in settling complaints raised through the Scheme.

1.1.2 To manage the risk that a complaint could escalate to full litigation.

1.1.3 With the advice and assistance of both internal and external lawyers.

1.2 Accordingly, this Policy is subject to both legal advice privilege and litigation privilege. It is also commercially sensitive and confidential to Post Office.

### Circulation control

1.3 This Policy should:

1.3.1 Never be sent to or discussed with any person outside of Post Office without the prior consent of POL Legal.

1.3.2 Be circulated inside POL unless it is strictly necessary to do so, for which purpose the following may need to review this Policy:

- Board
- ExCo
- ARC
- The Steering Group
- Those employees and contractors involved with the Scheme.

1.3.3 Any FOIA or DPA request in respect of this document must be immediately referred to POL Legal.

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**Version history**

| Version | Status | Date |
|---|---|---|
| 1 | Draft | 22 October 2013 |
| 1.1 | Draft | 30 October 2013 |
| 1.2 | Draft | 4 November 2013 |
| 1.3 | Draft | 9 November 2013 |
| | | |
| | | |

1.4 The first "Live" version of this Policy has been approved by the Steering Committee and ExCo.

1.5 Any amendments to this Policy must be approved by the Steering Committee.

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## 2. Objectives

**Post Office's Objectives for the Scheme**

2.1 Listen to Subpostmasters' concerns

2.2 Explain Post Office's position

2.3 Offer solutions where possible

2.4 Compensate if loss has been unfairly suffered

2.5 Demonstrate that Post Office is being transparent

2.6 Ensure that Post Office's decisions are defensible

**Objectives of this Policy**

2.7 Ensure that each applications is treated consistently

2.8 Ensure that Post Office complies with its criminal law / prosecution duties

2.9 Ensure that the outcomes of the Scheme are compliant with any subsequent criminal appeal process

2.10 Help scope and control the size of the Scheme and costs of settlement

2.11 Assist Post Office in preparing for difficult mediations / decisions

2.12 Ensure that all internal stakeholders are consulted on the handling of individual Complaints

2.13 Enable a Post Office representative to enter a mediation with a clear mandate for settling (or not) each complaint

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## 3. General approach to settlements under the Scheme

This section sets out the methodology for monitoring and scoping the overall costs and outcomes of settlements under the Scheme.

### Settlement Principles

3.1 A set of Settlement Principles will be drawn up that will guide the approach to settling each Complaint.

3.2 The Settlement Principles will be set out in this Policy – see section 5

3.3 The Settlement Principles will be reviewed regularly.

3.4 The Principles will be revised as necessary to address any changes in:

3.4.1 the Scheme

3.4.2 the number/nature of the Complaints

3.4.3 past mediations or settlements

3.4.4 The Outcome Assessment (see below)

### Fix the number of complaints

3.5 Applications by Applicants to the Scheme must be received by 18 November 2013.

3.6 Following the application deadline, the total number of applications will be known but the value of any complaints may still be unclear.

3.7 An initial review and assessment of the complaints will be undertaken at this stage applying the Settlement Principles to test the efficacy of the Principles in practice.

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**Value the complaints**

3.8 On receipt of an Applicant's applications and case questionnaire, Second Sight will work with Post Office to investigate the Complaint.

3.9 This investigation should produce greater clarity as to the types of settlement and compensation being sought by Applicants.

3.10 This information will be regularly reviewed to assess the possible outcome and costs of settlements under the Scheme (**the Outcome Assessment**).

**Set Settlement Parameters**

3.11 Following the investigation phase, it should be possible to separately assess the merits of each Complaint and produce a Recommendation for Settlement (see section 4 below)

3.12 The Recommendations for Settlement will be reviewed holistically on a regular basis and used to further update the Outcome Assessment.

**Mediation**

3.13 At mediation, a settlement will be sought within the parameters of the Recommendation for Settlement.

3.14 The result of any Mediation (whether or not there is a settlement) will be communicated to all internal key stakeholders.

3.15 The results of any mediations will be reviewed holistically on a regular basis and used to further update the Outcome Assessment.

**Reporting**

3.16 The updated Outcome Assessment will be presented to the Steering Group on a regular basis for their consideration.

3.17 The following management information about the Scheme will be tracked:

- Applications received

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- Applications accepted for funding
- Applications rejected (by grounds)
- Case Questionnaires received
- Cases investigated by POL
- Cases investigated by Second Sight
- Value of claims
- Cases approved / rejected for mediation (with reasons)
- Mediations completed (by outcomes)
- Cases settled

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## 4. Process for considering individual complaints

This section sets out the process for handling and trying to resolve each individual Complaint.

### Background

4.1 Following the investigation into a specific Complaint, the Working Group will take a decision on whether the case is suitable for mediation.

4.2 Mediation is a consensual process so even if the Working Group decides that a case is suitable for mediation, Post Office is not required to mediate (though there may be negative consequences in refusing to do so).

4.3 It may be that some cases can be resolved before mediation through direct engagement with the Applicant.

4.4 If a settlement is agreed through mediation, the mediator is likely to insist that the parties sign a settlement agreement on the day of the mediation.

4.5 Those persons attending mediation (or engaging directly with an Applicant) on behalf of Post Office therefore need a clear mandate as to the nature and scope of any settlement that might be offered.

### Suitability for mediation

4.6 Following the investigation into a specific Complaint but before the Working Group decides whether a case is suitable for mediation, POL Legal will, in consultation with other internal stakeholders, advise on whether POL should:

4.6.1 Vote against mediation at the Working Group and refuse to mediate even if the Working Group votes in favour of mediation.

4.6.2 Vote against mediation at the Working Group but allow mediation to proceed if the Working Group votes in favour of mediation.

4.6.3 Vote in favour of mediation at the Working Group.

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4.7 This advice will be passed to Post Office's representatives on the Working Group.

**Recommendation for Settlement**

4.8 If POL wishes to attempt to settle a Complaint (by mediation or direct engagement), the Complaint and the investigation findings will be internally reviewed in order to produce a Recommendation for Settlement.

4.9 Where the Applicant has been subject to a criminal conviction, the investigation findings will be sent to POL's prosecution team to ensure that Post Office is complying with its prosecution duties (in particular, its on-going disclosure duties).

4.10 POL Legal (or external counsel) will be responsible for leading the process of producing the Recommendation for Settlement in order to ensure that legal privilege is preserved. The Recommendation for Settlement will recommend:

4.10.1 Whether Post Office should attempt to resolve the Complaint before mediation?

4.10.2 Possible settlement options

4.10.3 If applicable, the financial limits for a compensation payment.

4.11 Internal stakeholders will be consulted as appropriate on the Recommendation for Settlement.

4.12 The Recommendation for Settlement will be revised and finalised by POL Legal (or external counsel) and the communications team.

**Approval to settle**

4.13 The Recommendation for Settlement will be considered by Charles Colquhoun (or a suitable alternative person nominated by Charles) who will:

4.13.1 Ensure the Recommendation for Settlement complies with the Settlement Principles and this Settlement Policy.

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4.13.2 Ensure that the Recommendation for Settlement is consistent with the approach adopted in other Complaints.

4.13.3 Approve or propose changes to the Recommendation for Settlement.

4.14 A mandate will be issued to those attending mediation or engaging directly with Applicants confirming that they may settle the Complaint within the scope of the approved Recommendation for Settlement.

**Mediation**

4.15 The attendees for mediation will be identified which shall include at least 1 lawyer and 1 representative of Post Office. The representative of Post Office shall be:

4.15.1 Of appropriate seniority commensurate with the nature of the Complaint and the level of settlement envisaged in the Recommendation for Settlement.

4.15.2 From a part of the business that relates to the nature of the complaint raised.

4.16 POL Legal (or external counsel) will liaise with CEDR (the mediation provider) regarding the logistics of the mediation.

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## 5. Settlement Principles

This section sets out the Settlement Principles that will guide the scope of any settlement offered to an Applicant.

### A. Overarching Principles

The following principles overarch the general approach to settlement:

5.1 Any settlement must take account of the risk that the settlement may set a precedent that could (a) open the floodgates to more claims (both inside and outside the Scheme) and/or (b) increase expectations for existing claims.

5.2 Applicants will generally need to show that the matters that they are raising actually led them to suffer a financial loss in their branch before a settlement is offered.

5.3 Generally, settlements (including compensation) will only be offered for alleged harm that arises directly out of, or was an obviously foreseeable consequence of, a breakdown in the business relationship between the Applicant and the Post Office.

5.4 The extent of any settlement (including the value of any compensation) will be based on Post Office's "Risk Assessment" of the Complaint which shall take account of:

5.4.1 The weight of the evidence adduced to demonstrate that the Complaint and any harm suffered by an Applicant is true;

5.4.2 Post Office's culpability for the Complaint;

5.4.3 The extent to which the matters complained of caused the alleged harm suffered by an Applicant; and

5.4.4 The extent to which the Applicant's own acts or omissions contributed to the Complaint or harm suffered as a result.

5.5 Settlements involving convicted Applicants should only be offered where there is clear evidence of a miscarriage of justice (see section 5.2 below).

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5.6 Settlements will generally be driven by commercial fairness rather than legal principles, but legal risk will still be a factor.

5.7 Settlements should to take account of the reputational implications for the Post Office arising from any adverse publicity or political reactions but that should not be an overriding factor. The greater the value of the settlement, the more public interest is likely to be attracted.

5.8 Settlements that involve commercial solutions, apologies and other non-financial compromises are to be favoured over compensation.

5.9 Although settlements are likely to be subject to confidentiality agreements, any settlement should take into account the risk that details of that settlement may leak into the subpostmaster community and/or the media.

5.10 Settlements should reflect the fact that for the purposes of the Scheme, Post Office will not be relying on any legal limitation or time-bar defence and will consider all Complaints regardless of age.

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## B. Criminal cases

### Background

5.11 Offering a settlement to an Applicant who has been convicted could:

5.11.1 Be used as the basis for an appeal against that conviction; and/or

5.11.2 Cause that conviction to become unsafe.

5.12 As such, settlements involving convicted Applicants should only be offered where there is clear evidence of a miscarriage of justice and the process below has been followed.

### Process

5.13 Where a Complaint relates to an Applicant who has been convicted, the following additional processes should be followed:

5.13.1 The Applicant's application, case questionnaire and any investigation findings should be forwarded to Post Office's criminal lawyers (Cartwright King – "CK")

5.13.2 CK will review the above documents to determine whether any disclosure is required under Post Office's prosecution duties.

5.13.3 CK will be consulted on any Recommendation for Settlement and advise how the proposed settlement may affect the Applicant's conviction.

5.14 Post Office has no power to overturn a conviction. If, following the investigation phase, grounds for appeal are identified, the standard approach will be to:

5.14.1 Suspend the standard mediation process.

5.14.2 Disclose the information giving rise to the grounds for appeal to the Applicant (via CK).

5.14.3 Consider whether Post Office will support or oppose any appeal.

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5.14.4 Consider whether Post Office might offer financial support to the Applicant in order to conduct the appeal.

5.14.5 Consider whether it is more appropriate to conduct the mediation before or after any appeal is heard. In most cases, it will be more appropriate for the appeal to be heard first.

5.14.6 Write to the Applicant explaining Post Office's stance on the above matters and seek their views on how they wish to proceed.

5.14.7 Where a conviction is overturned on appeal, mediation may subsequently be used to resolve the Applicant's claims / losses that flow from that wrongful conviction.

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## C. Settlement thresholds

5.15 Complaints will have various degrees of credibility and will be supported by evidence of varying quality. To ensure consistency, this section sets out guideline thresholds for when a Complaint may be considered to have sufficient credibility/supporting evidence to merit a settlement.

5.16 The list of Complaints set out below is not exhaustive – where a Complaint is not on the list below, a case-by-case decision will be required.

5.17 The Settlement Thresholds are for guidance only – settlements may be offered in other circumstances if good reasons exist.

| | **Nature of complaint** | **Threshold of proof before offering a settlement** |
|---|---|---|
| 5.18 | Horizon inaccurately records data/transactions.<br><br>Horizon has a technical problem that caused branch losses.<br><br>Horizon suffered communication and power failures that caused losses in a branch. | Second Sight's Interim Report found that there were no systemic errors in Horizon.<br><br>As such, very clear proof will be required of a technical defect in Horizon along with evidence that that technical defect (i) caused a quantifiable financial loss in the Applicant's branch accounts and (ii) had a material adverse effect on an Applicant.<br><br>Any case that is considering a settlement on this ground should be referred immediately to the CIO for comment. |

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| 5.19 | Defective hardware in the branch (pin pads, terminals, etc). | The Applicant needs to produce very clear proof that a specific branch had defective equipment which was not fit for purpose and that the defective equipment caused a quantifiable financial loss in the Applicant's branch accounts.<br><br>SPMRs may have issues with evidencing such complaints as POL often replaced equipment following a complaint. However, evidence of loss must be provided before a settlement is considered. |
| 5.20 | Horizon is too complex.<br><br>Operating processes are unclear. | The Horizon system is being successfully used by thousands of users without complaint about the usability of the system or that its processes are unclear / too complex.<br><br>As such, a general complaint that Horizon (or its related processes) is too difficult to operate will therefore not be sufficient to warrant a settlement.<br><br>The Applicant needs to identify a specific problem transaction that did not have a clear or established operating practice.<br><br>The facts of the case should be considered carefully as there may be circumstances where Post Office has offered training but the SPMR has refused to attend or take up Post Office on the offer of further training.<br><br>However, in circumstances where Post Office has allowed the issue to grow, by for example, not addressing the issue in a timely manner, a settlement may be considered (but only if there is a clear evidence of a failure/delay on Post Office's part). |

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| 5.21 | Lack of support for SPMR.<br><br>Helplines were unhelpful. | The Applicant needs show that they sought support from Post Office and that the support provided did not solve the issue.<br><br>The facts of the case should be considered carefully as there may be circumstances where Post Office has offered training but the SPMR has refused to attend or take Post Office up on the offer of further training.<br><br>If, given the particular circumstances, there is evidence that Post Office has not properly supported a SPMR in that Post Office:<br><br>(a) failed to follow its established practices in effect at the time of the events complained about; or<br><br>(b) there was a manifest error in those practices that should have been remedied at the time of the events complained about;<br><br>a settlement may be considered. |
| 5.22 | Poor/inadequate training on Horizon system. | The Horizon system is being successfully used by thousands of users without complaint about Post Office's training.<br><br>As such, general complaints about POL's standard training are not sufficient.<br><br>The Applicant needs to identify specific circumstances that made his/her training inadequate. |

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| | | POL should consider the following:<br>• Is there an issue with guidance/training? i.e. does the Applicant's complaint relate to an issue where there is little guidance/training?<br>• Is there any pattern in the Applicant's behaviour?<br>• Has the Applicant failed to take POL up on the offer of training? |
| 5.23 | SPMR unable to investigate losses.<br><br>SPMR did not have access to adequate transaction records. | General complaints about a lack of visibility of historic transactions are not sufficient.<br><br>The Applicant needs to show a problem with the audit trail of a specific product/transaction and that a quantifiable financial loss in the Applicant's branch accounts has been suffered as a result.<br><br>The Applicant also needs to show reasonable attempts to investigate losses.<br><br>It should be considered whether it would have made a difference had a full audit trail been available. In some cases even if the audit trail had been available it would not have resolved the overall complaint. |
| 5.24 | POL unfairly pursued losses/prosecution with a bias against SPMR. | The Applicant must show that Post office systemically failed to look into <u>specific</u> issues (not general complaints) raised by the Applicant or systemically failed to follow its processes that were in effect at the time of the events complained of. |

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| | | Any remedy in response to a claim that a criminal investigation/prosecution is unsound must be approved by POL's criminal legal team (see section B above). |
| 5.25 | SPMR was "forced" to file false accounts | POL does not accept that an Applicant can ever be forced to render false accounts.<br><br>No settlement will be offered where problems / losses were a result of (a) an Applicant filing false accounts or (b) an Applicant's own deliberately wrong actions or decisions. |

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## D. Settlement Options

5.26 If a Complaint warrants a settlement (see section C) then, in general, Post Office will consider any type of settlement that is fair and legally enforceable. The table below summarises the types of settlement that may, in Post Office's discretion, be offered. The selection of an appropriate Settlement Option (or Options) will be assessed on the particular circumstances of each case and in line with the Overarching Settlement Principles (see section A).

| | **In-post SPMR** | **Ex-SPMR No Conviction** | **Ex-SPMR Convicted but overturned on appeal** | **Ex-SPMR Safe Conviction** |
|---|---|---|---|---|
| Explanation of issue | ✓ | ✓ | ✓ | ✓ |
| Apology | ✓ | ✓ | ✓ | × |
| Compensation | ✓ | ✓ | ✓ | × |
| POL pays legal costs | ✓ | ✓ | ✓ | × |
| Branch / network improvements | ✓ | ✓ | ✓ | × |
| Individual branch solutions | ✓ | × | × | × |
| Support criminal appeal | × | × | ✓ | × |

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## E. Compensation matrix

5.27 If a Complaint meets a Settlement Threshold (see section C) and Post Office considers that compensation may be appropriate (see section D), the level of compensation that may be offered to an Applicant will be guided by:

5.27.1 Post Office's Risk Assessment of the Complaint (see section A); and

5.27.2 The matrix below.

| 5.28 | **Claimed head of loss** | **Value / factors** | **General position**<br><br>*Post Office's general position may be departed from if there are good reasons to do so.* |
|---|---|---|---|
| 5.29 | SPMR wrongfully repaid losses that were not due to POL | Depends on level of loss suffered by the branch | Decided on the merits of the case (ie. SPMRs ability to prove that sums were not properly due to Post Office). |
| 5.30 | Loss of remuneration due to contract termination | Depends on SPMR's remuneration level. Loss probably capped at 3 month's remuneration as POL always has a right to terminate on 3 months' notice (save if POL has acted in bad | Compensation limited to a maximum of 3 months' remuneration. |

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| | | faith). | |
| 5.31 | Loss of retail business | Depends on value of individual business<br><br>Difficult for SPMR to claim because POL could always terminate on 3 months' notice and so loss of branch and subsequent loss of wider retail business was always at risk.<br><br>Commercially, Post Office does not accept responsibility for performance of retail business. | Compensation for loss of retail business will not be paid. |
| 5.32 | Distress / loss reputation | Difficult to value in cash terms.<br><br>These types of loss are generally irrecoverable at law for most claims. | Compensation to be offered on a case-by-case basis – see Goodwill Payments Policy at section F below. |

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| | | | |
|---|---|---|---|
| 5.33 | Costs / expenses related to the mediation scheme and/or other legal proceedings | Depends on nature of legal support procured by the SPMR.<br><br>SPMRs can spend more than the POL contribution funding for legal support for the mediation scheme.<br><br>Typically only reasonable and proportionate legal costs are recoverable. | Decided on the merits of the case. |
| 5.34 | Losses relating to wrongful prosecution / conviction | Depends on nature of sentence – usually comprises a combination of loss of earnings and reputation losses.<br><br>Wrongful convictions are usually compensated by the state rather than the prosecutor (POL). | Only to be considered in the most exceptional circumstances (see Criminal Cases Policy section B above) |

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## F. Goodwill payments

5.35 Goodwill payments may be considered where an Applicant suffers harm that cannot be quantified in pecuniary terms (eg. injury to feelings, distress, social discredit, reputation damage, etc.). A goodwill payment may, in Post Office's discretion, be offered if:

5.35.1 A settlement threshold has been met under section C; and

5.35.2 The Applicant has not deliberately caused the non-pecuniary harm (eg. where the applicant has invited adverse media attention); and

5.35.3 The harm suffered is sufficiently serious to warrant a goodwill payment in accordance with the thresholds below:

| Type of harm | Threshold |
|---|---|
| Distress / injured feelings | The distress must be more than normal commercial pressure that would be experienced through loss of contract / business. |
| Damage to reputation / social discredit | The damage to reputation requires evidence that the relevant events were publicly known and led to public criticism (eg. adverse press coverage). |

5.36 If the above thresholds are met, the level of goodwill payment will be dependent on the level of harm and Post Office's culpability for that harm in accordance with the guidelines below. It is anticipated that where a goodwill payment is appropriate, most cases will fall in the bottom band.

| Band | Goodwill payment |
|---|---|
| **Bottom band** for less serious cases, such as a one-off incident or an isolated event, which has contributed to the Applicant's distress or reputation damage. This band will be appropriate where the Applicant has also contributed to their own problems through negligence or carelessness. | £600 - £6,000 |

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| | |
|---|---|
| **Middle band** for a serious failure by Post Office Limited which has been the sole or predominant cause of distress to the Applicant and/or damage to his/her reputation. | £6,000 - £18,000 |
| **Top band** for exceptional cases, such as where there has been a lengthy campaign of repeated failures by Post Office Limited or bad faith on the part of Post Office Limited. | £18,000 - £30,000 |

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## 6. Glossary

| | |
|---|---|
| Applicant | Any applicant to the Scheme which can include subpostmasters and crown employees. |
| Complaint | The complaint raised by an Applicant in his/her application to the Scheme |
| Scheme | The Initial Complaint Review and Mediation Scheme |
| Steering Group | The internal Post Office steering group that supervises Post Office's response to the criticisms of Horizon. |
| Working Group | The group supervising the Scheme whose members include Post Office, Second Sight, JFSA and the Independent Chairman. |

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| | Applicant's assessment | | Assessment against Settlement Policy | |
|---|---|---|---|---|
| **Post Office Salary Loss** | | | | |
| Payslip September 2003 | £3,378 | | | |
| Annualised | £40,541 | | | |
| Year to retirement | 33 | | | |
| Inflation | 0.0262 | | | |
| | | £2,131,943 | £10,135 | Capped at 3 months |
| **Private Education Lost by the Children** | | | | |
| Cost of School Fees for Child A | £112,285 | | | |
| Cost of School Fee for Child B | £128,575 | | | |
| Loss | | £240,860 | £0 | Too remote / not caused by POL |
| **Court case** | | | | |
| Legal costs | £32,760 | | | |
| Travel and subsistence | £4,600 | | | |
| | | £37,360 | £37,360 | Potentially recoverable but subject to assessment of the "reasonableness" of these costs |
| **Mortgage** | | | | |
| Due | £260,000 | | | |
| Arrears | £36,000 | | | |
| | | £296,000 | £0 | Too remote / not caused by POL |
| **Shop Closure** | | | | |
| Lost of shop salary for Applicant | £693,000 | | | |
| Rental lost | £396,000 | | | |
| Loss of profits | £297,000 | | | |
| Goodwill | £75,000 | | | |
| | | £1,461,000 | £0 | No compensation for loss of retail businesss |
| **Post Office purchase/sale** | | | | |
| Lost acquisition funds | £101,000 | | | |
| Lost opporunity of sale | £237,500 | | | |
| | | £338,500 | £0 | Capped at 3 month's - already claimed above |
| **Other** | | | | |
| Loan for Father in Law | | £80,000 | £0 | Too remote / not caused by POL |
| Bankruptcy (annulment) | | £350,000 | £0 | Unclear claim / not caused by POL |
| Compensation for personal impact | | £250,000 | £6,000 | Capped at £30k for goodwill payments but most cases will fall in the "bottom band" (£600 - £6,000) |
| **Total** | | **£5,185,663** | **£53,495** | Claim value pursuant to the Over-arching Principles / Compensation Matrix |
| **Post Office settlement parameter** | | | ? | Less risk discount which is unknown until after investigation is complete |
| **Cost to Post Office if settled at mediation** | | | ? | Depends on negotiations at mediation |

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# POST OFFICE LTD EXECUTIVE COMMITTEE

# WAVE PROGRAMME UPDATE

## 1. Purpose

The purpose of this paper is to:

1.1. Update the Executive Committee (ExCo) on the status of the Mobile (Wave) Programme.

1.2. Gain ExCo endorsement for the revised approach to Post office Limited (POL) mobile market entry following the recent disengagement from Fujitsu.

## 2. Key Points

2.1. POL has now disengaged from the process of developing a managed service approach to mobile market entry through Fujitsu (Plan A).

2.2. POL has disengaged from Plan A as it has now become apparent that Fujitsu could not meet the required deadlines, progress was slow and confidence was lost that a viable offer could be established.

2.3. POL has investigated alternative routes to enter the mobile market and recommends entering the market by integrating with several mobile providers to provide a white-labelled mobile proposition (Plan B).

2.4. Plan B gives POL a greater likelihood of launching a mobile offering in July 2014 (the launch date for Plan A). In addition, Plan B increases POL's profit to forecast in this area by £11m for the period between launch and end of financial year 2019/20. However, it is recognised that there is still a shortfall when compared to the Strategic Plan targets due to missing the original launch date of November 2013.

2.5. Plan B brings POL's proposed operating model in-line with the mobile industry and uses tried and tested partnerships.

## 3. Background

This paper is intended to be read along with Annex 1 where a full analysis is provided.

3.1. In 2012 POL conducted a supply market test and concluded that the mobile wholesale market was well established and that there was a breadth of suppliers willing to provide a full managed service.

3.2. POL undertook consumer research which strongly indicated that POL would be well placed to launch a mobile proposition.

3.3. A fully competitive supplier selection process started in January 2013. However the number of providers narrowed as the process progressed, resulting in Fujitsu receiving preferred bidder status in July 2013 (refer to section 2 in Annex 1).

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3.4. Progress with Fujitsu was slow and confidence was lost that a viable offer could be established within acceptable timescales. Despite high level engagement, confidence could not be restored and as a result the procurement was closed on 28th October 2013 (refer to section 2 in Annex 1).

3.5. As a result of disengaging with Fujitsu, the project team investigated alternative routes to entering the mobile market. This investigation looked at 1) contracting directly with mobile partners and 2) entering the market as a branded reseller.

## 4. Current Situation

4.1. The investigation of alternative routes to entering the mobile market focussed on whether following Plan B would be feasible and what impact this would have for POL.

4.2. Following Plan B means POL would partner with several mobile providers to offer a white-labelled mobile proposition, with POL taking on the management of the service. This differs from Plan A, where POL would employ a single contractor to manage the service with several mobile subcontractors providing the infrastructure (refer to sections 3 and 4 of Annex 1).

## 5. Options Considered

5.1. The options considered also included POL entering the market as a branded reseller. However given the low level of commercial return associated with this approach, this is not recommended (refer to appendix 1 in Annex 1).

## 6. Commercial Impact/Costs

6.1. Plan B reduces the entry costs from £11.7m to £6.9m for both pre-pay and post-pay services.

6.2. Plan B also reduces the on-going costs due to 1) the removal of the mark-up on supplier services added by Fujitsu and 2) the replacement of the Fujitsu managed service cost with a POL full time equivalent overhead.

6.3. Section 6 of Annex 1 provides further detail.

## 7. Key Risks/Mitigation

7.1. The risks related to Plan B are covered in detail in Section 9 of Annex 1. Confidence in Plan A had sunk to such a low level it was unlikely that the mobile proposition could be launched in July 2014. Research into Plan B strongly indicates that a mobile proposition with improved commercial benefits can be delivered in July 2014.

## 8. Communications Impact

8.1. There is no specific communications impact at this time. A full communications plan will be developed during the next stage of the programme.

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## 9. Recommendation

The Executive Committee is asked to:

9.1. Approve the proposed revised market entry strategy and approach (plan B).

**Martin George**
**November 2013**

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# Wave Programme Update

## Annex 1

Martin George

November 2013

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# Executive Summary

- The purpose of this paper is to provide an update on the Wave Programme and to gain ExCo endorsement on the revised approach to service launch, referred to as 'Plan B', following the disengagement with Fujitsu.

- Following an investigation into the alternative routes to enter the market, a recommendation is being made to continue the programme and enter the market by contracting directly with partners. This means Post Office integrating and managing the service . The revised operating model gives the greatest chance of success with the added flexibility, control and ability to manage cost.

- The main implications of this revised approach are:

  - ✓ A greater likelihood of achieving the July 2014 service launch targeted with Fujitsu.
  - ✓ Significantly reduced entry costs and managed service overhead than quoted under the Fujitsu managed service model - entry costs with Fujitsu would have been £11.7m; a direct approach is likely to be c.£6.9m
  - ✓ Greater flexibility and access to expertise
  - ✓ An enhanced role for Post Office as service integrator

- The market opportunity has been endorsed through an extensive primary research programme and ongoing discussions with the mobile networks. The optimal Pay as You Go ("PAYG") customer proposition has been designed and tested through research and a volume forecast generated.

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# Background

## The first steps to evaluate the mobile opportunity

- Engaged the supply market to assess the market appetite to partner with Post Office on a managed service basis and provide costs to inform a business case
- The conclusions:
  - Entry into the mobile market could be a profitable diversification
  - The wholesale market was well established and could offer the managed service operating model
  - Market entry could be achieved at relatively low cost and within 6 months from contract signature
  - Allocation of an income target in the strategic plan

## The formal procurement

- On 9th January, Post Office went to market to source a partner. A fully competitive process was conducted. However for a variety of reasons the number of providers narrowed as the process progressed, resulting in Fujitsu receiving preferred bidder status in July. The specific reasons for the narrowing of the providers were:
  - A decision by EE to offer their services under a Fujitsu managed service rather than direct
  - O2 deciding not to bid due to concerns about the level of overlap between the market POL would be targeting and the market Tesco (a JV with O2) operates in.
  - A removal of support from Vodafone for two of their aggregator partners, resulting in them not bidding
  - A decision by POL not to pursue a Vodafone bid (following the shortlisting process) after a failure to resolve significant commercial challenges
- Despite bringing together a 'best in class' supply chain, the Fujitsu proposal had a number of issues that could not be brought to a satisfactory conclusion. Consequently, the procurement was closed on 28th October 2013. The concerns Post Office had with Fujitsu were:
  - × A lack of expertise, and no fully integrated solution
  - × Limited flexibility
  - × High fixed costs (set-up costs of £7.5.m and managed service costs of £10m over the contract)
  - × Back tracking on the managed service approach
  - × An 'old school' culture not suited to the market dynamics
  - × Continual delay

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# The Alternatives Routes to Market – 'Plan B'

- The focus has been to explore the 'typical' Mobile Virtual Network Operator ("MVNO") approach to market entry in using direct partnerships with suppliers
- The secondary focus has been to assess the returns available through a branded reseller agreement. This analysis has shown low returns typically resulting from a one off commission payment and it is therefore not recommended that this option is explored further at this time. Further information can be found in Appendix 1

## The approach to creating 'Plan B'

| | |
|---|---|
| Operating model | Identify the components needed |
| Suppliers | Identify potential providers (focussing on Fujitsu subcontractors) |
| Commercial proposals | Obtain commercial proposals from the potential partners |
| The impact on Post Office becoming service integrator | Identify the support structure Post Office would need |
| The role of Atos | Explore using Atos as service integrator and/or provider of a Service Desk |
| Business case | Update the business case and compare it to the strategic plan. |
| Launch timescales | Assess the likelihood of Post Office mitigating a July 2014 launch |
| Risk | Produce a risk analysis |

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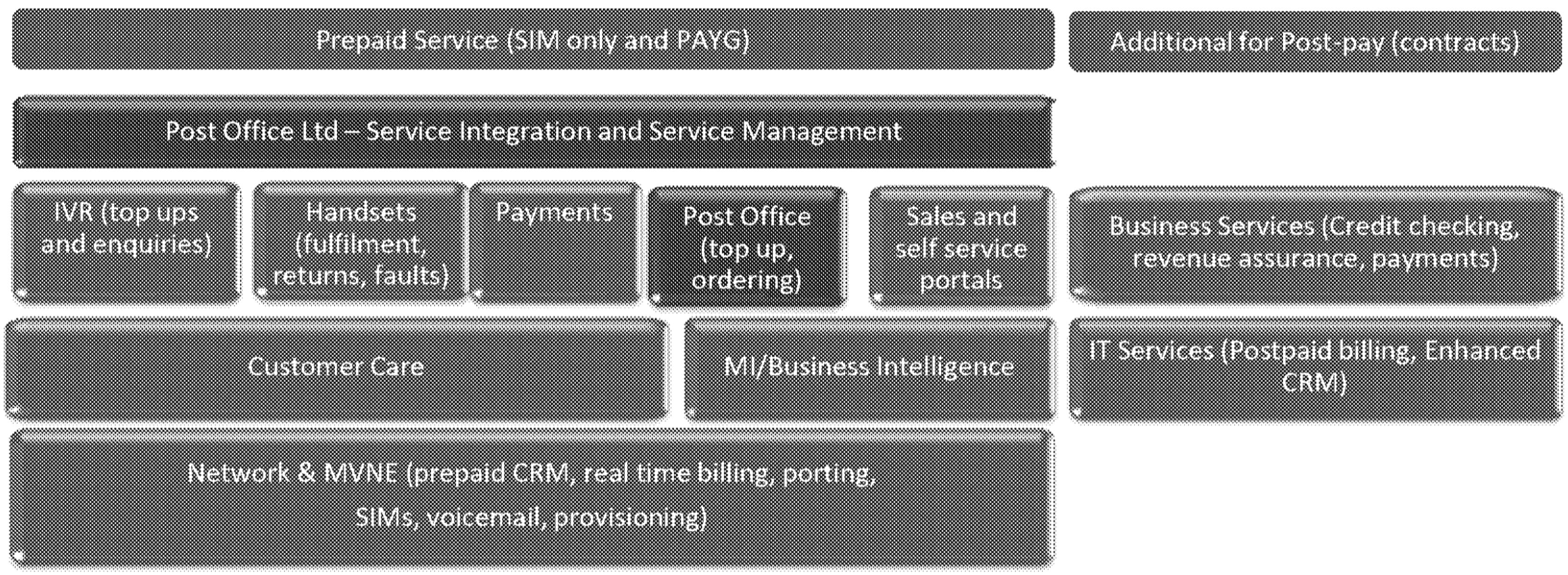
# The Operating Model and Partnerships for 'Plan B'

- The components required to support pre-pay services are relatively straightforward to bring together. To add post-pay or contract services there is a requirement to add some complexity with the need for credit checking , post paid billing, and an enhanced Customer Relationship Management ("CRM") platform.
- Atos have confirmed that they neither have the experience or the appetite to enter discussions about taking the integrator role for the service




- Workshops have been held with the key suppliers in the Fujitsu led bid and others where the appropriateness of the operating model has been fully endorsed
- This is the standard operating model in the industry, where all the suppliers have experience working together to deliver and manage MVNOs
- **A high level of confidence has been obtained that Post Office can enter the pre-pay market with two key partnerships with EE (Network and MVNE)and 20:20 (Handsets, Portals, and Customer Care), with two more secondary contracts with Avnet (Business Intelligence) and Epay. To enter the post-paid market a specialist IT provider like Lifecycle would need to be added**

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# The Sourcing Plan and Risks

**A willing supply base with industry leading proposals**

- ✓ The suppliers that would have sat behind Fujitsu and are willing to contract with Post Office directly for services.
- ✓ The competitive tension from the previous process had resulted in industry leading headline prices for airtime under the Fujitsu led bid (EE versus Vodafone). This makes up the majority of the cost base.
- ✓ **We have received commercial proposals from the key potential partners and all have provided indicative pricing and contract terms which in some cases are improvements on the terms provided to Fujitsu under the previous process. In the case of EE, the rates are 10% lower which reflects the Fujitsu margin.**
- ✓ Post Office now has a great opportunity to obtain a cost base from its suppliers to give the service the best chance of success, without the heavy fixed costs levied under the deal tabled by Fujitsu.

**Procurement Approach**

- ✓ Subject to endorsement on this 'Plan B' approach, the team will work with the providers to negotiate suitable services and associated commercials, with a view to signing contracts in Q4 2013/14
- ✓ For the additional service elements required to deliver post –pay services, Post Office would most likely run competitive procurements in Q1 2014/15.

**Procurement Risk**

- ✓ The previous procurement relied upon the telecoms exception from Public Contract Regulations.
- ✓ The 'Plan B' approach can still rely upon this exception ("Where the principle purpose of the contract is to is to provide or exploit public telecommunications networks or provide a telecommunications service to the public".)
- ✓ The risk is slightly higher under 'Plan B', due to Post Office procuring some individual components that could be deemed non telecoms specific, but the risk is not deemed as material.

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# The enhanced role of Post Office in the Operating Model

**Additional complexity in bringing together and managing the service.....**

- The service delivery will be more complex for Post Office, with more services to integrate and end to end business processes to create.
- A strong and experienced delivery team will be required, with the likelihood that Post Office will need to hire externally for some experienced programme resource.
- The Managed Service Team has advised that two FTE heads would be required to run the service.
- Atos would be need to be incorporated into the solution to provide the Service Desk.

**The implications of Post Office owning the solution architecture......**

- Post Office will have the responsibility of bringing the end to end solution together to ensure that it is scalable, and comprehensive.
- The solution can be developed to accommodate wider Post Office strategic developments such as the 'Common Digital Platform'.
- Whilst some level of integration with the Post Office Broadband and Phone service is possible, integration will be less straight forward and less far reaching than would have been available under the Fujitsu managed service. However, research has shown this is less important to customers than originally thought.
- The solution will have to be designed to be flexible enough to integrate with other Post Office services to ensure that the value from our unique product offerings can be incorporated into a differentiated mobile product.

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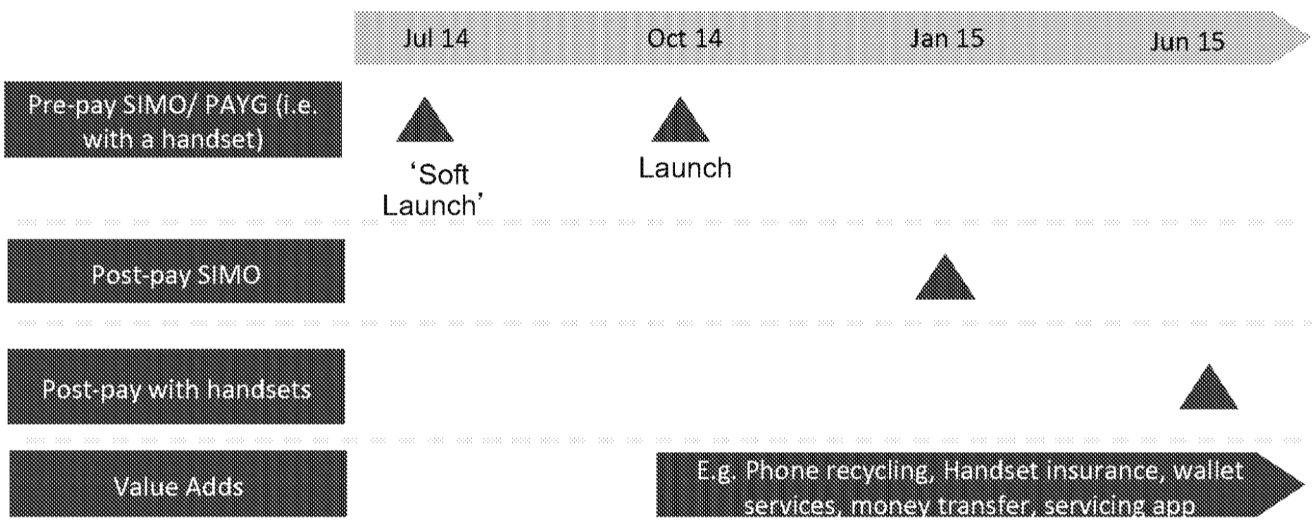
# Under 'Plan B' the Launch Strategy Remains Unchanged

**The launch dates detailed below remain aspirational, but all suppliers have confirmed that this is achievable but dependent on a procurement process being completed by February 2014. Should the initial 'soft launch' be delayed beyond late August, it will be unlikely that a national rollout can happen before January 2015 due to Christmas.**

- Launch a simple SIM only & PAYG service as a 'soft launch' in July 2014, followed by a national launch in October 2014.
- Launch a '30 day rolling' SIM only contract quickly after a pre-pay launch.
- A full contract service would launch in June 2015, as the services are much more likely to require an 'assisted sales' approach and therefore more appropriate to larger branches, where a 'shop in shop' approach may be considered.




**Sales and Service channel strategy**

- SIM only services sold from ALL branches.
- Handsets will be offered through the majority of branches, on the basis of 'order today, delivered tomorrow'.
- All services will be available and fully serviceable through an online web portal.
- Customers will be able to Top Up through the majority of current methods.
- Customer support and complex sales (accessories/upgrades) will be managed through self service, the web portal and contact centre.

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# Financials – The Revised Costs of Market Entry

- The indicative market entry costs for the 'Plan B' approach are significantly less than under a Fujitsu managed service:
- **Under a 'Plan B' direct approach indicative costs are £6.9m (£4.5m pre-pay and £2.4m post-pay)**
- Under a Fujitsu managed service the costs would have been £11.7m (pre-pay & post-pay)

| | Cost breakdown | 'Plan B' direct | Fujitsu |
|---|---|---|---|
| Post Office Costs | **Sunk costs to date** | **£0.8m** | **£0.8m** |
| | **Requirement to contract signature** | **£0.5m** | **£0.2m** |
| | **Post Office pre-pay Launch costs (consisting of)** | **£2.0m** | **£1.5m** |
| | - IT integration (mainly Horizon) | *£0.4m* | *£0.2m* |
| | - Skills group /external resource | *£0.6m* | *£0.3m* |
| | - Launch support (Branch PoS, training, T&Cs etc) | *£0.5m* | *£0.5m* |
| | - Basic marketing launch campaign | *£0.5m* | *£0.5m* |
| | **Post Office costs to introduce Post-pay services** (Consisting of IT, programme and marketing costs) | **£1.8m** | **£1.7m** |
| Supplier Costs | **Supplier Establishment costs (consisting of)** | **£1.8m** | **£7.5m** |
| | - Pre-pay service establishment | *£1.2m* | *£5.5m* |
| | - Post-pay service establishment | *£0.6m* | *£2.0m* |
| | **Estimated costs to market** | **£6.9m** | **£11.7m** |

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# Financials – Comparing the Returns

**Due to the reduction in a number of cost areas, the returns under a direct approach are significantly better than under a Fujitsu managed service. However, the delays mean that we are behind achieving its strategic plan income targets.**

| £k | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|---|---|
| PAYG Y/E Subscribers | | 64,147 | 122,872 | 159,940 | 181,826 | 193,068 | 200,949 |
| PAYM Y/E Subscribers | | 14,813 | 69,901 | 118,391 | 161,209 | 199,148 | 231,772 |
| | | | | | | | |
| **POL Managed Service - Direct Contracts** | | | | | | | |
| Revenue | - | 2,957 | 20,466 | 37,898 | 52,840 | 64,846 | 74,694 |
| Cost of Sales | - | 513 | 4,390 | 8,462 | 11,815 | 14,655 | 16,583 |
| **Net Income** | **-** | **2,445** | **16,075** | **29,436** | **41,025** | **50,190** | **58,111** |
| POL Ongoing Costs | | 1,091 | 2,197 | 3,433 | 4,453 | 5,290 | 5,990 |
| Other Ongoing Costs | - | 4,047 | 15,624 | 18,272 | 22,954 | 25,777 | 27,442 |
| POL Set Up Costs | 1,330 | 3,826 | - | - | - | - | - |
| Supplier Set Up Costs | | 1,694 | 150 | - | - | - | - |
| **Net Contribution** | **-1,330** | **-8,214** | **-1,896** | **7,730** | **13,618** | **19,123** | **24,679** |
| **Cumulative Contribution** | **-1,330** | **-9,544** | **-11,439** | **-3,709** | **9,909** | **29,032** | **53,711** |
| | | | | | | | |
| **Fujitsu Managed Service** | | | | | | | |
| Revenue | - | 2,957 | 20,466 | 37,898 | 52,840 | 64,846 | 74,694 |
| Cost of Sales | - | 552 | 4,573 | 8,913 | 12,504 | 15,527 | 18,132 |
| **Net Income** | **-** | **2,405** | **15,893** | **28,985** | **40,335** | **49,318** | **56,562** |
| POL Ongoing Costs | | 983 | 1,863 | 2,998 | 3,992 | 4,804 | 5,476 |
| Other Ongoing Costs | - | 4,646 | 16,391 | 19,153 | 23,853 | 26,703 | 28,351 |
| POL Set Up Costs | 1,330 | 2,844 | - | - | - | - | - |
| Supplier Set Up Costs | 3,752 | 3,752 | - | - | - | - | - |
| **Net Contribution** | **-5,082** | **-9,820** | **-2,361** | **6,833** | **12,490** | **17,811** | **22,734** |
| **Cumulative Contribution** | **-5,082** | **-14,902** | **-17,262** | **-10,429** | **2,061** | **19,872** | **42,606** |
| | | | | | | | |
| **Strategic Plan** | | | | | | | |
| **Net Income** | **800** | **8,600** | **24,700** | **39,100** | **47,700** | **51,100** | **51,100** |
| **Net Contribution** | **-2,500** | **400** | **6,200** | **14,500** | **19,400** | **20,900** | **20,900** |
| **Cumulative Contribution** | **-2,500** | **-2,100** | **4,100** | **18,600** | **38,000** | **58,900** | **79,800** |

- The delay and increased costs versus the strategic plan result in a longer period to breakeven.
- Entry into the post-pay market is more profitable, but requires upfront handset funding which pushes back the payback period. Entry could be delayed to bring forward the payback period, but return in 2020 would be reduced.

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# A mature market close to it's maximum, but with increasing numbers of customers looking to switch to an MVNO; 14% in 2009 up to 32% in 2012

## MARKET INSIGHT

- Market is split 56% post-pay & 44% pre-pay
- Pre-pay connections continue to decline as post-pay SIM only and post-pay handset contracts attract customers looking to seek better value
- 30% of pre-pay adds are now SIM only as customers save money by keeping hold of existing handsets for longer
- Within the pre-pay category disengaged customers result in switching inertia
- MVNO share is growing with entrants such as Tesco, Lyca Mobile and Asda. They are finding success with targeted and unique propositions, and extensive distribution
- Cheaper tariffs and fashionable phones are key hooks to disengaged consumers

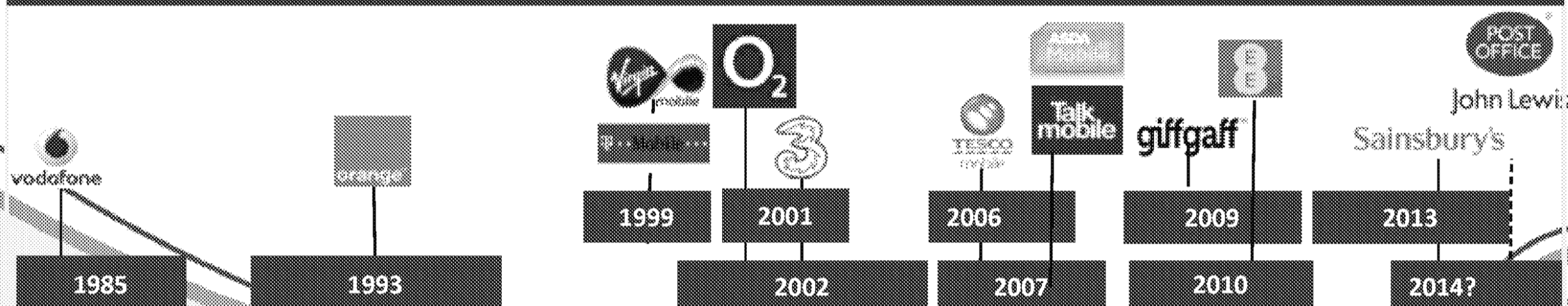
## COMPETITIVE LANDSCAPE

ASDA mobile was launched in April 2007 and currently represents 1% of the market (460,000 customers)

ASDA have relied mainly on in-store presence, stocking SIMs at till points. The proposition is based on a simple low cost tariff

Tesco mobile was launched late 2003 as part of a joint venture with O2. It currently represents 6% of the market (=2.7 m customers) spending **£12m** on communication in 2012. The complexity of the Tesco mobile tariff and. handset range has expanded over time

Over the last two decades, the network provider competitive landscape has evolved dramatically, with ever more new entrants, competing on price and aggressive offers



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# Market Context - what are the reasons to believe POL can successfully acquire and retain customers

- Within the pre-pay category disengaged customers cause strong switching inertia, however our research suggests that 1.4M (3%) of customers are looking to switch to a pre-pay service in the next 12 months.
- Post Office has a great opportunity to disrupt the passive loyalty in the pre-pay market through its ability to have face to face conversations on the back of relevant cross sell opportunities e.g. Top up, bill payments, POca transactions. When combined with good levels of consideration for a Post Office mobile service, conversion rates should be good.
- A differentiated customer proposition giving great value for money and bringing in tactical offers to fit with other portfolio services e.g. roaming bundles for Travel customers.
- There is a gap in the market for simple, transparent offers, offering genuine value for money. The Post Office brand can naturally fit into this space.
- Wide distribution – with PAYG and SIM only services available across the entire network, and a compelling revenue share deal with sub-postmasters to share in the ongoing success.

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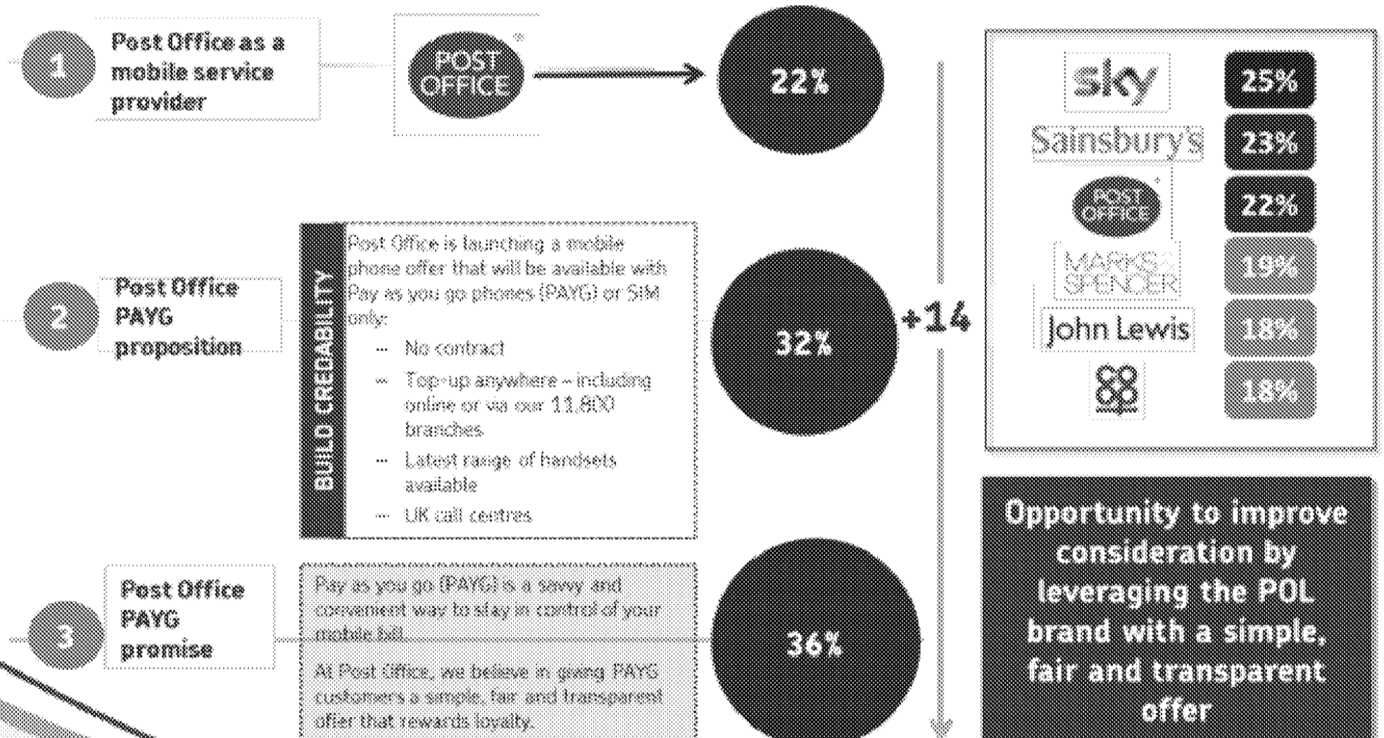
# The Research Programme & Customer Consideration

**Stages of research undertaken:**

1. Explore the existing market to identify and size the **opportunity landscape** for the entry of Post Office into the mobile market. Assessing the **initial openness** of the different target audiences to a Post Office pre-pay mobile service.
2. Secondly, identify the levers and hooks (features and servicing) which **maximise the demand** for a Post Office mobile offering across the different potential customer audiences.
3. Volume forecast to understand what Post Office can achieve in the pre-pay market.

## Consideration levels are extremely encouraging, and in the same ballpark as Sky and Sainsbury's



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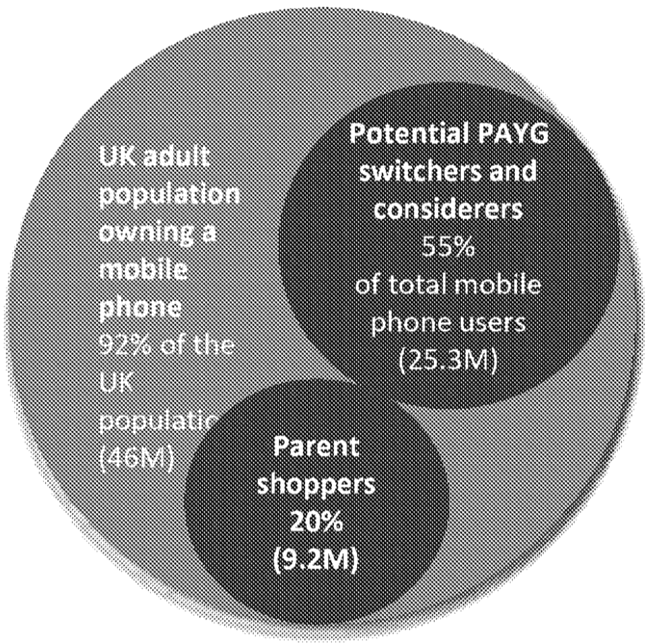
# Customer Research - The Target Market

**Target customers are more engaged in the category, more likely to switch and are frequent branch visitors**

## TARGET SEGMENTS




4m customers are "Ready and Willing" to take out a Post Office service

5.1m customers will need to be converted by a clear proposition and offer

## TARGET SEGMENT INSIGHT

- These potential customers represent the stronger opportunity.
- More engaged with the category, reviewing and switching offers more regularly.
- More valuable prospects due to their higher mobile usage and frequent top-up behaviors.
- Easier audiences to reach as they are most frequent branch and Post Office website visitors.
- More tactical audience to start the conversation via cross-selling opportunity. Many already use Post Office for non-mailing needs such as Travel, Government services, bill payments and mobile top up.

But we will need to anticipate the risks inherent to these two groups:

- Enable them to make confident decision about handset as most would get handset and SIM at the same time.
- Less loyal and more price sensitive groups require investment to ensure retention.

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# The Initial Customer Proposition for PAYG

A simple, fair and good value offer which gives customers an attractive headline offer, delivers a competitive underlying tariff, rewards customers for their loyalty and delivers the optimum launch proposition

| | PAYG Tariff for SIMO & PAYG with handset | | |
|---|---|---|---|
| | TALK 15p | TEXT 10p | DATA 20p per MB data |
| Headline | DOUBLE CREDIT ON TOP-UPS EVERY 30 DAYS | | |
| 30 Day Bundle | £5<br>150 mins or…<br>500 texts or…<br>500MB Data | £10<br>100 mins<br>100 MB<br>Unlimited texts | Roaming Bundle |
| | £15<br>200 mins<br>200 MB<br>Unlimited texts | £20<br>500 mins<br>500 MB<br>Unlimited texts | £2<br>Family Bundle<br>'Call Home'<br>Security features |
| Loyalty | Handset Reward Fund<br>For every £10 top-up we will credit you 'Phone Fund' with £1 to help you save for your next handset | | |

## FAMILY (Child PAYG Initially)

Family calling bundle £2: Call home even with £0 credit – 37% of parents say this would be essential & willing to pay for this

Other features popular but not customers are less willing to pay such as capping usage / blocking calls to certain numbers so these feature would be linked to top-up: Top-up £10 a month to receive 'Family'

## ROAMING

Travel: 63% key target segment interested in a PAYG SIM when travelling abroad

Tactical opportunity to introduce customers to Post Office as a mobile provider

Target audience has a high usage of Post Office Travel Money & insurance

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# Insight shaping the PAYG sales model

All branches SIMO sale: Self serve approach > Pick up, Pay and walk away

Select branches PAYG with Handset: Range display, Pick up, Pay > next day delivery

As long as consumers can interact with knowledgeable staff in branch they are happy to order handsets remotely

**Key findings creating a simple sales process**

- It is not essential for over 70% of customers to see handsets in-branch amongst key target segments
- Customers savvy with SIMs and handset unlocking
- Only 3% need help inserting a SIM
- 76% comfortable finding out if a handset was locked / unlocked

Flexible handset range & display giving customers guidance on what is right for them. Range could be tailored geographically

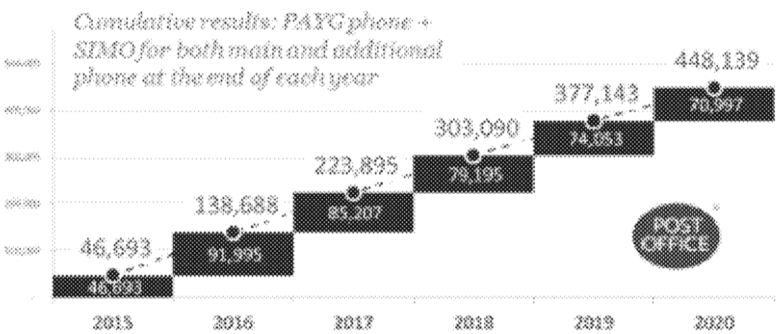
The call centre will be the handset experts / avoiding branches offering complex handset support

# Insight driven sales forecast for pre-pay (Source: Truth Wave Research)

## The acquisition volume forecast

1 – ***Post Office PAYG mobile*** could attract up to a **maximum** of **448,139 potential trialists** by the end of 2020

A strong effort to clarify and promote Post Office's mobile services will be required from staff to maximise the opportunity and achieve these results.




***This is an acquisition model,*** *which does not take into consideration churn of PO customers*

These results are based on "best case scenario" assumptions:

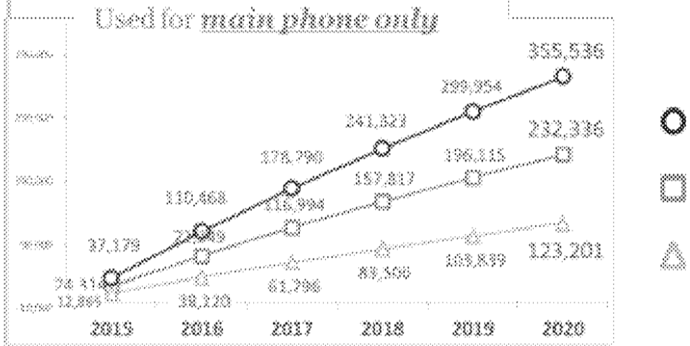
- ✘ PO front-line staff will ***actively*** promote PO mobile, ***equally*** PAYG phone and SIMO propositions across entire network
- ✘ Sale opportunities are mainly discussion with a POL colleague at the counter supported by leaflets available in branch
- ✘ ***Stable in-branch traffic*** overtime

*MVNO competitive benchmark*

√ In **6** years, *ASDA mobile* represent **1%** of the market, supported in-store only. Circa **460,000** customers

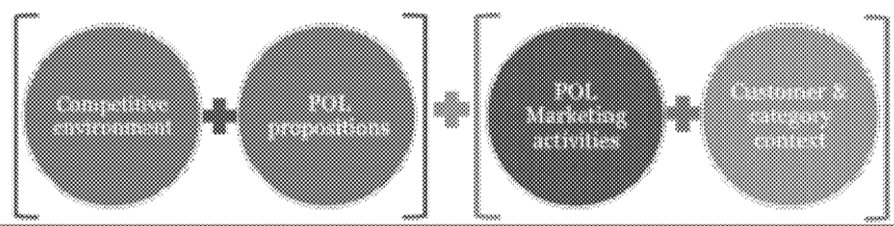
✘ In **7** years, ***Tesco mobile*** represent **6%** of the market, spending between £7m and £12m on TV each year since 2009 to support its mobile offer. Circa **2.7 m** customers

2 – Those using PO mobile for their ***main phone*** will be the most reliable source of revenue given additional phones are mainly used on an occasional basis, if not simply as a back-up.




Most SIMO customers activate their SIM cards straightaway, allowing PO to generate revenue immediately

***Methodology***: This forecast model is based on a range of assumptions and hypotheses which can be revisited in the future




The Forecast simulator allows to adjust and calibrate the trade-off results generated in the conjoint simulator taking into account:

- The marketing activities supporting the propositions
- The external category factors (e.g. likelihood to switch in the next 12 months)

**Important**: this ***acquisition model*** helps us assess if the level and nature of the "effort" invested by the business to support the launch is sufficient but only gives indications of the commercial sustainability of this new activity

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# The Key Risks

| Risk | Mitigation |
| --- | --- |
| The informal costs supplied do not materialise in a formal procurement process | Detailed negotiations, scope rationalisation, introduction of competition |
| The timescales to extend due to delay in the contracting or build process resulting in escalating costs and lost income | Focus on "out of the box" services<br>Revision of propositions and / or sub contract services.<br>Contractual remedies against sub-contractors |
| Post Office fails to bring together the end to end service effectively resulting in gaps and customer experience or service issues. | Ensure appropriately skilled team established. Processes and procedures are robust and in place prior to launch. Soft launch to help identify issues prior to national roll out |
| Take up of the service is significantly less than anticipated | Soft launch to test viability and minimise risk and cost |

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# Summary and recommendations

- The research programme and engagement with market intelligence experts at EE strongly supports Post Office's entry in to the mobile market

- Industry experts advise that the Post Office brand, scale and network reach leaves it as one of the few "un-launched" MVNOs likely to be successful in the UK. Both the French (750k subs) and Italian (>3m subs) Post Offices have launched similar services in recent years and have significantly over achieved

- The revised operating model gives Post Office the greatest chance of success with the added flexibility, control and ability to manage cost and aligns with standard industry practice

- It is recommended therefore that the Executive Committee approves the continuation with the product development and supplier engagement under the revised 'Plan B' approach.

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# Appendix 1 – the branded reseller market entry option

## Proposition/Solution

- Mobile solution is provided by the mobile operator, including billing, proposition development and pricing, and customer care
- Post Office would be responsible for selling the services and would earn a commission for doing this – one off for PAYG, and potentially also a recurring revenue share for PAYM
- Any bad debt from a Post Office generated customer would result in a claw back of commission by the Mobile Operator
- The Mobile Operator would retain ownership of the customer, and they have a reputation of continually changing commercials.
- Launch costs would be lower, but Horizon integration costs would still be incurred
- This model is common in the SME segment, but is increasingly less common in the consumer segment

## High level Indicative Commercials – Indicative return of 10.25m

### Pre-paid

- Commercials received from Elite Mobile, one of the UK's leading SIM distributors provided the retailer a one off commission of £3.00, with Post Office receiving an additional 0.75p.
- Based on 10,000 gross prepaid connections a month, that equates to an income stream (after branch commissions) of £90,000 per year, or £0.45m over five years

### Post-paid

- Typical commercials provide resellers with an approximate 25% revenue share plus a connection bonus of £50-£100, with the reseller having to fund the (ever more expensive) handset.
- Indicative calculations show that a £15/month connection may generate a return of £18 over 24 months, with a £20/month connection returning £53 over 24 months and a £30/month connection returning £166 over 24 months.
- It is expected that POL customers would tend to be at the lower end of the post-paid spectrum.
- Assuming 5,000 connections each month, and a return of £35 per connection (50% £15 & 50% £20 connections), POL's income stream (after branch commissions) would be £175,000 per month, or a maximum of £10.5m over 5 years

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# POST OFFICE LTD EXECUTIVE COMMITTEE

## Business risks evaluation November 19th 2013

### 1. Purpose

The purpose of this paper is to set out the agenda for the risk session at the November ExCo.

### 2. Background

The Audit, Risk & Compliance Committee (ARC) approved the Post Office risk management strategy to consider risks from a top-down perspective. A paper has been drafted for the ARC setting out the ExCo view of critical risks as derived from the current ExCo risk map and profile which will be discussed later on the same day as this meeting.

Management of risks is a continuous part of BAU process and it is important that ExCo:

- Refresh the view of critical risks for the Board/ARC attention;
- Define the risk appetite, particularly for critical risks; and
- Develop action plans to move risks to their desired 'target state'.

The objective of this session is to complete the above tasks for those risks defined as critical and likely in the paper going to the ARC (top 5 risks).

### 3. Session structure

To achieve this objective we will look at each of the five risks identified and:

- Consider the causes and consequences of the specific risk;
- Define the risk appetite and target level of risk; and
- Propose actions to achieve the target level of risk.

The session will be facilitated by the Head of Risk Governance.

### 4. Pre-work

ExCo members are asked to reflect on the current risk map and the ARC paper and formulate their views around the above aims.

**Chris Aujard**
**14th November 2013**

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# POST OFFICE LIMITED

# Performance Report

October 2013

Produced By : Financial Control and Compliance Team

For Queries & Comments Contact : Sarah Hall or Kam Bassra

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# Contents

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# Headlines

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## October 2013

This report has been restructured to prioritise the key information in the first 9 pages. The focus of the ExCo meeting will be on the latest projections and remedial action required rather than an update of recent performance. The more detailed pages are now in the Appendices for reference but they are not required pre-reading.

Profit & Loss - YTD

- Profit at P7 was £65.0m, which was £5.8m favourable to budget of £59.2m, and £7.3m adverse to prior year of £72.3m. The month is £0.7m favourable, but within this, income was £6.9m adverse, offset by favourable costs which are largely driven by £3.7m VAT resulting from a change in the recovery rate and £1.8m agents pay benefit relating to lower sales. The CFO forecast view is still to achieve the full year profit target despite the increasing income gap.
- Net income performance of £503.9m remains the key concern with an adverse variance of £24.9m compared to budget (mainly Mails £16.0m and Lottery £4.3m). The risk on the Sales Recovery plan has increased - a risk of £5-10m was highlighted through the Q2 FYF review and the P7 results have led to a refinement of the CFO forecast to reflect the continued adverse performance in Mails and Lottery.
- Staff costs have returned to budget in P7 mainly because the Q2 sales bonus was below budget reflecting lower sales. The budget for the managers' lump sum pay award is covering the shortfall in efficiency savings but this will unwind if a pay offer is made. The Cost Reduction Programme is implementing a series of savings activities to drive the cost down - most will impact on 2014-15 with minor savings coming through in 2013-14.
- Agents' costs were £20.7m favourable to budget, mainly due to lower sales income £11.9m, sales mix (parcels) £2.3m and £1.6m due to WHS provision utilisation (relating to the original contract). The favourable agents' costs are projected to be largely maintained but with anticipated mails segregation payments (£1.1m) and delays to locals conversions reducing the full year upside.
- Non people costs were £1.4m favourable to budget. The favourable position is driven by £3.7m VAT recovery relating to H1 for changes in the VAT recovery rate, but masks the underlying adverse variance due to Horizon costs originally budgeted for in the prior year. RM costs are now treated as non staff following the IPO and we believe there are still some costs to come through. The VAT recovery has been taken to the CFO forecast (previously in opportunities).
- Interbusiness expenditure was £4.7m lower than budget, driven by lower Official Mail costs and property costs. IB charging ceased from 16th October 2013 following the RM IPO although some catch up costs may still be incurred.
- Project costs were £1.5m favourable YTD with the underspend driven by the movement of separation costs to exceptional items. The current year customer engagement budget continues to cover the spend delayed from 2012-13 into this year.

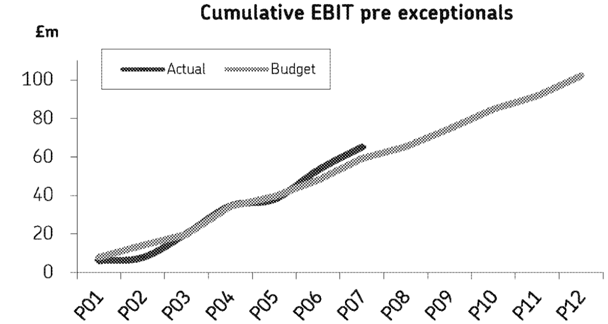
Cashflow

The YTD cashflow was an inflow of £197m which was £94m favourable to the £103m inflow budget (Period 6 was £21m favourable), mostly driven by delays to NTP expenditure.

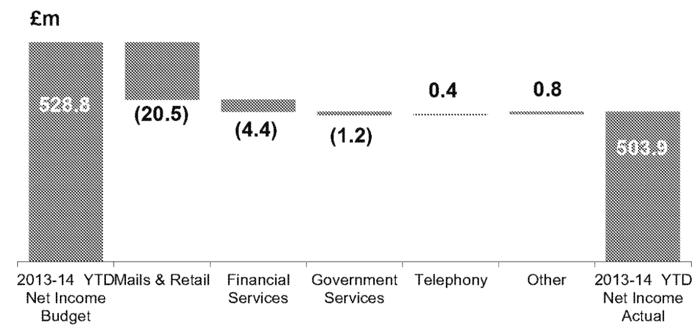
Crown P&L - YTD

The Crown loss is £0.9m adverse to budget. Income was £2.7m adverse driven primarily by Mails, partially offset by Government Services. Costs are £1.5m favourable and share of JV is £0.4m favourable.

**Cumulative EBIT pre exceptionals**




**Total Net Income - Budget to Actual Bridge**




| | Year to Date | | |
|---|---|---|---|
| **Financials** | **Act** | **Target** | **Var** |
| Total Net Income (excl NSP) £m (Bonus) | 503.5 | 528.8 | (25.3) |
| Operating profit £m (Bonus) | 65.0 | 59.2 | 5.8 |
| Free cashflow £m | 196.8 | 103.0 | 93.8 |
| Crown Profit (Loss) £m (Bonus) | (18.8) | (17.7) | (1.1) |
| **Non Financials** | | | |
| Queue time % < 5 minutes - Top 1k branches | 84.1% | 79.5% | 4.6% |
| NT Conversions - (Mains & Locals) (Bonus) *** | 2113 | 2025 | 88 |

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# Profit & Loss Statement

**October 2013**

| | Current Month | | | Prior Year Period | | Year to Date | | | Prior Year YTD | | Full Year | | | Prior Year | Prior Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **£m** | **Actual** | **Budget** | **Variance** | **Actual** | **Variance** | **Actual** | **Budget** | **Variance** | **Actual** | **Variance** | **Q2 Forecast** | **Budget** | **Variance** | **Outturn** | **Variance** |
| **TOTAL GROSS INCOME** | 88.5 | 95.1 | (6.6) | 93.3 | (4.8) | 571.2 | 596.4 | (25.2) | 594.5 | (23.3) | 998.8 | 1,012.2 | (643.3) | 1,023.6 | (24.8) |
| Cost of Sales | (10.8) | (10.5) | (0.3) | (11.1) | 0.2 | (67.3) | (67.6) | 0.3 | (69.3) | 2.0 | (111.2) | (112.2) | (0.0) | (121.2) | 10.0 |
| **TOTAL NET INCOME** | 77.7 | 84.6 | (6.9) | 82.3 | (4.6) | 503.9 | 528.8 | (24.9) | 525.2 | (21.3) | 887.6 | 900.0 | (12.5) | 902.4 | (14.2) |
| Staff Costs | (22.2) | (23.0) | 0.9 | (23.0) | 0.8 | (152.6) | (152.6) | 0.0 | (149.7) | (2.9) | (259.2) | (256.1) | (3.1) | (257.4) | (1.8) |
| Agents Costs | (44.3) | (46.1) | 1.8 | (43.9) | (0.4) | (264.1) | (284.8) | 20.7 | (279.0) | 15.0 | (468.9) | (480.0) | 11.1 | (478.1) | 9.2 |
| Non-Staff Costs | (12.5) | (15.1) | 2.6 | (15.1) | 2.6 | (95.5) | (96.9) | 1.4 | (89.9) | (5.6) | (164.7) | (160.0) | (4.7) | (162.3) | (2.4) |
| Interbusiness Expenditure | (5.3) | (7.8) | 2.5 | (7.4) | 2.1 | (44.9) | (49.7) | 4.7 | (48.1) | 3.2 | (82.7) | (83.9) | 1.2 | (83.6) | 0.9 |
| Depreciation | (0.0) | (0.1) | 0.1 | 0.3 | (0.3) | (0.2) | (0.6) | 0.4 | (0.2) | (0.0) | (0.8) | (0.9) | 0.0 | (0.4) | (0.4) |
| **Total Expenditure (pre POOC)** | (84.2) | (92.1) | 7.8 | (89.1) | 4.9 | (557.3) | (584.5) | 27.3 | (566.9) | 9.7 | (976.3) | (980.8) | 4.5 | (981.8) | 5.5 |
| FRES - Share Of Operating Profits | 2.6 | 2.5 | 0.1 | 2.6 | 0.0 | 25.3 | 23.9 | 1.3 | 24.5 | 0.8 | 33.0 | 31.5 | 0.0 | 31.9 | 1.1 |
| **EBIT Pre Overhead Allocations** | (3.9) | (4.9) | 1.0 | (4.2) | 0.3 | (28.2) | (31.8) | 3.7 | (17.3) | (10.9) | (55.7) | (49.2) | (6.5) | (47.5) | (6.2) |
| **Group Overhead allocations** | (0.5) | (1.1) | 0.6 | (1.3) | 0.8 | (7.4) | (8.0) | 0.7 | (8.5) | 1.2 | (13.8) | (13.8) | 0.0 | (14.9) | 1.1 |
| **EBIT - BAU** | **(4.4)** | **(6.1)** | **1.6** | **(5.5)** | **1.0** | **(35.5)** | **(39.9)** | **4.3** | **(25.8)** | **(9.7)** | **(69.5)** | **(63.0)** | **(6.5)** | **(62.4)** | **(7.1)** |
| One off Project costs (POOC) | (2.9) | (1.9) | (0.9) | (3.0) | 0.1 | (18.7) | (20.2) | 1.5 | (24.7) | 6.0 | (28.5) | (35.0) | 6.5 | (53.4) | 24.9 |
| **EBIT - Post Project Costs** | **(7.3)** | **(8.0)** | **0.7** | **(8.5)** | **1.2** | **(54.2)** | **(60.0)** | **5.8** | **(50.5)** | **(3.7)** | **(98.0)** | **(98.0)** | **(0.0)** | **(115.8)** | **17.8** |
| Network Payment | 19.2 | 19.2 | 0.0 | 19.8 | (0.6) | 119.2 | 119.2 | 0.0 | 122.8 | (3.6) | 200.0 | 200.0 | 0.0 | 210.0 | (10.0) |
| **EBIT pre exceptionals items** | **11.9** | **11.2** | **0.7** | **11.3** | **0.6** | **65.0** | **59.2** | **5.8** | **72.3** | **(7.3)** | **102.0** | **102.0** | **(0.0)** | **94.2** | **7.8** |
| Interest | 0.4 | (0.5) | 0.9 | (0.1) | 0.6 | 1.9 | (2.5) | 4.4 | (0.6) | 2.6 | (2.0) | (5.0) | 3.0 | (0.8) | (1.2) |
| Impairment | (7.1) | (16.1) | 9.0 | (3.2) | (3.9) | (42.2) | (80.0) | 37.8 | (35.5) | (6.7) | (140.0) | (167.5) | 27.5 | (65.6) | (74.4) |
| Exceptionals & Redundancy & Severance Costs | (12.1) | (31.3) | 19.2 | (3.6) | (8.5) | 25.4 | (103.9) | 129.3 | (27.5) | 52.8 | (37.9) | (184.4) | 146.5 | (77.0) | 39.1 |
| Government Grant Utilisation | 18.9 | 36.5 | (17.6) | 5.2 | 13.7 | 148.1 | 202.4 | (54.3) | 40.4 | 107.7 | 253.1 | 316.9 | (63.8) | 98.2 | 154.9 |
| Profit/(Loss) On Asset Sale | 0.0 | 0.0 | 0.0 | (0.0) | 0.0 | 2.5 | 0.0 | 2.5 | (27.9) | 30.5 | 2.5 | 0.0 | 2.5 | (27.7) | 30.2 |
| Colleague Share/ Business Transformation Payments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (3.3) | 3.3 |
| **Total Profit/(Loss) Before Tax** | **12.0** | **(0.2)** | **12.2** | **9.6** | **2.5** | **200.8** | **75.2** | **125.6** | **21.2** | **179.6** | **177.7** | **62.0** | **115.7** | **18.0** | **159.7** |

Period vs. Budget
Operating profit (EBIT) of £11.9m was £0.7m favourable to budget.

BAU was £1.6m favourable:
- Lower staff costs of £0.9m the favourable in the month is mainly due to lower Q2 sales bonuses reflecting lower sales.
- Lower Agents costs of £1.8m mainly due to reduced income,
- Lower non staff costs of £2.6m due to VAT recovery rate changes resulting in a £3.7m benefit, and
- Lower interbusiness costs due to lower Property charges from RM and IB ceasing following the RM IPO.

Offset by:
- Lower income of £6.9m due primarily to the continuation of the trend in Mails and Retail and in P7 an adverse variance for FS.

One-off variance of £0.9m adverse relates to the brand expenditure being incurred later than planned.

Below EBIT
Impairments were favourable due to slower progress than plan on NTP.

YTD vs. Budget
Operating profit (EBIT) of £65.0m was £5.8m favourable to budget.

BAU variance of £4.3m favourable was mainly due to:
- Lower agents costs of £20.7m mainly due to; £11.9m relates to lower sales income, £2.3m sales mix (parcels), £1.6m WHS provision,
- Lower non staff costs of £1.4m due to VAT recovery rate changes resulting in a £3.7m favourable variance offset by Horizon costs originally budgeted for in prior year, but incurred this year,
- Lower IB of £5.4m driven by lower Official Mail and Property costs and separation impacts for actuals moving to non staff, and
- Higher FRES JV income of £1.3m.

Offset by
- Lower income of £24.9m, mainly Mails £16.0m and Lottery £4.3m, Mails performance continues to be impacted by lower parcel volumes following the RM price changes in April. New parcel formats have been introduced at the end of October which should reverse this trend. Lottery continues to underperform, though the Camelot price increase was effective from October and the Health Lottery was introduced during September.

Project One-off variance of £1.5m favourable. The underspend is driven by the movement of Separation costs to exceptionals.

Below EBIT
Exceptional costs are favourable mainly due to a £102m credit relating to the change in pensions terms. The underlying variance is due to slower pace of capital spend and operating exceptionals, including agents compensation, compared to budget. Government grant utilisation follows this trend, but also included utilisation against the remaining 2012/13 exceptional costs. The profit on sale related to the lease surrender of Midway House.

YTD vs. Prior Year
Operating profit (EBIT) of £65.0m was £7.3m adverse to prior year.

Like for like adverse variance of £9.7m was mainly due to:
- Lower net income of £21.3m. The variance versus prior year is driven primarily by the stamps buy forward last year and lower parcel volumes. Government Services also decreased as a result of lower rates from the new DVLA contract and falling Card Account customers. NS&I income fell as more customers have moved away from POL.
- Higher staff cost of £2.9m adverse to prior year due to higher pension costs, pay awards and increased headcount, and
- Higher non staff costs of £5.6m due to increased IT costs mainly Horizon, timing of marketing spend, and the removal of the FX bureau rebate received in H1 last year partially offset by the increased VAT recovery rate this year.

Offset by:
- Agents costs £15.0m favourable variance to POL; £9.3m due to lower sales, predominantly Mails buy forward pre price increase, £2.5m lower fixed pay from unfreezing the Core Tier Payment and roll out of Locals and £3.2m accrual release relating to the DVLA rate changes.
- Lower IB of £4.4m favourable to prior year, due to services switching into POL from RM, and
- Higher JV income of £0.8m.

Non like for like favourable variance of £2.4m was due to:
- Lower project costs of £6.0m, and
- Lower Network payment of £3.6m.

Below EBIT
NT exceptionals including compensation were ahead of the equivalent pace in 2012/13. 2013/14 grant utilisation includes £30m against 2012/13 exceptional costs not covered by the 2012/13 grant.

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# CFO High Level Profit Forecast At Period 7

**October 2013**

| £'m | Income | JV Income | Costs | NSP | EBIT |
|---|---|---|---|---|---|
| **Budget** | **900** | **32** | **(1,030)** | **200** | **102** |
| Downsides | | | | | |
| Mails income | (31) | | | | (31) |
| Gov't Services income | (3) | | | | (3) |
| Telephony income | 0 | | | | 0 |
| FS income | (5) | | | | (5) |
| Other income/ POOC contingency | (5) | | 5 | | 0 |
| Staff efficiency | | | (2) | | (2) |
| Fujitsu costs | | | (2) | | (2) |
| IT&C efficiency task | | | (3) | | (3) |
| Interbusiness | | | | | |
| Mails segregation penalty | | | (1) | | (1) |
| Bonuses | | | (1) | | (1) |
| Agents pay - sales impact | | | 20 | | 20 |
| NT Locals delays | | | (2) | | (2) |
| Agents segregation payments | | | (1) | | (1) |
| POOC overspend | | | (2) | | (2) |
| Non staff savings task | | | (1) | | (1) |
| | (44) | 0 | 10 | 0 | (34) |
| Mitigating actions | | | | | |
| Mails income - dangerous goods | 7 | | | | 7 |
| Mails income - format changes/campaigns | 6 | | | | 6 |
| Lottery price rise | 2 | | | | 2 |
| Gov't - UKBA Cost of Sales correction | 1 | | | | 1 |
| Gov't - volume trends | 2 | | | | 2 |
| FS income - Santander volumes | 2 | | | | 2 |
| FS income - Junction deal | 3 | | | | 3 |
| FRES upside (higher ATV's) | | 1 | | | 1 |
| PhotoMe income | 1 | | | | 1 |
| IT&C savings | | | 3 | | 3 |
| Telephony implementation | | | 2 | | 2 |
| Agents mix | | | 4 | | 4 |
| Agents DVLA timing | | | 3 | | 3 |
| POOC | | | 5 | | 5 |
| Contingency | | | (3) | | (3) |
| Agents pay - sales recovery | | | (8) | | (8) |
| Pay award 12/13 not consolidated | | | | | 0 |
| No pay award for 13/14 | | | | | 0 |
| VAT upside | | | 3 | | 3 |
| Bonus upside (for target failure) | | | | | 0 |
| | 24 | 1 | 9 | 0 | 34 |
| **Latest View at P7** | **880** | **33** | **(1,011)** | **200** | **102** |
| Variance to budget | (20) | 1 | 19 | 0 | 0 |

## Crown Profit & Loss Statement

Strictly Confidential

**October 2013**

| £m | Period Actual | Period Budget | Period Variance | Prior Year Period Actual | Prior Year Period Variance | Year To Date Actual | Year To Date Budget | Year To Date Variance | Prior Year YTD Actual | Prior Year YTD Variance | Full Year Q2 Forecast | Full Year Budget | Full Year Variance | Prior Year Outturn |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income and Distributions | | | | | | | | | | | | | | |
| Variable income | | | | | | | | | | | | | | |
| - Mails | 3.7 | 4.2 | (0.5) | 4.0 | (0.3) | 22.4 | 24.8 | (2.4) | 26.1 | (3.7) | 41.2 | 43.2 | (2.1) | 44.8 |
| - Financial Services | 2.7 | 2.7 | (0.0) | 2.9 | (0.3) | 17.6 | 17.5 | 0.1 | 18.8 | (1.2) | 28.9 | 29.6 | (0.7) | 30.4 |
| - Government Services | 2.0 | 1.7 | 0.3 | 2.3 | (0.2) | 13.0 | 12.0 | 1.0 | 15.2 | (2.2) | 20.8 | 19.9 | 0.9 | 26.4 |
| - Telephony | 0.1 | 0.1 | (0.1) | 0.1 | (0.0) | 0.5 | 0.6 | (0.2) | 0.8 | (0.4) | 1.0 | 1.3 | (0.3) | 1.3 |
| Fixed income | 2.3 | 2.2 | 0.0 | 2.6 | (0.3) | 14.3 | 14.6 | (0.3) | 17.0 | (2.7) | 25.5 | 24.8 | 0.7 | 28.2 |
| Gamma/ Other | 1.0 | 1.2 | (0.2) | 1.1 | (0.1) | 5.9 | 7.2 | (1.3) | 6.2 | (0.4) | 11.3 | 14.8 | (3.5) | 10.9 |
| Renewals and Retentions | 1.4 | 1.4 | 0.0 | 0.8 | 0.6 | 11.3 | 9.8 | 1.6 | 4.6 | 6.8 | 18.7 | 16.5 | 2.2 | 11.1 |
| **Total Income including Gamma/other** | **13.2** | **13.6** | **(0.4)** | **13.9** | **(0.7)** | **85.0** | **86.5** | **(1.5)** | **88.7** | **(3.8)** | **147.4** | **150.1** | **(2.7)** | **153.2** |
| Direct Product Costs | (0.7) | (0.6) | (0.1) | (0.4) | (0.2) | (3.8) | (3.8) | 0.0 | (4.1) | 0.3 | (4.8) | (5.0) | 0.1 | (8.3) |
| Branch costs | | | | | | | | | | | | | | |
| - Staff | (10.3) | (10.0) | (0.3) | (10.9) | 0.6 | (64.4) | (64.1) | (0.3) | (69.2) | 4.8 | (105.8) | (106.0) | 0.2 | (117.9) |
| - Property | (3.4) | (3.8) | 0.3 | (2.4) | (1.0) | (25.5) | (25.8) | 0.3 | (15.3) | (10.2) | (35.2) | (35.4) | 0.1 | (36.9) |
| - Other branch costs | (0.4) | (0.4) | (0.0) | (0.4) | 0.1 | (2.4) | (2.2) | (0.2) | (3.5) | 1.0 | (4.3) | (4.7) | 0.4 | (6.3) |
| Infrastructure costs | (1.7) | (1.9) | 0.1 | (2.3) | 0.6 | (12.1) | (12.4) | 0.3 | (13.0) | 0.9 | (22.7) | (22.9) | 0.1 | (22.5) |
| Allocated central costs | 0.1 | (0.3) | 0.4 | (1.0) | 1.0 | (2.8) | (2.8) | (0.0) | (5.1) | 2.3 | (9.0) | (8.4) | (0.6) | (7.7) |
| **Total Expenditure** | **(16.4)** | **(16.9)** | **0.5** | **(17.6)** | **1.1** | **(111.1)** | **(111.1)** | **0.1** | **(110.2)** | **(0.9)** | **(181.9)** | **(182.2)** | **0.3** | **(199.7)** |
| JV Share of Profits | 0.8 | 0.7 | 0.0 | 0.7 | 0.1 | 7.3 | 6.9 | 0.4 | 6.4 | 1.0 | 9.6 | 9.1 | 0.5 | 9.6 |
| **Statutory PBIT** | **(2.4)** | **(2.6)** | **0.1** | **(3.0)** | **0.5** | **(18.8)** | **(17.7)** | **(1.1)** | **(15.1)** | **(3.7)** | **(24.9)** | **(23.0)** | **(2.0)** | **(37.0)** |

Summary

- Income £2.7m less than plan.
  - The impact of size based pricing has adversely impacted Mails as follows: Priority Mails £0.3m, 1st class and 2nd class £1.0m, International Standard £0.6m are products most impacted by PIP. Retail sales are also underperforming against target by £0.1m. The expectation is that the gap will reduce with the roll out of remedial actions, including the delivery of the 'shoebox'.
  - Main drivers of favourable Government income are UK Visa & Immigration (UKVI) (due to backlog in applications) £0.8m, ID Services £0.3m and Passports £0.2m, offset by Motorist services (DVLA Licences and AEI) which are £0.4m behind target.
  - Financial Services now performing just above target following reduction in savings budget.

- Costs are £0.1m less than plan:
  - Staff overspend due to delays in CTP partially offset by savings from industrial action.
  - Other Mainly driven by favourable variance in POOC as a result of separation costs moving to exceptional spend.

- FYF is £2.0m adverse to budget reflecting the lower Mails income.

# Cost Management update
**October 2013**



Progress since P6 update

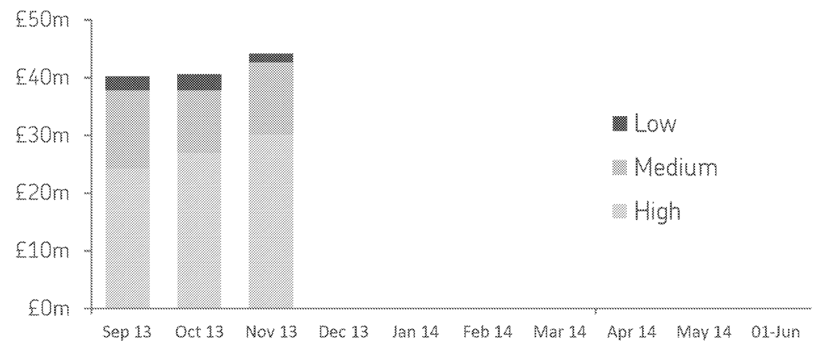
Value and confidence
- Work in the month has identified new opportunities, firmed-up values, developed implementation plans and resulted in confidence.
- The net impact on Value and Confidence is an upward movement in FY13/14 (£0.3m) and in FY14/15 (£3.6m). Confidence has increased for both years.

Delivery and governance
- Additional opportunities identified include::
  i. Weighing scales - there is an opportunity to reduce costs (up to £1m pa) by adopting a "replace" rather than "repair" approach. Further savings are anticipated (c£1.5m pa) by moving to industry standard dimensions for scales, rather than our current custom-made requirement.
  ii. Negotiations with Royal Mail to deliver lower Official Mail rates suggest a further £0.5m of savings are available.
- Announcements have been in the HR service centre regarding staff reductions and delivery is on track.
- FY13/14 benefits are built into the latest Q2 Forecast andare in delivery. FY14/15 initiatives have been included in the Directorate level budget planning targets.

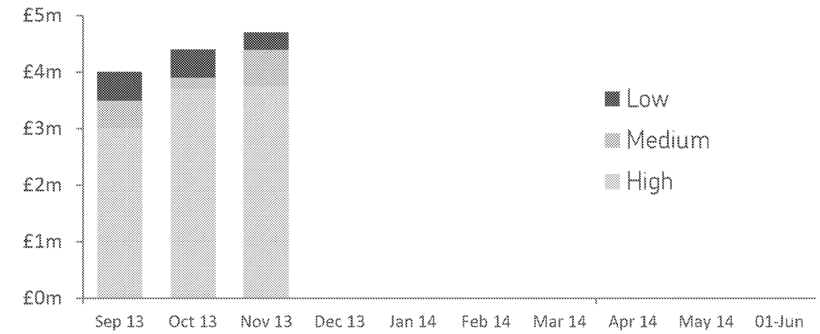
Enablers
A recommended approach to staff cost reductions has been agreed by ExCo, enabling work to proceed on delivering staff cost reductions of £9m in FY14/15.

Strategic initiatives for FY15/16 and beyond
Work has continued within the Directorate teams and Finance to develop the strategic cost management initiatives that will deliver the goals for FY15/16 and beyond. Development of the new Operating Model continues and ExCo has agreed a plan of action to progress this. It is anticipated that the two work streams will come together as the requirements of the Operating Model become more defined.

Cost reduction opportunities: Confidence and value FY14/15




Cost reduction opportunities: Confidence and value FY13/14




| Overview of high impact initiatives (excluding CTP) | Directorate | FTE impact | FY14/15 (£m) L | M | H | Total | Significant changes since P6 update |
|---|---|---|---|---|---|---|---|
| - Procurement savings in Network and Supply Chain (£2.6m Facilities Management; £2.0m Fleet Maintenance; £1.0m Official Mails) | Network & Supply Chain | | | 3.5 | 2.5 | **6.0** | Increase in £0.5m from Official Mail rate reductions. Increased confidence (from M to H) on Fleet Maintenance procurement |
| - Reduce cash delivery frequency and move to single person operation | Supply Chain | 50 | | 1.8 | | **1.8** | |
| - Marketing spend efficiencies | Commercial | | | 1.6 | | **1.6** | |
| - Reduce cost and volume of Official Mail | Finance | | | 1.5 | | **1.5** | Increased confidenced (L to M) from volume reduction |
| - Restructure product and marketing to reduce duplication and increase customer focus | Commercial | 8 | | 0.7 | | **0.7** | |
| - Manchester Cash Centre Closure | Supply Chain | 20 | | | 0.7 | **0.7** | |
| - Restructure Audit and Training team in the Agency network | Network | 20 | | 0.7 | | **0.7** | |
| - Deliver remainder of Finance Roadmap Programme savings | Finance | 15 | | | 0.7 | **0.7** | Re-phased programme agreed. Savings still targeted |
| - Restructure call centres transferring from Royal Mail and improve efficiency | Network | 20 | | | 0.6 | **0.6** | |

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# Cashflow Analysis

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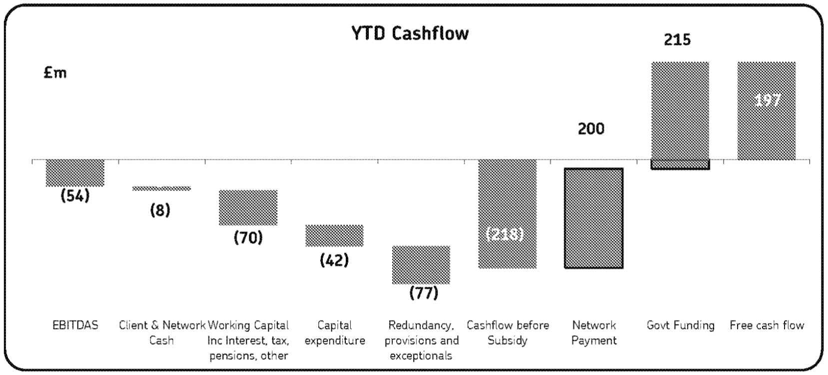
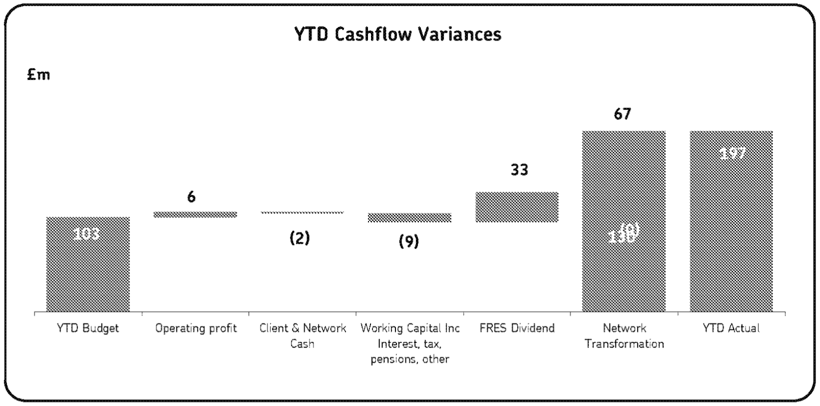
## October 2013




Cashflow

The YTD cashflow was an inflow of £197m which was £94m favourable to the £103m budgeted. The main variances are:

- Capital expenditure and exceptionals were a combined £67m favourable due to lower than planned NTP and CTP expenditure.
- Working capital is £9m adverse to budget.
- Client and Network Cash balances are £2m favourable to budget, and profit is £6m favourable.
- There is a favourable variance of £33m attributable to timing of the receipt of the FRES dividend, budgeted for in P8.




| £m | Full Year Q2 Forecast | Budget | Variance |
|---|---|---|---|
| Working Capital | 102.0 | 102.0 | 0.0 |
| Depreciation | 0.9 | 0.9 | 0.0 |
| Working Capital | (41.2) | (41.2) | 0.0 |
| Client Balances | (11.4) | (44.4) | 33.0 |
| Network Cash | 114.6 | 114.6 | 0.0 |
| Dividends | (4.5) | (4.5) | 0.0 |
| Capital Expenditure | (140.0) | (167.5) | 27.5 |
| Government funding | 215.0 | 215.0 | 0.0 |
| NSP in advance | 0.0 | 0.0 | 0.0 |
| Exceptional Items | (144.8) | (198.8) | 54.0 |
| Pensions | 2.3 | 2.3 | 0.0 |
| Proceeds from asset sales | 2.5 | 0.0 | 2.5 |
| | 0.0 | 0.0 | 0.0 |
| Free cashflow before interest, tax | 95.4 | (21.6) | 117.0 |
| Interest | (2.0) | (5.0) | 3.0 |
| Tax | 10.3 | 10.3 | 0.0 |
| Free Cashflow | 103.7 | (16.3) | 120.0 |

Network Cash

| £m | Prior Year P7 | Mar-13 Opening | P7 Actual | P7 Budget | P7 var |
|---|---|---|---|---|---|
| Retail, Cash Centres | 514 | 650 | 696 | 602 | (94) |
| Bureau | 67 | 59 | 70 | 66 | (4) |
| Cheques, debit cards | 119 | 161 | 117 | 125 | 8 |
| **Network Cash** | **700** | **870** | **883** | **793** | **(90)** |

| | Opening | P7 |
|---|---|---|
| **Headroom (£m)** | **838** | **911** |

# Business Scorecard
## October 2013

Strictly Confidential

POST OFFICE

| Key Performance Indicators | Current Month Act | Current Month Target | Current Month Var | Year to Date Act | Year to Date Target | Year to Date Var | Prior Year | Full Year Q2 F'cast | Full Year Target | Full Year Var | 2012-13 Outturn |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Growth** | | | | | | | | | | | |
| Total Net Income (excl NSP) £m (Bonus) | 77.7 | 84.6 | [redacted] | 503.5 | 528.8 | (25.3) | 525.2 | 887.6 | 900.0 | (12.5) | 902.4 |
| Operating profit £m (Bonus) | 11.9 | 11.2 | 0.7 | 65.0 | 59.2 | 5.8 | 72.3 | 102.0 | 102.0 | 0.0 | 94.2 |
| Earnings before ITDA and Subsidy £m* | (7.3) | (7.9) | 0.6 | (54.0) | (59.4) | 5.5 | (50.3) | (97.2) | (97.2) | 0.0 | (115.4) |
| Free cashflow £m | 4.0 | (69.0) | 73.0 | 196.8 | 103.0 | 93.8 | 352.3 | 103.7 | (16.3) | 120.0 | 132.2 |
| **Customer** | | | | | | | | | | | |
| Customer Satisfaction** | 86% | 88% | [redacted] | 88% | 88% | 0% | 86% | 88% | 88% | 0% | 87% |
| Easy to do business with (Bonus)** | 37% | 44% | [redacted] | 44% | 44% | 0% | N/A | 44% | 44% | 0% | N/A |
| Net Promoter score** | (5) | 5 | [redacted] | (2) | 5 | [redacted] | N/A | 0 | 5 | [redacted] | N/A |
| Queue time % < 5 minutes - Top 1k branches | 87.9% | 84.7% | 3.2% | 84.1% | 79.5% | 4.6% | 79.8% | 81.0% | 81.0% | 0.0% | 80.7% |
| Horizon availability | 99.9% | 99.7% | 0.2% | 99.9% | 99.7% | 0.2% | 99.8% | 99.7% | 99.7% | 0.0% | 99.8% |
| Branch - Compliance (new basket) | 99.6% | 98.0% | 1.6% | 98.2% | 98.0% | 0.2% | 98.2% | 97.9% | 98.0% | (0.1)% | 97.8% |
| **People** | | | | | | | | | | | |
| Engagement Index % (Once a year) (Bonus) | 55% | 56% | (1)% | 55% | 56% | (1)% | 55% | 56% | 56% | 0% | 55% |
| (No.) % of BME appointments over total recruits at senior leadership and senior manager | 20% | 4% | 16% | 12% | 4% | 8% | N/A | 4% | 4% | 0% | N/A |
| (No.) % of Female appointments over total recruits at senior leadership and senior manager | 60% | 40% | 20% | 54% | 40% | 14% | N/A | 40% | 40% | 0% | N/A |
| **Modernisation** | | | | | | | | | | | |
| Crown Profit (Loss) £m (Bonus) | (2.4) | (2.6) | 0.1 | (18.8) | (17.7) | (1.1) | (15.1) | (24.9) | (23.0) | [redacted] | (37.0) |
| NT Conversions - contract signatures(Mains & Locals) (Bonus) *** | 243 | 172 | 71 | 2,113 | 2,025 | 88 | 290 | 3,000 | 3,000 | 0 | 1,450 |
| NT Branches Open (Mains & Locals)*** | 179 | 158 | 21 | 1,274 | 1,452 | [redacted] | N/A | 1,950 | 1,950 | 0 | 507 |

Bonus worthy metrics
* ITDA Interest, Tax, Depreciation, Amortisation
** Monthly = 3 month average.   YTD = 12 month average
*** YTD and FY = cumulative including prior years

## Network Transformation Scorecard

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**October 2013** Reporting prior months data (i.e. one month in arrears)

Sample size is still small but provides a starting point to build on. All branches in the financial section have been operating for greater than 12 months to allow for steady state, and branches that had previously received overscale / one off payments have been removed to provide a clean baseline.

| | Key Performance Indicators | Actual | Target | Var | Actual Sample Size |
|---|---|---|---|---|---|
| | MAINS | | | | |
| | Converted > 6 months | 132 | | | |
| POL | Finance Approved Investment per Mains £000 | (39) | (39) | 0 | 8 |
| POL | Total Income: Post vs Pre Conversion | | | | |
| POL | Branches live 6-12 months | (0)% | (3)% | 2% | 124 |
| POL | Branches live 12-24 months | (5)% | (3)% | (2)% | 2 |
| POL | Branches live 24-36 months | 0% | (0)% | 1% | 6 |
| POL | Focus Income: Post vs Pre Conversion | | | | |
| POL | Branches live 6-12 months | 13% | 8% | 5% | 124 |
| POL | Branches live 12-24 months | (16)% | 8% | (23)% | 2 |
| POL | Branches live 24-36 months | 2% | 9% | (7)% | 6 |
| Agent | Agents Remuneration: Post vs Pre Conversion | 5% | 0% | 5% | 126 |
| Agent | Operator Feedback on Retail Sales Performance | 12% | 9% | 3% | 109 |
| Customer | Average Increase in Opening Hours | 35% | 20% | 15% | 580 |
| Customer | Customer Satisfaction | 99% | 90% | 9% | 1,678 |
| | LOCALS | | | | |
| | Converted > 6 Months | 129 | | | |
| POL | Finance Approved Investment per Local £000 | (11) | (11) | 0 | 0 |
| POL | Total Income: Post vs Pre Conversion | | | 0 | |
| POL | Branches live 6-12 months | (10)% | (3)% | (7)% | 60 |
| POL | Branches live 12-24 months | (12)% | (3)% | (9)% | 62 |
| POL | Branches live 24-36 months | (2)% | (1)% | (1)% | 7 |
| POL | Annualised Agents Fixed Pay savings per conversion £000 | 10 | 10 | 0 | 0 |
| Agent | Customer Sessions 12- 24 months | 2% | (4)% | 6% | 61 |
| Agent | Customer Sessions 24- 36 months | 17% | (5)% | 22% | 6 |
| Agent | Operator Feedback on Retail Sales Performance | 12% | 9% | 3% | 91 |
| Customer | Average Increase in Opening Hours | 115% | 80% | 35% | 465 |
| Customer | Customer Satisfaction | 93% | 90% | 3% | 1,463 |

### Commentary

Mains

Financial performance
Going forward branches live from 6 months will now be included in this scorecard as we now have a greater number of branches
Total Income -Income has either increased or remained flat in branches between 6-12 months and branches over 24 months. This month has seen a decline for the branches live 12-24 mths, however as this is a much smaller sample size it is as a result of only 1 branch.
Focus income Branches live between 6-12 months appear to be doing well against focus products however the control group is performing better against products such as insurance and international priority when compared to branches opened for longer than 12 months. The demographics of the branch will have an impact on the result.
Agents pay - Higher than the control group in line with increased rates for main branches.
Non financial performance
Customer satisfaction consistently above 90% for both Mains and Locals.

Locals
Financial performance
Income - The Local model assumption was that income would reduce by c5% due to the removal or certain products. 35 branches that have been live for 6 months or longer are performing better than. Products such as bill payment appear to be consistently stronger in the branches opened for longer than 6 months. This appears to be consistent with analysis done for locals on out of hours.
Agents pay fixed savings - Savings in line with strategic plan target.

Non financial performance
Customer sessions - Strong performance which implies greater footfall but lower value transactions. For example bill payments appears to be stronger in these branches however this is a much lower value transaction when compared with some of our focus products.
Cutsomer Satisfaction - Aug 12 - Sept 13 Data .

Financial targets reflect the equivalent performance of the control group (2519 Mains and 4918 Locals)

1028 live branches within the 1870 contracts signed - September 2013
0-12 Months (Oct 12 - Sept 13) - 840
12-24 Months (Oct 11- Sept 12) - 151
> 24 Months (prior to Oct 2011) - 37
Note: The scorecard includes 64 branches of the 151 (12-24 months) and 13 branches of the 37 (24-36 months).
Branches with a break in customer session or branches that had previously received overscale payments have been excluded.

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# Transformation Delivery Heat-map

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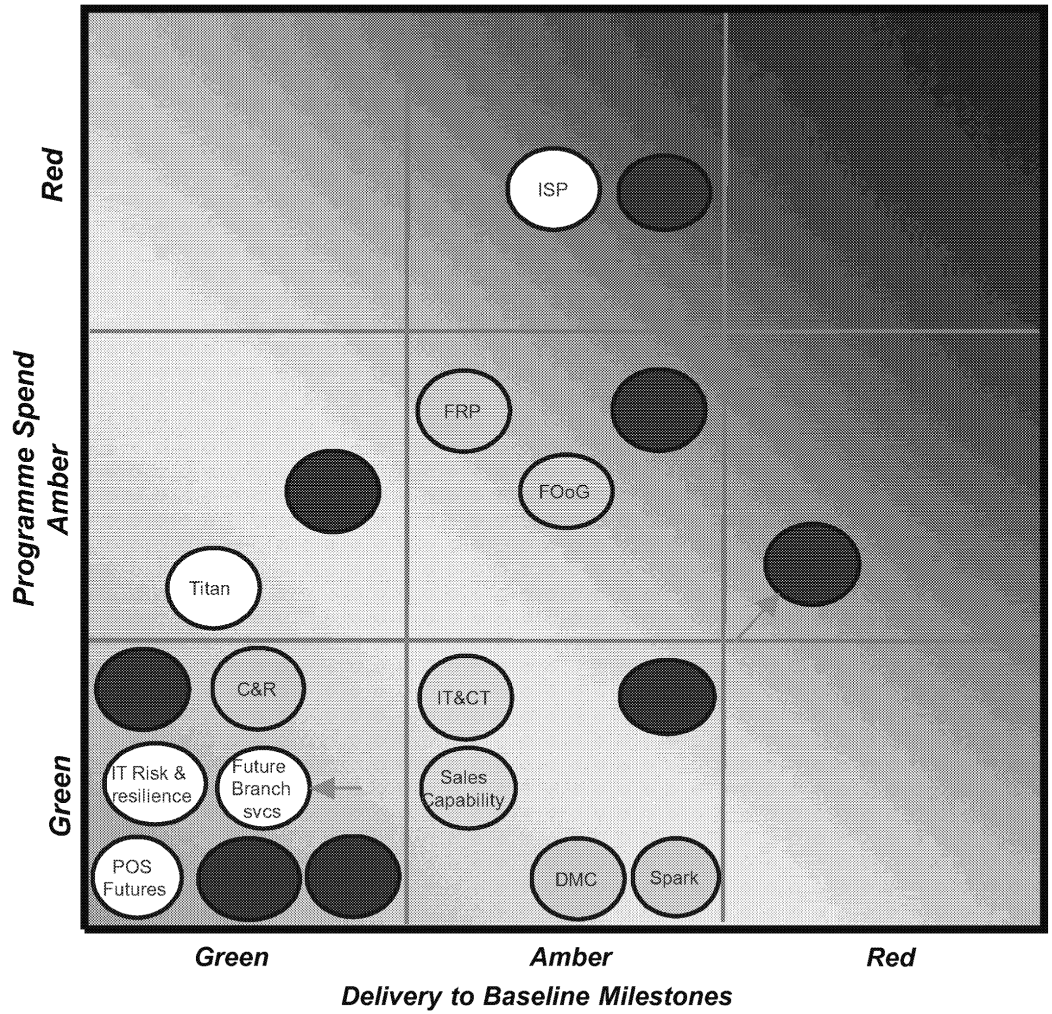
**October 2013**

Highlights heatmap status of key transformation programmes, and points of escalation to Transformation Board on selected projects including resulting TransformationBoard action / guidance. Also highlights wider points of discussion / action.




Colour of Circle reflects 13 -14 financial benefits

Shows movement from last period

| Transformation Board (TB)- Key Points of Focus |
|---|
| Wave - Fujitsu have been informed that POL will not be progressing the mobile opportunity with them. Positive meetings have been undertaken with EE, 20:20, Lifecycle, AVNet about delivering mobile via an alternative model with direct relationships with the suppliers. The team have received indicative proposals from potential suppliers and these, along with the implications of the change in operating model, have been assessed and will be presented to the ExCo on 19th November. |
| Separation - The Separation team continue to develop conclusions and recommendations following a joint Post Office and Royal Mail review of the existing delivery approaches for the Separation projects. Meeting also held with Catherine Doran to agree output. A review of the existing delivery structure and governance with recommendations on revisions will be made late November. |
| Small Business & Online Mails - Online Mails procurement now integrated into Common Digital Platform activity and is planned to form part of the first iteration of CDP capability. Three bidders have responded and reviews are currently taking place. There are concerns from the Mails team that the bidders may not be able to deliver Online Mails via CDP by March, with two out of the three bidders stating that to meet the March delivery a 'tactical solution' needs to be in place. Further review of options with suppliers underway to consider timelines versus costs and benefits for Online Mails. |
| Post Office Operating Model - ExCo meeting held to discuss market testing of approach to operating model development and proposed next steps, with agreement to develop a short form business case to establish a working team to progress and engage the market for a suitable partner to support. |
| Payments Strategy - PSP services in partnership with Worldpay launched, with external PR and internal communications. Special promotion for Sub-postmasters planned to switch their own card services for the retail section of their business. |
| FooG: Maypole (POCA) - further to DWP discussions POL Board paper presented and approved to move forward to fully costed proposal by the end of the Financial Year. Resource costs are being revisited as the scale of the work has indicated a Programmatic approach is required to manage the complexity. However set up cost will be recovered from DWP.<br>FooG: IDA - GDS have informed all IDPs that the Government Departments lined up for the Beta pilot (HMRC & DVLA) have slipped their go-live dates to January. |
| Crown Transformation - 14 branches have been transformed under the programme with works underway in all branches pre-Christmas . However the Self Service kiosks will not be piloted before Christmas - Royal Mail concurrence is outstanding and is required in advance of rollout. The forecast for the 2013-14 financial year is also over budget, driven by increases to the automation spend relating to the connection to Channel Integration - however this is going to be partially offset by other costs moving into 2014-15 (e.g. some forecast property, VR and Compromise Agreement costs). |

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# Appendices

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# Income Report

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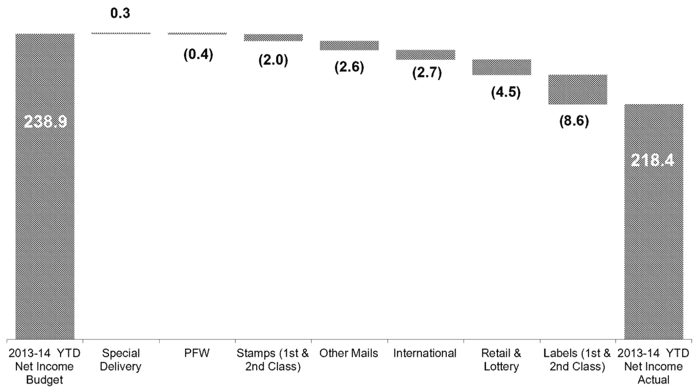
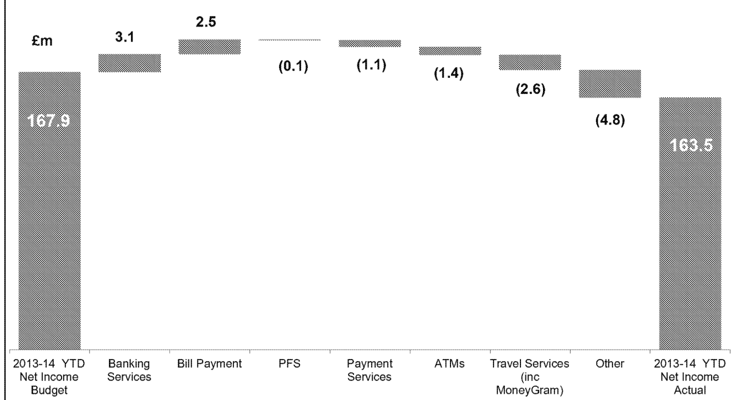
## Net Income By Pillar vs Budget
**October 2013**

| Net Income (£m) | Period | | | Prior Year Period | | Year to Date | | | Prior Year YTD | | Full Year | | | Prior Year | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actual | Budget | Variance | Actual | Variance | Actual | Budget | Variance | Actual | Variance | Q2 Forecast | Budget | Variance | Outturn | Variance |
| Mails & Retail | 35.7 | 40.0 | (4.3) | 36.2 | (0.5) | 218.4 | 238.9 | (20.5) | 229.4 | (10.9) | 406.9 | 414.6 | (7.8) | 404.0 | 2.9 |
| Financial Services | 24.8 | 26.8 | (2.0) | 26.0 | (1.2) | 163.5 | 167.9 | (4.4) | 163.8 | (0.3) | 277.4 | 277.4 | (0.0) | 279.6 | (2.1) |
| Government Services | 9.0 | 9.5 | (0.5) | 11.7 | (2.7) | 68.7 | 69.9 | (1.2) | 80.6 | (11.9) | 115.5 | 115.9 | (0.4) | 133.2 | (17.7) |
| Telephony | 3.9 | 4.6 | (0.6) | 4.9 | (1.0) | 29.1 | 28.7 | 0.4 | 27.7 | 1.4 | 50.7 | 50.4 | 0.3 | 45.0 | 5.7 |
| Other | 4.3 | 3.8 | 0.5 | 3.5 | 0.8 | 24.2 | 23.4 | 0.8 | 23.7 | 0.4 | 37.1 | 41.7 | (4.6) | 40.7 | (3.6) |
| **TOTAL NET INCOME** | **77.7** | **84.6** | **(6.9)** | **82.3** | **(4.6)** | **503.9** | **528.8** | **(24.9)** | **525.2** | **(21.3)** | **887.6** | **900.0** | **(12.4)** | **902.4** | **(14.8)** |
| FRES - Share Of Operating Profits | 2.6 | 2.5 | 0.1 | 2.6 | 0.0 | 25.3 | 23.9 | 1.3 | 24.5 | 0.8 | 33.0 | 31.5 | 0 | 31.9 | 1.1 |

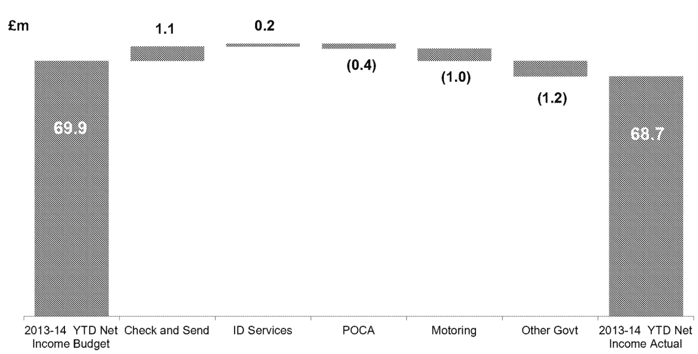
### Mails & Retail Services



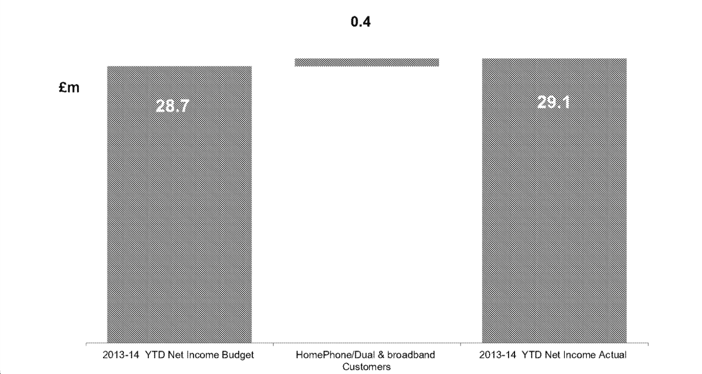

### Financial Services




### Government Services




### Telephony Services




Pillar Performance vs YTD Budget

Mails & Retail Services - (£20.5m) Adv
Labels - (£8.6m) adv driven by lower parcel volumes since the RM price changes in April.
Lottery - (£4.3m) adv due primarily to lower than planned volumes. The recent Camelot price increase is expected to reverse the revenue shortfall.
International - (£2.7m) adv due to lower volumes.
Other Mails - (£2.6m) adv due to unallocated stretch and lower than planned volumes across the Mails product range.
Stamps - (£2.0m) adv - due to lower volumes vs. budget.

Financial Services - (£4.4m) Adv (£1.0m due to timing)
Other - (£4.8m) adv due to unassigned income targets including Sales Effectiveness stretch target still to be allocated to products.
Travel Services - (£2.6m) adv driven by phasing of bureau income. £0.5m timing to be reversed in P8.
ATMs - (£1.4m) adv driven by lower volumes than planned and delayed roll out of new ATM's. £0.4m timing to be reversed in P8.
Payment Services - (£1.1m) adv driven by lower gift voucher volumes.
Offset by:
Banking Services - £3.1m fav driven by higher personal banking and higher business banking volumes.
Bill Payment - £2.5m fav driven by lower decline than expected, specifically in Housing.

Government Services - (£1.2m) Adv
Gov. Services Other - (£1.2m) adv driven by delayed implementation of new ID Services.
Motoring - (£1.0m) adv due to lower than planned volumes in line with latest DVLA forecasts.
Offset by:
Passport Check & Send -£1.1m fav due to higher volumes.

Telephony Services - £0.4m Fav
Homephone - £0.4m fav due to higher than planned customer numbers and higher revenue per user.

Other - £0.8m Fav
Higher Supply Chain income for services provided to RM.

FRES Profit Share - £1.3m Fav.
In line with latest profit forecast from FRES.

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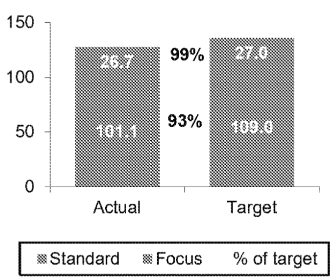
# Net Income By Channel
**October 2013**

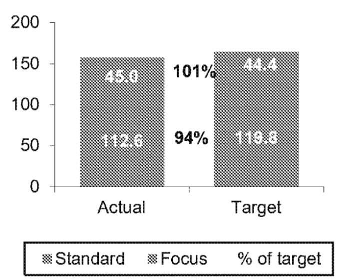
Period 7 YTD - Focus products were £0.4m favourable to target and Standard products were £16.3m adverse (mainly Mails and Lottery), with the Agency network driving the variance. The favourable Direct channel performance is driven by mortgage phasing as targets started to ramp up from period 4.

| £m | Month | | | Year to date | | | Full Year |
|---|---|---|---|---|---|---|---|
| **Targeted Income** | **Actual** | **Budget** | **Variance** | **Actual** | **Budget** | **Variance** | **Budget** |
| Focus Products | | | | | | | |
| Crown Offices | 3.1 | 3.3 | (0.2) | 22.1 | 22.7 | (0.6) | 39.0 |
| WHS | 0.6 | 0.5 | 0.1 | 4.2 | 4.1 | 0.1 | 6.7 |
| Agents - Managed | 6.8 | 6.6 | 0.2 | 45.0 | 44.4 | 0.6 | 74.0 |
| Centrally Supported | 3.6 | 3.6 | (0.0) | 26.7 | 27.0 | (0.2) | 49.6 |
| Direct Sales | 0.7 | 0.6 | 0.1 | 6.2 | 5.6 | 0.6 | 9.0 |
| Central | (0.0) | 0.14 | (0.2) | 0.2 | 0.3 | (0.1) | 0.5 |
| **Focus Products Total** | **14.7** | **14.7** | **0.0** | **104.4** | **104.1** | **0.4** | **178.8** |
| Standard Products | | | | | | | |
| Crown Offices | 5.4 | 5.5 | (0.1) | 31.6 | 32.2 | (0.6) | 58.1 |
| WHS | 1.0 | 1.0 | (0.0) | 6.1 | 6.3 | (0.1) | 10.6 |
| Agents - Managed | 19.3 | 22.1 | (2.8) | 112.6 | 119.8 | (7.2) | 191.2 |
| Centrally Supported | 13.3 | 16.1 | (2.8) | 101.1 | 109.0 | (8.0) | 198.1 |
| Direct Sales | 0.7 | 0.7 | 0.0 | 3.7 | 3.7 | (0.1) | 6.5 |
| Central | 0.0 | 0.1 | (0.1) | 0.1 | 0.4 | (0.3) | 0.6 |
| **Standard Product Total** | **39.7** | **45.6** | **(5.9)** | **255.2** | **271.5** | **(16.3)** | **465.3** |
| **TOTAL TARGETED INCOME** | **54.4** | **60.3** | **(5.8)** | **359.6** | **375.6** | **(15.9)** | **644.0** |
| Other Income | | | | | | | |
| Cash Services | 2.2 | 2.0 | 0.1 | 13.2 | 12.8 | 0.4 | 22.0 |
| Gamma | 0.6 | 0.7 | (0.1) | 4.3 | 4.5 | (0.1) | 7.5 |
| Fixed Income & Other | 17.3 | 17.9 | (0.5) | 102.2 | 112.5 | (10.2) | 185.9 |
| Retentions | 3.2 | 3.7 | (0.5) | 24.5 | 23.5 | 1.0 | 40.6 |
| **TOTAL POL NET INCOME** | **77.7** | **84.6** | **(6.9)** | **503.9** | **528.8** | **(24.9)** | **900.0** |
| Network Payment | 19.2 | 19.2 | 0.0 | 119.2 | 119.2 | 0.0 | 200.0 |
| **TOTAL POL NET INCOME** | **96.9** | **103.8** | **(6.9)** | **623.1** | **648.0** | **(24.9)** | **1,100.0** |

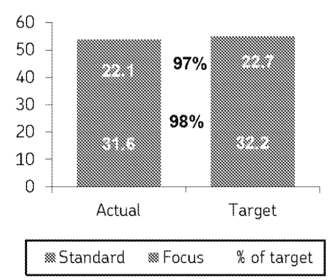
Centrally Supported Net Income YTD (£m)



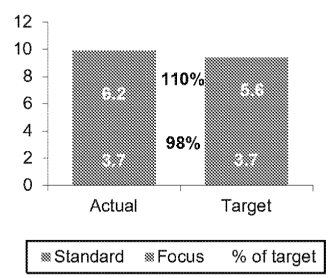

Account Mgd Net Income YTD (£m)



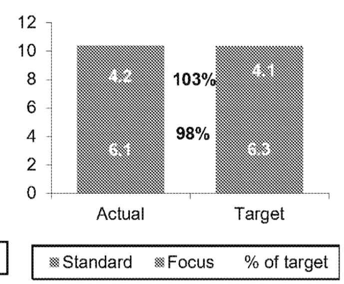

Crown Offices Net Income YTD (£m)




Direct Sales Net Income YTD (£m) *




WHS Net Income YTD (£m)




* Both target and actual exclude lead generation income

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# Cost Report

# Staff Cost By Directorate

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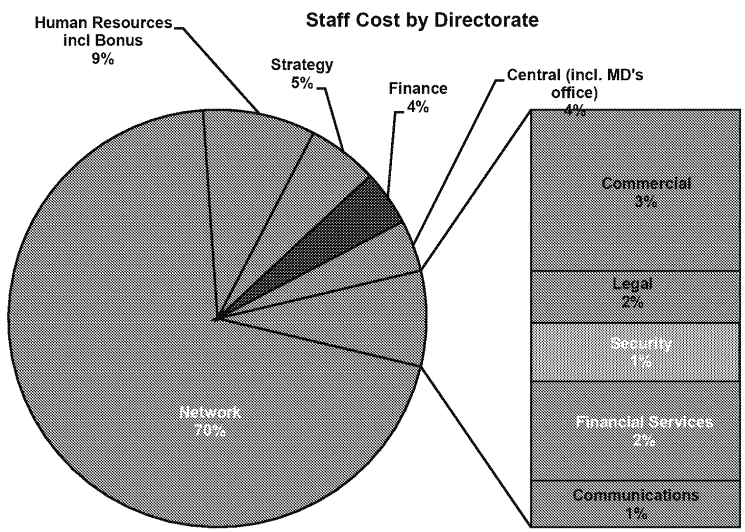
## October 2013

| £m | Year to Date | | | Prior Year YTD | | Full Year | | | YTD Headcount | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Staff Cost by Directorate | Actual | Budget | Variance | Actual | Variance | Q2 Forecast | Budget | Variance | % | Actual | Budget | Variance |
| Central (incl. MD's office) | (6.2) | (5.6) | (0.6) | (2.2) | (3.9) | (12.7) | (9.6) | (3.1) | 0% | 14 | 15 | 1 |
| Commercial | (4.4) | (4.3) | (0.1) | (3.7) | (0.6) | (7.1) | (7.4) | 0.3 | 1% | 120 | 111 | (9) |
| Communications | (1.3) | (1.3) | 0.1 | (1.1) | (0.2) | (2.2) | (2.3) | 0.1 | 1% | 48 | 35 | (13) |
| Human Resources | (2.8) | (2.8) | 0.1 | (2.5) | (0.3) | (4.7) | (3.3) | (1.4) | 1% | 116 | 110 | (6) |
| HR - Centrally Held Bonus Payments | (10.5) | (10.5) | (0.0) | (10.5) | (0.0) | (19.5) | (19.5) | 0.0 | | - | - | - |
| Financial Services | (2.7) | (2.6) | (0.1) | (1.2) | (1.5) | (4.6) | (4.5) | (0.1) | 4% | 307 | 272 | (35) |
| Finance | (6.5) | (6.9) | 0.3 | (5.7) | (0.8) | (10.9) | (11.8) | 0.9 | 3% | 245 | 264 | 19 |
| Network | (107.0) | (107.3) | 0.3 | (112.4) | 5.3 | (178.1) | (178.5) | 0.4 | 85% | 6,850 | 6,939 | 89 |
| Supply Chain | (33.4) | (32.9) | (0.5) | (32.8) | (0.6) | (56.0) | (55.1) | (0.9) | 20% | 1,591 | 1,574 | (17) |
| Crowns | (62.2) | (62.0) | (0.2) | (68.4) | 6.2 | (102.1) | (102.1) | (0.0) | 53% | 4,276 | 4,225 | (51) |
| Other Network | (11.4) | (12.4) | 1.0 | (11.2) | (0.3) | (20.0) | (21.3) | 1.3 | 5% | 409 | 501 | 92 |
| CTP and NTP Heads (Costs in exceptionals) | | | | | | | | | 7% | 574 | 639 | 65 |
| Legal | (1.4) | (1.4) | 0.0 | (1.3) | (0.1) | (2.3) | (2.4) | 0.1 | 1% | 47 | 30 | (17) |
| Security | (1.6) | (1.6) | (0.0) | (1.6) | 0.0 | (2.6) | (2.7) | 0.1 | 1% | 52 | 57 | 5 |
| Strategy | (8.3) | (8.2) | (0.1) | (7.5) | (0.8) | (14.5) | (14.2) | (0.3) | 3% | 229 | 239 | 10 |
| **Total Staff Costs** | **(152.6)** | **(152.6)** | **0.0** | **(149.7)** | **(2.9)** | **(259.2)** | **(256.1)** | **(3.1)** | **100%** | **8,028** | **8,072** | **44** |
| PY Actual | | | | | | | | | | 7,849 | | |
| PY Variance | | | | | | | | | | (179) | | |




YTD Staff Costs are on budget.
Staff costs have returned to budget in P7 mainly because the Q2 sales bonus was below budget reflecting lower sales. The budget for the managers' lump sum pay award is covering the shortfall in efficiency savings but this will unwind if a pay offer is made. The Cost Reduction Programme is implementing a series of savings activities to drive the cost down - most will impact on 2014-15 with minor savings coming through in 2013-14.

Vs. Prior Year
The staff costs are £2.9m adverse to prior year including the impact of the higher IAS19 pension rate reflecting market conditions at March 2013, pay increases and higher bonus incentives costs.

Headcount of 8,028 is 44 below plan and is due to vacancies within the Network directorate, both Crowns and transformation projects. The adverse variance in Financial Services continues as the remaining FSs should all move over from Network by the end of period 8.

Vs. prior year headcount has increased by 179 primarily due to NTP and separation strengthening.

Note: The budget is flat for all directorates, with only the Crown savings being the difference between each month.

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# Non Staff Cost by Directorate & Type

**October 2013**

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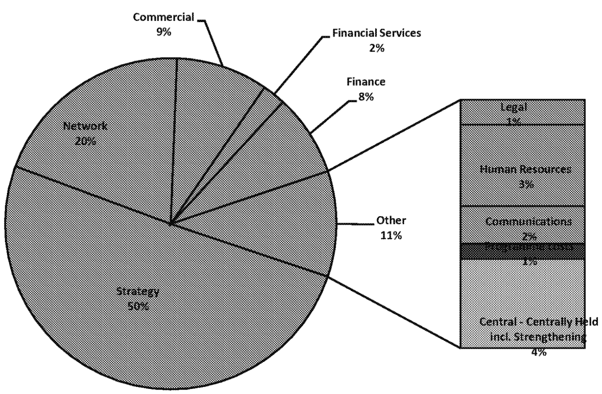
| £m | Year to Date | | | Prior Year YTD | | Full Year | | |
|---|---|---|---|---|---|---|---|---|
| Non- Staff Cost by Directorate | Actual | Budget | Variance | Actual | Variance | Q2 Forecast | Budget | Variance |
| Central - Centrally Held incl. Strengthening | 3.8 | (3.5) | 7.3 | (2.3) | 6.1 | 2.2 | 0.1 | 2.1 |
| Commercial | (9.1) | (9.3) | 0.2 | (9.8) | 0.7 | (17.9) | (15.4) | (2.54) |
| Communications | (1.6) | (1.5) | (0.1) | (1.0) | (0.5) | (1.9) | (2.1) | 0.23 |
| Finance | (8.1) | (7.2) | (1.0) | (3.6) | (4.5) | (13.9) | (12.6) | (1.33) |
| Financial Services | (2.3) | (3.6) | 1.3 | (2.8) | 0.5 | (4.9) | (5.3) | 0.43 |
| Human Resources | (3.4) | (3.6) | 0.1 | (2.2) | (1.2) | (6.2) | (6.1) | (0.09) |
| Network | (20.3) | (15.7) | (4.6) | (17.4) | (2.9) | (28.7) | (27.6) | (1.12) |
| Supply Chain | (9.1) | (8.7) | (0.4) | (9.3) | 0.2 | (15.3) | (15.3) | (0.03) |
| Crowns | (1.9) | (1.6) | (0.3) | (2.0) | 0.1 | (2.6) | (2.1) | (0.49) |
| Other Network | (9.3) | (5.4) | (3.8) | (6.2) | (3.1) | (10.9) | (10.3) | (0.59) |
| Legal | (1.1) | (1.04) | (0.0) | (0.8) | (0.3) | (2.0) | (1.9) | (0.09) |
| Security | (1.3) | (1.28) | (0.0) | (1.5) | 0.2 | (2.7) | (2.4) | (0.23) |
| Programme costs | (0.6) | 0.0 | (0.6) | (0.4) | (0.3) | 0 | 0 | 0.0 |
| Strategy | (51.3) | (50.2) | (1.2) | (48.0) | (3.3) | (88.7) | (86.7) | (2.1) |
| **Total Non Staff Costs** | **(95.5)** | **(96.9)** | **1.4** | **(89.9)** | **(5.6)** | **(164.7)** | **(160.0)** | **(4.7)** |

| £m | Year to Date | | | Prior Year YTD | | Full Year | | |
|---|---|---|---|---|---|---|---|---|
| Non- Staff Cost by Type | Actual | Budget | Variance | Actual | Variance | Q2 Forecast | Budget | Variance |
| Computers & Telephones | (43.4) | (43.2) | (0.2) | (42.6) | (0.8) | (75.6) | (75.9) | 0.3 |
| Other Operating Costs | (13.2) | (10.7) | (2.5) | (12.2) | (1.0) | (18.3) | (15.6) | (2.7) |
| Consultancy, Marketing & Legal Fees | (17.5) | (17.7) | 0.1 | (15.1) | (2.4) | (32.8) | (29.5) | (3.3) |
| * Skills Group external contractors | (7.9) | (7.0) | (0.9) | (7.0) | (0.9) | (11.9) | (11.9) | 0.0 |
| Remainder | (9.7) | (10.7) | 1.0 | (8.2) | (1.5) | (20.9) | (17.6) | (3.3) |
| Finance | (9.7) | (13.2) | 3.5 | (10.4) | 0.6 | (16.4) | (17.2) | 0.8 |
| Property Facilities | (4.2) | (3.2) | (1.1) | (4.1) | (0.1) | (6.8) | (6.2) | (0.6) |
| Property Maintenance | (4.1) | (4.0) | (0.2) | (3.4) | (0.8) | (6.2) | (6.9) | 0.6 |
| Vehicles | (1.5) | (1.4) | (0.1) | (1.5) | (0.0) | (2.4) | (2.4) | 0.0 |
| Compensation | (0.8) | (1.4) | 0.7 | (0.7) | (0.0) | (3.6) | (2.6) | (1.0) |
| Collection, Delivery & Conveyance Charges | (0.1) | (0.2) | 0.1 | (0.7) | 0.6 | (0.4) | (0.3) | (0.1) |
| Staff & Agent Related Costs & Consumables | (0.8) | (2.0) | 1.2 | 0.8 | (1.6) | (2.1) | (3.4) | 1.3 |
| * Skills Group off-charges to projects | 9.8 | 8.8 | 1.1 | 9.9 | (0.0) | 0.0 | 0.0 | 0.0 |
| Remainder | (10.6) | (10.8) | 0.1 | (9.1) | (1.5) | (2.1) | (3.4) | 1.3 |
| **Total Non Staff Costs** | **(95.5)** | **(96.9)** | **1.4** | **(89.9)** | **(5.6)** | **(164.7)** | **(160.0)** | **(4.7)** |

Non Staff by Directorate

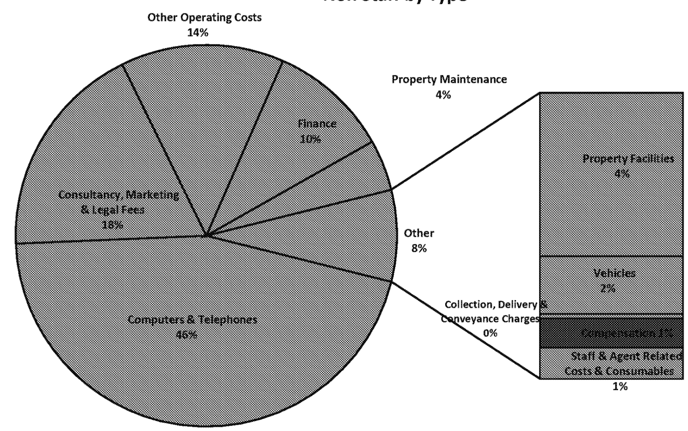



Variance
YTD non people costs were £1.4m favourable to budget and £5.6m adverse to prior year.

Vs. Budget
The favourable position is driven by £3.7m VAT recovery relating to H1 for changes in the VAT recovery rate, but masks the underlying adverse variance due to Horizon costs originally budgeted for in the prior year and adverse property costs. RM costs are now treated as non staff following the IPO and we believe there are still some costs to come through. The adverse Network costs are Property costs which are no longer within IB, but now non staff.

Vs. Prior Year
Higher non staff costs of £5.6m due to increased IT costs mainly Horizon, timing of marketing spend, and the removal of the FX bureau rebate received in H1 last year partially offset by the increased VAT recovery rate this year.

Non Staff by Type




* Skills group is the internal 'consultancy' providing project resource made up of a mixture of employees topped up with contractors. If demand is high the contractor spend increases but this is offset by higher recharges to projects.

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# Transformation Report

Strictly Confidential

## Transformation Board Scorecard
**October 2013**

POST OFFICE

| Portfolio | Business Owner | Programme / Project | Business Capability | Target (RAG) | Actual | Full Year Target (RAG) | Full Year Forecast | Business Outcomes (in year) | Cumulative to P4 Target (RAG) | Cumulative to P4 Actual | Full Year Contribution Full Year Target (RAG) | Full Year Contribution Full Year Forecast | Annual Plan (baseline) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| DMC | Spencer Champan | Digital & Multi Channel | Interim Mobile optimised live | Jun-13 | Nov-13 | Jun-13 | Nov-13 | Reduction in smartphone bounce rate | 0 | 0% | 33% | 33% | N/A |
| | | | | | | | | Net Increase in digital sales | £17K | 0 | £153K | £67K | N/A |
| | | | Common digital platform initial functionality live | | | Mar-14 | Mar-14 | Reduction in running costs (from 14/15) | N/A | N/A | N/A | N/A | N/A |
| | | | Wide access to single customer view and insight | | | Oct-14 | Oct-14 | cross sale/upsale customer growth | 0 | 0 | 0 | 0 | N/A |
| Financial Services | Jeremy Law | FS supervisory structure (part of Sales Capability) | Enhanced Salesforce (sales per FS per week) | 5.7 | 6.2 | 9.5 | 9.5 | contribution from increased sales, cross sales | Under review | Under review | £1,300k | Under review | £1,300K |
| | | | Customer Appointments per FS per day | 2.8 | 2.8 | 4 | 4 | | | | | | |
| | John Willcock | MMR and Mortgage Rollout | MMR compliance & additional sales per MS per month | 1.5 | 1.2 | 2.5 | 2.5 | contribution (in year target) | £240k | £117k | £1,500K | £1,200K | £1,100K |
| | John Willcock | POLO | POC Launched | May-13 | May-13 | May-13 | May-13 | number of account applications | n/a | 1660 | n/a | 3583 | N/A |
| | | | National Roll Out | 2014 TBC | | TBC | | number of account sales | 1500 | 840 | 3000 | 2500 | N/A |
| | Paul Havenhand | Travel Insurance (Titan) | Internal insurance product capability in place | | | Jul-14 | Jul-14 | FS revenue growth (not in year) | N/A | N/A | N/A | N/A | N/A |
| | Alan Smith | General Spend Card | Product roll out (in 200 branches) | 0 | 0 | Oct-13 | Jan-14 | contribution from new product | £0k | £0k | £350k* | £200K | £497K* |
| | Alan Smith | Payments Strategy | Full suite of card payments for SMEs | | | Nov-13 | Oct-13 | contribution from new product | £0k | £0k | £550K | £393K | £550K |
| FOoG | Kevin Seller | DVLA Service extension | June go live (extended services implemented 24 June 13) | Jun-13 | Jun-13 | Jun-13 | Jun-13 | contribution from new services | 0 | 0 | £1,000k * | TBC | £1,000k |
| | Kevin Seller | Identity Assurance | Ready to enter IDA market | | | Oct-13 | Oct-13 | contribution from new service | 0 | 0 | £1,076k | £1K | £1,076k |
| | Kevin Seller | Stakeholder and Comms. Delivery Plan | Govt Commit to POCA extension | Jun-13 | TBC | Jun-13 | TBC | Wider Use of DVLA Framework | 0 | 0 | TBC | TBC | TBC |
| | Kevin Seller | UKBA | Product launched in prior year | | | | | Sales Revenue | £2,294 | £3,108 | £5,582k | £6,432k | £8,000K |
| Mails | Eamon Price | Small Business Club (online mails) | Small Business online payment and acc mgt | | | Jan-14 | Mar-14 | incremental contribution from online mails | 0 | 0 | £453K | 0 | £400K |
| | Eamon Price | Collections and Returns | full functionality - capacity planning and out of hours | Jul-13 | Jul-13 | Jul-13 | Jul-13 | contribution from new product | £87K | 0 | £1,000K | £1,000K | £1,000K |
| Tele | Jeremy Woodrow | Wave (Mobile proposition) | Mobile proposition pilot launched | | | Mar-14 | Jun-14 | contribution from new product | 0 | | £750K | 0 | £750k |
| | Jeremy Woodrow | Home Phone & Broad Band Migration | Successful migration of customers to Fujitsu | Sep-13 | Sep-13 | Sep-13 | Sep-13 | Increased contribution (cost savings & growth) | 0 | | £3,100K | 0 | £3,100k |
| | Stewart Fox-Mills | Marketing | Net Promoter Score - rolling 12 months | 3 | -1 | 5 | 5 | | | | | | |
| Crown | Harry Clarke | Crown Transformation | Branch franchise | 0 | 0 | 16 | 26 | Cost reduction from franchising | £0k | £0k | £1,006k | £1,040k | £1,500k |
| | | | New Self Service machines rolled out | 44 | 0 | 342 | 180 | Staff savings supported by automation | £250k | £0k | £1,746k | £546k | £546.6k |
| | | | Number of new format branches rolled out | 14 | 14 | 117 | 117 | Cost reduction from other programme activity | £2,451k | £1,183k | £5,282k | £5,348k | £5,282k |
| NT | Neil Ennis | Network Transformation Programme | Contracts signed - Target | 2,025 | 2,113 | 3,000 | 3,000 | Average queuing time in new format branches | 5 Min | 01:11 | 5 Mins | 5 Mins | 5 Mins |
| | | | Branches open - Plan | 1,452 | 1,274 | 1,950 | 1,950 | Customer satisfaction | 90% | 96% | 90% | 90% | 90% |
| | | | | | | | | Ave increase in opening hours | 40% | 65% | 40% | 40% | 40% |
| | | | | | | | | Cost reduction | £505k | £453k | £1,925k | £1,300k | £1,277k |
| IT&C | Dave Hulbert | IT Transformation & Transition | SISD in place (Q3 TBC), | | | Oct | Oct | Cost reduction | 0 | 0 | 0 | 0 | 0 |
| | | | All towers awarded | | | March | TBC | Value of contracts in towers | 0 | 0 | 0 | 0 | 0 |
| Sep | Neil Wilkinson | Separation | Separation of business & IT systems (services by quarter) | 0 | 0 | 22 | 22 | Separation of Business functions end Mar 2014 (IT systems Sept 2014) | N/A | N/A | N/A | N/A | N/A |
| | Peter Goodman | Finance Transformation Programme | Core Finance system implemented | | | Jul-14 | Jul-14 | Headcount reduction | | | £140K | £140 | £292K |
| | | | Process improvements implemented (number of) | 1 | 1 | 5 | 5 | | | | | | |
| | Belinda Crowe | Mutualisation | Public purpose of PO agreed by BIS & Board | | | Jan-14 | Jan-14 | | | | | | |

* Benefits shown as income pending establishment of contribution measure

** Being reviewed in line with annual planning

DMC
Mobile optimised site slipped due to CAP Gemini request for additional regretion testing. Current release planned for mid-Nov.

Financial Services
October was the best month for mortgage applications with 10.6 per branch but still tracking behind target.
POLO Proof of concept to be extended which will help to drive numbers from Q4.
Payments project went live on 24 October.

FOoG
Govt departments in the IDA pilot have delayed their start so timings & benefits slipped to January.

Mails
Some risk to benefits but working to mitigate.

Telephony
Revised proposal for wave due end of November.

Marketing
NPS not recovered from dip following mails price changes.

Crown
Franchise benefits look safe, but staff saving lower in-year because of implementation delay.

NTP
Cost reduction forecast lower because of lower proportion of locals conversions.

## Network Transformation Scorecard Metric Definitions/ Rationale

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**October 2013** Reporting Prior Months data (one month in arrears)

| | Key Performance Indicators | Metric | Rationale |
|---|---|---|---|
| | MAINS | | |
| | Converted > 12 months | Source: NTP database | Source: NTP database |
| POL | Finance Approved Investment per Mains £000 | Average investment spend approved for number of branches | Recognise investment spend |
| | Total Income: Post vs Pre Conversion | | |
| | Branches live 12-24 months | Total Variable Income - Source: Credence* | Review impact on POL income as a result of converting to new models |
| | Branches live 24-36 months | Current month vs same period pre conversion | |
| | Focus Income: Post vs Pre Conversion | | |
| | Branches live 12-24 months | Total Focus Income - Source: Credence* | Review impact on POL focus income to assess the sales model post conversion |
| | Branches live 24-36 months | Current month vs same period pre conversion | |
| Agent | Agents Remuneration: Post vs Pre Conversion | Total agents remuneration excluding overscale and NI/VAT. Current month vs same period pre conversion | Assess the impact on income for our agents as a result of POL business |
| | Operator Feedback on Retail Sales Performance | Source: Operator survey issued to branches 2 months after opening starting in Aug 12 | Indicative retail performance for Agents |
| Customer | Average Increase in Opening Hours | Based on systems data of open hours | Assess the impact of extended hours for our customers |
| | Customer Satisfaction | Exit interviews conducted by research company Brass at recently transformed branches | Indication of customer experience |
| | LOCALS | | |
| | Converted > 12 Months | Branches converted greater than 12 months | Branches converted greater than 12 months |
| POL | Finance Approved Investment per Local £000 | Average investment spend approved for number of branches | Assessment of investment spend |
| | Total Income: Post vs Pre Conversion | | |
| | Branches live 12-24 months | Total Variable Income - Source: Credence* | Review impact on POL income as a result of converting to new models |
| | Branches live 24-36 months | Current month vs same period pre conversion | |
| | Annualised Agents Fixed Pay savings per conversion £000 | Fixed pay saving per branch vs the strategic plan assumptions | Assess the savings to POL |
| Agent | Customer Sessions 12- 24 months | Source: MI Database | Measurement of footfall for an Agent |
| | Customer Sessions 24- 36 months | | |
| | Operator Feedback on Retail Sales Performance | Source: Operator survey issued to branches 2 months after opening starting in Aug 12 | Assess impact of increased revenue from retail |
| Customer | Average Increase in Opening Hours | Based on systems data of open hours | Assess the impact of extended hours for our customers |
| | Customer Satisfaction | Exit interviews conducted by research company Brass at recently transformed branches | Indication of customer experience |

* Same income factor used for each year. Performance is impacted by sales and product mix.

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# Project Costs (OpEx)

**October 2013**

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The overall YTD expenditure is lower than budget, but with variances between projects.

| £m | | Current Month | | | Year To date | | | Full Year | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Directorate | Programme | Actual | Budget | Var | Actual | Budget | Var | Forecast | Budget | POLIC Approved to Date |
| Commercial | Brand Marketing | (0.4) | 0.0 | (0.4) | (0.8) | 0.0 | (0.8) | (0.5) | 0.0 | 0.0 |
| | Customer Engagement | (0.6) | 0.0 | (0.6) | (5.0) | (5.8) | 0.8 | (5.7) | (5.8) | 0.0 |
| | Digital & Multi Channel | (0.1) | (0.0) | (0.1) | (0.6) | (0.4) | (0.2) | (0.7) | (0.6) | (0.5) |
| | FOoG | (0.2) | (0.2) | 0.0 | (1.5) | (1.1) | (0.4) | (2.0) | (2.3) | (1.4) |
| | Mails | 0.2 | (0.1) | 0.3 | (0.6) | (0.7) | 0.1 | (0.5) | (2.0) | (0.7) |
| | Telephony | (1.4) | (0.3) | (1.1) | (3.2) | (2.5) | (0.7) | (3.7) | (3.6) | (0.9) |
| Financial Services | Financial Services | (0.1) | (0.4) | 0.3 | (0.9) | (1.9) | 1.0 | (2.1) | (3.5) | (1.3) |
| Communications | Communications | (0.0) | (0.1) | 0.1 | (0.0) | (0.6) | 0.6 | (0.6) | (1.0) | (0.6) |
| Network & Sales | Network Other | (0.0) | 0.0 | (0.0) | (0.1) | 0.0 | (0.1) | (0.1) | 0.0 | 0.0 |
| | Property | (0.2) | (0.0) | (0.2) | (0.5) | (0.3) | (0.1) | (0.4) | (0.5) | (0.3) |
| | Supply Chain | (0.0) | 0.0 | (0.0) | (0.5) | 0.0 | (0.5) | (0.7) | 0.0 | (0.6) |
| IT & Change | IT Delivery | (0.2) | (0.1) | (0.1) | (0.7) | (0.7) | (0.0) | (0.9) | (1.1) | (0.8) |
| Corporate Services | Corporate Services | (0.1) | (0.3) | 0.3 | (1.6) | (0.6) | (1.0) | (3.3) | (1.1) | (0.9) |
| | Independence & Separation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.2) | (4.2) | 0.0 |
| Finance | Finance | (0.0) | 0.0 | (0.0) | (0.3) | 0.0 | (0.3) | (0.3) | 0.0 | (0.1) |
| Strategy | Independence & Separation | 0.0 | (0.1) | 0.1 | (0.2) | (0.4) | 0.2 | (0.4) | (0.5) | 0.0 |
| Centrally Held | Centrally Held | 0.0 | (0.4) | 0.4 | 0.0 | (5.3) | 5.3 | (0.5) | (4.8) | 0.0 |
| Old Projects | Old Projects | 0.0 | 0.0 | | (0.2) | 0.0 | (0.2) | 0.0 | 0.0 | 0.0 |
| POOC | | (2.9) | (1.9) | (0.9) | (16.7) | (20.2) | 3.5 | (22.6) | (31.0) | (8.2) |
| Financial Services | FS_Eagle 2013/14 (Provision) | 0.0 | 0.0 | 0.0 | (2.0) | 0.0 | (2.0) | (3.5) | (4.0) | (4.0) |
| POOC Total | | (2.9) | (1.9) | (0.9) | (18.7) | (20.2) | 1.5 | (26.1) | (35.0) | (12.2) |
| Contingency | | | | | | | | (2.4) | | |
| POOC Grand Total | | (2.9) | (1.9) | (0.9) | (18.7) | (20.2) | 1.5 | (28.5) | (35.0) | (12.2) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Financial Services | FS_Eagle 2012/13 (Provision) | (0.5) | 0.0 | (0.0) | (2.9) | (2.4) | 0.3 | (3.0) | 0.0 | (3.0) |

OpEx £1.5m under investment

Brand Marketing
£0.8m adverse YTD is offset against the underspend in Customer Engagement net position zero.

Customer Engagement
£0.8m favourable ytd offsetting Brand Marketing.

FOoG
£0.4m adverse YTD relating to unbudgeted projects.

Telephony
£0.7m adverse YTD relating to BT Migration TUPE costs.

Supply Chain
£0.5m adverse YTD relates to the North West Cash centre move, where the spend was budgeted has Capex.

Corporate Services
£1m adverse ytd due to the £0.5m Fraud Software analysis project which had approval spend in 2012-13, but was delivered in 2013-14, unbudgeted, and £0.5m unbudgeted activities.

Independence & Separation : Now Exceptional

Finance
£0.3m adverse YTD relates to FRM to be transferd to Capex in P8.

FS Capabilities
£3m YTD now utilised against the £3m 2012/13 provision.

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# Project Costs (CapEx and Exceptionals)

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**October 2013**

Both CapEx and Exceptional costs are underspent against budget, driven by NT and CTP.

## CapEx

£m

| Directorate | Programme | Current Month Actual | Current Month Budget | Current Month Var | Year To date Actual | Year To date Budget | Year To date Var | Full Year Forecast | Full Year Budget | Full Year POLIC Approved to Date |
|---|---|---|---|---|---|---|---|---|---|---|
| Commercial | Customer Engagement | 0.0 | (0.1) | 0.1 | 0.0 | (0.5) | 0.5 | (1.1) | (1.1) | 0.0 |
| | Digital & Multi Channel | (0.1) | 0.0 | (0.1) | (0.6) | 0.0 | (0.6) | (1.3) | (1.6) | (0.1) |
| | FOoG | (0.0) | (0.3) | 0.2 | (1.7) | (2.3) | 0.5 | (3.9) | (4.4) | (1.2) |
| | Mails | (0.3) | (0.0) | (0.3) | (0.8) | (0.1) | (0.8) | (2.6) | (0.8) | (2.7) |
| | Telephony | 0.0 | (0.1) | 0.1 | (0.5) | (0.1) | (0.3) | (0.7) | (0.2) | 0.0 |
| Financial Services | Financial Services | (0.0) | (0.5) | 0.5 | (0.0) | (2.4) | 2.4 | (4.0) | (6.7) | (1.5) |
| Network & Sales | Crown Transformation | (0.2) | (3.0) | 2.8 | (2.1) | (21.0) | 18.9 | (26.8) | (36.1) | (36.1) |
| | Network Transformation | (2.4) | (4.5) | 2.1 | (12.9) | (32.0) | 19.1 | (53.7) | (50.6) | 0.0 |
| | Property | (0.8) | (0.4) | (0.4) | (2.0) | (3.3) | 1.3 | (6.2) | (5.4) | (1.6) |
| | Supply Chain | (2.0) | (0.9) | (1.1) | (5.0) | (5.3) | 0.3 | (12.0) | (12.0) | (8.2) |
| IT & Change | IT Delivery | (1.4) | (3.1) | 1.7 | (11.3) | (13.0) | 1.8 | (29.4) | (26.0) | (8.4) |
| | IT Transformation | 0.6 | 0.0 | 0.6 | 0.3 | 0.0 | 0.3 | (0.2) | 0.0 | 0.0 |
| Corporate Services | Corporate Services | (0.5) | 0.0 | (0.5) | (0.8) | 0.0 | (0.8) | (1.6) | 0.0 | (1.5) |
| | Independence & Separation | (0.2) | (1.7) | 1.5 | (2.5) | (7.0) | 4.5 | (17.6) | (19.3) | (8.9) |
| Finance | Finance | (0.4) | (0.4) | (0.0) | (2.4) | (2.0) | (0.4) | (3.8) | (3.5) | (3.4) |
| Centrally Held | Centrally Held | 0.0 | (1.1) | 1.1 | 0.0 | 9.2 | (9.2) | 0.0 | 1.9 | 0.0 |
| Old Projects | Old Projects | 0.7 | 0.0 | 0.7 | 0.2 | 0.0 | 0.2 | (0.4) | 0.0 | 0.0 |
| Capex Grand Total | | (7.1) | (16.1) | 9.0 | (42.2) | (80.0) | 37.8 | (166.6) | (167.5) | (75.1) |

CapEx - £37.8m under investment

The favourable variance in the month & YTD is mainly driven by Crown (£18.9m) & Network Transformation (£19.1m) Programmes tracking behind planned activities.

Property
£1.3m favourable YTD due to £1.2m of costs transferred to Crown Transformation.

IT Delivery
£1.8m adverse ytd mainly due to phasing of Risk & Resilience.

Corporate Services
£0.8m adverse YTD relating to unbudgeted projects.

Independence & Separation
YTD is £4.5m favourable. This mainly due to a combination of projects (E-Business, HR Systems and IT Towers ) behind schedule.

## Exceptional

| Directorate | Programme | Current Month Actual | Current Month Budget | Current Month Var | Year To Date Actual | Year To Date Budget | Year To Date Var | Full Year Forecast | Full Year Budget | Full Year POLIC Approved to Date |
|---|---|---|---|---|---|---|---|---|---|---|
| Other | Cost reduction | 0.0 | (0.5) | 0.5 | 0.0 | (1.8) | 1.8 | (3.6) | (5.0) | 0.0 |
| Network & Sales | Crown Transformation | (2.3) | (2.5) | 0.2 | (10.1) | (16.0) | 6.0 | (40.1) | (29.4) | (29.4) |
| | Network Transformation | (6.6) | (13.5) | 6.8 | (39.5) | (68.0) | 28.5 | (70.8) | (128.7) | (128.7) |
| | Supply Chain | 0.0 | (1.3) | 1.3 | 0.0 | (4.1) | 4.1 | (4.6) | (6.1) | (1.1) |
| IT & Change | IT Transformation | (2.3) | (1.6) | (0.7) | (6.9) | (7.1) | 0.3 | (19.1) | (15.0) | (18.0) |
| Corporate Services | Independence & Separation | (0.5) | (0.4) | (0.1) | (3.4) | (1.5) | (1.8) | (6.9) | (0.2) | (3.9) |
| Programme Exceptional Total | | (11.7) | (19.7) | 7.9 | (59.7) | (98.6) | 38.9 | (145.2) | (184.4) | (181.1) |
| Finance | VR | (0.4) | (11.6) | 11.3 | (2.5) | (5.3) | 90.4 | 0.0 | 0.0 | 0.0 |
| | WHS Contract | 0.0 | 0.0 | 0.0 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Pensions | 0.0 | 0.0 | 0.0 | 102.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Agents Compensation | 0.0 | 0.0 | 0.0 | (15.4) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptional Grand Total | | (12.1) | (31.3) | 19.2 | 25.4 | (103.9) | 129.3 | (145.2) | (184.4) | (181.1) |

Exceptional - £38.9m under investment

Current month £7.9m & Year to Date £38.9m favourable.

The favourable variance in the month & YTD is mainly driven by Network transformation programme & Supply Chain (North West Cash Centre & Supply Chain Strategy) tracking behind planned activities.

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# Supplementary Information

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# Cashflow Statement & Balance Sheet Summary

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## October 2013

Balance Sheet

| £m | Mar-13 | P7 Actual | P7 Budget | P7 Variance |
|---|---|---|---|---|
| Fixed Assets | 71 | 63 | 94 | (31) |
| Debtors | 122 | 155 | 107 | 48 |
| Cash | 870 | 883 | 793 | 90 |
| Client Balances | (288) | (293) | (205) | (88) |
| Trade Creditors | (362) | (493) | (414) | (79) |
| Pension (deficit)/surplus | 97 | 145 | 71 | 74 |
| Provisions | (26) | (26) | (25) | (1) |
| Investments, Funding | 95 | 109 | 87 | 22 |
| Loan | (291) | (110) | (180) | 70 |
| **Net Assets** | **288** | **433** | **328** | **105** |

| Reserves | Mar-13 | Actual | Budget | Variance |
|---|---|---|---|---|
| Capital and Reserves | (288) | (433) | (328) | (105) |
| | (288) | (433) | (328) | (105) |

Cashflow Statement

| £m | YTD Actual | YTD Budget | YTD Variance | Full Year Forecast | Full Year Budget | Full Year Variance |
|---|---|---|---|---|---|---|
| Operating Profit | 65.0 | 59.2 | 5.8 | 102.0 | 102.0 | 0.0 |
| Depreciation | 0.2 | 0.5 | (0.3) | 0.9 | 0.9 | 0.0 |
| Working Capital | (58.6) | (46.2) | (12.4) | (41.2) | (41.2) | 0.0 |
| Client Balances | 6.1 | (82.4) | 88.5 | (11.4) | (44.4) | 33.0 |
| Network Cash | (13.7) | 76.6 | (90.3) | 114.6 | 114.6 | 0.0 |
| Dividends | 7.2 | (23.9) | 31.1 | (4.5) | (4.5) | 0.0 |
| Capital Expenditure | (42.2) | (80.0) | 37.8 | (140.0) | (167.5) | 27.5 |
| Government funding | 215.0 | 215.0 | 0.0 | 215.0 | 215.0 | 0.0 |
| NSP in advance | 80.8 | 80.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptional Items | (76.8) | (105.6) | 28.8 | (144.8) | (198.8) | 54.0 |
| Pensions | 2.2 | 1.3 | 0.9 | 2.3 | 2.3 | 0.0 |
| Proceeds from asset sales | 2.4 | 0.0 | 2.4 | 2.5 | 0.0 | 2.5 |
| | | | | 0.0 | 0.0 | 0.0 |
| Free cashflow before interest, tax | 187.6 | 95.3 | 92.3 | 95.4 | (21.6) | 117.0 |
| Interest | (1.0) | (2.5) | 1.5 | (2.0) | (5.0) | 3.0 |
| Tax | 10.2 | 10.2 | 0.0 | 10.3 | 10.3 | 0.0 |
| Free Cashflow | 196.8 | 103.0 | 93.8 | 103.7 | (16.3) | 120.0 |

Cash Management Table

| £m | Prior Year P7 | Mar-13 Opening | P7 Actual | P7 Budget | P7 var |
|---|---|---|---|---|---|
| Retail, Cash Centres | 514 | 650 | 696 | 602 | (94) |
| Bureau | 67 | 59 | 70 | 66 | (4) |
| Cheques, debit cards | 119 | 161 | 117 | 125 | 8 |
| **Network Cash** | **700** | **870** | **883** | **793** | **(90)** |

| | Opening | P7 |
|---|---|---|
| **Headroom (£m)** | **838** | **911** |

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# Income By Product Groups & Pillar

**October 2013**

Adverse; Mails is £20.5m, Financial Services is £4.4m, other income is £0.1m and Government Services is £1.2m adverse. Favourable; Telephony is £0.4m and Supply Chain £0.9m favourable.

| Net Income £m | Current Month | | | Prior Year | | Year to date | | | Prior Year | | Full Year | | | Prior Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actuals | Budget | Variance | Period Actual | Month (Yr On Yr) | Actuals | Budget | Variance | YTD Actual | YTD (Yr On Yr) | Q2 Forecast | Budget | Variance | 2012/13 Outturn |
| Parcelforce | 2.1 | 2.4 | (0.3) | 1.9 | 0.3 | 12.9 | 13.3 | (0.4) | 10.7 | 2.2 | 23.1 | 24.5 | (1.40) | 19.9 |
| Special Delivery | 5.0 | 4.9 | 0.1 | 5.0 | 0.0 | 30.3 | 30.0 | 0.3 | 30.6 | (0.4) | 50.0 | 50.0 | 0.00 | 53.2 |
| International Priority & Standard | 3.0 | 3.4 | (0.4) | 3.0 | 0.0 | 18.6 | 21.3 | (2.7) | 18.9 | (0.3) | 32.7 | 37.3 | (4.60) | 34.9 |
| Stamps (1st & 2nd Class plus other stamps) | 2.5 | 2.9 | (0.5) | 2.3 | 0.2 | 14.6 | 16.6 | (2.0) | 19.4 | (4.8) | 33.8 | 33.8 | 0.0 | 35.2 |
| Labels (1st & 2nd Class) | 8.5 | 10.5 | (2.0) | 9.3 | (0.8) | 53.0 | 61.6 | (8.6) | 57.1 | (4.1) | 94.8 | 106.2 | (11.40) | 100.2 |
| RM Mail Fixed | 5.5 | 5.4 | 0.09 | 5.5 | 0.0 | 33.5 | 33.4 | 0.1 | 33.9 | (0.4) | 56.0 | 56.0 | 0.0 | 57.9 |
| Retail & Lottery | 4.2 | 5.0 | (0.8) | 4.2 | (0.0) | 25.7 | 30.2 | (4.5) | 26.6 | (0.9) | 51.9 | 51.6 | 0.30 | 45.7 |
| Mails Other | 4.9 | 5.4 | (0.5) | 5.1 | (0.1) | 29.9 | 32.6 | (2.7) | 32.2 | (2.3) | 64.7 | 55.3 | 9.34 | 57.0 |
| **Total Mail Services** | **35.7** | **40.0** | **(4.3)** | **36.2** | **(0.5)** | **218.4** | **238.9** | **(20.5)** | **229.4** | **(10.9)** | **406.9** | **414.6** | **(7.76)** | **404.0** |
| **Total Telephony Services** | **3.9** | **4.6** | **(0.6)** | **4.9** | **(1.0)** | **29.1** | **28.7** | **0.4** | **27.7** | **1.4** | **50.7** | **50.4** | **0.3** | **45.0** |
| Motoring Services | 1.6 | 1.9 | (0.2) | 3.0 | (1.4) | 11.6 | 12.6 | (1.0) | 19.9 | (8.2) | 20.7 | 21.4 | (0.73) | 31.8 |
| Card Account | 4.8 | 5.0 | (0.2) | 5.3 | (0.5) | 35.1 | 35.5 | (0.4) | 39.5 | (4.4) | 59.1 | 59.4 | (0.3) | 65.8 |
| Check and Send | 1.3 | 1.2 | 0.1 | 1.3 | 0.0 | 14.0 | 12.9 | 1.1 | 13.1 | 0.9 | 22.2 | 20.4 | 1.84 | 21.4 |
| AEI (DVLA & UKBA) | 0.9 | 0.8 | 0.1 | 0.9 | (0.0) | 4.7 | 4.5 | 0.2 | 5.1 | (0.4) | 9.4 | 7.9 | 1.5 | 10.1 |
| Other Government Services | 0.4 | 0.6 | (0.2) | 1.1 | (0.7) | 3.2 | 4.4 | (1.2) | 3.0 | 0.2 | 4.1 | 6.7 | (2.6) | 4.2 |
| **Total Government Services** | **9.0** | **9.5** | **(0.5)** | **11.7** | **(2.7)** | **68.7** | **69.9** | **(1.2)** | **80.6** | **(11.9)** | **115.5** | **115.9** | **(0.4)** | **133.2** |
| Bill Payment Services Direct | 1.2 | 1.0 | 0.2 | 1.3 | (0.1) | 6.3 | 6.1 | 0.2 | 6.6 | (0.3) | 10.9 | 11.1 | (0.22) | 11.8 |
| Bill Payment Services Reseller | 2.7 | 2.4 | 0.4 | 2.6 | 0.1 | 16.8 | 14.41 | 2.3 | 17.1 | (0.4) | 26.2 | 24.9 | 1.26 | 27.6 |
| Postal Orders | 2.0 | 2.1 | (0.0) | 2.4 | (0.4) | 12.4 | 12.4 | 0.1 | 14.0 | (1.5) | 20.2 | 20.2 | 0.04 | 23.1 |
| Payment Services | 0.5 | 0.8 | (0.3) | 0.20 | 0.3 | 3.0 | 4.3 | (1.2) | 2.8 | 0.2 | 7.1 | 8.9 | (1.7) | 6.3 |
| Personal Banking Clients | 3.2 | 2.5 | 0.7 | 2.5 | 0.7 | 16.6 | 15.1 | 1.5 | 15.5 | 1.0 | 27.5 | 25.4 | 2.1 | 26.4 |
| DWP Exceptions | (0.0) | 0 | (0.0) | 0.4 | (0.4) | 0.0 | 0.1 | (0.1) | 2.6 | (2.6) | 0.0 | 0.1 | (0.07) | 3.9 |
| Business Banking | 2.8 | 2.5 | 0.3 | 3.2 | (0.4) | 17.3 | 15.7 | 1.7 | 20.5 | (3.2) | 28.8 | 26.6 | 2.27 | 34.8 |
| ATM | 2.6 | 3.3 | (0.7) | 2.9 | (0.3) | 18.1 | 19.6 | (1.4) | 17.8 | 0.4 | 32.0 | 33.2 | (1.20) | 30.2 |
| PFS-Savings | 4.4 | 5.0 | (0.6) | 3.7 | 0.7 | 29.4 | 29.7 | (0.3) | 20.7 | 8.7 | 50.0 | 50.5 | (0.54) | 40.6 |
| PFS-Insurance | 0.5 | 0.7 | (0.2) | 0.8 | (0.3) | 3.7 | 4.1 | (0.4) | 2.9 | 0.7 | 9.2 | 6.7 | 2.41 | 5.3 |
| PFS-Lending | 0.6 | 0.5 | 0.1 | 0.3 | 0.4 | 3.2 | 2.7 | 0.6 | 1.9 | 1.3 | 6.6 | 4.9 | 1.70 | 4.7 |
| Bureau (excl profit share) (incl Travel Money Card) | 1.7 | 2.3 | (0.5) | 2.3 | (0.6) | 16.1 | 18.5 | (2.4) | 16.5 | (0.4) | 24.4 | 25.0 | (0.60) | 24.4 |
| Travel Insurance | 0.3 | 0.7 | (0.3) | 0.4 | (0.1) | 6.9 | 7.0 | (0.1) | 6.7 | 0.1 | 9.0 | 9.0 | 0.0 | 9.1 |
| MoneyGram | 1.5 | 1.6 | (0.1) | 1.5 | 0.0 | 9.6 | 9.7 | (0.1) | 8.8 | 0.8 | 16.6 | 16.6 | (0.02) | 15.4 |
| NS&I | 0.5 | 0.5 | 0.0 | 1.3 | (0.8) | 2.5 | 2.5 | 0.0 | 7.8 | (5.3) | 3.9 | 3.9 | 0.0 | 13.3 |
| Other | 0.2 | 1.0 | (0.8) | 0.2 | 0.0 | 1.5 | 6.1 | (4.7) | 1.5 | 0.0 | 5.0 | 10.4 | (5.36) | 2.5 |
| **Total Financial Services** | **24.8** | **26.8** | **(2.0)** | **26.0** | **(1.2)** | **163.5** | **167.9** | **(4.4)** | **163.8** | **(0.3)** | **277.4** | **277.4** | **(0.0)** | **279.6** |
| Other Income | 1.2 | 1.2 | 0.0 | 0.9 | 0.32 | 6.3 | 6.4 | (0.1) | 6.0 | 0.3 | 8.4 | 12.5 | (4.1) | 10.7 |
| Supply Chain | 3.1 | 2.7 | 0.4 | 2.6 | 0.47 | 17.9 | 17.0 | 0.9 | 17.7 | 0.1 | 28.7 | 29.2 | (0.50) | 30.0 |
| **Net Income** | **77.7** | **84.6** | **(6.9)** | **82.3** | **(4.6)** | **503.9** | **528.8** | **(24.9)** | **525.2** | **(21.3)** | **887.6** | **900.0** | **(12.4)** | **902.4** |

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# ExCo Trading Board Update

19th November 2013
Week 31 YTD Performance 2013'14

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# POL Income

| | Focus | Standard | Total |
|---|---|---|---|
| % Income YTD | 100% | 94% | 96% |
| Income Variance £m YTD | 0.42 | -16.31 | -15.89 |

# Channel Focus and Standard performance against target YTD

| | Crown Branches | WH Smith | Agency Branches | Network Channels | Contact Centre | Online |
|---|---|---|---|---|---|---|
| Focus Product Income | 97% | 103% | 101% | 100% | 107% | 109% |
| Standard Product Income | 98% | 98% | 93% | 94% | 86% | 103% |
| Total Income | 98% | 100% | 95% | 96% | 99% | 107% |

## 1. Financial Services Pillar update

| Financial Services & Travel | Focus | Standard | Total | Savings Book |
|---|---|---|---|---|
| % Income YTD | 103% | 104% | 103% | 16.06bn |
| Income Variance £m | 1.13 | 3.05 | 4.18 | 16.01bn @9th Oct |

**Savings** – In October the book increased to £16.06bn, a slight increase on September. On 18th October we launched "hero" rate Premier Cash Isa (1.80%) and Reward Saver (1.60%) products with fixed tranches of £500m and £250m respectively; these are appearing in best-buy tables and rates should not change until the tranche is filled. This launch has coincided with our fixed rates also becoming best buy generating a very noticeable uplift in branch volumes. There will be media and branch support through November to support drive branch volumes for PCISA and Reward Saver.

**Mortgages**
We achieved £166m of mortgage applications in October, (YTD £806m of applications) the best performance in 18 months. Mortgage Specialists contributed £10.7m of applications which was their strongest monthly performance to date. We anticipate strong growth in mortgage applications through Mortgage Specialists in January when the majority of our new sales team will have completed their training and we are through the seasonal decline in December.

**Credit Card**
Whilst still behind YTD target the performance of credit card has started to show some signs of improvement and is now 90% of target and 107% against previous year. The recent improvement has been across all channels but predominantly via the online channel where the start to submit rate has improved from approximately 38% pre-launch of new online application form to 54% and is still growing. The key issue is that the traffic to the credit card site has been in decline for a number of months. We have increased marketing support, particularly through online channels; however, our new credit card balance transfer (BT) offer of 18 months is not competitive enough. Over a number of months our competitors have improved their BT offers, but in the last month alone we have seen Barclaycard increase their BT offer to 30 months and Tesco Bank, Nat West and Halifax to 28 months.

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**Life Insurance** – sales remain below budget and consequently actions are required if we are to achieve our income plan. A DRTV Press and In Branch campaign will run in Q4 with a central theme of "always paying your way and settling your tab".

**General Insurance** – Motor Insurance sales volumes remain ahead of target but reliance on aggregators continues to impact income, while improved retention rates offset some of the additional aggregator costs. Home Insurance sales are down year to date due to aggressive competitor pricing through aggregators.

Profitability of our general insurance business has been significantly enhanced following the conclusion of a new supply agreement with BISL.

**Travel Money** – sales income is below target due to lower than plan transactional volumes. The average transaction value, however, is higher than budget so this will result in a higher profit share from FRES. The channel sales performance remains on target as these are based upon sales value (benefiting from increased ATV) rather than the sales volume.

**Current Account**
As at 8th November the proof of concept generated 1,722 applications which have converted to 883 sales (with a further c.85 currently in referral). Last week was our best week for Current Account sales since launch, with 57 sales representing a 90% increase on the previous 5 weeks (average of 30 sales). This performance was driven by the current marketing campaign and increased focus from the sales team. With this momentum we expect sales volume will reach 1,000 in December.

## 2. Government Pillar update

| Government Services | Focus | Standard | Total |
|---|---|---|---|
| % Income YTD | 107% | 99% | 101% |
| Income Variance £m | 0.91 | -0.55 | 0.35 |

**Passport Check and Send** continues with a strong performance and volumes remain at 107% of forecast YTD. After a spike of applications at the beginning of the year sales have returned close to forecast volumes. Despite there being more than 200,000 additional passport applications YTD over last year market share YTD is down on last year's. In short Post Office is not exploiting the increased number of overall applications this year but artificially doing well against forecast because of them. A Google paid advertising campaign was undertaken throughout October and other marketing activities are being planned for Q3 and Q4. However, with Network Field Team Support, the biggest impact on transaction volumes will be achieved by utilising the "Check & Send Sales Conversation" to uplift conversions at Point of Sale.

## 3. Mails and Retail Pillar update

| Mails & Retail | Focus | Standard | Total |
|---|---|---|---|
| % Income YTD | 98% | 87% | 90% |
| Income Variance £m | -1.13 | -18.71 | -19.84 |

**Mails**
Our Standard income is down by 13% against target, As of Week 31, the new small parcel sizing has been in place for one week and we are expecting to see volume steadily increase with an anticipated 225k parcels coming back to POL per week to help hit our Standard income targets. The new sizing is currently being

advertised through online seller websites (eBay and Amazon) and Out Of Home advertising, targeting specific high performing Mails branches that have dipped in performance since April.

Focus products income has remained steady with 3 out of our 4 Focus products (express24&48, International Express, International Priority) increasing sales volumes compared to the previous year. Currently we are slightly behind our Focus products target income, to mitigate this impact we have put in place product branch promotions, ATL advertising alongside staff incentives to get this back on track over Christmas.

**Lottery** - down by -£3.8m vs. budget and last year, driven by Camelot's decline in market sales and poor performance of the new terminals following their 3rd licence extension. Since the recent Lotto game re-launch, Lotto sales have increased by +33% versus the average 13 weeks prior to launch, although this is in the context of a game in decline, so the sales growth has been low. Post Office has requested for Camelot to support with specific Post Office promotions and unique products to drive sales growth through the branch network. Camelot has declined to support Post Office with this initiative, rather focusing on their Camelot 'brand' activity. Post Office will roll out new 'jackpot' posters into agency branches, along with running POTV 'jackpot' ads in Crown branches from late November.
Post Office launched The Health Lottery in mid-September, delivering average weekly sales revenue of £130k, £6.5k income.

**Retail** (Crown only) - down by -£146k versus budget. Retail is down due to a decline in packaging sales, in line with the decline in standard mails volumes. Strong promotional plans will be delivered in November and December through a Collectibles catalogue proposition, new PostPak packaging and a seasonal Christmas wrap, tags and cards offer.

## 4. Telecoms Pillar update

| Telephony | Focus | Standard | Total | Telephony Book | % Change |
|---|---|---|---|---|---|
| % Income YTD | 88% | 84% | 88% | TBC | #VALUE! |
| Income Variance £m | -0.49 | -0.09 | -0.59 | 461,864 | (Previous) |

The customer base estimate is 460,245

The YTD **HomePhone, HomePhone Combined** and **Broadband** performance continues to be behind target. The targets continue to ramp up as it was intended that post-migration we would be in a position to take advantage of the new products we have available and drive an uplift in sales. Given the continued issues within the call centre that are particularly impacting existing customers' experience, the network are not actively promoting the product and sales therefore continue to be behind plan. However, we are seeing a small increase in the underlying run-rate. The focus continues to be on stabilising the customer experience for our existing customers to maintain the customer base. Given the current issues and the other commercial imperatives within the wider portfolio, it has been decided that we will not run a campaign in Q4 but will work with Marketing Communications to deliver a re-launch of the product in Q1. This will not have a material impact on 2013/14 income but will have an impact in 2014/15.

**E Top-up** performance is running at 8% below target and is in line with market performance. There is no appetite from the mobile networks to promote the category at the moment. At an income level, we continue to be slightly ahead of plan due to a higher than planned average commission rate.

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# POST OFFICE LTD EXECUTIVE COMMITTEE

## Energy – Noting Paper

## 1. Purpose

The purpose of this paper is to:

1.1. Update the Executive Committee (ExCo) on the development of the Post Office Ltd (POL) energy proposition.

1.2. Seek agreement from ExCo on the recommended way forward.

## 2. Background

2.1. POL explored options for entry into the energy market in 2012. This is part of our broader strategy to become a retailer of Post Office branded products and services, which will extend to Mobile phones and developing our HomePhone offering. Energy will become a key part of the HomeServices proposition that we will offer under the Customer Value Proposition structure.

2.2. Options for market entry included POL acting as an online aggregator across the home energy market and/or POL options for partnering with one of the big six energy companies to sell energy including a white label arrangement As it stands our white-label proposition will deliver contribution in-line with the Strategy Plan and provides the flexibility to enter into other arrangements with the partner including POL having its own energy licence.

2.3. In June 2013 ExCo decided to support the white-label option. (See Annex 1 and 2 for P&L and commercials). As a white label provider POL could earn up to £14m per year in revenue (revenue which is baked in to the strategic plan and expected to rise to £24m by 2020 subject to future development of the proposition). The overall cost of developing this solution is £1.05m.

2.4. Since then, we have initiated a sourcing process and have progressed to a shortlist of three potential energy providers with whom POL intends to have more detailed discussions over the next few weeks.

2.5. Our plan has been to identify a preferred partner in December 2013 and then launching a proposition in July 2014.

2.6. To date we have invested £83k in developing the energy proposition and have a clear process in place.

## 3. Recent Developments

3.1. Whilst there is negative press about above-inflation energy price increases every year (typically in the autumn), this year the volume of press coverage and the public discontent has been stoked by growing political dissatisfaction with the situation.

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3.2. Having progressed the selection process to this point, we have identified that the sales compliance obligations are more onerous than initially anticipated.

3.3. In addition POL has been directly approached by government to consider assisting them by participating in the energy market.

## 4. Implications of recent developments

4.1. POL has become more concerned about brand reputational risks given limited control around pricing.

- For example, if our partner decided to increase prices, then we in turn would have to increase prices to our customers.

4.2. Increased clarity around sales compliance and the training required has called into question our ability to sell this product end-to-end or promote and quote in branch outside of the FS Specialists.

## 5. Proposed way forward

5.1. As a result of this we are going to pursue two parallel streams of activity:

5.2. The first stream of activity is to continue with the white-label option and to find ways to overcome the two challenges previously stated, reputational risk and sales compliance.

5.3. The second stream of activity will be to further investigate alternative options for entering the energy market.

5.4. **White label:** We are evaluating a number of options that will help us mitigate the potential risks of adverse publicity caused by the white-label option. These include:

- **Partner Selection:** In selecting our partner we are looking for the energy company that has the greatest pricing discipline, is transparent, and offers the best customer service.
- **Education:** We can use our face-to-face capability to educate customers around energy savings, access to Eco (help with insulating the home for the vulnerable in society), etc.
- **Developing excellent customer service:** Unlike any other energy retailer we will be able to offer a face-to-face customer experience, coupled with excellent online and phone customer service.
- **Product Bundling:** Whilst the regulations do not allow us to offer a discount, we will look to bundle products together (as per the CVPs) to offer customers excellent value for money.
- **Gaining a Licence:** Building flexibility into the contract to allow POL at some point in the future to apply for an energy licence, which would give us control over pricing.
- **Customer Insight:** All of this will be supported by customer research that will provide insight into the key drivers of satisfaction, helping us to shape a proposition that is genuinely different and meets customers' needs.

5.5. We are also evaluating a number of approaches to mitigate the risks around selling in branch: These include:

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- **Sales Compliance:** We will continue to work closely with potential suppliers to understand the ways that they can help us to ensure sales compliance in branch. This includes what training they can provide, scripting sales on Horizon and other systems–based measures to ensure compliance.
- **Mystery Shopping:** Conduct mystery shopping in conjunction with our partner to ensure compliance.
- **Risk:** We will discuss with partners how we share the risk associated with selling energy in branch.

**Alternative options**: We will investigate other options for entering the energy market. The aggregator model is an option that we will be exploring in detail.

5.6. HMG approached POL to ask for support in hosting independent energy advisors in some of its branches while also stocking leaflets which advise customers how to switch to cheaper energy tariffs. POL responded positively to this request and promised to investigate the possibility of doing both. POL recognised an opportunity to go much further than the initial request from HMG by potentially acting as an aggregator across all of the main energy companies helping to ensure that customers can easily act upon the advice they get from the energy advisors by switching their provider through POL, in branch or online. POL suggested this to HMG to gauge an initial response. The response was encouraging.

5.7. In brief POL with a suitable partner would build a comparison engine which would allow it to identify the cheapest available tariff for a customer and help make it easier for customers to switch. We would initially offer an online service with the possibility of using tablets or FS laptops in branch for branch sales. POL would also gather expressions of interest from customers in branch who could then receive a call back from a call centre or an email link to the online service. The branch offer could dovetail nicely with the independent energy advisors. POL could also seek to train its FS population in making end to end sales and acting as independent advisors. POL would be paid by the energy company every time a switch is made to their tariff.

5.8. This type of service would allow POL to become the customer champion in the energy market as POL would be independently finding the best price for the customer. HMG could mandate all of the energy companies to make their products available through POL as a way of achieving their stated aim of increasing competition and holding down prices. Were these scenarios to play out POL would have a compelling offer to step into the market combined with greatly reduced risk around brand and reputational damage.

## 6. Risks

6.1. Risks with the aggregator approach:

- Energy companies may seek to remove bill payment from POL to try and prevent customers from entering branch and making a switch.
- HMG may not be prepared to mandate the energy companies to sell through the POL aggregator service; this could reduce the compelling nature of the proposition.
- There may be competition issues with existing switching services, these will need to be investigated and understood.

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- Need to reach agreement on referral fees with each of the six energy companies.

6.2. Risks with the white-label option:

- As highlighted, there are a number of risks with POL launching an energy product. These include the potential that it might attract negative publicity and brand reputational risk combined with issues around sales compliance.

## 7. Next Steps

7.1. We have given ourselves four weeks to consider options and provide a recommended way forward.

7.2. At this point we will have a greater understanding of the ways to mitigate the risks associated with the white-label options and the potential that other options might offer.

7.3. We will then provide a recommendation on the best way forward via the Spark Programme Board and update ExCo accordingly.

## 8. Recommendations

The Executive Committee is asked to:

8.1. Support the recommended approach.

**Martin George**
**November 2013**

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## Annex 1: White label option profit and loss

| Estimated Profit & Loss (£m) | 13/14 | 14/15 | 15/16 | 16/17 | 17/18 | 18/19 + |
|---|---|---|---|---|---|---|
| Recurring Income – Commission | 4.2 | 7.1 | 9.5 | 11.4 | 12.8 | 14.0 |
| Recurring Costs – Staff | 1.2 | 2.2 | 3.0 | 3.6 | 4.1 | 5.5 |
| Recurring Costs – Non Staff | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| One-off costs Set-Up | 1.0 | - | - | - | - | - |
| Total Contribution to Fixed Overheads | 0.5 | 3.4 | 5.0 | 6.3 | 7.2 | 8.0 |
| Variance from Plan | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

## Annex 2: White label option fee structure*

| | EDF | SP | BG |
|---|---|---|---|
| **Commercial Terms** | £ | £ | £ |
| **Rates:** | | | |
| Total Acquisition | 20,386,080 | 18,267,163 | 22,239,360 |
| Total Retention | 17,843,614 | 14,729,050 | 5,201,835 |
| **Total Energy Commision** | **38,229,694** | **32,996,213** | **27,441,195** |
| Total Non Energy Acquisition | 2,337,500 | 2,593,891 | 10,731,658 |
| Total Non Energy Retention | - | 554,396 | 2,634,278 |
| Total Other Payments | 4,700,000 | 2,075,000 | 4,800,000 |
| **Total Payments** | **45,267,194** | **38,219,500** | **45,607,131** |

*Payments are over 6 years showing the comparison between the energy providers still active in the procurement process. These numbers are still subject to negotiation. (SP – Scottish Power, BG – British Gas)

# POST OFFICE LTD BOARD

## Personal Injury Referral Fees Update

### 1. Purpose

**1.1.** The Board asked management to provide an update on the impact of the ban on referral fees for Personal Injury (PI) claims, how this has affected Post Office customers and the market and how the changes are managed within BGL/Junction, Post Office's motor insurance broker.

**1.2.** The Paper is tabled for noting.

### 2. Background

**2.1.** In September 2011 the Government announced a ban on referral fees in relation to personal injury claims in an attempt to curb the "compensation culture" and reduce motor insurance premium inflation.

**2.2.** In anticipation of these changes Post Office Insurance undertook a review of the practices employed by BGL and its legal firm, Minster Law, to ensure that Post Office customers were receiving the appropriate service and that agents were not incentivised to make inappropriate referrals. The review concluded that:

- Incentives were effectively monitored and dis-incentives were in place for inappropriate referrals;
- Call quality monitoring was in place that provided effective and consistent on-going evaluation of call centre agent performance.

**2.3.** A separate audit completed by Post Office Insurance concluded that:

- Appropriate controls were in place, and these controls are being managed effectively so the risk of inappropriate referrals as a direct result of the incentive program was felt to be low and managed;
- Further audit and monitoring activity would be conducted on a regular basis to provide on-going assurance. These have occurred and no issues have arisen.

### 3. Legal Aid, Sentencing and Punishment of Offenders Act 2012 (LASPO)

**3.1.** In April 2013 the ban of referral fees was implemented under LASPO. Provisions in part two of LASPO make it a regulatory offence to pay or receive referral fees in personal injury cases. This directly affects insurers, solicitors and claims management businesses and is under the monitoring of the Solicitors Regulation Authority, Financial Conduct Authority and Claims Management Authority.

**3.2.** Since the implementation of LASPO, The AA British Insurance Premium Index has reported a decline in car premiums of c10 percent. This is the largest and most prolonged (6 consecutive months) fall in car insurance premiums since the index began in 1994 and is heavily influenced by the changes to PI management. This suggests that the market has responded as anticipated to the regulatory changes.

**3.3.** Over the same period, the percentage of reported Post Office motor insurance claims resulting in a PI claim has remained relatively static – supporting the good working practises noted at BGL. The income per motor insurance policy to Post Office in respect of the claims service has, however, declined from £10 to £3, equating to c£1.5 million of lost revenue to Post Office in 2013/14.

**3.4.** The reduction in market premiums has led to improving retention rates to Post Office (up 3 percent) and margins ameliorating to some extent the decline in income.

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**4. Audit of Junction/BGL**

**4.1.** Recent audits have confirmed that the incentive programs used by BGL/Minster Law remain unchanged following LAPSO and based upon previous work Post Office remains satisfied that they do not unduly influence referral rates.

**4.2.** In October, Post Office Insurance concluded a re-negotiation of the contract with BGL. The new arrangements enshrined specific provisions to enable audits of the BGL operations and work practises. This will enable Post Office to ensure that customers continue to receive an appropriate and relevant service.

**5. Conclusion**

**5.1.** The consequence of changes in regulation pertaining to referral fees has had the desired effect on the market. The impact on income from claims management has diminished leading to a decline in the number of claims management firms.

**5.2.** Insurers have lowered rates, allowing consumers to enjoy lower car insurance premiums.

**5.3.** A reduction in Post Office income has largely been recovered by increasing volumes and margins.

**5.4.** Audits of BGL/Junction incentive schemes and operating model confirm that Post Office customers are not being incentivised to unnecessarily seek PI referrals.

**6. Recommendation**

**6.1.** The Board is asked to note the paper.

**Nicholas Kennett**
**Director, Financial Services**
**November 2013**

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# POST OFFICE LTD BOARD
## Financial Services and Crown Incentive Schemes

### 1. Purpose

1.1 At the meeting of the Board in July 2013, directors asked management to provide an overview of the review by Mercer Ltd ("Mercers") of the financial services branch incentive program, and provide an update on actions. The review was subsequently extended to cover all Crown incentive schemes, and other relevant Network Sales schemes.

1.2 The paper provides this update and also sets out the overall incentive proposals across Financial Services (FS) and Crown sales (Crown).

1.3 This is a joint FS and Network & Sales paper and is tabled for noting.

### 2. Background

2.1 Key to building FS sales capability is that the incentives for their sale promote and reward appropriate behaviour and compliant selling.

2.2 It is also critical to ensure that the incentive scheme meets the increasing requirements of the Financial Conduct Authority (FCA) that such programs drive outcomes that satisfy customers' needs.

2.3 Post Office employed Mercers, a specialist remunerations consulting firm, to review the current incentive schemes and make appropriate recommendations. While the initial work related specifically to Financial Specialists (FSs), due to the inter-relationship with the Crown Network, the scope was widened to cover Crown incentives and the wider Network where financial services sales occur.

2.4 There are currently incentive schemes running in the FS network; the Crown network; and the Agency network and WHSmiths for the Sales Managers employed by POL.

2.5 We looked to make changes to the FS scheme last year. Whilst the Union (CWU) supported these changes, it was rejected by the FS under ballot.

### 3. Key Findings from Mercers

3.1 Mercers concluded that the current FS sales incentive program is not fit-for-purpose and does not recognise or differentiate between effective and non-effective performance (either in the quality of the sales process or in its outcome). For example:

- FSs can receive a bonus despite not having hit their targets based on the wider branch performance; only 5 percent of the 2012/13 incentive paid related to financial services sales;
- Strong and weak individual performance does not result in a materially different bonus outcome;
- The current structure is focused solely on sales volumes, with no requirement for compliance or customer satisfaction;
- FSs are part of a number of schemes and they generally do not understand the logic of all the schemes they are in and how their performance can result in each of the bonus payments.

3.2 Mercers are of the view that the current incentive program would likely be deemed non-compliant by the FCA. However, it is so in-effective that it does not encourage appropriate selling.

3.3 The weakness of the current program has been evident in savings:

- Over 54 percent of all FS' sales are savings products, which are rate dependent and often 'sell themselves';
- When interest rates are less competitive, overall FS sales performance falls significantly, confirming that FSs focus on this 'easy sell', rather than engaging with customers on their wider needs.

3.4 Mercers strongly recommended that the current program be withdrawn and replaced. They were also of the view that their conclusions and concerns were applicable to other schemes operating in the Network.

## 4. New incentive schemes

4.1 The Financial Conduct Authority (FCA) has indicated that it is looking for financial institutions to set incentive schemes to be focused on behaviours or satisfaction. While some banks (e.g. Barclays) have stated that they are implementing a model based solely on customer satisfaction, this would not be appropriate for the Post Office as the business has little history of driving sales outcomes. A hybrid model was therefore proposed by Mercers and is being implemented.

4.2 The new incentive schemes have been developed in conjunction with Mercers; they will be aligned and implemented across the new financial services sales network, into Crown branches and across the broader Network where appropriate.

4.3 The key components of the scheme are:

- Financial services compliance and quality of sales will be a 'gateway'; if compliance standards are not met no bonus will be payable for the period.
- Area level roles will be scorecard driven. Whilst scorecards are already used for Crown Area Managers, we are significantly changing the weighting and aligning them for all Area teams. The scorecard itself covers three components – customer services delivery, profit (both 40 percent) and staff engagement (20 percent). Each individual on a score card scheme is given a score out of 100 percent. They are then ranked against their applicable peers and then given a PDR rating accordingly, which will determine their incentive payment.
- Branch manager roles will also continue to align to customer service delivery, profit outcomes and staff engagement. The weightings of these will change significantly.
- Individual seller roles will operate on a matrix payment structure and be aligned to customer service delivery and relevant sales outcomes.
- The non-financial services schemes (e.g. Mails specialists) will have a compliance gateway and then operate on a matrix payment structure, driven by performance and customer service.
- For the Crown network, appropriate schemes will be aligned to the Crown P&L objectives and will be factored up or down based on Crown P&L performance. Currently Crown Area Managers are factored up or down based on POL profitability.
- Incentive rewards will be paid as a fixed amount and not a percentage at the end of each quarter for individual sellers and at the end of the financial year for Area level roles.

4.4 The key measure are:

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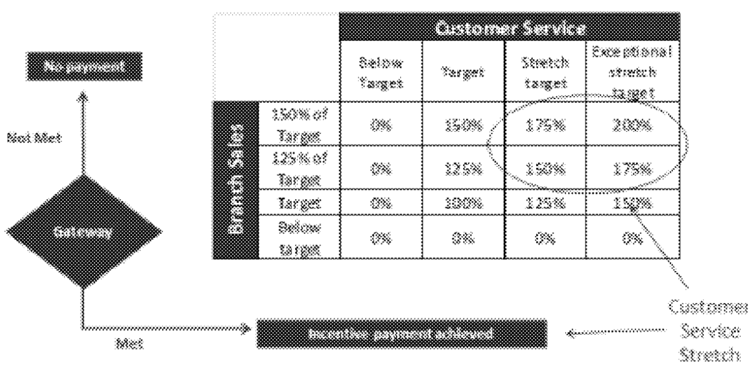
- A number of the following measures already exist for Crown Area Managers and Branch Managers, however this is about ensuring they are aligned across roles and the weighting is significantly changed.
- Customer service delivery will assess customers satisfaction based on Voice of the customer (VOC), Customer waiting time and retail standards. The weightings on these vary across the different schemes. These have been measures in some schemes previously and they will now be used across all schemes and have a greater weighting.
- Profit is measured using controllable costs and income generated from sales performance. This measure is used in all relevant schemes.
- Rather than measuring sales targets, individuals are targeted with customer benefit measures (CBMs). The CBM targets will be set and the number will be achieved by adding multipliers to each product set. The higher multipliers are a reflection of a number of factors including income to the business, product journey time for the FS and customer and the go-forward strategy of the business. It is envisaged that this will change and drive appropriate selling behaviours, improving the customer experience whilst returning the business to a profitable, self-financing structure.
- Employee engagement; all Post Office employees complete the annual team engagement survey and area/regional managers will receive a score based on their team feedback from the survey.

4.5 An example of an individual seller scheme is:

- If the quarterly CBM for an FS is 242 points and 150% of sales target achieved and the 150% customer stretch target met, the FS could earn up to £1,875 for that quarter (potentially £7,500 for the year against a salary of circa £21,000- £23,000).




4.6 Whilst the final payment levels have not been agreed/signed-off, the basic principle is that we are looking to stretch the performance curve so that top performers get greater rewards and under performers are not rewarded. Whilst we have not yet agreed payment amounts, we are currently modelling to reward individuals on the following basis:

- Area roles - between £0 - £25,000 per year.
- Branch manager – between £0 - £12,500 per year.
- Individual seller roles FS - between £0 - £12,000 per year.
- Product specialist roles - between £0 - £2,750 per year.

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- Customer Service Consultants - between £0 - £2,500 per year.

4.7 The schemes have been shared with the Bank of Ireland (UK) plc, who as Post Office's principal has shared the key components with the FCA.

## 5. Governance

5.1 The schemes are being signed-off by a project Steering Group and an ExCo Sub-Group.

5.2 Once the schemes are implemented it is important that they are reviewed regularly to ensure they are meeting their objectives.

5.3 A terms of reference is being created for a review steering group (ExCo Sub-Group) to meet quarterly.

## 6. Implementation timings

6.1 The aspirational timing of scheme launches has been prioritized as follows:

- 1 October 2103 – FS & Crown Area Mangers and Mortgage Specialists (done).
- 1 January 2014 – remaining Crown & FS roles.
- 1 April 2014 - Agency Area Sales teams and WHSmiths Area teams.

6.2 The above timings will be reviewed in light of the IR landscape.

## 7. Commercial Impact/Costs

7.1 In the first year of operation aggregate payments on the new incentive scheme will be similar to the current business plan. Thereafter the scheme will be self-financing as it drives increased sales, while poor performance is un-rewarded.

7.2 If the scheme were to pay out considerably more it would be due to a significant over performance and the uplift in income would significantly outweigh the cost.

## 8. Industrial Relations

8.1 We looked to make changes to the FS scheme last year. Whilst the Union (CWU) supported these changes, it was rejected by the FS under ballot.

8.2 We have sought to actively engage both the CMA and the CWU on these changes:

- CWU has collective bargaining rights over: Financial Specialists, Product Specialists and Customer Service Consultants;
- CMA has collective bargaining rights over: FS Area Managers, Mortgage Specialists, Branch Managers and Assistant Branch Managers.
- FS Regional Managers and Crown Area Managers and not covered by collective bargaining.

8.3 The CMA is fully engaged and a joint statement with Post Office for the schemes launched on 1st October. Post Office and CMA have agreed to engage in regular meetings to ensure that the schemes meet business and staff needs.

8.4 To date the CWU has refused to respond to requests to meet on incentive schemes. We continue to seek to arrange meeting are send them the appropriate documentation that we would have given them if we had met.

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## 8. Key Risks

8.1 Under the existing collective arrangements, a new incentive scheme requires concurrence from the trade unions.

8.2 While the CWU continues to refuse to engage on incentive programs, management is considering whether it can and should deploy the schemes identified in 6 above, ahead of engagement with CWU. This will be determined by the wider IR implications.

## 9. Conclusion

9.1 Existing incentive schemes are not fit-for-purpose and need to be replaced.

9.2 The new schemes will create a best-practice structure, putting the needs of the customer at the heart of sales measurement; it will recognise and reward strong sales performance, discriminating against poor performance and will align Crown branches to the delivery of the financial services and wider business strategies.

## 10. Recommendations

10.1 The Board is asked to note the paper.

**Nicholas Kennett**
**Director, Financial Services**
**November 2013**

**Kevin Gilliland**
**Director, Network & Sales**
**November 2013**

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# POST OFFICE LTD BOARD

## Update on FM and Grapevine Procurement

## 1. Purpose

The Post Office board are asked to note that:

1.1 Post Office Ltd (POL) intends to progress to the next stage of procuring Facilities Management (FM) and security and alarm (Grapevine) services by issuing an Invitation To Tender (ITT) to the market on 29 November 2013. This will facilitate separation from Royal Mail (RM) in accordance with the Master Services Agreement (MSA) with RM.

## 2. Background

2.1 The MSA places an obligation on POL to source separate FM and Grapevine services which are currently provided by RM through circa 100 separate RM contracts. Romec (a joint venture between RM and Balfour Beatty Workplace[1]) is the predominant supplier.

2.2 POL pays £29.5m p.a. for these services: £26m for FM; £3.5m for Grapevine services; and an overhead/management charge to Royal Mail of £1.1m.

2.3 It is anticipated that securing new contracts will save POL c20% against current costs.

2.4 Although POL has completed the Pre-Qualification Questionnaire (PQQ) stage of procurement it has been unable to inform the market of short-listed bidders or to issue ITTs. This is due to RM's delay in the provision of detailed information required to assess potential liabilities (including pension liabilities) under TUPE (Transfer of Undertakings [Protection of Employment]) legislation.

2.5 Following escalation to, and various discussions at, director level, RM have recently released the information enabling POL to go to market on 29 November 2013 with an anticipated start date for the new contract(s) of 14 July 2014.

2.5 The data from RM indicates that c400 personnel are deployed in support of POL. The MSA limits POL's exposure to liabilities related to TUPE to 116 staff providing FM and Grapevine services with POL indemnified by RM for the remainder.

## 3. Activities/Current Situation

3.1 The FM tender offers lots as follows:

- Lot 1 Hard services (maintenance / engineering, and fabric maintenance) - current charge is c£20m pa.
- Lot 2 Soft services (cleaning, security, pest control, grounds maintenance, waste, office management services) - current estimated charge is c£5m.
- Lot 3 Catering (including vending and hospitality) - current charge is c£500k.
- Lot 4 Helpdesk (including room booking services) - current charge is c£500k.
- Lot 5 All above services combined.
- Grapevine is offered to the market as a single lot including alarm monitoring, key holding and intelligence services.

Note 1 : GDF Suez have acquired the Balfour Beatty Workplace interest in Romec subject to ongoing Competition Commission review

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3.2 It is envisaged the minimum contract term will be 3 years plus 2 extensions of 2 years and bidders will be asked to provide costings on this basis.

3.3 POL will progress to market on the basis that bidders can rely on an element of indemnification from POL with regard to liabilities on the basis that the risk will be shared with the supplier. POL will rely on the indemnity provided by the MSA to manage this risk although the administration of this activity has the potential to be onerous and costly for POL. NB: The MSA limits the availability of the RM indemnity in respect of liabilities associated with staff exits to a period of 3 months following commencement of the new service.

3.4 Total potential liabilities for POL and RM are around £12m although the indications are that the new provider will need to retain between 60% to 80% of existing staff, suggesting liabilities of between £2.4m and £4.8m.

3.5 The delay in securing new contracts may result in a loss of benefits of £1.3m in FY 14/15. In this case POL will seek to negotiate to recover the loss from RM although it should be noted there is no provision in the MSA that permits this course of action. There is also a danger of reciprocal action so any negotiations on this matter will proceed cautiously and with the broader context in mind.

## 4. Options Considered

4.1 Do Nothing. The MSA mandates separation from RM and therefore we are unable to continue to draw services from RM.

4.2 Agree an extension of service with RM. RM is unwilling to extend service provision beyond that which has been caused by the delay in providing data and to which POL is entitled under the MSA.

## 5. Risks/*Mitigation*

5.1 RM may contest POL's position on the indemnification of liabilities as specified in the MSA leaving POL with a potential risk of £4.8m. *POL believes the MSA is clear and will defend this position robustly. However negotiations are underway with a view to RM buying out its liability and indemnity in the MSA. This will make the administration of indemnification easier and more cost effective for all parties. POL is aiming to conclude this negotiation by the end of November 2013.*

5.2 Suppliers choose not to bid when the details and constraints of the indemnification under the MSA are understood. *The ITT will be structured to encourage suppliers to manage the re-organisation in such a way as to enable POL to enforce the MSA. However, in the event that the supplier finds it is unable to work under the constraints of the MSA then POL could accept a greater share of the potential liability. In addition, the shortlisted bidders are long-standing and reputable providers in the industry fully aware of the mechanisms available to them to ensure compliance with the relevant legislation and achieve the aims of POL under the MSA.*

5.3 Romec re-organises to increase the resource associated with the provision of service to POL and in turn increases the TUPE liabilities. *POL has put in place a Change Control regime with RMG/Romec to prevent this. Additionally, under the MSA the liabilities for POL are limited to 116 staff. Therefore RM will simply be increasing their own liabilities if staff numbers in support of POL are increased.*

5.4 Service levels will diminish when Romec are informed of their failure to progress to the next stage of the procurement. *POL has received assurances from RM that in the event Romec are not confirmed as a shortlisted bidder service levels will be maintained.*

5.5 There are further delays in the procurement process. *POL has a robust plan which will be tightly managed and controlled.*

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5.6 Reputational damage / industrial action could result from the exit of staff as a consequence of the new contract(s). *The risk of reputational damage results from the provisions within the MSA relating to the timescales for staff exit and RM funding for those exits. The risk lies primarily with RM rather than POL as the Romec staff are part of an RM JV. Equally, any industrial action would be more likely to be taken against RM / Romec rather than POL as POL has no direct relationship with Romec staff. However, depending on the nature of any potential industrial action taken by Romec staff, POL may suffer some operational disruption. In this circumstance POL would work closely with Romec on initiating its contingency plan.*

## 6. Request of the Board

6.1 POL is obliged to separate the FM and Grapevine services from RM and needs to progress to market to achieve savings against current RM charges. Despite the delays caused by RM, POL will progress to market in November 2013 due to the lack of realistic alternatives. The Board is asked to note the plan to issue ITTs for the FM and Grapevine tenders at the end of November 2013.

**Kevin Gilliland**
**13th November 2013**

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# Current Actions and Decisions Log

## ExCo Meeting 23 April - Actions and Decisions

| | | | | |
|---|---|---|---|---|
| 23/04/02 | Action 1 | Pay Strategy<br>Fay Healey to work with Sue Barton to produce a 2 page summary of pay principles required to support the 5 year strategic plan and incentivise a commercial business. Update 16/5/13: Meeting on 17 May to progress. Update 1/7/13: Another meeting to progress further FH Update 19/8/13: Workshop has been delayed due to annual leave. The Workshop is being held to develop the Reward Principles which relate to the 20/20 Strategy. SB Update 9/9/13: FH and SB will have a catch up on the 17th Sept at 9am to progress this action. | FH/SB | Deferred to Mid-November |
| 23/04/13 | Action 2 | Risk<br>• Redefine TOR for RCC to cover FS risk<br>• Consider the training necessary for the RCC with heightened awareness for FS as the Business moves into Current Accounts<br>• Define compliance in FS and the relationship with the bank.<br>Update 27/06/13: Ongoing - in progress. | SC<br>SC/FH/NK<br><br>SC/NK | End of Oct. |
| 23/04/23 | Action 7 | Explore the opportunity using the Alarm response centre to provide care for customers; possibly as part of the home insurance market.<br>Update 07.08.13 – currently in discussion – NK to be involved<br>HC to meet with SC<br>Update 08.11.13 - Alarm monitoring – discussions can take place once contracts have been signed with the selected vendor for the provision of Grapevine and alarm monitoring services as part of the separation from RMG. This is likely to be April 2014. | HC/MM (PB) | Ongoing |

## ExCo 18 June - Actions and Decisions

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| 18/06/06 | Action 1 | Information Security<br>Policies need to come back to ExCo for review and agreement with solutions for areas where compliance is difficult. E.g. acceptable use policy.<br>LS Update: 01/07/13 The Head of Information Security will be contacting each ExCo member to discuss the Policies and identify area where compliance will prove difficult.<br>LS Update: 07/08/13 All but 1 Policy (Acceptable Use) are now on the Intranet and are part of an Information Security and Assurance communication plan along with the Information Security Handbook and on-going training and awareness. The Acceptable Use Policy was raised as a potential non-compliance issue by several ExCo members and therefore has not been published; a Corrective Action Plan has been drafted to mitigate any potential risks of non-compliance. The Corrective Action Plan will be provided to ExCo for agreement during the week ending 9 August 13, members will be asked to provide their response by 27 August 13<br><br>The Information Security Training, Awareness and Communications plan is on target, with specific Information Security requirements being tailored for Central Support Tea, Branch (Crown) Branch (Network) and Supply Chain every month. Branch Training will be completed, in September, and includes online learning and Workbooks, with additional communications on Branch Focus and Grapevine.<br>LS Updated 30/10/13: Proposed solution presented on 15th October didn't provide enough flexibility for individual members to email each other within a secure community (i.e. a community being EXCo or the Board).<br><br>Information Security and Assurance Group are providing a list of | LS | Completed<br>All but acceptable use – solution to come to ExCo<br><br>Corrective Action Plan for this Policy has been compiled with a proposed solution to be presented on 15 October due to diary coordination. |

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| | | options for EXCo to consider, by End of November. | | |

ExCo 23 July – Actions and Decisions

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| 23/07/16 | Action 2 | Forecast<br>After decisions are taken on 1 August, announce the big decisions about cost reduction and changing the business, small central function (ways of working – new HQ), then position the cost reductions which will affect people e.g. Christmas stamps.<br>Update 30/10 in progress – ongoing | MD/FH/CD | Ongoing<br><br>Series of comms underway (MD 17/10) |

ExCo 20 August – Actions and Decisions

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| 20/08/17 | Action 1 | ExCo Cascade<br>Put in place a process for cascade of ExCo decisions and update on discussions.<br>Update 30/10 in progress – ongoing | MD/AL/AR | Ongoing |

ExCo 10 September – Actions and Decisions

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| 10/09/04 | Action 4 | Supply Chain<br>Need to produce a supply chain P&L to help highlight the cost drivers to the customers and help reduce demand. | CD | End Nov |
| 10/09/09 | Action 3 | Strategy and Funding<br>Work to continue network expansion including effect on P&L | SB | End of Oct. Action superseded by Action |

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| | | | | 15/10/02 – due End Nov. |
| 10/09/11 | Action 1 | Sparrow<br>Paper to come to ExCo and the Board on the future of the Post Office's position as a prosecuting authority | SC | Mid Nov |
| 10/09/12 | Action 2 | Sparrow<br>Communications team to continue contact with MPs involved in Sparrow to build the relationship and build in good news e.g. NT. Next contact before JA letter (likely 1st week Oct).<br>Update 30/10 in progress – ongoing | MD | Ongoing |

ExCo 16 September – Actions and Decisions

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| 16/09/06 | Action 6 | Cost Management/Value for Money<br><br>Set up a cost workshop to identify costs/wastage in the business. | CD | November |
| 16/09/07 | Action 7 | Cost Management/Value for Money<br><br>Communication needed to explain what we are trying to achieve through Cost Management, growth, investment, commercial culture message to come from Paula then quarterly briefing set up.<br><br>Update 30/10 QBU arranged and Comms underway. | KG/FH/HD/MD | End Oct |
| 16/09/11 | Action 1 | IT Strategy Update<br><br>LS to return to ExCo with a proposal on standardising the IT equipment provided by the Business. To highlight opportunity to reduce cost and fixed/variable costs. Updated 29/10/13 on-going - A proposal is being developed which looks at the introduction of a catalogue of services, the cost transparency required to allow sensible commercial decisions to be made and the control mechanisms | LS | Ongoing |

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| | | required to reduce demand and costs. This will go to EXCo Jan 2014. | | |
| 16/09/23 | Action 3 | Strategy & Funding<br><br>Need to start to reconsider targets for this year STIP & LTIP – because of the delay in getting agreement. Start to communicate this with Will & Tim.<br><br>- Also need to consider communication to colleagues for STIP. | ME/FH/CD/SB | ongoing |
| 16/09/29 | Action 6 | Business performance<br><br>Need to consider if we could replace Branch Compliance with FS compliance. Define how this could be measured. | NK/KG | End Oct |

ExCo 15 October – Actions and Decisions

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| 15/10/02 | Action 1 | Looking Beyond Network Transformation<br><br>Return to ExCo with a defined proposal and timeline, (including resource plan to be agreed with Chris Day and Fay Healey).<br><br>Terms of Reference to cover (1) customer and growth; (2) models; (3)ownership and efficiency (including product portfolio) and to be agreed by a sub-group of NK,MG,KG,SB | SB | End Nov |
| 15/10/03 | Action 1 | Q2 Full Year Forecast and Budget<br><br>Pick up the staffing levels with Fujitsu to ensure service levels can be achieved for Q4 telephony campaign. | MG | End Oct |
| 15/10/04 | Action 2 | Q2 Full Year Forecast and Budget<br><br>Reconsider the mobile strategy as Fujitsu are unable to deliver. | MG | End Oct |

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| 15/10/06 | Action 4 | <u>Q2 Full Year Forecast and Budget</u><br><br>Build a plan to ensure any overachievement in EBIT is invested to drive current year revenue growth – to be considered at Trading meeting.<br><br>Update from NK: 4 November: In progress | KG/PB/MG/NK | Mid Nov |
| 15/10/07 | Action 5 | <u>Q2 Full Year Forecast and Budget</u><br><br>Consider any additional FYF risk to FS and telephony sales as a result of 'Action Short of a Strike' and feed into Sarah Hall.<br><br>Update from NK: 4 November: In progress | NK/MG/SH | End Nov |
| 15/10/08 | Action 6 | <u>Q2 Full Year Forecast and Budget</u><br><br>Undertake initial debate on the top-line of next year's budgets – to understand the challenge eg high level income targets relating back to FYF and exit rates.<br><br>Update from NK: 4 November: Jono to action | SB/CD/MG/NK/PB/KG | Mid Nov |
| 15/10/09 | Action 7 | <u>Q2 Full Year Forecast and Budget</u><br><br>Fay and Colin to return to ExCo with a cost/headcount reduction proposal including CR as one of the tools. All teams to assume CR as a tool to achieving cost reductions. | FH/CD | 12 Nov |
| 15/10/10 | Decision 1 | <u>Q2 Full Year Forecast and Budget</u><br><br>All ExCo members to ensure their plans hit the numbers in the budget allocation and highlight any risks as appropriate. | | |

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| 15/10/11 | Action 1 | <u>FS Investment Products</u><br><br>Nick to bring the FS Investment product options back to ExCo after completion of the market research for decision on progressing further. | NK | Jan 2014 |

<u>ExCo Meeting 22 October - Actions and Decisions</u>

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| 22/10/01 | Decision 1 | <u>Maypole</u><br><br>If DWP accept the future interest rate as per the proposal, it was decided that POL would take the interest rate risk. If however, the assumed interest rates change during the negotiations this would need to return to ExCo for further debate. | | |
| 22/10/02 | Decision 2 | <u>Maypole</u><br><br>Support for holding agents pay flat and including the cost of doing so in the costs to DWP. | | |
| 22/10/03 | Action 1 | <u>Maypole</u><br><br>Model the effect of the POCA changes being proposed on the mains and locals models including consideration of income and footfall and highlight any move away from the assumptions in the strategic plan.<br><br>Update: We estimate that there could be 6.15m fewer POca transactions in 2015/16, 28.8m fewer in 2016/17 and 11.6m fewer in 2017/18. After this, our proposal is broadly in line with, or slightly above, the Strategy Plan. This assumes that DWP migrates all Universal Credit working age customers in that period. The preferred option does not change the overall assumptions made in our Strategy Plan in relation to Network Transformation, i.e. we do not envisage | KS/SB | End Oct |

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| | | that our proposed approach will have a specific impact on our roll-out of Locals and Mains models over the longer term. However, this will need to be further reviewed when the final picture emerges to test the implications on the models, especially as the Locals model relies on the Post Office generating footfall that delivers retail spend. | | |
| 22/10/04 | Action 2 | Maypole<br><br>Flag risks of procuring under framework agreement and possible state aid challenge in the Board paper<br><br>Included in Board Paper | KS/CA | 24/10 |
| 22/10/05 | Action 3 | Maypole<br><br>Investigate the most effective structure for a direct line into ATOS to ensure the most effective supplier relationship.<br><br>Update: We have engaged with the IT team to ensure any required escalation can be managed quickly and effectively. The team managing the Atos relationship will kept updated as the proposal moves from proposition to delivery | LS/KG | End Oct |
| 22/10/06 | Action 4 | Maypole<br><br>Need to return to ExCo for final sign off of the approach and delivery plan. Use the ExCo subgroup for governance.<br><br>Update: DWP have advised that they would like to make a joint announcement in December although BIS are pushing for an earlier announcement | CD, KG, SB, CA, MG, NK, KS | ongoing |
| 22/10/07 | Action 5 | Maypole<br><br>Ensure that the maypole and supply chain ExCo subgroups are | SB | ongoing |

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| | | aligned. | | |
| 22/10/08 | Action 6 | Maypole<br><br>Carry out a contract comparison between the existing POCA contract and FOCS contract to assess any implications and risks.<br><br>Update: Work in progress | KG/CA | Mid Nov |
| 22/10/09 | Action 7 | Maypole<br><br>Include updates at Monday ExCo on a fortnightly basis.<br><br>Noted | MG | ongoing |
| 22/10/10 | Action 1 | Financial Performance<br><br>Quarter 2 year end full year forecast to be included in the performance pack. | SH | 30/10 |
| 22/10/11 | Action 2 | Financial Performance<br><br>Headline page of performance pack to be changed to include trends and analysis. Need to ensure the pack highlights the actions in place to drive the results and gives a commentary on progress. | SH | Nov |
| 22/10/12 | Action 3 | Financial Performance<br><br>Produce analysis of full year forecast exit rate to feed into next year's target setting and give comfort to the Board. | SH | 30/10 |
| 22/10/13 | Action 4 | Financial Performance<br><br>Produce an 'in branch' leaflet for dangerous goods and an agreed | PB | Mid Nov |

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| | | form of words for the transaction. Also provide information to explain the income and agents pay being lost through non-compliance (possibly an additional payslip). | | |
| 22/10/14 | Action 5 | Financial Performance<br><br>Feedback questions and observations to Colin on page 16 of the pack – cost management. | All | End Oct |
| 22/10/15 | Action 6 | Financial Performance<br><br>Provide the ExCo with the drivers and actions to improve the 'easy to do business with' customer measure. To be circulated. | MG | 7 Nov |
| 22/10/16 | Action 7 | Financial Performance<br><br>Produce an action plan to drive income this year – including a breakdown of what needs to happen e.g. sell extra X per week to improve income by Y.<br><br>Call to action: to be discussed at Trading Board and reported back to ExCo in the Trading Board update next month. | MG/NK | 19 Nov |
| 22/10/17 | Action 8 | Financial Performance<br><br>Circulate the latest draft interim report to ExCo – feedback to Sarah by midday 23/10 | All | 23/10<br><br>CLOSED |
| 22/10/18 | Action 1 | CTP Implementation<br><br>Check is CTP engagement video is still relevant if so to be used as a link for the Board. | AL | 24/10<br><br>CLOSED |
| 22/10/19 | Action 2 | CTP Implementation | All | 23/10 |

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| | | Feedback questions to Sharon re CTP/Camden Board pack | | CLOSED |
| 22/10/20 | Action 3 | CTP Implementation<br><br>Decide with Harry if any information about NT process can go to reading room. | AL/HC | 23/10 |
| 22/10/21 | Action 1 | Horizon<br><br>Consider how we could provide 'welfare support' for subpostmasters. | FH/AVDB | End Oct |
| 22/10/22 | Action 2 | Horizon<br><br>Wider piece of work to understand the costs and implications of providing 'welfare support' to feed into AVDB work and NFSP MOU | AVDB/FH/SB | End Dec |
| 22/10/23 | Action 3 | Horizon<br><br>Need to get agreement that the mediation scheme is closed to future new claims before the first settlement is agreed.<br><br>Confirmation to be included in the next ExCo Horizon update paper. | AVDB | Mid Nov |
| 22/10/24 | Action 4 | Horizon<br><br>Check on the legality of closing the scheme and refusing future new claims. | CA | Mid Nov |
| 22/10/25 | Action 5 | Horizon<br><br>Include a risk assessment of introducing the local's model in the process improvement work being undertaken as staff subpostmaster relationships may be different. | AVDB | End Nov |
| 22/10/29 | Action 1 | Graduates | FH | Jan |

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| | | Leadership and development forum to consider the proposition on future graduate recruitment, a paper to return to the ExCo for sign off. | | |