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Briefing Note for new Non-Executive Directors – May 2021

1. Overarching strategy

Nick Read joined as CEO in September 2019 and led work on Purpose, Strategy & Growth[1] in discussion with the Board. That work identified strengths, weaknesses, challenges and imperatives for change. These outputs have been further developed leading to a strategy that focuses on the core services and building a modern franchise partnership.

Post Office strengths:

- Trusted institution (58% of consumers give it a rating of 8+ out of 10). Strong ratings on reputation, service and convenience in parcels
- Branch network convenience for mails and parcels (65% of participants in our customer survey agreed or strongly agreed that they had a PO branch close to their home/office vs. 50% for our best competitor)
- Access to basic banking services (8 million customers annually)
- Businesses outside our core (financial services, insurance, telecom) that make a large contribution and which, delivered through digital channels, are a proof of concept of our ability to deliver platform plays, leveraging our brand and access to customers.

External challenges:

- Competition in parcels
- Decline in use of cash (UK cash payments fell by 16% from 2017 to 2018)
- Difficulty of attracting and retaining younger customers and SMEs (relevance of Post Office and trust in it is lower for younger customers. There is a gap for SMEs in the ease of service offered and quick access to staff.)
- Aside of travel money and travel insurance Post Office has not established financial services as a medium-term growth engine for consumers or SMEs. Credibility needs to be established on expertise, ease of use and an awareness of the products and services being offered by Post Office. There is also a "negative halo" associated with poor branch experience which makes consumers sceptical about Post Office's digital services
- Digital and gig economy competitors with a low-cost base, agility and focus on volume over profitability.

Imperative to modernise Post Office as an organisation:

- high-cost operating model, with limited deployment of process digitisation or analytics. This means that there are currently ~3,850 FTEs in POL against a potential target state of ~1,600.
- Post Office isn't a compelling proposition for retailers with processes and systems seen as onerous while trust needs to be improved with Postmasters
- Diversification has led to a complicated set of products. Mails & Parcels, Cash & Banking and Financial Services account for 76% of FY2019/20E direct contribution (including PayZone), but managerial focus, best PO team capabilities and change budget do not reflect this, with topics such as BillPay (including PayZone) and Identity (respectively 1% and 3% of FY2019/20E direct contribution) taking disproportionate oversight and investments
- Bottom quarter organisational health index compared to relevant peers with particular gaps in clarity of strategic direction, role clarity, personal accountability, external/competitor orientation and innovation.
- dependence on third parties for technological needs with low maturity in vendor management capability (Horizon costs = ~£90m vs. initial benchmarks of ~£50-60m)

[1] Supported by McKinsey.

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- Unsustainable physical branch network to self-fund. The loss-making part of the network has an estimated support cost of IRRELEVANT predominantly driven by the need to support out geographic and access criteria, alongside some legacy fixed agent pay contracts
- reduction in change funding (from IRRELEVANT in FY2018/19 to IRRELEVANT excluding GLO reserve funding in FY2020/21). There is an envelope of IRRELEVANT for change in FY2020/21 after delivering projects required to "keep the lights on".

Clarifying our purpose:

- **Thriving postmasters** a) increasing our efficiency to offer valuable, competitively priced services b) focusing and innovating to maintain our lead in core markets in the face of competitive disruption c) re-thinking our support and franchise model for our postmasters to better serve their needs.
- **Ease and access** (a) Services and products that are easy to use and make our customers lives easier. b) access to services they wouldn't otherwise have access to without Post Office's physical and digital presence (esp., mails & parcels and banking)
- **Service oriented central support**.

Post Office Limited's (POL) multiple business and product lines can drive complexity[2] but out of a total revenue of IRRELEVANT in 2020, IRRELEVANT (net cash contribution of IRRELEVANT at P11) was delivered by Mails & Parcels and IRRELEVANT (net cash contribution of IRRELEVANT at P11) by Cash & Banking Services. Clearly there are no simple choices as other products and services help drive footfall into branches and deliver revenue and profit, while the allocation of costs associated with particular products is not always straight forward. Additionally, we need to maintain a branch network of at least 11,500 to meet the access criteria attached to our funding agreement with Government; these services in turn help to distinguish POL as a retailer which provides vital services to customers who might otherwise be excluded, an important aspect of our brand. The discussions at last year's strategy sessions[3] set out the focus for the next few years on developing the retail network and the core services of Mails & Parcels and Banking. Other services will support the core but the limited investment funding available will be directed to the core as well as critical IT projects. Non-core services will shift more to partnership or branding arrangements which have limited investment requirements. The focus of activity broadly maps to three areas: 1) Re-setting and fixing the past (Cultural change; fit for purpose network; right sized cost base; 21st century tech; Historical Matters Business Unit work) 2) Building foundations for POL (entrenching Mails & developing PUDO; Cash & Banking; Commercial Relevance) 3) Self-sustaining commercial (platform products).

Strategic planning priorities will be discussed again at the Board on 3rd June 2021 as we prepare for the next funding submissions in the Autumn. Dedicated strategy sessions will take place at the end of July 2021.

[paper link – July Strategy papers & subsequent updates].

2. Fixing the past

Group Litigation Order (GLO)

In 1999/2000 POL introduced a computerised electronic point of sale system, Horizon, which Postmasters were required to use in their branches. The Horizon System required sub-postmasters (SPMs) to account for stock, sales and takings and, as part of the balancing process, identify

[2] Regulatory demands stretch on management time, challenges in prioritising competing demands for investment and resource etc, working out what is really adding value.
[3] The Board has dedicated strategy days each July.

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shortfalls or discrepancies. Under the terms of their contracts, SPMs were required to make good any shortfalls out of their own funds.

In April 2016, a High Court claim was issued against Post Office. The litigation[4] was between Post Office and a group of 555 mostly former Postmasters[5]; it involved complex technical, operational and contractual matters. In March 2017 the Court issued a Group Litigation Order, a procedural tool to enable the Court to manage litigation affecting multiple parties. The Judge ordered that the case would be heard in a series of trials. Until 2013 POL had sought to prosecute cases for theft, fraud and false accounting[6]. Some settlements were paid under a mediation scheme in 2013 and under the Network Transformation Scheme leavers were offered 26 months' worth of earnings.

Mr Justice Fraser, the managing judge across the trials in the GLO, handed down his judgment on the Commons Issues trial in March 2019 and on the Horizon Issues trial in December 2019[7]. Both judgments were very critical of POL historically and while the current Horizon system was seen to be reasonably robust the legacy systems were not. The Judge was also critical of the approach POL had taken to the GLO. The POL Board lost confidence in the approach being taken to the litigation. HSF was instructed together with new Counsel and following a constructive mediation process, which involved Nick Read as the new CEO and Ben Foat as the General Counsel appointed a few months previously, a settlement was reached with the claimants in December 2019 thereby ending the litigation.

Settlement

The settlement agreement reached was at a cost to Post Office Limited of £57.75m, inclusive of the £5.5m Common Issues Judgment costs. The distribution of that sum was for the claimants and their backers to determine. Part of the settlement agreement was that POL would set up a compensation scheme for historical shortfalls.

Compensation Schemes

The Historical Shortfalls Scheme (HSS) was developed and launched in May 2020. A Stamps Reconciliation Scheme was subsequently set up in July 2020 as part of the HSS. The HSS window for applications has closed and those claims are being worked through by an independent panel with Board and Shareholder oversight. The process is for a settlement offer to be made to a claimant who may choose to accept or reject that proposal. Following the approval of the Funding Agreement with BEIS for 2021/22 on 18th March 2021, the Board approved the first settlement offers being made under the HSS subject to being sighted on those claims.

POL also set up a Historical Matters Business Unit (HMBU) in September 2020. The aim of this was for all historical matters to be dealt with by a dedicated team to include overseeing the management of the compensation schemes[8]; the ongoing litigation (criminal and civil), supported by internal and external lawyers; obtaining assurance on conformance with the judgments; and, since the announcement of the Public Inquiry (Independent Review into the Post Office Limited Horizon IT System. https://www.gov.uk/government/publications/post-office-horizon-it-inquiry-2020), co-ordinating POL's response to this. It also meant that the HMBU could be tasked with "shining a light"

[4] Alan Bates & Others v. Post Office Limited
[5] 61 of whom had been prosecuted through the criminal courts
[6] There were also two cases involving Horizon evidence in 2015.
[7] The trial ended in July 2019.
[8] An independent panel has been set up which recommends the settlement offers but the overall financial envelope for the HSS claims must be approved by the Board prior to discussion with the Shareholder.

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on any operational issues that still needed to be addressed. A further aim of the HMBU was to allow management to focus on the running and development of today's business. Inevitably, the HMBU needs support from the business to provide information and understand processes. The Public Inquiry, with a focus on the future and assurance that what happened could never happen again, means that the Chairman, the Shareholder representative and some of current Group Executive will present evidence to the Inquiry on the improvement work that has been undertaken and the roadmap for future improvements.

The programme of work is extensive and linked to organisational culture and the development of partnerships with Postmasters and multiple franchisees as much as it is with processes and procedures. Third party assurance of the work we are doing has been secured, with a report on conformance and gaps with the Common Issues judgment provided by Norton Rose Fulbright; a report on the work required to achieve conformance with the Horizon Issues judgment from KPMG; and an overarching report on improvement work required from Deloitte. An Improvement Development Group is overseeing and tracking all of these workstreams at executive level and this will be superseded by a governance forum in May 2021, established to ensure a separation between those charged with delivering the work and those assuring it. Board oversight of certain matters will continue and a monthly update will be received by the Board. Details can be found here: [papers to 25 March Board meeting. paper link].

The Board also retains oversight of the work of the HMBU and certain decisions are reserved to the Board.

Court of Appeal and Crown Court cases

On 26th March 2020 the Criminal Cases Review Commission (CCRC) referred 39 cases prosecuted by POL to the Court of Appeal Criminal Division (CACD) while still reviewing a further 22 cases. These were cases originally tried in the criminal courts. Six cases were also referred to the Crown Court. These were cases which were originally tried in a Magistrates Court. A further two Crown Court cases were subsequently referred and the Board decided not to oppose these cases on public interest grounds at its meeting on 29th April 2021.

The CCRC set out its reasons for the case referrals in a Statement of Reasons (SoR) in June 2020. The SoR drew heavily on the judgments from Fraser J. As the private prosecutor in these cases POL had a duty to respond. POL also had a duty to review what information it held that might be relevant, not only to those whose cases had been referred, but also to all those prosecuted. That review (the Post-Conviction Disclosure Exercise) is near conclusion and bundles of information (both generic and case specific) have been issued. By January 2021 more than 3.8 million documents had been reviewed.

The Board reviewed the cases referred to the CACD and to the Crown Court individually over two days in September 2020. A trinity of issues riddled most of the cases: unreliability of the historical Horizon system (a finding in law following the Horizon Issues judgment); disclosure failures (e.g. in many cases not providing information such as Horizon transaction data) and poor investigation practices (e.g. starting from the premise that the Horizon data was correct with the burden resting on the Postmaster to prove otherwise). The Court considered arguments for limb 1 abuse of process (not able to receive a fair trial) and limb 2 abuse of process (not fair to try). The Board determined to concede limb 1 abuse in 39 of the CACD 42 cases and oppose in three cases which were not reliant on Horizon data. In other words, the Board did not think that the overwhelming majority of the convictions were safe and supported the quashing of these convictions. In four cases the Board

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also thought that limb 2 abuse of process was evidenced because of the improper use of plea bargaining. The benchmark for such a finding is high as limb 2 abuse of process is considered to be an affront to the criminal justice system. On 23rd April 2021 the CACD handed down its judgment which found both limb 1 and limb 2 abuse of process in all 39 cases. In essence, it found that issues with the Horizon system, which had had "teething" issues from its introduction in 1999, the disclosure failures and the poor investigation practices were so bad that they amounted to an affront to the public conscience (i.e. the reasons for finding limb 1 abuse and limb 2 abuse of process were the same because of the severity of the failings) The CACD dismissed the 3 cases that POL had opposed. Public apologies were made when the settlement was reached in December 2019 and following the CACD judgment. Letters of apologies are being sent to the 39 Sub-Postmasters whose cases were overturned. POL has publicly supported the need for compensation while acknowledging that the damage done cannot be undone.

In the Crown Court cases the Board did not oppose any of the six cases initially referred and these cases have since been quashed. The Board will not oppose the two further cases submitted on public interest grounds. 16 cases are still being reviewed by the CCRC or the CCRC has decided not to refer the case.

The approach between the CACD and the Crown Court differ. The CACD is focussed on the safety of the conviction and is not re-examining the evidence but where a case is referred to the Crown Court and the original prosecutor opposes the conviction being overturned the case would need to be re-prosecuted. The prosecutor has to follow the Crown Court guidance for prosecutors which includes an evidential test and a public interest test. In the former, POL has to consider factors such as how long ago the cases were prosecuted and how much evidence is available; in the latter, POL has to consider factors such as whether it would be in the public interest to re-prosecute, which could, for example, include that an individual had already served a sentence. In cases dependent on Horizon data the Board would not seek to oppose given the judgment's findings on the potential unreliability of the system.

Cases will continue to be referred. In most instances referrals for Crown Court cases will be made by the CCRC but cases previously tried in the criminal court will normally be referred direct to the CACD. A further 672 cases were prosecuted so there is a large pool of future potential appellants (FPAs) and the Board will not oppose any cases which are Horizon dependent on either limb 1 or limb 2 grounds.

Civil claims

Following the overturning of cases in the CACD and the Crown Court POL will face civil claims. This could include claims of malicious prosecution and breach of good faith duties[9]. The Board will continue to receive legal advice and has received initial advice from Counsel in respect of malicious prosecutions. The Board has made plain that where an injustice has been suffered an individual should have access to recompense. We are aware that Hudgell, the solicitors representing a large number of claimants, will not support a compensation scheme route but mediation may be an option.

The size of the claims collectively (including those for the HSS) means that POL will not be able to meet the full costs and Government will need to meet the costs of many of these claims. This has naturally impacted on the funding position and consideration of the going concern status of POL, as

[9] This could include claims for shortfalls, loss of remuneration, personal injury and stigma.

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well as the funding discussions with Government, Shareholder oversight of POL and the assurance it needs around decisions being taken, particularly where these set a precedent. Currently many of the costs associated with the claims cannot be quantified and these issues are being worked through. The initial settlements through the HSS (aside of de minimis claims) will be one marker of the potential costs for that Scheme.

Public Inquiry

An Independent Review into the Post Office Limited Horizon IT System, led by Sir Wyn Williams, a retired judge, was announced on 29th September 2020 (https://www.gov.uk/government/publications/post-office-horizon-it-inquiry-2020). The Inquiry is expected to report in August or September 2021. Oral evidence is due to start in May 2021. Evidence will be provided by the Chairman, Chief Executive and a number of members of the Group Executive, as well as UKGI and BEIS. The Inquiry Secretariat has also advised that it will run a number of "show and tell" sessions where POL employees demonstrate and explain processes now in place to help evidence the changes have been implemented to ensure conformance with the findings of the judgments.

POL has responded so far to 59 questions from the Inquiry Team and provided materials requested by the Team.

The response to the Inquiry will continue to be a major focus for the organisation over the next few months but this is not just about the past, it is also about making improvements for the future. Whilst conformance with the findings of the judgments is essential and a legal requirement more is being done. A wholesale shift in the ways of working is taking place through a transformation programme that aims to makes POL postmaster centric, which in turn promotes a customer centric approach.

Starling

Project Starling concerns a case brought by 121 agent postmasters claiming that they are Post Office's workers and are due worker rights, such as holiday pay and pension contributions. The case is funded by the CWU. A trial date is set for 7th June 2021 but we are holding discussions with a view to a mediated settlement. [Most recent Starling update to Board. paper link]

3. Core products and services:

Mails & Parcels

Mails Distribution Agreement (MDA)

MDA2 was signed on 16th December 2020 with POL entering a new IRRELEVANT Mails Distribution agreement with Royal Mail Group. The agreement went live on the 29 March 2021. Under the agreement POL remains the primary retail sales and acceptance channel for Royal Mail. POL customers will continue to benefit from Royal Mail Group's status as the UK's designated universal service provider making deliveries to 31 million addresses.

The exclusivity under the previous deal has gone so POL can partner with other providers and POL is able to sell Mails products on-line.

The new commercial construct:

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- IRRELEVANT

The forecast for the first five years of MDA2 is broadly flat at IRRELEVANT p.a.

There is a mitigation plan in place to address the risks attached to MDA2. [link to November Board paper]

Moving to the new arrangements affects Postmaster remuneration, with the overwhelming majority benefiting. A consultation with Postmasters on the implementation proposals has been launched with responses requested by 23rd May 2022. The remuneration based on the new structure is expected to come into effect in December 2021 or January 2022 assuming a 6-month contractual notice period starting at the latest from July 2021. The exact start date of the contractual notice period is still under discussion..

In the meantime, there will be an implementation benefit payment during the contractual notice period of June or July 2021 trading to around November or possibly December 2021 trading where Postmasters would have benefited from moving to the new arrangements earlier. In addition, from April 2021 trading until implementation of the new agreement, all branches will receive an interim additional monthly remuneration payment to reflect the IRRELEVANT IRRELEVANT

PUDO

IRRELEVANT IRRELEVANT POL is participating in a trial with Amazon IRRELEVANT IRRELEVANT and to bring on board a second partner (potentially DPD with whom we are having discussions) in time to benefit from the Christmas 2021/22 trading period. IRRELEVANT IRRELEVANT

The initial focus is on Pick Up because of the challenges posed by Drop Off due to capacity and space constraints and IRRELEVANT [30 March 2021 Paper link]

Banking

Banking Framework

As noted, Cash and Banking services accounted for IRRELEVANT of POL's revenue in 2020 (net cash contribution of IRRELEVANT at P11). POL's partnership with over 30 banks, building societies and credit unions, to offer everyday banking services means that 99% of customers can access their High Street bank account over the counter at their local Post Office for cash withdrawals, deposits and balance enquiries.

The Board discussed the pricing principles proposed for moving from BF2 to BF3 at its meeting on 30th March 2021 and will be asked to take a decision on the pricing framework on 3rd June 2021. The

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BF3 commercial and contract proposals must be released by June 30th, 2021. Each bank must decide by December 31st, 2021 whether to remain in the Banking Framework or to terminate. POL's objective is for all of the banks currently part of the framework to move into BF3.

Research has been conducted to identify the "pain points" for the banks; these include the need for

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Collective engagement with the banks has been taking place since September 2020. The draft proposal is for a deal with a revenue range of IRRELEVANT profit contribution of IRRELEVANT and Postmaster remuneration of IRRELEVANT A move from a steps system to a curve for transaction volume numbers is proposed to encourage volume by removing the "cliff edge" between bands.

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IRRELEVANT is likely to take up the option to stay on BF2 rates when moving into BF3 but we are considering how we might develop more strategic partnerships with the bigger banks, for example by entering into two-term deals in which IRRELEVANT has expressed an interest.

We expect compression in the market as banks and ATMs close, increasing Post Office footfall until c.2025 but decreasing thereafter (annual falls of IRRELEVANT are forecast from 2022). But by then we expect Post Office to be at the core of the national cash network delivering an improved Postmaster model and with better customer journeys. This may include self-service and counter cash automation, subject to the business case being met and funding being available.

[30th March Board paper link]

Access to cash

Access to cash legislation is being considered by HMT, FCA and others which could mandate the banking industry to provide appropriate coverage for cash services. This would make it likely for the banks to need BF3 for deposits, but only make it 'desirable' for withdrawals as there are existing viable alternatives (ATM, cashback etc). Emerging IRRELEVANT for deposits and withdrawals, though immature.

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ATMs

The Bank of Ireland decided to move out of the provision of an ATM service in the UK. POL is seeking to acquire 1,400 of these ATMs before the end of the current contract to be able to remain in the market as a free to use provider. These ATMs will be replaced with new devices (under a leasing model) over a two-year period.

4. Other services that support the core:

Insurance

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Post Office Insurance (POI) offers travel, life and general insurance (house, motor, pet and gadget). It is a subsidiary of POL and has an independent Board and management team. POI is an FCA regulated insurance intermediary carrying out regulated intermediation activities under the Financial Services and Markets Act.

The draft budget considered by the Board on 30th March 2021 assumes a revenue of IRRELEVANT and minimal trading profits in 2021/22. The business has been severely impacted by Covid-19 and lockdowns. Sales are normally strong in travel insurance.

The business has been seeking to increase its share of the value chain by bringing key products in-house. Travel, home and protection insurance have the main areas of focus for growth. IRRELEVANT IRRELEVANT but until the investment of recent years come to fruition that path is seen as sub-optimal. Over the next 18 months – 2 years the focus will be to protect and grow the business to drive a return on those investments, making cost and efficiency savings where possible without damaging long-term value.

The insurance industry faces regulatory pressures with the FCA's reforms on pricing for home and motor insurance. POI has set up a Pricing Sub-Committee to help respond to the FCA requirements.

Identity Services (including digital identity, in-branch verification, document certification)

The draft budget considered by the Board on 30th March 2021 assumes a revenue of IRRELEVANT in 2021/22 but the Verify contract will close and the deal with Yoti will be loss-making initially.

The Government Digital Service (GDS) has extended the Verify service until April 2022 and POL will continue to be a provider with the service supplied by Digidentity (though they may be replaced by Yoti, our new partner, in due course). POL will make a small margin for the provision of the service.

POL agreed a collaboration license deal with Yoti in January 2021 for their full UK business providing us with a Post Office branded digital identity app, in-branch verification solutions and co-branded B2B services - including online identity verification, digital signing and age estimation. The deal will bring a fixed annual IRRELEVANT by way of a IRRELEVANT and is projected to return an incremental IRRELEVANT IRRELEVANT net profit and IRRELEVANT Postmaster remuneration over IRRELEVANT through IRRELEVANT in-branch transactions and IRRELEVANT digital transactions. This is our first example of a true platform proposition.

[Paper link]

Bills Payments

Post Office completed the acquisition of Payzone Bill Payments Limited (PZBPL) after clearance from the Competition and Markets Authority in October 2018. PZBPL has been set up as a subsidiary. The acquisition brought an additional 14,500 locations into the network. PZBPL signed an exclusive contract with British Gas which came into force in December 2019. This new deal is for a minimum of IRRELEVANT PZPBL's focus has been on delivering the British Gas contract, winning further client contracts and building strategic partnerships. Revenues were IRRELEVANT at the end of the 2020/21 FY with the business affected by Covid-19 and lockdowns.

Together with POL's own bills payment business, the draft budget for 2021/22 (considered by the Board on 30th March 2021) assumes a revenue of IRRELEVANT and a trading profit of IRRELEVANT.

Foreign Exchange

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FRESH/ FRES is Post Office's joint venture with the Bank of Ireland for the distribution of FX. Post Office receives a dividend annually.

- FRES was established in 2002 as a joint venture between the Bank of Ireland and the Post Office Ltd.
- Originally established to provide on-demand and pre-order foreign currency and travellers cheques to the POL branch network.
- FRES has since expanded its operations through Post Office to provide Travel Money Online and Travel Money Card.
- A number of 'white labelled' services have been developed in the UK (e.g. John Lewis, Santander)
- Post Office has grown to be the largest provider of retail foreign currency services in the UK with circa 11,500 branches.
- FRES operates a wholesale FX notes business, creating one of the five largest currency dealing rooms in the world by volume IRRELEVANT In 2017, FRES completed the acquisition of American Express Wholesale Currency Services which created a travel focussed Corporate Client portfolio (e.g. TUI)
- Regulated as a Money Services Business (MSB) by HMRC.

FRES is approved by the Financial Conduct Authority (FCA) as an Authorised Electronic Money Institution (AEMI) and issued its own Multi-Currency Card in March 2017.

The business has been severely impacted by Covid-19 and its impact on the travel market. The assumptions for recovery in 2021/22 are conservative given the trading uncertainties but could give a better return if the travel market revival is strong.

Financial Services

Post Office offers mortgages, savings, credit cards, personal loans, travel money and postal orders. Most of our financial services are offered in partnership with the Bank of Ireland, with whom we have had a long-term partnership and serve more than 2 million customers in the UK.

A new deal was agreed with Bank of Ireland in September 2019. This was set against the backdrop of a deteriorating market with IRRELEVANT IRRELEVANT

The term of the agreement was extended from September 2023 IRRELEVANT (now the earliest termination date of the partnership). The agreement was structured such that Post Office is able to IRRELEVANT were also agreed.

An exclusive arrangement remains on residential mortgages, personal loans and personal savings products. BoI will maintain exclusivity on IRRELEVANT and point of IRRELEVANT Post Office is able to explore other partnerships for transactional banking, retail investments and SME. An improvement in the IRRELEVANT was negotiated with an additional IRRELEVANT p.a.to 2022 (representing IRRELEVANT net p.a.), and IRRELEVANT p.a. from 2023.

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Post Office made use of its new freedom to enter new partnerships by launching two new credit cards with Capital One in November 2019.

Telco

The Board decided to sell the Telco business, partly because of the need to generate income given the impact on trading of Covid-19 and the litigation costs, and partly recognising that to the develop the business and scale-up would require significant investment[10] thereby reflecting the strategic decision to focus investment on the core products. The sale went through on 31st March 2021 with a sale price of £70.6m [paper link}

5. Areas of focus:

Public Inquiry

The Public Inquiry process has been described above and as well as ensuring conformance with the judgments, POL wants to change its culture to reflect that its employees are here to support the work done by Postmasters and to work with Postmasters to built a modern franchise partnership. This has a number of strands:

Culture

POL wants to develop a Postmaster centric culture. This is at an early stage and will continue to evolve but the steps towards this include:

- *Postmaster consultation* – this was run at the end of 2020 and the findings were analysed by Quadrangle, the firm supporting the process. Six areas were raised by Postmasters as top priorities for improvement: 1) Remuneration, 2) IT systems and processes, 3) Communication, 4)Training, 5) Access to senior management and 6) Innovation and working groups. Co-creation sessions on the priorities have been held with Postmasters. [Output from consultation. paper link]. There will be regular surveys and it will be important to check whether the improvements being made to processes etc are making a positive impact and see where there's work still to be done. A number of forums and co-creation groups have also been set up. Area managers will continue to engage, feedback and seek to resolve issues. Postmaster roadshows and conferences will continue. The Senior Leadership population will continue with the "Adopt an Area" initiative so they can listen, discuss and seek to understand the key issues for Postmasters to factor this into decisions made. All employees with undertake the "Week in the life of a Postmaster" sessions to build an understanding of what it's like to run a branch. Postmaster directors joining the Board is of course a vital part of making sure that a Postmaster lens is applied when taking major strategic decisions.
- *Organisational ways of working* are being developed, informed by colleague listening groups and Pulse surveys.
- *Postmaster communications and support* - the process of reviewing all the standard letters and documents received by Postmasters and hearing feedback from Postmasters on their experiences of seeking to access support has been sobering and underlined the need for change. Support materials for Postmasters have been overhauled and the Onboarding process has been

[10] Partly linked to termination fees in the contract with Fujitsu, the provider.

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streamlined (but with an ongoing drive to reduce the average onboarding time further and keep simplifying the process). The development of Branch Hub (including the "We're Listening" function and an ordering facility) is seen as an important resource. A specialist customer service team has been added to the Branch Support Centre and customer satisfaction scores will be included in the metrics. Work on developing new contracts will take place over the next few years.

Developing as a modern franchise

The Board discussed the network strategy in depth in its strategy sessions in July 2020 and has had regular updates and discussions since then. The principles underpinning the changes include:

- **continue to meet the six access criteria** to safeguard access across the UK, maintaining a commitment to rural & urban deprived communities. We plan to expand the network to circa 12,000 branches as the new formats come into place and the new definition of a Post Office agreed with our Shareholder gives us the scope to open new express formats which can offer a smaller range of services
- **rebalance the network to areas of higher customer demand**, partly funded by a shift away from c.2000 loss-making branches which account for 1% of total customer visits (75% of income is concentrated in 4000 branches)
- **run on a fully franchised basis**, with the remaining DMBs replaced to meet customer demand
- **greater flexibility** in how the product offering, technology solutions & operating model for each branch is tailored to the needs of the postmaster and the local market
- a **compelling overall franchise proposition**.

The focus will be on delivering mails, banking and other essential services to customers and small business across the UK.

Levers to deliver the strategy:

A new network blueprint – geospatial modelling has been used to help plan the network with an initial focus on expanding coverage in over 1,800 identified 'whitespace' locations, which will allow us to move away from the c2000 loss-making branches that only account for 1% of customer visits
A more flexible formats range – addressing the retailer wish for simplicity, ability to integrate better with their business and remove the need for dedicated staff and counters
Modern franchise arrangements - underpinned by a tiered operational model with different levels of account management, planning, training and marketing support to allow both sides to reduce costs and increase sale.
Stronger strategic partnerships – with major retailers but also including the upgrading of suitable Payzone partners.

The priorities for 2021/22 are:

a. **Meeting our network obligations and managing churn as efficiently as possible in the context of continued coronavirus uncertainty,** offsetting forecast churn of over 350 branches and minimising the number of 'regretted' solutions (like outreach) ahead of the new formats coming on stream from Q3.

b. **Delivering the first phase of expansion into new locations using our new SPM-enabled propositions,** thereby supporting our PUDO growth ambitions and providing the headroom we need to manage churn more effectively and tackle legacy formats with 400 'Express' outlets by March 2022.

c. **Reshaping the existing network to address 'wrong format' branches, including,** closing & replacing a further 84 DMBs, replacing over 200 existing legacy contract branches, converting

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around 30 Mains to Locals (instigated by the postmaster) and starting the process of optimising the outreach network.

Thought is also being given to how we better categorise our products and offerings:

1. 'Core' products are mass-market and sold face-to-face by our Postmasters. These deliver our Government mandate for universal services, and are primarily made up of Mails, Banking Services, Bill Payments and Travel. Key features include clear customer propositions, intuitive end-to-end Postmaster journeys, and replicated systems and processes across multiple branch products to minimise training and points of failure.

2. 'Range' products improve the attractiveness of the Post Office franchise to existing and prospective Postmasters or franchisees. These drive Postmaster economics either directly (through commission) or indirectly (through footfall). Examples of 'Range' products are: Lottery, Gift cards, MoneyGram, and Postal Orders. Key features of these products include minimal financial investment and focus on Postmaster benefits such as footfall, income and simplicity.

3. 'Platform' products are primarily digital or online propositions, managed by suppliers or partners, which drive Post Office contribution and require minimal management bandwidth and/or investment. There is flexibility for Post Office to build, maintain or sell 'Platform' assets depending on requirements. Examples of 'Platform' products are: Insurance, Retail Banking and Digital Identity. Key features include low/no effort for Postmasters, driving income to re-invest in 'Core' products/Postmasters, and leveraging of Post Office brand equity.

DMB franchising

A moratorium was placed on DMB franchising during the pandemic but will resume again in the 2021/22 financial year. There are 115 DMBs and the timeline for completion of franchising depends on being able to meet customer needs, whether through a new franchise arrangement or provision of services through existing branches and having the funding to make closures. The plan assumes there will still be 58 DMBs operating at the end of the 2021/22 FY based on current plans.

Network

POL's strategy includes increasing the Post Office network to more than 12,000 branches. The Funding Agreement for 2021/22 included a new definition of a Post Office branch "
Branch means any outlet of POL that makes it possible for customers to access the Services of Public Economic Interest set out in row 1 of Schedule 6 *(SPEI Services)*. An outlet of POL shall include any post office counter or any means of transacting one, some or all of the Services of Public Economic Interest at a third party premises and any other facility (including an "outreach" facility) designated for the transaction of business with members of the public by or on behalf of POL". POL will not seek to remove services provided by existing branches but where branches are set up in new locations under the express format not all the services currently provided as core, such as cash, need to be provided. 400 express formats are targeted for March 2022. The express format will allow the network to expand and make running a Post Office more attractive for some retailers who may wish to provide a smaller range of services.

Funding

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POL has a Funding Agreement with BEIS, its Shareholder[11], which sets out the access criteria POL must meet, such as having a network of at least 11,500 branches and providing access to core services, to secure the network subsidy[12] and any additional Government funding to support investment.

BEIS approves the annual budget and plan and the four-year plan. A quarterly accountability meeting is held with BEIS and there are regular conversations with UKGI and BEIS as budget and strategic plans are developed. The Funding Agreement discussions align with the Government Spending Review which normally spans a three-year period but for 2021/22 the Funding Agreement reached was for one year only. This reflects the funding uncertainties across the public sector and by extension to government owned businesses as we emerge from the pandemic. The Funding settlement for 2021/22 was £227m. That is a reflection of Government support for POL with Postmasters demonstrating the value of the services offered to so many people during the lockdowns as demand for Mails & Parcels grew and as Post Office was relied on more for banking services with bank branches closing. 90% plus of the network remained open through the period and by the end of the financial year 99% of the network was operating with 97% of the working hours of the pre-Covid period.

Budget planning

Normally the executive start budget planning discussions in the Autumn with a draft budget and plan coming to the Board each January and a final version for approval each March. That pattern was upset by Covid-19, lockdowns and the trading uncertainties that ensued, particularly with the collapse of the travel market (down 85% for POL at P11). The position with the funding of the litigation has also driven considerable uncertainties and the Annual Report and Accounts for 2019/20 were only signed on 25th March 2021 at which point a provision of £153m had been included for the HSS payments.

Solvency

The combination of the impact of Covid-19 on trading performance, particularly in our FX and insurance businesses, and the costs associated with the litigation with a provision needing to be made retrospectively in the 2019/20 accounts as some of those costs crystallised, led to discussions about POL's going concern status and the danger of triggering a wrongful trading event. Close and careful attention has been paid to these matters and advice received. The funding agreement for 2021/22 referred to above and a letter of comfort from BEIS meant that POL could still be regarded as a going concern. The position on going concern would be different for a company not owned by Government but the backing of Government carries a level of security that would not apply to a private backer. The quantum for the HSS claims and for the predicted civil claims cannot yet be determined with any degree of certainty. Government will not write a cheque for an unspecified sum so while it is supportive of POL it will not provide a letter of guarantee; however BEIS has provided a commitment letter in which it has agreed to fund HSS payments for up to £285m minus

[11] Although BEIS is our Shareholder, UKGI is responsible for managing the relationship day-to-day and has a team that focusses on Post Office issues. Tom Cooper, the Non-Executive Director appointed by the Shareholder is a director at UKGI.

[12] The payment is to cover the costs associated with meeting the access criteria and a Network Report is produced and laid in Parliament each year showing how the access criteria has been met. At certain points in the 2020/21 financial year a waiver was granted by Government on branch network numbers and on the security headroom buffer that would normally apply because of the impact of lockdowns on the trading position.

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the proceeds of POL's sale of its homephone and broadband business. Despite this we are operating from a position in which POL's liabilities exceed its assets on the balance sheet and are likely to do so for some time. . BEIS have also provided a letter of support which may be provided to any third parties with whom POL has a contractual relationship if they raise concerns with POL's financial position providing that consent is obtained from Carl Cresswell at BEIS before doing so.

Facility Headroom and Security Headroom

We supply the cash for branches as well as our own working capital. Our borrowing capacity has three primary limits: a hard limit on what we can borrow from BEIS (a facility headroom of £950m but in practice IRRELEVANT because the Board wishes to maintain a IRRELEVANT buffer), a security headroom limit which ensures that branch cash and client debtors exceed borrowing from BEIS and a limit on BoE borrowing based on cash withdrawals.

This security headroom is important to Government as it means that our borrowing is accounted for on their balance sheet as working capital not debt. We continue to seek to improve cash efficiencies but this has an adverse effect on our security headroom because less cash is held in branches. The security headroom position has been difficult over the past year when banking transactions have fallen etc. and we have obtained a waiver from BEIS twice. Security headroom will continue to be monitored closely.

Investment spend

The net result of litigation costs, the reduction in trading profits last year, trading uncertainties in the current year and a lower funding settlement than we bid for means that investment spend will be limited. The Board will consider strategic priorities at its meeting on 3rd June 2021 but there is limited room for manoeuvre both because of the restricted funds available and some essential spend on "big ticket" items. This means that some investments POL would like to make have been paused and hard choices on priorities and sequencing have been made and will continue to need to be made.

Organisational design and right sizing

A new structure at Group Executive (GE) level and for their direct reports was introduced in April 2020. This was designed to support the strategy to build a modern franchise, be postmaster and customer focussed and also to avoid silo working. A new role of Chief Commercial Officer was created and Owen Woodley moved into this post. This brings together all of the business areas of Mails & Parcels, Banking, Financial Services and Identity Services. Ed Dutton, the MD of Post Office Insurance, is also part of Owen's lead team. Previously the Retail and FS areas were managed separately but the new structure brings everything together and includes Chrysanthy Pispinis as the Commercial Strategy and Planning Director. At the same time Dan Zinner became Chief Operating Officer and within his area a Retail and Franchise Directorate has been established led by Amanda Jones within which Tracy Marshall has been appointed as the Postmaster Effectiveness Director to support the Postmaster centric focus [Structure Chart link]

Over the past year there have been two waves of organisational design changes with a reduction of 134 FTE with a IRRELEVANT annualised benefit associated with Tranche 1 and 83 FTEs likely to be removed in Tranche 2 with an annualised benefit of IRRELEVANT[13]. Ultimately the headcount for Post Office is likely to settle at around 1,600 – 1,800 FTE but this will be after the DMB franchising programme has concluded and after the technological and process changes needed to reduce headcount

[13] But with redundancy and programmes costs exceed the savings in the first year.

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requirements in support functions have been implemented and when funding allows for these redundancies. There will also be some areas where we need to build capability, particularly in IT with the SPM programme and developments in the digital space, and in contract management.

The focus for the 2021/22 FY is the Public Inquiry and the responses that will be required when it issues its recommendations, as well as the changes needed to better support Postmasters and built a modern franchise partnership. This means that any further reductions in head count will be managed on a departmental level in the short-term.

[Funding letter to Government; Funding Agreement; Letter of comfort]

Belfast Exit and Strategic Platform Modernisation (SPM)

POL has a long-term contract in place with Fujitsu for the Horizon platform which, amongst other things, processes POL's branch transaction data out of two dedicated data centres in Belfast. POL will migrate the hosting of the Horizon platform from these Belfast data centres to a modern cloud hosting environment run by Amazon Web Services (AWS) and has set up an SPM programme to improve the quality, functionality and cost of our branch IT platform, ultimately delivering a next generation core IT platform to enable the digital transformation of our branch and on-line 23 operations.

A contract extension has been negotiated with Fujitsu for Horizon support beyond March 2023 on a 1+1-year extension. The approach to migration is not a "big bang"; elements will move off the Horizon onto the SPM platform in advance of the Horizon system being replaced fully. BAU work and Belfast Exit is being managed by Jeff Smyth, CIO, and his team. An SPM team has been set up and is led by Zdravko Mladenov. Both teams meet regularly and are integrated with the business and its projects and plans to ensure alignment and effective prioritisation.

IT Towers

In addition to the Fujitsu Horizon contract, POL has in place contracts for: (i) End User Computing (**EUC**) with Computacenter which provides branch counter kit and support and computers and printers in our support centres; (ii) Network services with Verizon which provide connectivity to branches and contact centres for all our network traffic and network security; and (iii) Back Office services with Accenture supporting, developing and hosting certain back end systems other than Horizon. These arrangements were procured a number of years ago following the split of POL from Royal Mail Group, where POL had to quickly stand up its own enterprise-wide IT infrastructure and it did so in part by implementing a Towers model for these key IT service requirements just listed. These Tower services and providers were managed by a Services Integrator and Service Desk (**SISD**) provider, Atos. The SISD service expired last year, with POL taking in-house much of the services and functionality that Atos had been delivering. The EUC contract term has recently expired, although EUC services are continuing to be provided by Computacenter for a number of months as part of a contractual managed exit arrangement enabling POL to re-procure EUC services from the market. Aside from the Horizon and Tower contracts, there are a number of other strategically important IT contracts (e.g. Microsoft Enterprise agreement for all POL's Microsoft software, NCR for supply, support and maintenance of self-service kiosks (**SSKs**) etc).

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Supporting Papers

1. Strategy Papers from the Board meetings on 28th & 29th July 2020

   Subsequent update papers from the Board meeting on 30th March 2021:
   1.1. Network Strategy
   1.2. Strategic Platform Modernisation (SPM)
   1.3. Fujitsu

2. Papers from the Board meeting on 25th March 2021
3. Starling Paper from the Board meeting on 26th January 2021
4. MDA2 Paper from the Board meeting on 24th November 2020
5. PUDO Paper from the Board meeting on 30th March 2021
6. Banking Framework Paper from the Board meeting on 30th March 2021
7. Digital Identity Paper from Board the meeting on 26th January 2021
8. Telco Sale Paper from the Board meeting on 30th March 2021
9. Output from Postmaster Consultation (circulated via email on 29th March 2021)
10. Organisation Structure Chart (GE & GE-1)
11. Funding
    a) Funding letter to Government, supporting paper and appendix
    b) Funding Agreement between POL and BEIS from the Board Meeting on 18th March 2021
    c) Letter of comfort from BEIS from the Board meeting on 26th January 2021

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Post Office Board Agenda (Strategy Session 1)

Date:	28 July 2020	Time	15.15 – 17.30 hrs	Location	Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ 1.19 Wakefield

Present		Other Attendees	
• Tim Parker (Chairman)	• Carla Stent	• Veronica Branton (Company Secretary)	• Dan Zinner (Group Chief Strategy & Transformation Officer)
• Nick Read (CEO)	• Alisdair Cameron (CFO)	• Owen Woodley (Chief Commercial Officer)	• Amanda Jones (Interim Network Director) (Item 3.)
• Ken McCall (SID)	• Zarin Patel	• Richard Taylor (Group Corporate Affairs and Communications Director)	• Martin Edwards (MD Digital Identity) (Item 3.)
• Tom Cooper	• Lisa Harrington		• Paul Martin (KPMG) (Item 3.)

	Agenda Item	Action Needed	Lead	Timings
1.	**Welcome and Conflicts of Interest**	Noting	Chairman	15.15 hrs
2.	**Introduction to the Strategy Sessions**	Noting	Nick Read/ Dan Zinner	15.20 hrs
3.	**Network Strategy**	Discussion	Amanda Jones/ Martin Edwards/ Paul Martin (KPMG)	15.35 hrs
4.	**Any Other Business**	Noting and Input	Chairman	17.25 hrs

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Network Strategy

Pre-read for the Post Office Board

NOTE: THIS IS A CONDENSED VERSION OF THE FULL DECK

July 2020

POST OFFICE

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Work in Progress

Executive Summary (1)

Context: the current situation

The Post Office *is* the network: it is the foundation of our commercial and social purpose. And the network *is* our postmasters. Without a proposition which works for them we cannot sustain the nationwide scale needed to increase convenience for customers, drive growth in priority markets such as PUDO and support communities with access to cash and other essential services.

The reality is that our current branch propositions (based on current BEIS definitions) are not attracting and retaining the great postmasters we need to deliver our strategy. As a result we are falling behind our competitors in urban areas while spending IRRELEVANT each year just managing network churn, with increasing numbers of outreach required to plug the gap to 11.5k branches.

The feedback from retailers is clear: they want control over the products they offer their customers and greater flexibility around how they integrate a post office into their main business, including simpler options which can be run without the need for dedicated staff and counters. Covid-19 has made these changes all the more urgent.

Vision for the future network

We envisage a future network which balances commercial sustainability with the needs of our customers, clients and wider stakeholders through the following key characteristics:

- ✓ Continuing to meet the six access criteria to safeguard access across all regions of the UK and maintaining an unrivalled commitment to rural & urban deprived communities, with the 11.5k target largely an irrelevance because we have expanded beyond that number
- ✓ A rebalancing of the network to areas of higher customer demand, partly funded by a shift away from IRRELEVANT loss-making branches which are not required to meet the access criteria and account for just 1% of total customer visits (averaging around 45 customer sessions per week)
- ✓ Run on a fully franchised basis, with the remaining DMBs replaced with more sustainable and convenient solutions to meet customer demand in each local area
- ✓ Greater flexibility in how the product offering, technology solutions & operating model for each branch is tailored to the needs of the postmaster and the local market
- ✓ A compelling overall franchise proposition which generates a queue of prospective postmasters & retail partners wanting to take on a branch and expand their business with us, thereby ensuring we have great locations and hosts to meet customer demand.

Through these changes we can ensure the Post Office network remains a vital *and* sustainable part of the national infrastructure for the years ahead, delivering mails, banking and other essential services to customers and small business across the UK – and thereby support the Government's Spending Review priority to level up economic opportunity across all nations and regions of the country.

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Work in Progress

Executive Summary (2)

Strategy to deliver this vision

We have identified four main levers to deliver this vision and manage the transition from the legacy challenges facing the network:

1. **A new network blueprint,** using geospatial modelling to dynamically guide how we plan the network to meet customer demand and drive profitable business for postmasters - with an initial focus on expanding coverage in over 1,800 identified 'whitespace' locations.
2. **A more flexible formats range** which gives postmasters greater choice over the services they offer and a wider range of options around how the post office can be integrated with their own retail operation, including through new light-touch options which do not require dedicated staffing or complex training. Ultimately this flexibility will give us a much better chance of finding great host retailers & rural community hubs for the locations identified by the blueprint, rather than resorting to more outreach in areas of lower customer demand.
3. **Modern franchise arrangements** which match external best practice to support our postmasters to grow their business. This will be underpinned by a tiered operational model with different levels of account management, planning, training and marketing support will allow both sides to reduce costs and increase sales
4. **Stronger strategic partnerships** with a portfolio of great retailers that are conveniently located where our customers live, work and shop. These might be traditional players such as Co-op or new hosts such as Boots – and will also include the upgrading of suitable Payzone partners as part of a more coherent approach to managing our total network.

In order to deploy the new formats at scale, we will need to **reframe the definition of what 'counts' as a post office with BEIS**, moving from the rigid requirement to include all SGEI services to a more flexible approach with access to parcels services as the core anchor in all branches. Ultimately this flexibility will strengthen our proposition to customers and communities, ensuring we can attract and retain great postmasters running thriving local businesses.

The strategy is also dependent of course on securing the necessary funding to deliver the proposed changes, alongside the necessary political support to help self-fund the changes by shifting away sub-optimal branches not required to meet the access criteria.

Subject to the Board's feedback on this overall strategic direction, we will work on more detailed implementations plans over the summer, in particularly focussing on the key interdependencies with technology (Strategic Platform Migration), bringing this back to the Board for further discussion in the autumn.

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Introduction: what questions are we answering now and what further detail with follow in the autumn?

KEY QUESTIONS ADDRESSED IN THIS PAPER

1. What do we need from the network to deliver our overall commercial priorities & purpose?
2. What is our future network to deliver these priorities?
   a. What is our segmented format strategy to attract the right retailers in the right locations and improve profitability for both sides?
   b. Based on these new formats, what is the shape & size of our future network? (*Initial view with more detailed geospatial analysis to follow in September*)
   c. What is our framework for creating winning franchise propositions which enable both Post Office and postmasters to thrive?
3. What enablers do we need in place to move to this future network, including changes to the policy framework set by the Government?

QUESTIONS TO BE ADDRESSED IN OCTOBER

1. Based on more detailed geospatial modelling, what network blueprint should we be aiming for?
2. What is the role of automation & other technology enablers to improve the economics of our new branch propositions for postmasters & Post Office?
3. What is the impact on network economics of further work on Post Office central costs?
4. What is our plan for implementing the new network strategy, including how this integrates with Strategic Platform Migration?

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Convenient locations are the top priority across all customer segments & products

PO IS EASY TO DO BUSINESS WITH (AGREEMENT %, BY CUSTOMER SEGMENT)



Aspiring & Digital — 53%



Pressured & Price Conscious — 57%



Moving Forward Comfortably — 54%



Confident & Discerning — 61%

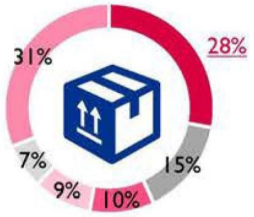


Content & Conventional — 53%

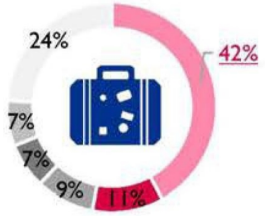
Source: *Customer Pen Portraits, Kantar research*

CONVENIENCE AND COMPETITIVENESS ARE KEY BARRIERS TO USING POST OFFICE (BARRIER KEY % OF RESPONDENTS, BY PRODUCT CATEGORY)

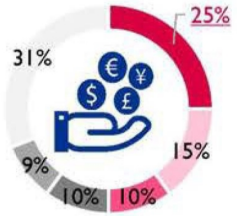
Mails & Parcels



Travel Services



Everyday Finances



***Barrier Key** - % of respondents who use a touch point*

- Not in a convenient location
- There was a queue
- Couldn't find other items needed/ Found better deal elsewhere
- Happy with my usual shop
- I use online alternatives
- Didn't know they offer this service
- Quicker & easier to use specialist online providers
- Other

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There are 6 drivers of consumption which will shape consumer purchase decisions during and in a post-Covid environment

DRIVERS OF CONSUMPTION

- A **VALUE** centred approach and connections to online are anticipated to have increasing importance due to economic uncertainties
- **CONVENIENCE** requirements have changed with fewer trips to stores, however consumers are still willing to pay for this both on- and off-line
- Shopping **EXPERIENCE** expectations have shifted and online retailers are seeking to maintain current increased volumes
- There is a general acceptance of **CHOICE** reduction, inspiring simplification of product ranges to address specific functional needs
- **PRIVACY AND SAFETY** becomes a key concern for the majority of in-store shoppers and drives customers further toward options that are local and close to home (vs. work)
- Retailers who can demonstrate a **PURPOSE** that is organic, consistent and aligned with customers' values will emerge stronger

WHAT DOES THIS MEAN FOR OUR NETWORK?

1. Offer the **right products, in the right formats, at the right prices** based on customer needs
2. Focus on strategic locations and partnerships that align in shopper missions to deliver **more convenience to our customers**, especially in dense urban areas
3. Make customers' **in-store experience easier, safer and more efficient** through the use of technologies e.g. self-service kiosks, cashless technology, and improvements to branch layout
4. Regularly review **branches across location types** to maintain a relevant and profitable network that evolve with changing **customer needs and habits**
5. Continue to **deliver social value** through strengthening our network access and working with partners that compliment our brand

Sources: Research by retail think tanks, subject matter expert

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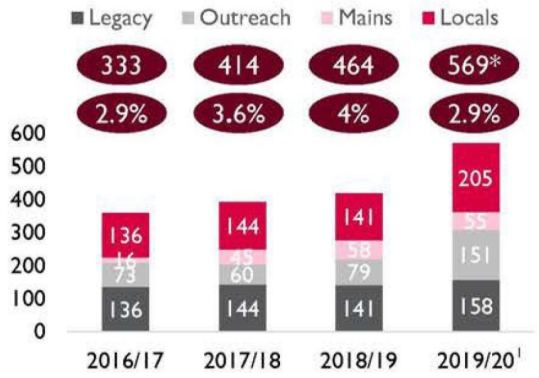
The rate of branch closures has been increasing in recent years, driving high replacement costs and a growing number of outreaches

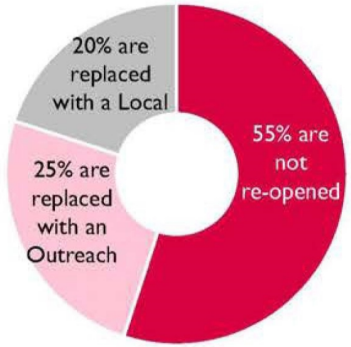
CLOSURES ARE INCREASING, ESPECIALLY AMONGST LOCALS & MAINS[1] → **WE ARE STRUGGLING TO FIND GOOD RETAILERS TO REPLACE THEM** → **THIS IS DRIVING AN INCREASED USE OF SUB-OPTIMAL OUTREACHES**

Post Office closures split by type



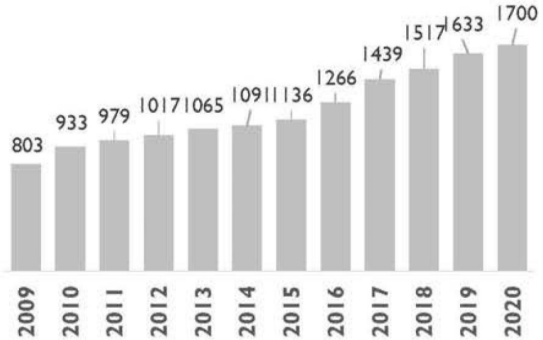
- In 2019/20 our projected run rate of churn was 560, but that was pre-Covid-19
- £25-30m pa cost of managing churn & maintaining the network

What happens 18 months after a Local closes?



- It's becoming increasingly difficult to replace branches that churn with good Locals
- To date we have asked over 4,000 prime retailers if they would like to host a Locals, and our 'hit-rate' is just 8% - we are running out of candidates

Total number of Outreach Branches, '09-'20



- It costs £5k - £15k to set-up an Outreach
- They typically receive ~£6k p/a in fixed rem and only generate ~£1k in income
- Overall they produce a loss to POL of ~£15m p/a each year

Note: 1.Given the impact of COVID-19, 2019/20 numbers are provisional and subject to revision
Source: POL Analysis

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[redacted]

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The feedback from both independent postmasters & Multiples highlights key concerns around the complexity & profitability of current formats

	MULTIPLES	INDEPENDENTS
POST OFFICE FORMATS ARE NOT TAILORED TO RETAILER'S NEEDS	*"I dislike the bluntness of the Main / Local format. Our stores have several sub-configurations which match the local market .The PO services should fit with these …"* **Mid-counties Co-op**	*"I'm not in control of the business at all, even the services that I offer"* *"Need to offer more and I should be in control of what services I can offer"*
REMUNERATION MUST KEEP PACE WITH STAFF COST INCREASES	*"NLW means that our PO Labour costs have been increasing by £100k p/a. PO reward should at least keep in line with NLW increases (~6% p/a)"* **Lincolnshire Co-op**	*"Abysmal! I've seen a dramatic decrease in my earnings. I was taking £79k, it's now down to £45k but I am busier than ever"*
POOR RETURN ON TIME INVESTED IN DELIVERING SERVICES	*"I look after about 40 partners. PO takes up a disproportionate about of my time. I have spent a lot of time taking out cost e.g. shortening opening hours. You should be doing this"* **Mid-counties Co-op**	*"Labels get printed at home and I only get pennies for them delivering to the store – it's not worth the work I do"*
COMPETITIVENESS OF THE POST OFFICE	*"PO has a history of overpromising and under-delivering. For example, we have an SSK on trial. It's okay but I wouldn't buy it. We expect that PO provides more support to the branches"* **Mid-counties Co-op**	*"Lost a lot of business to competition as our prices are too high"* *"Travel money rates are different online to in branch with the supermarkets also offering the service"*
LACK OF TRANSPARENCY AND NO VIEW OF FUTURE PLANS	*"In our strategic planning sessions with the Board, I can give them an outlook for all our categories but have nothing to say about the future of the Post Office"* **Martin McColl's**	*"We want to know how much the PO is making from each of the services we provide"* *"The company is making a profit and we are the ones who are making them money"*

Note: *This list is based on feedback from the Agents Remuneration Review, combined with multiple interviews with front-line 'account manager' colleagues of their experience working with retailers*
Source: *POL Data*

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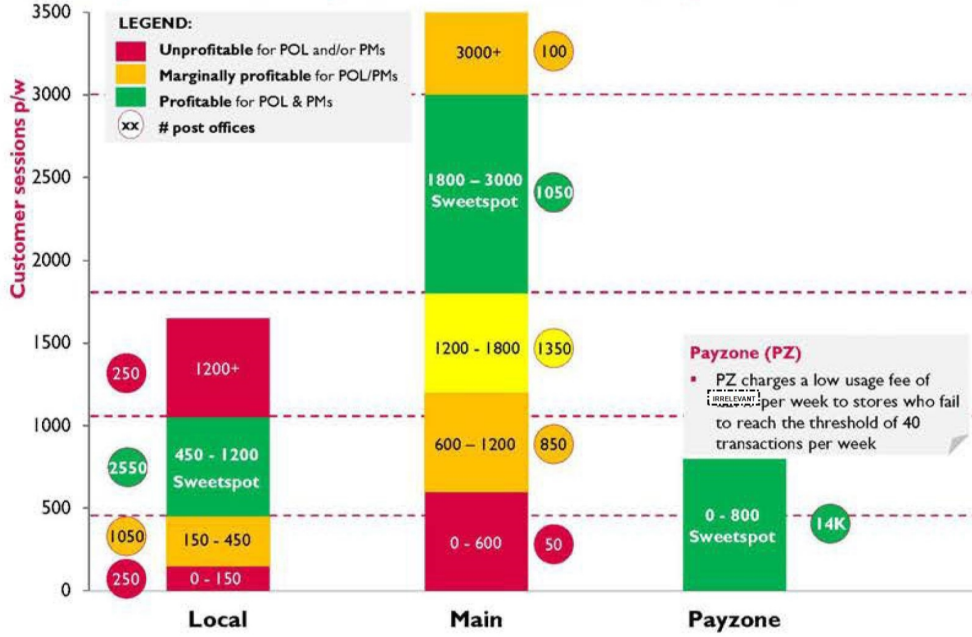
Locals & Mains have narrow 'sweetspots' of profitability, making it difficult to attract and retain the right postmasters

LESS THAN 50% (3,600 OUT OF 7,538) OF THE EXISTING 'MAINS' AND 'LOCALS' ARE PROFITABLE FOR BOTH POL AND PMS

WE HAVE IDENTIFIED THREE KEY 'GAPS'

Profitability to POL and PMs by format and customer sessions per week



Gaps	Formerly 'Local'	Formerly 'Main'
1 3000+ customer sessions pw	**Little choice of retailers** that can host branches this large (e.g. Trafalgar Sq)	
2 1200-1800 customer sessions pw	**Not profitable for PMs** as they would need dedicated staff	**Not as profitable for POL**
3 <450 customer sessions pw	PMs would struggle to cover POL fully allocated costs	

Source: POL Analysis

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Summing up: the key challenges we need to address with our network strategy

We need to reflect changing patterns of customer demand

- The network has not kept pace with the huge shifts in customer demand over the last decade.
- Weekly customer sessions declined from 15 to 10 million between 2007 and 2019, with government services revenue declining by 90% since 2003 – meaning we now have more Mains branches (on a 30% pay premium) than we need.
- E-commerce has doubled since 2007, generating growing demand for parcels services. But despite our network size, we lack coverage in convenient locations for customers - in urban areas Collect+ has 0.4 branches per capita whereas we have 0.12.

We need to create compelling propositions for postmasters

- Our current propositions are unattractive to many retailers, due to the complexity & cost of running a post office, and the modest returns relative to competing retailer propositions.
- Just 8% of the 4,000 retailers we have approached have shown a willingness to take on a new post office.
- Ultimately this is preventing us from locating branches where customers need them, and is forcing us to rely on a growing number of stop-gap solutions like outreach to offset churn.

We need to improve network profitability to offset headwinds

- Our subsidy has declined by 88% since 2013/14 and clearly our next funding round will be set against a challenging fiscal environment.
- Many of our traditional markets are facing long-term structural decline.
- We must therefore improve overall network profitability & commercial resilience, in particular reducing the 'social' network losses and the costs of managing network churn (estimated at IRRELEVANT pa on current projections).

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We have identified six key levers to address these challenges, creating more compelling propositions for postmasters and a stronger network for customers



1	**Create a more flexible format range**	▪ A more flexible format framework which gives postmasters greater choice over the services they offer and a wider range of options around how a post office can be integrated with their own retail operation, including through new light-touch options which do not require dedicated staffing or complex training.
2	**Invest in automation & other tech enablers**	▪ Technology is a key enabler for the new formats range, reducing operating costs for postmasters and improving customer experience through a flexible range of solutions including automation & integration with the retail till.
3	**Develop new franchise arrangements**	▪ Growth orientated commercial terms based on franchising best practice, with a tiered operational support model which enables us to reduce costs, increase sales & manage network churn more effectively (linking to RIPE).
4	**Leverage the Payzone network**	▪ The new flexible formats range will provide a more seamless route for upgrading good Payzone outlets into light touch post offices, thereby increasing convenience for customers. This will be underpinned by a more coherent approach to managing our combined network & retail partnerships across Post Office and Payzone.
5	**Develop stronger partnerships with great Multiples**	▪ We want to develop stronger partnerships with a portfolio of great retailers that are conveniently located where our customers live, work and shop. These might be traditional players such as Co-op or new hosts such as Boots.
6	**Shift the network to meet customer demand**	▪ We will use new formats to find great retailers to host branches in the over 1,800 whitespace locations where we are currently failing to meet customer demand. This expansion will also provide the headroom to shift away from around 2,000 sub-optimal branches that poorly used by customers and surplus to meeting the access criteria.

Source: POL Analysis

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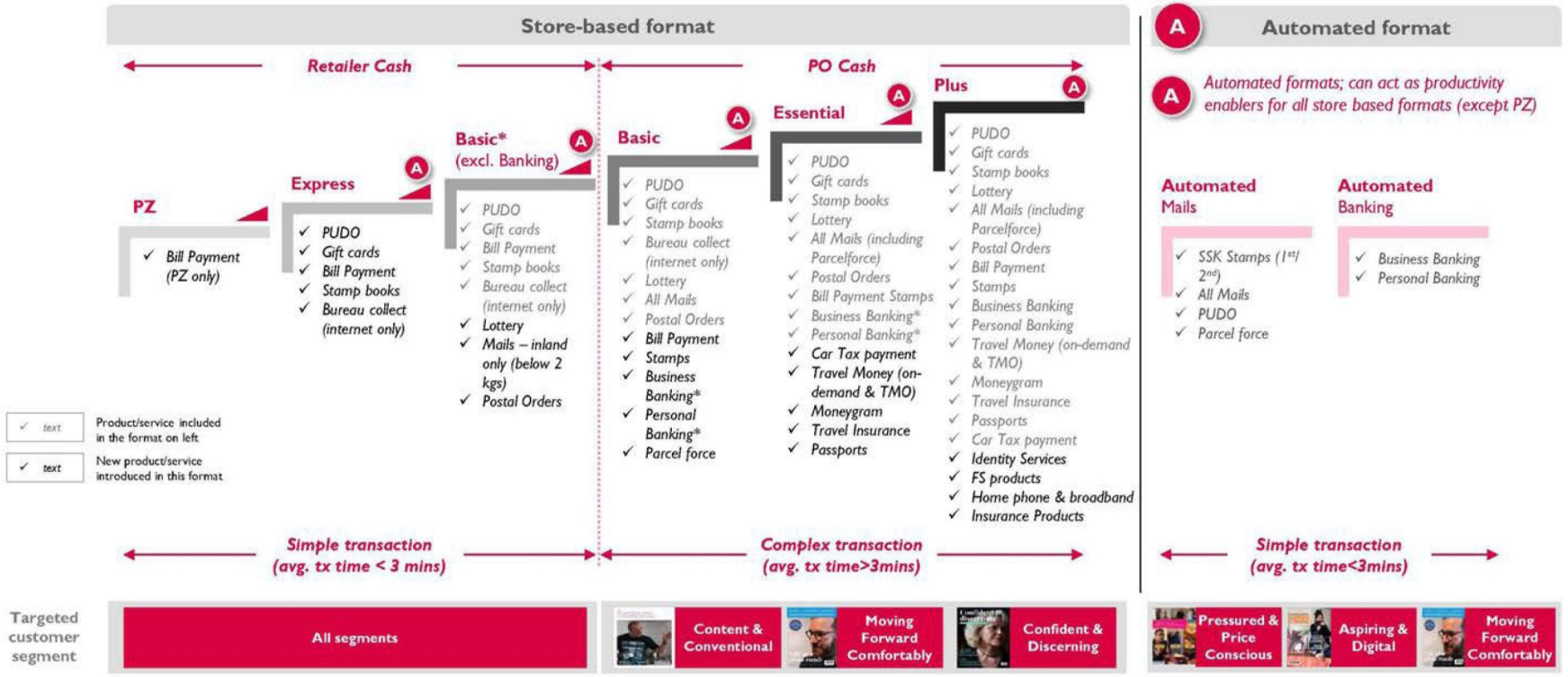
A more flexible format range with greater customisation for postmasters will enable us to meet the evolving needs of customers in different locations



*Notes: * Personal banking includes withdrawals, cheque deposits, cash deposits and POCA. Business banking includes change giving, and higher value deposits (over £3k). To be further reviewed to assess if it can be merged into one set. Basic (excl. banking) could include withdrawals below £50, however it is limited by our ability to determine the retailer's ability to manage cash (such as availability of cash, cost of cash management); Basic upward formats are currently modelled as having horizon system | Source: POL analysis*

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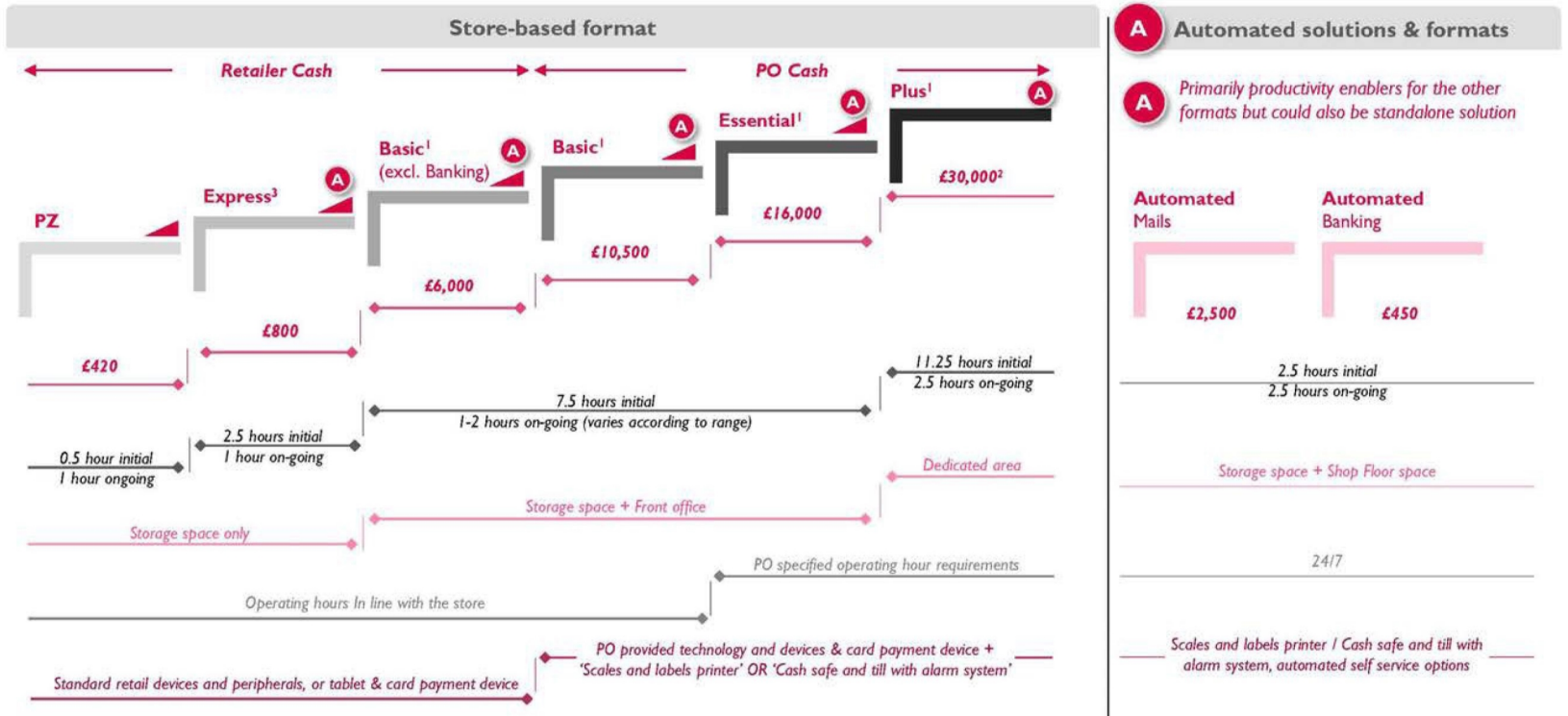
A more flexible format range with greater customisation for postmasters will enable us to meet the evolving needs of customers in different locations



Notes: 1. Basic upward formats are currently modelled as having horizon system. 2. Cost for a Plus is higher than Essential as it will require more than one counter so requires multiple horizon terminals, a larger safe. 3 Express set up costs have been based on Parcelshop set up costs. 4. Set-up costs for automated solution do not include the capex costs of the devices, which are instead assumed to be leased.
Source: POL analysis

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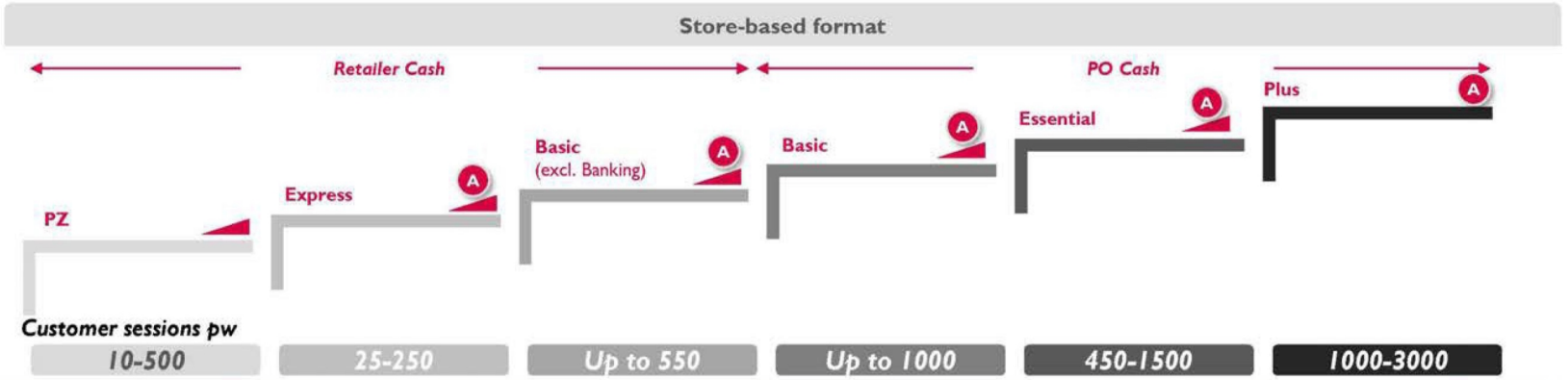
A more flexible format range with greater customisation for postmasters will enable us to meet the evolving needs of customers in different locations



Average annual income per branch[1] *(£k, based on 2019 income assumptions)*



Notes: 1. Income averages for: i) Plus is an average of 1,044 branches (right format, right location mains), ii) for all other formats it is an average of 1,818 representative whitespace branches. 2. Customer sessions for Whitespace is higher than current Local format
Source: Economic model for new formats, 2020

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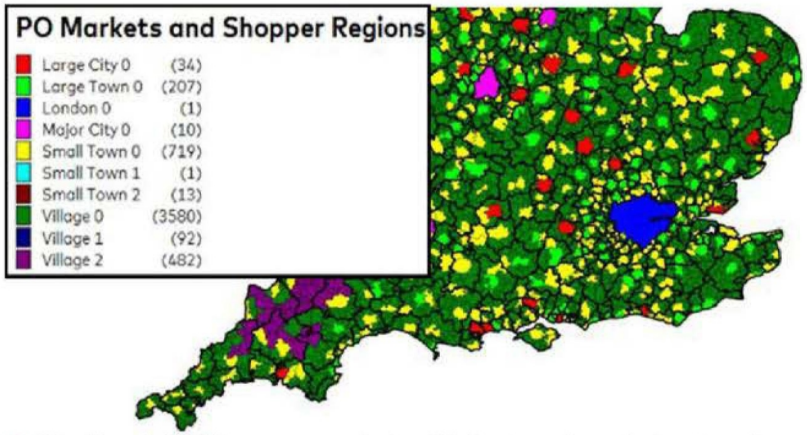
We are using detailed geospatial modelling to develop our target network 'Blueprint'

WE STARTED BUILDING THE BLUEPRINT BY CREATING 5,139 'POST OFFICE MARKETS'



- The Blueprint (BP) is a geo-mapping tool that helps us to understand how to optimise our network locations and formats. It is customer-centric, trying to find the best locations and formats that deliver the services customers want near to where they work and live.
- This creates a framework and hierarchy for us to collate data on demand, supply, competition, performance to create an optimised location plan or blueprint.

Source: POL Analysis

ONTO THIS FRAMEWORK WE THEN LAYERED ON DATA ON DEMAND, SUPPLY, COMPETITION AND PERFORMANCE:

- **Customer demand:** What drives how much customers spend across 5 key product areas: Premium Mail, Standard Mail, Personal Banking, Business Banking & Bill Payments.
- **Catchment areas:** We then created 'catchments' around all post offices to show how far customers will travel to a branch, this depends on how urban they area is where they live.
- **Growth or cannibalisation?** Calculate the level of incremental sales achieved when new branches are opened to help inform whether an increase in coverage will increase sales, or simply cannibalise the existing estate.
- **Competition:** What is their effect on post office demand and where we need to locate branches

From this we created a Network Blueprint…

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This Blueprint assesses the strength of each location, the preferred format in each location and what overlay is required to meet our shareholder requirements

Number of Branches according to network Criteria

Right Format & Right Location	Right Location but Wrong Format	Whitespace (no branch, but need one)	Access Criteria Top-up	Blueprint Network	Wrong Format, Wrong Location
✓ 3,774 Formerly Locals ✓ 1,129 Formerly Mains	1537 2258	1861 When we move into new locations we should use Locals or light-touch outlets predominantly in urban areas	895 895 minimum but we would likely want a cushion	11454	Not profitable unless lighter model Not profitable even on a lighter model 2205
4903					
Action	**Retain & Invest in**	**Transition to New formats**	**Penetrate new locations**	**Policy changes**		**Network Pruning**
	Focus on retaining these branches. New propositions improve ability to replace churn through a greater choice of commercially viable alternatives.	Transition the Mains & Legacy branches to Locals or other Light-touch models. Supplement 'Mains to Locals' programme with other strategies	Focus on driving urban penetration. To date we have delivered ~600 NNL (Locals) but are running out of candidates. We should utilise new formats to penetrate strategic partners	We need to retain at least 895 additional loss making branches to meet the network access criteria. Annual cost of £8-9m to operate these branches (mostly outreach).	*The blueprint network would be better for customers, retailers, cost less in NSP to government and generate greater profits for POL…*	Exit these branches, especially those that provide the lowest social value, or transition to new commercially viable formats. Cost savings here fund development elsewhere.

Source: POL Analysis

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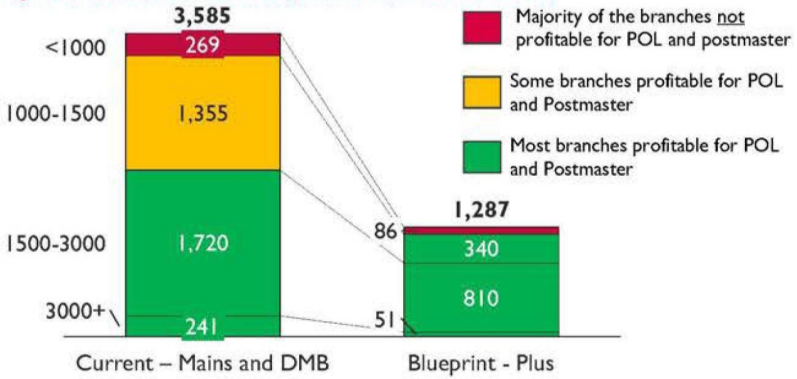
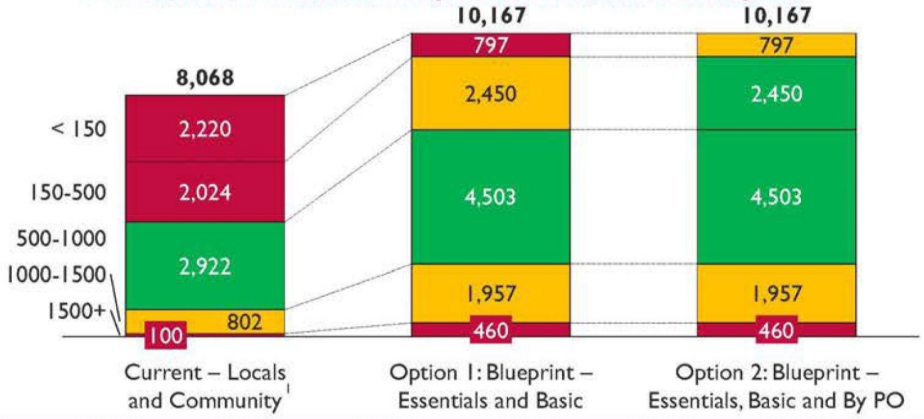
The blueprint underpins our proposition development and significantly changes the shape of our network and profitability for postmasters

POL and postmaster profitability across branches grouped by # of customer sessions, Mains and DMB vs. Plus



POL and postmaster profitability across branches grouped by # of customer sessions, Locals* and Community vs. Essentials, Basic and Express



Introduction of new formats will drive :

- Availability of more **commercially viable options** to postmasters including the branches which currently serve **lower levels of customer demand**
- **Reduction in losses in deep rural areas** with low population densities (versus a full service outreach)
- Use of **automation** to best service the customer demand in **branches with 1,000-1,500 customer sessions per week**

Note: 1 In the current network locals classification includes locals, legacy and community but excludes social. Blueprint count excludes social 2. For unprofitable branches: 86 - Plus less than 1,000 CS will have a manning standard significantly above the workload and associated agent rem. Reduced hours could help, but requires capital investment and will take up floor space reducing profitability for POL and PM. 460 – fully manned POs at Local rates above 1,500 customer sessions are at best likely to break even for PO and PM and will be operationally too busy to manage in conjunction with their retail front of the store for most retailers. 797 – on average 150 CS doesn't cover POL variable costs. We will be able to make a PUDO offer work at this level, but have not fully defined the break even point for POL as yet so may still have some areas where we need to deploy a PUDO offer but may not have sufficient demand to move above break even. As previously discussed this will still be significantly more profitable for POL than deploying a full outreach.

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Source: POL Analysis

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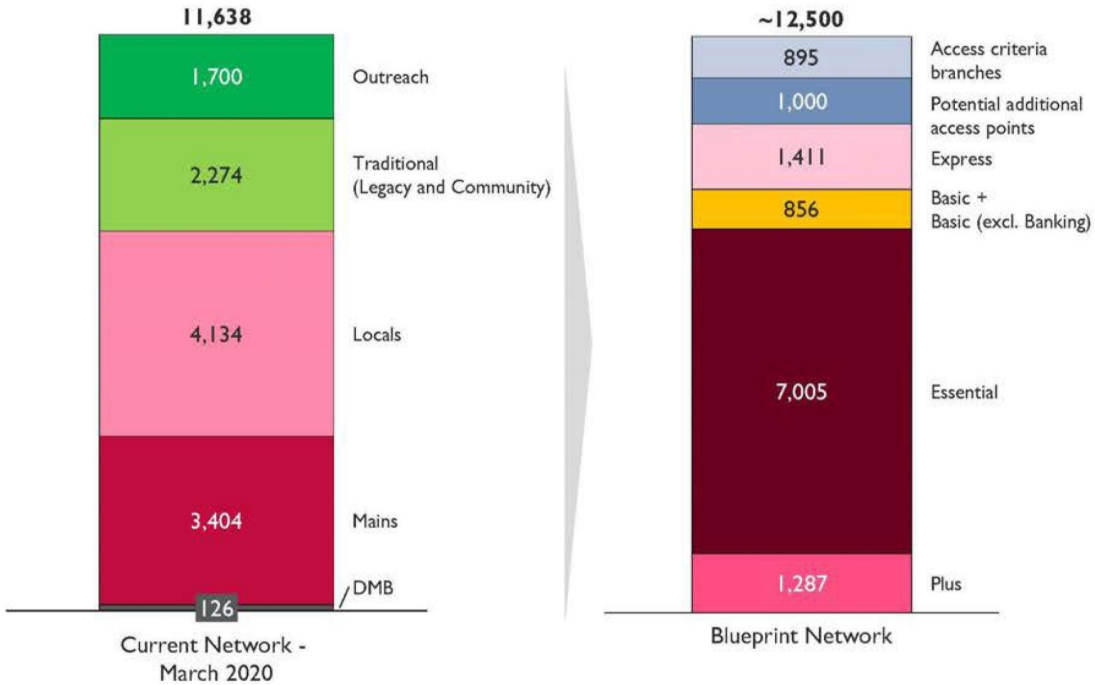
The Network Blueprint proposes a network that is better for customers, postmasters and Post Office

Post Office Network Today (March 2020) versus future blueprint network



Key Benefits of the Blueprint Network:

More convenient for customers:

- In the blueprint 44% of customers are within 500m of a post office versus 40% today
- Reduces the number of busy PO (3,000+ customer sessions) where it is difficult to find hosts

Focused on where customers live & work:

- Nearly 2k new outlets in areas of high customer demand, ensuring we have a clear advantage over competition – with the option of up to a further 1k additional access points (including locker boxes) in high density urban locations, retail parks & transport hubs

More sustainable for Post Office:

- Improved resilience by reducing the number of retail hosts with 'limited or no retail' from 64% today to 38%
- Option to move away from ~2k sub-optimal branches which are underutilised (the majority with <20 customers/week), unprofitable & surplus to meeting access criteria, saving c.£20m pa

Notes: (*) Includes some branches not open 52 Weeks in 2019/20 not included in branch by branch analysis; (*) Preferred option counted (other format options will work in the majority of format locations)
Source: POL analysis

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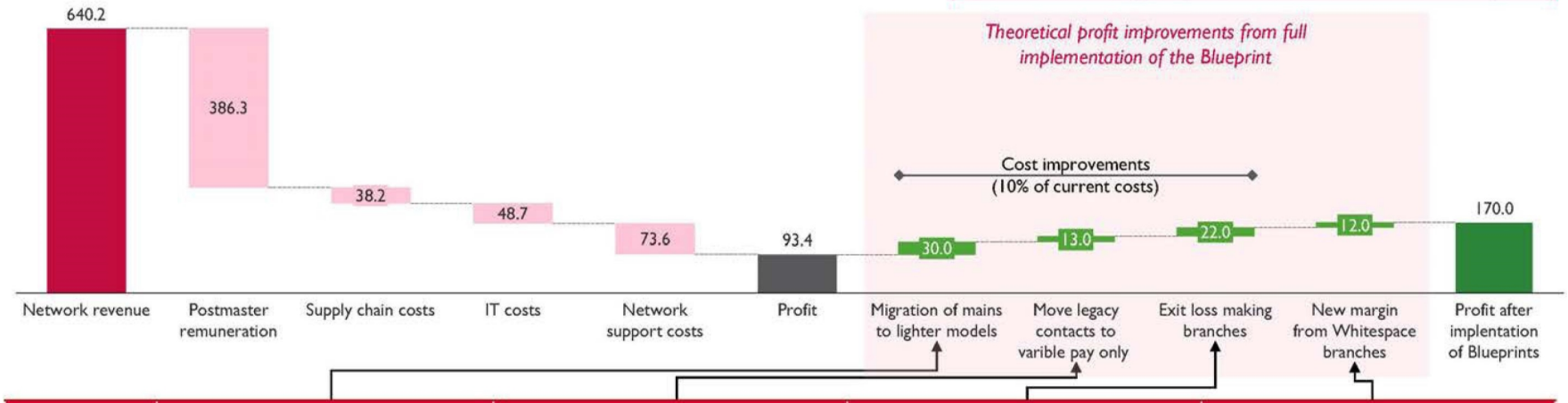
Significant margin gains could *theoretically* be realised through full implementation of the Blueprint, but in practice will be constrained by funding & politics

Breakdown of Post Office network revenue & allocated costs, £m, FY19/20

NOTE: Detailed branch level analysis is required to determine how much of the theoretical margin improvement is achievable in the next 3-5 years



	Migration of mains to lighter models (2.2k branches)	Move legacy contracts to variable pay only (1.2k branches)	Exit Loss making branches (~2k branches)	New margin from Whitespace branches (1.8k branches)
Assumptions to release full profit improvement	All simple product income retained at lower remuneration rate & 50% complex retained in remaining Plus network	Assumes we retain these branches (to meet access criteria) but shift to new formats	Assumes we can exit all loss-making branches not required by access criteria & Blueprint	Margin improvement based on gravity modelling of demand in new locations
Likelihood of achieving quickly	Migration at scale unlikely unless we create strong incentives for postmasters	Challenging - community branches are difficult to replace although new formats could help	Would be noisy & costly (£28m) to exit proactively all the Community & outreach branches	Main obstacle is the pace at which we can sign up new retailers

Notes: Based on 2019/20 actuals; Includes fixed fee income from RM and BF2; Does not include DMB income or costs
Source: POL Analysis 2020

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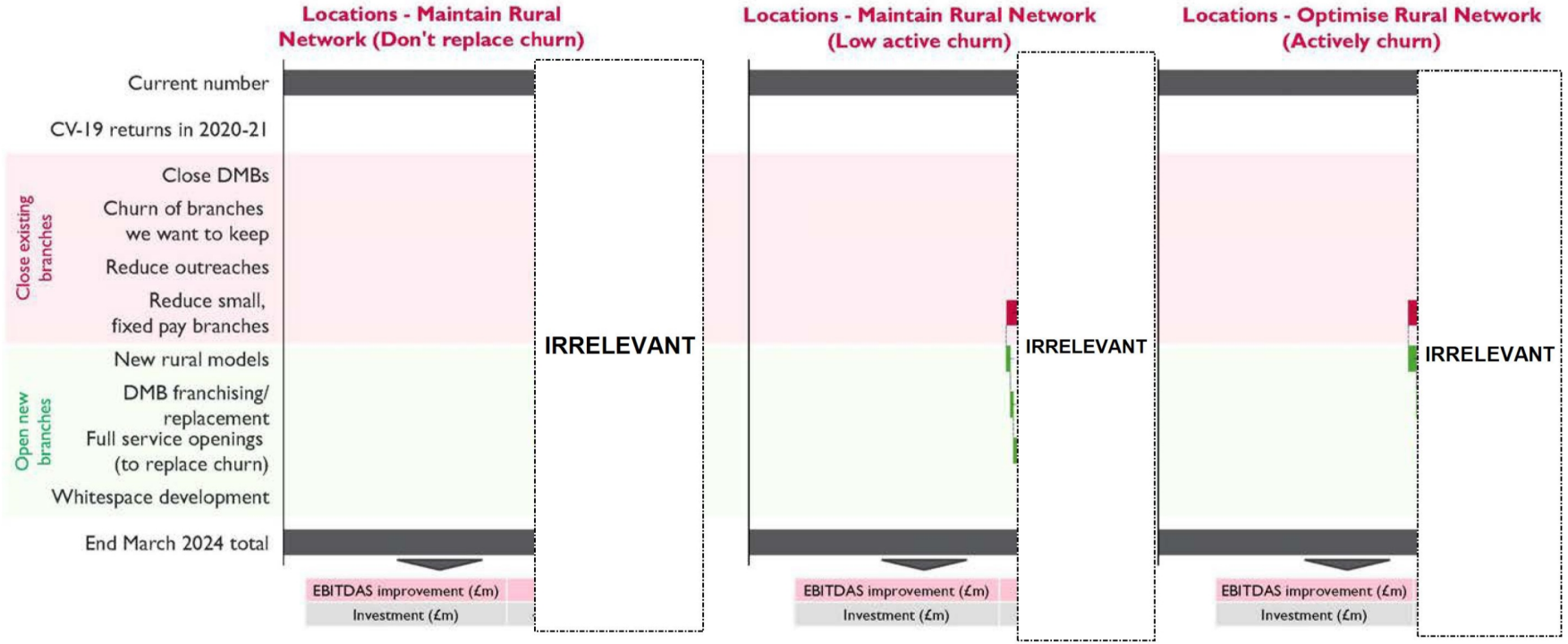
The extent to which we can transition to the Blueprint over the next 4 years will be constrained by funding availability & political appetite – we are assessing the lead scenarios as part of the wider funding plan



Notes: Assumes no significant Covid 2nd wave impact, churn of branches post 2021 assumes return to prior year trends; Investment & EBITDAS estimates do not include DMB closures; Set-up costs only cover branch capex – not other costs associated with recruitment & onboarding of new retailers. Compensation costs assumed to be [redacted] per branch for outreach and [redacted] per fixed pay branch.
Source: POL Analysis 2020

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What do our proposals mean for the 'Services of General Economic Interest' (SGEIs) and our commitments on network size & accessibility?

IRRELEVANT

Sources: POL Analysis

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A fit-for-purpose commercial model, supported by an effective operational model will allow us to build stronger relationships with our postmasters

THE COMMERCIAL MODEL WILL INCLUDE THE FOLLOWING THREE INCOME TYPES

THE OPERATIONAL MODEL WILL VARY BY RELATIONSHIP WITH POSTMASTER

IRRELEVANT

Adoption of appropriate commercial and operational model could lead to a 3-5% improvement in POL profit by:

1. Increase in sales value and volume
2. Reduce churn and improve retention
3. Better network access across community

Sources: Analyses based on data from best in class case studies on commercial and operational models

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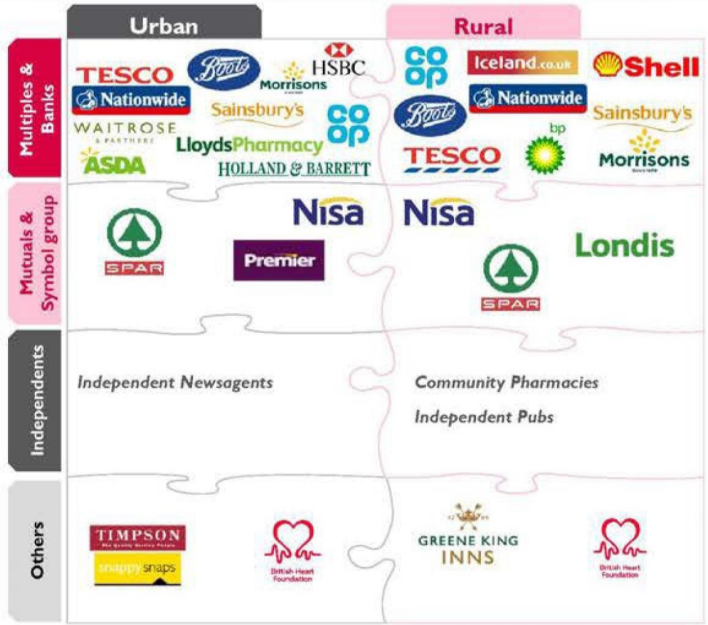
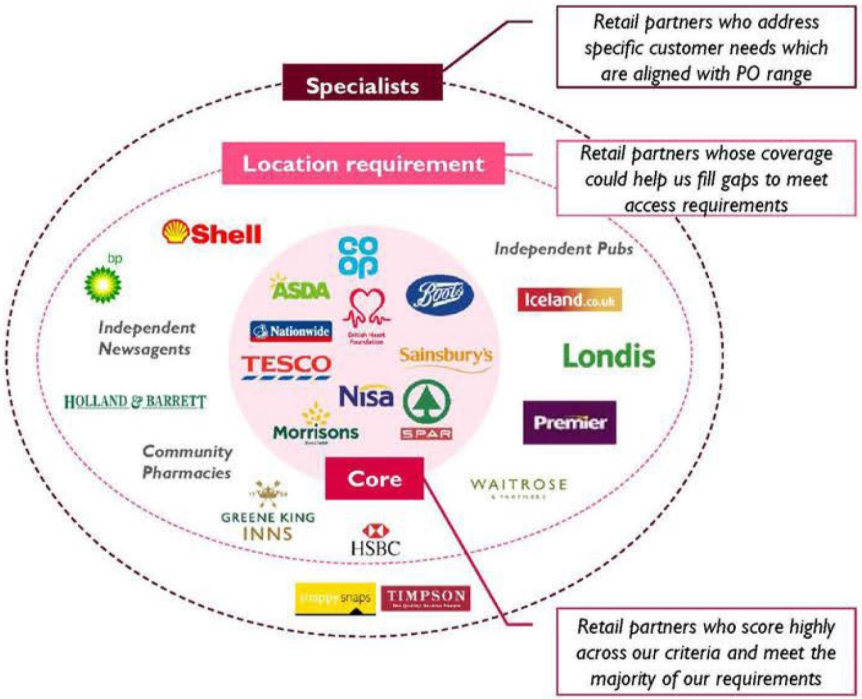
We have identified a portfolio of leading retail partners to deliver our target network based on locations, brand fit, operational capability & financial stability

KEY PARTNERS ACROSS LOCATION TYPE AND PARTNER TYPE*



We need to consider a combination of partners across Urban and Rural locations across multiples, independents, mutual & symbol groups and others (specialists and charities)

PORTFOLIO APPROACH TO PARTNER STRATEGY*



Notes: *(*) Icons reference to the top choices by location type. The remaining choices can be found in the long list*
Sources: *Analysis based on research across convenience retail, mutual and symbol groups, independent retailers, specialist retailers and charities*

[redacted]

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Key dependencies to deliver our network strategy

Dependencies	Details
1. Agreement with BEIS on definition of a post office	▪ Agreeing a more flexible definition of what counts as a post office is a key enabler of the new formats range (in particular for the lighter touch models), which we believe is essential to secure great retailers in the right locations for customers
2. Technology enablement (Strategic Platform Migration)	▪ IT will be a key success factor in improving POL and PM profitability and operational efficiencies, particularly in supporting postmasters with a wider range of trading solutions which can integrate more effectively into their main retail operation. In some locations this will include automation of mails & banking transactions in particular to reduce labour costs & improve the customer journey (*further detail due in September*)
3. RMG agreement & MDA2	▪ Roll-out of PUDO only propositions not including sale of RMG products in-branch will require their approval under MDA provisions (although previous experience with Parcelshop suggests they will be supportive). ▪ PUDO strategy more generally predicated on the opening up of restrictions with RMG
4. Sufficient funding	▪ Potential change costs of IRRELEVANT (not including SPM) required to transition to target network over the next 3.5 years – although this needs to be compared against the high costs of managing the churn under the default strategy.
5. Banking Framework 3	▪ Landing a sustainable economic model for banking services beyond the end of BF2 (end 2022) is essential to ensure we can continue to provide widespread access to cash across our network

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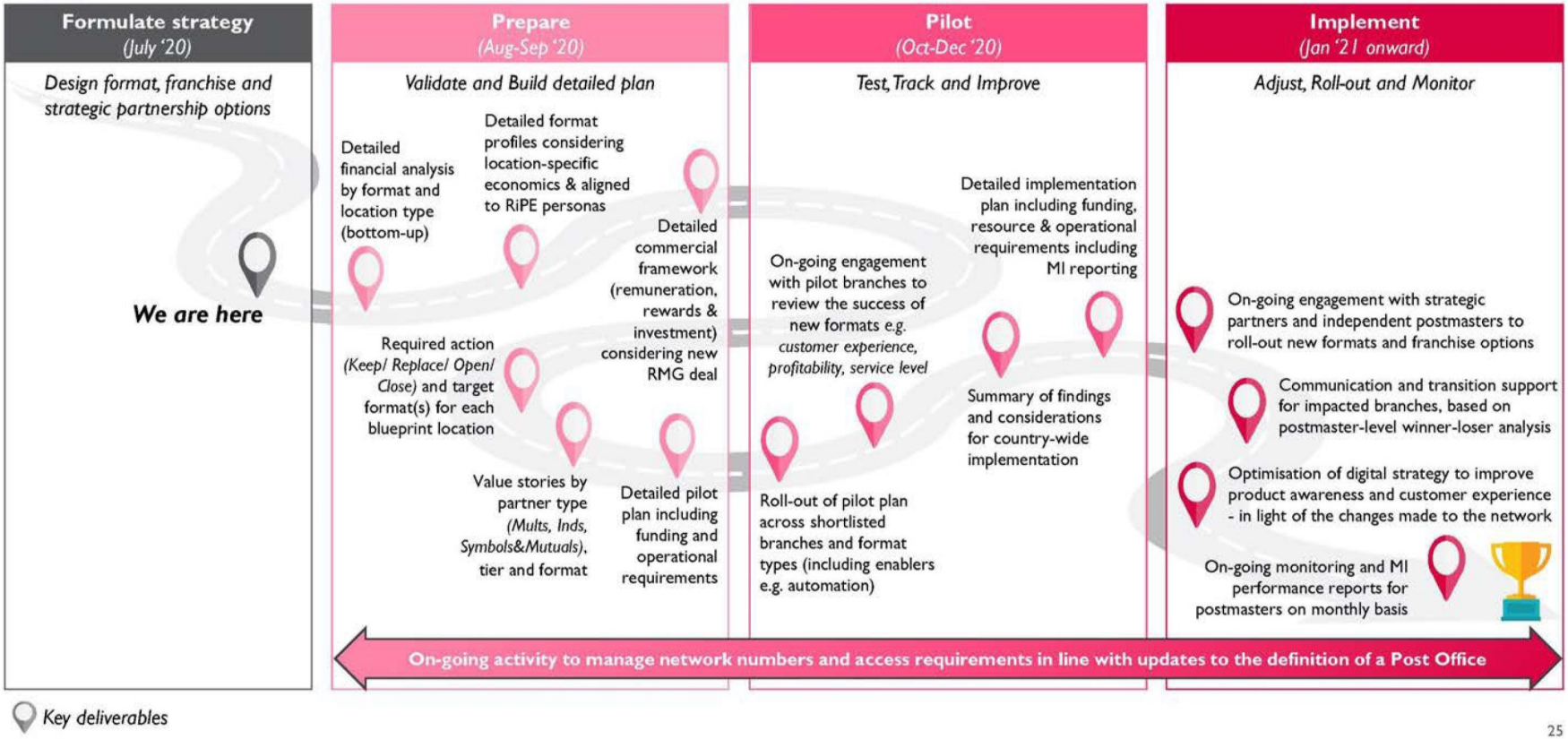
4 key phases in the roadmap to successfully implement our network strategy



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Network Strategy

Pre-read for the Post Office Board

July 2020

POST OFFICE

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Executive Summary (1)

Context: the current situation

The Post Office *is* the network: it is the foundation of our commercial and social purpose. And the network *is* our postmasters. Without a proposition which works for them we cannot sustain the nationwide scale needed to increase convenience for customers, drive growth in priority markets such as PUDO and support communities with access to cash and other essential services.

The reality is that our current branch propositions (based on current BEIS definitions) are not attracting and retaining the great postmasters we need to deliver our strategy. As a result we are falling behind our competitors in urban areas while spending IRRELEVANT each year just managing network churn, with increasing numbers of outreach required to plug the gap to 11.5k branches.

The feedback from retailers is clear: they want control over the products they offer their customers and greater flexibility around how they integrate a post office into their main business, including simpler options which can be run without the need for dedicated staff and counters. Covid-19 has made these changes all the more urgent.

Vision for the future network

We envisage a future network which balances commercial sustainability with the needs of our customers, clients and wider stakeholders through the following key characteristics:

- ✓ Continuing to meet the six access criteria to safeguard access across all regions of the UK and maintaining an unrivalled commitment to rural & urban deprived communities, with the 11.5k target largely an irrelevance because we have expanded beyond that number
- ✓ A rebalancing of the network to areas of higher customer demand, partly funded by a shift away from IRRELEVANT loss-making branches which are not required to meet the access criteria and account for just 1% of total customer visits (averaging around 45 customer sessions per week)
- ✓ Run on a fully franchised basis, with the remaining DMBs replaced with more sustainable and convenient solutions to meet customer demand in each local area
- ✓ Greater flexibility in how the product offering, technology solutions & operating model for each branch is tailored to the needs of the postmaster and the local market
- ✓ A compelling overall franchise proposition which generates a queue of prospective postmasters & retail partners wanting to take on a branch and expand their business with us, thereby ensuring we have great locations and hosts to meet customer demand.

Through these changes we can ensure the Post Office network remains a vital *and* sustainable part of the national infrastructure for the years ahead, delivering mails, banking and other essential services to customers and small business across the UK – and thereby support the Government's Spending Review priority to level up economic opportunity across all nations and regions of the country.

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Executive Summary (2)

Strategy to deliver this vision

We have identified four main levers to deliver this vision and manage the transition from the legacy challenges facing the network:

1. **A new network blueprint,** using geospatial modelling to dynamically guide how we plan the network to meet customer demand and drive profitable business for postmasters - with an initial focus on expanding coverage in over 1,800 identified 'whitespace' locations.
2. **A more flexible formats range** which gives postmasters greater choice over the services they offer and a wider range of options around how the post office can be integrated with their own retail operation, including through new light-touch options which do not require dedicated staffing or complex training. Ultimately this flexibility will give us a much better chance of finding great host retailers & rural community hubs for the locations identified by the blueprint, rather than resorting to more outreach in areas of lower customer demand.
3. **Modern franchise arrangements** which match external best practice to support our postmasters to grow their business. This will be underpinned by a tiered operational model with different levels of account management, planning, training and marketing support will allow both sides to reduce costs and increase sales
4. **Stronger strategic partnerships** with a portfolio of great retailers that are conveniently located where our customers live, work and shop. These might be traditional players such as Co-op or new hosts such as Boots – and will also include the upgrading of suitable Payzone partners as part of a more coherent approach to managing our total network.

In order to deploy the new formats at scale, we will need to **reframe the definition of what 'counts' as a post office with BEIS**, moving from the rigid requirement to include all SGEI services to a more flexible approach with access to parcels services as the core anchor in all branches. Ultimately this flexibility will strengthen our proposition to customers and communities, ensuring we can attract and retain great postmasters running thriving local businesses.

The strategy is also dependent of course on securing the necessary funding to deliver the proposed changes, alongside the necessary political support to help self-fund the changes by shifting away sub-optimal branches not required to meet the access criteria.

Subject to the Board's feedback on this overall strategic direction, we will work on more detailed implementations plans over the summer, in particularly focussing on the key interdependencies with technology (Strategic Platform Migration), bringing this back to the Board for further discussion in the autumn.

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Introduction: what questions are we answering now and what further detail with follow in the autumn?

KEY QUESTIONS ADDRESSED IN THIS PAPER

1. What do we need from the network to deliver our overall commercial priorities & purpose?
2. What is our future network to deliver these priorities?
   a. What is our segmented format strategy to attract the right retailers in the right locations and improve profitability for both sides?
   b. Based on these new formats, what is the shape & size of our future network? (*Initial view with more detailed geospatial analysis to follow in September*)
   c. What is our framework for creating winning franchise propositions which enable both Post Office and postmasters to thrive?
3. What enablers do we need in place to move to this future network, including changes to the policy framework set by the Government?

QUESTIONS TO BE ADDRESSED IN OCTOBER

1. Based on more detailed geospatial modelling, what network blueprint should we be aiming for?
2. What is the role of automation & other technology enablers to improve the economics of our new branch propositions for postmasters & Post Office?
3. What is the impact on network economics of further work on Post Office central costs?
4. What is our plan for implementing the new network strategy, including how this integrates with Strategic Platform Migration?

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Overview of this document and the approach to shaping our network strategy

We have reviewed our customer, postmaster & stakeholder requirements in the context of developments in the wider market environment

1. Assessment of customer, client & shareholder requirements
2. Assessment of postmaster requirements
3. Impact of developments in the wider market environment
4. Evaluation of key gaps in current network and levers for change

These insights have then been used to drive the design of our future network strategy

5. New format strategy to create more flexible branch propositions
6. Overall network shape to meet customer & shareholder requirements
7. Win-win franchise propositions to drive profitable growth

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1. Review of network requirements & gap analysis

2. Proposal for future network strategy

3. Implementation plan and key considerations

1	Assessment of customer, client & shareholder requirements
2	Assessment of postmaster requirements
3	Impact of developments in the wider market environment
4	Evaluation of key gaps in current network and levers for change

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ASSESSMENT OF CUSTOMER, CLIENT & SHAREHOLDER REQUIREMENTS

We can strengthen our social purpose and reduce barriers for our customers by optimising our locations and the way we deliver our services

POST OFFICE CONTINUES TO PLAY AN INDISPENSABLE ROLE IN THE BRITISH SOCIETY

70% of customers visit PO as the **main** or **only destination**[1]
(Solus mission, excluding Main PO)

80% believe that PO provides an essential service to **vulnerable or lonely** populations[2]
*(**91%** among 65+ years)*

68% say the **closure** of their local PO would be **a problem**[2]
*(**78%** among 65+ years)*

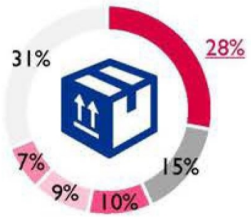
92% think PO is **essential** to have in their ideal town[2]
*(For **53%** it must be on the **high street**)*

38% of those who say their local area is getting worse link it to the **closure of services** like **PO** and **banks**[2]

CONVENIENCE AND COMPETITIVENESS ARE KEY BARRIERS TO USING POST OFFICE

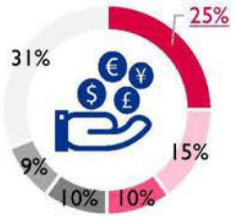
Barriers to using PO, *% of respondents for each product category*[1]

Mails & Parcels



Base n=501

Everyday Finances



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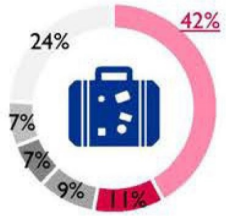
Travel Services



Base n=292

Barrier Key
Not in a convenient location
There was a queue
Couldn't find other items needed/ Found better deal elsewhere
Happy with my usual shop
I use online alternatives
Didn't know they offer this service
Quicker & easier to use specialist online providers
Other

Sources: (1) 'Category Segmentation & Shoppers Path to purchase insights' Kantar research – July 2019, based on 1,438 online interviews among users of Post Office (n=732) and competitors (n=706); (2) 'Voter Research GE Presentation' PSG Update – May 2020

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ASSESSMENT OF CUSTOMER, CLIENT & SHAREHOLDER REQUIREMENTS

Requirements on product range and the way we deliver our service vary across customer and political segments

	% of market	PO is easy to do business with*	Key observations	Political segments
 **Aspiring & Digital**	30%	53%	▪ **High preference for automation** for convenience and speed ▪ High demand for **omni-channel** customer experience ▪ High popularity of **Travel products** are popular	Predominantly **Uninterested** (48% overlap)
 **Pressured & Price Conscious**	20%	57%	▪ High adoption of **online shopping** e.g. collections and returns ▪ High demand for **consultation on products** ▪ Highly dependent on **mobile communications** to fit their routine and need for emotional reassurance	Predominantly **Passive supporters** (55% overlap)
 **Moving Forward Comfortably**	12%	54%	▪ Considerable appetite for **savings and insurance products** driven by generally risk averse attitude ▪ **Automation** considered desirable for a **quick and easy process**	Predominantly **Passive supporters** (83% overlap)
 **Confident & Discerning**	17%	61%	▪ **High demand across products and services** driven by both own and family's e.g. children's needs ▪ High appreciation for **trust, locality and convenience**	Predominantly **Passive supporters** (48% overlap)
 **Content & Conventional**	20%	53%	▪ Relatively **higher loyalty toward Financial** products ▪ Opportunities to strengthen and extend loyalty to other product areas through offering **support and advice**	Predominantly **Loyal Left Behind** (47% overlap)

The Uninterested:
- Likely to consider PO irrelevant and uncompetitive
- Low loyalty, would only use PO when it is the best value for money

The Passive Supporters
- Price competitiveness is the key barrier to using PO (26% find PO expensive)
- Likely to appreciate PO's social value and think PO provides an essential service for vulnerable & lonely people
- Opportunity to translate passive support to more active support, through tailored approaches to sub-segments i.e. *urban left, traditional working class, affluent moderates*

The Loyal Left Behind:
- 74% believe PO provides an essential service for them and others
- Largely 'offline' lifestyle, valuing easily accessible services

Note: (*) % of respondents agreeing to the statement 'Post Office is easy to do business with', value is average across location types: large town/ city centre, suburban area/ small town centre, rural/ village area
Sources: Customer Segment Research - Pen Portraits – February 2020, 'Voter Research GE Presentation' PSG Update – May 2020

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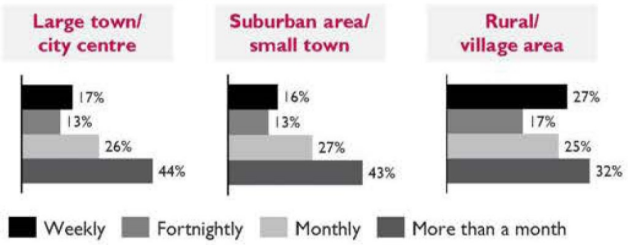
ASSESSMENT OF CUSTOMER, CLIENT & SHAREHOLDER REQUIREMENTS

Attitude toward the Post Office is generally positive across customer groups, with rural customers visiting a branch more frequently than shoppers in urban areas

CONSUMER FREQUENCY OF VISIT AND ATTITUDE BY LOCATION TYPE (ALL SEGMENTS)

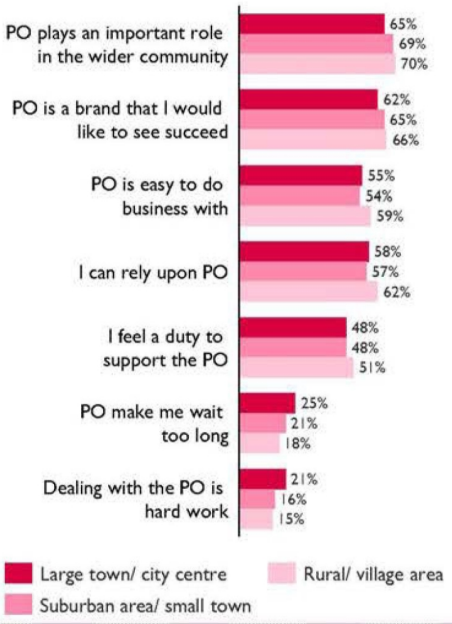
Frequency of the branch visit



Top three activities (Mails only) in terms of usage

Large town /city centre	Mails/Parcel	80%
	Collection of online parcel due to missed delivery	21%
	Returned of parcel purchased online	20%
Suburban area /small town	Mails/Parcel	84%
	Collection of online parcel due to missed delivery	23%
	Returned of parcel purchased online	23%
Rural /village area	Mails/Parcel	85%
	Returned of parcel purchased online	29%
	Collection of online parcel using a click and collect option	18%

Attitude towards Post Office



OBSERVATIONS

- Research by the *Association of Convenience Stores* identifies post offices & conveniences stores as having the most positive impact on their local areas across both urban & rural areas.
- According to the same research, consumers think that the most valuable services offered in their convenience store are: 1) Cash / ATMs; 2) post office services; 3) Click & Collect
- Rural shoppers typically visit PO more often than their town & suburban counterparts
  - An average rural shopper visits the store 3.46 times per week and 73% pay in cash
  - Rural consumers tend to use PO for returning their online parcels, whereas large town consumers often use PO to collect their missed online parcel delivery
- Slide 109 shows the mix of product sales by location type, highlighting that rural & urban deprived branches over-index in cash & banking, urban areas over-index slightly in mails and city centres strongly over-index in travel & identity

Sources: "The Rural Shop Report 2020" & "The Local Shop Report 2019", Association of Convenience Stores; Customer Segment Research - Pen Portraits – February 2020

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ASSESSMENT OF CUSTOMER, CLIENT & SHAREHOLDER REQUIREMENTS

Customers visit convenience stores the most frequently and also have the most positive attitude toward this branch type

CONSUMER FREQUENCY OF VISIT AND USAGE BY BRANCH TYPE



PO is easy to do business with (agreement %, by customer segment)

All	52%	49%	**57%**	54%
Aspiring & Digital	51%	45%	**55%**	54%
Pressured & Price Conscious	**60%**	52%	59%	50%
Moving Forward Comfortably	51%	56%	53%	**66%**
Confident & Discerning	**63%**	51%	62%	51%
Content & Conventional	43%	50%	**54%**	52%

Customer Segment Research - Pen Portraits – February 2020

OBSERVATIONS

- A 'Convenience store with dedicated PO counter' is the most preferred format by all segments with the highest usage seen among suburban consumers
- This is also the format which customers generally find the easiest to do business with
  - This is particularly true among the Aspiring & Digital and Content & Conventional segments, whereas Pressured & Price Conscious and Confident & Discerning customers tend to have better experience with large retail stores with a dedicated PO counter
- Meanwhile, 'WHSmiths store with dedicated PO counter' as a format has the lowest visit frequency, while not being highlighted as the easiest to do business with by any customer segment

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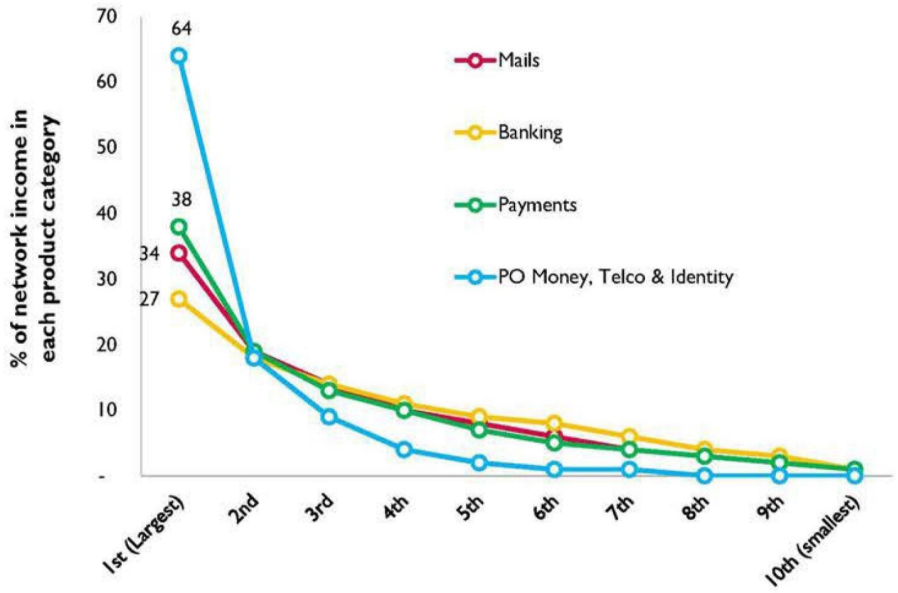
ASSESSMENT OF CUSTOMER, CLIENT & SHAREHOLDER REQUIREMENTS

75% of our income is concentrated in our 4,000 largest branches

POST OFFICE NETWORK INCOME BY BRANCH-SIZE DECILE

1st are the largest branches (such as Mains and DMBs) 10th are the smallest branches such as (Community)



Source: POL Analysis; excludes outreach which account for c.1% of total sales

OBSERVATIONS ON DISTRIBUTION OF SALES ACROSS OUR NETWORK

- **Our 4k largest branches** generate 75% of our network income. 35% of network income is generated in our largest 1k branches
- **Our smallest 3k branches** generate just 4% of network income
- Our 4k largest branches generate the following % of network income by product (excludes income from online & direct channels):
  - **Mails: 77%** of income from our 4k largest branches
  - **Banking: 70%** of income from our 4k largest branches
  - **Payments: 80%** of income from our 4k largest branches (excluding Payzone)
  - **PO Money, Telco and Identity: 95%** of income from our 4k largest branches

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ASSESSMENT OF CUSTOMER, CLIENT & SHAREHOLDER REQUIREMENTS

The BEIS access criteria are generally more extensive than our client network requirements

	BEIS network requirements	Contractual commitments by product & other client requirements of the network					
	National access criteria	Mails	Banking Services	Bill Payments	Travel	Financial Services	Identity Services
Access	% of population/ postcode						
1 mile	90% 95% 99%	9	90% 95% 99%	98%	No contractual commitments to FRES*	No contractual agreements	Passport Office: 99%
3 miles	99% 95%		99% 95%				DVLA (vehicle tax): 95%
5-6 miles	95% *postcode **district**, 6 miles*	95 *postcode **area**, 6.2 miles*	95%	98%			95%
10 miles							90%
Products/ Other	Maintain a total network of at least 11,500 branches	PUDO : Reach across the UK • Rural locations with high last mile costs • Urban: close competitor coverage gaps	Coverage especially valued in rural areas and towns where the banks have withdrawn their own branches	Large network is important given the competition i.e. Paypoint's 28k network	~6.5k branches are now providing on-demand FX following recent review of HMRC licence fees	Bank of Ireland: Access to product information & marketing in at least 1,250 branches	

Overall · Urban · Rural · Urban deprived

Note: (*) Consultation required to permanently close on-demand outlets
Source: POL Analysis

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ASSESSMENT OF CUSTOMER, CLIENT & SHAREHOLDER REQUIREMENTS

Our network needs to meet our wider shareholder priorities

BEIS statement on Post Office purpose (March 2020):

Post Office Ltd is a Government-owned, commercially-focused business with a strong social purpose. Through its extensive and accessible network of branches the Post Office delivers essential services that are hugely valuable - to both individuals and SME businesses – in urban and rural areas across the UK. These include mail, parcels, cash, basic banking, utility bill payment facilities and Government and public services.

The Post Office must continue to grow a thriving commercial business together with delivery of its social purpose. The building blocks of the Post Office's social purpose are:

- *Delivering a convenient and trusted local service offer that meets customers' needs, working closely with Postmasters who play an important role in their local communities.*
- *Ensuring its services continue to be easily accessible to all consumers, but particularly vulnerable groups who rely on them the most.*
- *Supporting the Government's access to cash and financial inclusion agenda by ensuring that basic cash and banking services are available throughout ring its services continue to be easily accessible to all consumers, but particularly vulnerable groups who the network to meet the needs of individual customers and SMEs.*

Delivering these services enables the Post Office to also contribute to the Government's broader social and economic priorities, locally and nationally. The Post Office has a key role to play in high streets across the UK, helping keep town centres vibrant and playing a role in levelling up communities throughout the country.

Consumer use has and will continue to change over time. The Post Office will need to continually adapt its services so that these meet the needs of its diverse customer base. The Government assesses the Post Office's delivery of its Social Purpose through its ongoing role as the company's sole shareholder.

Source: POL Analysis

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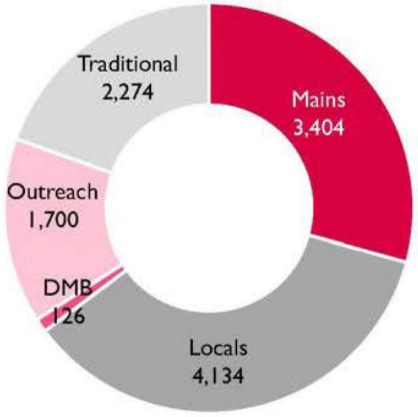
ASSESSMENT OF POSTMASTER REQUIREMENTS

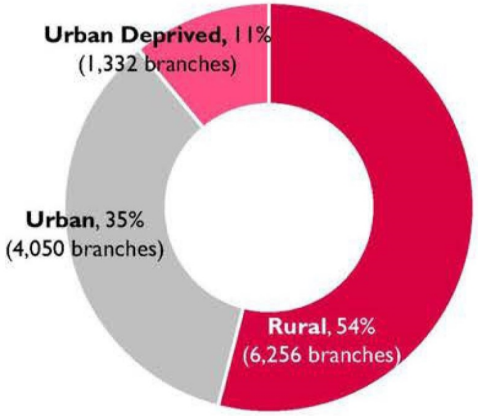
We have ~11,500 branches with the majority of branches hosted by Independents & Symbols

POST OFFICES SPLIT BY TYPE (MARCH 2020)



19% (2,200) Post Offices are hosted in Multiples, the other 81% are hosted in Independents and Symbols

POST OFFICES SPLIT BY GEOGRAPHY (MARCH 2020)



These %s have remained fairly stable over the past 10 years, although we have seen a slight decline in the % of rural branches

POST OFFICES SPLIT BY NETWORK SEGMENT

Network Segment	# post offices
Mains in a Multiple	1,081
Locals in a Multiple	1,118
Large Main with good retail	1,015
Large Main with average / poor retail	977
Main that should be a Local	331
Sustainable Local	2,150
Local with average retail, other options nearby	463
Local with average retail, no other options nearby	403
Community with Retail	938
Busy Community without retail	831
Community without retail and low demand	505
Outreach – potential Local	400
Outreach unsustainable	1,300

Does not include DMB branches

Sources: POL Analysis, Branch numbers as at 31 March 2020

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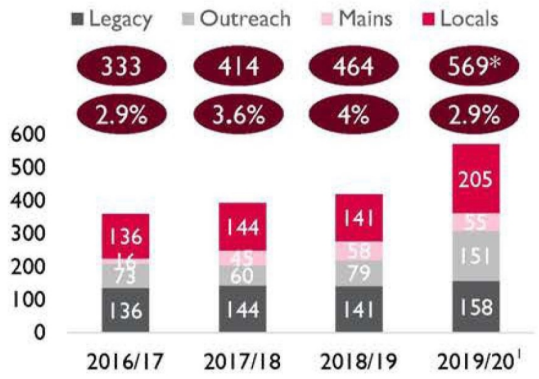
ASSESSMENT OF POSTMASTER REQUIREMENTS

The rate of branch closures has been increasing in recent years, driving high replacement costs and a growing number of outreaches

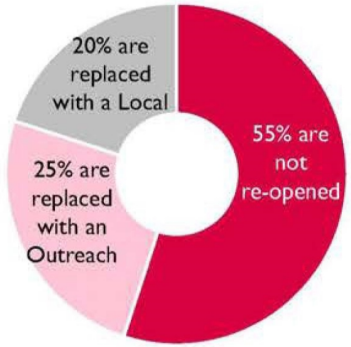
CLOSURES ARE INCREASING, ESPECIALLY AMONGST LOCALS & MAINS[1] → **WE ARE STRUGGLING TO FIND GOOD RETAILERS TO REPLACE THEM** → **THIS IS DRIVING AN INCREASED USE OF SUB-OPTIMAL OUTREACHES**

Post Office closures split by type



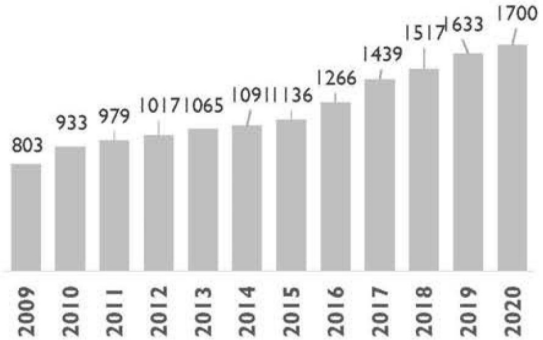
- In 2019/20 our projected run rate of churn was 560, but that was pre-Covid-19
- IRRELEVANT pa cost of managing churn & maintaining the network

What happens 18 months after a Local closes?



- It's becoming increasingly difficult to replace branches that churn with good Locals
- To date we have asked over 4,000 prime retailers if they would like to host a Locals, and our 'hit-rate' is just 8% - we are running out of candidates

Total number of Outreach Branches, '09-'20



- It costs IRRELEVANT to set-up an Outreach
- They typically receive ~IRRELEVANT in fixed rem and only generate ~IRRELEVANT in income
- Overall they produce a loss to POL of ~IRRELEVANT p/a each year

Note: 1.Given the impact of COVID-19, 2019/20 numbers are provisional and subject to revision
Source: POL Analysis

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ASSESSMENT OF POSTMASTER REQUIREMENTS

Feedback from our Multiple partners highlights some consistent areas of concern with the Post Office proposition

POST OFFICE FORMATS ARE NOT TAILORED TO RETAILER'S NEEDS	*"I dislike the bluntness of the Main / Local format. Our stores have several sub-configurations which match the local market demographic and satiations. The PO services should fit with these where we get more say over the services"* IRRELEVANT
REMUNERATION MUST KEEP PACE WITH STAFF COST INCREASES	*"We are worried about the continued impact of NLW increases. We have seen a 42% increase in staff costs over the last 10 years"* IRRELEVANT IRRELEVANT *"NLW means that our PO Labour costs have been increasing by £100k p/a. PO reward should at least keep in line with NLW increases (~6% p/a)"* IRRELEVANT
POST OFFICE IS TIME CONSUMING TO OPERATE	*"I look after about 40 partners. PO takes up a disproportionate about of my time. I have spent a lot of time taking out cost e.g. shortening opening hours. You should be doing this"* IRRELEVANT
POST OFFICE DOESN'T DELIVER	*"PO has a history of overpromising and under-delivering. For example, we have an SSK on trial. It's okay but I wouldn't buy it. SSK has been in development for years and no clear plan in site. We expect that PO provides more support to the branches (e.g. better call centre SLA)"* IRRELEVANT
POST OFFICE HAS NO FUTURE PLANS	*"You need to demonstrate where you are going and if you are going to be relevant in five years"* *In our strategic planning sessions with the Board, I can give them an outlook for all our categories but have nothing to say about the future of the Post Office"* IRRELEVANT

Note: This list is based on feedback from the Agents Remuneration Review, combined with multiple interviews with front-line 'account manager' colleagues of their experience working with retailers
Source: POL Data

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ASSESSMENT OF POSTMASTER REQUIREMENTS

Independents have many of the same issues as Multiples, and are particularly concerned with the competitiveness of our products

INCREASES IN STAFF COSTS AND OVERHEADS BUT NOT REMUNERATION	*"Abysmal! I've seen a dramatic decrease in my earnings. I was taking £79k, it's now down to £45k but I am busier than ever."* *"We have to work harder now compared with 10 years ago. Salary is the same but we have to employ more staff just to make the same amount!"*
LACK OF TRANSPARENCY	*"We want to know how much the PO is making from each of the services we provide"* *"The company is making a profit and all the top bosses are making big bonuses, and we are the ones who are making them money"*
COMPETIVENESS OF PRODUCTS	*"Lost a lot of business to competition as our prices are too high"* *"Travel money rates are different online to in branch with the supermarkets also offering the service, Collect+ and PayPoint are cropping up in the area as well"*
CONTROL OF THE PRODUCTS THEY OFFER	*"I'm not in control of the business at all, even the services that I offer within my branch!"* *"Need to offer more services and I should be in control of what services I can offer – it's my business."*
DISTRUST ONLINE	*"Labels get printed at home and I only get pennies for them delivering to the store – it's not worth the work I do"* *"Most annoying is the difference between online and branch rates. Losing sales to online. Have to encourage click and collect so at least we get something"* *"I'm not really aware of the products sold online and it takes customers away from my store"*

Note: This list is based on feedback from the Agents Remuneration Review, combined with multiple interviews with front-line 'account manager' colleagues of their experience working with retailers
Source: POL Data

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ASSESSMENT OF POSTMASTER REQUIREMENTS

Multiples have already highlighted an interest in hosting lighter format offerings such as PUDO

	RETAILER DEMAND	POST OFFICE SUPPLY?
CASE STUDY 1: WHSmith	▪ WHSmiths have 576 High Street locations, we have post offices in 207 of these. WHS have identified a customer need for PUDO services and International Money Transfer in their ~370 non-post office locations and they are going to tender for: – PUDO / Parcels: They want one high-end provider such as DHL and a second economy provider such as Hermes – Money Transfer: Considering WU, MoneyGram and Rio	▪ WHS stated that they would prefer to take these services from us, if we could provide a 'simple' proposition ▪ As we are already a trusted partner; and having one provider saves on staff training, reduces the number of devices and different operations in the business and management time
CASE STUDY 2: The co-operative	▪ Co-op conducted customer research to understand 'What 'Services' do customers want?' ▪ PUDO came out as most popular. Co-op are currently working with: Amazon Lockers, John Lewis and MyHermes	▪ Co-op are looking for a 4th PUDO provider and they would like this to be Post Office, if we can provide a simple, PUDO proposition ▪ They are interested in trialling Parcelshops

Source: POL Data

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ASSESSMENT OF POSTMASTER REQUIREMENTS

Both independent postmasters & Multiples will play an important role in our future network, although we expect to index more towards the latter for new branches

Percentage of branches / locations in multiple / Co-ops retailers:

We currently under-index for the proportion of post offices in Multiples - closing this gap to 29% would mean an additional ~1,200 branches in Multiples



We have 2.2k branches with Multiple retailer hosts, which is 19% of our overall network

~45% of PayPoint's locations are in Multiples (included PPoS)

29% of convenience stores are run by 'Multiples' – 22% Multiples and 7% Co-ops

Sources: Research and POL Analysis

Advantages of targeting the Multiples for new branches:

1. Multiples tend to be in the **best locations** – nearest to where our customer live, work and shop
2. Multiples had a far **lower closure rate** than independents (2% for Mults vs ~4% for network as a whole), although Mults closures is increasing
3. It is **more resource-efficient** to do larger deals with Multiples
4. We **under-index versus the market** on Mults: 29% of convenience stores are run by 'Multiples' – 22% Multiples and 7% Co-ops

However, this needs to be balanced with the risks of having too great a dependency on Multiples:

1. **Too many eggs in one basket:** If a Multiple had too many post offices and went bankrupt it could materially disrupt service. 'Financial Stability' is a key metric in our Retailer Scorecard
2. Due to high-staff turnover and busier stores they tend to **under-index on post office income** versus good independents
3. Some Multiple partners may have **too much power** in the relationship
4. Over dependence on one multiple could cause implementation challenges

[redacted]

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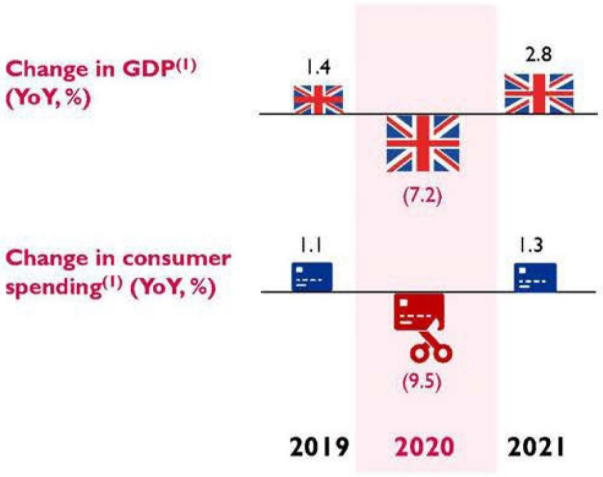
IMPACT OF DEVELOPMENTS IN THE WIDER MARKET ENVIRONMENT

Covid-19 has driven the UK into an economic downturn, with full recovery unlikely to take place before end-2021/ early 2022

ON-GOING ECONOMIC DISRUPTIONS AND SOCIAL DISTANCING RESTRICTIONS HAVE CURTAILED BOTH CONSUMER SPENDING AND BUSINESSES' ABILITY TO OPERATE

Index of Real GDP: Q4 2019 = 100





- The UK economy is likely to remain under pressure for the remainder of 2020, with the most severe hit felt by hospitality, travel, among other 'non-essential' sectors
- Consumer spending could fall by 9.5% this year and recover modestly next year by 1.3%, as demand is suppressed by both lower willingness and lower ability to spend
- A partial recovery is expected with the easing of lockdown restrictions, although a full resumption of activity will likely not be probable until we have a vaccine for Covid-19

Note: (1) Average % change on previous calendar
Sources: ONS, proprietary forecasts

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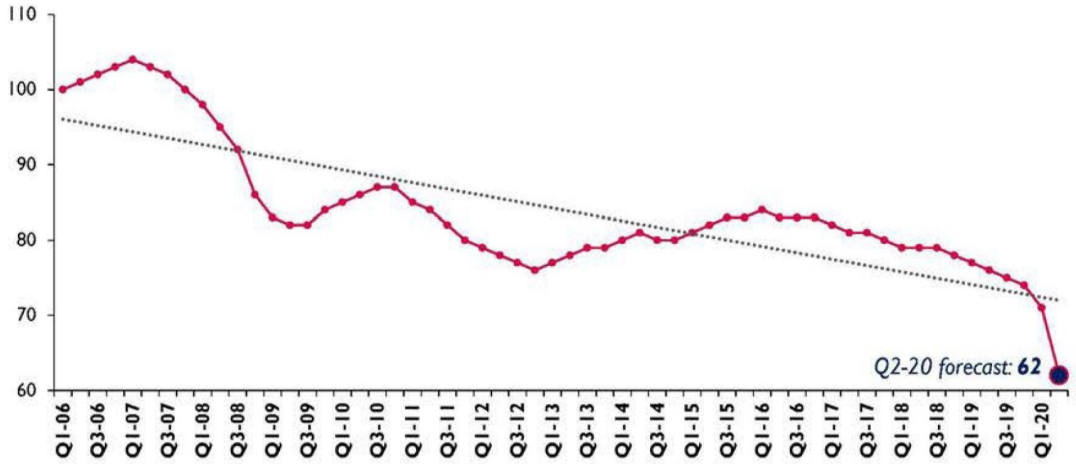
IMPACT OF DEVELOPMENTS IN THE WIDER MARKET ENVIRONMENT

UK in-store retail is facing margin compression owing to rising costs, lower pricing power, and shift to online retail

THE RETAIL SECTOR IS FACING UNPRECEDENTED CHALLENGES AMID THE CURRENT HEALTH AND ECONOMIC CRISIS

Retail Health Index(1): Q1 2006 = 100



- Demand is shifting from areas such as fashion to "new-essentials" for working from home and entertainment, alongside more conscious planning for groceries and socialising
- More than ever, retailers are required to identify new ways to extract value from existing assets, rather than relying on reducing costs and increasing prices to drive profit

THERE ARE FOUR KEY TRENDS THAT ARE INFLUENCING THE SECTOR

The retail business model is evolving

Evolving customer demands are pushing retailers to reconsider business models and partnerships

Purpose moves to the forefront

Retailers are under increasing pressure to articulate their purpose and role in society



Rethinking the cost of doing business

Retailers are required to take radical steps to navigate technology disruptions and address rising costs

Customer choice becomes more powerful

Retail is transitioning from a push B2C to a pull C2B model

Notes: (1) The Retail Health Index is based on quantitative assessments by members of the KPMG/ Ipsos Retail Think Tank, of the impact on retail health of demand, margins and costs for the quarter just completed and a forecast of the quarter ahead | Sources: KPMG/ Ipsos Retail Think Tank – a UK based think tank which was created in 2006 to provide views on Retail sector in the UK; ONS; BRC; Euromonitor

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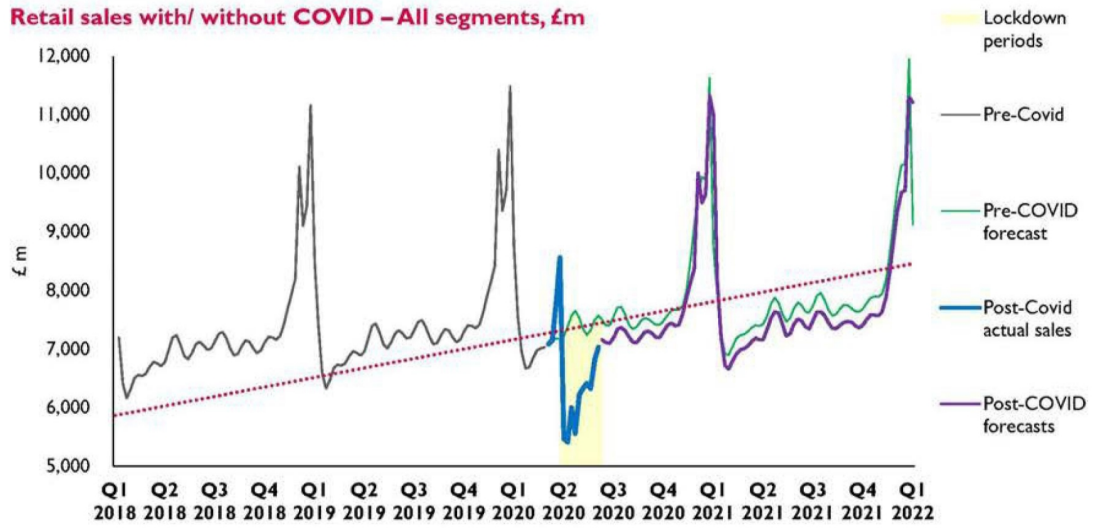
IMPACT OF DEVELOPMENTS IN THE WIDER MARKET ENVIRONMENT

Existing retail trends have been further highlighted and accelerated by the current health and economic crisis

COVID-19 WILL INEVITABLY HAVE A LARGE NEGATIVE IMPACT ON RETAIL SALES

Retail sales with/ without COVID – All segments, £m

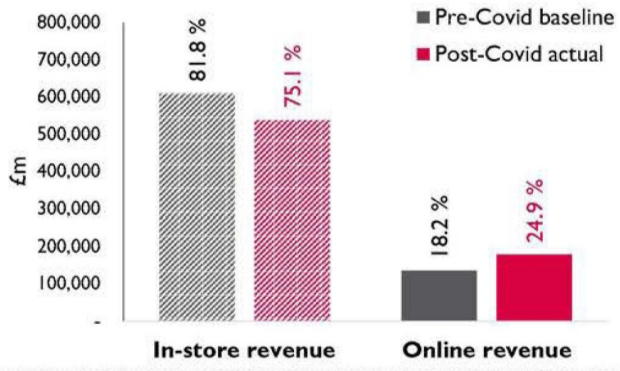


2020 Sales impact of Covid-19[1] £ -£18.2bn % -4.6%

2021 Sales impact of Covid-19[1] £ -£11.2bn % -2.7%

THE DOWNWARD PRESSURE IS PARTICULARLY ACUTE ON PHYSICAL RETAIL

UK retail revenue by channel, 2 Mar – 7 Jun '20



Historical online penetration rates in retail *(incl. grocery)*

Year	2015	2016	2017	2018	2019
Online penetration rate	13%	14%	16%	17%	18%

Higher priority for safety concerns and convenience are further driving shoppers toward online channels, reducing the size of the physical retail channel

Note: (1) Impact is based on pre-COVID forecast
Sources: ONS, BRC, Euromonitor, proprietary forecasts

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IMPACT OF DEVELOPMENTS IN THE WIDER MARKET ENVIRONMENT

Covid-19 implications, however, have been felt at different levels and in different ways, across our network of retail partners

MULTIPLES
– managing through scale

~19% of PO network
Pre-Covid avg retail sales: £1.8m pa per store

+ **Significant increase in sales**, particularly for groceries and other essentials
+ Higher consumer focus on **value for money** benefiting Discounters in the future
+ **Vertical integration** playing a critical role in helping Multiples mitigate and overcome **supply chain disruption**
+ Opportunity to **accelerate digital and omnichannel strategies** e.g. *Asda's roll-out of Scan&Go app*
- Higher sales have however **not translated into higher profits** due to rising costs
- **Online models,** including home deliveries, being run at **low profitability/ loss** levels
- **On-going challenges** with declining footfall and further migration to online sales

MUTUALS & SYMBOLS
– reviving the tertiary high street

~81% of PO network (together with Independents)
Pre-Covid avg retail sales: £1.0m pa per store

+ **Rising footfall** as consumers turn to more local and smaller convenience stores
+ Growth in sales primarily driven by **the food segment**
+ **Agile adaption** to mitigate Covid-related disruptions e.g. *Co-op implementing contactless checkout process*
+ **Rapid roll-out of new business models** such as online ordering and home delivery e.g. *Londis and Spar*
- **Significant increase in operational costs** to comply with safety guidelines to protect staff and customers, and recruiting locally – *The Co-op expects Covid-19 to 'cost' over £200m*
- **Increased competition** from bigger players as Government looks to relax Sunday Trading Laws, allowing large retailers to operate longer hours on Sunday

INDEPENDENTS
– emerging

~81% of PO network (together with Symbols)
Pre-Covid avg retail sales: £0.3m pa per store

+ **Surge in sales for Independent food retailers** driven by strong demand and additional traffic diverted from large supermarkets (due to location and overcrowding) – *Small grocers saw a 69% increase in sales in the three months leading up to June '20*
+ Growing consumer preference toward **shopping from smaller stores** and **contributing to local communities** – *30% of UK consumers have purchased more locally since the start of Covid-19, of which 80% plan to continue doing so in the future*
- **Significant impact on non-essential retail** as a result of lock down related store closures
- **Existing operational challenges** aggravated by Covid-19, including space crunch, high fixed costs, as well as safety concerns for staff and shoppers

Sources: IGD; BIRA; Kantar; YouGov; POL analysis; press releases

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IMPACT OF DEVELOPMENTS IN THE WIDER MARKET ENVIRONMENT

There are 6 drivers of consumption which will shape consumer purchase decisions during and in a post-Covid environment

DRIVERS OF CONSUMPTION

- A **VALUE** centred approach and connections to online are anticipated to have increasing importance due to economic uncertainties
- **CONVENIENCE** requirements have changed with fewer trips to stores, however consumers are still willing to pay for this both on- and off-line
- Shopping **EXPERIENCE** expectations have shifted and online retailers are seeking to maintain current increased volumes
- There is a general acceptance of **CHOICE** reduction, inspiring simplification of product ranges to address specific functional needs
- **PRIVACY AND SAFETY** becomes a key concern for the majority of in-store shoppers and drives customers further toward options that are local and close to home (vs. work)
- Retailers who can demonstrate a **PURPOSE** that is organic, consistent and aligned with customers' values will emerge stronger

WHAT DOES THIS MEAN FOR OUR NETWORK?

1. Offer the **right products, in the right formats, at the right prices** based on customer needs
2. Focus on strategic locations and partnerships that align in shopper missions to deliver **more convenience to our customers**, especially in dense urban areas
3. Make customers' **in-store experience easier, safer and more efficient** through the use of technologies e.g. self-service kiosks, cashless technology, and improvements to branch layout
4. Regularly review **branches across location types** to maintain a relevant and profitable network that evolve with changing **customer needs and habits**
5. Continue to **deliver social value** through strengthening our network access and working with partners that compliment our brand

Sources: Research by retail think tanks, subject matter expert

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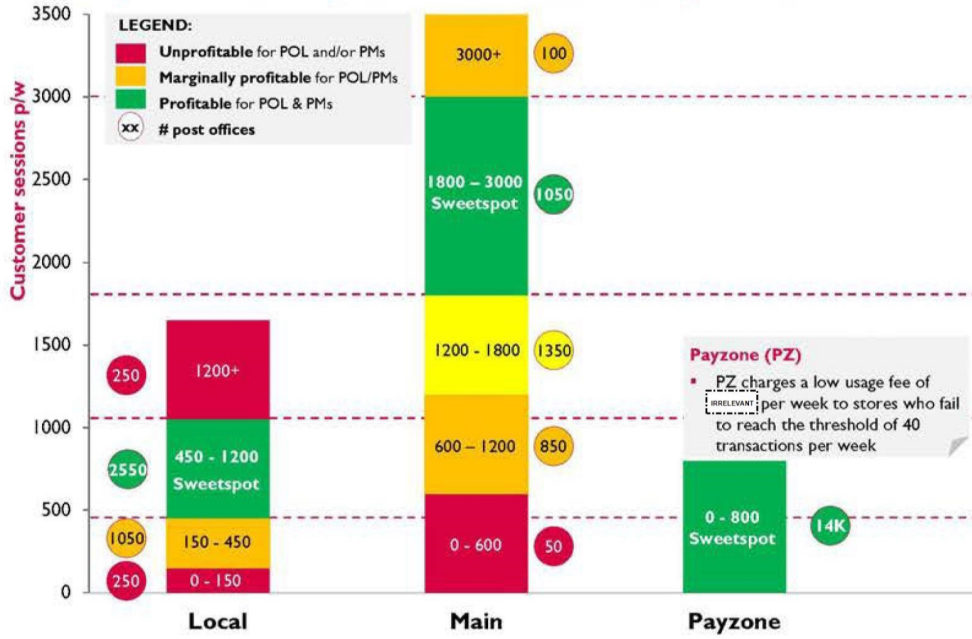
EVALUATION OF KEY GAPS IN CURRENT NETWORK AND LEVERS FOR CHANGE

Locals & Mains have narrow 'sweetspots' of profitability, making it difficult to attract and retain the right postmasters

LESS THAN 50% (3,600 OUT OF 7,538) OF THE EXISTING 'MAINS' AND 'LOCALS' ARE PROFITABLE FOR BOTH POL AND PMS

WE HAVE IDENTIFIED THREE KEY 'GAPS'

Profitability to POL and PMs by format and customer sessions per week



Gaps	Formerly 'Local'	Formerly 'Main'
1 **3000+ customer sessions pw**	**Little choice of retailers** that can host branches this large (e.g. Trafalgar Sq)	
2 **1200-1800 customer sessions pw**	**Not profitable for PMs** as they would need dedicated staff	**Not as profitable for POL**
3 **<450 customer sessions pw**	PMs would struggle to cover POL fully allocated costs	

Source: POL Analysis

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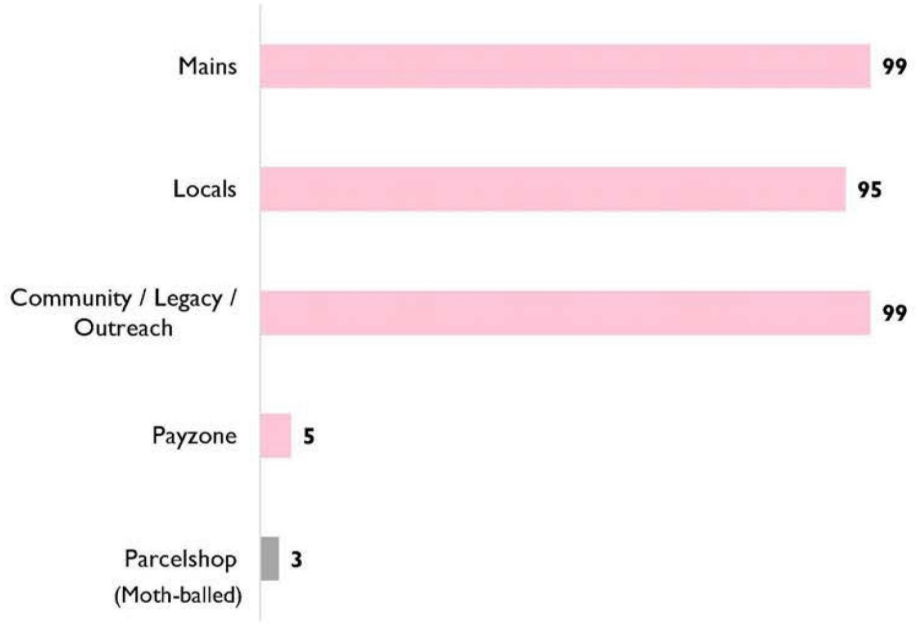
EVALUATION OF KEY GAPS IN CURRENT NETWORK AND LEVERS FOR CHANGE

We have a significant gap in our current format portfolio

% OF PRODUCTS OFFERED BY FORMAT TYPE:



Source: POL Analysis

Full product set drives complexity:

- Mains & Locals formats offer the full product set and they need: Scales, label printers, Horizon kit, a counter, extensive training, compliance, etc.
- Format is unsuitable for many retailers due to space and time commitments leading to low take-up rate

Demand for a simple format:

- Customers and Retailers require a simple model where they can do core services e.g. Bill Pay, PUDO, Online Mails, Lottery, Simple Money Transfer, simple FX & simple Cash

Retailers are filling this void through piecemeal solutions:

- Retailers offer PayPoint for payments, Hermes for PUDO, Western Unions for Money Transfer, etc.

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EVALUATION OF KEY GAPS IN CURRENT NETWORK AND LEVERS FOR CHANGE

Summing up: the key challenges we need to address with our network strategy

We need to reflect changing patterns of customer demand

- The network has not kept pace with the huge shifts in customer demand over the last decade.
- Weekly customer sessions declined from 15 to 10 million between 2007 and 2019, with government services revenue declining by 90% since 2003 – meaning we now have more Mains branches (on a 30% pay premium) than we need.
- E-commerce has doubled since 2007, generating growing demand for parcels services. But despite our network size, we lack coverage in convenient locations for customers - in urban areas Collect+ has 0.4 branches per capita whereas we have 0.12.

We need to create compelling propositions for postmasters

- Our current propositions are unattractive to many retailers, due to the complexity & cost of running a post office, and the modest returns relative to competing retailer propositions.
- Just 8% of the 4,000 retailers we have approached have shown a willingness to take on a new post office.
- Ultimately this is preventing us from locating branches where customers need them, and is forcing us to rely on a growing number of stop-gap solutions like outreach to offset churn.

We need to improve network profitability to offset headwinds

- Our subsidy has declined by 88% since 2013/14 and clearly our next funding round will be set against a challenging fiscal environment.
- Many of our traditional markets are facing long-term structural decline.
- We must therefore improve overall network profitability & commercial resilience, in particular reducing the 'social' network losses and the costs of managing network churn (estimated at IRRELEVANT pa on current projections).

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EVALUATION OF KEY GAPS IN CURRENT NETWORK AND LEVERS FOR CHANGE

We have identified six key levers to address these challenges, creating more compelling propositions for postmasters and a stronger network for customers

1	**Create a more flexible format range**	▪ A more flexible format framework which gives postmasters greater choice over the services they offer and a wider range of options around how a post office can be integrated with their own retail operation, including through new light-touch options which do not require dedicated staffing or complex training.
2	**Invest in automation & other tech enablers**	▪ Technology is a key enabler for the new formats range, reducing operating costs for postmasters and improving customer experience through a flexible range of solutions including automation & integration with the retail till.
3	**Develop new franchise arrangements**	▪ Growth orientated commercial terms based on franchising best practice, with a tiered operational support model which enables us to reduce costs, increase sales & manage network churn more effectively (linking to RIPE).
4	**Leverage the Payzone network**	▪ The new flexible formats range will provide a more seamless route for upgrading good Payzone outlets into light touch post offices, thereby increasing convenience for customers. This will be underpinned by a more coherent approach to managing our combined network & retail partnerships across Post Office and Payzone.
5	**Develop stronger partnerships with great Multiples**	▪ We want to develop stronger partnerships with a portfolio of great retailers that are conveniently located where our customers live, work and shop. These might be traditional players such as Co-op or new hosts such as Boots.
6	**Shift the network to meet customer demand**	▪ We will use new formats to find great retailers to host branches in the over 1,800 whitespace locations where we are currently failing to meet customer demand. This expansion will also provide the headroom to shift away from around 2,000 sub-optimal branches that poorly used by customers and surplus to meeting the access criteria.

Source: POL Analysis

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1. Review of network requirements & gap analysis

2. Proposal for future network strategy

3. Implementation plan and key considerations

5	New format strategy to create more flexible branch propositions
6	Overall network shape to meet customer & shareholder requirements
7	Win-win franchise propositions to drive profitable growth

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NEW FORMAT STRATEGY TO CREATE MORE FLEXIBLE BRANCH PROPOSITIONS

We reviewed successful formats from the retail sector and post offices from other countries to identify design principles for the future network design

Examples from Retail

Argos, Auchan, LIDL, 7-ELEVEN

Other Post Office Examples

an post, PostNL, Canada Post, DIE POST, Singapore Post, Australia Post, La Poste, DHL

SUCCESSFUL FORMATS TARGET SPECIFIC CUSTOMER NEEDS E.G. PUDO, CLICK AND COLLECT, ETC.

Automation is key to:

- Optimise operational efficiency
- Enhance in-branch customer experience
- Maximise profitability for both host retailers and PO

Reducing the role of cash in transactions allows:

- Reduction in operating costs for both host retailers and PO
- Reduction in the transaction complexity for retailers

Simpler formats in convenient locations support maximisation of community access

Digital platforms are significantly effective in building stronger customer relationships by giving the customers control of their experience and journey, which:

- Drives a positive brand image
- Creates further opportunities for cross-sell

Options to open **new revenue streams**, such as travel related services offered through presence at travel locations e.g. airports, train stations etc.

Learnings served as design principles for the new format structure

Note: Please refer to the appendix for detailed case studies

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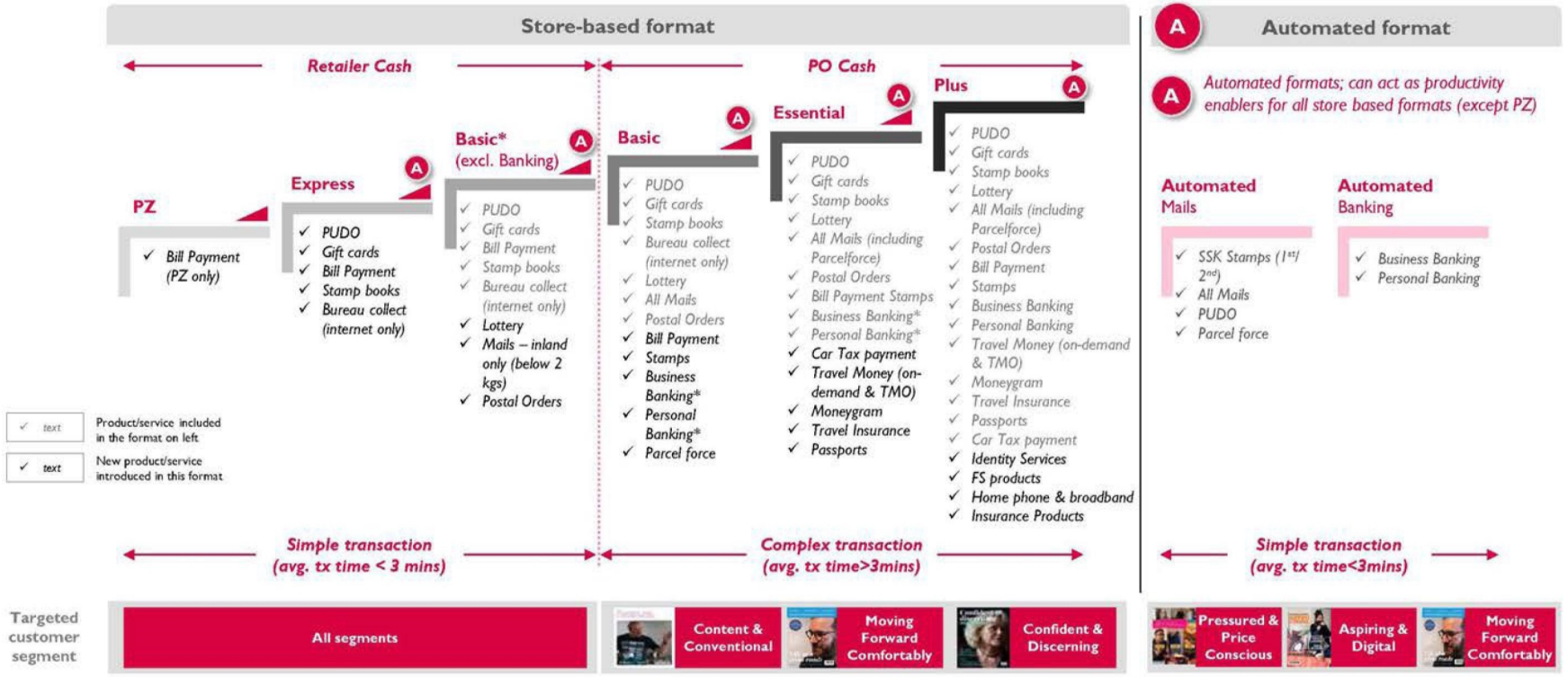
NEW FORMAT STRATEGY TO CREATE MORE FLEXIBLE BRANCH PROPOSITIONS

A more flexible format range with greater customisation for postmasters will enable us to meet the evolving needs of customers in different locations



*Notes: * Personal banking includes withdrawals, cheque deposits, cash deposits and POCA. Business banking includes change giving, and higher value deposits (over £3k). To be further reviewed to assess if it can be merged into one set. Basic (excl. banking) could include withdrawals below £50, however it is limited by our ability to determine the retailer's ability to manage cash (such as availability of cash, cost of cash management); Basic upward formats are currently modelled as having horizon system | Source: POL analysis*

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NEW FORMAT STRATEGY TO CREATE MORE FLEXIBLE BRANCH PROPOSITIONS

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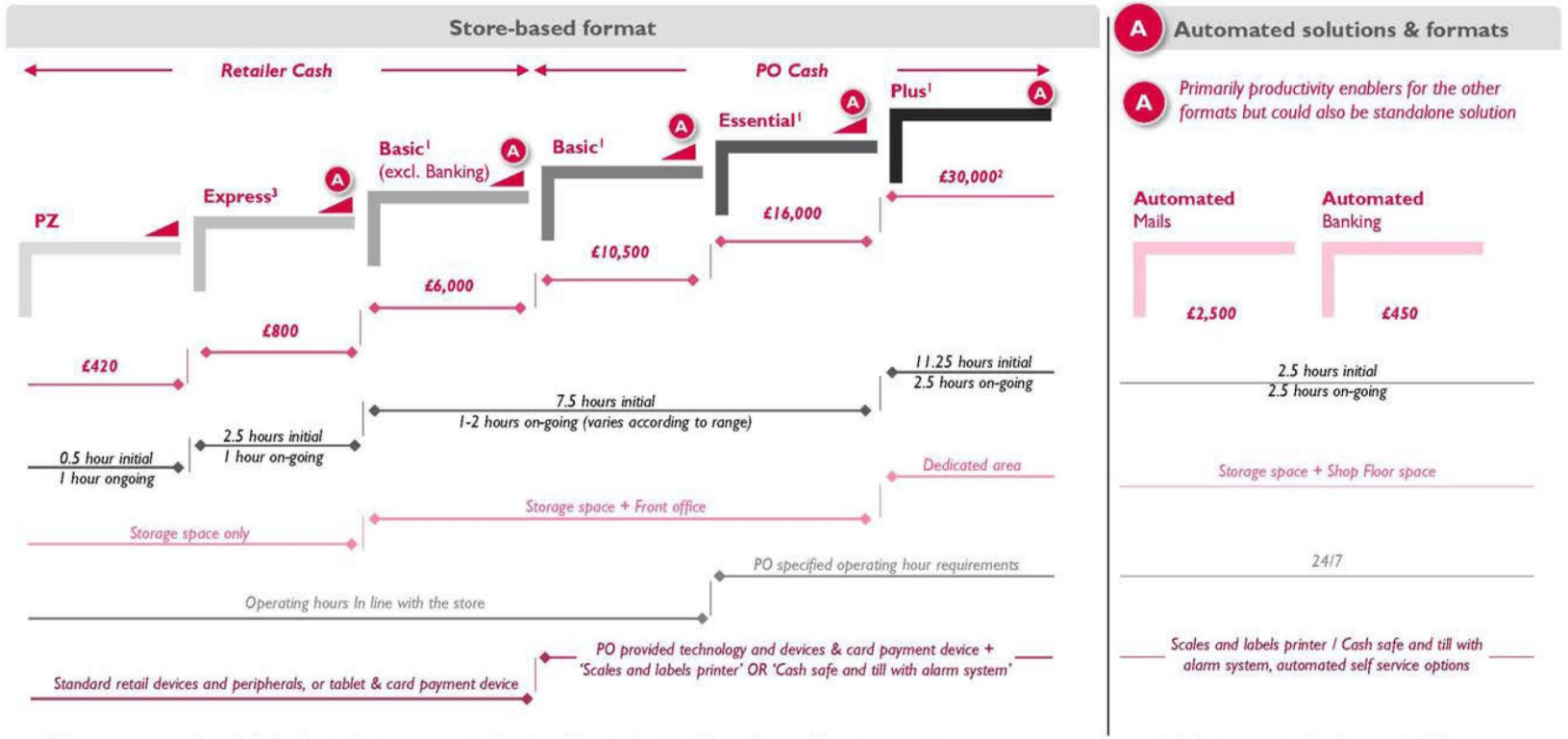

Notes: 1. Basic upward formats are currently modelled as having horizon system. 2. Cost for a Plus is higher than Essential as it will require more than one counter so requires multiple horizon terminals, a larger safe. 3 Express set up costs have been based on Parcelshop set up costs. 4. Set-up costs for automated solution do not include the capex costs of the devices, which are instead assumed to be leased.
Source: POL analysis

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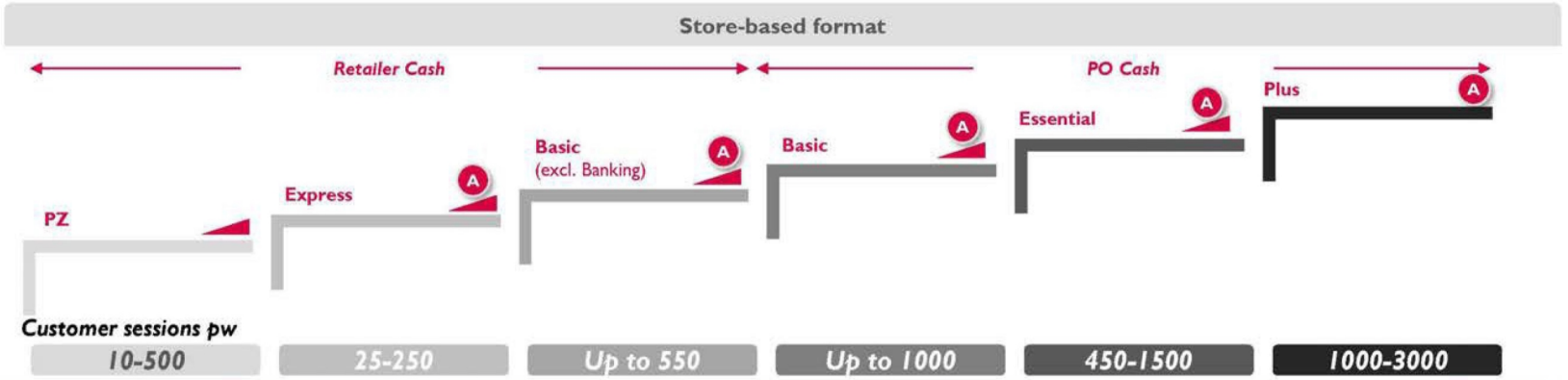
NEW FORMAT STRATEGY TO CREATE MORE FLEXIBLE BRANCH PROPOSITIONS

A more flexible format range with greater customisation for postmasters will enable us to meet the evolving needs of customers in different locations



Average annual income per branch[1] *(£k, based on 2019 income assumptions)*



Notes: 1. Income averages for: i) Plus is an average of 1,044 branches (right format, right location mains), ii) for all other formats it is an average of 1,818 representative whitespace branches. 2. Customer sessions for Whitespace is higher than current Local format
Source: Economic model for new formats, 2020

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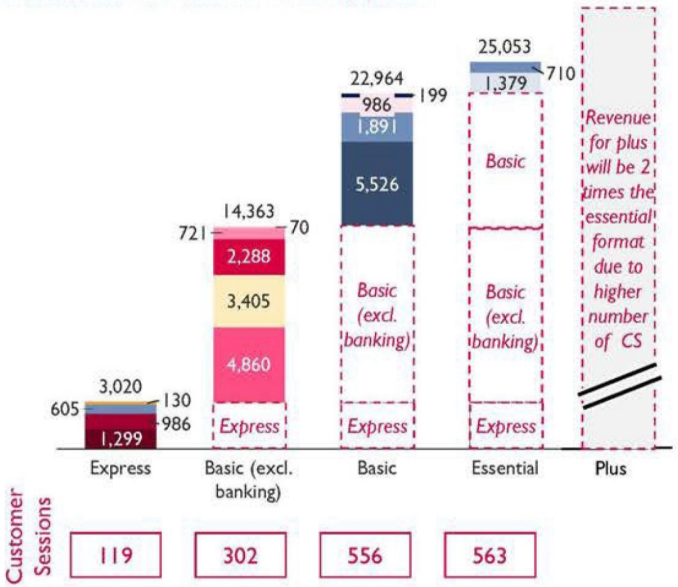
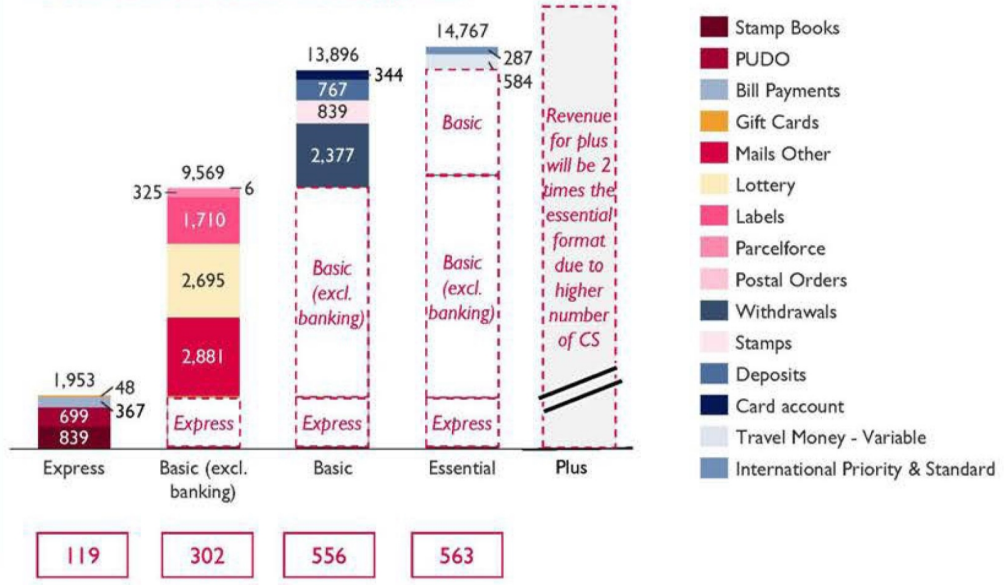
NEW FORMAT STRATEGY TO CREATE MORE FLEXIBLE BRANCH PROPOSITIONS

Progressive product range driving incremental revenues across the format range

Annual POL income per branch, £
Modelled based on customer sessions by format



Annual PM income per branch, £
Modelled based on customer sessions by format



The analysis is a case study based on a specific store (FAD 251410 – a local format store) to illustrate the incremental nature of revenue drivers for the same store across the new formats and considers a varying level of customer sessions. While modelling the product sales across formats, we have used the actual transaction data and hence have not overlaid any assumptions related to growth in product sales as we transition from one format to another

Note: Products shown are those offered by the particular store (FAD 251410) and do not include all PO products. The analysis is conducted
Source: Economic model analysis for new formats, 2020

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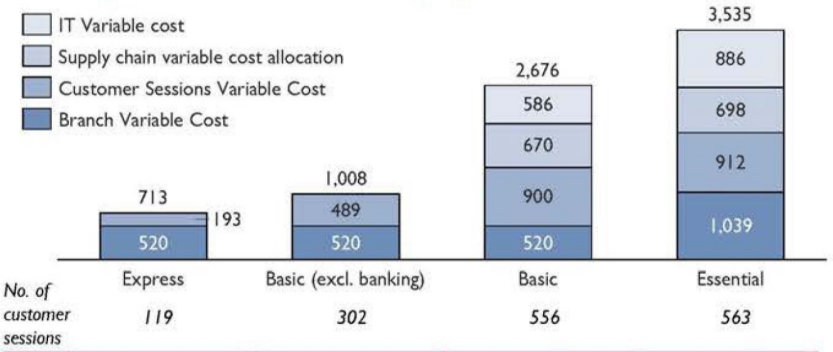
NEW FORMAT STRATEGY TO CREATE MORE FLEXIBLE BRANCH PROPOSITIONS

As branches progress along the format ladder, costs will increase for both POL and postmasters

Annual costs incurred by POL per branch[1], £, modelled based on customer sessions by format and £20k retailer revenue per year

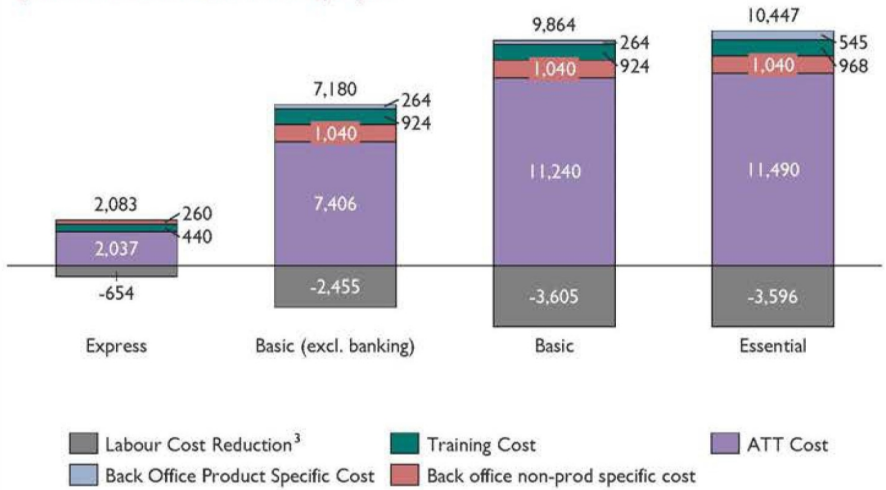


	Express	Basic (excl. banking)	Basic	Essential
No. of customer sessions	*119*	*302*	*556*	*563*
Set up Cost	£800	£6,000	£10,500	£16,000
Fixed Cost[2]	£4,354	£4,633	£5,355	£5,380

Cost increases driven by increase in:

- Set up costs increase (from basic onward) due to installation of PO technology and devices & card payment devices, scales, labels printer, safe and till with alarm system
- Branch variable costs and customer sessions cost associated with higher remuneration rates for complex transactions such as special delivery

Annual costs incurred by PM per branch, £, modelled based on customer sessions by format and £20k retailer revenue per year



- Cost increase is primarily driven by ATT cost related to transactions and back office costs
- Labour cost reduction is assumed for retailers for their existing staff, as they will be required to manage some of PO transactions

Notes: 1. POL costs are modelled based on a store with 600 CS with full demand. The location remains constant but the demand scales down based on the range being offered by each format. Plus has not been shown as we would not run a Plus at 600 CS; 2. Fixed costs include IT fixed cost, branch fixed cost, supply chain fixed cost allocation and customer session fixed cost allocation; 3. Labour cost reduction is based on the actual modelling of workload by product and volume in each format

Sources: Economic model analysis for new formats, 2020

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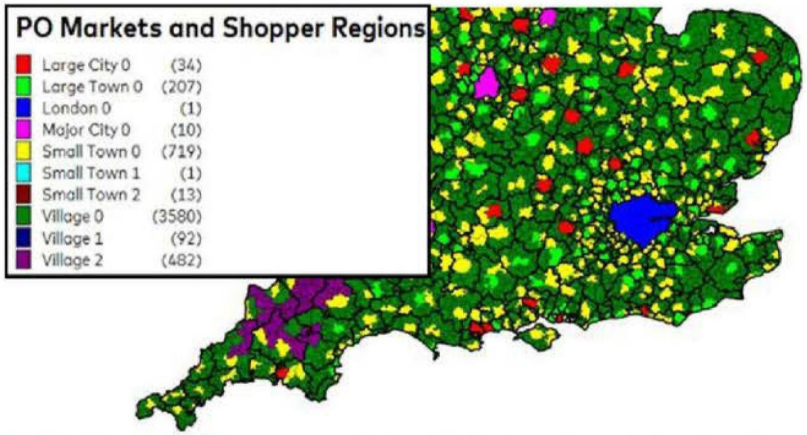
OVERALL NETWORK SHAPE TO MEET CUSTOMER & SHAREHOLDER REQUIREMENTS

We are using detailed geospatial modelling to develop our target network 'Blueprint'

WE STARTED BUILDING THE BLUEPRINT BY CREATING 5,139 'POST OFFICE MARKETS'



- The Blueprint (BP) is a geo-mapping tool that helps us to understand how to optimise our network locations and formats. It is customer-centric, trying to find the best locations and formats that deliver the services customers want near to where they work and live.
- This creates a framework and hierarchy for us to collate data on demand, supply, competition, performance to create an optimised location plan or blueprint.

Source: POL Analysis

ONTO THIS 'FRAMEWORK' WE THEN LAYERED ON DATA ON DEMAND, SUPPLY, COMPETITION AND PERFORMANCE:

- **Customer demand:** What drives how much customers spend across 5 key product areas: Premium Mail, Standard Mail, Personal Banking, Business Banking & Bill Payments.
- **Catchment areas:** We then created 'catchments' around all post offices to show how far customers will travel to a branch, this depends on how urban they area is where they live.
- **Growth or cannibalisation?** Calculate the level of incremental sales achieved when new branches are opened to help inform whether an increase in coverage will increase sales, or simply cannibalise the existing estate.
- **Competition:** What is their effect on post office demand and where we need to locate branches

From this we created a Network Blueprint…

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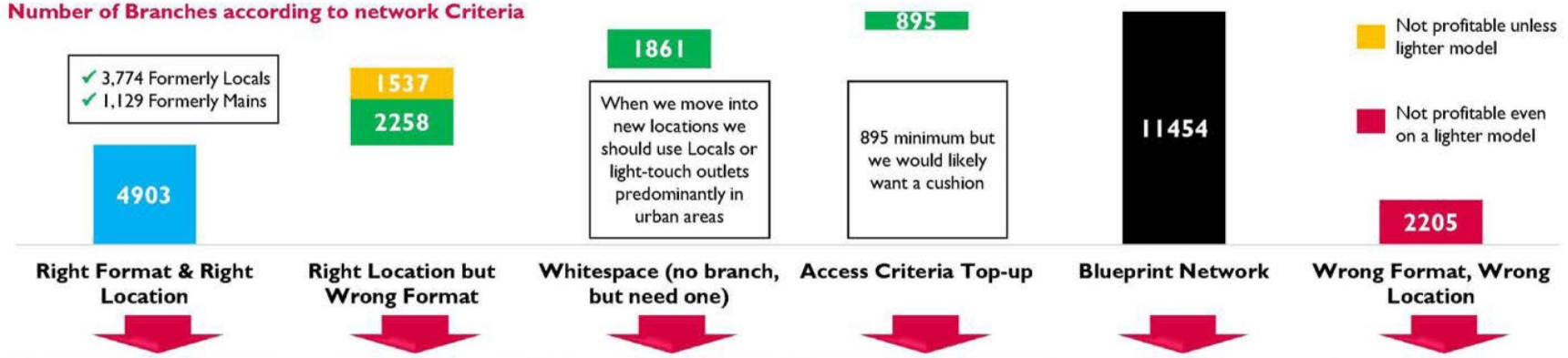
OVERALL NETWORK SHAPE TO MEET CUSTOMER & SHAREHOLDER REQUIREMENTS

This Blueprint assesses the strength of each location, the preferred format in each location and what overlay is required to meet our shareholder requirements

Number of Branches according to network Criteria



Action	Retain & Invest in	Transition to New formats	Penetrate new locations	Policy changes		Network Pruning
	Focus on retaining these branches. New propositions improve ability to replace churn through a greater choice of commercially viable alternatives.	Transition the Mains & Legacy branches to Locals or other Light-touch models. Supplement 'Mains to Locals' programme with other strategies	Focus on driving urban penetration. To date we have delivered ~600 NNL (Locals) but are running out of candidates. We should utilise new formats to penetrate strategic partners	We need to retain at least 895 additional loss making branches to meet the network access criteria. Annual cost of £8-9m to operate these branches (mostly outreach).	*The blueprint network would be better for customers, retailers, cost less in NSP to government and generate greater profits for POL…*	Exit these branches, especially those that provide the lowest social value, or transition to new commercially viable formats. Cost savings here fund development elsewhere.

Source: POL Analysis

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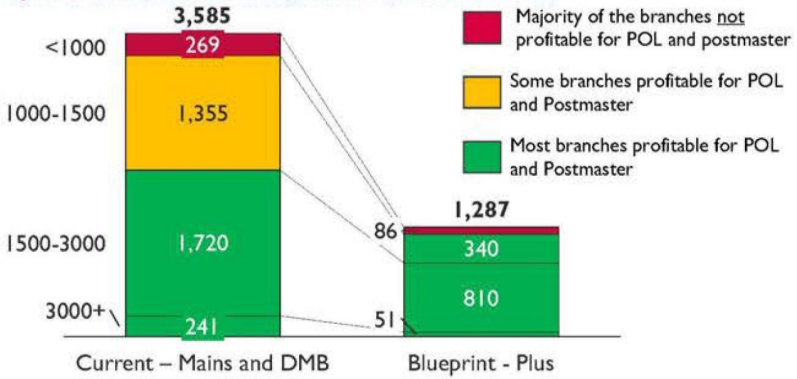
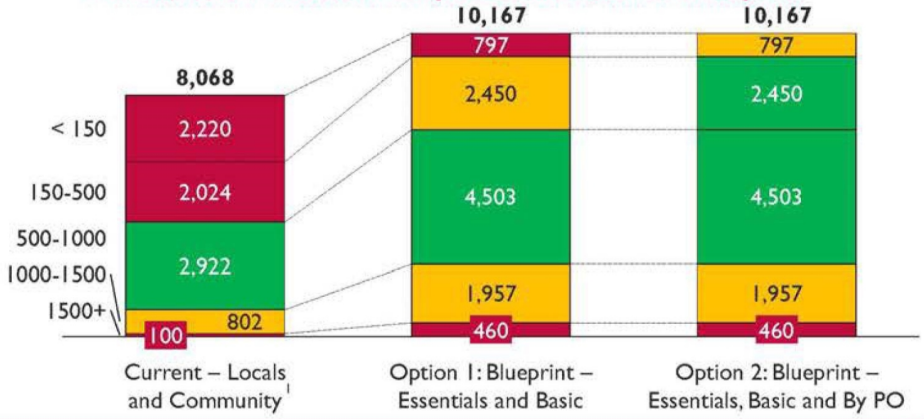
OVERALL NETWORK SHAPE TO MEET CUSTOMER & SHAREHOLDER REQUIREMENTS

The blueprint underpins our proposition development and significantly changes the shape of our network and profitability for postmasters

POL and postmaster profitability across branches grouped by # of customer sessions, Mains and DMB vs. Plus



POL and postmaster profitability across branches grouped by # of customer sessions, Locals* and Community vs. Essentials, Basic and Express



Introduction of new formats will drive :

- Availability of more **commercially viable options** to postmasters including the branches which currently serve **lower levels of customer demand**
- **Reduction in losses in deep rural areas** with low population densities (versus a full service outreach)
- Use of **automation** to best service the customer demand in **branches with 1,000-1,500 customer sessions per week**

Note: 1 In the current network locals classification includes locals, legacy and community but excludes social. Blueprint count excludes social 2. For unprofitable branches: 86 - Plus less than 1,000 CS will have a manning standard significantly above the workload and associated agent rem. Reduced hours could help, but requires capital investment and will take up floor space reducing profitability for POL and PM. 460 – fully manned POs at Local rates above 1,500 customer sessions are at best likely to break even for PO and PM and will be operationally too busy to manage in conjunction with their retail front of the store for most retailers. 797 – on average 150 CS doesn't cover POL variable costs. We will be able to make a PUDO offer work at this level, but have not fully defined the break even point for POL as yet so may still have some areas where we need to deploy a PUDO offer but may not have sufficient demand to move above break even. As previously discussed this will still be significantly more profitable for POL than deploying a full outreach.

Source: POL Analysis

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OVERALL NETWORK SHAPE TO MEET CUSTOMER & SHAREHOLDER REQUIREMENTS

IRRELEVANT

Profit_or_Loss_20.9/20

IRRELEVANT

40

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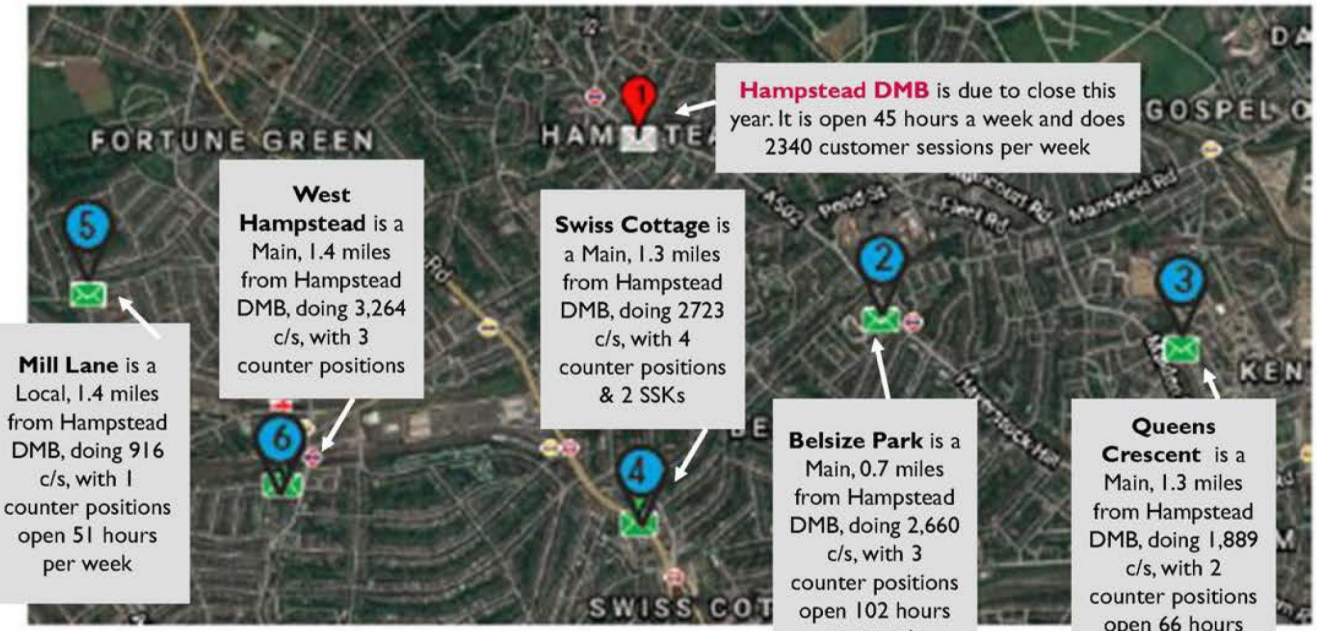
OVERALL NETWORK SHAPE TO MEET CUSTOMER & SHAREHOLDER REQUIREMENTS

Where we exit a DMB, we will always ensure that there is adequate capacity in the local area to meet the customer demand

HAMPSTEAD DMB IS DUE TO CLOSE THIS YEAR, AND THERE IS ADEQUATE CAPACITY NEARBY TO MEET CUSTOMER DEMAND



Hampstead DMB is due to close this year. It is open 45 hours a week and does 2340 customer sessions per week

West Hampstead is a Main, 1.4 miles from Hampstead DMB, doing 3,264 c/s, with 3 counter positions

Swiss Cottage is a Main, 1.3 miles from Hampstead DMB, doing 2723 c/s, with 4 counter positions & 2 SSKs

Mill Lane is a Local, 1.4 miles from Hampstead DMB, doing 916 c/s, with 1 counter positions open 51 hours per week

Belsize Park is a Main, 0.7 miles from Hampstead DMB, doing 2,660 c/s, with 3 counter positions open 102 hours per week

Queens Crescent is a Main, 1.3 miles from Hampstead DMB, doing 1,889 c/s, with 2 counter positions open 66 hours per week

- There is adequate network capacity around 50% of the remaining 116 DMBs. So if we simply closed these 58 DMBs the existing post offices in the local area would be able to absorb the customers from the DMBs.
- For the 58 DMBs where there is not adequate capacity in the network, then we will either franchise the DMB or we will open-up new NNLs in the area.

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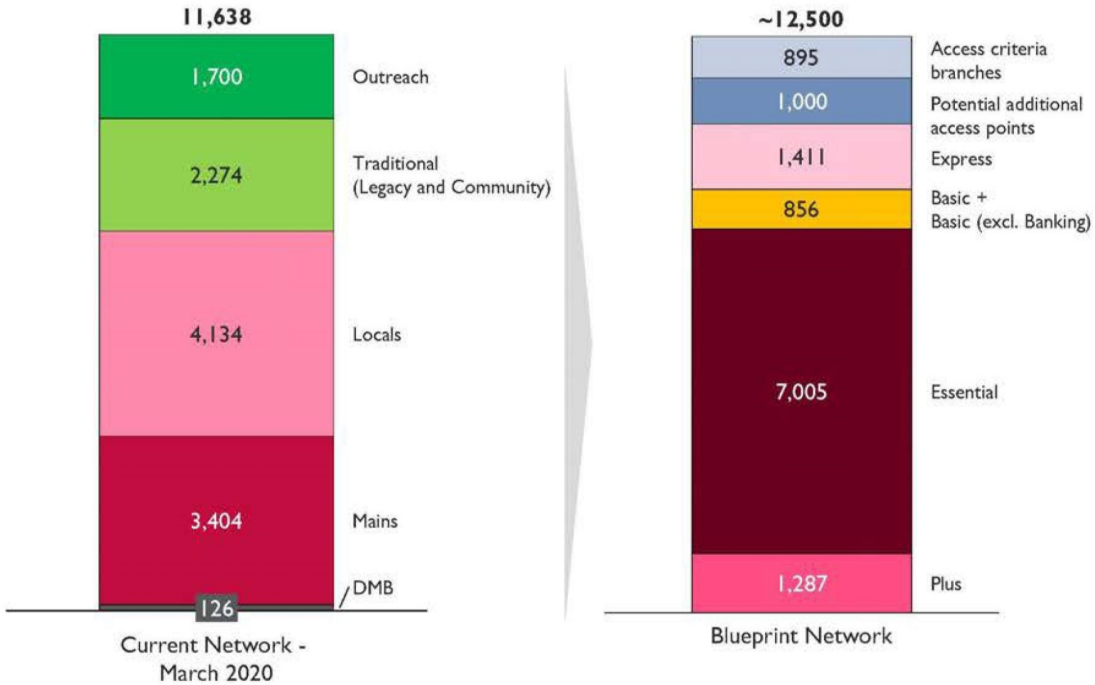
OVERALL NETWORK SHAPE TO MEET CUSTOMER & SHAREHOLDER REQUIREMENTS

The Network Blueprint proposes a network that is better for customers, postmasters and Post Office

POST OFFICE NETWORK TODAY (MARCH 2020) VERSUS FUTURE BLUEPRINT NETWORK



KEY BENEFITS OF THE BLUEPRINT NETWORK:

More convenient for customers:

- In the blueprint 44% of customers are within 500m of a post office versus 40% today
- Reduces the number of busy PO (3,000+ customer sessions) where it is difficult to find hosts

Focused on where customers live & work:

- Nearly 2k new outlets in areas of high customer demand, ensuring we have a clear advantage over competition – with the option of up to a further 1k additional access points (including locker boxes) in high density urban locations, retail parks & transport hubs

More sustainable for Post Office:

- Improved resilience by reducing the number of retail hosts with 'limited or no retail' from 64% today to 38%
- Option to move away from IRRELEVANT sub-optimal branches which are underutilised (the majority with <20 customers/week), unprofitable & surplus to meeting access criteria, saving c. IRRELEVANT

Notes: (*) Includes some branches not open 52 Weeks in 2019/20 not included in branch by branch analysis; (*) Preferred option counted (other format options will work in the majority of format locations)
Source: POL analysis

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Work in Progress

OVERALL NETWORK SHAPE TO MEET CUSTOMER & SHAREHOLDER REQUIREMENTS

Overview of the drivers of Post Office & postmaster profitability (based on the current network)

Breakdown of Post Office network revenue & allocated costs, £m, FY19/20

Breakdown of estimated postmaster income & costs, £m, FY19/20

IRRELEVANT

See slides 105 to 108 for the assumptions underpinning these numbers (particularly the postmaster cost & cross-sell estimates)

Notes: Based on 2019/20 actuals; Includes fixed fee income from RM and BF2; Does not include DMB income or costs

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OVERALL NETWORK SHAPE TO MEET CUSTOMER & SHAREHOLDER REQUIREMENTS

Significant margin gains could *theoretically* be realised through full implementation of the Blueprint, but in practice will be constrained by funding & politics

Breakdown of Post Office network revenue & allocated costs, £m, FY19/20

NOTE: Detailed branch level analysis is required to determine how much of the theoretical margin improvement is achievable in the next 3-5 years

IRRELEVANT

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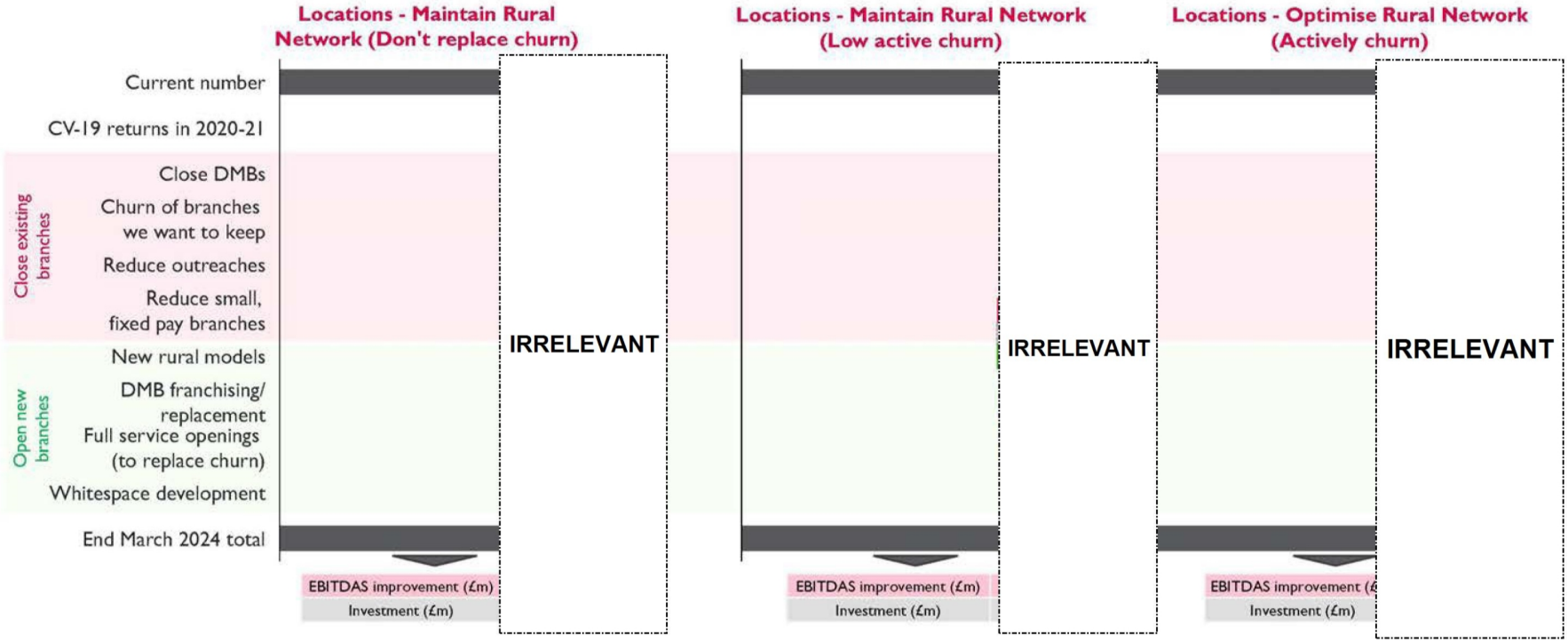
OVERALL NETWORK SHAPE TO MEET CUSTOMER & SHAREHOLDER REQUIREMENTS

The extent to which we can transition to the Blueprint over the next 4 years will be constrained by funding availability & political appetite – we are assessing the lead scenarios as part of the wider funding plan



Notes: Assumes no significant Covid 2nd wave impact, churn of branches post 2021 assumes return to prior year trends; Investment & EBITDAS estimates do not include DMB closures; Set-up costs only cover branch capex – not other costs associated with recruitment & onboarding of new retailers. Compensation costs assumed to be £6k per branch for outreach and £20k per fixed pay branch.
Source: POL Analysis 2020

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OVERALL NETWORK SHAPE TO MEET CUSTOMER & SHAREHOLDER REQUIREMENTS

What do our proposals mean for the 'Services of General Economic Interest' (SGEIs) and our commitments on network size & accessibility?

Network commitments

- We will continue to meet all six access criteria:
  1. 99% of the UK population to be within three miles of their nearest Post Office outlet.
  2. 90% of the UK population to be within one mile of their nearest Post Office outlet.
  3. 99% of the total population in deprived urban areas across the UK to be within one mile of their nearest Post Office outlet.
  4. 95% of the total urban population across the UK to be within one mile of their nearest Post Office outlet.
  5. 95% of the total rural population across the UK to be within three miles of their nearest Post Office outlet.
  6. 95% of the population of every postcode district to be within six miles of their nearest Post Office outlet.
- We will continue to maintain a network of over 11,500 outlets
- We propose using the existing Funding Agreement definition that a branch is "any post office counter or means of transacting *some* or all SGEI Services" – rather than the more rigid definition that a branch must provide *all* SGEIs

Mails	▪ Mails will remain the core anchor product in all branches carrying the Post Office brand. The majority of the network will still offer customers the option to purchase their RMG products in-branch. We will also continue to meet the 6 access criteria for mails, far exceeding the Ofcom proximity requirements (see next slide). ▪ Where appropriate for the postmaster & local market (and with RMG agreement) some outlets may be PUDO only, but still enabling drop-off for the full RMG range online.
Cash, banking & POCA	▪ Under Banking Framework 2, we remain committed to meeting the six access criteria for banking until the end of 2022, and we expect this to continue in successor arrangements. ▪ Furthermore, we expect to maintain banking & POCA in all existing branches and our first preference is always to include them in new branches. We would only exclude them if necessary to secure a good retailer in the target location and adequate alternative cash options exist for the local market (including innovative PO models for distributing cash).
Bill payments	▪ No significant change expected – bill payments expected to feature in all PO formats & Payzone outlets, given it is a good footfall driver and easy for retailers to transact. ▪ Better locations will improve our proposition to both customers and clients.
Identity & licensing	▪ No significant change expected – network size already constrained by client requirements so not available in all branches. ▪ More flexible format range will provide the option to include specialist partners such as photoshops, providing increased coverage for passports & other ID transactions. ▪ Growth of identity assurance should drive additional revenue for Plus branches.

Sources: POL Analysis

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NEW FORMAT STRATEGY TO CREATE MORE FLEXIBLE BRANCH PROPOSITIONS

What is our minimum mails offering to meet the SGEI & Ofcom requirements?

- The definition of the mails SGEI in the current Entrustment Letter is "the provision of access to postal services which the universal service provider (RMG) is required to provide by Ofcom" – which specifically are 1st & 2nd class stamps & labels; Signed For; Special Delivery by 1pm; and International Air & Surface mail (with no weight specifications).
- All formats except Express will continue to provide customers with the option of purchasing these RMG products in-branch – and in practice the branches we are proposing to retain in our target network over the next 3 years account for 99% of existing mails business.
- Subject to RMG agreement, the Express format will provide customers with the option to drop-off any RMG product they have purchased online, which includes the full range designated by Ofcom – and therefore these branches will still be providing customers with access to the SGEI services.

	Express	Basic Excl. Banking	Basic	Essential and Plus
All home shopping returns and collections (Royal Mail and Parcelforce - 1D AND 2D Barcodes)	✓	✓	✓	✓
All Royal Mail and Parcelforce services that can be printed at home and accepted in branch.	✓	✓	✓	✓
Stamp Books	✓	✓	✓	✓
All Royal Mail and Parcelforce services	×	✓	✓	✓
All Stamps	×	×	✓	✓
Philaelic (same as where currently ranged)	×	×	×	✓

Source: POL Analysis

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NEW FORMAT STRATEGY TO CREATE MORE FLEXIBLE BRANCH PROPOSITIONS

The number of additional formats that are profitable for both POL and PMs increases our ability to replace 'Wrong Format, Right Location' branches

IRRELEVANT

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NEW FORMAT STRATEGY TO CREATE MORE FLEXIBLE BRANCH PROPOSITIONS

A combination of formats would allow us to deliver a profitable network for both Post Office & postmasters in our target whitespace locations

IRRELEVANT

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NEW FORMAT STRATEGY TO CREATE MORE FLEXIBLE BRANCH PROPOSITIONS

Once we reach maturity the number of commercially viable options for each location increases significantly in the target whitespace locations

IRRELEVANT

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NEW FORMAT STRATEGY TO CREATE MORE FLEXIBLE BRANCH PROPOSITIONS

PO and postmaster profitability analysis of moving the 'right location, wrong format' branches into one of the new formats

IRRELEVANT

Source: Economic Modelling of the new formats, July 2020

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NEW FORMAT STRATEGY TO CREATE MORE FLEXIBLE BRANCH PROPOSITIONS

Adding automated mails solutions can improve the format economics in some locations by reducing postmaster staff & training costs

	Cost	Advantages	Challenges	Postmaster benefit	POL benefit	Likely number
Self-service cluster 	IRRELEVANT	▪ Labour savings ▪ Protect against rising labour costs	▪ Still needs manning ▪ Needs scale before 3 machines are justified	▪ Allows as significant hours reduction from tills	▪ Better customer experience, solution for large branches future-proofed	▪ Up to 400 branches could justify a bank of three or more machines. If machine costs were halved, up to 1,200 branches
Single Units 		▪ Labour savings ▪ Protect against rising labour costs ▪ Offers simple, unmanned solution (clerk on nearby horizon unit oversees interventions/handovers)	▪ Lower migration when not manned ▪ Potential disruptions to standard queue when interventions are needed	▪ Needs to work around a combi-till and allow seamless intervention	▪ Can make busier Essential stores more appealing to postmasters (no requirement for 2nd counter)	▪ Up to 600 additional branches (i.e. not in above) at current cost of £6k. If the costs were halved, this number would increase to 1700
Bolt-on solutions to retail Counter 		▪ Allows mails acceptance to be added to both manned and self-service points	▪ Need IT solutions that work outside of Horizon	▪ Allows mail acceptance to be located at different points in their store	▪ Increases service options for customers and acceptance of mails by retailers	▪ Potentially all PO model if a label printer could be added economically
Completing Online journeys in branch 		▪ Improve online adoption and customer journey and choices online	▪ IT integration and solutions that cost in for postmasters and POL	▪ Reduced need for interaction, lower staffing costs	▪ Future proofs models as customer naturally migrate online	▪ Depends on cost and other alternatives installed, crucial for unmanned drop-offs

Notes: Inputs from Mails team
Sources: POL analysis; SSK July Board 2020 V2.pptx; Wraparound self service hardware solutions.xlsx, Wrap around.pptx

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NEW FORMAT STRATEGY TO CREATE MORE FLEXIBLE BRANCH PROPOSITIONS

Banking automation: Deposit taking machines and TCRs could work for large branches as they are and could be adapted for smaller branches in the future

	Cost	Advantages	Challenges	Postmaster benefit	POL benefit	Likely number
Deposit taking machines 	IRRELEVANT	Freeing up of counter time Quicker for customers (as opposed to SSK)	Separate queue Needs scale to justify	Improves security, frees up time on the counter, reduces reconciliation time	Better customer experience, increased deposit demand	Up to 600 branches could justify a standalone deposit device based on existing volumes
Internal ATM's 		Known solution, customer adoption high	Limited visibility Hours limited to retail hours	Trade-off between retail space lost and time saving and extra withdrawals	Improve access to cash, potentially grow withdrawals (less profitable than OTC)	Up to 300 in branches currently without internal ATM
Teller Cash Recyclers (TCR's) 		100% adoption (counter controlled) No space customer side Can be shared across two positions	Needs integration with horizon to realise full benefits, more expensive to retrofit than roll-out as part of a new model	Staff savings (counter and reconciliation), fewer mistakes, customer growth	Better customer experience, growing deposit volumes Postmasters happier servicing banking Lower losses Better note management	Up to 2,000 branches, all plus formats and certain essentials could have technology
Integrated TCRs/ Retail Till (No PO till) 		Larger saving in reconciliation for retail till, and no POL till to manage	Massive IT challenge to integrate the two tills and reconcile at the back end	Reduced reconciliation time and improved security. Till only needed for coins. Possibility to get PO to manage their cash, saving money	Allows for banking to be offered more widely at lower cost, simplifying models and increasing take-up by retailers	Potentially all multiple models, taking 'BY PO' up to Basics, could also be used in rural locations (Pubs/Pharmacies) to maintain access to cash
Customer facing cash acceptance 		As above and can eliminate any handling of cash/reconciliation by the sales assistant, includes coin handing	As well as IT integration challenges above would require counter rebuild	Removes nearly all reconciliation and risk, removing the need for a till and simplifying operations dramatically	As above, with even greater 'stickiness' for retailers, and greater chance of whole estate deals	As above (likely to be multiples only)

Notes: Inputs from Banking team
Sources: POL analysis

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WIN-WIN FRANCHISE PROPOSITIONS TO DRIVE PROFITABLE GROWTH

Simple and performance-driven commercial terms are the key to ensure win-win for POL and PMs

DESIGN PRINCIPLES FOR A WIN-WIN FRANCHISE MODEL
(INFORMED BY RIPE APPROACH)

Putting Postmaster First	Ensuring our future design has the Postmaster at the heart of everything we do, understanding their wants and needs
Performance driven – win-win scenario	*Consider an incentivised (variable) rate based system for products where PM can influence upsell and establishing a lower cost base, which in turn helps Postmaster*
Simplified terms – explaining the why	*Clear and consistent remuneration policies across product range and transaction types. Ensuring our PMs and stakeholders feel involved*
Working together to build the future	*Alignment with new RMG deal, alignment with PSG work, smoother process and quality services. Focus on digital self-service capability for branch operators*
Enable best practice – becoming truly modern	*Invest in the necessary technology to succeed and thrive. Design our support model around a modern, compliant PM in mind and tackle non-adherence wherever we can*

Sources: Analyses based on data from best in class case studies on commercial and operational models

COMMERCIAL MODEL CONSIDERATIONS WOULD VARY BASED ON FOLLOWING FACTORS

Product Type	▪ Static rate or incentivised rate dependent on new RMG deal ▪ High profit/low cost to serve vs. low profit/high cost to serve
Postmaster Type	▪ Fixed annual/monthly reward system for more entrepreneurial postmasters taking initiative to grow awareness of Post Office and its services
Transaction Type	▪ Incentivised rate for complex transactions which increases with an increase in number of transactions ▪ Static rate for all simple (<2.5 min transaction) and transactional transactions (<1 min transaction)
Location Type	▪ Location based incentives where required and aligned to our future strategy
Format Type	▪ Specific investments for certain formats such as Essentials and Plus depending on size of store and number of customer sessions
Partner Type	▪ Investment for growth type options for Gold partners to jointly grow the business contingent to greater access

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WIN-WIN FRANCHISE PROPOSITIONS TO DRIVE PROFITABLE GROWTH

A fit-for-purpose commercial model, supported by an effective operational model will allow us to build stronger relationships with our postmasters

THE COMMERCIAL MODEL WILL INCLUDE THE FOLLOWING THREE INCOME TYPES



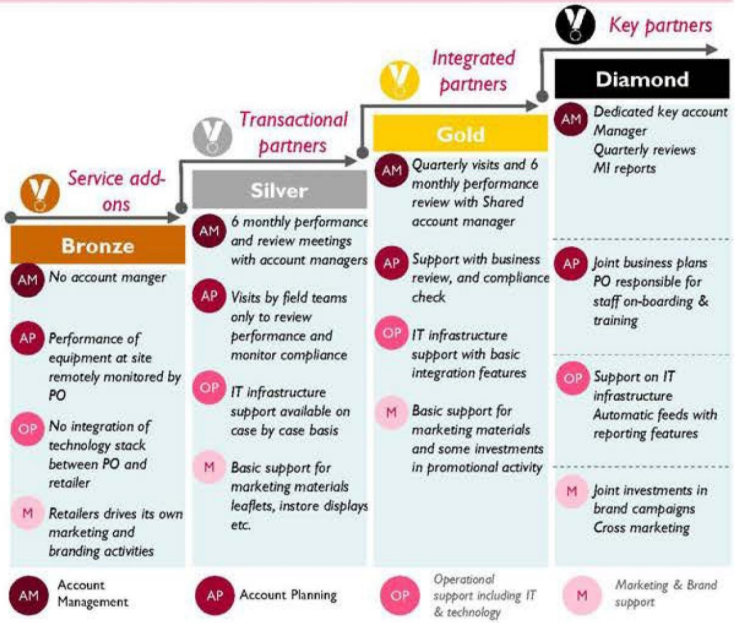
Investment in network: In certain locations or partner types
- **Investments aligned to future strategy**

Performance Based Rewards: Drive higher sales volume and promote entrepreneurial behaviour
- Entrepreneurial behaviour will include activities focussed on driving awareness of PO products
- Payment conditional to **performance and enables best practice**

Remuneration for Product Sales: Static and incentivised rate
- One rate card per product
- Rate card applicable across all postmasters
- Static rate – rate card for simple and transactional products, variable rates applicable to complex products
- Focussed on driving **consistency, defensibility and simplicity**

Post Master Income

THE OPERATIONAL MODEL WILL VARY BY RELATIONSHIP WITH POSTMASTER



Adoption of appropriate commercial and operational model could lead to a 3-5% improvement in POL profit by:

① Increase in sales value and volume

② Reduce churn and improve retention

③ Better network access across community

Sources: Analyses based on data from best in class case studies on commercial and operational models

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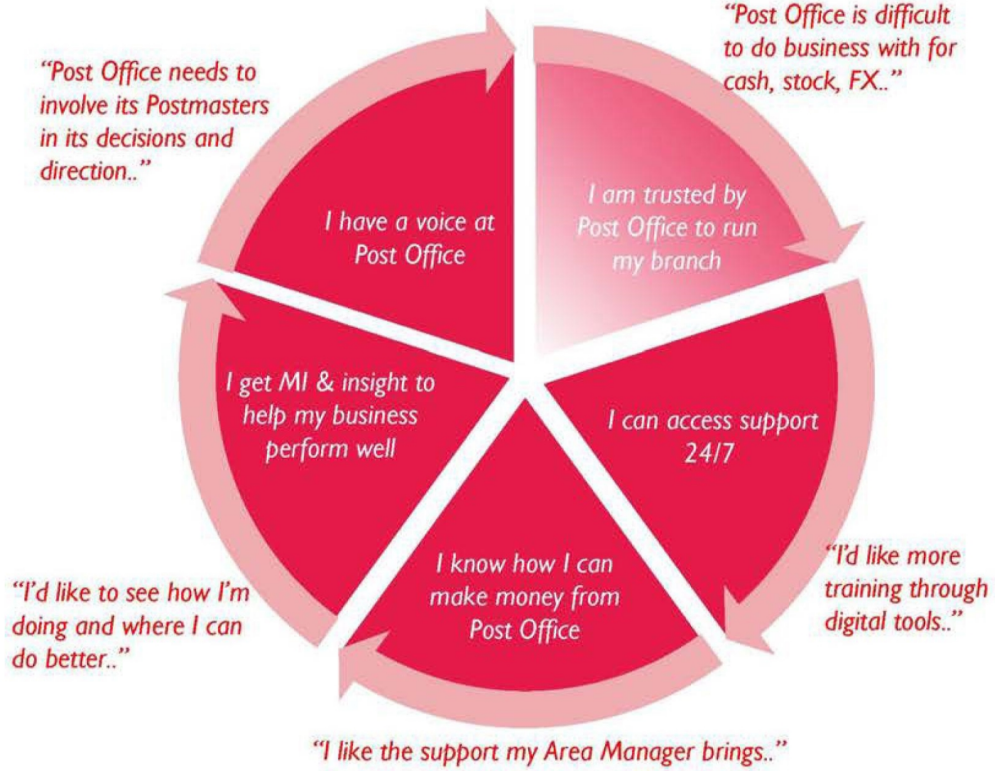
WIN-WIN FRANCHISE PROPOSITIONS TO DRIVE PROFITABLE GROWTH

A winning Franchise Support Model for Post Office and our Postmasters should mean Postmasters feel positive towards us



There are lots of initiatives already underway which can be brought together to create a better experience for Postmasters whilst delivering efficiencies for Post Office:

- Area Manager Support
- Branch hub backlog
- Training improvements
- Postmaster consultation & Engagement

This project alongside the Network Strategy proposals will help us design a support model tailored to branch needs [digital, remote, face to face], prioritise improvements, remove pain points, re-work and duplication to provide a win:win

Source: RIPE Program inputs

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WIN-WIN FRANCHISE PROPOSITIONS TO DRIVE PROFITABLE GROWTH

Creating a Winning Franchise Model will require us to rethink our support

Network Strategy	RiPE Insights
Putting Postmaster First	Siloed teams are duplicating work, e.g. cash management is picked up in 3 areas, but Postmasters think Supply Chain processes are too rigid
Performance driven – win-win scenario	28% of ongoing support costs IRRELEVANT is spent on re-work or troubleshooting activity, such as chasing conformance There is no direct MI feed of performance to branches
Simplified terms – explaining the why	Only 50% of the 343 processes we carry out today are deemed value add by our teams, and only 38% by our Postmasters
Working together to build the future	80% of potential new Postmasters drop out of the recruitment process before application. We lose 400 Postmasters a year at a cost of IRRELEVANT with little or no insight into why they leave
Enable best practice – becoming truly modern	There is an appetite from Postmasters for more digital tools – this is backed up by the recent Branch Hub survey which found 83% of Postmasters would use it for everything and 87% thought the stock ordering function saved them time

Source: RIPE Program inputs

Prioritised next steps

1. **Postmaster Engagement**
   We need to engage further with Postmasters to understand their needs, specifically testing what support mechanisms they would like us to focus on to to address the current gaps between a winning franchise model and today's reality

2. **Validation of the data**
   A deeper dive of the data to validate the early findings on duplication and waste and frustration to enable potential solutions to be developed

3. **Best in class Franchise – working with Neo 5, Network Strategy**
   Learn from the various Franchise case studies to discover how we can streamline our attraction and recruitment processes. Zero base these and then layer on additional measures because of the unique nature of our business
   (levels of cash, regulatory requirements)

4. **Discovery phase – working with Neo 4, OE**
   Commence design of a target operating model for our support model, covering structure, systems, processes and Postmaster experience and leading to a business case for significant change

5. **Digital Tools / Data**
   Aligned with all of the above, create a data strategy for Branches designed to help them see, learn, act and improve their business' performance to move us towards best in class franchise businesses.

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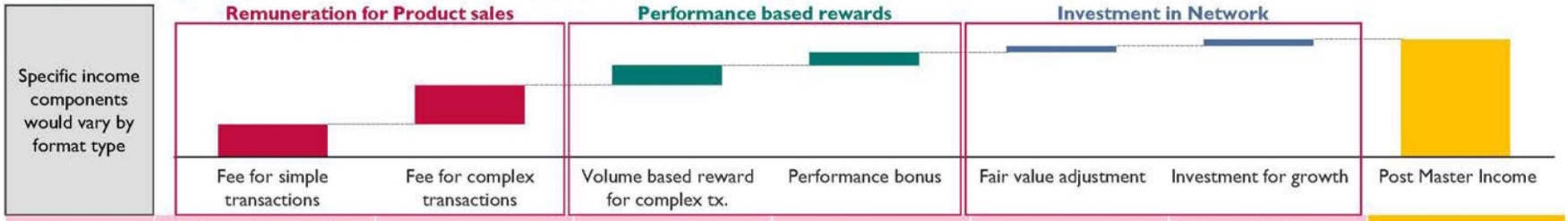
WIN-WIN FRANCHISE PROPOSITIONS TO DRIVE PROFITABLE GROWTH

New remuneration framework to drive the right behaviour through rewards and strategic investments

Components of postmaster income to drive a more value for value relationship



Description	▪ For simple (1 to 2.5 min transactions) and transactional transactions (<1 min transactions)	▪ For complex transactions (>2.5 min transactions)	▪ Payment in lieu of meeting volume threshold	▪ Reward for entrepreneurial behaviour	▪ Support for locations with high cost to serve	▪ Support for providing access such as high rental locations or strategic locations	▪ Monthly MI reports providing a clear view of performance ▪ Transparency on various income types and reason for non-payment (if any) ▪ Breakdown by locations for multiples and large chains
Payment Frequency	▪ Monthly	▪ Monthly	▪ Quarterly	▪ Half yearly/ annually	▪ Monthly/ Quarterly	▪ Yearly	
Conditionality	▪ Based on per transaction	▪ Variable rate based on no. of trans. for products that can drive upsell (e.g. std. to premium mail)	▪ Meeting specific volume threshold	▪ Based on a yearly target ▪ Mystery shopping	▪ Based on location and performance	▪ Access to an agreed number of sites	
Relevant Format type	▪ All formats	▪ Essential ▪ Plus	▪ Essential ▪ Plus	▪ Basic & Essential ▪ Plus	▪ Basic & Essential ▪ Plus	▪ All formats	
Relevant Location types	▪ All locations	▪ All locations	▪ All locations	▪ All locations	▪ Rural ▪ Urban Deprived	▪ Urban city centres ▪ Rural	

Sources: Analyses based on data from best in class case studies on commercial and operational models

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WIN-WIN FRANCHISE PROPOSITIONS TO DRIVE PROFITABLE GROWTH

Same product specific rate cards across all locations and all formats to drive consistency in remuneration

	Rate card for Simple Transactions	Rate Card for Complex Transactions	Rate Card for Automated Format
Commercial Model	**Static Rate Model**	**Incentivised Rate Model**	**Direct revenue/profit sharing model**
Description	▪ Static rate model with a static fee per transaction ▪ Rate would vary by product type and a rate card would be applicable for each product ▪ Higher static rate for new products where we want to increase market penetration	▪ Incentivised rate model depending on product-specifically for products where PM can influence upsell e.g. standard mail to premium mail ▪ Rate may increase with an increase in number of transactions ▪ Discretionary payment for any promotional activity	▪ Return per transaction for PM to increase with an increase in transactions to a fixed upper threshold ▪ Static rate of return per transaction once it crosses the upper threshold ▪ Remuneration rate may vary by location type or partner type
Example Rate Card	Tx. Type / Prod. Type: Trans. / Simple Products: £ / ££ New Products Launches: ££ / £££	# of Tx. / Complex 0-100: £/tx 100-300: ££/tx 300-500: £££/tx 500+: ££££/tx	# of Transactions / Return 0-150: £/Tx 150-300: ££/Tx 300+: £££/Tx

Sources: Analyses based on data from best in class case studies on commercial and operational models

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WIN-WIN FRANCHISE PROPOSITIONS TO DRIVE PROFITABLE GROWTH

For a successful implementation of the commercial and operational model, we need to consider some key dependencies

Existing contract and relationships	▪ Transition to the new commercial model will lead to creating winners and losers in the existing group of postmasters ▪ Careful consideration is required, with potentially prioritising implementation to right location wrong format stores and whitespaces
Technology Enablement	▪ Technology required for implementation of dynamic and timely performance measurement of PM performance ▪ Better in branch technology driving customer convenience
Internal Resource Requirement	▪ Successful implementation would require changes to the internal account management approach and processes ▪ Further joint working approach (PO and PM) will have to be encouraged for successful tracking of commercial objectives and performance measurement
Enforcing Store Standards	▪ Measurement of quality standards related to delivery of services and customer experience will have to be monitored regularly ▪ Appropriate methods such as mystery shopping, customer surveys, etc. will be required on a more frequent basis and on a larger sample size
Managing overall envelope	▪ Ensuring there are no major changes in overall envelope for POL and hence balancing the investments in the network with network pruning actions

Sources: POL Analyses

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WIN-WIN FRANCHISE PROPOSITIONS TO DRIVE PROFITABLE GROWTH

Formulating a strategic plan to partner with retailers across categories would be key to the network's success

RETAIL PARTNERS ARE SHORTLISTED USING THE FOLLOWING METHODOLOGY

Step 1:
Created a long list of potential partners from 4 categories: *Multiples & Banks, Mutual & Symbol groups, Independents and specialist retailers*

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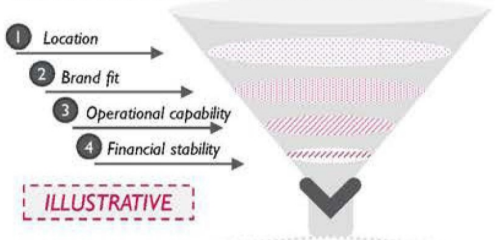
Step 2:
Evaluated retail partners through 4 key lenses



Step 3:
Shortlisted top partners to drive a portfolio type approach to partnership in urban and rural locations

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RETAILERS ARE EVALUATED AGAINST BELOW CRITERIA

Factor	Criteria	Weighting
Location	▪ No. of unique stores within 0.1 mile of a Whitespace location – by location types: Urban, Urban Deprived, Rural; based on PO's blueprint analysis (v24)	50%
	▪ No. of unique stores within 0.1 mile of a Whitespace location and within 0.5 mile of a non-Whitespace blueprint location – by location types: Urban, Urban Deprived, Rural, based on PO's blueprint analysis (v24)	
Brand Fit	▪ Measure of positive brand equity for us, based on inputs from internal subject matter experts, recent public mentions and customer reviews	20%
	▪ Measure of positive brand equity for them	
Operational Capability	▪ No. of store staff per 1000 sq. ft (including all shifts)	20%
	▪ Avg size of store (sq. ft)	
	▪ Available staff capacity, based on complexity of transactions and footfall per store staff	
	▪ Level of automation within the store, based on store features like Cash only, EPoS, Digital shelf edge labels, self-service checkouts, potable scanners etc.	
	▪ Level of in-store staff skill, based on review of min. skill requirements to work in the store	
Financial Stability	▪ POL Scoring of financial stability	10%
	▪ Financial health status post-Covid impact	

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WIN-WIN FRANCHISE PROPOSITIONS TO DRIVE PROFITABLE GROWTH

Key retail partners based on blueprint overlap, brand fit and operational capability to host a post office

TOP 20 RETAIL PARTNERS FOR URBAN LOCATIONS

Retailers	Composite score	Location	Operational Capability	Brand fit
IRRELEVANT				

TOP 20 RETAIL PARTNERS FOR RURAL LOCATIONS

Retailers	Composite score	Location	Operational Capability	Brand fit
IRRELEVANT				

Multiples & Banks
Mutuals and Symbol groups
Independents
Others

Scale:
1 = Lowest
5 = Highest

Indicates retailers who currently have Post Offices

Sources: Analyses based on data from company websites including annual reports, investor reports, IGD, ACS, Euromonitor, Geolytix, POL data, press releases, and primary research (subject matter expert interviews)

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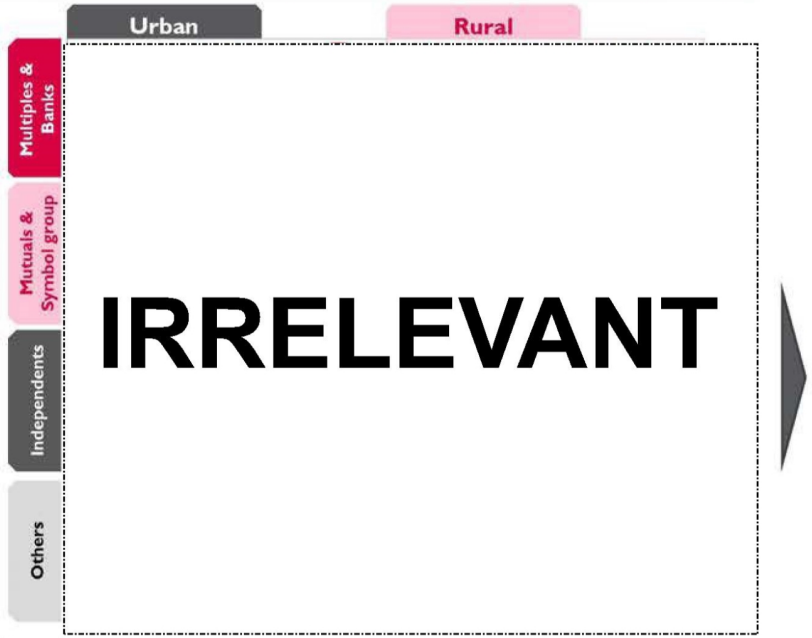
WIN-WIN FRANCHISE PROPOSITIONS TO DRIVE PROFITABLE GROWTH

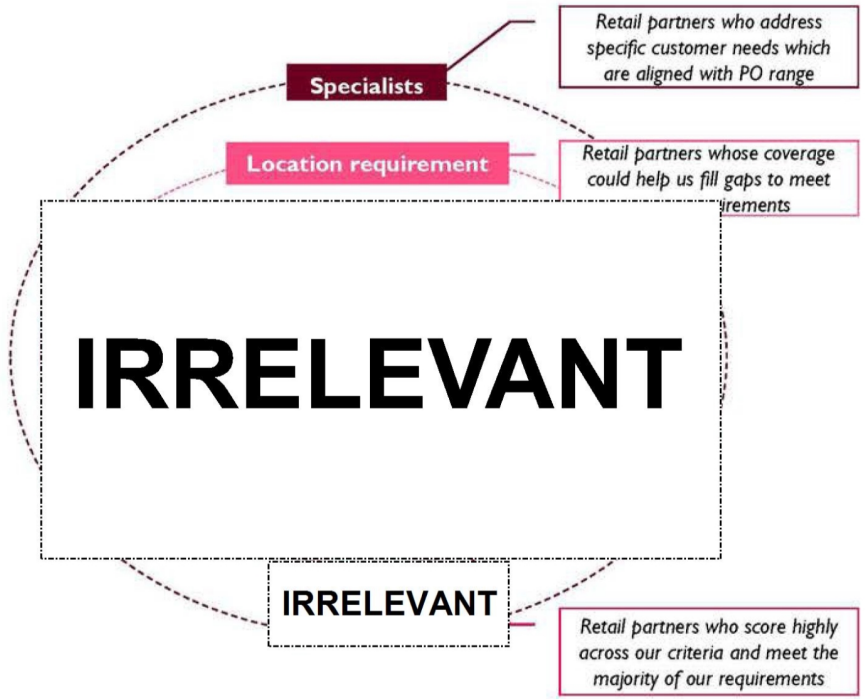
We have identified a portfolio of leading retail partners to deliver our target network based on locations, brand fit, operational capability & financial stability

KEY PARTNERS ACROSS LOCATION TYPE AND PARTNER TYPE*



We need to consider a combination of partners across Urban and Rural locations across multiples, independents, mutual & symbol groups and others (specialists and charities)

PORTFOLIO APPROACH TO PARTNER STRATEGY*



Notes: (*) Icons reference to the top choices by location type. The remaining choices can be found in the long list
Sources: Analyses based on data from company websites including annual reports, investor reports, IGD, ACS, Euromonitor, Geolytix, POL data, press releases, and primary research (subject matter expert interviews)

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WIN-WIN FRANCHISE PROPOSITIONS TO DRIVE PROFITABLE GROWTH

Key considerations for our retail partner strategy

Balance between social value and commerciality	Manage a portfolio of partners who can help deliver our network target from both a profitability and access point of view
Potential friction between competing partners	Consider potential partners' network coverage and propositions and design clear terms and commitments for each tier (Bronze to Diamond) to ensure our partners play complimentary roles within our portfolio
Retailers' existing proposition and partnerships	Understand retailers' existing propositions and partnerships e.g. Click & Collect, and related system integration requirements to evaluate retailers' ability and willingness to take on PO formats
Consideration for local specificities	Assess the geo-locational characteristics and commercial circumstances driving consumer behaviours across retail partners' network in order to offer the relevant formats and manage potential cannibalisation
Managing the commercial risk to network	Considering the critical mass of stores with different partners such that the network is not over indexed on any one partner's network
Managing locations	Efficient management of locations in a neighborhood to reduce or eliminate any potential sales cannibalisation amongst PO locations

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1. Review of network requirements & gap analysis

2. Proposal for future network strategy

3. Implementation plan and key considerations

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IMPLEMENTATION CONSIDERATIONS

Key dependencies to deliver our network strategy

Dependencies	Details
1. Agreement with BEIS on definition of a post office	▪ Agreeing a more flexible definition of what counts as a post office is a key enabler of the new formats range (in particular for the lighter touch models), which we believe is essential to secure great retailers in the right locations for customers
2. Technology enablement (Strategic Platform Migration)	▪ IT will be a key success factor in improving POL and PM profitability and operational efficiencies, particularly in supporting postmasters with a wider range of trading solutions which can integrate more effectively into their main retail operation. In some locations this will include automation of mails & banking transactions in particular to reduce labour costs & improve the customer journey (*further detail due in September*)
3. RMG agreement & MDA2	▪ Roll-out of PUDO only propositions not including sale of RMG products in-branch will require their approval under MDA provisions (although previous experience with Parcelshop suggests they will be supportive). ▪ PUDO strategy more generally predicated on the opening up of restrictions with RMG
4. Sufficient funding	▪ Potential change costs of IRRELEVANT (not including SPM) required to transition to target network over the next 3.5 years – although this needs to be compared against the high costs of managing the churn under the default strategy.
5. Banking Framework 3	▪ Landing a sustainable economic model for banking services beyond the end of BF2 (end 2022) is essential to ensure we can continue to provide widespread access to cash across our network

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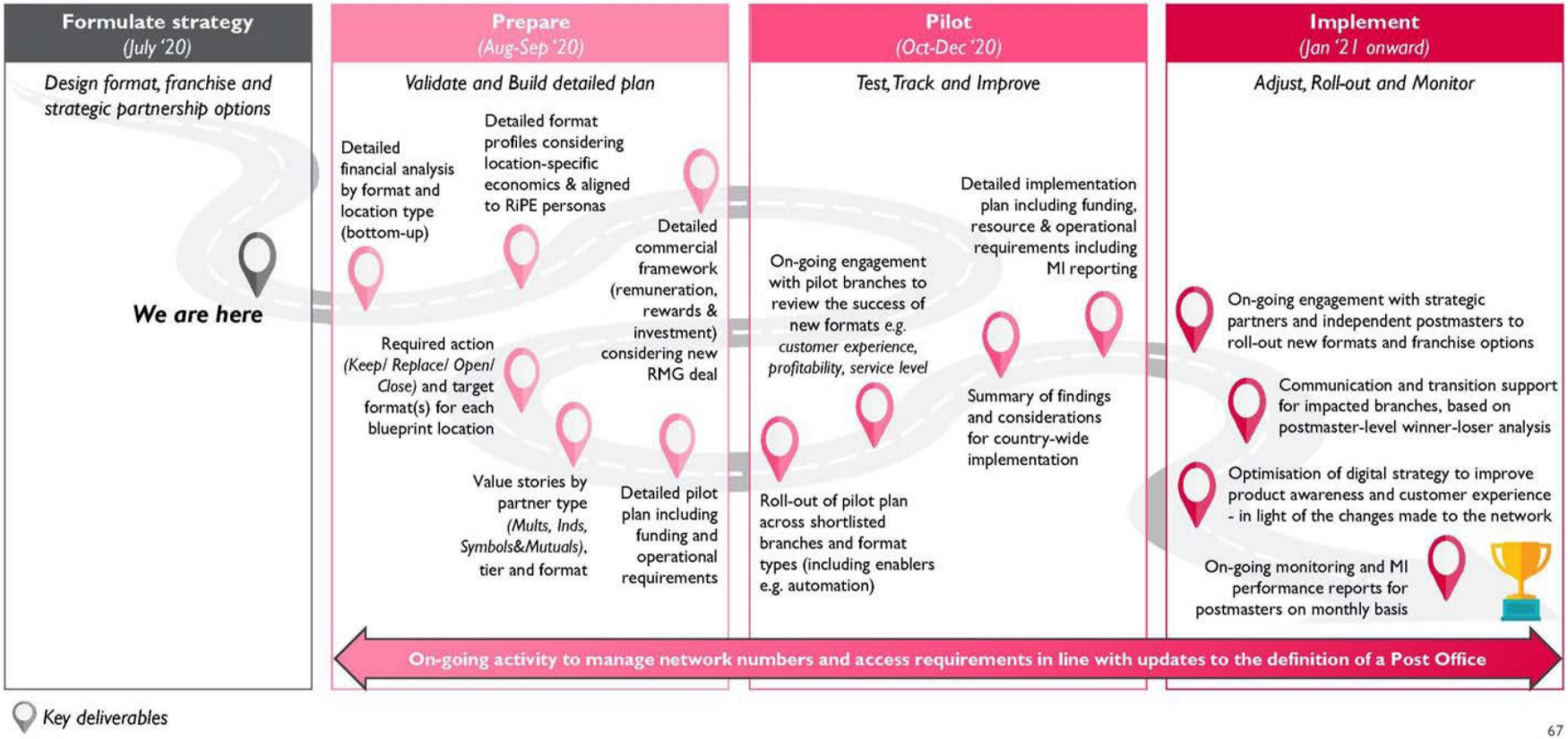
IMPLEMENTATION CONSIDERATIONS

4 key phases in the roadmap to successfully implement our network strategy



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Appendices

1.1 – Case Studies – on format options

1.2 – Case Studies – on franchise options

1.3 – Partnership options

1.4 – Customer segment analysis

1.5 – Postmaster case studies

1.6 – Format Economics and other assumptions

1.7 – References and List of Abbreviations

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Appendix 1.1

Case Studies – on format options

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Appendix 1.2

Case Studies – on franchise options

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Learnings from case studies

	Commercial	Operational	Relevant for
petrol station 	✓ **Annual business plan** shared with franchisee to manage expectation and support with business planning ✓ **Annual review of commercial terms** to improve profit stability for franchisees ✓ **Payment support** for branches in strategic locations	✓ **Full control over supplier selection and range of products** ✓ **Staff training and technology platforms provided by brand and paid by franchisee:** ensuring consistency of customer experience and brand perception across branches ✓ **Varied level of operational support** depending on volume sold	**Full service**
forecourt operator 	✓ **Variable remuneration:** Higher level of control on operations and offering variable remuneration to franchisee based on volume and complexity of operations by branches	✓ **Franchisee's full operational responsibility:** Franchisee carries out all operations – ensures efficient use of resources ✓ **Regular monitoring:** Appointed site managers can carry out regular check-ups to monitor performance and quality standards	**Full service**
quick service F&B 	✓ **Defined fixed % commission from franchisee:** While all revenues goes to franchisee, only a certain set of fixed charges are taken from franchisee ✓ **Branding and systems support:** Fixed % of charges for marketing and systems which the Franchisor handles for all franchisee	✓ **Free up franchisee from real estate responsibility:** Manage the real estate and charge franchisee a rental fee, but Franchisor manages the layout and usage of real estate ✓ **Dedicated training support:** Mandatory training for staff to ensure high service quality	**Express**
self-serve coffee 	✓ **Fully commission-based model:** With progressive rates provides clear incentive to push volume ✓ **Wider range of partners:** Potential to partner with hospitals, universities and transport interchanges etc.	✓ **Minimal space requirement:** Kiosks require minimal space (c15 sq ft per machine/kiosk) ✓ **Direct reporting:** Direct reporting of all transactions processed through Kiosks to franchisor ✓ **Potential high rural coverage**	**Automated**
soft drink company 	✓ **Incentive based remunerations:** Sales volume based incentives to franchisee to motivate upsell ✓ Terms **aligned to strategy** so that it maximizes profitability for both the company and franchisee	✓ **Promotional investment** within stores to help drive footfall ✓ **Joint business plan created on an annual basis** and reviewed on a quarterly basis	**Express**

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Case study – petrol station by oil major

Commercial

Overview

- **527 sites in the UK** – *79 are franchisee who own ~5-6 sites each, providing both fuel and non-fuel products*
- **Growth rate in franchisee** – *On average, there are 6-10 new franchisees per year*
- **Exit rate** – *On average, there are 4-5 franchisee exits per year, usually driven by inability to fulfil SLA*

Commercial arrangement	
Revenue Model	• ***Fuel:*** *The franchisee revenue is primarily driven from a commissions amounting to ~0.5-1p per litre of fuel sold* • ***Non-Fuel:*** *The franchisee receives revenue from the sale of non-fuel products, but pays a royalty (~%10 of the sales) to the franchisor* • ***Additional adjustment:*** *An amount the franchisor contributes to the site to make it desirable to have in a cluster from a profitability standpoint*

Operational

Staffing	▪ *Salaries are paid by franchisee* ▪ *Staffing policies are also prepared by franchisee*
Training	▪ *Training is the responsibility of territory managers (franchisor)* ▪ *Existing franchisee often shadow as trainers to new franchisee*
Technology	▪ *EPOS and Daily Settlement Advice System provided by the franchisor* ▪ *Franchisees are provided with an iPad for communication and general business needs*
Operating costs and maintenance	▪ *The franchisor reimburses a specified % of the franchisee's operating costs and rates*
Service quality standards	▪ *The franchisor employs territory and district managers to oversee the licensee's performance. Full reporting on the data for daily sales*

Financial

Financial overview	Franchisee (2019, £k)
Avg. gross income / cluster	*950 - 1000[a]*
Avg. gross income / store	*120 – 160*

Social

Rural footprint	*There are sites all across the UK, including rural locations*
Communities served	*The franchisor greatly contributes to local communities, particularly young adults, from providing grants to local charities to reduce crime, to facilitating educational programmes in STEM for future career opportunities*

Notes: The franchisor provides a settlement figure to ensure the franchisee's propositions are profitable and attractive; Franchisor is the 'Oil Major' and franchisee is the 'Retailer, who runs the site'; (a) Cluster level represents a group of sites in a certain location run by same retailer (on an average 7 sites per cluster)
Sources: Company website, annual report, press releases and primary research (subject matter expert interview)

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Case study – quick-service restaurant

Commercial

Overview

- *QSR operates ~1,300 restaurants in the UK market, of which 1,100 are franchised units. The QSR manages over 160 Franchise partners, and employs over 120,00 people*
- *It has almost tripled the amount of franchised restaurants in last 15 years. In 2019, the QSR observed 50th straight quarterly growth in revenues*

Commercial arrangement

Revenue Model	*Franchise partner (franchisee) keeps the revenue from store's sales, but pays following fee to the franchisor (QSR), thereby earning ~70% to 78% of net sales:* • ***Rent fee:*** *12.25% to 21% for use of fully-functioning space, equipped and ready to run as QSR's store* • ***Monthly service fee:*** *Fixed 5% of the net sales for use of franchisor's system* • ***Contribution to the marketing fund:*** *Fixed 4.3% of net sales*
One time investment	*The franchise partner is required to investment at least £100k to buy franchisee rights and equipment*

Operational

Staffing	▪ *The company employs ~120,00 people in the UK; with ~70+ staff per store. Usually, franchisor doesn't play any direct role in staffing for its franchisee stores*
Training	▪ *Franchisor provides mandatory 26 weeks training to all its new franchisees which includes classroom learning as well as practical restaurant experience*
Technology	▪ *Franchisor provides IT systems and technology to its franchise partners, and in-return charges a fixed monthly service fee of 5% of net sales*
Real estate	▪ *Globally, franchisor's average store size is 4,000 sq. feet. A franchise partner has no say in the use of real estate and franchisor would decide the space use plan*
Operating costs and maintenance	▪ *The franchise partner is responsible for the maintenance and regular refurbishment of the restaurant space*
Legal contract	▪ *Franchisor usually follow a 20- year agreement with each Franchise partner*
Service quality	▪ *Franchisor provides systems and quality standards guide to its franchise partners*

Financial

Financial overview	Franchisor (2019)	Franchisee (2019)
Avg. revenue / store	*£380K – £1,080K[a]*	*£1.5 million – £4.3 million[c]*
Avg. Gross Income/ store	*£150K – £450K[b]*	*£50K – £550K (Cash flow)[d]*

Social

Rural footprint	• *Franchisor runs a 'Farm Forward' plan where it partnered ~15k farmers in the UK*
Communities served	• *Franchisor partnered with 'The Prince's Countryside Fund' in the UK to support farming and rural communities in the times of Covid-19 pandemic*

Note: (a) Avg. revenue / store is calculated by taking avg. franchisor remuneration per store (25% of sales) and multiplying it by avg. revenue/ store for franchise partner; (b) Avg. profitability / store is calculated by taking QSR's EBIT margin FY20 (41.4%) from S&P Capital IQ and multiplying it by Avg. revenue / store; (c) From May 2018 to June 2019, 80% of all QSR's UK franchised restaurants had sales between £1,500k and £4,300k; (d) Represents typical annual cash flow after first year of franchisee operations, and includes money left in the business before a personal draw, and payment of any loans or taxes that may be outstanding | Sources: Company website, annual report, press releases and primary research (subject matter expert interview), What-franchise.com; 29 June 2020

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Case study – forecourt operator

Commercial

- **Overview:** *A leading forecourt operator chain in the UK, operating all of its sites through franchisee (each typically running 2 to 5 sites). Franchisee is responsible for day-to-day operations and is paid a remuneration*
- **# sites:** *~490*
- **Growth in franchised sites:** *~15% year-on-year*

Commercial arrangement	
Revenue model	*Franchisee gets a largely fixed remuneration annually which is dependent on:* *a. Volume of transactions on the site* *b. Complexity of the operations (nature of other services available at the site and skills required to operate and manage those services)* *c. Ability to meet all service quality checks set by the franchisor*
Costs model	*Franchisee is reimbursed for the operating costs at the site which include:* *a. General operating costs and site maintenance costs (cleaning / upkeep etc.)* *b. IT hardware, software etc.* *c. Staff salaries*

Operational

Staffing	▪ *While franchisee would be responsible for managing the staff at the site, staff costs is borne by the franchisor*
Training	▪ *Training usually provided at the time of onboarding or at times of upskilling w.r.t a new technology. Also Health & Safety trainings provided to all franchisee*
Technology	▪ *All technology including the EPOS system provided by the franchisor*
Real estate	▪ *Franchisee has no say in the use of real estate and forecourt operator (or in some cases the Grocery Fascia) would decide the space use plan*
Operating costs and maintenance	▪ *Franchisee undertakes the operations and maintenance of the site and gets reimbursed by the Franchisor*
Service quality standards	▪ *Franchisor appoints site managers who are responsible for ~5 to 10 sites and undertake regular check-ups of the sites. Franchisee may get their remunerations reduced if they fail to meet the check-up requirements*

Financial

Financial overview	Franchisor (2017, £k)	Franchisee (2017, £k)
Avg. revenue / store	*£360 – 380k[a]*	*NA*
Avg. Income / store	*£140 – 160k[a]*	*£30k – £70k[b]*

Social

Rural footprint	▪ *Sites spread through the UK including rural areas (~15% in rural areas)*
Customer segments served	▪ *While through the fuel retailing, the franchisor serves all kinds of customers and communities, its grocery retail caters to customers with missions such as 'Top-up shop', 'Food for now', and 'Food for tonight'*

Notes: Franchisor is 'Forecourt operator' and franchisee is 'Retailer, who runs the site' (a) Average revenue per store is based on Gross Profit from the site including margin on sale of fuel and non-fuel items, while profitability is reflective of Contribution per branch; (b) Bigger and busier sites franchisee with better branded fascia such as Sainsbury's etc. might get higher remuneration in the range of £50 to £70k, but for other branches the franchisee remuneration would be somewhere between £30 to £40k | Sources: Company website, annual report, press releases and primary research (subject matter expert interview); Forecourt Trader

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IRRELEVANT

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Case study – soft drink company

Commercial

Overview: *A leading bottling company in the UK, that work together with its customers (like their partners), to designs and execute joint plan to create value for both the parties. Additionally, offers performance based incentive structure*

	Convenience Retail
Revenue model	*Business plans are drafted on a yearly basis and performance reviewed on a quarterly basis to drive a value for value conversation:* • *Volume based investment – greater % discount for ordering more volume based on RPC measured on a monthly basis* • *Efficient ordering – higher % of discount for ordering full vs. half truck measured on an order basis* • *Sales collaboration – Reimbursement for sharing data and insights on buying patterns paid on receipt of data* • *Promotional investment – Payment for instore promotions, product placement, reviewed on a quarterly basis*

Operational

Staffing	▪ *Staffing requirements are undertaken by the partners, sometimes the distributor deploy temporary staff to support promotion and product launch*
Training	▪ *Distributor provides product related training to the ground staff*
Technology	▪ *EPOS are held by the partners, sometimes bottling companies pays the convenience retailer for the purchase and use of data*
Real estate	▪ *Distributor has no say in the use of real estate, however it can influence the placement of its products with additional incentives in the current remuneration structure*
Operating costs and maintenance	▪ *Partner undertakes the operations and maintenance of the site*

Financial

Financial overview	Beverage Company	Customer / Partner
Avg. revenue / store	*£85 – 100k*	*£130 – 150k*
Avg. Gross Income / store	*£25 – 35k*	*£20 – 30k*

Sources: Company website, annual report, press releases and primary research (subject matter expert interview)

Social

Rural footprint	▪ *Depends on the location of the customers/ partners*
Communities served	▪ *Services communities across all regions and customer segments through presence of partners across region in the UK*

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Appendix 1.3

Partnership options

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IRRELEVANT

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Partners – complimentary value proposition

IRRELEVANT

Observations

- Retailers with lower footfall/ m^2 could benefit from a PO partnership and the cross-sell halo effect
- This would be particularly relevant for retailers experiencing a recent decline in footfall, and/ or retailers with shopper missions that align to those of PO customers

- Depending on the location and alignment of range and brand equity, a PO partnership could help improve retailers' competitiveness, boost customer loyalty and strengthen their presence in strategic locations

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Partners – complimentary brand value

Partner alignment with PO brand value

IRRELEVANT

Sources: primary research (subject matter expert interview)

Observations

- Brand alignment with POL is strongest with companies that are closely linked with communities such as IRRELEVANT
  - Alignment with these companies will generate positive net combined brand equity, thus benefiting both POL and the partner
- Brand equity of banks and financial services companies would benefit significantly from partnering with PO
  - This will enhance the importance and hence their motivation to partner with PO
- Discounters and budget stores such as IRRELEVANT score the lowest from a brand alignment view point showing their significantly different brand value and purpose

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Appendix 1.4

Customer Segment Analysis

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Aspiring & Digital customers have low awareness and consideration for insurance, financial and telecom product across Mains formats

	MAINS		LOCALS
	IRRELEVANT	Large Retailer with a dedicated counter	
Consideration & Awareness	**Product awareness issues** exist across Mains formats for A&D customers. Financial products are more prevalent for customers using IRRELEVANT formats with telecoms awareness across all formats extremely low.		**Higher awareness** of all products from A&D customers using a Local format.
			
Top Mails Activities	Substantial use of the Mains format (especially retailers) for **sending letters/parcels**. Returns are most often conducted in a IRRELEVANT Mains format.		Locals are used more often for collecting missed deliveries and online purchases.
	Send letters/parcels 80% Returns 31%	Send letters/parcels 91% Click and collect 14%	Send letters/parcels 74% Collect missed delivery 26%
Visit	▪ Weekly visits across IRRELEVANT formats are less frequent than other formats. These visits are **highest in suburban areas and town centres**, and **declining in rural areas**.	▪ **Monthly visits** are most common in retailer environment. ▪ These visits are **increasingly in large town and city centres**, and **declining in rural locations**.	▪ **Monthly visits to suburban areas** are favoured and increasing in dominance.
POL Perception	▪ 50% believe POL plays an important role in community ▪ 45% of customers want to see POL as a brand to succeed.	▪ 57% believe POL plays an important role in community ▪ 52% of customers want to see POL as a brand to succeed	▪ 65% believe POL plays an important role in community ▪ 63% of customers want to see POL as a brand to succeed

Notes: Base numbers for charts – IRRELEVANT (Insurance- 222, Financial- 274, Telecom- 44); Retailer (Insurance- 245, Financial- 324, Telecom- 39); Locals (Insurance- 284, Financial- 385, Telecom- 86); IRRELEVANT and large retailers classified as Mains; stores without PO counters and convenience stores classified as Locals | Source: Customer Segment Research - Pen Portraits – February 2020

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Pressured & Price Conscious customers use Mails to send letters and parcels frequently and have a good awareness of insurance, financial and telecom products

MAINS

IRRELEVANT

Consideration & Awareness

Product awareness is good across Mains formats for P&P customers. Financial and insurance products are more prevalent for customers using IRRELEVANT formats while telecoms awareness is high at large retailers.



Top Mails Activities

Extremely high activity of sending letters/parcels for P&P customers, especially in the Retailer format. Returning purchases from online is most prevalent in a Retailer format while collecting missed deliveries is common in IRRELEVANT

Send letters/parcels	90%
Collected missed delivery	33%

Visit

- Visits are generally on a monthly basis to suburban areas, with a **growing number of customers visiting city centre** outlets (46%) and a **declining number visiting rural areas**.

POL Perception

- 65% believe POL plays an important role in community
- 59% of customers want to see POL as a brand to succeed

Large Retailer with a dedicated counter

Consideration & Awareness



Top Mails Activities

Send letters/parcels	96%
Returns	46%

Visit

- **Visits tend to be monthly, in suburban areas** followed by city centres.

POL Perception

- 71% believe POL plays an important role in community
- 65% of customers want to see POL as a brand to succeed

LOCALS

Consideration & Awareness

Good awareness of products in a Local format, especially insurance products.



Top Mails Activities

Sending letters and parcels in addition to returning online purchases are two key Mail activities in the Locals format.

Send letters/parcels	93%
Returns	37%

Visit

- Visits tend to be **weekly or monthly**, in villages and suburban areas, with **city centres declining.**

POL Perception

- 64% believe POL plays an important role in community
- 67% of customers want to see POL as a brand to succeed

Note: Base numbers for charts – IRRELEVANT (Insurance- 107, Financial- 150, Telecom- 22); Retailer (Insurance- 81, Financial- 95, Telecom- 14); Locals (Insurance- 295, Financial- 358, Telecom- 70); IRRELEVANT and large retailers classified as Mains; stores without PO counters and convenience stores classified as Locals | Source: Customer Segment Research - Pen Portraits – February 2020

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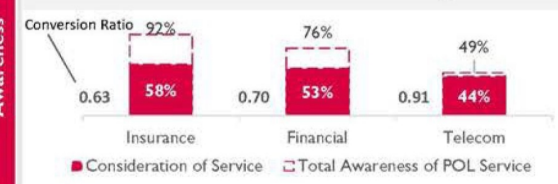
High awareness and consideration of telecom, insurance and financial products among Moving Forward Comfortably customers shopping at a locals rather than mains

	MAINS		LOCALS
	IRRELEVANT	Large Retailer with a dedicated counter	
Consideration & Awareness	**Product awareness is moderate** across Mains formats for MFC customers. **Weak telecoms awareness** exists across both Mains formats with insurance and financial products more prevalent at IRRELEVANT compared to large retailers.		**Strong awareness** of most products from MFC customers using a Local format compared with Mains format.
Top Mails Activities	Using POL to send letters and parcels is less frequent in this segment. Click and collect is a key activity for consumers in IRRELEVANT formats, while collecting missed deliveries in prevalent in Retailer Mains formats.		Locals are most important to connect customers to **online**, particularly returns, with sending letters lowest of all segments
Visit	▪ Visits tend to be **monthly and increasingly in city centres**, with consistent use of suburban and small town shops for 47% of customers.	▪ Visits are predominantly **monthly** (32%) ▪ Customers favour **city centres and suburban stores**.	▪ Locals visited **most often**; with 23% visiting on a weekly basis. ▪ Visits are increasingly to **small villages and suburban areas** in convenience stores.
POL Perception	▪ 71% believe POL plays an important role in community ▪ 71% of customers want to see POL as a brand to succeed	▪ 61% believe POL plays an important role in community ▪ 61% of customers want to see POL as a brand to succeed	▪ 66% believe POL plays an important role in community ▪ 67% of customers want to see POL as a brand to succeed







Send letters/parcels	78%
Click and Collect	43%

Send letters/parcels	75%
Collect missed delivery	33%

Send letters/parcels	66%
Collect missed delivery	45%

Note: Base numbers for charts – IRRELEVANT (Insurance- 71, Financial- 91, Telecom- 20); Retailer (Insurance- 39, Financial- 40, Telecom- 11); Locals (Insurance- 209, Financial- 237, Telecom- 43); IRRELEVANT and large retailers classified as Mains; stores without PO counters and convenience stores classified as Locals | Source: Customer Segment Research - Pen Portraits – February 2020

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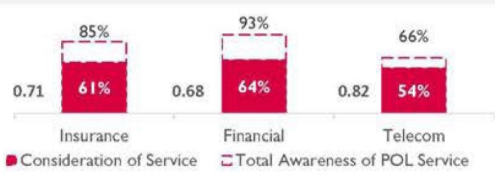
Confident & Discerning customers show strong awareness of products and services across both mains and local formats

	MAINS		LOCALS
	IRRELEVANT	Large Retailer with a dedicated counter	
Consideration & Awareness	**Product awareness is strong** for C&D customers using Mains. Financial awareness and consideration is substantial in the Retailer format although telecom products awareness is low in this format compared with IRRELEVANT formats.		**High awareness** of all products from customers using a Local format. Low consideration for Telecom products
Top Mails Activities	**Sending letters and parcels** is most prevalent in IRRELEVANT although still a key activity in Retailer format. Returns in IRRELEVANT stores and click and collect in Retailer's are key Mains activities.		Sending letters, parcels and returns are the most popular mail activities for C&D consumers in Local formats.
Visit	▪ This segments are increasingly **visiting large town and city centre** locations (47%), similar to **suburban areas** (48%). ▪ Visits are predominantly **monthly or 3-4 times per year**.	▪ Customers tend to **visit monthly** (38%). ▪ Visits are most common in **suburban areas** (76%) with **rural visits reducing** in prevalence.	▪ Customers dominantly and increasingly use Locals in **suburban areas.** ▪ These visits tend to be **weekly or monthly**.
POL Perception	▪ 72% believe POL plays an important role in community ▪ 71% of customers want to see POL as a brand to succeed	▪ 77% believe POL plays an important role in community ▪ 74% of customers want to see POL as a brand to succeed	▪ 76% believe POL plays an important role in community ▪ 69% of customers want to see POL as a brand to succeed







Send letters/parcels	92%
Returns / collect missed delivery	43%

Send letters/parcels	84%
Click and collect	40%

Send letters/parcels	87%
Returns	33%

Note: Base numbers for charts – IRRELEVANT (Insurance- 75, Financial- 73, Telecom- 18); Retailer (Insurance- 55, Financial- 81, Telecom- 11); Locals (Insurance- 322, Financial- 359, Telecom- 80) IRRELEVANT and large retailers classified as Mains; stores without PO counters and convenience stores classified as Locals | Source: Customer Segment Research - Pen Portraits – February 2020

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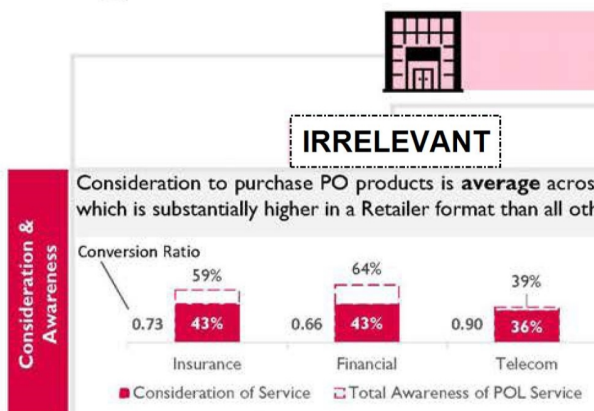
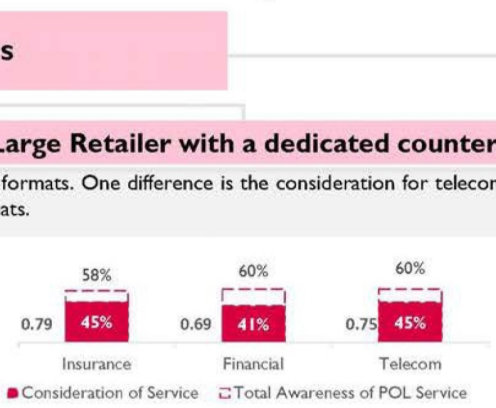
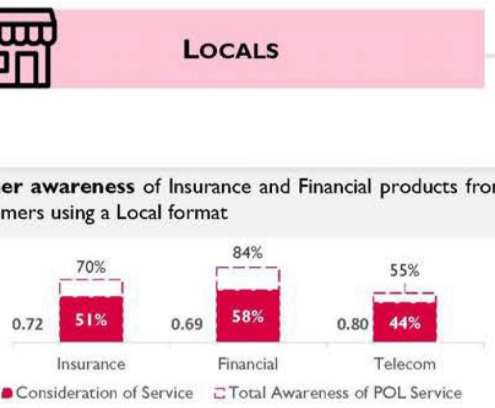
Content & Conventional customers use suburban stores on a monthly basis. They have greatest awareness and consideration of products and services in Local stores

	MAINS		LOCALS
	IRRELEVANT	Large Retailer with a dedicated counter	
Consideration & Awareness	Consideration to purchase PO products is **average** across Mains formats. One difference is the consideration for telecoms, which is substantially higher in a Retailer format than all other formats.		**Higher awareness** of Insurance and Financial products from customers using a Local format
Top Mails Activities	This segment sends letters and parcels much more frequently than all other Mails services. This is most prevalent in Retailer formats while **collecting online goods or missed deliveries is more prevalent in** IRRELEVANT format.		These consumers find Locals convenient for **collecting their missed deliveries** in addition to sending letters/parcels.
Visit	▪ This segment increasingly visit city centres (40%), with **suburban areas** being most popular (51%). ▪ These visits are predominantly **monthly or 3-4 times/year**.	▪ 58% of customers visit **suburban areas** and 28% city centres ▪ Visits are predominantly **monthly** (26%), however 18% visit weekly and 20% 3-4 times per year.	▪ These customers **tend to visit monthly**, however weekly visits are becoming more frequent. ▪ **Suburban areas are predominant**, seconded by villages.
POL Perception	▪ 64% believe POL plays an important role in community ▪ 63% of customers want to see POL as a brand to succeed	▪ 61% believe POL plays an important role in community ▪ 57% of customers want to see POL as a brand to succeed	▪ 66% believe POL plays an important role in community ▪ 60% of customers want to see POL as a brand to succeed







Send letters/parcels	88%
Click and collect / collect missed delivery	21%

Send letters/parcels	95%
Returns	24%

Send letters/parcels	82%
Collect as missed delivery	24%

Note: Base numbers for charts – IRRELEVANT *(Insurance- 133, Financial- 132, Telecom- 30); Retailer (Insurance- 98, Financial- 111, Telecom- 28); Locals (Insurance- 395, Financial- 379, Telecom- 88);* IRRELEVANT *and large retailers classified as Mains; stores without PO counters and convenience stores classified as Locals | Source: Customer Segment Research - Pen Portraits – February 2020*

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Appendix 1.5

Postmaster case studies

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Our existing models are profitable for POL and attractive to many convenience retailers in the IRRELEVANT range of weekly retail sales

£5k retailer example (Local, CS: 600 to 700)	
Name	IRRELEVANT
Location	
Estimated Customer Sessions	
PM Remuneration	
Cross Sell Income	
ATT Cost	
Back Office	
Staff Hours Costs (Manning)	
Labour Cost Absorption	
Training Cost	
PM Op. Margin incl. Cross Sell	
PM Op. Margin excl. Cross Sell	

£20k retailer example (Local, CS: 600 to 700)	
Name	IRRELEVANT
Location	
Estimated Customer Sessions	
PM Remuneration	
Cross Sell Income	
ATT Cost	
Back Office	
Staff Hours Costs (Manning)	
Labour Cost Absorption	
Training Cost	
PM Op. Margin incl. Cross Sell	
PM Op. Margin excl. Cross Sell	

£20k retailer example (Main, CS: 1,500 to 2,000)	
Name	IRRELEVANT
Location	
Estimated Customer Sessions	
PM Remuneration	
Cross Sell Income	
ATT Cost	
Back Office	
Staff Hours Costs (Manning)	
Labour Cost Absorption	
Training Cost	
PM Op. Margin incl. Cross Sell	
PM Op. Margin excl. Cross Sell	

Observations

- Profitable Postmaster examples can be noted above for formerly Locals and formerly Mains in retailers with weekly sales of IRRELEVANT
- Even excluding cross sell income, Postmaster operations alone can generate positive operating margins
- Cross sell income will be far more significant to these retailers with lower levels of base retail footfall
- Profitability improvement initiatives should be progressed for retailers who are generating losses or struggling to breakeven – the above examples illustrate a positive benchmark for these stores to compare and measure against

IRRELEVANT

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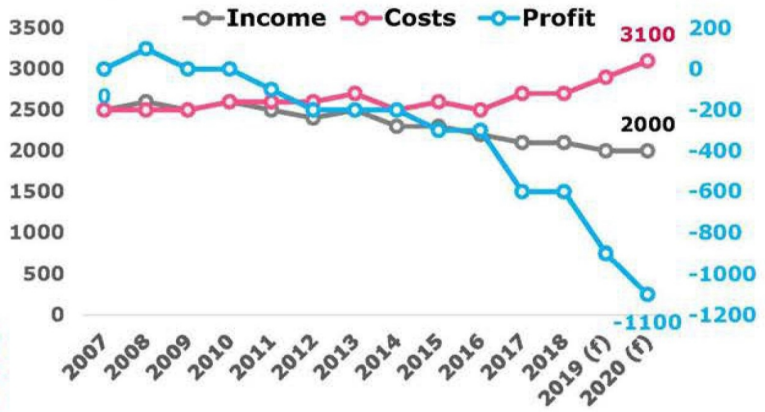
Desktop modelling on actual branches indicate our new propositions will provide significantly more profitable format options for higher sales density retailers such as the IRRELEVANT where the cross sell is not recognised and there is little opportunity to exploit unproductive retail staff time

IRRELEVANT retailer example				
State	As-is (legacy)	Future State (Essential)	Future state (Basic (excl. banking))	Future state (Basic)
Name	IRRELEVANT			
Estimated Customer Sessions				
PM Remuneration				
Cross Sell Income				
ATT Cost				
Back Office				
Training Cost				
PM Operating Margin				
PM excl. Cross Sell				
POL Operating Margin				

IRRELEVANT is typical with Income declining, costs increasing and their 39 post offices are now losing them money



Observations:

- In the above example, the branch is currently breakeven for the Postmaster excl. cross sell income
- In the future state, Essentials, Basic excl. banking, and Basic are all profitable for both the Postmaster and POL

*Note: *Cross sell calculation is based on customer sessions and estimated retail revenue. The cross sell is calculated at a gross margin of 25%, with basket size of £5.00, £6.50 and £8.00 for a £5k, £20k and £50k retailer respectively. The underpinning assumption is that 50% of revenue is driven by POL, and of that, 20%/30% will go on to buy products (for mains/locals respectively)*

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The new propositions also provide the opportunity to partner with new and different businesses in locations where we have not previously been represented

The below examples illustrate that Postmasters of various types can generate positive operating margins in multiple formats, even when excluding cross sell income.

Chemist – Essentials	Travel location – Essentials*

IRRELEVANT

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Further opportunities exist in partnering with other different types of retailers who are already equipped with the necessary staff and equipment

Potential opportunities	Potential retail partners	Income and cost assumptions*	Comments
Identity offer	IRRELEVANT		
Automated banking offer			

IRRELEVANT

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Appendix 1.6

Format Economics and other assumptions

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Appendix – PM assumptions in the Economic Model (in the current state)

PM assumptions summary	
Category	**Assumption(s)**
PM remuneration	IRRELEVANT
Cross sell income	
Labour costs	Labour costs are modelled at £18 per hour **Labour wage rate comparison** **Comparison** / **London** / **Outside London** IRRELEVANT
Estimated retail sales	• Estimated retail sales of PMs based on based on retail type, fascia and surrounding population

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POL assumptions in the Economic Model (in the current state)

POL assumptions summary	
Category	**Assumption(s)**
Branch fixed costs	IRRELEVANT
Branch variable costs	
Customer sessions fixed and variable costs	
Start up costs	
Supply chain costs	
IT fixed and variable costs	
IT variable costs	
Customer sessions	

Note: Branch, Customer Sessions, IT and Supply Chain fixed and variable allocations based on Hydra model

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Appendix

Product level 3 range cubes modelled in each format

Product ranges in each format					
PayZone	**Express**	**Basic (excl. banking)**	**Basic**	**Essential**	**Plus**
Bill Payment (current product set)	Bill Payments	Bill Payments	Banking Other	Banking Other	Banking Other
	Home Shopping Returns	Home Shopping Returns	Bill Payments	Bill Payments	Bill Payments
	Gift Cards	Labels	Card account	Card account	Car Insurance
	Stamp Books	Lottery	Deposits	Deposits	Card account
		Mails Other	Home Shopping Returns	Gift Cards	Credit Cards
		Parcelforce	Labels	Home Shopping Returns	Deposits
		Postal Orders	Lottery	International Priority & Standard	Gift Cards
		Gift Cards	Mails Other	Labels	Home Insurance
		Stamp Books	Parcelforce	Lottery	Home Office
			Postal Orders	Mails Other	Home Shopping Returns
			Withdrawals	Moneygram	Identity Services
			Gift Cards	Parcelforce	International Priority & Standard
			Stamps	Postal Orders	Labels
			Stamp Books	Stamps	Life - Over 50s
				Travel Money - Variable	Life - SLI
				Withdrawals	Lottery
				Stamp Books	Mails Other
					Moneygram
					Other Insurance
					PO Money (Morgages, Savings Loans)
					Parcelforce
					Postal Orders
					Stamps
					Telco
					Travel Money - Variable
					Withdrawals
					Stamp Books

Note: Stamp income and cost lines (at product level 3) has been split 50% between Stamps and 50% between Stamp Books

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Over recent years POL have developed a growing body of research to evidence and quantify the cross sell opportunity with the core retail business which has been further enhanced by KPMG

Source	Findings
KPMG benchmarking (Retailer) - 2020	▪ An average increase of 5% in sales with a maximum increase of 12% when comparing stores with POL branches vs those without POL branches (in the same size (sq ft) and affluence category for a large retail organisation)
Kantar research 2019	▪ 72% is the main reason for visiting a branch with a Post Office ▪ 30% of the trips include an additional purchase
Him! research 2018	▪ 39 % of Post Office customers primarily visited the store to fulfil a Post Office mission (this was down from 52% in 2016 but was driven by a change in the sample methodology) ▪ 52% of these customers made a retail purchase at an average basket of £8.01
Retailer Co-Op Research 2017	▪ 37 % of Post Office customers primarily visited the store to fulfil a Post Office mission ▪ 37% of these customers also bought retail products on their visit
Post Office Agent Survey and NT Analysis 2016/17	▪ Average retail sales uplift from a Post Office is +12% (Local Model)
Rymans and Henderson's 2016/17	▪ Average retail sales uplift from introducing Post Offices to stores is +3% to +15% which equates to a circ 1 in 4 conversion rate of Post Office customers based on retail sales

Model approach
▪ The Cross sell calculation is based on customer sessions, estimated retail revenue, average basket size and gross margin ▪ It is assumed that 50% of Post Office customers have visited the store primarily to fulfil a Post Office mission ▪ Of the 50% of additional customers 30% will buy additional products (20% in Mains / Plus). This changes depending on the estimated number of customer sessions. ▪ The average basket size is dependant on the approximate size of the retailer: – A £5k a week retail sales PM will have an average basket size of £5.00 – A £20k a week retail sales PM will have an average basket size of £6.50 – A £50k a week retail sales PM will have an average basket size of £8.00 ▪ The Cross sell benefit is calculated using a average retail gross margin of 25% ▪ Using the above assumptions, the increase in cross sell revenue for an average essential (with 912 customer sessions and revenue range of £5k to £50k) is 2% to 13% which is in line with the KPMG benchmark, Post office agent survey analysis and Rymans and Henderson's benchmark

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Current format economics breakdown by branch type

POL and postmaster income by format type, FY19/20

	Main (£m)		Local (£m)		Legacy (£m)	
	POL	Postmaster	POL	Postmaster	POL	Postmaster
Revenue (less COGS)						
Cross-sell						
Postmaster Remuneration						
POL Costs						
Supply chain						
IT						
Network						
Postmaster Costs						
Counter time						
Other time						
Other costs						
Total (Variable Only)						

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Source: POL Analysis

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Summary of products by location type

		City Centre	Urban	Urban Deprived	Rural
Share of	Branches				
	Customers visits				
	Total income				
Product	Banking withdrawals and POCA				
	Banking deposit and Change				
	ATMs				
	Bill payment and lottery				
	Moneygram, Gift cards and Postal orders				
	Basic mails				
	Premium mails				
	International				
	Home shopping returns				
	Other mails				
	Travel (Bureau & Insurance)				
	Insurance				
	PO Money				
	Identity				
	Telco				

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Below average across all location types

Above average across all location types

Average or close to average across all location types

Source: POL Analysis

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POL cost allocations in the Economic Model (in the current state)

Network Model Cost Allocation Explanation					
	Variable costs	**Cost per driver**	**Driver**	**Total 19/20 Costs (£m)**	**Source**
	Technology		844 Number of Horizon units	IRRELEVANT	2020 IT costs breakdown
	Supply Chain	Per table	Previous years actuals		Based on product breakdown of heavy cash products
	Branch		1039 All branches		2016 KPMG model allocating variable costs per branch that don't scale (eg payslips)
	Customer sessions		1.62 Weekly customer sessions		2016 KPMG model allocating variable costs per customer session that do scale(eg till slips)
Less	**Less fixed costs**				
	Technology		1493 Number of Horizon units		2020 IT costs breakdown
	Supply Chain	50% Variable	Balance of non-variable costs		Add up to toal Supply chain costs (ie those that are not variable are fixed)
	Branch		2679 All branches		2016 KPMG model allocating fixed costs per branch (eg branch support)
	Customer Sessions		1.53 Weekly customer sessions		2016 KPMG model allocating fixed costs per customer session (eg helpline)

Supply Chain Allocation		
	% of product income that drives Supply Chain cost	
	For Income Factor Income	For Scaled Income
Deposits	IRRELEVANT	
Card Account		
Withdrawals		
ATM		
Change		
Bureau		

Note: Branch, Customer Sessions, IT and Supply Chain fixed and variable allocations based on Hydra model

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Profitability for Right Location Wrong Format branches (Main and large Legacy branches)

Right Location Wrong Format - Main and Legacy (As-is) - P&L					
	Retailer Integrated		Full service		
Average per store (£)	PayZone	Express	Basic (excl. banking)	Basic	Essential
PM Remuneration	IRRELEVANT				
Cross Sell Income					
ATT and Back office costs					
Labour Cost Reduction					
Training Cost					
PM Operating Profit inc Cross Sell					
POL Revenue					
PM Remuneration Cost					
Branch Variable Cost					
Customer Sessions Variable Cost					
IT Variable cost					
Supply chain variable cost allocation					
Customer Sessions Fixed Cost					
IT Fixed cost					
Branch Fixed Cost					
Supply chain Fixed cost allocation					
POL Operating Profit					
Total Setup Costs					
Annual Setup Costs (over 5 years)					
POL Operating Profit (inc set up costs)					

Mains and Large Legacy

1. **89%** of Mains and Large Legacy branches have 3 **or more format options** that are profitable (above breakeven) for both POL and PMs
2. Current POL operating profit margin is c£14k for Smaller Mains and Large Legacy branches. POL is making money here but not as much as it could on a lower renumeration Local
3. Therefore **Full Service Essential** followed by Full Service Basic remains the preferred option for **both POL and PMs**
4. It is unlikely that a current Main or large Legacy store will move to a Retailer Integrated option given size of demand

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Profitability for Right Location Wrong Format (Community and small Legacy branches)

Right Location Wrong Format - Other (As-is) - P&L

IRRELEVANT

Community and Legacy

1. **57%** of Locals and Small Legacy branches have 3 **or more** format options that are profitable (above breakeven) for both POL and PMs
2. On average our Legacy branches lose c[IRRELEVANT] per branch. The community branches lose [IRRELEVANT]
3. Full Service Essential, Basic and Basic (excl. banking) would be more profitable for POL

Note: costs (including for Express) include the core POL fixed IT [IRRELEVANT] *See slide 106 for cost allocations.*
Source: Economic modelling of new formats, 2020

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Profitability for Whitespaces at maturity

Whitespace incl. CS, 100% demand (As-is) - P&L

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Observations

1. **83%** of whitespaces have **3 or more format options** that are profitable (above breakeven) for both POL and PMs. This reduces to **77%** if you exclude cross sell income for PMs
2. Whilst the additional formats provide additional options to access more whitespace locations there is a preferred hierarchy to ensure volume and income is maintained
3. The best format for both POL and PM would be Full Service Basic and Full Service Essential as this provides the highest profit margin and has the highest percentage for breakeven branches for both POL and PMs
4. Set up costs are not included in the profitability of POL but should be considered for each location

Note: costs (including for Express) include the core POL fixed IT IRRELEVANT *See slide 106 for cost allocations.*
Source: Economic modelling of new formats, 2020

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Profitability modelled for a IRRELEVANT, 600 customer session retailer for new formats and the profitability in Future states

c. 600 Customer Sessions with £5k Retailer Revenue - P&L

		As-is new formats	Future new formats

IRRELEVANT

Observations

1. In the current state (as-is) the format that makes the PM and POL the most profit as an Essential (Basic works for both the PM and POL too). When you factor in the set up costs an Basic becomes more profitable for POL.
2. In the future state Basic is most profitable format for POL with Essential and Basic (excl. banking) both profitable formats for both POL and the PM.

Source: Economic modelling of new formats, 2020

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Profitability modelled for a IRRELEVANT 600 customer session retailer for new formats and the profitability in Future states

c. 600 Customer Sessions with £20k Retailer Revenue - P&L		As-is new formats	Future new formats
IRRELEVANT			

Observations

1. IRRELEVANT
2. Whilst the cross sale income increases the costs the training costs increase and the amount of labour they can absorb decreases.
3. Basic is still the format that remains most profitable for POL in the As-is and the Future State scenarios.

Source: Economic modelling of new formats, 2020

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Profitability modelled for a £50k a week, 600 customer session retailer for new formats and the profitability in Future states

c. 600 Customer Sessions with £50k Retailer Revenue - P&L		As-is new formats	Future new formats

IRRELEVANT

2. Whilst the cross sale income increases the costs the training costs increase and they cannot absorb any labour costs.
3. Basic is still the format that remains most profitable for POL in the As-is and the Future State scenarios.

Source: Economic modelling of new formats, 2020

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Appendix 1.7

References and List of abbreviations

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References

Customer Research

1. 'Category Segmentation & Shoppers Path to purchase insights' Kantar research – July 2019
2. 'Voter Research GE Presentation' PSG Update – May 2020
3. Customer Segment Research - Pen Portraits – February 2020
4. Customer Segment Research – Module Packs – February 2020
5. 'PO Network Vision CIE' Chime data – February 2017
6. 'Shape of the Network and Topline Customer habits' - 2020

Market and Company Research

1. Euromonitor: data on UK retail sector, company and industry data
2. ONS: macroeconomic data, data on UK retail sector
3. IGD: data and research on retail sector and individual retailers
4. British Retail Consortium (BRC): data and research on retail sector
5. YouGov: survey data on consumer trends and behaviours
6. British Independent Retailers Association (BIRA): data and trends on independent retail sector
7. Association of Convenience Stores (ACS) reports, including 'Rural Shop Report 2019' and 'The Local Shop Report 2019'
8. KPMG/Ipsos Retail Think Tank: Retail Health Index and research on UK retail sector
9. Company websites, annual reports and investor reports for retailers e.g.

7-ELEVEN	BHF	La Poste	Sainsbury's
AnPost	Boots	Lidl	Shell
Aldi	BP	Little Waitrose	Sing Post
ASDA	Canada Post	Lloyds Bank	Spar
Australia Post	Cancer Research UK	Lloyds Pharmacy	Sun Art Group
B&M	The Co-op Group	MFG/ MRH	Superdrug
B&Q	Costcutter	Mitchells and Butlers	Swiss Post
Barclays	DHL	Morrisons	Tesco
Barnardos	HSBC	Nationwide	Well Pharmacy

10. Various press releases including:

Ecommerce News	QSR	The Global and Mail	Wired Gov
Forecourt Trader	Retail Insider	What-Franchise.com	
Paris Aeroport	Silicon	Retail Gazette	

POL internal data and documents
including:

1. 'Voter Research GE Presentation' PSG Update – May 2020
2. 'Project NEO: Network workstream SteerCo update' - May 2020
3. 'Network Big Bet' - January 2020
4. 'Project Neo Formats & Propositions Update' - June 2020
5. 'Strategic Partners Strategy' – January 2020
6. 'Partnerships in UK convenience retailing' IGD presentation – May 2017
7. Project RiPE Blue Sky Workshop document – July 2020
8. 'The role of Post Office Concessions at Co-op' report – June 2017
9. 'The value of the PO shopper' HIM report – January 2019
10. 'Retail Strategy Customer Insight' – April 2018
11. TPG POL Category Strategy Workshop document - May 2019
12. Feedback on Parcelshop – July 2019
13. MDA2 Remuneration overview – June 2020
14. Agent economics overview documents – June 2020
15. Various POL models including: Blueprint model, Mults Scorecard, geospatial analysis,

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List of abbreviations

BEIS	Department for Business, Energy & Industrial Strategy
DMB	Directly managed branch
EPoS	Electronic Point of Sale
FX	Foreign Exchange
HMRC	Her Majestys Revenue and Customs
MDA	Mail Delivery Agent
NLW	National Living Wage
NNL	New Network Location
PO	Post Office
POL	Post Office Limited
PUDO	Pick up Drop Off
PZ	Payzone
RIPE	Reimagining Postmaster Experience
RMG	Royal Mail Group
SGEI	Services of general economic interest
SME	Small Medium Enterprise
SPM	Strategic Platform Migration
SSK	Self service kiosk e.g. Travel Money Card
STEM	Science Technology Engineering and Mathematics

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Post Office Board Agenda (Strategy Session 2)

Date:	29 July 2020	Time	10.00 – 16.30 hrs	Location	Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ 1.19 Wakefield

Present		Other Attendees	
• Tim Parker (Chairman)	• Carla Stent	• Veronica Branton (Company Secretary)	• Jeff Smyth (Chief Information Officer) (Item 2.)
• Nick Read (CEO)	• Alisdair Cameron (CFO)	• Owen Woodley (Chief Commercial Officer)	• Gareth Clark (Item 2.)
• Ken McCall (SID)	• Zarin Patel	• Dan Zinner (Chief Strategy and Transformation Officer)	• Zdravko Mladenov (McKinsey) (Item 2.)
• Tom Cooper	• Lisa Harrington	• Richard Taylor (Group Corporate Affairs and Communications Director)	• Martin Kearsley (Director of Banking Services) (Item 4.)
		• Julie Thomas (Operations Director) (Item 3.)	• Elinor Hull (Chief Operating Officer, Digital Identity) (Item 5.)
		• Gregg Braden (Programme Manager, Branch Hub) (Item 3.)	• Mark Siviter (Managing Director, Mails & Retail) (Item 6.)

Agenda Item		Action Needed	Lead	Timings
Performance and current issues				
1.	**Welcome and Conflicts of Interest**	Noting	Chairman	10.00 – 10.05 hrs
2.	**SPM/FJ contract exit**	Approval	Jeff Smyth/ Gareth Clarke/ Zdravko Mladenov (McKinsey)	10.05 – 11.10 hrs
3.	**Branch Hub (demonstration and funding approval)**	Approval	Gregg Braden / Julie Thomas	11.10 – 11.35 hrs
Break				11.35 – 11.50 hrs
4.	**Cash and Banking** - Cash and Banking Services (Banking Framework 3) - ATM 'Exit or Remain' strategy	Discussion	Owen Woodley/ Martin Kearsley	11.50 – 13.05 hrs
Lunch and individual Cash Automation Demos				13.05 – 14.00 hrs
5.	**Digital Identity**	Discussion	Owen Woodley/ Elinor Hull	14.00 – 15.00 hrs
6.	**Mails including PUDO Strategy**	Discussion	Owen Woodley/ Mark Siviter	15.00 – 16.00 hrs
7.	**Wrap up session**	Discussion	Nick Read/ Tim Parker	16.00 – 16.25 hrs
8.	**Any Other Business**	Noting and Input	Chairman	16.25 – 16.30 hrs

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POL Board Update – SPM & Fujitsu Exit

July 2020

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In late June, the Board approved actions, relating to the commencement of the Strategic Platform Modernisation (SPM) programme and FJ Exit

At the June Board, the following was approved:

- **Commence the Strategic Platform Modernisation (SPM) programme:**
  - Begin work on the scope and approach of SPM in such a way as to both reduce dependency on Fujitsu and offer flexibility for new branch formats
  - Mobilise and commit to a first 'tranche' of SPM deliverables
  - Accelerate standing up internal capabilities (business and IT) required for delivery of SPM
- **Horizon Discovery:** continue Horizon discovery work to understand in more granular detail the technical underpinnings of the system and our commercial obligations in order to enable transition later
- **FJ Commercial and Negotiation Strategy**: Begin work on developing a strategy to resolve outstanding challenges and obtain a 2-year support extension with Fujitsu for Horizon to de-risk delivery of SPM in the necessary timescales
- **OJEU Procurement**: As insurance against failing to secure extension with Fujitsu, begin work on timetable and resources for an OJEU procurement of a system integrator (SI) partner

Focus of today's update

- **SPM Mobilisation**: Summary of the Programme, with delivery plans and key prerequisites for success.
- **Horizon Discovery:** Key discovery highlights from the engagement with FJ and POL's internal reviews
- **FJ Commercial and Negotiation Strategy:** Summary of our current position, approach going forward and resourcing plans

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POL Board update on SPM

July 2020

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SPM will deliver a new, modern core IT system for POL, but adequate 'insurance' is required to mitigate risks and delivery timescale challenges

SPM Core Principles

- **Deliver as quickly as possible**, whilst ensuring quality and ongoing service, to minimise the volume of transactions that remains on Horizon come March 2023.
- Find an **appropriate balance between the need for pace and the opportunity** to transform the postmaster experience with modern, efficient IT.
- Deliver a system that is **modular, flexible and 'fit for the future'**. New products and devices should be **quickly and efficiently supported by the new IT system**, with this concept built in from the start.

SPM Delivery

- SPM will be delivered using a model where **individual products and services are 'striped' off in an incremental manner**. POL will focus on core products such as **Mails/PUDO, Banking, Travel and Bill Pay first**, moving later to services which are aspirational, or may have reduced prominence in the POL business model. Services such as accounting will be implemented and evolved alongside keeping pace with product delivery.
- Given the complexity of current POL Products, the scale of its branch network and the historic complexity surrounding the Horizon system (e.g. Branch Accounting), **there is obvious delivery risk associated with any desire to complete everything by March 2023**. It is recommended that a more appropriate planning objective is one where POL moves a substantial and material sub-set of its products and thus revenue to a new system by 2023, but anticipating some services may at that time remain with Horizon, and establishes an 'insurance' plan for managing FJ contract end.

Insurance Plan and FJ Exit

- Any **extension to Horizon beyond the current contract is likely to be expensive and difficult**. To mitigate this, and FJ taking a hostile stance to any extension of services, a two-pronged approach has been designed. POL will engage FJ on appetite and conditions for a post-2023 extension, but in parallel, POL will create an option to recompete for a SI partner to replace FJ.
- A striping approach to delivery provides SPM risk mitigation by allowing POL to take in-house, for a short period, a much-reduced Horizon service if this offers the best balance between cost and risk. **Large-scale long term insourcing is discounted**.
- FJ and Horizon will remain a large part of the POL ecosystem for the next 30 months, and there remains a number of significant issues and cost challenges to resolve. A **dedicated Exit Team is now being established** to negotiate the required changes with FJ, to establish the insurance options, and ultimately conclude exit as required.

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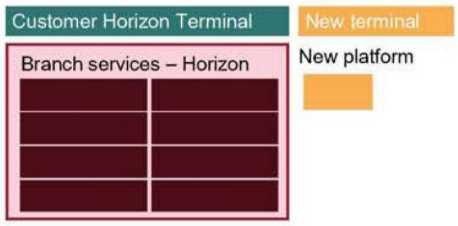
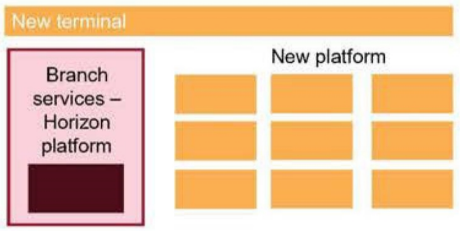
Our approach is to coexist with Horizon, allowing incremental delivery of product journeys, and postmaster operational capabilities.

We will select and deploy a new device alongside Horizon counters capable of completing all Horizon product journeys. MVP will include a processes for coexistence with Horizon and a meaningful product set; Mails. Over time as products and operational features are added, primacy for Branch Accounting will switch to the new solution, and when all products are migrated, Horizon legacy counters will be removed.

	Tranche 1	Tranche 2	Tranche X
Use cases delivered	▪ New ePoS provides first meaningful use case - Mails ▪ Branch cash primacy remains with Horizon, minor integration enables coexistence.	▪ Major product groups become available as developed: banking, bill-pay, travel ▪ New online accounting portal available to agents ▪ New operational processes added	▪ Final selected products are migrated ▪ New system takes branch accounting primacy. ▪ Horizon counters are decommissioned ▪ On-going optimisation continues







	Existing Horizon	New parallel services	Existing Horizon	New parallel services	Existing Horizon	New parallel services
Branches	11,500	1	11,500	11,500	11,500	11,500
Products	108	1	98	10	0	108 ??
Functionalities	100%	5%	75%	25%	5%	95%

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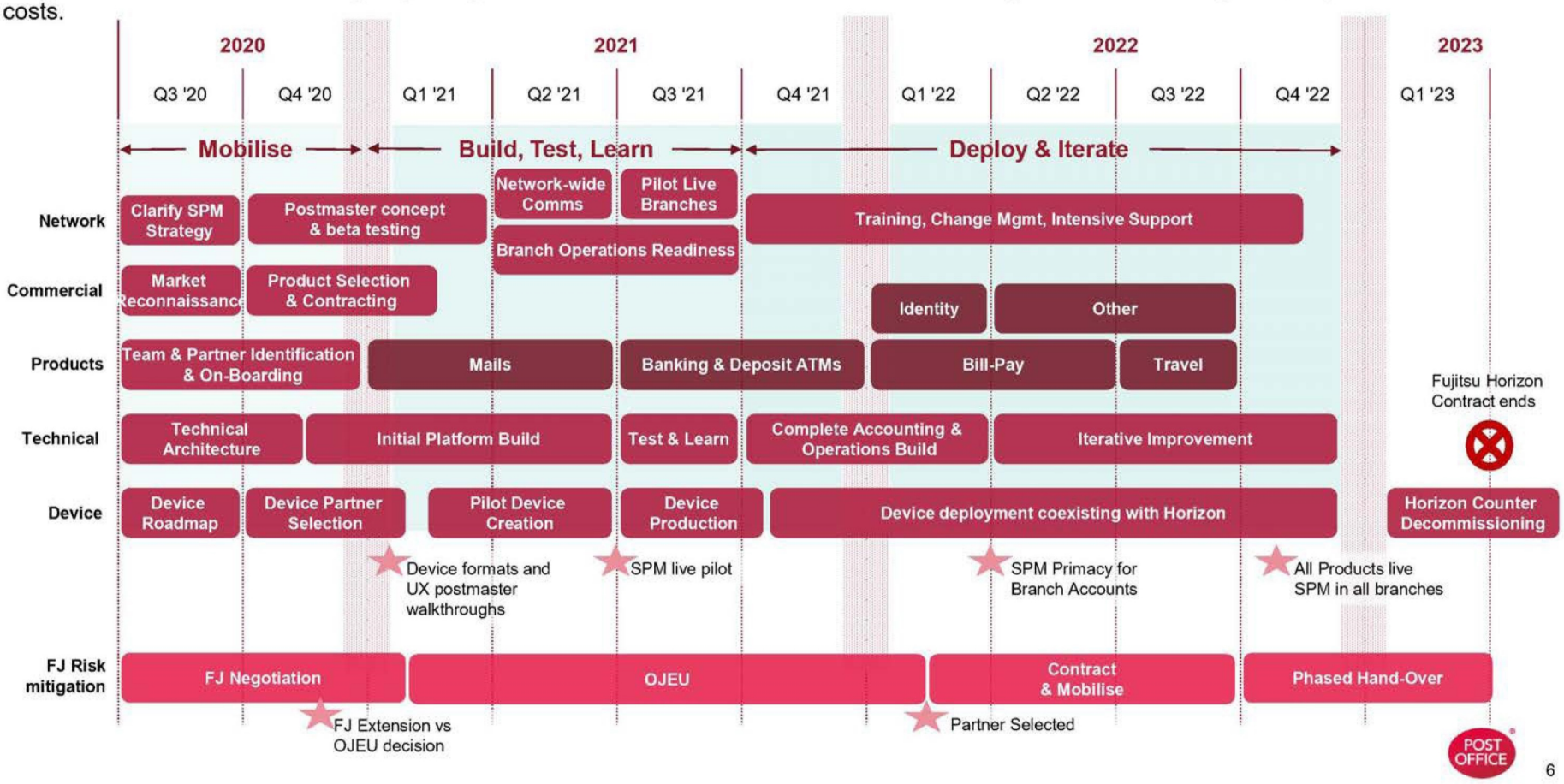
Initial Multi-Year Plan

The plan below outlines our multi-year journey. This will be built out in more detail over the coming 3 months, including risks, dependencies and costs.



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Concurrently we must agree together as a business, our priorities for a strategic platform, and the priority sequence in which we should approach them

Delivering a complete Horizon replacement is a significant undertaking. At the same time our organisation has projects running to deliver new products (e.g. Amazon PuDo), improve ATM operation, procure new SSKs, create new formats (including retailer cash based) and fill the largest Post Office network numbers gap we've ever faced. We can't do it all. We are working through with the network strategy team the extent to which we support and align to the new initiatives vs. a plan that targets replacing Horizon as soon as possible



Product Strategy

- Are new products required?
- Are any current products not required?
- What is our preferred product priority delivery sequence (WIP) ?



Project Alignment

- Which projects have primacy?
- How do they fit together?
- For how long can we reasonably freeze new Horizon requirements?



Network Propositions

- Are we remaining entirely Post Office cash? Or do we need to enable retailer cash propositions also?
- Which products form a viable MVP for new network formats?
- Is there a real requirement for any retailer API integration? Who? When?









Device Strategy

- What is our 5 year device roadmap?
- How does it align to our propositions & product sets?

Future counters, SSKs, deposit taking ATMs, retailer till accompaniment (& any other physical kit required in branches)













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What are our prerequisites for SPM success?

	Considerations	Key Outcome Required
Clarity of Objectives	▪ Is our overall programme task clear, aligned and agreed?	▪ A realistic agreement of the scale of transition v transformation that will be undertaken
Ability to Execute	▪ Do we have a coherent route to mobilising delivery resources; internally and partnered?	▪ Dedication of the right internal IT and business resources, hiring key missing capabilities and appointing delivery partners
Economical Delivery Path	▪ Will the programme delivery be economically executed and yield the agreed benefits?	▪ A credible plan with stretching initial deliverables that validates the delivery methodology and proves ROI at an early stage
Checkpoints & Course Correction	▪ How will we monitor delivery progress and accommodate changes in needs or priorities?	▪ Appropriate governance that gives the Board the transparency and insight that delivery is on target and that we can respond to inevitable change
Managing & Mitigating Fujitsu risks	▪ How do we ensure that Fujitsu do not incumber or frustrate SPM deliverables or pace?	▪ Selective interventions on Horizon that are laser focused on achieving migration of key products and postmaster activity migration concomitantly maintaining Horizon integrity

Board will be regularly apprised of our progress across these themes :

- **Open invitation to "drop-in" to daily stand-ups and agile delivery reviews**
- **Bi-monthly checkpoints on agile product deliverables, product needs, outcomes, risks/issues challenges**
- **Direct experience of the actual deliverables – on-line product walk-throughs, virtual demos**

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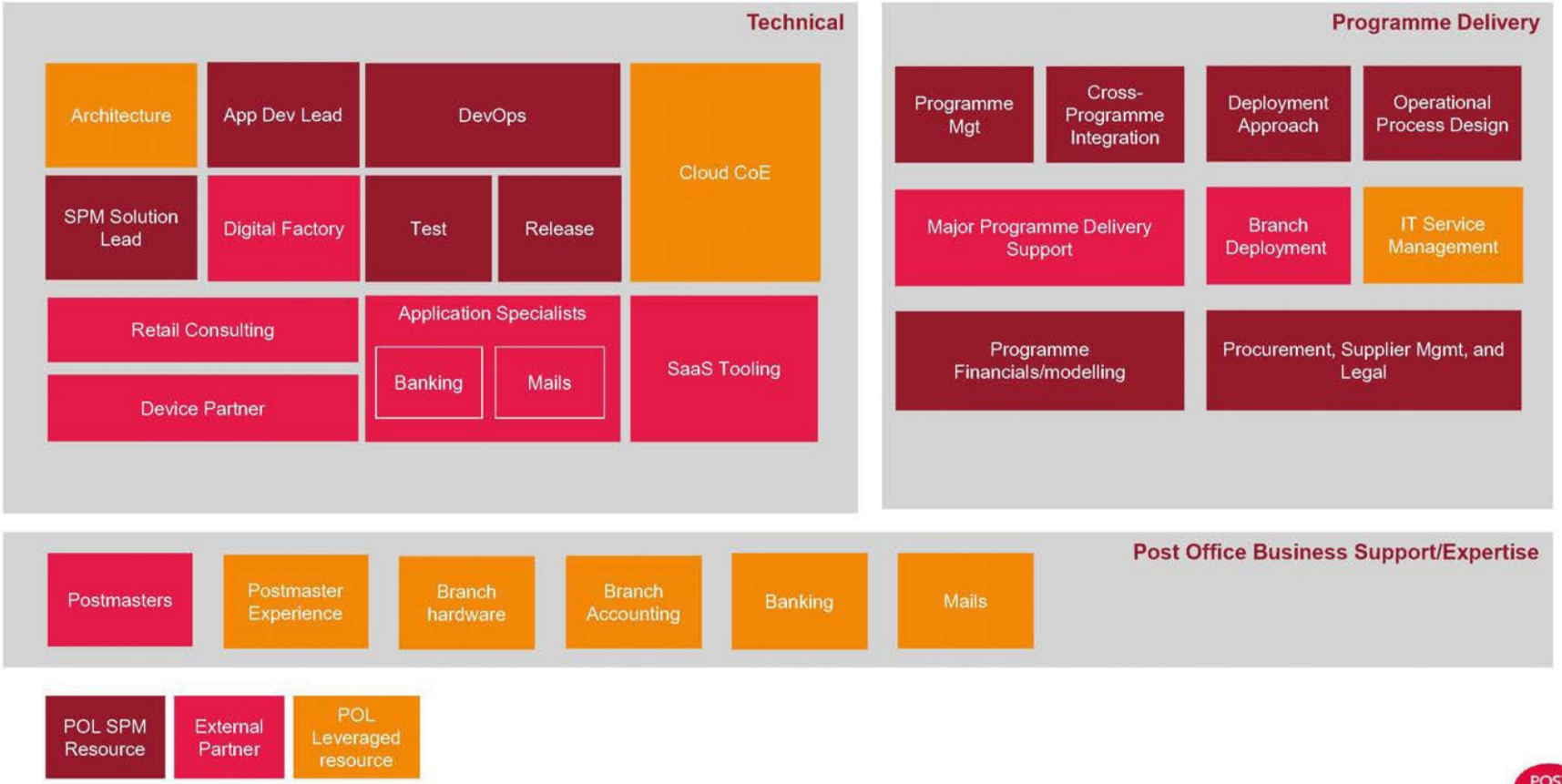
Expected SPM organisational responsibilities and resource requirements

We have begun to recruit for key positions and are preparing to engage the market to fill identified resource gaps.



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Over the coming 3 months we will mobilise and deliver

Over the next 3 months we will mobilise the capabilities to deliver SPM whilst conducting an assessment of tools and types of partners available to support us on our journey. This will give us a far clearer understanding of our plan.

Market reconnaissance	▪ Engage technical retail consulting support to conduct a 3 month market reconnaissance evaluating key SPM building blocks	**Technical Architecture**	▪ Define core architectural governance and vision. ▪ Create Reference architecture ▪ Branch data integrity requirements
Commercial/ Partnering Approach	▪ Plan route to market for required tools and services. ▪ Begin the commercial processes to engage key delivery partners.	**Identify Business Product Owners & Postmasters**	▪ Postmaster/Customer Journeys (CX) ▪ Branch Accounting, Branch Operations, Products (Mails etc) ▪ Select independent partners to participate in early engagement
Define Op Model & Hiring Plan	▪ Announce nascent "Branch & Digital Engineering" team. ▪ Agree organisation structure and complete role descriptions ▪ Continue capabilities build-out	**Product & Network Delivery Alignment**	▪ Review and finalise product prioritisation and delivery sequence ▪ Agree delivery alignment to network strategy

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POL Board update on engagement with FJ

July 2020

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Summary on a page

A FJ Engagement highlights

- **Aggressive stances:** FJ is taking aggressive, hardening lines on a number of discussion elements, pertaining to financial savings due to Belfast Exit and the overall contract Exit. This foreshadows an impending difficult set of negotiations with an experienced supplier.
- **No extension:** FJ retains a resolute and hardening view that it won't entertain any extensions, regardless of circumstances. Part of the rationale may be long-term optics, preparing for a scenario where POL is unprepared to exit by 2023 and FJ demands large compensation to run Horizon.

B Recapping where we stand

- We are facing an **experienced supplier, with track record of 'winning'** in similar situations with public sector clients, now likely deploying it's "A Team"
- **We have narrowed down our objectives to three critical elements:**
  - Address outstanding contractual obligations estimated IRRELEVANT
  - Secure savings from Belfast Exit estimated at IRRELEVANT
  - Negotiate a post-Belfast Exit Horizon scope and two year-long extension options (post-2023) with sufficient incentives for Fujitsu to 'put their best foot forward' on enabling Exit
- Today, we have **limited-to-no dedicated capability and resource** to prosecute these negotiations

C Plan going forward

- We are engaging **external support for a short set of sprints** to define our commercial strategy to achieve our three objectives. Longer-term, our strategy is very likely to include leveraging external political stakeholders and GLO.
- We are **standing ~3 dedicated resources** to work with the external support and then take over by September
- We will **continue our technical due diligence** to allow us to Exit FJ in 2023, either via transfer to a different provider (requires procurement) or by insourcing a small part of Horizon not covered by SPM at that point
- **NOTE: We have not revealed our post-2023 extension desire from Fujitsu at this stage**. Once we have sufficient clarity on SPM timescales, we will breach the topic, but for now do not see any upside from opening the subject at this early stage

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Over the last month, the POL team held 4 discussion meetings with FJ, clarifying a fairly aggressive vendor position with regard to the Horizon system

Highlights from the engagement with FJ over the last month

1. FJ have now conducted their own contract due diligence and are establishing a very aggressive negotiation position:
   - **"Limited" savings from Belfast Exit:** FJ have asserted an expectation to be paid for the full value of the contract until Oct 2021, regardless of services exited early due to the move to cloud infrastructure. Beyond this date, there is willingness to discuss, mandated by the contract, but FJ's positioning is that the savings will be of limited magnitude and extremely dependent on POL confirming how it plans to set up its Cloud operations
   - **Double- / triple- / quadruple-hatted FTEs:** FJ have asserted that the majority of their personnel are associated with multiple Horizon services and, therefore, POL cannot terminate one service without significant effect on others
   - **TUPE obligations:** As a result of Belfast Exit, as well as other future service terminations, FJ has asserted an expectation that POL will take on the full slate of FJ employees associated with the contract, which was verbally estimated at a very high "300-400 FTEs"
   - **Exit cost obligations:** FJ have asserted expectations that their exit costs will be paid for by POL, regardless of when contract exit happens
2. **No extension:** FJ have clarified a seemingly resolute position that they will not accept any extensions to the Horizon contract, post-2023. They also have no appetite for any transformation before transfer, reinforcing the desire to simply exit quickly and hand over to a different party
3. **Service and tooling transfer:** FJ has asserted a position that some of the tooling and operational aspects of their current service cannot be easily moved to POL or another service provider. Therefore, the implication is that further investment may be required to decouple those elements from FJ

Additional commentary

- **FJ's "A Team":** It is clear that FJ have had the opportunity to regroup and assess their contract implications. There is no reason to believe they are not deploying their 'A Team' now
- **Staking out an early negotiation position**: The FJ position is aggressive, but fairly typical in similar situations
- **Long-term optics:** The 'no extension' narrative is politically expedient with a view of 2023. Should POL be unprepared to exit, FJ can point to established a clear red line already 2.5 years earlier and, therefore, ask for greater compensation

[redacted]

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In addition, POL's continued internal review has provided important additional context

GLO Review

Key findings

- POL's Legal Team has reviewed the ongoing legal considerations, from a GLO perspective, on exiting early. The below synthesis of key implications is subject to further review and documentation by POL's Legal team. Hence it represents the provisional position only:

[redacted]

POL Legal Continues to investigate GLO implications and this will be refined during the next few months.

[redacted]

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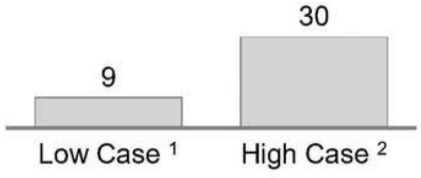
With regards to the Horizon contract, POL has to resolve three commercial issues, with combined value-at-stake of £17M - £51M in the next 12-18 months

ORDER-OF-MAGNITUDE ESTIMATES

Next 12-18 months

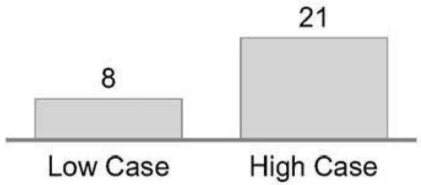
Outstanding historical obligations

- Address historical contractual obligations for Fujitsu support that may not have been met (e.g., "Core Team") or future contractual obligations for support that POL does not intend to consume (e.g., "DDS")



'Run rate' savings from Belfast Exit

- Capture savings that POL may be able to claim due to the partial or full termination of a subset of Horizon services associated with Belfast Exit (e.g., "Data Centre Operations") and the move to cloud-based infrastructure



2023 and beyond

Horizon extension options

- Negotiate a post-Belfast Exit contract with Fujitsu, which covers the remaining Horizon services until 2023 with options to extend for two years
- The contract would lock in the savings in the item above and also serve as fallback option in the event that SPM progress and/or progress transferring services to a different partner post-2023 fails to deliver on time

IRRELEVANT

IRRELEVANT

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Existing commercial dynamics and context with FJ create further complexity for POL

	Details
1 FJ is already declaring very hard negotiation stances	▪ FJ have had enough time to organise and establish a long-term negotiation plan, setting up the 'table' for a very hard bargain and attempting to make the most of existing contractual ambiguities ▪ Examples include messaging around "we want to exit in 2021", aggressive stance on "you can't touch the current contract", a "there is nothing to negotiate" narrative
2 FJ's assistance is 'must' for both service continuity and Exit planning	▪ In the period until 2023, POL is still reliant on FJ to provide active live support to a complex Horizon service and to roll out service modifications over the next 2.5 years. Thus, maintaining a positive vendor relationship will be a factor for POL ▪ Further complexity comes from the requirement to leverage all of FJ's knowledge to either in-house Horizon components or hand them over to another vendor. POL previously was unsuccessful with the attempted IBM transfer, which also struggled to establish the necessary traction with FJ
3 POL carries further FJ dependencies	▪ FJ currently acts as integrator of 20+ subcontractors to provide support to the Telecoms business ▪ There is limited interdependence between the contracts and no known major interfaces between the Horizon and Telecoms systems, but only one vendor account team member across both

Other considerations: FJ's organisation is experienced in similar situations

- With large portfolio of similar contracts, FJ are experienced in similar situations and likely confident in their ability to extract maximum value
- It is worth noting that FJ's team (same head of Legal as in POL's case) endured a multi-year dispute with NHS, ultimately winning £700M

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POL's resourcing for the FJ engagement requires reinforcement if POL is to replace interim external support with a mix of in-house and contractor capability

	Current capability and op model	Interim resourcing	Planned resourcing for the duration of negotiation(s)
Negotiation lead	▪ No explicit negotiation lead; engagement led by IT Portfolio Director and CIO ad-hoc roles ▪ Overall, POL handles FJ contract changes, in a fragmented way, aligned with individual projects and requirements	External support for contract analysis, commercial strategy, financial modelling, preparation of negotiation materials and 'digestion' of FJ proposals and positions	▪ Dedicated negotiation lead with relevant experience to execute the commercial strategy ▪ Negotiation lead to 'own' and coordinate all components of the FJ negotiations
Commercial analysis	▪ Commercial analysis done by multiple vendor managers in addition to regular, BAU roles, with legal support provided by POL Legal Team on an ad-hoc, as requested basis		▪ No change needed if other roles are in place and presuming dedicated POL Legal team engagement through the negotiations
Financial analysis	▪ Basic ad-hoc financial modelling and scenario analysis done by BAU vendor management staff, with support from the Finance function on an ad-hoc basis		▪ Financial analyst to 'own' the numbers, with ability to rapidly model scenarios and provide in-depth management of the economics and financial drivers behind the negotiation business case(s)
Strategy and oversight	▪ Done by informal committee through the IT senior leadership team as an add-on to 'day jobs', under the overall leadership of CIO		▪ Programme management team with experience in exiting large outsourced contracts ▪ Team will include expertise in the procurement of large-scale IT projects

In parallel with the above, we will be strengthening our IT controls approach with FJ

[redacted]

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Our approach and next steps going forward: We aim to have our next progress report to the Board in the September / October session

Define commercial strategy to achieve our 3 goals

- We are engaging McKinsey to deliver a short set of sprints (6-10 weeks) to define the commercial strategy for our 3 objectives (see page 8). McKinsey will also assess and refine the levers we have and the overall financial value at stake
- Further, we will propose an engagement plan for external stakeholders to apply pressure (e.g., leverage BEIS and Select Committees; engage directly with Japan HQ), and an approach to maximally leverage GLO as the strongest lever POL currently has.

Continue technical due diligence to prepare for Exit and/or engaging a third-party SI

We are directing our focus on:

- Defining the set of services we will need from FJ (and, therefore, another supplier) after we complete Belfast Exit
- Continuing to set up a possible rapid procurement , potentially OJEU-compliant, for this subset of services

July 2020

October 2020

Stand up our own capability, transfer knowledge

- We are recruiting for the negotiation support roles outlined (see page 10). We will accelerate the process to ensure the personnel has sufficient time with McKinsey on the ground to help shape the strategic approach and take on the knowledge and experience

Enact strategy and continue engagement with FJ

- First steps of commercial strategy will commence
- We will continue the discussions with FJ to reinforce the technical discovery process (e.g., how are Horizon sub-components delivered and with what FTEs)

Next engagement with the Board on this topic:

- We will report back with progress update in the September or October Board meeting
- We propose to also have an interim touch point in late August with select NEDs as needed

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POST OFFICE

Branch Hub Programme Demonstration & funding request

July 2020

POL00448765

Executive Summary

- The Branch Hub team, using Accenture as a development partner, has delivered a digital portal for postmasters: at pace and at a third of the cost of Fujitsu (£0.3m per month cheaper) by using the Service Now off the shelf platform.
- Branch Hub was successfully launched to the entire network in April due to Covid-19 needs: online branch opening hours changes, registration for Remuneration top-ups and PPE ordering. This was all reprioritised ahead of the planned stock, coin and cash ordering features.
- The result has been over 10,200 registered users, mainly Postmasters. However, over 20,000 counter colleagues remain unregistered and this is now our target group to build adoption once the Stock Cash and Coin Ordering features are fully rolled out.
- Stock Ordering has been launched to 2000 branches. Planned Cash Orders and Coin Ordering will quickly follow, giving postmasters and counter colleagues a superior service and transparency of their orders versus the telephone support provided today. We believe this will further increase use of Branch Hub as our one stop shop.
- A further detailed plan of features and benefits is constantly logged, prioritised and sequenced for development based on needs and benefits.
- Branch Hub has also proven to be an effective channel to collect and distribute information to postmasters, like serving video or other training content. 83% of postmasters* surveyed said they would prefer to use Branch Hub for all their operational needs rather than placing a call.
- Postmasters indicate their top 5 priority features are: 1) Access via a Mobile App, 2) Sales MI (Branch sales data), 3) Postmaster Community information (forums, events, knowledge validated by SMEs), 4) Digital forms (e.g., Staff Vetting Form), 5) Compliance Messaging (visibility of issues for Postmasters)
- In the shift towards full adoption of digital-centric contact, we must be aware of the challenges some branches face around access to a device or internet provision. This is still being considered before we can achieve 100% migration from other routes (Horizon online help, Branch Focus, Contact Centres).
- After a short live demonstration, we seek **approval** from Board for £6.9m. £1.2m of this represents the development costs since the previous Board approval to June 2020, with the remaining £5.7m to complete the Branch Hub programme for the rest of this financial year. This will fund £2.9m in development costs and £2.8m in redundancy costs to remove 33 FTEs from our operations team as a direct result of the Branch Hub self-service channel.

*401 Branch Hub survey responses to 29 May

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Current position

Building on the great progress in the last 3 months, the delivery and benefit plan has been reviewed to evaluate:

1. What feedback and data from the 401 early adopters can be incorporated into the Roadmap?
2. What additional or faster benefit can be realised by prioritising requested features?
3. What is the size of the opportunity if we assume a fully digital support model?

Future Vision

- **One Stop Shop for our Postmasters**. Enable one platform for the Post Office and its Postmaster community to communicate and collaborate, replacing the current multiple platform approaches.
- **Branch Hub is how we digitise** - Easier to connect areas of the business, remove manual processes, break free from legacy and multiple systems – react quickly and adapt.
- **Understand Postmaster needs and behaviours** – by continually reviewing the data, we can see what's working and what isn't so we can respond in an agile way.

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Highlights from the Branch Hub Dashboard

Data as of 20 July 2020. Live data will be shown on the day

This is our target no. Branches

Branches

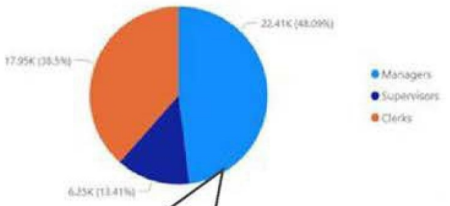


What's not included?
The following branch types do not have Smart IDs directly linked to them: SAT, ACPT, BFPO, HNMO, HOME, NTB, PRIV, PSDS, PSPO. TI
link to the parent branches. There are also 88 branches not fully transitioned on to Smart IDs.



mber of registered branches will differ to the ServiceNow dashboard. This is because ServiceNow includes Internal staff in the figures.

Managers, Supervisors and Clerks



POL now has accurate contact information for 10,000+ postmasters. We will ask these users to promote registration to their staff.

We need to drive more registrations overall, building on the Postmaster registrations gained via Agent Remuneration requests.
We will target branch supervisor and colleague roles by launching cash and stock ordering features.

Users



Branch
10297
Registered Users

Internal
245
Registered Users

*Internal users are Area Managers, Audit



Our registration challenge is split across the network.

Our registration target is ~25k as many users are part-time staff or not in scope for current roadmap

The total of each branch type added together is slightly higher than the actual overall number of users. This is because some users work in more than one branch - i.e. if they work in an SPSO and a Main, that would count in both.

Our challenge is to grow this number exponentially. More accessed knowledge and self-service will reduce contacts

Hub Forms used

1199	6960	6250	5072	5861	784	5506
Stock Orders	Remuneration Forms	Total Glove Orders	Knowledge Article Views	Branch Closures	Branch Reopenings	Branch Hour Changes

Customers can now see more accurate Branch opening times on the POL website following integration from Branch Hub to Branch Finder

By using Branch Hub to request PPE Gloves, we have halved the expected consumption rate

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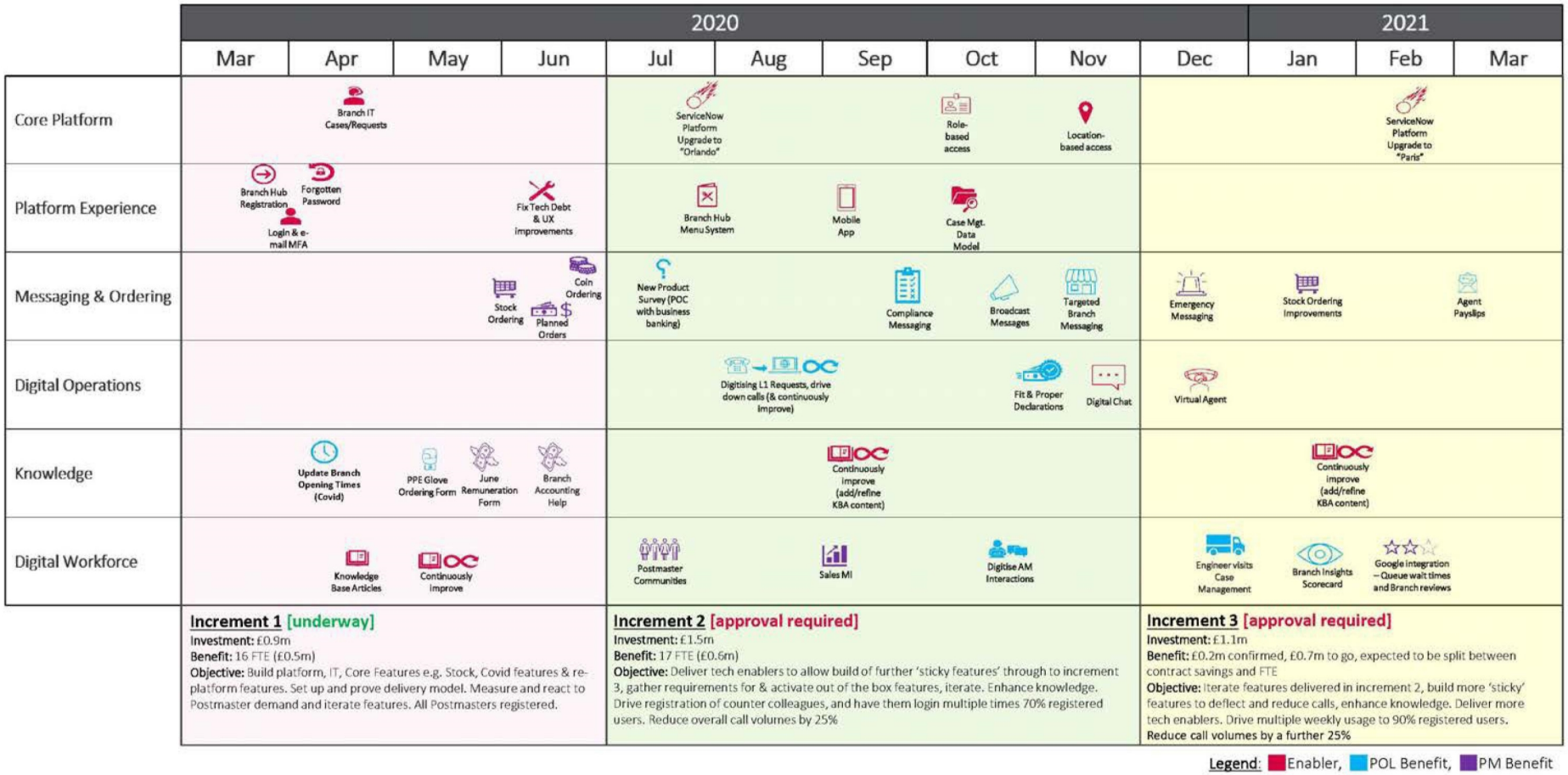
Branch Hub Roadmap (at June 2020)

Notes:

- For feature descriptions and expected usage see appendix
- The backlog shows when features are ready to deploy. Embedding the features will require additional iterations following user and business feedback
- Priority and schedule is determined by technical dependency, Postmaster request (& frequency of use) & POL benefit



Increment 1 [underway]
Investment: £0.9m
Benefit: 16 FTE (£0.5m)
Objective: Build platform, IT, Core Features e.g. Stock, Covid features & re-platform features. Set up and prove delivery model. Measure and react to Postmaster demand and iterate features. All Postmasters registered.

Increment 2 [approval required]
Investment: £1.5m
Benefit: 17 FTE (£0.6m)
Objective: Deliver tech enablers to allow build of further 'sticky features' through to increment 3, gather requirements for & activate out of the box features, iterate. Enhance knowledge. Drive registration of counter colleagues, and have them login multiple times 70% registered users. Reduce overall call volumes by 25%

Increment 3 [approval required]
Investment: £1.1m
Benefit: £0.2m confirmed, £0.7m to go, expected to be split between contract savings and FTE
Objective: Iterate features delivered in increment 2, build more 'sticky' features to deflect and reduce calls, enhance knowledge. Deliver more tech enablers. Drive multiple weekly usage to 90% registered users. Reduce call volumes by a further 25%

Legend: Enabler, POL Benefit, PM Benefit

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Roadmap Feature Descriptions

Feature	Feature Description	Expected Usage	End User
Branch IT Cases/Requests	Enable users to log their IT cases and requests	Weekly	All Branch Users
Branch Hub Registration	Enable users to register to use Branch Hub	One-off	All Branch Users
Login & MFA	Enable users to login using their Smart ID	Daily	All Branch Users
Forgotten Password	Enable users to self-service their Branch Hub password	Monthly	All Branch Users
Unlock Account	Enable users to unlock their account after password entered incorrectly 5 times	Quarterly	All Branch Users
Tech Debt & UX Improvements	Platform changes required to ensure the system is set up to scale and to give the best experience to Branch Hub users	N/A	N/A
Compliance Messaging	Pro-active messaging to Branches to inform them of their compliance, or upcoming compliance deadlines. The root cause is centred around branches NOT doing and the complexity of when they are done i.e. not transacting after they are complete / counter assistants not working the following day and/or part-time branch staff.	Monthly	Postmasters, POL
Stock Ordering	Enable users to order stock, both value and non-value.	Weekly	All Branch Users
Stock Ordering Improvements	Emergency stock orders: enable PMs to order stock past their deadline date, or as a one-off exceptional process. Auto stock orders: automate stock orders based on historical information. Auto stock check-in: remove the need to check stock into Horizon. Stock Notifications : provice users with a (mobile) notification each time an order is created, amended or cancelled.	Weekly	All Branch Users
Foreign Exchange	Enable users to order foreign exchange (Euros, Dollars)	Weekly	All Branch Users
Notes & ATM	Enable users to edit planned notes and ATM orders for	Weekly	All Branch Users
Coin Ordering	Enable users to order coins	Weekly	All Branch Users
New Product Survey (POC with Business Banking	Enable Postmasters to understand a new financial product "Time Save 1.5" to enable business banking customers to deposit money faster. This will be a proof of concept. If more than 1000 branches show interest the product will become viable and could be linked to increased revenue of up to 20%	One-off	Postmasters, POL
Broadcast Messages	Enable POL to send messages to all registered users of Branch Hub. This is similar to Memo Views on Horizon, but with much richer content – videos, link etc.	Monthly	All Branch Users, POL
Targeted Branch Messaging	Enable POL to send messages to specific users based on their location, user type etc.	Monthly	All Branch Users, POL
Emergency Messaging	Enable POL to send messages to users. Similar to Grapevine but via mobile notification (can be SMS or email)	Monthly	All Branch Users, POL

Feature	Feature Description	Expected Usage	End User
Agent Payslips	Digitise payslips and remove the cost of 3rd party contracts	Monthly	Postmasters
Digitise L1 requests, drive down calls	Several features to tackle L1 call volumes to the contact centres. E.g. credit card refund, staff vetting forms etc.	Weekly	All Branch Users
Digital Chat	Enable digital chat between POL and Branch Hub users. Typically up to 5 chats can be managed simultaneously.	Weekly	All Branch Users, POL
Fit & Proper Declarations	Enable users to declare themselves 'fit & proper' to HRMC to trade foreign currency in branch.	Annually	Postmaster
Virtual Agent	Branch Hub users can interact with a virtual agent through various messaging services to enable them to automat cally access knowledge or log a case and remove the need for human interaction (ticket deflection)	Weekly	All Branch Users
Knowledge Base Articles (& continuously improve)	Knowledge articles provide accurate information and a 'single source of the truth' for postmasters to reference and self-serve. They can be linked to from anywhere in Branch Hub.	Daily	All Branch Users
Postmaster Communities	Communities will replace WhatsApp and Facebook sites where data is uncontrolled and unsecure. Additional functionality to link to cases, forums, events etc.	Daily	All Branch Users
Sales MI	Enable Postmasters to see sales data for their Branch(es).	Daily	Postmasters
Digitise AM Interactions	Enable Area Managers to interact with Postmasters using digital chat, case management and Communities.	Daily	Postmasters, POL
Engineer Visits case management	Digitise engineer visits using case management, embed with partners, and reduce the number of truck rolls.	Weekly	All Branch Users, POL, 3rd Parties
Branch Insights Scorecard	Surface the Branch Insights scorecard information on Branch Hub to enable branches to proactively improve	Weekly	Postmasters, POL
Google Integration (Queue wait times & Branch Reviews)	Integrate to Google information and provide PMs a view of what Google customers are saying about their branch and the average queue wait time	Monthly	Postmasters
ServiceNow upgrades to Orlando & Paris	Bi-annual ServiceNow upgrades, essential to keeping us up to date, secure and with the latest features on offer.	N/A	N/A
Role-based access	Enable access based on the users role at the branch	N/A	N/A
Branch-based access	Enable access based on Branch level information e.g. only allow users to submit order for certain branches.	N/A	N/A
Update Branch Opening Times (Covid)	Enable Postmasters to update their branch Opening hours for reasons relating to Covid.	Monthly	Postmaster
Cust Mgt. Data Model	Connecting cases to all contacts to enable links to features, such as major incidents which cab be automatically issued to users		

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Demonstration

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Benefits - Linked & Tangible

We have identified a target of IRRELEVANT is validated by delivering increments 1 & 2

- Reduction of **33 FTE** due to reduction in call volumes and related manual processes IRRELEVANT
- Reduction in supplier contracts – IRRELEVANT
- We expect further benefit of c IRRELEVANT in increment 3 which we will validate.

Recurring Costs

- IRRELEVANT per annum in plan
  - IRRELEVANT n ServiceNow licenses and usage
  - CDP infrastructure & SMS costs

Benefits to be linked to Branch Hub features

- Reduced Postmaster churn
- Increased Postmaster satisfaction
- Reduce Area Manager workforce
- Improved self service & controlled messaging
- Omni channel support, flexible 24x7 for Postmasters
- Accurate Postmaster & user contact details
- PPE stock cost avoidance
- Reduced cash holding in the network
- Better product awareness - increased revenue
- Universally-skilled and reduced digital workforce
- Better system data can enable further savings

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Further Benefit Opportunities

Here are some examples where reduction in budgets is possible by creating new Branch Hub features:



Field Team Travel - IRRELEVANT

- By introducing features and digitising information and contacts we could reduce travel



Branch Postage - IRRELEVANT

- By digitising messaging, reports we may need to send fewer items to Branches



Vehicle Maintenance - IRRELEVANT

- Vehicles could make fewer trips, and therefore less maintenance would be required



Physical & Agent losses - IRRELEVANT

- By introducing better knowledge, making it easy to access for 45k users, teams could make fewer mistakes
- Pro-active messaging to those who have missed tasks or deadlines could reduce mistakes.
- Targeted security messages will reach more of the network and Postmasters and their staff will be more aware of threats to security
- Use case data and integration to spot themes and anomalies



Stationery - IRRELEVANT

- Better knowledge will encourage self service to resolve issues
- Preventative maintenance messages sent to Branch Hub users could reduce stationery consumption



Engineer Visits - IRRELEVANT

- Better case management could mean we can combine engineer visits and make fewer trips
- Better knowledge could mean more issues can be resolved by Postmasters and their staff

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Financial Summary

Cost Forecast (£m)	Prior Spend	Apr 20	May 20	Jun 20	Jul 20	Aug 20	Sep 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	FY20	FY21	FY22	Total
Capex	IRRELEVANT																
Exceptional																	
Total																	
Benefits Forecast (£m)																	
New Recurring Costs																	
Cost Reductions																	
Total																	
Net Present Value over 5 Yrs (£'k)																	
Payback (Yrs)																	

- Spend for Q1 FY20 - IRRELEVANT which has delivered the Branch Hub base platform, COVID-19, Stock, Coin and Planned Ordering features giving 16FTE saving.
- Next phase (July – Nov) is IRRELEVANT to deliver 'sticky' features such as a mobile app and Postmaster Communities. A further 17FTE benefit is targeted along with a 25% reduction in calls.
- Final FY20 phase (Dec – March) is IRRELEVANT savings tbc but expected IRRELEVANT
- IRRELEVANT in VR costs is required between July and March to deliver the 16 FTEs realised from Q1 and 17 FTE from the July-Nov phase.

- **We request the full amount of IRRELEVANT and ask for delegated authority to IC to approve the final phase in Nov 2020 based on progress made.**

- Spend in FY 18 was IRRELEVANT
- Spend in FY 19 was
- Impairment value of FJ delivery i IRRELEVANT
- Payback pre-impairment was IRRELEVANT, post impairment is IRRELEVANT
- Re-occurring costs are IRRELEVANT per annum

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POST OFFICE LIMITED
BOARD REPORT

Title:	Cash and Banking Services (Banking Framework 3)	**Meeting Date:**	29 July 2020
Author:	Martin Kearsley, Director of Banking Services	**Sponsor:**	Owen Woodley, Group Chief Commercial Officer

4.1

Input Sought: Decision/Discussion

Board is requested to consider and **approve** management recommendation to release final Banking Framework 3 (BF3) pricing no later than 30.06.21 rather than no later than 31.12.20

Board is further asked to **note**, discuss and **give direction** regarding:

- Residual and deeply held bank concerns after BF2 commercial challenges
- BF3 key commercial levers and options to address the above, to ensure full continuation
- Implications of emerging industry Access to Cash programmes and associated automation

Finally, Board is requested to **note** the update on Cash Automation proofs of concept and linkage to industry pilot schemes.

Previous Governance Oversight

- BF2 dates and commitments approved at 2018 Boards, since signed into contract with banks

Executive Summary

Covid-19 has caused a significant reduction in cash use nationwide and impacted POL's ATM and Banking Framework businesses accordingly, with an almost 50% decline in transaction volumes in the early stages of lockdown. Whilst both have recovered to c.80-85% of pre-Covid levels, this market-wide decline has now brought real political focus on the 'Access to Cash' agenda, which will lead to legislation ensuring sustainable national cash and banking access.

Cash and Banking has been identified as a core service in PSG; post-Covid it is still core, and with the increased focus on sustainable cash nationwide, it remains a vital PO service. The recommended ATM strategy is addressed in a separate Board paper.

Our service proposition therefore needs to evolve, including automation and efficiency improvements, which in turn will help us respond positively to direct and hard-hitting feedback from the banks about the commercials POL has imposed in BF2.

This paper covers strategic issues facing three areas of POL cash and banking: Banking Framework 2 recovery, Banking Framework 3 pricing, Automation and one new area of relevant market-wide activity that we are involved in - the Community Access to Cash Pilot ('CACP') - that will drive innovation and competition.

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Market Context

UK Cash usage continues to change rapidly. Cash transactions have declined over 50% since 2007 to 26% of all transactions and was already projected to decline to 17% by 2027 (Ceeney) which is approaching the level seen in Sweden, the most cashless society to date. Covid has accelerated the rate of decline, reducing cash usage by a further 20-25% over the past few months.

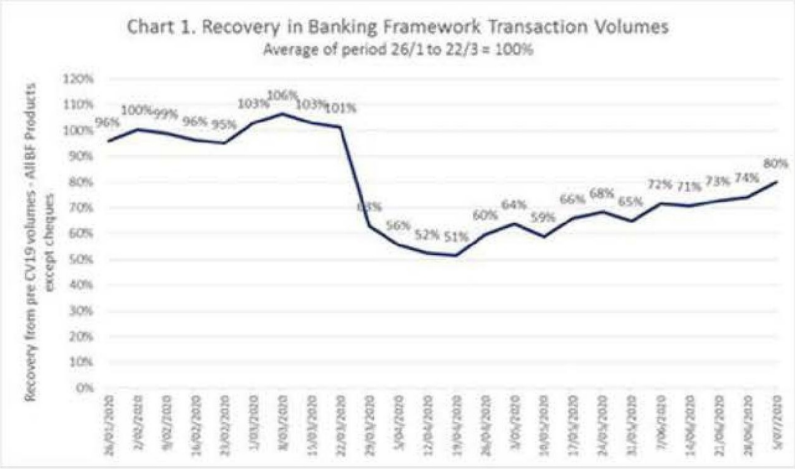
There is wide agreement that the final full market recovery of cash will be less than before Covid - settling at c80/85% (validated by independent stakeholders, including HMT, FCA, Ceeney and LINK) - but within which POL will likely over-index due to the socio-geographic groups we serve, and their greater dependency on cash use. We could also benefit from declining cash usage prompting banks to accelerate further branch and counter closures.

Protecting Access to Cash in disadvantaged, rural and other underserved communities is now driving government and regulator demands for the industry to step up efforts to provide sustainable cash services.

The Report

Banking Framework 2 Recovery

1. Pre-lockdown, record Banking Framework volumes and values were continuing to grow in line with our original BF2 business case. In the immediate aftermath, overall transaction volumes fell circa 50%. Our current data-based MI shows our recovery exceeding the original market projections, reaching 80% recovery even before the major lockdown restrictions have been lifted. See chart 1 below.



2. As lockdown has eased, we have seen differential rates of recovery between service lines (chart 2) and between banks (chart 4).

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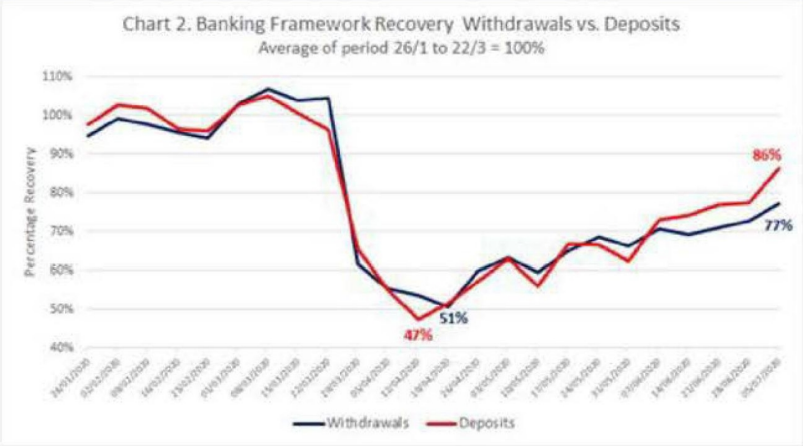
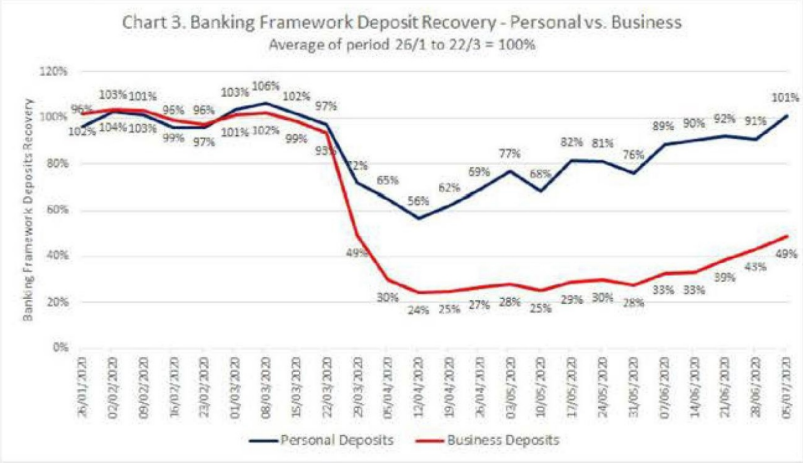


3. By the start of July deposits had recovered to 86% of pre CV19 levels whilst withdrawals had recovered to 77%. Within deposits the recovery has been driven by personal rather than business. (see chart 3).



4. Personal deposits have now exceeded pre-Covid levels (101%) whilst business deposits remain subdued (49%).

Postscript *- Business deposit recovery rose to circa 60% on Monday 6th July following further lockdown easing.*

5. Evidence suggests that an element of the personal deposit recovery has been driven by new-to-POL customers displaced from their bank branches. This is most clearly observed when comparing the recoveries of Santander with LBG. A smaller percentage of Lloyds customers use POL than Santander customers (we undertake all Santander Business deposit transactions), and due to bank branch closures and restricted hours, there have been more displaced LBG customers who have discovered our services (chart 4).

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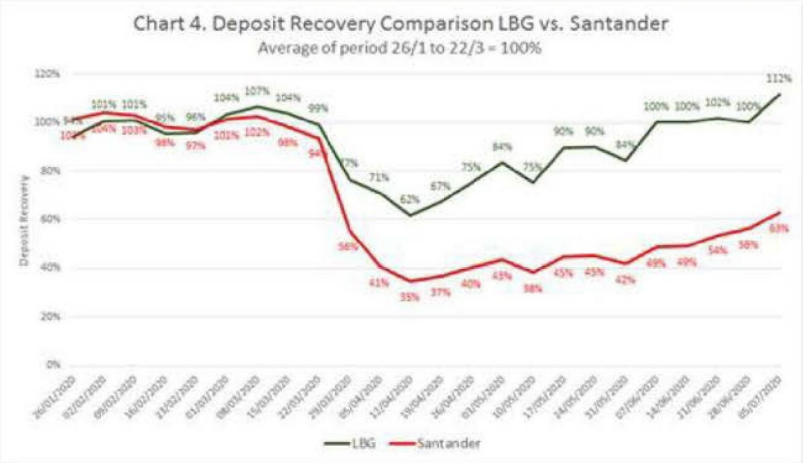

6. With recent Citizens Advice research finding over 86% of customers citing PO service 'as good as or better than' bank service, we expect a material percentage of these new customers will continue to use their local Post Office.
7. The lockdown period also saw an increase in the average transaction values (up to 20%) suggesting customers were making fewer visits to avoid social contact but with greater value. As we exit restrictions and customer confidence returns, we should expect average values to return to the slightly lower pre CV19 levels with a consequential additional increase in transaction volumes.
8. To assess the long-term impact of these changes, we have developed three scenarios and compared them against the Pre-Covid BF2 baseline for both transaction volumes (Chart 5) and value of cash handled (Chart 6).

SCENARIO	RATIONALE
1. Volumes and ATV return to 80% of the baseline by Jan 2021 with any current recovery beyond 80% being lost	A conservative scenario aligned to market expectations of cash usage decline ***(NB - already overtaken)***
2. Volumes and ATV return to at least 80% of the baseline by Jan 2021 with retention of 50% of any recovery beyond 80%	Over recovery already observed due to new to POL customers who have been unable to access their Bank branches. We retain 50% in medium term.
3. As Scenario 2 plus impact of displaced transactions from c.700 further bank branch closures starting Jan 23	Declining cash/branch usage has triggered banks to assess their network afresh. Likely closure of branches below minimum viable thresholds with POL capturing 75% of displaced transactions

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Chart 5. Total Banking Framework Transaction Volumes



9. Taking scenario 2 as the most expected outcome, the total transaction volumes forecast for the period 20/21 to 25/26 range from79% to 88% of the pre-Covid forecast. The range for cash handled across the same period is between 79% and 92%.

10. Based on BF2 pricing (and on an unlikely, but possible scenario that ALL banks carry on with BF2 commercial terms throughout BF3) these scenarios deliver:

DPC - Revenue minus variable agents' remuneration	20/21	21/22	22/23	23/24	24/25
Pre-Covid Baseline					
Scenario 1					
Scenario 2 - Expected					
Scenario 3					

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11. This provides a predicted DPC range of between 86% and 93% for the pre-Covid forecast for the period 20/21 to 24/25. There is a higher volume scenario (linked to banks proactively migrating counter cash transactions to POL as they make even more radical changes to their branch networks) which would require attractive volume discounts in BF3, discussed in the next section.

Banking Framework 3 (BF3) Options

Current engagement with Top 5 banks

12. CEO meetings:

A series of meetings between CEOs have been arranged and are underway. Full candid disclosure is helping to inform options and directions for subsequent 1-1 and group meetings.

13. Direct bank meetings:

We have commenced a series of one to one and working group discussions to take on board Banks' feedback on BF2 and thoughts on how BF3 could be restructured. UK Finance is taking an observer role once again (as they did in BF1 and BF2) to ensure no conflict of interest or anti-competitive activity or language is evident.

Bank perspectives on BF2 issues, BF3 options, industry alternatives and POL services

14. In the first few meetings, a number of key considerations have been discussed:

    14.1. The scale of the Banking Framework IRRELEVANT is negatively perceived and considered to be too high and a disincentive to increase volumes. We should IRRELEVANT (ie retain DPC)
    14.2. The cost of a withdrawal transaction compares unfavourably with other options. IRRELEVANT
    14.3. There is insufficient incentive and reward for Banks to proactively encourage customers to use the Post Office – there is IRRELEVANT for very significant volume.
    14.4. They expect a lower fee for a self-service deposit transaction than for one done at the counter – a challenge for when we run our Automation pilots. Create a satisfactory service for time-poor business deposits.
    14.5. The banks view the emergence of a POL monopoly as against their interests, as we can IRRELEVANT That lack of trust cannot be in our interests either.
    14.6. IRRELEVANT view that their customers use of POL branches 'for convenience' is counter to their intent (which was to support vulnerable and distanced customers). Can we IRRELEVANT transactions to reduce the impact of convenience transactions near where bank branches remain vs 'no option' transactions (rural/remote with no nearby bank)?
    14.7. Despite 6 (and Citizens Advice recent independent research) proving customers value POL transactions more favourably and reliably than bank branch ones, some banks repeat a mantra of 'unreliable and inconsistent' service as a significant issue. Errors and miss-key rework must be addressed

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15. The top 5 banks cater for IRRELEVANT of all transactions and accounts held in the UK. An explanation of their current position re: POL Banking Framework may clarify their individual and collective approach to BF3.

Bank	BF2 position	Executive view of POL relationship	Operational view of POL relationship	Top key issues?	Branch strategies	Potential Cash services direction

4.1

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		IRRELEVANT				

16. We understand the variations in the banks' perspectives of POL and our BF2 actions. While we work to regain the trust damaged in that process, and find a commercial model that will encourage growth and full commitment for the long term, we need strong and persistent positive Government and regulatory support and for that support to be made well known to the banks. Engaging UKGI, HMT, FCA and PSR colleagues in that very vocal support is key, and we wish to explore how that support can be generated with the help of BEIS colleagues.

17. We believe that any changes to BF3 need to meet a number of general principles:

17.1. IRRELEVANT
17.2.
17.3.

17.4. Provide a service that is satisfactory for consumers and small businesses.

17.5. IRRELEVANT
17.6.
17.7.

17.8. Protect rural service and not over-compete in city centres.
17.9. Drive a more consistent customer experience.

18. Considering the above challenges and the outlined principles, in early 1-1 discussion meetings a number of initial directional options have emerging for the key BF3 products and fees, and are set out in the table below:

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FEE		1	2	3	4
Framework Fee	Principles	Reduce tier charges based on shared savings (POL and industry-wide), ensure locks in place to grow trust and confidence about future pricing			
	Lever	IRRELEVANT			
	Rationale				
Withdrawals	Principles				
	Lever				
	Rationale				
Deposits	Principles				
	Lever				
	Rationale				

19. Initial feedback from the big 5 Banks has been limited and they have been asked to consult internally and return with their input by end of July, after which ongoing discussions will ensue.

20. Of particular note, and linkage to the ATM strategy, IRRELEVANT IRRELEVANT IRRELEVANT This would restrict Independent ATM Deployers (IAD) ability to force higher interchange rates on the industry and thus potentially improve footfall at the POL ATM estate. From an ATM perspective we are in a win-win position as higher ATM interchange would improve profitability of our estate and make any difference with BF pricing less significant.

Current Banking Framework 3 decision timing

21. Banking Framework 2 (BF2) runs until midnight on 31.12.22. All participants have a right to terminate their automatic 'rollover' into BF3 but must declare that by midnight on 31.12.21 (thus giving 12 months' notice). To allow participants to take any new pricing and associated contract changes through their internal Governance we will need to agree and release BF3 pricing 'some months' in advance.

22. Agreement on BF3 pricing will come from resolving a complex interplay of issues resulting from the vitriolic feedback received from our BF2 commercial position, the resulting bank perspectives of POL as a partner, and repairing the trust issues that we now face - both commercially and organisationally.

23. The fee revisions put in place under BF2 addressed a number of structural issues for POL, such as our under recovery of the cost of cash deposited and the value delivered by our fixed infrastructure as Banks stripped cost out of their branch networks.

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24. The changes, which were both significant and largely unexpected by the banks, took our ability to increase pricing to its limit. This was exacerbated by the unintentionally short time span to allow for Bank Governance to approve the changes and resulted in a damaging period in our relationships with some banks.

25. Consequently, it was agreed that for BF3 a longer time frame would be built in. It was also agreed that as a 'safety net' against POL aggressively increasing BF fees in BF3, banks could choose to stay on BF2 pricing throughout BF3.

The original timeframe agreed was as per the table below.

31 December 2020	30 June 2021	31 December 2021	1 Jan 2023
BF3 pricing released by POL to enable banks to 'work the numbers' and choose to stay with BF2 pricing or move to BF3.	Banks who wish to stay with BF2 pricing have to positively notify us by 30.6.21, or remain silent until.....	....the deadline of 31.12.21, by which time they must serve notice that they wish to leave the Banking Framework...	...on 31/12/22. Remaining silent beyond 31.12.21 means they have not given us the required 12 months' notice to leave, and are therefore 'in ' BF3.

Nb: even if a bank chooses to declare it wishes to stay on BF2 pricing throughout BF3 by June 2021, that bank can still serve notice on or before 31st December 2021 to exit the entire Framework.

Proposal to converge pricing decisions onto one existing contractual date

26. The impact of Covid on both POL and the banks' resources and priorities has resulted in a request from Lloyds, subsequently supported by all banks at BF steerco, to delay the point at which the BF3 pricing is released.

27. A delay in issuing BF3 pricing benefits both banks and POL in a number of ways:

    27.1. Longer period to assess and respond to the recovery in transactions post lockdown – and to better understand the Covid impact on the banks' strategies.
    27.2. Understand any emerging solutions from the CACP process discussed later in this paper.
    27.3. Assess the output from a UK Finance exercise to quantify the scale of counter cash transactions remaining with Bank branches
    27.4. Develop discussions with certain banks, e.g. IRRELEVANT over their appetite to proactively migrate whole customer segments or geographies to use the Post Office.
    27.5. Combining the decision points means that Banks can avoid a double governance cycle, reducing risk for POL and provides a single focus decision moment for the banks.

28. A delay in issuing BF3 pricing benefits POL uniquely in a number of ways:

    28.1. Further develop our understanding of Bank's expectations from BF3 - bearing in mind that these will be influenced by options we put forward in close engagement from now onwards.
    28.2. IRRELEVANT
    IRRELEVANT
    28.3. Understand and react to impending changes to Bank branch network strategies
    IRRELEVANT

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28.4. Run our cash automation pilots embedded in the CACP sites and other sites to inform the cost of a self-service transaction and therefore the fees we should set

28.5. The longer we keep our IRRELEVANT

IRRELEVANT

29. A delay benefits the banks in a number of ways:

29.1. If the cash market settles at a significantly lower level than pre-CV19, they are less dependent on us, and can react more strongly against our pricing model.

29.2. There is longer time for the IRRELEVANT to potentially deliver alternative solutions for IRRELEVANT and IRRELEVANT IRRELEVANT (if out of line with the market).

29.3. POL will not know which banks might want to remain on BF2 until later in the process.

29.4. The banks contractual decision date (31.12.21 - to declare either notification to exit the Framework, or remain silent and stay in), could now include a 'stay in", but at BF2 pricing decision.

29.5. When we DO confirm pricing (suggested by end June 2021), if POL choose to inflate BF3 pricing, banks will have had a further 6 months to remain silent and give us less time to react if they then serve one years' notice.

30. Board is therefore asked to discuss the options and **approve** a move to a single decision date - 31.12.21 - enabling a further 6 months (to 30.6.21) for the release to the banks of BF approved pricing. When we revert, we will include detailed financial analysis on the economics for POL of the whole range of potential outcomes in BF3 (e.g. Barclays withdrawal, Barclays & LBG withdrawal etc).

Cash Automation

31. The success of the Banking Framework has delivered a step change in cash deposits. The shift from heavily cash deficit to cash surplus branches, combined with higher average transaction values, has increased pressure on the counter and back office infrastructure and processes which are currently almost entirely manual, time consuming and open to error. The impact is concentrated because c50% of Banking Framework cash is handled in c20% of the network.

32. With increasing transaction volumes, and without changes to our infrastructure, Post Offices struggle with:
- Increasing counter queues and associated negative customer and bank reaction
- Growing cash reconciliation issues
- Loss of Postmaster advocacy
- Greater security risks
- Undermining of the Banking Framework members' confidence in the service we provide.

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33. We therefore need to identify and implement cash management solutions which:
    - Improve our ability to count, secure and reconcile cash at the counter and within branch
    - Improve the visibility of cash in the network to optimise cash holding and distribution
    - Make overall cash management and control easier for Post Masters and POL colleagues
    - Improve customer service experience and enable new ways for customers to deposit cash
    - Lowers the cost to serve to allow attractive and sustainable framework fees (BF3) that encourage Banks to commit an increasing share of their counter cash transactions to the PO channel.

34. Deposit self-service and counter cash automation has been globally deployed by Banks to address similar issues. This mature technology falls into two categories and we are seeking to evaluate both.

    34.1. Counter cash automation - *for Postmaster use behind the counter*. Teller Cash Recyclers (TCRs) count, authenticate, capture and recycle cash and can be fully integrated into teller or POS platforms to provide audit trials and centralised cash visibility.
    34.2. Self-Service - *for public use in-Branch*. Devices come in multiple forms. The ATM is the most common but deposit only or multi-function devices have greater relevance to the cash transaction profiles we need to address.

35. To commence this process two pilots/proofs of concept were started in 2019/20.

    35.1. Self-Service Deposit Proof of Concept

    We have a self-service deposit device installed in the Model Office. PRB funding is currently being sought for final IT and Bank sign off and the deployment of 4 units into the network. Coordination with the Community Access to Cash Pilot (CACP), described later in this paper, is in planning. The POC is focussed on the evaluation of customer uptake and the benefits delivered to Postmasters and POL.

    35.2. Counter cash automation pilot using a Teller Cash Recycler (TCR)

    In early 2020 we supported 2 TCR pilots with Coop Retail. A similar opportunity has arisen with Henderson's (our major NI partner running c50 Post Offices in the province) who are keen to deploy TCRs at their Post Office Counters.

36. A request for funding to support the Henderson's pilot (commencing Q2 20/21) and then run a further 10 directly managed pilots is going before PRG with a potential commencement date in Q3 20/21.

37. TCRs and self-service devices were included in the ATM OJEU process and we can therefore rapidly put compliant purchase arrangements in place. Whilst TCRs can be run without integration into Horizon, we have commenced an exercise with our IT partners to assess the resource and timeframe required to integrate TCRs into the Horizon counter system to extract maximum operational benefit from the device. Self-service

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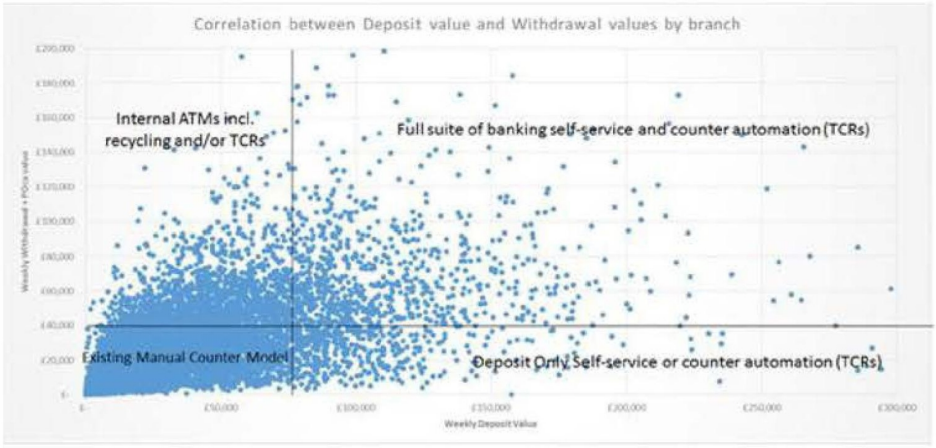
devices will be able to piggyback on the software platform and management services being acquired for the new ATM network.



38. The mix of cash automation deployed will depend on the volume of cash transactions at individual branches, e.g. in deposit heavy/withdrawal light branches we would deploy self-service deposit devices. In heavily used branches, we would deploy all appropriate automation. And where space limits self-service, we would focus on counter automation. And below a threshold, existing manual systems will be retained.



39. The above proposals open up two possible automation models:

- **POL-decided** - we invest in equipment, we define which branches get equipped, we decide the commercial model (lease, shared contribution, capex, opex etc, and then transaction price to banks accordingly)
- **Bank-funded** - banks invest in the equipment, we have less control in which sites are selected, transaction price is 'pence not pounds' but sufficient for us to sustainably reimburse the PM. POL merely host.

40. We already have deposit automation installed in the model office. We propose to move that solution to the CACP sites and work with CACP to ensure our solutions to cash deposits are fully embedded in the resulting trials.

Community Access to Cash Pilot ('CACP')

41. The intensifying debate about supporting communities and those still dependent on cash has resulted in a new initiative. CACP is sponsored by UK Finance with a board consisting of Natalie Ceeney, banks, FSB, LINK and Fairer Finance, has commenced and

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is examining a range of new and existing solutions. Eight locations have been selected and CACP is now seeking community engagement to understand their cash needs. POL is seen as central to the provision of sustainable solutions by the Chair and we are engaging to ensure our branches are utilised.

42. Likely challenges to be addressed include:

Cash Access. New solutions to enable consumers and businesses to access cash from accounts, such as cashback without purchase (from convenience shops) using PayPoint, and rekindling supermarket cashback.

Cash acceptance (ensuring anyone who needs to pay with cash, can do so). Legislation is being drafted by HMT to ensure cash is accepted by all small businesses. This is due to become statute in the next Parliamentary session, and will commit banks to properly promote all deposit channels, including Post Offices.

Cash Deposits (creating new ways for cash to be paid into accounts)

- Shared banking utility sites - utilising individual banks' closed buildings to reopen and equip with shared services. Ceeney has so far had little success in generating a new approach and has not moved forward.
- Automation in third party sites such as Post Offices, Petrol Stations, public buildings. This would see bank-funded devices (serving all banks) installed in c.2-400 locations, able to accept cash deposits.

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Appendix

Cash and Banking Insights from other Post Offices worldwide

Name/Country	Insight	Source
Deutsche Post	Deutsche Postbank AG will modernize its retail bank branch network with NCR intelligent deposit ATMs and NCR SelfServ 85 consulting kiosks. The NCR software and hardware solutions deployed by Postbank will enable customers to make appointments and calculate loans on the NCR kiosks, as well as deposit notes and coins through the convenient new ATMs. The new solutions will be available 24/7 across many Postbank locations, with long term plans to roll out the NCR technology across all 1,100 branches.	https://www.ncr.com/news/newsroom/news-releases/financial/deutsch-postbank-modernizes-branches-with-next-generation-ncr-technology
Russia Post bank	Diebold Nixdorf Inc. will supply 3,200 self-service cash recycling systems to the Russian Post Bank, which is expanding its retail banking network within post office branches throughout Russia.	https://www.atmmarketplace.com/news/diebold-nixdorf-to-roll-out-3200-recyclers-for-russias-post-bank/
Pakistan Post	Under the strategic alliance, PPOD shall provide branch-less banking services to its customers using HBL Konnect, the bank's branch less banking platform. At selected locations across the Pakistan Post network, HBL will also place Automated Teller Machines (ATMs) and Cash Deposit Machines (CDMs) to further support customers and enhance the digital financial service capabilities available at Pakistan Post locations.	https://profit.pakistantoday.com.pk/2020/06/08/hbl-and-pakistan-post-join-hands-to-further-financial-inclusion/
Japan Post	Nationwide ATM network, largest deposit taking institution	https://www.jp-bank.japanpost.jp/en_index.html
Malay Post	Ability to send money, deposit and withdraw cash for Maybank and RHB	https://www.pos.com.my/
Australia Post	Banking services available *but not automated*: 'With access to over 70 banks and financial institutions, including key partners CommBank, Westpac and NAB, you'll find it easy to manage your money locally'. You can deposit cash and cheques, withdraw money and make balance enquiries for free2 at participating Post Offices, including 1,800 in rural and remote locations.	https://auspost.com.au/money-insurance/banking-and-payments/bank-at-post

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POST OFFICE LIMITED
BOARD REPORT

Title:	ATM 'Exit or Remain' strategy	**Meeting Date:**	29 July 2020
Author:	Martin Kearsley, Director of Banking Services	**Sponsor:**	Owen Woodley, Group Chief Commercial Officer

4.2

Input Sought: Decision/Discussion

POL Board is requested to consider both 'Remain' and 'Exit' ATM strategy options and approve which to pursue. Should POL Board approve the 'Remain' option, an additional request is made to delegate authority to the GE to proceed to contract signature for the preferred suppliers, on completion of the procurement-driven OJEU selection process undertaken during 2019.

Previous Governance Oversight

ATM Strategy approved at April board, subsequently re-assessed in Project NEO.

Executive Summary

As the end of the BoI ATM relationship has approached, supported by an OJEU process, we have reviewed all possible solutions to either remain in the ATM market or exit completely if the market position demands it. The preliminary strategy recommendation from that work was to remain in the market operating with a new commercially viable operating model under an OJEU-compliant partnership. This recommended approach was presented to the POL April Board and endorsed. Since Board approval, the project team has:

- Progressed the OJEU process and appointed preferred supplier status for Lot 1 (transaction processing) and Lot 2 (managed services). The process is nearing completion for Lot 3 (ATM hardware).
- Reviewed all options previously considered in the light of the impact of Covid 19 on cash usage

Covid-19 initially caused a significant reduction in cash use nationwide and impacted POL's ATM businesses accordingly with an almost 50% decline in transaction volumes in the early stages of lockdown. Significant recovery commenced as lockdown was eased and by early July, we have seen volumes back to c.80-85% of pre-Covid levels.

This report provides an update to the April Board paper that reflects the impact of Covid on both the Remain and Exit strategy options, and **seeks approval of the management recommendation to Remain.**

	20/21 - 27/28				20/21 - 24/25
	Investment Cost	Payback	EBITDAS	ROI	ROI
Remain					
Exit					

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To enable POL to achieve migration prior to the end of the BoI contract in March 2022, POL must sign contracts with new suppliers in August 2020.

The Report

1. Over the last 15 months, and approaching the end of the BoI relationship, we reviewed all possible options for either remaining in the ATM market or exiting completely. The recommendation presented to Board was to remain in the market with a new operating model and under our full control. This strategy was approved by the Board in April. At that point, the model projected £49m cumulative cash flow over the period to 27/28. The project team has continued to progress the OJEU process and appointed preferred supplier status for Lot 1 (transaction processing) and Lot 2 (managed services). The process is nearing completion for Lot 3 (ATM hardware).

2. The impact of CV19 on cash usage has required us to re-visit all the strategic options again and consider whether the market dynamics and financial models underpinning the April recommendation are still valid.

3. Immediately post lockdown UK ATM transactions fell by c55%. POL ATM transactions fell by c45% (both figures compared to the volumes in weeks just before lockdown). As of the start of July, transactions have recovered to c71% and 84% respectively. This recovery is ahead of initial industry expectations and is in line with the recovery levels also seen in the Banking Framework. Our over-indexing (when related to the whole UK ATM estate) is a result of the demographic profile of our customer base and our less urbanised / more localised mix of ATM locations.

4. A series of revised transaction volume projections were developed to compare against the volumes used in the April Board paper:
   - 4.1. **Baseline** - 80% Recovery by January 21 (note: already achieved w/e 5th July 20). This recovery to be followed by slower decline after 21/22 and eventual alignment to pre Covid assumptions by 27/28.
   - 4.2. **Further Growth** - 80% Recovery plus market gain of c.4% market share of transactions displaced as free to use ATMs are converted to surcharging or removed.
   - 4.3. **Worst Case** - 80% Recovery followed by the pre-Covid forecast decline (3% in 21/22 increasing to 6% by 23/24), thereafter accelerating to a 10% decline from 24/25.
   - 4.4. **Break Even** - Volumes initially return to 80% of pre Covid, but continue to decline at an accelerated rate of 15% in 21/22 and 10% thereafter.
   - 4.5. **Exit** - All ATMs removed by Mar 22. See chart below for transaction volumes forecasts to 27/28.

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4.2

5. The strategy options revisited were:
   5.1. Market Exit as BoI withdraw
   5.2. Remaining in ATMs by either of:
      a. Renewing the contract with Bank of Ireland
      b. Partnering with another Bank
      c. Outsourcing to an Independent ATM Deployer (IAD)
      d. Partnering with industry leaders to manage our own estate.

6. Options 2a and 2b remain discounted due to lack of interest from BOI/Other banks, whilst in 2c, an IAD would take control over location and charging, leaving our access to cash credentials severely compromised.

7. Set out below are details of the re-assessment of the Exit strategy (option 1) and Remain (option 2d) with a new operating model strategy.

Exit

8. IRRELEVANT

9. Evaluating this to the end of 27/28 in line with intended contract period, will generate a IRRELEVANT NPV and IRRELEVANT ROI.
   - The majority of the positive cash flow occurs between 22/23 and 27/28, post removal of ATMs, from the migration of an estimated 10% of ATM volumes to the counter under the Banking Framework (percentage seen so far in ATM removals to date).
   - POL would need to see a c70% migration to the counter to yield the same financial benefits as the Remain strategy.
   - However, demand for cash is falling and exiting would de-risk the business should our forecasts be significantly optimistic and demand for cash falls beyond the breakeven volumes identified.

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- IRRELEVANT change spend is required largely due to IRRELEVANT re-instatement costs post removal of all ATMs. Included is IRRELEVANT of sunk OJEU costs together with IRRELEVANT of redundancy costs for FTE in the ATM and Supply Chain teams.
- Compared to the retain strategy IRRELEVANT change spend), exiting the ATM market will free up IRRELEVANT of change spend for alternative investment.

Financial Metrics	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	20/21 - 27/28
Revenue	IRRELEVANT								
Agents' Remuneration									
Operational Costs									
Supply Chain Costs									
EBITDAS									
Change Spend									
Cash Flow: In Year									
Cumulative Cash Flow									

10. There are also Postmaster and political implications to consider.

POSTMASTER CONSIDERATIONS

• For the c.2100 Postmasters who run our ATMS, they will lose all ATM remuneration IRRELEVANT p.a. on average) representing 10% of their total remuneration.
  ○ At 133 branches, ATM remuneration > 30% of total branch remuneration
  ○ Total 19/20 ATM remuneration IRRELEVANT
• Postmasters will face lost footfall to their store
• There will be disruption to branches as ATMs are removed
However:
• Removing ATMs will reduce security risk at Branches from gas, rip out and other forms of attack
• Removing ATMs will reduce cash losses in branches as a result of poor ATM balancing processes
• The Postmaster will no longer need to cash fill and maintain the ATM

POLITICAL CONSIDERATIONS
• Exiting the market would create significant negative "access to cash" issues with government, regulators and pressure groups. • Exit will indirectly impact our commitment to the CACP pilots by diluting our access to cash credentials and potentially weaken our position as the most viable partner. • POca customers (who can only use PO ATMs) will be disadvantaged at a key moment in the conversion/migration process

Remain

11. The 3 transaction volume scenarios used to assess remaining in the ATM market forecast a range of cumulative cash flow between 20/21 and 27/28 of between IRRELEVANT and IRRELEVANT

12. The baseline forecast, which we consider the most likely outcome, predicts IRRELEVANT cumulative cash flow. This will deliver IRRELEVANT EBITDAS in 22/23, reducing to IRRELEVANT in 27/28 due to declining volumes, with a forecast EBITDAS of IRRELEVANT to the end of 27/28. This includes IRRELEVANT p.a for supply chain to support ATMs at today's costs.

13. The baseline scenario will pay back the IRRELEVANT investment required within 28 months. In line with PRB evaluation criteria to the end of 24/25 our base case will generate a IRRELEVANT NPV and an IRRELEVANT ROI. Evaluating this to the end of 27/28 in line with intended contract period, will generate a IRRELEVANT NPV and IRRELEVANT ROI.

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4.2

Financial Summary	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	20/21 - 27/28
Revenue	IRRELEVANT								
Agents' Remuneration									
Operational Costs									
Supply Chain Costs									
EBITDAS									
Change Spend									
Payment terms									
Cash Flow: In Year									
Cumulative Cash Flow									
Volumes Scenario Analysis									
Further Growth									
Worst Case									
Break Even									

14. Sensitivity Analysis of Base Case Key Assumptions

The sensitivities below are not included in the base case.

Key Variable	Sensitivity Performed	Cumulative Cash Flow Impact 20/21 – 27/28	Revised £33.7m Base Case
Change in LINK Revenue Rates	5% Change in April 22 & 23. Agents' rem. revised in proportion.	IRRELEVANT	
Agents' do not agree to retain a POL ATM	Assume 100 fewer ATMs.		
Increased ATM Attacks	Attacks increase from 3 to 6 per month. Last 12 months average is 3 per month.		
Increased Branch Churn	BAU branch closures run rate increase from 1 to 2 per week resulting in ATM removals.		
Cash Management Back Office Transformation	Cost reduction if no transformation of legacy cash management processes, and IT option 1 (page 6) is selected.		
Delay in Migration	2 month delay in migration		

15. The IRRELEVANT investment between 20/21-23/24 is made up of:
    - IRRELEVANT of fixed costs, including IRRELEVANT for legacy cash management process improvement.
    - IRRELEVANT relates to ATM costs dependent on the number of devices (baseline 1,400).
    - IRRELEVANT is required for the removal of commercially unviable BoI ATMs.

16. There are also POL, Postmaster and political implications to consider:

POL & POSTMASTER CONSIDERATIONS
• POL retains control over ATM deployment. • Continued payment of ATM remuneration to Postmasters, which makes up a significant proportion of their income. Whilst remuneration is reduced to reflect new operating model, it will still be material to PMs. • The new software platform can be developed to support other transactions (such as deposit) at marginal cost, which can then be supported on industry-standard deposit equipment • The managed services solution provides economies of scale for other automation e.g. deposit, including, device monitoring and fault reporting, helpdesk and maintenance. • As a significant acquiring member of LINK, POL will have more influence on ATM cash access policy and the setting of interchange fees.

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POLITICAL CONSIDERATIONS
• The UK Government, Bank of England and key regulatory influencers (Ceeney) view Post Office as central to the provision of free access to cash services. • POL is actively working with the Community Access to Cash Pilot (CACP) led by Natalie Ceeney which is seeking to provide solutions to ensure the provision of cash for communities and businesses. ATMs are an important vehicle in the provision of access to cash.
SOCIAL CONSIDERATIONS
• Our ATM network's locational mix and the demographics of the customers they serve not only represent a commercial opportunity but mean that we are often the last free to use ATM in town. • Our free to use approach is central to POL's strategy of being the primary source of everyday banking cash services in the UK. • POCA customers are only able to withdraw cash at POL ATMs or POL counters (for a limited time- Nov 21)

Impact on IT Infrastructure

17. The IT solution for ATMs under the new operating model would be delivered by third party suppliers (VocaLink for transaction processing and Cennox for ATM software and maintenance), and is fully costed within the business case.

18. During design phase of the various future branch ATM cash management processes, we identified a number of severe legacy inefficiencies relating to the management of all cash in branches and POL back office. These fall into 2 categories.

    1. Cash forecasting and branch ATM cash management

    2. Wider back office cash balancing and reconciliation that includes branch ATM cash, but also covers how retail and counter cash is managed in the Branch by the Postmasters, and reconciled in POL systems.

19. Delivering the Remain ATM strategy will include solutions to both categories - firstly by automating the Postmaster cash declaration process directly into Supply Chain, and secondly by progressing a sub-project (which has already commenced, but only to the stage of categorising and planning how to remediate the issues identified in item 2) which will – on approval – deliver a full programme of works to fix the legacy cash management processes both within the branch and back office. The forecasted total £1.5m expenditure in this business case will deliver:
    - Horizon integration (for messaging, processing and related activities)
    - ATM cash reconciliation (for systems such as Arrow, CWC etc)
    - Back office (non ATM) related process improvements (connectivity for SAP/CFS and MI systems)

Supply Chain ATM Costs

20. The ATM Strategy has assumed that Supply Chain will continue to provide cash for the ATMs, and that Postmasters will continue to cash fill the ATMs in their branches.

21. An assessment of the ATM cash provision & delivery costs for the c1,400 ATMs that we plan to migrate from Bank of Ireland (over and above the Supply Chain costs for other Branch cash) is £0.8m p.a.

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Summary Request

22. POL Board is asked to discuss both Exit and Remain options and **approve** the recommendation to Remain.

23. If **Remain**: the business will move forward with replacing the BoI ATM network with ATMs that are leased and operated by POL under a new commercial and financial framework. To enable us to achieve migration by the end of the BoI contract we must sign contracts with new suppliers in August 2020 to enable us to commence development of the solution.

24. If **Exit**: the business will move forward with BOI to remove all ATMs between now and March 2022.

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POST OFFICE LIMITED
BOARD REPORT

Title:	Digital Identity Partnership Strategy	**Meeting Date:**	29th July 2020
Author:	Elinor Hull – COO, Identity Services	**Sponsor:**	Owen Woodley - Group Chief Commercial Officer

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Input Sought: Decision

The Board is asked to:

- Agree the partnership recommendation for Post Office's digital identity future and provide authorisation to commence detailed partnership negotiations with the chosen organisation.

Previous Governance Oversight

- On 8th May 2020 the Board approved an extension of our contract with Digidentity to support the continuity of our Verify service to March 21.
- On 17th June 2020 the GE approved negotiating a six month extension with Digidentity for the remainder of the Verify contract through to September 2021 (on viable terms to Post Office) but not proceed further with Digidentity strategically for Post Office's identity future.
- On 17th June 2020 the GE approved taking three organisations into round two of partnership negotiations with a focus on long term value to Post Office.

Executive Summary

- Post Office has an opportunity to cement its position as the leading UK brand in the emerging digital identity market, thereby growing long term revenue and modernising our brand and purpose. PSG analysis concluded that digital identity should be a platform play with our preferred business model being to work with a partner who has technology, distribution capabilities and cash to deliver our market ambitions, rather than investing significant sums required to develop our own platform.
- Covid has changed the landscape for digital identity - with the need for increasing digitisation and less physical transactions comes the greater need for trustworthy digital identity. There is imminent market demand for the service Post Office has scoped, but we do not currently have a partner to optimise the opportunity with.
- Following market engagement, Post Office has established strong market interest and value in IRRELEVANT with access to our brand, branch network and market reach. A partnership for digital identity has been modelled to bring Post Office IRRELEVANT net profit over a IRRELEVANT with potential greater value through IRRELEVANT IRRELEVANT and IRRELEVANT depending on partnership terms. The Board is asked to consider the risk/reward profiles of the two strongest negotiated partnership deals with IRRELEVANT and Yoti, evaluating the long-term value the partnerships bring to Post Office against the risk presented by the proposed partnership structures and operating models.
- The decision put to the Board is to endorse the preferred partner for Post Office's strategic digital identity future and the commencement of detailed partnership negotiations.

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Questions asked & addressed

1. How can Post Office be successful in the UK identity market?
2. What are Post Office's digital identity partnership goals?
3. Which is our recommended partner and why?

Report

How can Post Office be successful in the UK identity market?

1. Today, Post Office's suite of identity services, used annually by over 6 million customers in branches and online, are used for everything from obtaining a child's first passport, certifying a document for opening a bank account and verifying identity to submit a tax return. The frequency of identity transactions is rising, driven by the need for higher assurance transactions to counter increasingly sophisticated identity fraud and theft which currently costs the UK economy over IRRELEVANT a year. An update on Government identity and our commercial position with Digidentity for Gov.UK Verify can be found in Appendix 1.
2. Identity assurance is a large and growing market - our own modelling (supported by independent consultants) suggests an addressable market of over IRRELEVANT pa while external studies by the Open Identity Exchange and McKinsey size this at IRRELEVANT pa, growing at over 5% pa due to regulatory pressures and digitisation. The attractiveness of the market is evidenced by the significant investment going into the sector (c$6bn pa globally according to Crunchbase). The key sectors for the market include government services, financial services, employment vetting, travel and retail. Further detail is available in Identity Services Business Overview.ppt in the reading room.
3. Post Office has an opportunity to generate revenue through transactional identity verification (IDV) for organisations who require a face-to-face check (often for regulatory reasons or an organisation not wanting to process documents) whilst transitioning to the re-usable digital identity operating model that can be used and re-used by an individual to access multiple services across multiple channels in a way that is convenient and privacy-centric, offering economies of scale to organisations.
4. Identity services demonstrate Post Office's mission to be there for all through providing an inclusive proposition utilising our branch network. The elderly, the young, the financially excluded, recent immigrants, disabled people and those living in rural populations face the greatest risk of identity exclusion, all people who we serve in the Post Office today. A typical online identity assurance process requires you to have photo ID evidence, a fixed address, a credit file and access to a device. Today in the UK 11m adults do not have a passport or a driving licence, 90,000 households are in temporary accommodation, 5.8m adults have thin/non-existent credit files, 1.5m adults are unbanked and 6m cannot turn on a device. Aside from ability, 40% of consumers surveyed stated that 'in person' was their preferred channel for identity verification, only 25% selecting on-line. This is evidenced by c25% of customers dropping out of the Verify registration process when asked to upload ID documents (despite previously stating they have the documents), suggesting issues with trust, motivation and/or ease. Feedback from UK banks has indicated that branch ID processes for them cost IRRELEVANT highlighting the opportunity for Post Office in this space.
5. Covid and remote-working practices have forced more services and interactions online, highlighting the need for and forcing the acceleration of trustworthy digital identity. With the economy of scale and market demand all aligning, an opportunity for the digitisation

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of identity exists, which Post Office is well positioned to address with clear USPs in this market:

a. Long-standing role in providing identity services under our trusted brand (as evidenced by our >55% Verify market share);
b. Position as the natural interface into government and growing association for banking transactions (key sectors for driving adoption of digital identity);
c. Expansive branch network, which enables us to offer more comprehensive and inclusive coverage than purely digital players.

6. Existential threats do however also exist from the UK government, via a possible approach of a government led identity scheme, and big tech players such as Apple and Google should they choose to provide reusable identity alongside their existing consumer product suite. However, if this occurs then Post Office can continue to operate a successful identity business by focusing on transactional identity verification through the branch network, supporting and enabling whichever service becomes dominant.
7. Given Post Office's affordability and delivery constraints and the significant uncertainty associated with the outlook for the market, PSG analysis concluded that digital identity should be a platform play with our preferred business model being to work with a partner who has the technology, distribution capabilities and cash to deliver our market ambitions, rather than investing significant sums required to develop our own platform. With a funded partnership, digital identity can be a core part of Post Office's strategic future landscape.

What are Post Office's digital identity partnership goals?

8. Post Office's aim is to find the most suitable partner for Post Office's digital identity future with a vision of providing a suite of identity services:
    a. Identity verification: one-off identity verification transactions, conducted digitally or face-to-face in our branch network.
    b. Re-usable trustworthy digital identity: for a user to self-manage and clients to consume when needed under consumer consent.
    c. Ancillary services: future potential to create additional ID led use-case IP.
9. The outcomes that we are looking to deliver to the business from the identity partnership are 1) maximum profit creation with minimum complexity and investment, 2) long term value beyond revenue % share and 3) reinforcement of our purpose - supporting customers who need us through our branch network. To evaluate long term value potential, we will be considering the following:
    a. Vision: shared vision for digital identity in the UK & what is needed to succeed.
    b. Partnership value: profit and wider asset value creation.
    c. Investment: strong partner investment / ability to raise external investment.
    d. Control: Post Office maintaining control of success whilst operationally remaining as light-touch as possible / realistic.
    e. Quality: of technology and flexibility for the products and services to evolve to ensure relevance and a competitive position in the emerging marketplace.
    f. Risk: of partnership operating model / deal structure / market proposition.

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10. Following detailed analysis of potential UK focused identity providers, a short list of those who met the core entry partnership criteria, including willingness to invest, was created (partner viability analysis can be seen in reading room). Five organisations IRRELEVANT, IRRELEVANT and Yoti) were invited to participate under NDA in a formal two week engagement. There was strong market enthusiasm about a partnership with Post Office, with all five companies submitting a proposal, validation of our belief that Post Office's strengths are valued and in the UK are currently unique.

11. Following proposal review with the GE and the pre-Board NEDs session, there was agreement that the focus must first be to negotiate partnership value and secure clarity and alignment of assumptions and then to move to negotiate the best commercial structure to achieve that value. We have continued negotiations with Mastercard, Onfido and Yoti as the three proposals offering greatest long-term value to Post Office.

Which is our recommended partner and why?

12. IRRELEVANT UK identity market entry in the form of a commercial scheme which could be strengthened through leveraging Post Office's brand strength to introduce their new consumer 'ID' trust mark. With a slim revenue share license model offered it was a low risk partnership, but one that did not meet Post Office's ambitions of long-term value or control. We concluded negotiations with options to work together in the future using the Mastercard scheme for distribution.

13. IRRELEVANT is a successful IRRELEVANT offering organisations the assurance they need to on-board customers remotely and securely via Government issued photo ID documents. Their business model to date has been to be world class at executing with their single product and expand globally. They have also recognised the risks of disruption to their business model through Digital Identity and have spent the last year proving the case through the f IRRELEVANT They have a team of 400 spanning across 8 countries, serving over 1500 companies globally with 234 in the UK, including 4 of the 5 mainstream UK banks and the majority of the Fintech landscape. They have raised over £160m in funding including an £81m round in April 2020, with full investment from TPG (backers of Uber, Spotify and Airbnb). IRRELEVANT bring market leading identity verification technology along with a strong B2B network and a focus on accessibility.

14. An SPV with IRRELEVANT would develop and own IP of the digital identity product as well as ancillary products. The SPV would seek to deliver value in the short term by extending IRRELEVANT current business model, offering online and in-branch IDV to serve as steppingstones for the wider adoption of reusable digital identity (that Onfido plan to be operating by September 21). Post Office and IRRELEVANT IRRELEVANT

15. Yoti, founded in 2014, has an existing consumer-centric, reusable digital identity platform downloaded by over 7million consumers globally (1.75m in the UK). They also have a 'doc scan' product similar to IRRELEVANT although not as mature as well as other ancillary products. Over the past five years, Yoti has invested in creating optimal user experience to facilitate trusted interactions, for both consumers and businesses. The business has a team of over 250 and has received £81m of funding to-date from its founders. Yoti brings proven technology with a market ready proposition and a growing user base.

16. An SPV with Yoti would re-brand their existing product suite to form a co-branded service which both Yoti and the SPV would sell to designated market verticals. All IRRELEVANT

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IRRELEVANT to the SPV and the SPV would effectively be a sales and B2B organisation within restricted market verticals (including government & financial services). Whilst the SPV would have equal ownership, Yoti propose IRRELEVANT

17. Company profiles and SPV business plans can be found in the reading room. A summary comparison of the two propositions against the core defined areas for success is below followed by financial analysis (further analysis can be found in Appendix 2).

	Onfido Partnership	Yoti Partnership
Vision - shared vision for digital identity in the UK & what is needed to succeed	IRRELEVANT	
Partnership Value - profit and wider asset value creation		
Partner Investment		
Post Office Control		
Quality – of technology and flexibility for products to evolve		
Risk		

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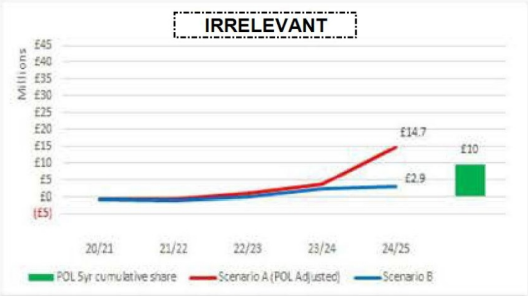
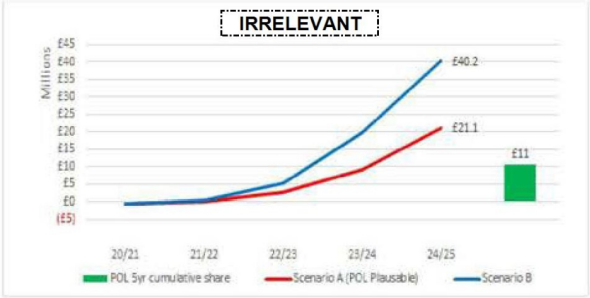
		IRRELEVANT	





18. Yoti presented a range of modelled scenarios driven by variances in market acceleration and sales success, the lower two are presented and discussed here. Scenario A IRRELEVANT IRRELEVANT of IRRELEVANT (POL 33% share IRRELEVANT), scenario B presents IRRELEVANT (POL share IRRELEVANT). Following analysis of assumptions, we believe the more realistic scenario to be scenario A, reaching a 30% market share by Year 5. It assumes that in Year 1 the SPV will on board IRRELEVANT growing to IRRELEVANT by the end of Year 5. Yoti will also be on-boarding customers outside of the SPV in their verticals. In the early years revenue is driven by small-medium contracts (avg value of IRRELEVANT) focused in the FS, NHS and recruitment sectors IRRELEVANT of the revenue stream). From year 3 onwards Government adds to become a significant driver IRRELEVANT of revenue).

19. The main driver of Yoti's IRRELEVANT IRRELEVANT, followed by IRRELEVANT which is a % of revenue (starting at IRRELEVANT in Year 1, gradually going down to IRRELEVANT in Year 5). Trading profit margins after Year 2 are consistently high IRRELEVANT in Year 3, reaching IRRELEVANT Year 5) as Yoti is proposing to take on the IRRELEVANT of the SPV and in return retain IRRELEVANT of the IRRELEVANT.

20. IRRELEVANT is significantly different than Yoti's, with first volumes and revenue materialising in H2 of Year 2 due to Year 1 being focused on product development. IRRELEVANT submitted a very cautious model IRRELEVANT cumulative profit) which Post Office have adjusted to present an upside generated scenario A showing IRRELEVANT cumulative profit (POL 50% share IRRELEVANT – IRRELEVANT funding IRRELEVANT to bring the SPV to profitability). The adjustments made are based on POL DI UK universe modelling and a belief that a 30% market share is achievable by year 5. Overall users in this scenario are estimated to be 20m by the end of the 5 years, IRRELEVANT higher than the IRRELEVANT given an SPV with IRRELEVANT will sell to all market sectors. IRRELEVANT assumes users on-board from their existing IDV clients, assisted by cross sales from in branch transactions and Government driven demand from Year 3.

21. IRRELEVANT operational costs are significantly higher (and hence profit margins lower) IRRELEVANT IRRELEVANT as the SPV will operate as a fully functioning company. IRRELEVANT of development costs (IRRELEVANT are spread over the first 2 years. Marketing costs are benchmarked at IRRELEVANT attributed to IRRELEVANT (c.85%m for the first 2 years, dropping to 22% by Year 5). Profit margins in Year 3 are IRRELEVANT reaching IRRELEVANT by Year 5. IRRELEVANT have committed to invest in the SPV to profitability (assessed to be IRRELEVANT. The assets built for the partnership will be included within the SPV IRRELEVANT and the profit split is proposed at IRRELEVANT

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22. In summary, we have negotiated jointly agreed SPV principles with both parties for mutual benefit and which don't cross our red lines for partnership. Our analysis has shown that both partnerships are viable and will drive success, IRRELEVANT net profit to POL over five years. However, the risk-reward profiles are different. With Yoti we would start on a more certain solid foundation (proven product suite) and hence higher confidence of the short term, but we receive IRRELEVANT as all IP and product operations remain in their core company and they split industry sectors between the SPV and core company restricting full business reach. IRRELEVANT greater IRRELEVANT as they have global ambitions and a desire to be a known B2C brand so their value in Post Office's brand over time will reduce. IRRELEVANT the need for the creation of parts of the digital identity product and operating model, but with IRRELEVANT in the longer term once the market has grown as we will be a IRRELEVANT IRRELEVANT in an organisation of product and IP holding selling to all UK industries under the Post Office brand.

Recommendations, Next Steps & Timelines

- We recommend proceeding to partnership formation with IRRELEVANT generating a long-term growth opportunity for Post Office's strategic portfolio. During the deal negotiation we will work with the partner to actively mitigate the short-term risks of product development including a POC prior to deal signature.
- A partnership approach is unlikely to be transformative financially to Post Office but equally we are taking minimal risk with minimal investment (year 1 POL resource costs) and seek to gain long term profit growth IRRELEVANT in 5 years with further growth opportunity in future years) and potential broader value upside from IRRELEVANT coupled with reinforcement of our Purpose and a brand leadership position in an emerging market. We seek to earn a net incremental increase in profit of IRRELEVANT over the five year period than if we did not form a partnership and only sold our in-branch verification service.
- Appendix 3 details the SPV formation plan, with contract signatures aimed for December and SPV company operations commencing in January 2021. Updates and decisions required will be brought to the steerco / GE / Board as appropriate for the governance.

Documents uploaded to the Diligent Reading Room

- POL Identity Partnership Viability Assessment
- IRRELEVANT and Yoti Company Profiles
- IRRELEVANT
- Yoti SPV Proposition
- POL Identity Services Business Overview

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Appendix 1 – Current Position with Verify and Digidentity / Solera

Verify, our first digital identity service, has been strong business for Post Office, generating over IRRELEVANT net income 2015-2020 and over 3 million Post Office identity users. However, it has not been a conclusive success for Government. HM Treasury has given approval to continue Verify operations through to 23rd September 2021, no extensions beyond September 2021 are permissible under the framework. Cabinet Office have learnt that a digital identity needs to be consumer centric, used for both public and private sectors and that their role should be one of policy and standards definition rather than leading technology. The Cabinet Office, through Lord Agnew, has commissioned a review of Digital Identity for UK Government. This review is attempting to understand the market while at the same time challenging the current approach being taken by GDS and DCMS on the emerging Identity Attribute Exchange (IAX) Framework. The result of this review is currently unknown (ministerial reviews expected in 2-3 months) however we expect the Government to align behind identity standards that enables each Government department to individually procure Identity Services against those standards. We also believe that the central purchasing function of the Cabinet Office will not continue.

In April 2020, Post Office board approved the extension of our contract with Digidentity to support the continuity of our Verify service over the next 12 months to March 2021, flowing down the complete costs paid by Cabinet Office which were re-negotiated for this period due to high COVID-19 demand. This was concluded via a heads of terms agreement which linked into the Cabinet Office emergency change notice. Digidentity required Post Office to enter into discussions regarding a commercialisation agreement to re-use Verify identity accounts. GDS have confirmed that it is going to be highly unlikely that they permit re-use of the Verify identities that were created using the Document Checking Service and the DVLA database. This reduces the size of the trusted identity pool and renders the accounts created under DVLA DCS checks effectively unusable as an asset beyond Verify. Negotiations between GDS and DVLA are continuing but there is low confidence in success unless it is linked to outcomes from Lord Agnew's review. This has a significant knock on affect to the proposed Commercialisation Agreement between Post Office and Digidentity. However, Post Office has a duty to at least discuss the Commercialisation Agreement initially with Digidentity as a result of the Heads of Terms which it is doing whilst seeking greater clarity from Cabinet Office. Digidentity have not yet given any indication of a use-case for the commercialisation agreement.

HM Treasury has since given approval to continue Verify operations through to 23rd September 2021, although Cabinet Office may decide to end the service sooner which they are contractually able to do by giving us notice in January 2021. No extensions beyond September 2021 are permissible under the framework. Post Office and Digidentity have started negotiations with GDS on the pricing for the remaining six months of the Verify contract between March 2021 and September 2021. GDS are not engaging proactively and have stated that they are subject to a November budget review, so it should be assumed that the pricing will revert to the MSA pricing of [redacted] per LoA2

Given the future changes to the Government market it is simplest to extend Digidentity's contract for this additional six month duration (noting that this will be subject to risk exception). This should not be done at any cost however, and it is expected that without Cabinet Office commitment to greater funds that we are unlikely to reach an extension agreement with Digidentity without guaranteeing their costs and hence committing to losses. The mitigation to this is to include the Verify service within our new partnership arrangement if achievable. Alternatively, Post Office reneges / negotiates on Cabinet Office contractual commitment and we exit Verify in March 2021 suffering potential Government ramifications (unlimited liability if deemed wilful breech, but with an obligation on GDS to mitigate losses which it can arguably do through Digidentity as an alternative provider of the same service). Post Office and Digidentity are in discussions re this period of extension but lack of certainty from Government is disabling any conclusions.

We remain in dispute with Digidentity for the period 1st December 19 – 23rd March 20 related to the cost per transaction (Digidentity asking for IRRELEVANT, their stated cost of manufacture, POL believing the contractually agreed pricing under the MSA of IRRELEVANT to be valid). Post Office have paid the undisputed fee amounts (IRRELEVANT), hence following its obligations under the MSA. A further potential liability of IRRELEVANT is at issue (POL has accrued IRRELEVANT based on paying a maximum of [redacted] transaction). A new verbal offer was made by Solera in June of IRRELEVANT (reducing potential liability to IRRELEVANT), the Solera lead negotiator has now left the business and there has been no follow up. In June 20, Digidentity presented a draft of the commercialisation agreement and also another agreement to settle the fee dispute and attempting to remove other clauses of the original MSA. Legal and procurement advice is to not proactively engage in these topics as there are no strong justifications for them and await a next move from Digidentity given that our legal position remains that the MSA was valid and hence there was agreed pricing and service terms. Post Office's aim is to protect its budget, not believing that Digidentity will stop our service whilst it is generating good revenue from it.

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Appendix 2 – Detailed Comparison of Propositions

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	SPV with IRRELEVANT	SPV with Yoti
	Commercials	
Proposed Equity Ownership	IRRELEVANT	
Dividend Policy		
Proposed Investment		
Resource costs for year 1 for the SPV.		
Long term value creation for POL and IP		
Brand		
Perception of POL Engagement - by identity industry		
Partner Products		
Products for the SPV		
Product Development Approach		
B2C Service Desk		
B2B Service desk		
Sales Team		
Existing Users (B2C) in the UK		
Speed to market		
Go to market strategy		
Market verticals that the SPV can / cannot engage with.		

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Specific Clients / Projects
B2B IDV Clients
DI Clients
Government Engagement
Speed to Market
If the other party wins
Company Reputation
If the primary business plan fai

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Appendix 3 - SPV Formation Plan

ACTIVITY	July				August				September				October				November				December			
	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4
Post Office Internal Governance																								
Develop Business Plan & Financial Model with 2 partners																								
GE feedback to 2 partners for 'final sharpened proposals' for Board decision																								
Decision by GE & Board to narrow to 1 (29/07)																								
Contracting process																								
Appointment of professional services firm for JV specialism																								
Onboarding of professional services																								
Brief, planning and preparation of professional services																								
Professional services engagement with POL & Partner to create SPV agreements																								
Draft agreements (Pinsents)																								
>Shareholders Agreement (SPV)																								
>Services Agreement (Partner > SPV)																								
>Trademark licence (POL standard)																								
>Funding agreement (SPV)																								
>Client contract templating (SPV)																								
>Resource secondment agreement (Onfido & POL > SPV)																								
Creation of SPV documentation with prof services partner (including Operating & Financial Models)																								
Distribution and iteration of SPV documentation (round 1)																								
Distribution and iteration of SPV documentation (round 2)																								
Distribution and iteration of SPV documentation (round 3)																								
Circulate agreement with preferred partner																								
Iterated negotiation with partner (round 1)																								
Iterated negotiation with partner (round 2)																								
Iterated negotiation with partner (round 3)																								
POL SPV Project Activities																								
Business Engagement Summary Deck prepared and distributed to business																								
Business Readiness Engagement update																								
POL stakeholder RACI confirmation																								
Business stakeholder checkpoint (Steering committee)																								
Project Management initiation																								
Business Risk assessment and scheduled reviews																								
Finalise POL legal risk note (required for Board)																								
Governance TO BE CONFIRMED																								
UKGI / BEIS Approval to proceed																								
POL Board Contract Approval																								

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PUDO (Pick Up Drop Off) Strategy Update

July 2020

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Context for Board Strategy update

Following the completion of the Mails Strategy Review by McKinsey in April 2020, we have been progressing the recommended direction of development.

We have made progress in many areas, there are some, such as Network and IT, where we are continuing to work closely with wider business projects (e.g. NEO) to define the optimum solution.

Questions being answered in this update:

1. Revisit the objectives of the PUDO strategy and why it remains the right choice for POL
2. Outline the commercial mechanisms e.g. pricing and relationships needed to succeed
3. Specify the operational implications for Post Office and its agents?
4. Update the Board on the trial with Amazon and how this fits to our objectives for a deeper relationship

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Recap on output from McKinsey

- There is a IRRELEVANT **risk** to future mails income resulting from the potential disruptions identified during the mails strategy review
- A comprehensive assessment of market plays and strategic options was undertaken resulting in the **recommendation to pursue a 'winning in PUDO strategy'**
- This means Post **Office becoming the UK's preferred location for Pick Up and Drop Off (PUDO) of e-commerce** driven collections, returns and undeliverables plus parcels bought online irrespective of carrier
- It is **aligned to market and consumer trends**, is deployable across arrange of different formats and offers the opportunity to secure material new income and footfall
- It has **minimal dependency on Royal Mail** and the new agreement and is **aligned with** the "Thriving Postmasters and "Ease & Access" elements of the **Purpose, Strategy and Growth** review

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Why PUDO is great for Post Office

	Offers material new income and footfall	Protects marketplace seller volume	Builds relevance with younger demographic	Supports network stability
Challenge	Social users send less parcels reducing need for complex sales in branch	Marketplace sellers and SMEs increasingly purchasing postage online	Younger users mostly use post for e-commerce returns. Driven by convenience, rather than brand loyalty	Complex transactions and high costs to serve deter new agents. Mults attracted to simplicity of direct carrier agnostic PUDO proposition e.g. Co-op
Benefit of PUDO	New volume and income to offset reduction in volume from traditional users	Acceptance volume maintains income (@ lower unit rate), footfall & customer relationships for our postmasters and agents	Carrier agnostic, extended network and simple journeys improves transactional convenience. Makes POL an e-comm relevant brand	Simple customer journeys. Multi-carrier offers greater income and footfall than retailer direct relationships. POL may offer simplified IT

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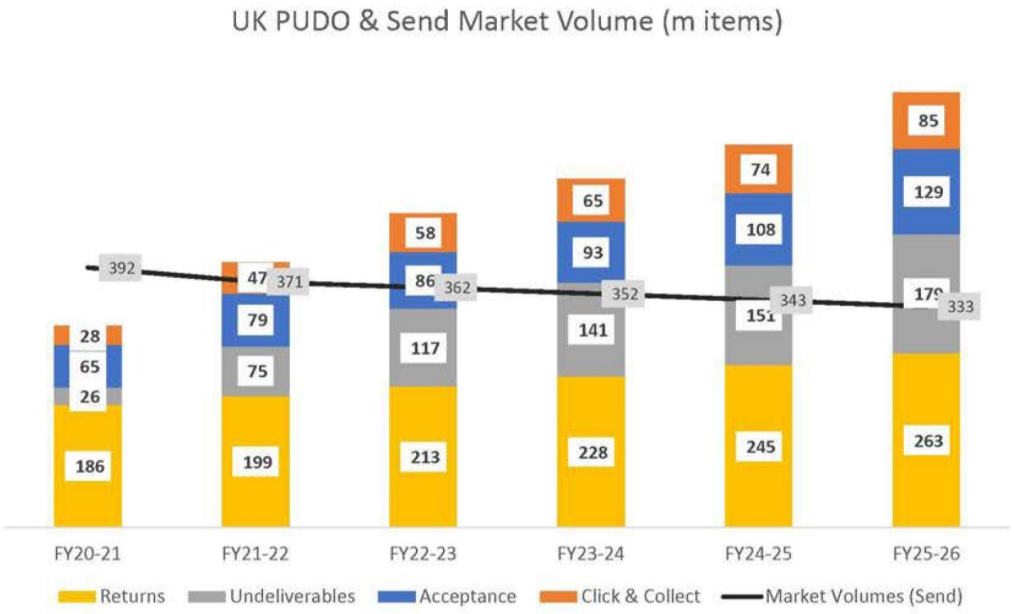
PUDO is similar in size to our traditional 'send' market

- The PUDO market has four key components; Click and Collect (C&C), Home Shopping Returns (HSR), un-deliverables, and acceptance of items sold online
- All are driven by the growth of e-commerce
- The market is currently a similar size to the 'send' market in which Post Office holds a large legacy share (~80%) unlike PUDO (~26%).
- PUDO volumes are expected to match then exceed 'send' volumes by 2022/23 as consumers send fewer parcels and marketplace sellers increasingly buy online (switching volume from 'send' to PUDO)
- Growth in Click and Collect is expected to accelerate as pressures to address the social and environmental costs of home delivery grow. Covid 19 has brought these forward (accelerating e-comm from 8% to 24% in 2020)



Source: Mails strategy Review market model, pre-Covid 19

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IN COMMERCIAL CONFIDENCE

Competition for an agnostic network is low but growing

- The traditional approach of parcel carriers running dedicated parcel shop networks is declining as they seek to maximise customer accessibility
- Following the exit of Doddle as an network provider, Collect+ is the only material carrier agnostic network operator
- However, competition is growing from non-traditional operators in particular retailers such as Co-op who are rapidly developing direct relationships with parcel carriers and retailers
- This is accelerating as retailers seek new sources of income and footfall, and technology providers offer low investment models (especially lockers) to gain market leadership

Segment	Direct Network Competitors	Retail Networks	Technology Challengers
Players	collect+	co op, WHSmith, Morrisons	parcelly, InPost, quadient
Network Size	7.5k locations, with the majority in convenience stores in urban areas. Network has not grown in 2 years and now at a stable figure	c.2.5k coop c.1.3k WHSmith c.500 Morrisons	Parcelly operates from c.3k locations InPost plan to expand from 850 to 6k lockers by 2022 Quadient ambition for 10k UK lockers next year
Proposition/ Capabilities	Carrier agnostic with 5+ partners including Yodel, Amazon, eBay; ePos integrated simple scan-in transactions; <60 second customer journey	Direct relationships with carriers with each requiring bespoke device & processes	No capex model for carriers using small footprint self assembly lockers

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IN COMMERCIAL CONFIDENCE

We believe we can win in this market

In PUDO we are competing with other retail outlets for share of volume rather than established parcel carriers. Use is driven by customer choice, with convenience and trust two important selection criteria, which Post Office scores well against.

We are starting from a solid market position



35%

Of customers prefer to drop a return at a Post Office, and we are the most preferred delivery point after 'to home'

Source: IMRG, C&C and Returns Reports 2020

Customers trust and prefer our brand



29%

Of customers prefer Post Office for PUDO journeys (vs 11% for myHermes and 8% Collect+)

Source: Quadrangle Research, 2018

We have the most convenient network



46%

Of consumers choose Post Office over alternatives as the location is closer to their home or work

Source: Chime Research, 2018

Allowing clients to reach more customers



30%

More of the UK population Hermes could reach by using Post Office (Detailed comparison in Annex)

Source: Parcel Strategy market analysis, 2020

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IN COMMERCIAL CONFIDENCE

Our ambition is to become market leader

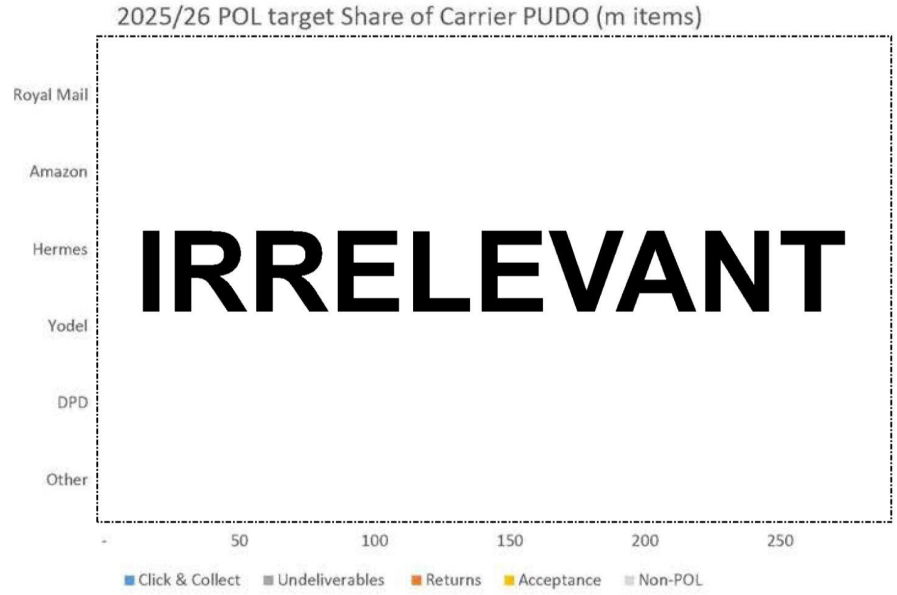
Our ambition is to increase our share of market from IRRELEVANT (by volume) through:

1. Protecting our current baseload volume with Royal Mail
2. Offer market leading proposition to other carriers

We believe our proposition will allow us to secure IRRELEVANT over the next 5 years

Value can be driven through...

1 Product & partnerships	▪ Providing our customers access to PUDO services through multiple carriers (RMG and others such as Amazon, Hermes…)
2 Network locations and formats	▪ Having the best PUDO network in the UK, with the best locations and formats for our customers' "missions"
3 Technology & Data	▪ Streamlining transactions with partners other than RMG (each with its own tech) ▪ Build and leverage customer data
4 Customer journeys	▪ Having the best PUDO customer experience in the UK, allowing customers to come in & out our stores within 60 sec
5 Brand	▪ Customers understanding they can do PUDO operations with multiples carriers at our branches (similar to Cash & Banking)



Source: Mails strategy Review market model, pre-Covid 19

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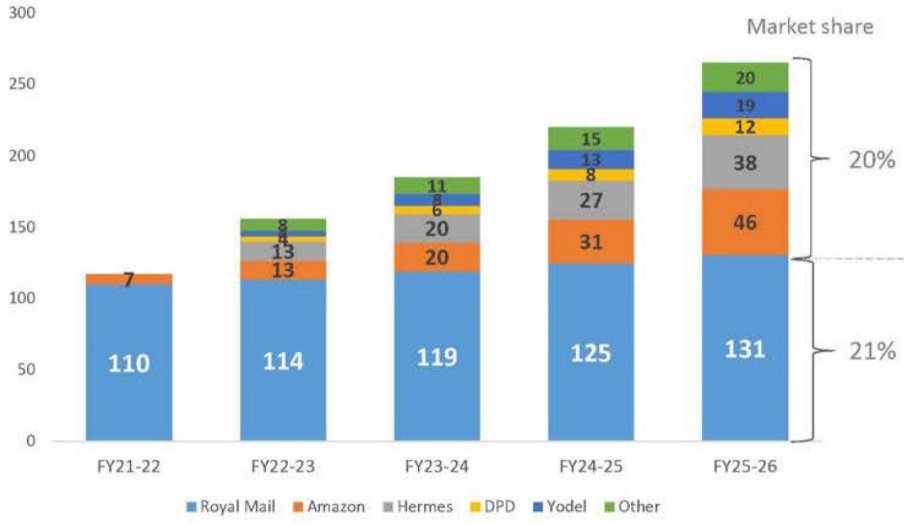
IN COMMERCIAL CONFIDENCE

This is supported by a growing sales pipeline

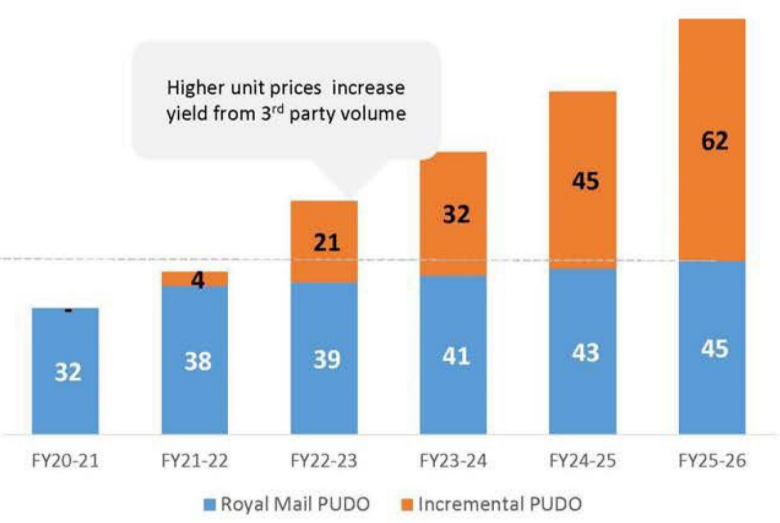
- We have identified a pipeline of opportunities from the major carriers which build over the period
- The combination of which will deliver >£60m incremental income by 2025/26

POL 3rd Party PUDO Volume (m items)



Source: Mails strategy Review market model, pre-Covid 19

POL 3rd Party PUDO Income projection (£m)



Source: Mails strategy Review market model, pre-Covid 19

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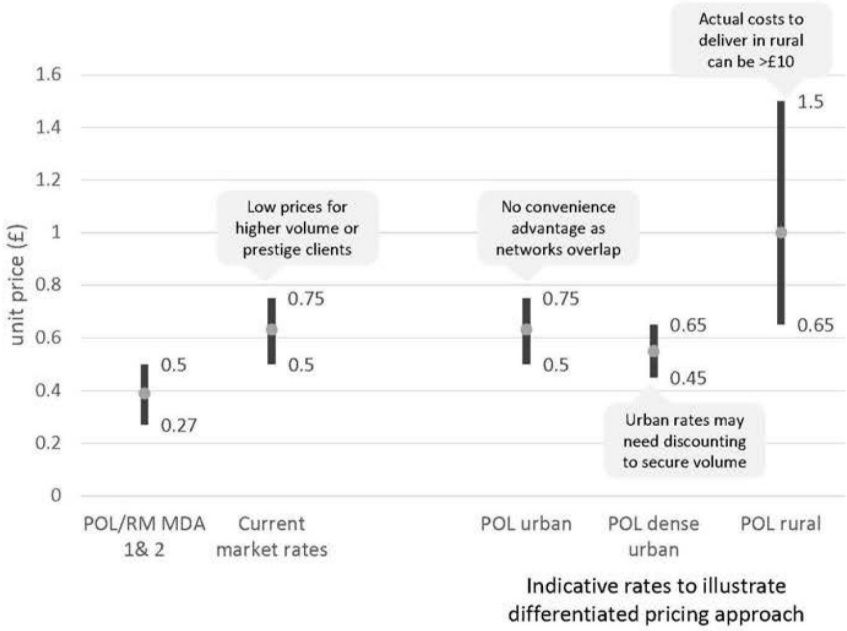
IN COMMERCIAL CONFIDENCE

We seek to maximise value through our pricing strategy

- The market generally operates on a standard flat rate with an element of brand or volume related benefit.
- Rather than adopting a 'me too' approach we want to focus on the value and cost drivers for the operators
- To maximise value we are exploring a different approach to pricing our services reflecting the strength of our brand and network advantages
- Example:
  - Higher pricing for rural locations to reflect the avoided costs and improved customer experience for a carrier of dropping a undeliverable at the local post office rather than returning to distant depot
  - In urban areas, where POL is under represented we may need to compete on price rather than convenience
- We are not interested in short term business. The investments and customer expectations mean we need to secure long term contracts



Indicative rates to illustrate differentiated pricing approach

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IN COMMERCIAL CONFIDENCE

We are refining our operational model

- We have considered the operational and commercial attractiveness of the different services and clients
- We will lead with Pick Up services due to operational simplicity and greater financial opportunity (due to lower market share)

1. **Start by offering Pick Up services due operational simplicity and incremental value**
2. RM forms base trading volume/income and secured through MDA 2
3. Amazon only other carrier with scale to make customised solution viable. Trial due 2020
4. Other carriers offered access on standard terms with proposition based on network value
5. Click and collect open to all carriers due to operational simplicity for postmasters
6. Un-deliverables operationally similar to Click and Collect. RM declined opportunity in preference for its own Customer Service Points and Delivery Offices
7. **Drop off limited to few clients due to operational challenges in branch and lower incremental value, except rural areas where POL offers unique value**
8. Online acceptance restricted further to protect in branch sales value by preventing acceleration of customer migration online

		Customised Access		4 Standardised Access (DPD, Hermes, DHL, UPS etc)		
Product	**Proposition**	2 RM	3 Amazon	Urban	Remote/rural	Suburban
		Maximise volume from few customers		Compete for high volumes	Leverage POL USP & support social purpose	Generic 'me too' proposition
1 **Pick Up** Low POL market share, operational simplicity	5 Click and Collect	✓	✓	✓	✓	✓
	6 Undeliverables	X	✓	✓	✓	✓
7 **Drop Off** High POL market share, operational complexity Financial risk	Home Shopping Returns (HSR)	✓	✓	X	✓	X
	8 Online acceptance	✓	✓	X	X	X

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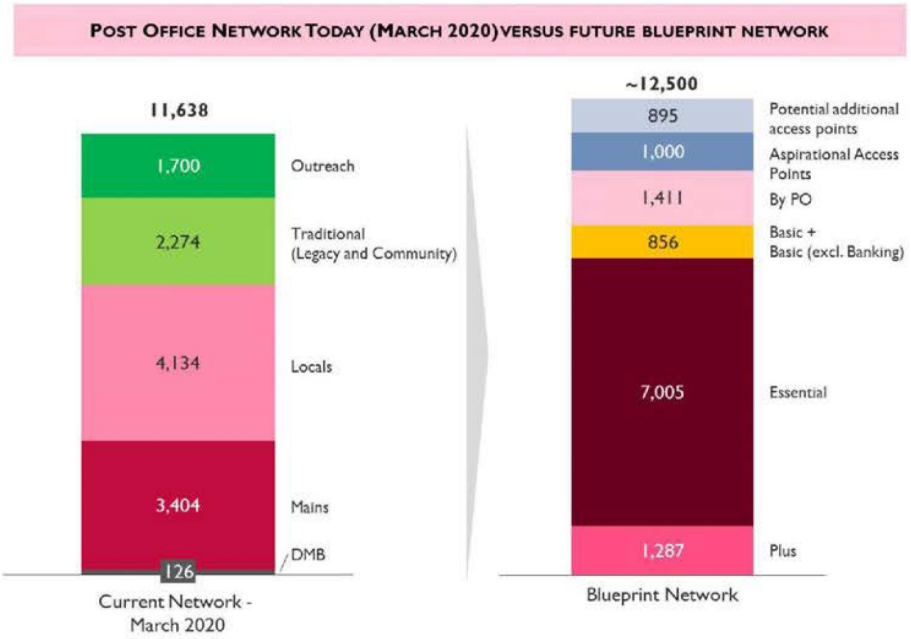
IN COMMERCIAL CONFIDENCE

PUDO services are consistent with the new network design

- To be successful we must continue to offer customers the most convenient network and quickest customer journeys
- Post Offices remain at the core of the network and we are working closely with the NEO team to refine the requirement for different access points potentially including automated solutions such as lockers.



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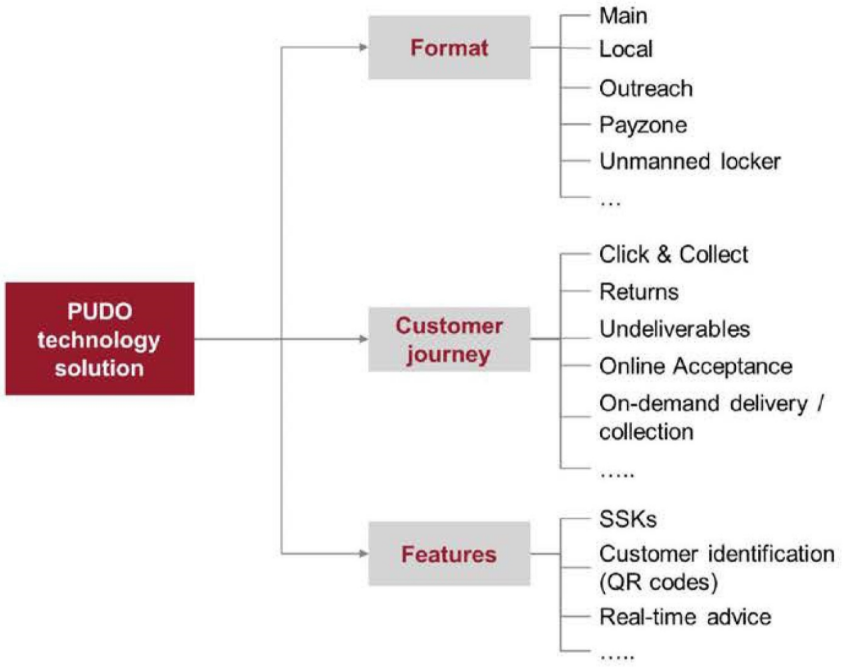
IN COMMERCIAL CONFIDENCE

IT is central to securing clients and network flexibility

We are working closely to develop the optimum approach for the PUDO technology solution which needs to operate across a broad range of different propositions and channels. Our working hypothesis is option 3 below, using either a POL supplied or BYO device.



High-level strategies	Description
1 Use carrier technology	**Deploy individual carriers' tech in branches** ▪ Each carrier (e.g., Amazon, Hermes) provides its own app (and possibly devices) directly to branches ▪ Functionalities and journeys differ depending on the carrier selected
2 Change POL IT stack to support multiple carriers	**Modify Horizon to support multiple carriers** ▪ Collaborate with Fujitsu to add multi-carrier functionality to Horizon and other existing IT components ▪ Requires deep knowledge of Horizon, likely led by Fujitsu
3 Develop own greenfield solution (incl. leveraging third party)	**Develop POL smart integration layer** ▪ Deliver end-to-end PUDO solution independently from current IT landscape ▪ Decide which components to build and which ones to purchase ▪ Possibly use strategic partner in short term

Early hypothesis on approach

Source: Mails Strategy Review, 2020

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IN COMMERCIAL CONFIDENCE

Operational implications are important for Postmasters

Topic	Question	Context	Proposed approach
Transaction complexity	Will new PUDO transactions add complexity?	PUDO interactions are typically very simple, involving only a scan in, and scan. There is no financial transaction. Items do not need weighing. Target experience is customers in and out in <60 seconds.	The POL PUDO transaction journey will be designed to take <60 seconds and benchmarked against the best in class journey in the market.
Opening hours	Will branches need to be open longer?	93% of items are currently collected between 9am and 5.30pm despite 52% of branches being open before 9am and 44% after 5.30pm	A flexible PUDO network where POL is able to turn locations off and on rapidly and adjust quickly to increases and decreases in demand
Capacity management	Will branches be swamped with parcels?	Postmasters are able to set a maximum parcel capacity on the app when opening as a PUDO location. Customers are unable to see or select a branch when this limit is reached. Dwell time is low, 85% of items are collected with 48hrs.	Postmasters will be able to dynamically adjust their branch capacity. The PUDO network must be flexible enough to turn locations off and on rapidly and adjust quickly to increases and decreases in demand.
Interoperability	How do we stop items being accidentally misrouted?	A very low level (,0.5%) of mis-sorts is possible as services grow. All carriers have an obligation to minimise the risk of loss, damage or delay to all parcels.	Non RM items are scanned, then scanned to bag, agent unable to complete next transaction until this is complete. POL to develop an interoperability framework with 3rd parties and Royal Mail
Technical and training support	How will we support postmasters?	As the number of 3rd parties increases, postmasters must have quick and easy access to training and technical support.	First line support to be provided within POL (rather than creating direct relationships between postmasters and 3rd party carriers.
Remuneration	What will we pay postmasters?	Need to balance postmaster expectations with consistency across clients (esp RM).	Initial principle is that agents will receive the same level of remuneration as they currently do for equivalent RM products. However this will be reviewed prior to full roll out

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IN COMMERCIAL CONFIDENCE

Amazon represents an opportunity and challenge

Overview

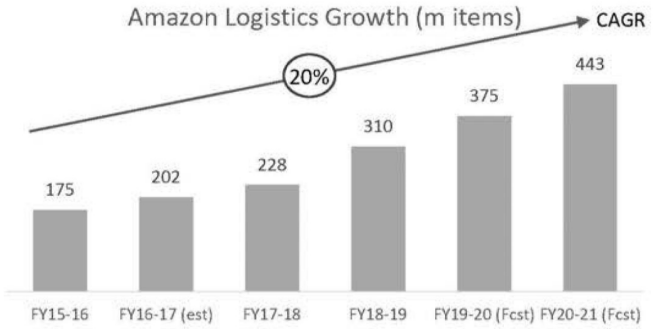
- Second largest UK parcel carrier after Royal Mail
- Driving market standards of customer convenience and service quality
- Increasing use of Amazon Logistics to meet and improve services especially for higher value PRIME members

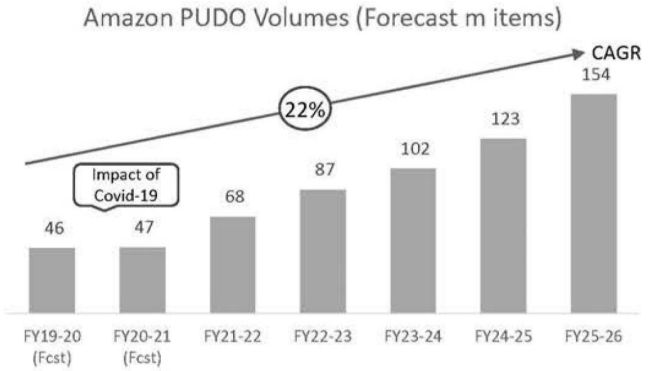
Their PUDO strategy

- Developing own access point network to support Amazon Logistics same day and sub-same day services
- Using 4k Collect+ stores and >1k other retailers (e.g. NEXT), plus own locker network
- But retailer quality and relevance remain a challenge. Post Office helps address this

How do we protect value?

- Engage: Amazon's own plans may put 70% of POL Local Collect and >20% of Home Shopping Returns income at risk
- Use initial engagements to set high demands & expectations, we do not need to make early concessions.
- Leverage citizenship role – Amazon value the community and social credibility working with Post Office offers





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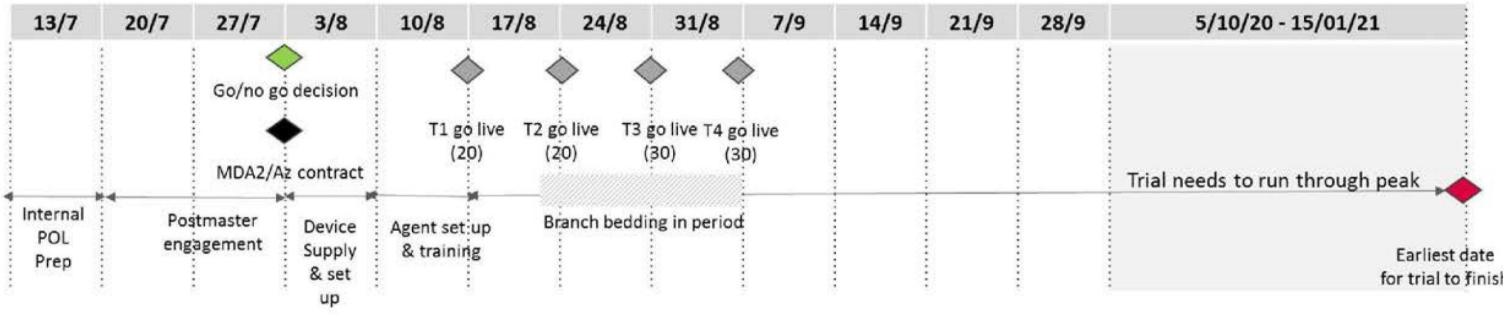
IN COMMERCIAL CONFIDENCE

Amazon Trial

Overview

- We are trialling Amazon Logistics click & collect in c.120 branches split across two postcode areas (Preston & Edinburgh).
- The trial start is dependent on signing MDA 2, due late August and will run through peak period to Jan 2021.
- We will use Amazon's hardware and software and require no integration with POL IT systems (including Horizon).
- Amazon will provide us with daily and weekly data feeds on volume and performance.
- POL taking a strong position in commercial negotiations to test Amazon's real appetite and set positive precedents for a full deal.
- The trial will test the viability of opening the network to Amazon's Click and collect volumes.
- The limited scale and duration mean the financial benefits are modest however there are significant non-financial benefits:
  1. Build a relationship and test demand from the UK's leading online retailer
  2. Prove the viability of our PUDO strategy
  3. Inform what operating changes are needed for the new network design (NEO)



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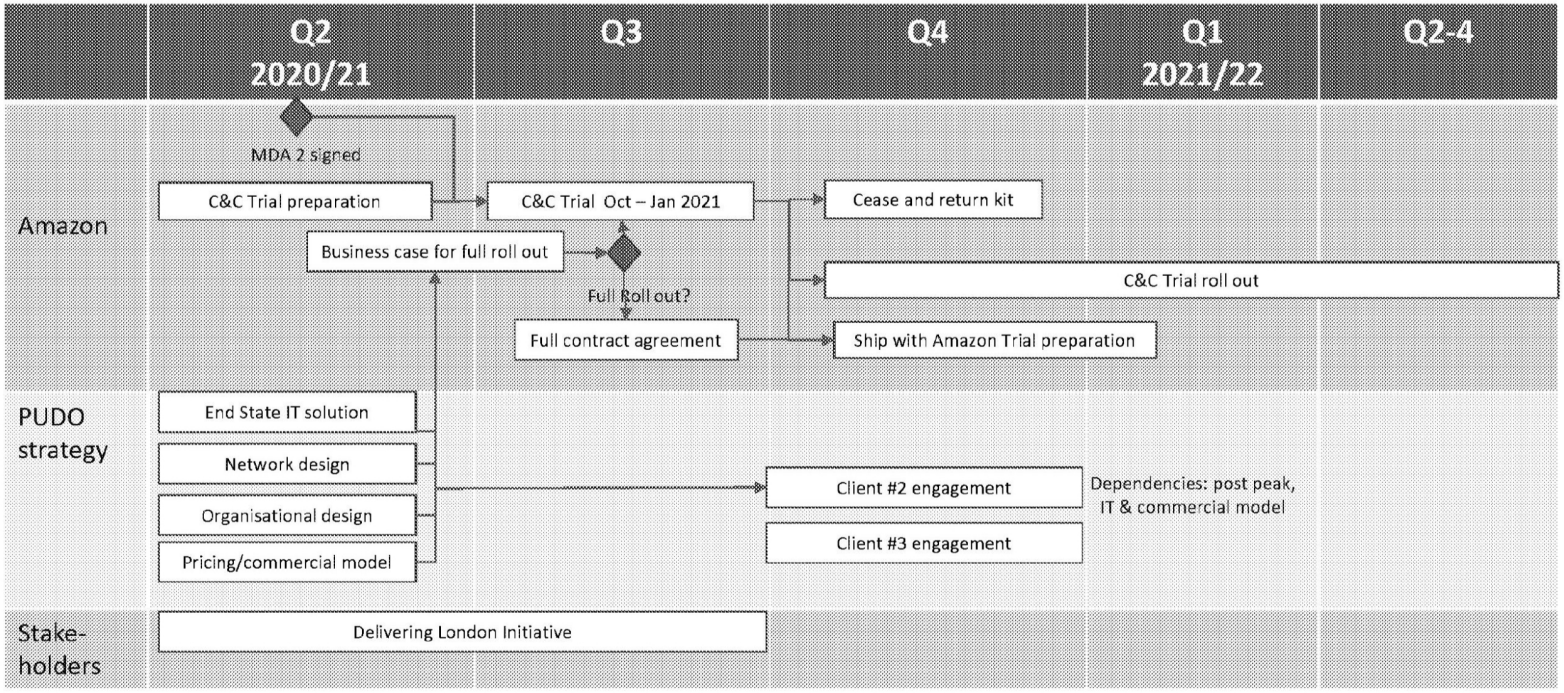
IN COMMERCIAL CONFIDENCE

Next steps

The focus over the next quarter is on launching the Amazon trial and using this to finalise the technical design and full business case



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IN COMMERCIAL CONFIDENCE

We are updating the original financials

- Target operating DPC of IRRELEVANT based on standard market pricing and agent remuneration equivalence with RM services
- Hardware and network change costs need to be updated and align with wider IT and Network proposals

			Q1	Q2	Q3	Q4	Q5	Q6
Assumptions	Nb of stores			0	50	300	1000	2500	5000
	Partners	Amazon	Deal signed	Deal operational				
		Hermes		Deal signed	Deal operational			
		DPD			Deal signed	Deal operational		
	TOTAL REVENUES	**Per period**						
		Cumulative						
COSTS								
		TOTAL STAFF COSTS						
		TOTAL HARDWARE COSTS						
	Store enhancements							
	Customer service and technical support							
	Marketing							
	TOTAL CHANGE COSTS	**Per period**						
		Cumulative						
OPEX	Agent Remuneration							
	TOTAL OPEX COSTS	**Per period**						
		Cumulative						
TOTAL (change + OPEX)		**Per period**						
		Cumulative						
Contribution	Revenues - Opex	Per period						
		Cumulative						
	Revenues - Opex - Change costs	Per period						
		Cumulative						

IRRELEVANT

Assumed network of 5k branches within 18 months with ambitious client sign up rates and creation of a new dedicated team (6 FTE's rising to 16 by Q5)
Excludes value of Royal Mail services

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IN COMMERCIAL CONFIDENCE

Appendix

1. PUDO market breakdown
2. POL/Hermes network comparison
3. Competitor Summary
4. Effect of Covid-19 on market volumes
5. Financial effect of Covid 19
6. Market pricing
7. Agent remuneration
8. Amazon trial - agent and customer journey

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IN COMMERCIAL CONFIDENCE

What is PUDO?

PUDO comprises more than just Click and Collect and Returns, offering access to substantial new volume streams

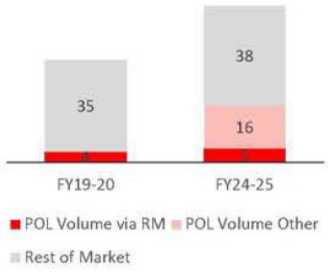
Pick Up

Click & Collect 1

Why Enter?

- POL current market share 10%
- Operationally simple and consistent with existing offer
- Minimal impact on agent and improves agent proposition
- Economically and environmentally attractive to consumers, carriers and retailers

Market Forecast



Undeliverables 2

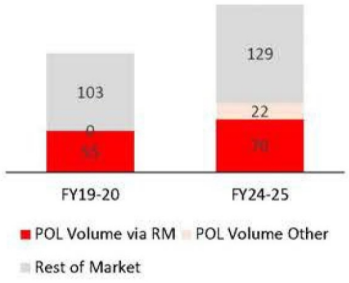
- Operationally similar to accepting click & collect
- Large market in which POL currently does not operate
- Carriers can consolidate and avoid costly redeliveries



Drop-off

Returns 3

- Over 55% of market is currently non-RM
- Simple scan-in acceptance interaction
- Increases convenience and maintains relevance to younger demographic



Online Acceptance 4

- Increasing rate of migration to online purchase
- Retains Marketplace volume which has migrated online and/or away from RM
- Simple scan-in acceptance interaction



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IN COMMERCIAL CONFIDENCE

By partnering with Post Office, Hermes can reach ~30% more of the population

IRRELEVANT

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IN COMMERCIAL CONFIDENCE

Market Competitor Summary

Segment	Direct Network Competitors	Retail Networks	Technology Challengers
Players	collect+	co op, WHSmith, Morrisons	parcelly, InPost, quadient
Network Size	7.5k locations, with the majority in convenience stores in urban areas. Network has not grown in 2 years and now at a stable figure	c.2.5k coop c.1.3k WHSmith c.500 Morrisons	Parcelly operates from c.3k locations InPost plan to expand from 850 to 6k lockers by 2022 Quadient ambition for 10k UK lockers next year
Proposition/ Capabilities	Carrier agnostic with 5+ partners including Yodel, Amazon, eBay; ePos integrated simple scan-in transactions; <60 second customer journey	Direct relationships with carriers with each requiring bespoke device & processes	No capex model for carriers using small footprint self assembly lockers
IT	Epos integrated through Paypoint One device – desire to have multiple carriers on single device	Nature of direct relationships means additional device per carrier, would want multiple carriers on single device ideally as part of their epos	Integration not required for Parcelly operating model Locker providers have ability to integrate with multiple carriers and retailers
Strengths why partner	IRRELEVANT		
POL Right to Play			

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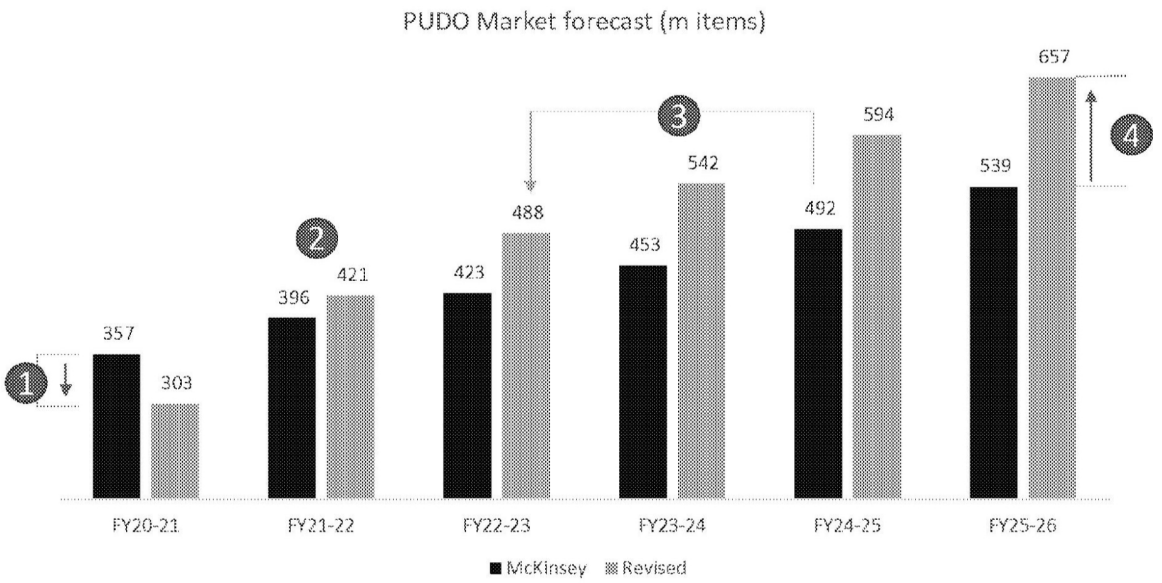
IN COMMERCIAL CONFIDENCE

Effect of Covid-19 on original market projections

Following an initial negative effect this financial year we expect the effect of Covid 19 to be net positive for PUDO volumes as the growth in e-commerce has accelerated market volumes by ~2 years

1. Social lockdown reduces volumes by -15% especially Click & Collect, undeliverables and Home shopping returns
2. Relaxation of restrictions sees undeliverables, click and collect and HSR return to pre-Covid levels, with volumes amplified by one off +24% growth in e-commerce parcels in 2020
3. Compound effect of e-commerce parcels growth sees PUDO forecasts achieved 2 years early
4. Volumes +22% as Click and Collect volumes accelerate driven by environmental and economic pressures to reduce % of to door deliveries



Note: Product specific forecasts are available in the Appendix

Pricing based on MDA 1 & 2 for RM and flat rate of £0.50 for third party

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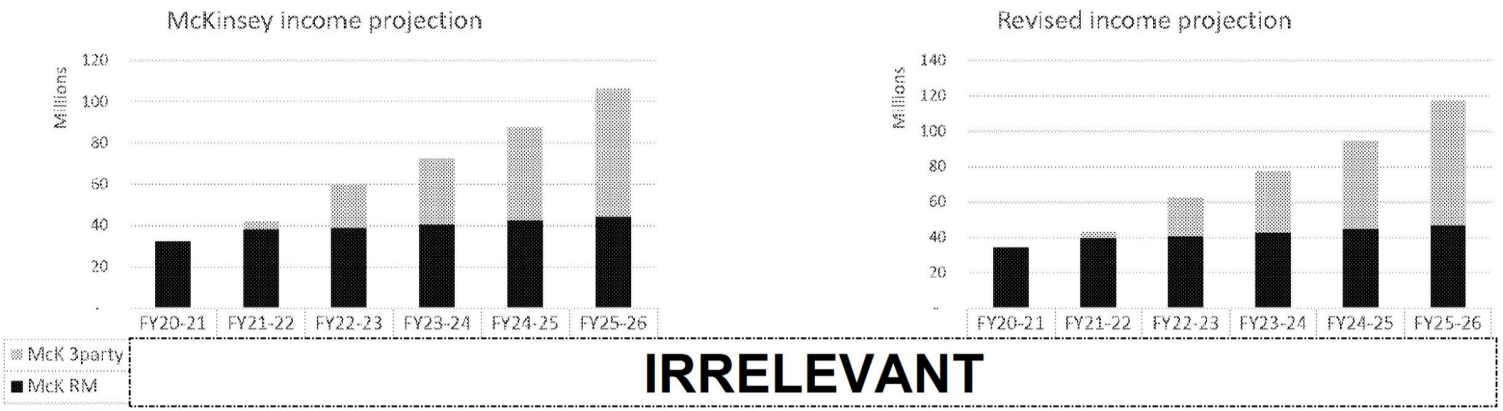
IN COMMERCIAL CONFIDENCE

Financial effect of Covid 19

The cumulative financial benefit of Covid related increased volumes could be IRRELEVANT over 5 years from 2021/22

- Of which additional HSR volume through RM delivers IRRELEVANT
- And increased 3rd party volumes IRRELEVANT



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IN COMMERCIAL CONFIDENCE

Market Pricing

We propose to maximise the value of our network and brand by testing a zonal based approach to pricing

Carrier agnostic market operators POL

IRRELEVANT

2019 Volume (est. m) Unit price

- Collect+ now the only primary agnostic operator
- Rates are offered on a standard national basis, reflecting
- Competitor network concentration the in same urban & suburban areas
- Market rates vary based on actual or predicted volumes

- POL rates to RM reflect greater volumes (esp. HSR)
- POL's under-representation in dense urban and over representation in remote/rural areas creates opportunity to consider a more sophisticated pricing approach
- Proposal is to test zonal based pricing leveraging POL's geographic coverage (e.g. Hermes could reach IRRELEVANT more of UK population through POL – McKinsey analysis)

Source: Carrier rates based on 3rd party industry sources

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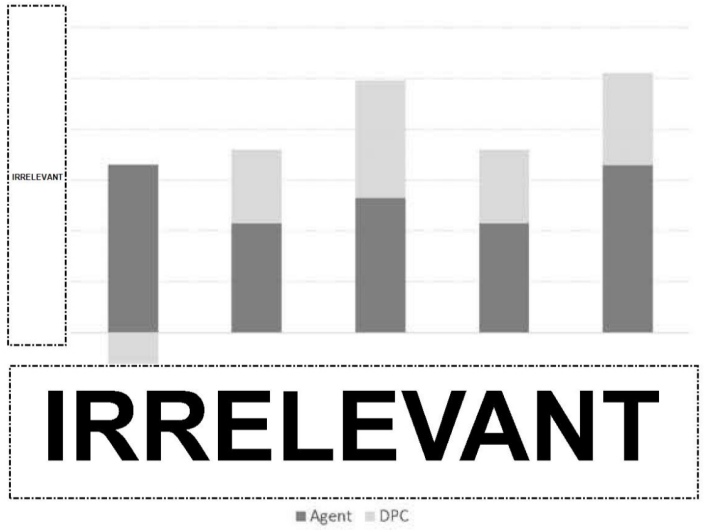
IN COMMERCIAL CONFIDENCE

Agents remuneration

Our current proposal is to remunerate agents at the same rates as the equivalent RM product

- Aim is to support core Post Office network first by targeting incremental volume at lowest cost
- Non RM product customer journeys are quicker and simpler than existing mails products, i.e. no need to weight items
- Remuneration options;
  1. same as RM (footfall offsetting unit rate differential),
  2. less (as its quicker) or
  3. more (risks influencing customer behaviour)
- Considerations:
  - Alignment between different formats including PZBP
  - Retailer direct rates (e.g. Amazon to co-op) maybe higher
  - Should host retailer rates be equal irrespective of local costs and alternatives



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IN COMMERCIAL CONFIDENCE

Amazon Agent & Customer Pickup Journey

Agent -receiving items



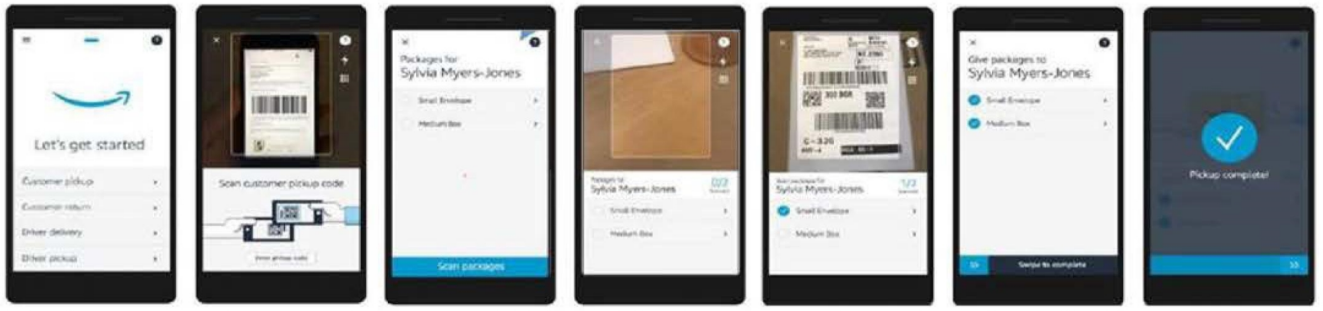
Agent selects delivery from app menu

Agent scans every package received

App stores receipt of parcels and agent places them in secure area

Customer notified and sent QR code for pickup via Amazon email

Customer pick-up



Agent selects customer pickup from app menu

Agent scans customer QR code

Agent sees parcel information upon scan

Agent retrieves parcel(s) and scans them via the app

Agent confirms hand over of items

Process complete

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POST OFFICE LIMITED
BOARD REPORT

Title:	Network Strategy: update & DMBs programme	**Meeting date:**	30th March 2021
Author:	Martin Edwards, Network Strategy & Delivery Director	**Sponsor:**	Dan Zinner, Group Chief Operating Officer

Input Sought: Decision & noting

i. The Board is asked to approve the exit and replacement of 57 DMB branches in 2021/22 at a cost of £18.9m, generating £4.4m annual recurring benefits.

ii. The Board is asked to note the progress in developing our new light-touch formats and our plans for further piloting and roll-out during 2021/22.

Previous Governance Oversight

- Board discussions on Network Strategy in July, October & January

Questions addressed

1. What is our 2021/22 DMB exit plan?
2. What progress have we made since January in developing the new propositions and what are the next steps for piloting?

Report

1. Directly Managed Branches (DMBs)

1. At the January Board we discussed our plans for exiting the remaining 115 DMBs, increasing accessibility with c.216 new postmaster-run branches and generating over IRRELEVANT annual benefits for a total investment of IRRELEVANT The Board was strongly supportive of these proposals.
2. While our aspiration in January was to exit 84 DMBs in 2021/22 and complete the programme within 18 months, the reduction in our overall investment budget has required us to rephase these plans. We are now proposing to complete the programme over a 24-month period, targeting 57 exits in 2021/22 and the remaining 58 in 2022/23. If funding and delivery constraints permit us to accelerate this timetable we will do so.
3. Of the first 57 exits, we expect 9 to be straight closures in areas where we already have ample coverage to meet customer demand. The other 48 will mostly be delivered through onsite franchises with temporary postmasters, meaning we release the staff savings but retain the property costs. To release the full savings we will need to find a permanent solution for these branches at a later date, most likely once we have SPM-enabled solutions such as automation to offer nearby retailers.
4. We are provisionally planning to commence the first tranche of branch consultations on 20th April, preceded by briefings with the CWU and Unite on 13th April, although this may shift to May to reflect wider stakeholder and political considerations. We discussed these plans with the Minister on 15th March. No specific objections were raised, although he did request a list of the branches impacted so he can work with the relevant MPs.

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5. **The Board is asked to confirm its support for exiting 57 DMBs in 2021/22 at a cost of IRRELEVANT, generating IRRELEVANT annual recurring benefits.**

2. Update and next steps on the wider network strategy programme

6. Since January, our focus has been on developing the detailed plans for our two new simpler formats, 'Express' (which combines bill payments and PUDO) and 'Basics' (which adds in-branch RMG products). Like Payzone, both these formats use a small footprint device and operate off the retailer's cash & payments capability, matching the simple, easy-to-integrate propositions offered by our competitors such as Collect+ and MyHermes. Our hypothesis is that these models will expand the pool of retailers interested in running a Post Office, thereby generating multiple benefits over time:
   i. Reducing the IRRELEVANT we spend each year in managing network churn, with the set-up costs for these new formats estimated at less than IRRELEVANT compared with IRRELEVANT for our traditional formats;
   ii. Halting the increase in outreach branches (which have doubled over the last decade to over 1,800), offering a better solution for customers and a more profitable one for POL (IRRELEVANT pa profit contribution for Basics and IRRELEVANT pa for Express, compared with a typical loss of IRRELEVANT pa or worse for outreach);
   iii. Providing more options to replace 'wrong format' branches (i.e. DMBs, Hard to Place, surplus Mains and outreach not required to meet access criteria);
   iv. Supporting incremental revenue growth through a more convenient network for customers (we estimate a 3-5% sales uplift from delivery of our blueprint); and
   v. Linking to point i), supporting the shift to a lower cost operating model for POL.
7. The slide deck we distributed to the Board on 15th March provides further background detail on our plans for Express and Basics, including: i) the commercial model (which broadly matches Locals product rates but with the introduction of IT subscription costs aligned to competitor benchmarks); ii) the service support model (including how we propose to leverage Payzone capabilities to create a streamlined operating model); and iii) our analysis of profitability for both postmasters and Post Office, confirming that the models should be viable and attractive for both sides.
8. The key next step is to test this theory through live piloting with new postmasters. We are already testing a version of Basics using a temporary Horizon counter in 6 locations, with a further 6 to follow over the next month. In Q1 of the new financial year we will build on this with 32 Express pilot locations using a technology solution that is more closely aligned to our target solution enabled by SPM. This will enable us to gather retailer and customer feedback to inform the subsequent roll-out to 400 locations in H2 and validate the assumptions underpinning our profitability analysis. Section 2 of the slide deck sets out further details of our plans for the pilots.
9. Over the next 4 months we will also be evaluating how we can optimise our full-service formats, including through greater use of automation. We will also be reviewing the overall commercial framework for existing postmasters, assessing how we can create modern franchise arrangements and address legacy contractual risks, using the hook of new SPM-enabled technology propositions as the catalyst for change.
10. Appendix 1 provides updates and responses to the various network strategy questions raised by Board members over the last 6 months. We would be happy to follow up in

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further detail on any of these points in 1:1 briefings and we will revert to the Board with an update on the overall programme in June and July.

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Appendix 1: questions from previous Board meetings

Question / topic	Update / answer
Hard to Place (HTP): explore options for accelerating resolution of the remaining branches, to inform next funding submission to BEIS. *January Board*	• Engagement underway with remaining 365 HTP postmasters – based on the responses to date we expect around 84 will opt to stay on their existing contracts (effectively converting to Community status) and 281 will opt to extend their conditional resignation offer (allowing them to leave with compensation if we find a replacement). We have potential solutions in train for 88 of these branches, leaving just under 200 wanting to leave but with no replacement currently in the pipeline. • We have developed a decision tree framework which identifies a range of different levers for resolving these remaining branches according to their circumstances, which we can share with Board members on request. We will need to manage these options within the scope of available funding beyond 2021/22.
What are we doing to assess and improve the physical capacity of the network to deal with increasing parcel volumes, especially as we expand to 3rd party carriers? *Ken McCall, January Board*	Pick-up: • We have built a desk-based view of capacity by branch which conservatively suggests that we have space for 75m parcels a year across our existing network. We expect pick-up to grow to 50m items by 25/26, so in theory we have adequate capacity at an aggregate level. However, there are three caveats: 1) Nov/Dec is always going to be a capacity challenge and may require alternative solutions; 2) the postmasters may want the extra space back when we migrate to SPM; and 3) there may be localised shortages, which we are currently attempting to model. There is also likely to be a disparity between the desk-based model and the reality on the ground, which we will stress test through the piloting with Amazon and other carriers. Drop-off: • In theory the increased drop offs should easily be absorbed - we do over 300m parcels for RML (sale and accept), and the increased volumes from 3rd party are only projected at 80m by 25/26. However, further work is required to assess the segregation requirements across multiple carriers and the implications for in-branch space requirements. In principle if capacity is a challenge we can negotiate with carriers for more frequent collections. Again, the main challenge will be in the peak trading period. Network expansion: • Capacity in our network will be further improved through our network expansion plans. The blueprint identifies around 2,000 locations where there is customer demand for additional branches, with the first 400 Express targeted by March 2022. The Q1 pilots will test the willingness of new retailers to dedicate space for parcels.
What are our plans for automation and digitisation of branch transactions? What happened to the procurement activity commenced in 2019? *July Board. Also raised by Tom Cooper in January*	• As slides 8 & 9 of the Reading Room deck set out, our roadmap for SPM includes both mails and banking self-serve solutions, subject to funding and prioritisation of other demands. Mails and banking account for 80% of all counter time across our estate, and therefore automating these two product areas would make the greatest difference to improving postmaster profitability. • For mails our modelling suggests that the largest 500-1,500 branches could justify our next generation self-serve solutions, depending on the costs of the technology and the extent to which we can remove the need for staff supervision. However, we are also

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	evaluating the merits of creating a digital to branch mails journey, either as an alternative or addition to in-branch self-serve. • For banking we estimate the busiest 1,000-1,500 branches are likely to warrant investment in deposit automation solutions, potentially more as bank branch closures accelerate. • As slide 28 of the deck sets out, as a first step we will be trialling deposit automation in 4 sites and parcels drop boxes in 3 locations during Q1 to provide further insight on customer adoption and the impacts on postmaster and POL profitability, to inform the business case for subsequent roll out. • We will return to these options at future Board meetings, alongside an analysis of the commercial framework with postmasters for automation solutions (i.e. who pays for the cost of the devices and what this means for remuneration rates). • *NB work was commenced in 2019 by the previous network management team to prepare procurement documents ready for an upgrade of the current SSK estate. This was paused at the start of this financial year due to Covid-19 related funding constraints and the opportunity to consolidate this activity under SPM. The contract with NCR for the existing SSKs was extended for a further 2+1 years to provide service cover while we develop the new solutions.*
How are we going to measure the success of the network strategy? How will we know it is working and how are we measuring the return on the investment that is being made? *Tom Cooper, January*	There are multiple ways to measure the success of our network strategy, but we would highlight the following as the top three areas: • Maintenance and delivery of our network accessibility obligations to BEIS, including our specific commitments to grow the network to over 12k locations and increase aggregate opening hours by 20% by 2025 (while also managing and mitigating the legacy contract risks and issues); • A reduction in the annual cost of managing network churn, which in recent years has averaged IRRELEVANT – by 2023/24 we would expect to have reduced this by at least 25% • Delivery of our 3rd party PUDO growth targets, as identified by the mails team. We will also track our wider share of the addressable parcels market, although clearly this will be shaped by a range of factors beyond the strength of the network so it is a less reliable indicator of success.
How will the assumptions that underpinned the geospatial modelling be tested against experience; how will the optimal network be demonstrated to the Board going forward; and how will we be able to see the development of the network against the optimal network? *Tom Cooper, January*	• We provided a background analytical document covering the outputs of our latest geospatial modelling in the Reading Room for the January Board. Slide 7 of that deck provides a segmented view of the gap to be closed against our 'optimal' blueprint network. If desired we can track progress against these segments on an annual (or even quarterly) basis for the Board, which should demonstrate steady progress in closing the gap. • The assumptions which underpin the geospatial model have already been tested against experience in a large test area (covering 160 branches around Milton Keynes and Nottingham) to improve the predictive accuracy of the model. We will continue to iterate and improve these assumptions as we make changes to the network in line with our target blueprint, checking whether the actual customer demand (and hence profitability) for each branch is matching against the modelled expectations. To underpin this iterative approach, we have now established the capability to manage the blueprint model on a dynamic basis in-house.

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How are postmasters inputting to this work and what is the feedback loop? *Carla Stent, October Board*	• The pilots described in Section 2 of the supporting slide deck (together with the parallel PUDO pilots) are the key means of testing the new propositions with postmasters in a live setting to inform their development prior to full roll out. • In parallel we are continuing to engage with both multiple partners and independent postmasters on both the overall concepts and specific design aspects of the new propositions.

What are the opportunities for running outreach more efficiently?
July Board
	• There are currently c.1,800 outreach outlets in the network, running at a net loss of IRRELEVANT pa. While they are a good solution to meet our access commitments in deeply rural communities, we have become over reliant on them to offset churn in less rural locations and meet our 11.5k target.
	• Over the next 3 years we propose to actively reshape the outreach network, using three levers to improve profitability and enhance the service we provide to rural communities:
	  ○ *Efficiency improvements:* there is a package of incremental steps we are taking to reduce the cost of running outreaches, such as reducing the mobile stop times on existing clusters and removing unwarranted premium payments.
	  ○ *Replacing outreaches with new propositions:* our new propositions should enable us to gain greater traction with rural retailers, pubs and pharmacists for whom the standard Locals model is unattractive. This will increase the hours of service and help sustain the viability of other rural businesses, creating genuine community hubs generating greater commercial and social value.
	  ○ *Targeted closures:* once network headroom allows we propose closing the worst performing outreaches, starting with the least used branches such as Home Service and coinciding with the opening of new models.
	• By taking a balanced approach to these levers - avoiding a significant reduction in rural branch numbers or politically contentious regional impacts – we could reduce the net loss of outreaches by IRRELEVANT pa by March 2024 with an investment of IRRELEVANT
	• Over the coming months we will be developing this strategy in further detail, including exploring the options to leverage alternative banking and automation solutions to further improve the efficiency of our service to rural communities.

How we will ensure customers understand our more flexible formats? *July Board*	• We will be using a combination of in-branch tools (such as clear signage and marketing) and online tools (e.g. clear and accurate Branch Finder information) in order to manage customer expectations around the formats. • We will be testing customer satisfaction and understanding in a live environment through the Q1 pilots of Express and Basics (see section 2 of the supporting deck). The initial results of the first 6 Basics pilots are promising, with a +93% NPS score.
How do we propose to distribute profits as part of the new franchise models? *July Board*	• We will be reviewing remuneration and overall commercial structures as part of the next phase of work, and will bring back our emerging recommendations for discussion to the July Board. Slide 32 in the supporting deck outlines the context and key questions that we are seeking to answer as part of this work.

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POST OFFICE LIMITED
BOARD REPORT

Title:	Progress update on the Strategic Platform Modernisation (SPM) programme	**Meeting Date:**	30th March 2021
Author:	Zdravko Mladenov, Head of Business Transformation Unit	**Sponsor:**	Nick Read, Group CEO

Input Sought: Approval

The Board is asked to note the progress update on the Strategic Platform Modernisation (SPM) programme and approve a drawdown of £4.68M to deliver a range of concrete outcomes and deliverables until June 2021.

Previous Governance Oversight

GE and Board updates on SPM:	
Jun '20	• The Board supported the high-level intent for the Strategic Platform Modernisation (SPM) programme and mobilisation of activities to reduce long-term dependencies on Fujitsu and exploit business opportunities through new technologies
Jul '20	• The Board requested more detailed plan for SPM (incl. cost and risk). In the concluding discussion, the Chairman stated that SPM should be developed alongside the Horizon system.
Nov '20	• The Board endorsed the creation of the Business Transformation Unit (BTU), part of which becomes the SPM programme. See Appendix A for details. The Board endorsed two main SPM objectives: (1) short- and long-term tech-enablement for the POL business (e.g., new formats and Postmaster propositions; optimisation of customer journeys); (2) retirement of the Horizon platform and exit from the main FJ contract.
Jan '21	• The Board noted the early progress of SPM as part of BTU and endorsed the proposed aspiration to deliver 400 new branches outside of Horizon with the Express format by end of FY21/22.

Questions addressed?

1. What progress has been achieved on SPM since the January Board?
2. What is the status of the funding governance process with UKGI and BEIS?
3. What are the deliverables and funding for the next 3 months?

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Executive summary

The SPM programme is ramping up successfully and has already build momentum programmatically (e.g., agreed governance cadence with BEIS; first multi-year cost model) and from a technology perspective (e.g., accelerating the overall 'build' to allow for 400 new, 'Horizon-free' Express branches to open by March 2022). The programme leadership team is also taking shape with key technical, operational and finance roles now filled with a combination of internal placements and exceptional external talent.

The programme is requesting funding drawdown of IRRELEVANT for April – June 2021 to deliver a range of outcomes. Some of those are: (a) continuing the tech development to launch the 400 new 'Horizon-free' Express propositions; (b) completing the multi-year business case for UKGI/ BEIS; (c) completing the future Device and Peripherals Strategy; (d) scoping the legal changes required to commercial agreements affected by Horizon; (e) identifying the options to deliver better Branch MI to Postmasters in the next 12 months.

Report

What progress has been achieved on SPM since the January Board?

1. As we ramp up, we have been conservative with our early outlays IRRELEVANT month, total of IRRELEVANT over the life of the programmes so far). Nevertheless, we have built significant momentum programmatically and technologically, where we have prioritised (a) solutions to the most immediate business challenges (e.g., enabling a reduction in spend on the Outreach format), and (b) standing up the tech 'infrastructure' to enable exit from Horizon by 2025.

2. Some specific outcomes of the last months include:

    a. **Programmatically**, we have agreed with UKGI/BEIS the governance process for approval of the multi-year business case for SPM and the subsequent oversight arrangements at various levels of seniority, all the way up to Perm Sec. Further details follow in the next section. A first version of the financial model underpinning that business case also has been completed and is now under intense refinement with a target POL Board approval date for the business case of early June and UKGI/BEIS sign-off in the summer.

    b. **Technologically**, we made major early strides. Firstly, we constructed a multi-year delivery roadmap targeting exit from Horizon in 2024-25. That ambitious and detailed technology strategy includes significant discrete work packages, many of which will be made available to the market as we seek best-of-breed external expertise while retaining the 'central brain' in-house. Secondly, we also have the first-order view of our future device and peripherals strategy and are now fleshing out the more granular details and specifications. Thirdly – and perhaps most critically – after the January Board session, we launched the accelerated 'build' of the technology and underlying new infrastructure to deliver 400 new branches with the "Express" proposition by March 2022. These 400 locations will be completely independent from Horizon, thus marking a major step towards the retirement of the old platform. The first pilots are on track for September this year.

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3. The **team** for the long haul is also taking shape. In late 2020, we prioritised standing up the core tech leadership, given the urgency of our 'ticking clock with the FJ contract. That team is now in place, led by David Steed (previously the Chief Technology Officer for PayPoint) and Ben Cooke (previously the POL IT Operations Director). We then shifted focus to the business operations and finance side through a similar combination of internal POL resources and external talent. A veteran DMB manager is joining the team shortly to help provide a critical Postmaster lens. Other key leaders joining the team are Nick Beal (previously POL's Network Performance Optimisation Director) for Branch Operations, and Woody Ruane (previously the Finance Operations Director at John Lewis) as our Finance Strategic Partner.

4. With regard to **enabling PUDO**, the 400 new Express locations (and any subsequent, expansions of that "Express" footprint) will be technologically suitable for Amazon PUDO services, subject to agreement from Amazon that the locations fit their criteria. With regard to non-Amazon PUDO carriers, separate work is in-flight to enable integration of PUDO offerings from other carriers onto Horizon, to enable immediate business traction, while SPM is developed and rolled out.

What is the status of the funding governance process with UKGI and BEIS?

5. We have agreed **governance cadence and mechanisms with UKGI / BEIS** for the multi-year funding business case. Review and sign-off will be done at BEIS Permanent Secretary level in June - August 2021, following expected POL Board approval in June and formal submission by POL CEO to the Perm Sec. Due to the specific nature of SPM, the business case will not be required to adhere to the standard BEIS templates.

   Prior to POL Board approval, the relevant group of UKGI and BEIS colleagues will engage every three weeks with the Business Transformation Unit Director to review progress, highlight challenges early and enable an accelerated BEIS review post submission.

   Once the case has been approved by the Perm Sec, UKGI and BEIS will retain oversight in two ways: on a monthly basis through the already existing Investment Spend Reporting, and on a quarterly basis through a new SPM Sub-Committee, consisting of a BEIS Deputy Director, a UKGI Deputy Director, a BEIS Finance Representative and POL's Business Transformation Unit Director.

   Until the case has been approved, UKGI is imposing a IRRELEVANT spend 'cap' on the programme.

6. Per UKGI/BEIS direction, we will proceed to engage two types of external assurance:

   a. **Programmatic assurance** will focus on the robustness of the technology planning and financial estimates, as well as overall quality assurance of the business case. Some initial 'heavy lifting' will be done by the external partner as part of the review of the multi-year business case, with subsequent annual follow-up.

   b. **Technical assurance** will focus on assuring the robustness of transaction processing and relevant back-office operations (e.g., Postmaster remuneration

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calculation). This assurance will commence closer to the end of the calendar year as we intend to go live with the first non-Horizon branches, but will then remain ongoing.

Relevant funding for the first 3 months is included in this request.

The Board's guidance is sought whether we should combine all external assurance with one provider or seek to diversify. The advantages of combining are around efficiency of procurement activity and possibly lower combined cost, while the downsides are around 'putting all eggs in one basket' and restricting our ability to pick the best individual partners for the different assurance types. The choice also has implications for our procurement approach due to the cancelled previous procurement for "Strategic Delivery Partner".

7. A first version of the **bottom-up cost model** to underpin the multi-year business case has been completed. However, the resulting estimated cost envelope significantly exceeds previous estimates and, for this reason, is not shared with the Board yet. The model will be subject to extensive pressure-testing and prioritisation in order to offer to GE in May and to the Board in June a range of scope options with associated different 'price tags'.

   Specifically, we will aim to break out the "must haves" to retire Horizon vs. the "nice to haves" (e.g., investing in Mails Automation, investing in a Retailer Accompaniment Device alongside, the degree to which we will improve Postmasters and Post Office journeys relating to Branch operations and back-off office systems and processes).

What are the deliverables and funding for the next 3 months?

8. In the next 3 months, we will focus on the following outcomes and deliverables:

   a. Completion of the **BEIS business case**, including the costs for an external programmatic assurance partner as directed by UKGI. A key component will be bounding the final scope of the SPM programme;

   b. Continuation of the tech development towards the September launch for the first of the **400 new 'Horizon-free' Express propositions** ("Mails on Payzone"), with the associated internal (e.g., Finance systems) and external (e.g., with Royal Mail Group) integrations;

   c. Completion of the **Device and Peripherals Strategy** and launch of formal market engagement with suppliers if feasible;

   d. Acceleration of the **Full SPM counter** work strand (parallel to "Mails on Payzone") with a target of standing-up by Christmas 2021 a SPM counter prototype in a live 'dummy' branch in Chesterfield;

   e. Review and possible amendments as feasible of the 300+ **commercial contracts** that must be legally amended for Horizon replacement;

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f. Review of the options and costs to provide better **Branch Management Information** ("Branch MI") in the next 12 months (i.e., prior to rolling out SPM), starting with some immediate improvements in advance of the Inquiry[1];
g. In close internal coordination with the broader POL organisation, begin **Postmaster engagement** covering the major themes of SPM (e.g., input on the design of the programme; input on the device options).

Also included in this funding request are the launches of several smaller, but key 'non-technology' activities, which will ramp up slowly in the next months. Those activities focus on modernising and simplifying in-branch processes, alongside replacing Horizon from a technology standpoint. Examples of such in-branch processes include cash management process, training processes or administering the user Smart IDs.

9. To deliver these outcomes and deliverables, we are requesting Board approval for a drawdown of £4.68m funding for the period April to June 2021.

Main Area:	Funding Requested:
Technology Design and Build costs	IRRELEVANT
Programmatic costs / Business case / External assurance / BTU operations	
POL Commercial and Network Support	
Third-party costs (RMG, Payzone, FJ)	
Legal and miscellaneous other costs	

10. In the next Board session (3 June 2021), we will cover the following topics:

a. Review the rationale and agree our direction of travel to move away from Horizon as opposed to extend and modify it;

b. Review and approve the multi-year SPM business case, cost envelope and plan;

c. Review our proposed future Device and Peripherals Strategy, which moves away from a one-size-fits-all Horizon-like terminal.

[1] Given the urgency to deliver improved Branch MI to Postmasters and against the backdrop of the Inquiry, we have to accelerate this effort and cannot wait for the SPM roll out. To this end, the delivery of new Branch MI is planned to be via Branch Hub, which also enables a longer-term link between Branch Hub and SPM. The Branch Hub software development costs are part of a separate business case. What is covered in this business case is the support to the business support to the development team (e.g., what content and MI to 'post' on Branch Hub?) and the SPM linkage.

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Appendix A: Overview of BTU accountabilities

Introducing the Business Transformation Unit (BTU) and link to SPM

Mobilising the Business Transformation Unit (BTU):

- **What is BTU:** Dedicated unit to own POL's business transformation and technology modernisation efforts. Given its strategic importance, BTU will report directly into Nick Read, which will allow it the levers to drive a POL-wide business transformation.
- **Overarching BTU goal:** Supporting POL's mission statement, "We are here, in person, for the people who rely on us", by improving our services and operational processes for Postmasters, Customers and the Network, in lockstep with modernising our core technology.
- **Scope of BTU:** At the onset, BTU will be accountable for (a) the SPM programme, which will focus on the technology platform modernisation; (b) for the FJ Exit programme, which will focus on winding down our Horizon and Fujitsu relationship; and (c) other future projects or programmes that are relevant to BTU's objective.

Link to the scope and objectives of SPM

- SPM is a key programme under BTU. SPM has a dual mission:

  Tech-enablement for the business – which at the onset includes delivering multicarrier PUDO capabilities and enabling the provision of new formats, in line with the Network Strategy and with immediate focus on establishing a viable future "basic" propositio

  Retirement of the Horizon platform and exit from the main FJ contract as rapidly as possible, but recognising may not be fully achievable by 2023.

- Additional projects, with further business and technology-based objectives, may be added to the SPM scope. In the near term, those are **likely to include the optimisation and digitisation of customer journeys for key products, such as Mails and Cash/Banking, and the optimisation of core back office functions (e.g., the modernisation of Branch Accounting).**
- For the purposes of bounding SPM programmatically to a manageable scope and engaging with BEIS/UKGI on funding requirements and business case for that scope, those additional programmes will come with separate business cases that sit alongside SPM

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Split of technology and IT accountabilities between CIO and BTU

CIO | BTU

Strategy and Planning

Own POL's IT strategy and strategic tech architecture, with focus on improved Postmaster systems experience; link closely with overall POL strategy and product and network priorities for revenue growth and improved cost-to-serve

Technology-led business enablement - lead on enabling business transformation through new technology by:

- Defining the scope of the overall business transformation and driving the execution of transformation activities, with emphasis on the technology side
- Coordinating leadership and resources across POL business units, and overseeing cross-functional transformation delivery teams
- Defining business change strategies to enact overall IT strategy

"Build" (incl. DevOps cycle)

For programmes facing into network, customer, and Postmaster tech:

- Ownership of individual programme strategy, programme priorities and requirements, commercial and sourcing strategy, business case
- Responsible for vendor selection and management to procure external IT suppliers to mobilise and embed new IT capabilities in the CIO organisation using a scalable Dev/Ops agile model
- Overall programme delivery management and oversight, including financial oversight and benefits management; governance; stakeholder engagement

For programmes linked to colleague and corporate facing technology:

- No change from current accountabilities and governance mechanisms; see separate page for details on the implications for the CAPEX portfolio

For all programmes:
Technical delivery ("build") of technology components (where internal) and day-to-day delivery management of suppliers (where external)

"Operate"

Day-to-day IT "Run" for the Group focusing on the delivery of the appropriate organisation, skills and process to ensure resilient Live Services and to guarantee the rapid resolution of issues via Incident Management and Problem Management processes

Minor, OPEX-driven maintenance and changes to existing services, including routine change, patching, routine upgrades

CAPEX-driven maintenance and upgrade projects (e.g., Win10 rollout or server obsolescence management)

Day-to-day vendor management of suppliers in the "Run" space

Group IT Security ("CISO"), with which all "Build" work needs to align

'Design Authority' and **IT Assurance** - set the "rules of road" for design of IT services; own the process for ensuring the adherence of individual solutions to published POL-wide IT architecture (beyond STTU remit)

Test and Transition for new services: Co-owns (with COO) the testing and rollout of the new IT services and platforms, ensuring those meet IT standards in preparation for handover to live service, including the onward support

Broad technology Subject Matter Expertise: Provide advice and specialist skills to Change projects and live service

Cloud Centre of Excellence Provide cloud-native technical infrastructure capabilities, as part of both the Build and Operate DevOps cycle

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POST OFFICE LIMITED
BOARD REPORT

Title:	Fujitsu Horizon Negotiation	**Meeting Date:**	30th March 2021
Author:	Isabel Christophers, IT Cloud Services	**Sponsor:**	Jeff Smyth, Group Chief Information Officer

Input Sought: Decision

The Board is requested to:

1. Approve the award of the extension to the term of the Fujitsu Horizon Agreement for the supply of Application Services from 1 April 2023 ("Extension CCN"). The duration of the extension will be for a further 1+1-year period (one year is contracted from execution of the extension and extends the agreement from 1 April 2023 to 31 March 2024, the optional extra year can be committed to, no later than 31 March 2023, and extends the agreement from 1st April 2024 to 31 March 2025 (together the "Proposed Extension")). The forecast spend is estimated at £21.3m p/a (£42.5m estimated total), some spend is variable and demand based – there is no minimum commitment; and
2. Delegate authority to the Chief Information Officer to approve extension as Contract Owner, in accordance with the commercial terms set out in this paper and including the permitted 1+1-year extensions in due course. The extension(s) shall be executed by an authorised signatory.

Executive Summary

Background and Business need

1. Post Office and Fujitsu Services are exiting the Horizon Agreement through replacement of the underlying services. Work has already begun with:
   a) Delivery of a PCI DSS P2Pe Payment & Banking Service due to go-live in 2021 with opportunity to novate the Fujitsu underlying sub-contract with Ingenico direct to POL or a replacement service provider at any time.
   b) Migration of the Horizon System from Fujitsu's Belfast Data Centres to Post Office operated AWS cloud hosting platform ("**BEXIT**"), once complete, the contracted service scope (and costs) with Fujitsu will be reduced, in gross terms, by ~35%.
   c) Implementation of the Post Office Strategic Platform Modernisation ("**SPM**") programme, to progressively replace remaining services under the Horizon Agreement with new services – this work will continue beyond 31 March 2023.

2. The requirement to extend the Fujitsu Application Services for 1+1 years provides the time needed for SPM to deliver and enable a full move away from Horizon.

3. Although the scope of services with Fujitsu will reduce significantly by 31 March 2023, an extension has potential Public Contracts Regulations 2015 ("**PCR**") compliance risks that have been duly assessed by Legal (please see separate advice on PCR provided by Legal).

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4. We intend to proceed with the extension [redacted]

What have we done?

5. Executed a non-binding Letter of Intent ("**LOI**") on 31 December 2020 that laid out the agreed negotiated principles including:
   - Obtained early use of Horizon IP for use by SPM – Post Office will have access to relevant IP at any time and (subject to payment of the licence fee of £10m, which is already provided for in the current agreement) will have full access to IP from 1 April 2023;
   - Charges during extension will be consistent to those charged today;
   - Termination rights & charges continue as-is and are subject to the same aggregate caps;
   - All Minimum Spend Commitments cease 31 March 2023;
   - Aggregate employee information will be provided to Post Office to assist with calculating the cost of exit;
   - Cap on the indemnity given by Post Office in respect of Fujitsu employees who must be made redundant because they do not transfer to Post Office/a new supplier under TUPE increases from £3m to £4.5m in extension years; and
   - Expiry of the existing Parent Company Guarantee ("**PCG**") at 31 March 2023.

6. The drafting of all items referred to in the LOI is substantially complete and we remain on track to finalise drafting of the Extension CCN for execution on or close to 31 March 2021. Timing of execution is important when considering the Horizon Inquiry related timetable over the next 6-weeks combined with the continued risk of Fujitsu withdrawing from committing to extending the contract beyond 2023.

7. The risk of non-agreement of an extension still exists; in 2020, Fujitsu approached Post Office seeking an early termination of the overall Horizon Agreement. Post Office adopted a different stance to extend Horizon application support assistance from Fujitsu and sought a contract extension in order to de-risk the transition away from Fujitsu. These opposing positions clearly illustrate the differing postures and contractual objectives of both organisations.

8. Regarding contract terms, expiry of the PCG is not considered to be a significant commercial risk given the relatively strong financial position of Fujitsu Services Limited (for note: the company was incorporated in 1907 and is the main trading vehicle for Fujitsu UKI business; has net assets of ~£262m; and ~£1.35bn income p/a) which should enable it alone to stand behind its obligations and meet liabilities arising under the Horizon Agreement for the extension. The PCR implications of expiry have been duly considered in the legal advice.

9. In advance of executing the extension, we have completed analysis of PCR compliance using KPMG (technical, market and commercial perspective) and internal & external public procurement lawyers (Norton Rose Fulbright) to provide legal assessment.

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10. Our conclusion and recommendations are to continue to target execution of the Horizon Application Support Extension on or close to 31 March 2021 and concurrently finalise the mode of market execution guided by NRF legal advice.

11. **Note:** a contract change note setting out anticipated operational and service scope changes required to Horizon system/services as a result of BEXIT ("**BEXIT CCN1**") is also being negotiated with Fujitsu. Fujitsu require that the BEXIT CCN1 is co-signed with the Horizon Application Support Extension CCN. This has resulted in a challenging workload to conclude both CCNs by 31 March 2021 and may delay signing of the Horizon Application Extension CCN1 into early April. BEXIT CCN1 is one of two contract change notes we anticipate executing in 2021 to fully address Belfast Data Centre Exit changes of responsibilities, with the second CCN following in Q4.

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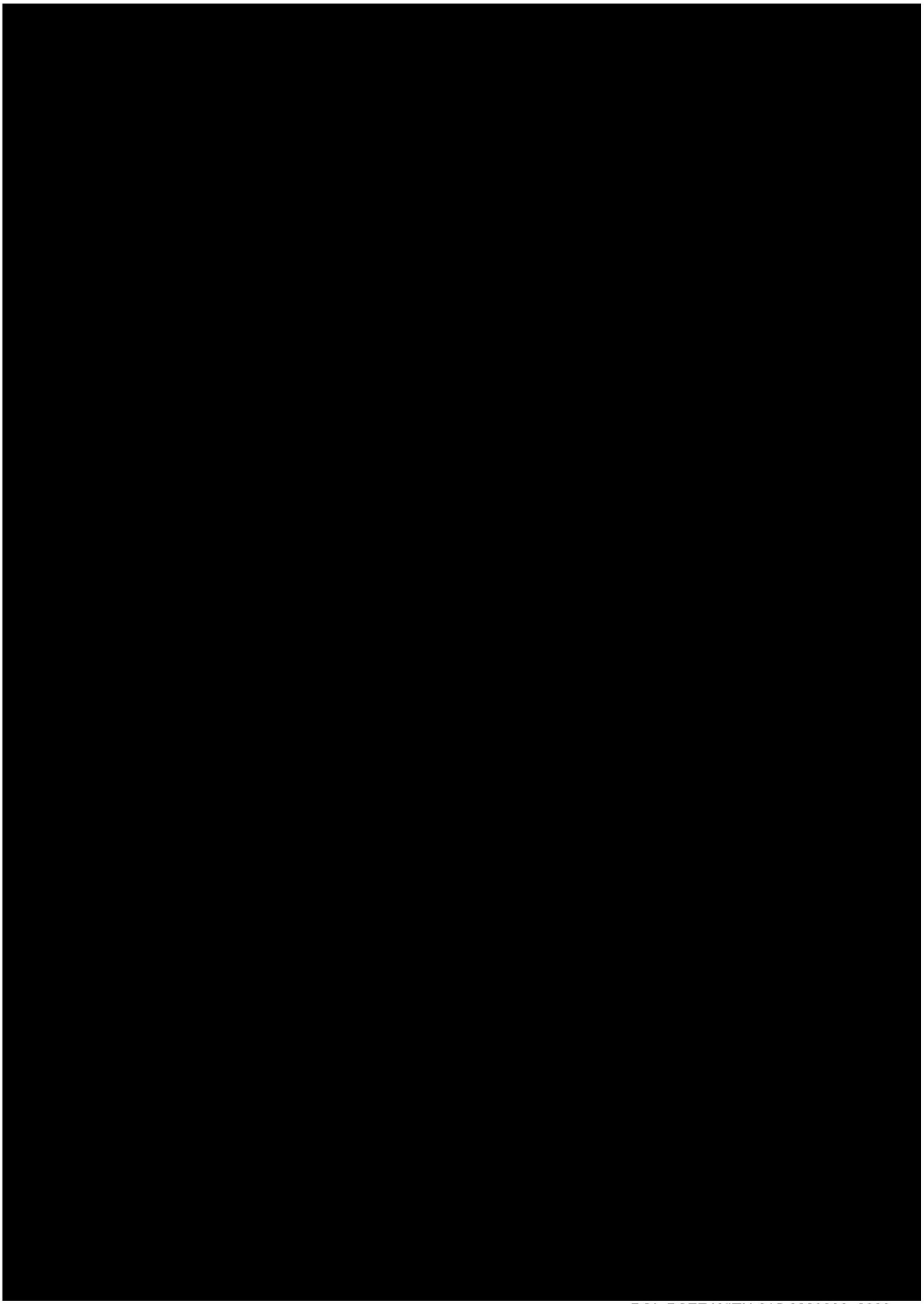

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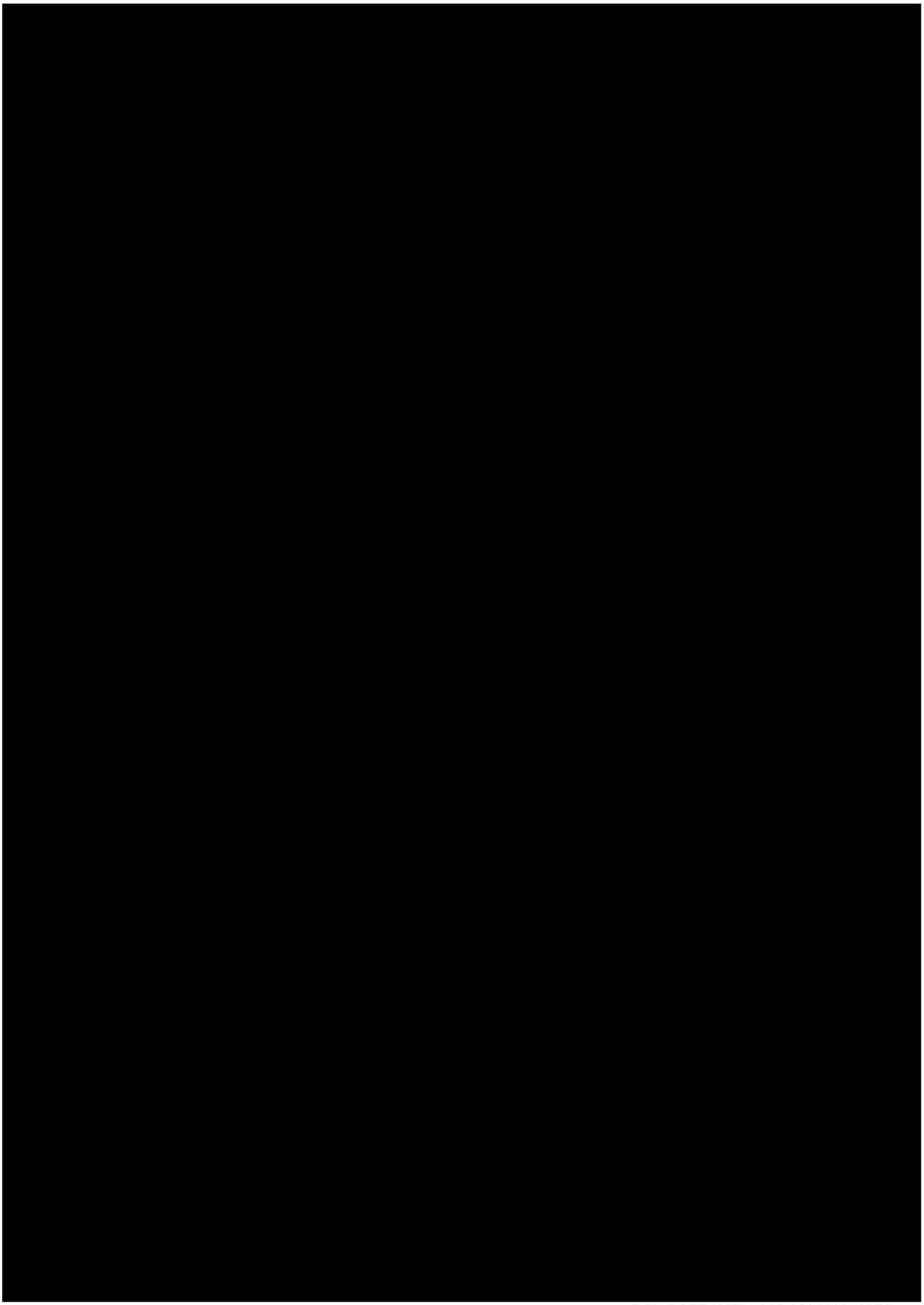

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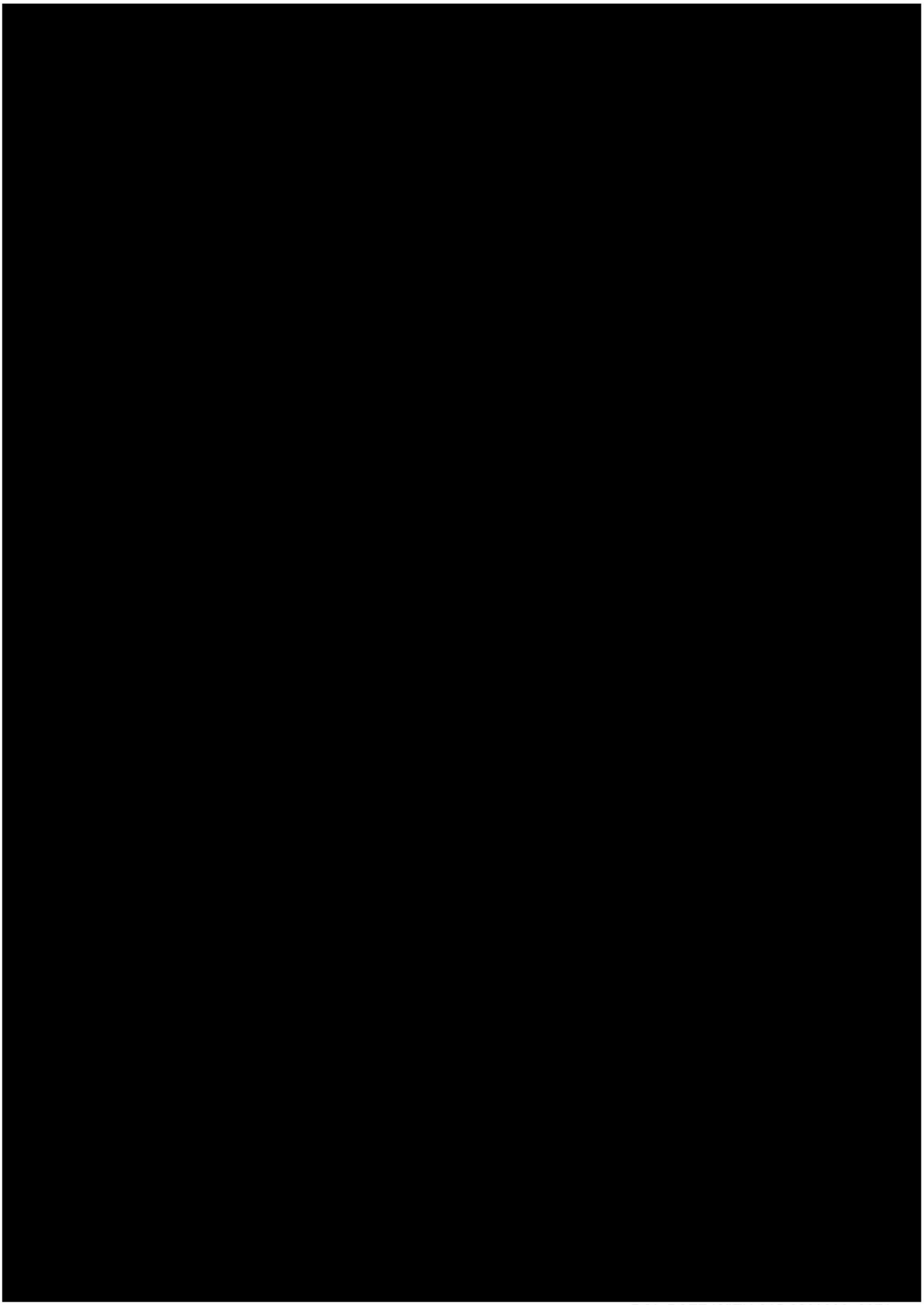

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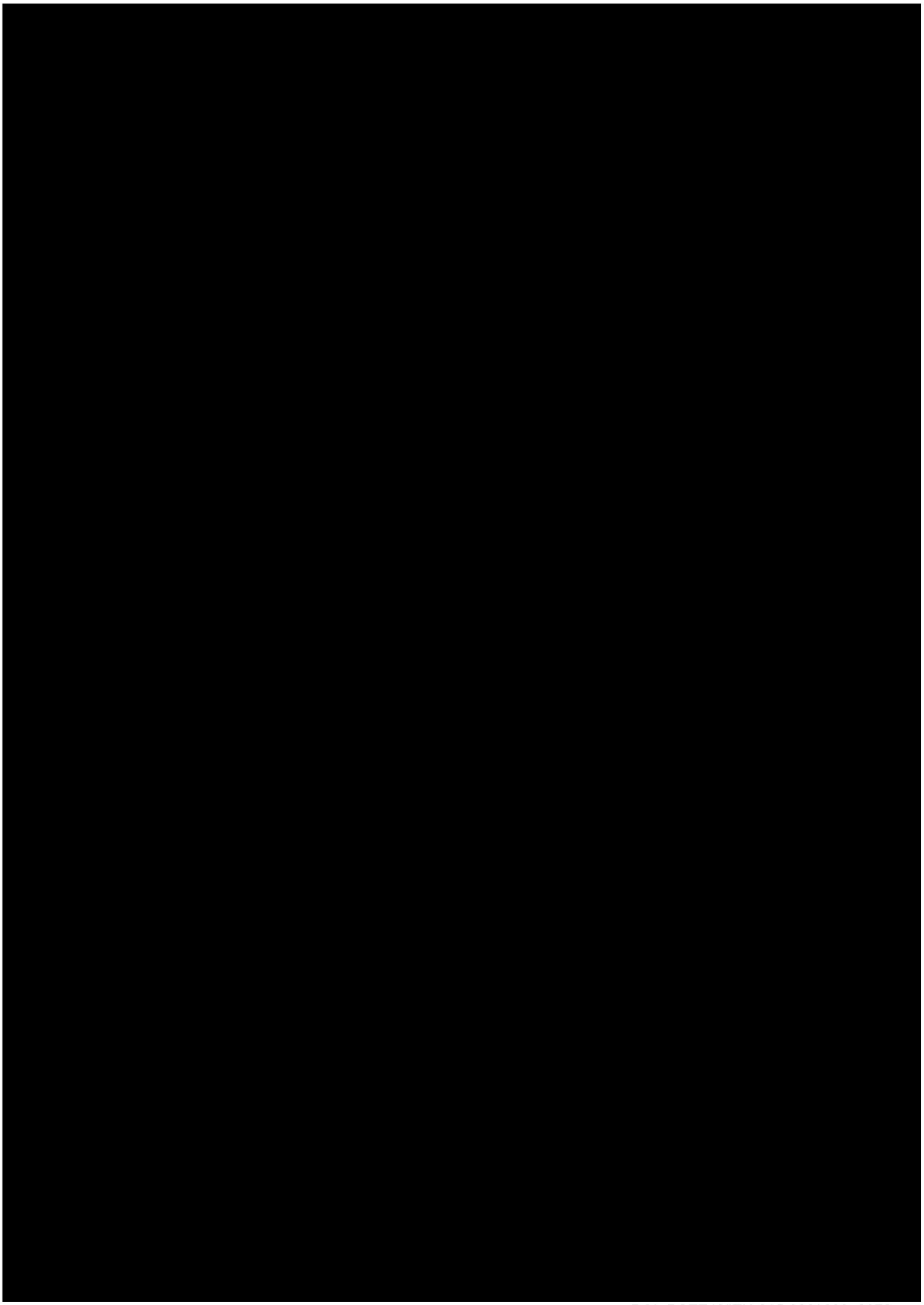

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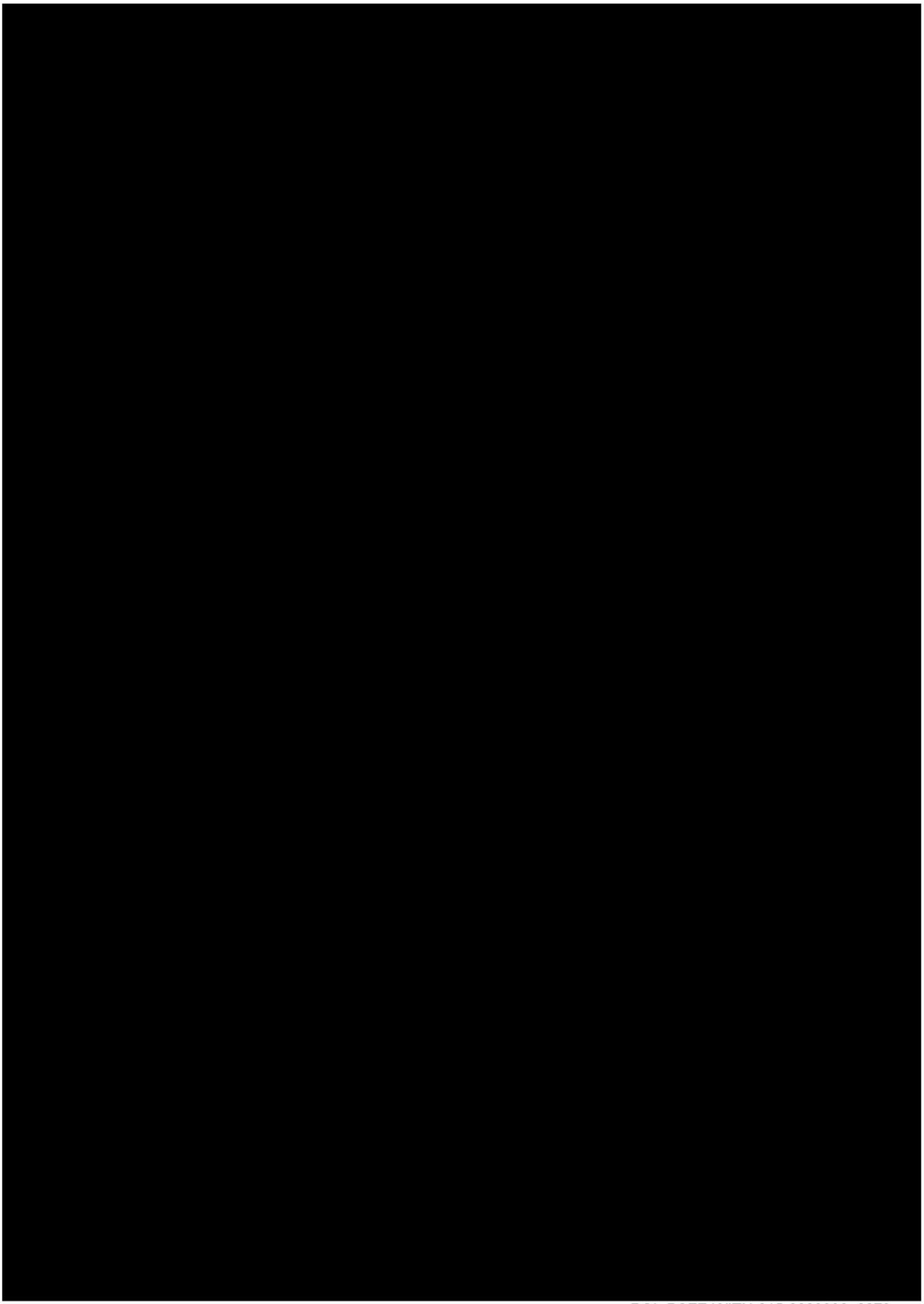

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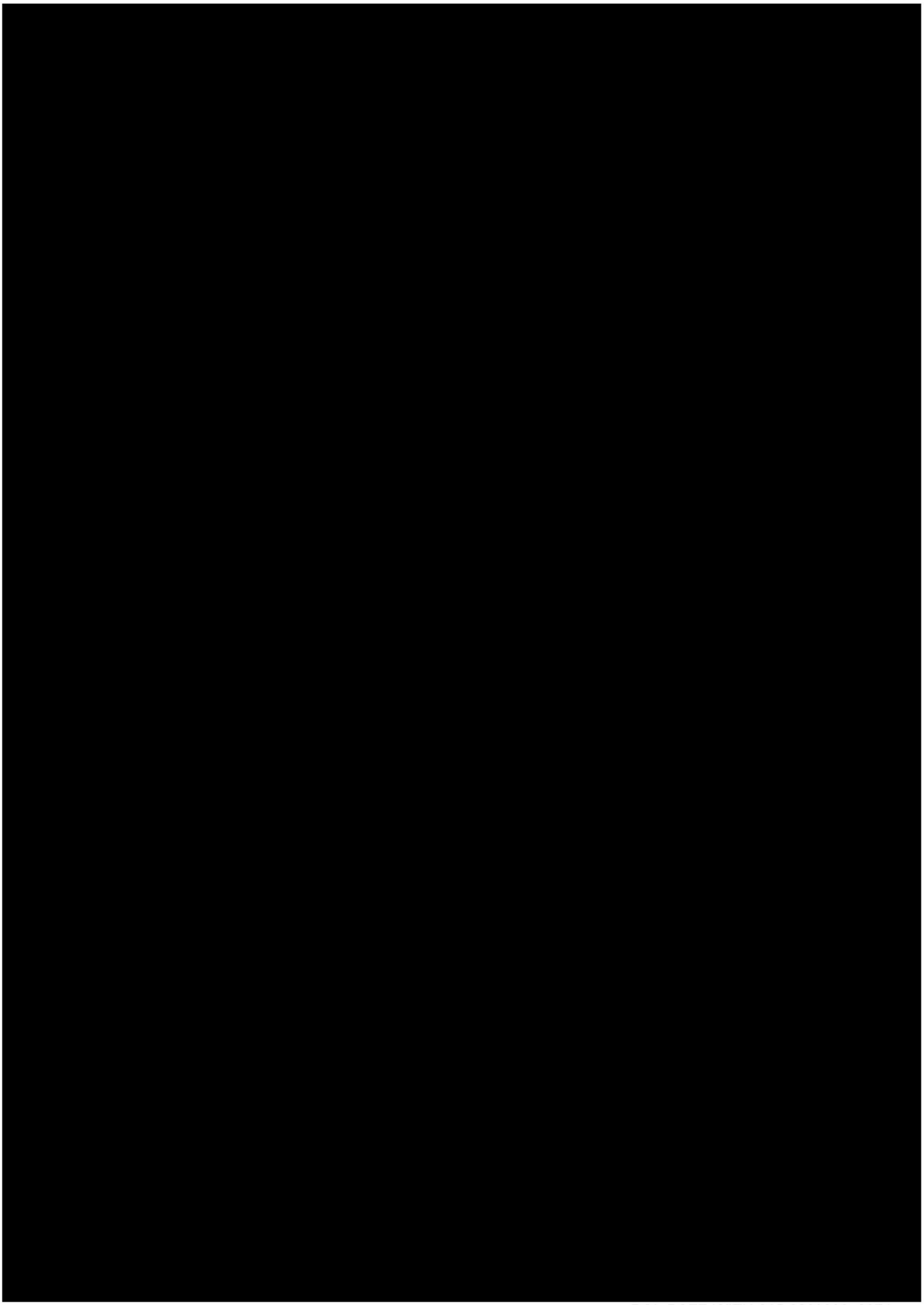

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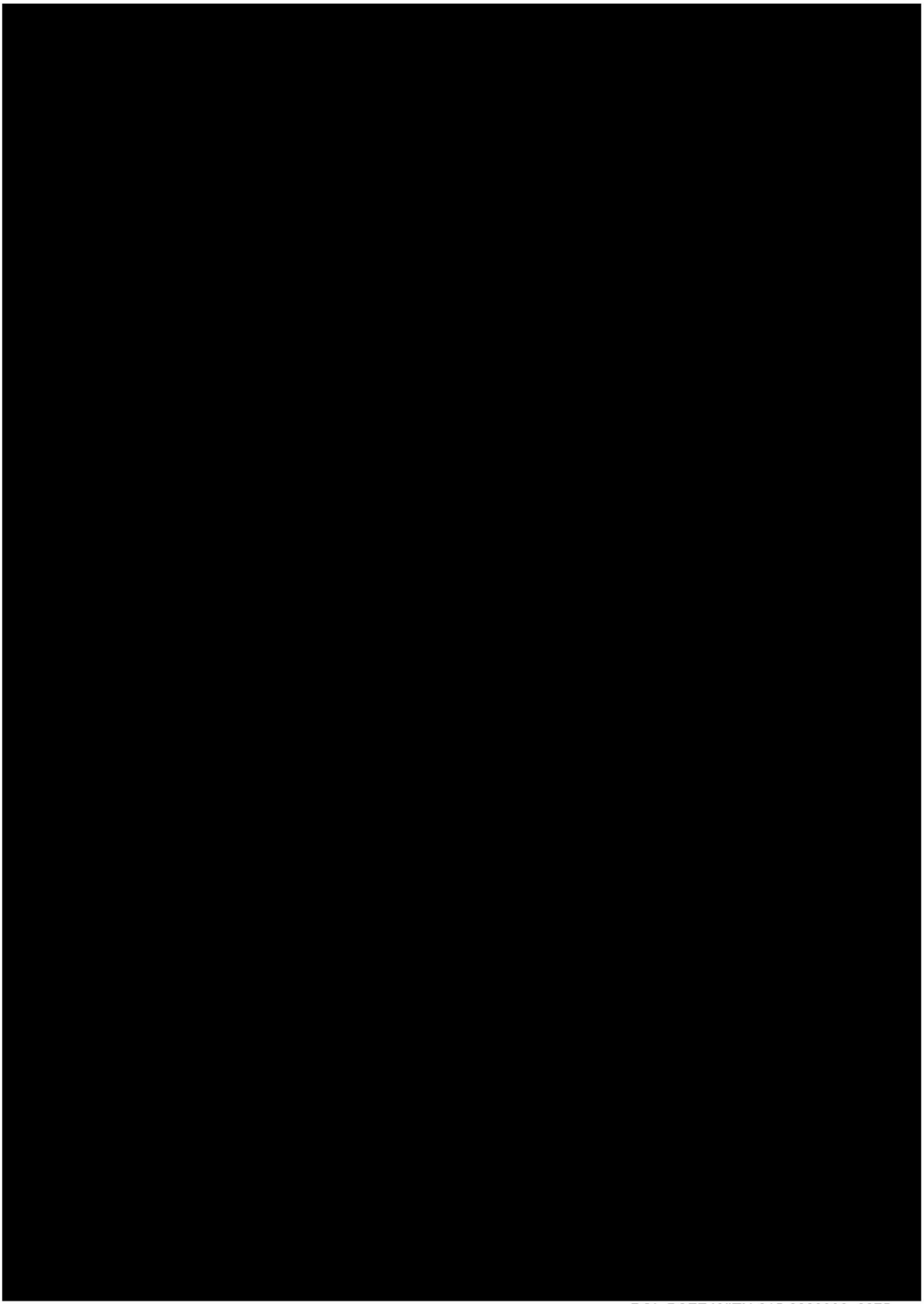

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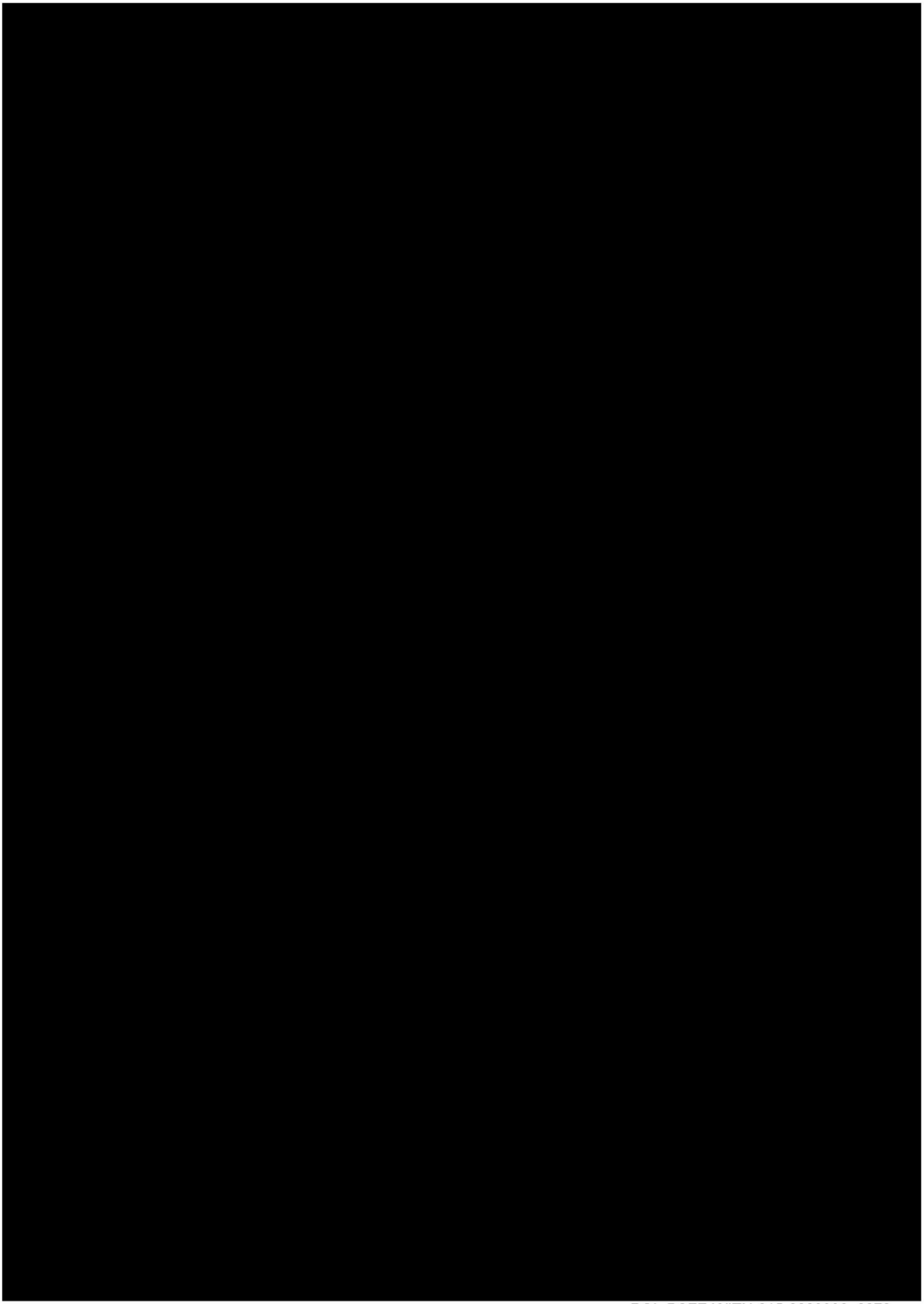

POL00448765

POST OFFICE

Public Inquiry Update

25 March

POL Board

POL00448765

Agenda

- Improvement Delivery Group
  - IDG purpose and future Governance forum
  - Current status of IDG tracking of 332 actions
  - Success example
  - Details of "Oxblood Red" and "Red" actions
  - Updated plan to confirm substantive legal GLO conformance for CIJ, after PM Journeys report
- HIJ Update
  - Tbc
- CIJ Update
  - Outline of the Postmaster Journeys Final Draft Report – Exec Summary
  - Detail on 6 specific "Urgent Priority" Improvements contained in the Final Draft Report
  - Report Roadmap suggestions
- Draft PSIP (for CIJ) Plan (Postmaster Service Improvement Programme)
  - Outline Plan on a Page for 4 main areas of PSIP with current status of resources
  - Risks/Issues, Dependencies and Assumptions

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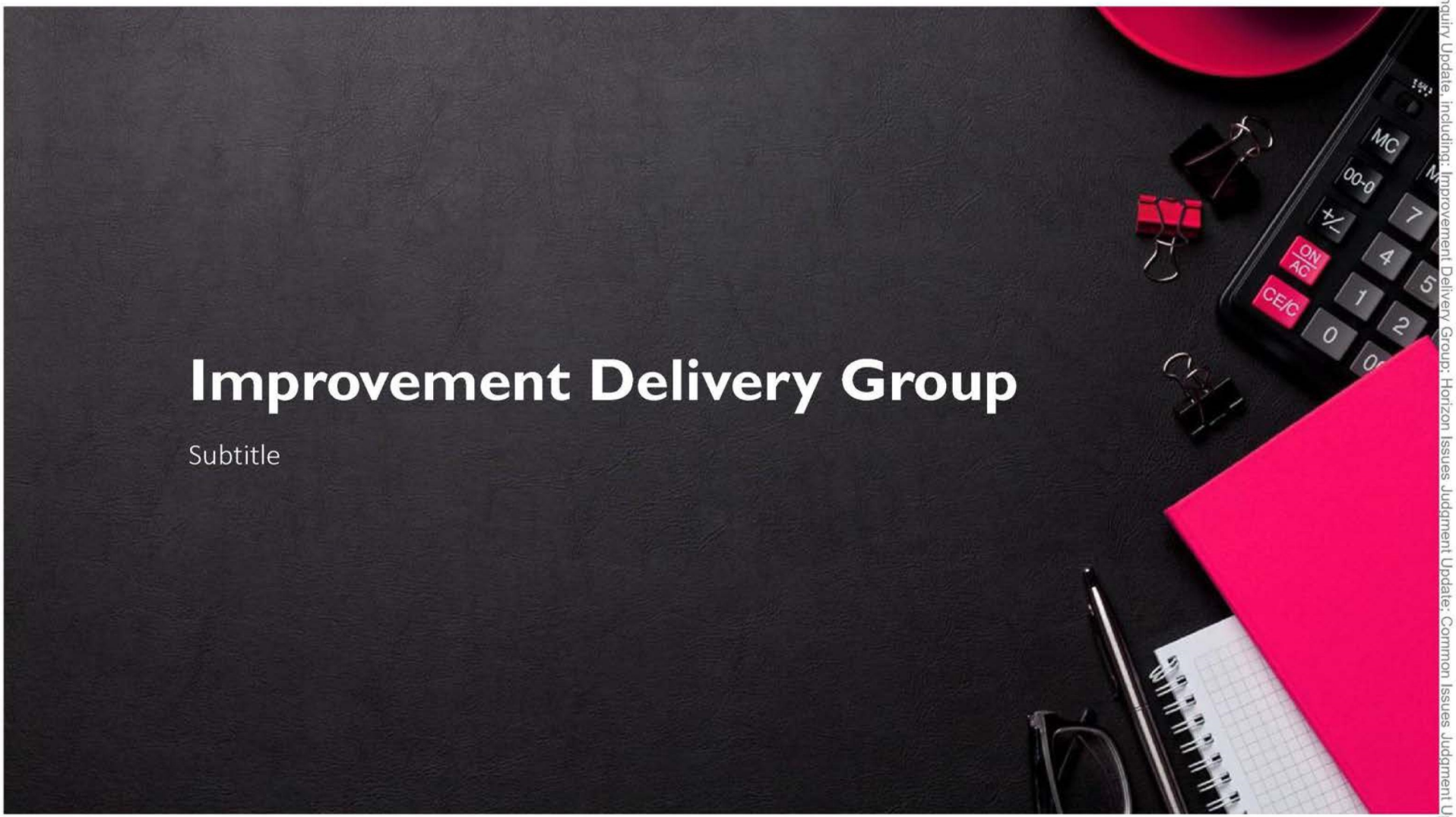

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Improvement Delivery Group (IDG) purpose

- Weekly sub-GE forum focused on collating, prioritising and guiding operational improvements **to further put postmasters at the heart of our business**
- **Creates focus** to align critical improvement activities which feed into the Public Inquiry
- The IDG does not deliver improvements, **it tracks activity** (managed by Head of Transformation Portfolio and Change Risk Assurance Manager) and ensures appropriate assurance/audit activities

- Has **visibility across all GLO improvement** activities: progress, escalations and risks are reviewed weekly
- Uses information and **data from extant forums** and sources, aggregated into a common format, to adopt a lean approach with minimal overhead.
- Updates the Inquiry Team on improvements delivered/in-progress. Receives inputs from the Inquiry Team to guide prioritisation

- IDG is currently in place until the end May '21, after which a new overarching governance forum will be established to help oversee and drive required PM related decisions and actions through to completion

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Future overarching governance and oversight forum: *Evolution on current IDG and VoPM forums*

- New 'PM Governance Forum' to be focussed on the "Present" and "Future". HMBU focuses on HSS, CCRC, etc.
- A new forum will include:
  - Postmaster risks, controls and mitigations, through use of trends, PM feedback and operational reviews
  - Identification and commissioning of improvement activities
  - Prioritisation and delivery oversight of inflight improvements
  - Ongoing implementation effectiveness oversight, ensuring intended outcomes through quality MI and benefit management
  - Holding the business (including GE members) to account for identification, resolution and sustainment of improvements
  - Chairperson must be suitably senior and independent to allow any part of business to be held to account
  - Intended to be established and operating by end May '21, taking over from IDG

Deloitte Recommendation
'We recommend that this [report] action plan is delivered as a focussed programme or set of programmes of work going forwards with a single overall accountable owner and work package and work stream leads. *Progress should initially be reported to and monitored by the Improvement Delivery Council /Group (IDG) as an interim measure and then moved to the new (recommended) PM Governance forum, once this is operational.'*

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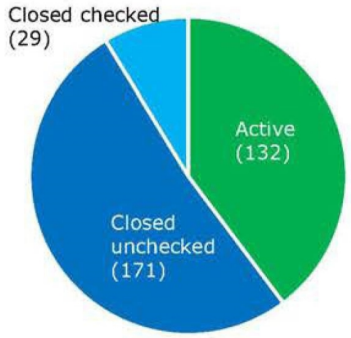
Over 60% of the 332 PM Improvement Actions tracked by IDG have been closed

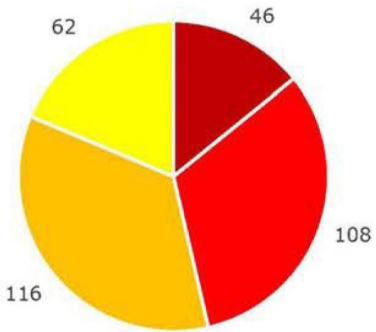
- All Postmaster Improvement actions are tracked by status (active or closed) and by impact to Postmaster
- The IDG have prioritised higher impact actions

All improvements tracked: Improvement Status & Postmaster Impact status

Improvement Status



Improvements by PM Impact



Closed unchecked	Activity complete but awaiting Internal audit assurance review
Closed checked	Activity and subsequent internal audit assurance complete
Active	Activity is either inflight or planned

Oxblood Red	Non-compliance with the outcomes of the CIJ ruling and / or where there is a detrimental impact on PMs, where detrimental means any form of PM harm
Red	There is potential detriment to Postmasters, or a reputational risk to POL
Orange	This change would significantly improve the Postmaster experience
Yellow	Beneficial to make this change to improve the Postmaster experience

All improvements tracked

	Oxblood Red	Red	Orange	Yellow	Grand Total	%
Active	13	50	46	23	132	*40*
Closed Unchecked	33	52	50	36	171	*52*
Closed Checked	0	6	20	3	29	*9*
Grand Total	46	108	116	62	332	
%	*14*	*32*	*35*	*19*		

- 72% of "Oxblood Red" identified actions have been closed – all of which are awaiting Internal Audit checks
- 54%, 60% and 63% of "Red", "Orange" and "Yellow" (respectively) identified actions have been closed.
- Almost 70% actions already confirmed by Internal Audit are "Orange" PM Impact
- Only 4% of all improvement actions are remaining active "Oxblood Red" opportunities for immediate improvement (see slide 11)

6

Note: Data presented in these slides is as of 18 March, before the Postmaster Journeys Final Draft was released to Board (19 March). Thus there may be slight differences in numbers being resolved now

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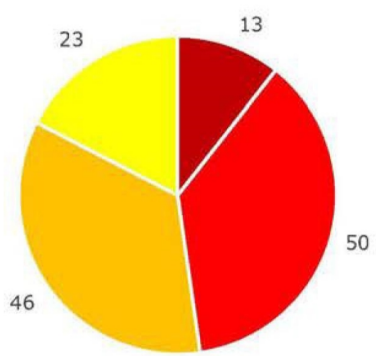
55% of identified active PM Improvement Actions have already started

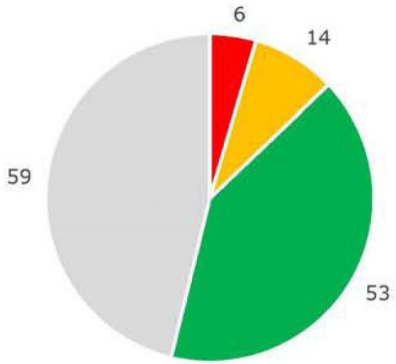
- All active actions are tracked and prioritised by impact and weekly assessed to confirm if the action is on track to deliver against agreed dates
- Due to prioritisation or linkages with other dependencies, not all activities have started

Active improvements tracked: Postmaster Impact & Current delivery status

Postmaster Impact



Current delivery status



Oxblood Red	Non-compliance with the outcomes of the CIJ ruling and / or where there is a detrimental impact on PMs, where detrimental means any form of PM harm
Red	There is potential detriment to Postmasters, or a reputational risk to POL
Orange	This change would significantly improve the Postmaster experience
Yellow	Beneficial to make this change to improve the Postmaster experience

Red	Off track against agreed dates
Amber	At risk against agreed dates
Green	On track against agreed dates
Not Started	Activities have not yet started

All active improvements

Delivery RAG & Impact	Red	Amber	Green	Not Started	Total	%
Oxblood Red	2	4	6	1	**13**	***10***
Red	3	4	21	22	**50**	***38***
Orange	1	4	18	23	**46**	***35***
Yellow	0	2	8	13	**23**	***17***
Grand Total	**6**	**14**	**53**	**59**	**132**	
%	***4***	***11***	***40***	***45***		

- Of the 132 Active tracked improvements, 53% come from the Postmaster Journey's (Deloitte) report and 32% come from the KMPG HIJ Review. The remaining 15% are from various other identified improvement opporutnities across the business (e.g., Service & Support straetgic plan, Shine-a-light, etc)
- Of the 32 Active tracked improvements, only 4% are off-track against original agreed dates
- Given prioritisation, 45% of actions have not yet started*, however as currently tracked, half of the "Reds" will start in the next month

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**Of the 22 "Red" impact actions not started, 12 of them are for HIJ which will take longer to start given dependencies and 7 are linked to Culture which are improvements due to start in the next month*

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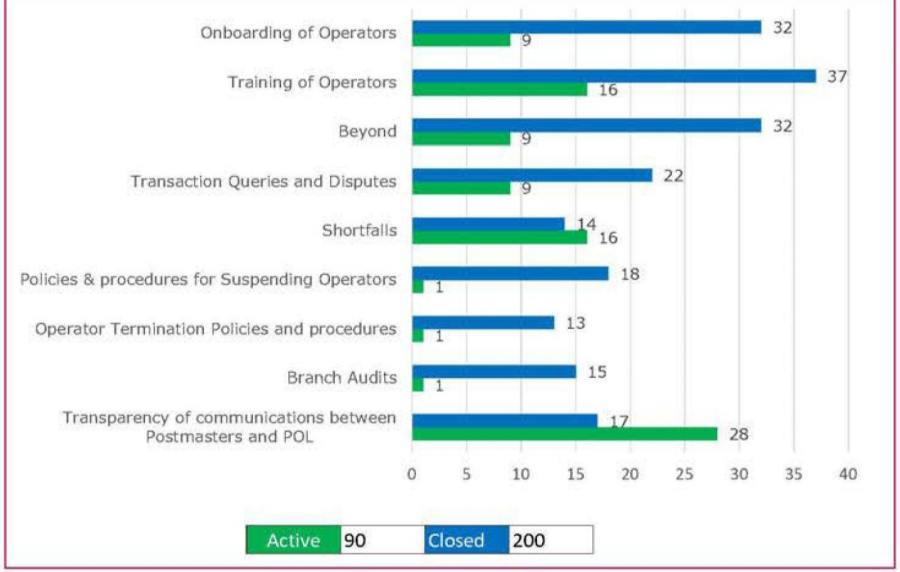
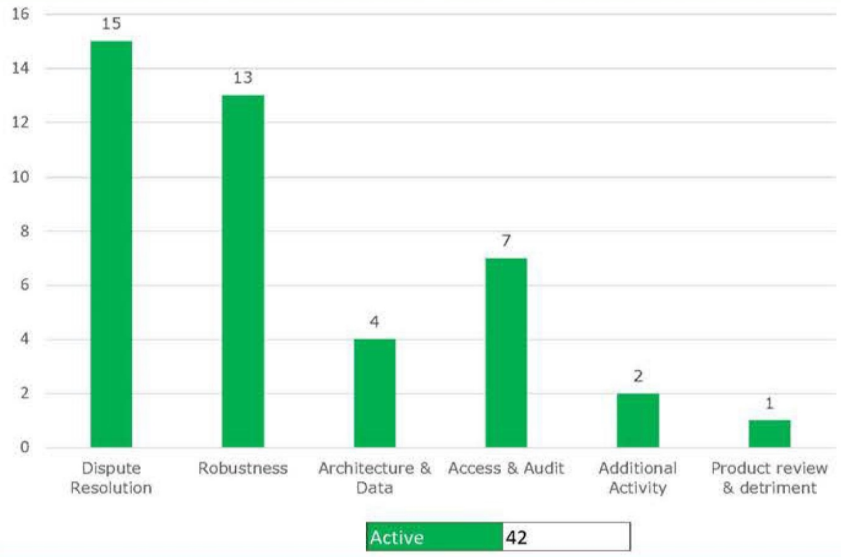
Given an earlier start, almost 70% of CIJ improvements have closed

- Every improvement identified is mapped against a CIJ or HIJ finding
- Substantive GLO conformance will be reviewed against the full set of all actions for each judgement theme

CIJ Improvements by Status and Judgement Theme



HIJ Active Improvements by Judgement Theme*



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**6 themes across the 15 HIJ findings*

[redacted]

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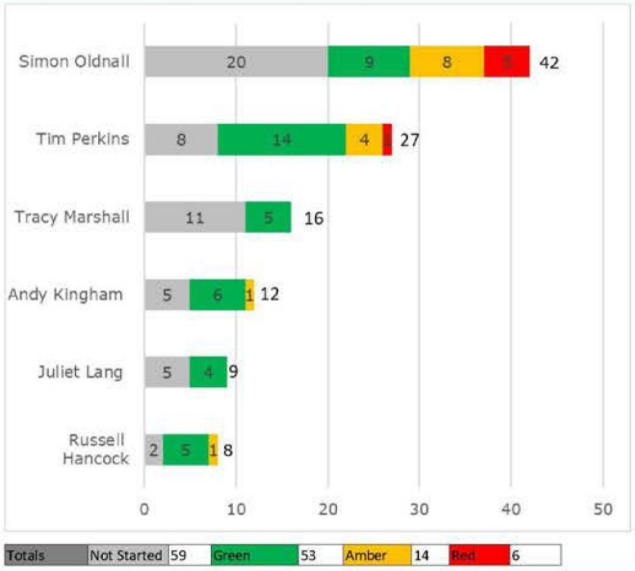
Main accountabilities for improvement sit within the IT and Postmaster teams

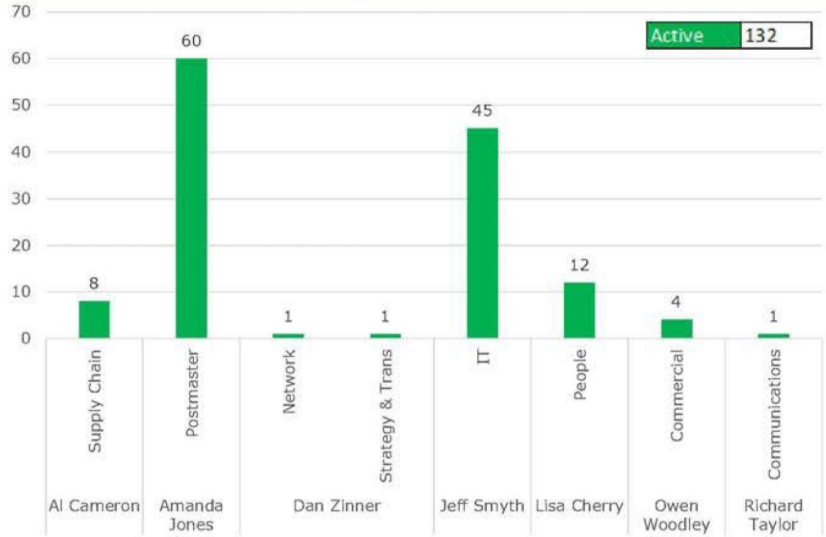
- Simon Oldnall, Horizon & GLO IT Director (reporting into Declan and Jeff) is accountable 1/3rd of all tracked active improvements. The single highest individual accountability.
- However, Amanda Jones and her leadership team (Tim, Tracy, Andy) together are responsible for just under half all tracked active improvements

Active improvements by Accountable person



- Data presented here represent 86% of all Active Improvements and the top 6 Accountable parties
- 13 Other accountable parties represent the remaining 14%, owning no more than 3 active improvements

Active improvements by GE area



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Improvement Success: Branch Audits
16 improvements have been delivered

- **Before GLO**: reasons for branch audits unknown, unannounced by single auditor, and the triggers were unclear. There was a perception of bias and a high number of complaints as PMs thought POL was trying to "catch them."

"Ops Improvement" Programme (4/19-3/20)

1. Supportive calls and different types of contacts introduced
2. Cultural shift to collaborative partnership approach
3. Reason for audit provided
4. 2 Auditors per review to provide quality assurance oversight
5. 3rd person undertakes independent QA review of audit paperwork introduced
6. Full audits completed with drill downs to help identify branch issues such as training gaps.
7. Tone of audit more conciliatory and explanatory
8. Quarterly observations by Audit managers to ensure consistent applications of procedures
9. Options to investigate and dispute result discussed with the postmaster as part of the closure meeting.
10. In December 2019, Post Office introduced a proactive intervention activity known as a SPEAR visit (SPEAR stands for Support, Prevent, Educate, Advise and Resolve).

Additional NRF recommendations (4/20-2/21)

1. Network monitoring & Audit policy approved by ARC 26th January 2021
2. Auditors signed up to apprenticeship to provide a formal qualification
3. Audit escalation threshold level raised
4. Feedback loop to record and answer outstanding Postmaster questions implemented via Microsoft Dynamics
5. Audit tool enhancements implemented to improve language and tone.
6. Knowledge center for auditors set up to share changes in working practices to ensure consistency of approach

- **Current Status**: IA work complete. PM Journeys report indicated "*There has been a lot of focus on improvements in this area, with the goal of creating a more supportive experience for the PM and changing the perception of the audit function (historically perceived negatively in the eyes of PMs). 'Audit' terminology has been amended e.g. renamed auditors as 'audit and support advisors.*"
- GLO Conformance of Branch Audits to be assessed as part of upcoming work.

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Weekly tracking of individual items ensures pace and early issue identification

TRACKER WORK IN PROGRESS

- Aligned to the numerical reporting on previous pages, a weekly updated tracker allows the IDG to follow progress of each identified improvement action
- The focus below, on Oxblood Red Impact actions, indicates breaking down of issues between identification/scoping, fixing the issue and remediation – as all of these will have different time horizons
- The following pages track additional detail for Oxblood Red Impact actions – given the nature of the impact

CIJ Oxblood Red Impact Improvement Actions: 12 week activity plan and status

Issue	Impact Rating	Start Date	Target Deliverable (End Date)	(RAG)we 19/03	Progress	Responsible	Accountable	Progress (% complete)	Mar-21					Apr-21					May-21				
									1	8	15	22	29	5	12	19	26	3	10	17	24	31	
Shortfall Resolution Scheme Exceptions-(Suspensions, Aged Balances,)	Oxblood Red	In progress	31/05/2021	G	The areas where there are	Jacki Adams	Tim Perkins	0%															
Postmaster Balance Uncertainty - Processes to underpin policy.	Oxblood Red	In progress	31/05/2021	G	Established that a number of	Jacki Adams	Tim Perkins	0%															
Maintained error limits- Live detriment fix	Oxblood Red	In progress	31/03/2021	A	Until min/max product values are	Jacki Adams	Tim Perkins	25%															
Maintained error limits- detriment remediation	Oxblood Red	In progress	31/08/2022	R	Issues identified The detrimental	Jacki Adams	Tim Perkins	0%															
Settled Centrally Review- Tech fix	Oxblood Red	18/01/2021	30/04/2021	A	Launch is delayed due to test and	Jacki Adams	Tim Perkins	25%															
Settled Centrally Review-ops remediation	Oxblood Red		31/05/2021	G	Analysis underway	Jacki Adams	Tim Perkins	0%															
ATMs -Live Fix	Oxblood Red	Scoping	31/03/2021	G	No longer issuing transaction	Harriet Keilthy	Martin Kearsley	25%															
ATMs -detriment remediation	Oxblood Red	Scoping	31/08/2022	G	Analysis underway	Harriet Keilthy	Martin Kearsley																
Appeals and disputes for contract terminations or suspensions	Oxblood Red	In progress	30/04/2021	A	Approved at RCC on 16/03/2021	David Southall (1)	Andy Kingham	25%															
Horizon Dispute - Tactical solution	Oxblood Red		19/03/2021	R		Dean Besssel	Simon Oldnall																
Horizon Dispute - Strategic Solution	Oxblood Red		31/08/2021	A		Dean Besssel	Simon Oldnall																
Horizon Dispute - Full functionality of dispute mechanisms live with	Oxblood Red		31/03/2022	NS		Dean Besssel	Simon Oldnall																
Product process review (ATM, etc.)	Oxblood Red		19/03/2021	G		Jacki Adams	Simon Oldnall																
Postmaster Accounting Dispute Resolution Policy	Oxblood Red	12/01/2021	30/03/2021	C	This has been rolled up into BI4	Jo Milton	Tim Perkins	85%															

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Shortfall Resolution Scheme Exceptions

Oxblood Red Impact Improvement Actions

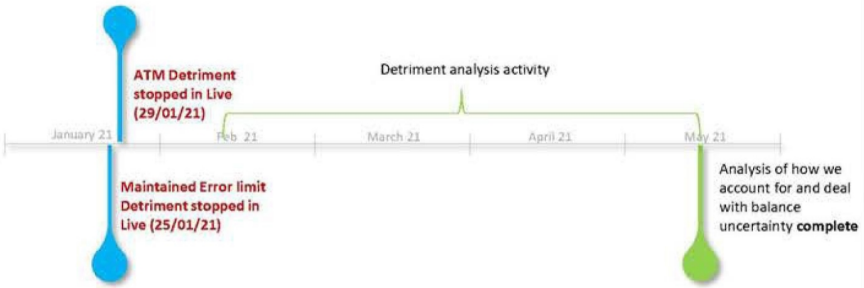
Improvement Summary

- The historical shortfall resolution scheme does not cover the period between each branch's migration to HNGA in 2017 and 2018 and the common issues judgement in 2019. Should PM detriment have occurred in this period (e.g. arising from contract termination of unpaid suspension), this detriment will not have been investigated or compensated.

References	Ownership	Status
Deloitte Ref - BC1 IDG Tracker Ref - M347 CIJ/HIJ Judgement Area - CIJ 6	GE-Amanda Jones Accountable: Tim Perkins Responsible: Jacki Adams	GREEN

Proj Plan

KEY



Current update, Progress Projection and Detriment

- Whilst there are some elements of the HNGA period that are covered under other workstreams (e.g Maintained Error Limits), this overarching improvement is intended to cover everything pending items being broken out.
- Our approach is to analyse the internal POL process for how we account for, and deal with each of the specific potential detrimental BAU activities, that occurred in a period or circumstances that fell outside of the scope of the historic shortfall scheme. Broadly speaking this is the date of each branch's migration to HNGA, est. to have concluded Oct 2019 (although these dates will be fully ratified as part of the project). Once we have this, we can net off the balances against, any aged debt balances not actually paid.
- For the upcoming Inquiry, whilst we do not anticipate that all of the projects will have completed and fully remediated the shortfall, we do aim to be able to quantity the value of remediation and the requisite ongoing remediation timetable in time for the May inquiry. i.e. will know how much we need to pay and to whom.

Risks and Issues

- There is a risk that requisite data may not be available, the impact should that risk occur is that it will be harder to align specific detriment per postmaster, and therefor the remediation approach may have to make assumptions that could result in individual postmasters receiving less/more financial remediation than if we had accurate data.

POL00448765

Postmaster Debt Uncertainty

Oxblood Red Impact Improvement Actions

Improvement Summary

- No investigation has been conducted to identify and resolve any PM debt accrued between the implementation of HGNA and the establishment of new ways of working in the PM support team. This leads to a risk that PMs who accrued debt in this period do not have certainty over their historic debt balances and do not understand if, how, or when they will be resolved.

References

Deloitte Ref - BC2
IDG Tracker Ref - M348
CIJ/HIJ Judgement Area – CIJ 4

Ownership

GE-Amanda Jones
Accountable: Tim Perkins
Responsible: Jacki Adams

Status

GREEN

Proj Plan



Current update, Progress Projection and Detriment

Intended approach for this improvement is as follows:
- Conduct research to identify and quantify the financial volume such debt and the number of PMs involved.
- Reach a decision on how such debt balances will be managed by POL
- Determine how the decision will be communicated to relevant PMs and managed appropriately thereafter.

This is a new, and emerging issue following the Deloitte report. More detail and associated plans to follow once early planning is completed.

We have debt provisions for all debt due from former agents as well as all current agents in a net debt position with aged debt in excess of 60 days (provide for 100% of the entire net debt balance, regardless of ageing, excluding the element of the debt which is part of a repayment plan).

Risks and Issues

- There is a risk that requisite data may not be available, the impact should that risk occur is that it will be harder to align specific detriment per postmaster, and therefor the remediation approach may have to make assumptions that could result in individual postmasters receiving less/more financial remediation than if we had accurate data

POL00448765

Maintained error limits

Oxblood Red Impact Improvement Actions

Improvement Summary

- Where there is a difference in a POL settlement account for a process affecting branches (for example ATM or Lottery) for a specific amount which varies by product, rather than issue a transaction correction which would move the difference to a PMs' branch account, the amount is instead 'written off' to a POL P&L account. These differences could result in a write-off being either a cost or a benefit to the PM. BRT no longer use maintained error limits. However, there is a min/max cap set in Horizon that needs to be updated to allow low value credit TCs to flow to PMs. This is in progress with the Horizon IT team. KPMG are reviewing the detriment that this procedure could have caused in the past.

References	Ownership	Status
Deloitte Ref - BI1 IDG Tracker Ref - M132 CIJ/HIJ Judgement Area - CIJ 6	GE-Amanda Jones Accountable: Tim Perkins Responsible: Jacki Adams	GREEN

Proj Plan



Current update, Progress Projection and Detriment

- Remedial actions have already been identified and these actions should be completed in order to resolve the issue, specifically:
  - Identify and resolve issue in Horizon that is still impacting the resolution of the issue
  - Identify the detrimental impact to PMs from the issue
  - Resolve detrimental impact (decision on whether Net or Gross amount will be used).
  - Confirm approach for disclosure of the issue to PMs' and initiate the process of refunding.
- The detrimental activity was stopped 25/01/2021 , The fix in horizon is still outstanding expected (through prioritisation) be resolved at the end of April 21 (date to be confirmed) We will work to understand the detriment incurred by writing off surplus balances from the date of each branch's migration to HNGA, then understand if these balances were settled, and remediate accordingly.
- £0.25M provisioned to cover detriment costs. Detriment scope is currently under analysis.

Risks and Issues

- There is a risk that requisite data may not be available, the impact should that risk occur is that it will be harder to align specific detriment per postmaster, and therefor the remediation approach may have to make assumptions that could result in individual postmasters receiving less/more financial remediation than if we had accurate data

POL00448765

Investigations/Settle Centrally

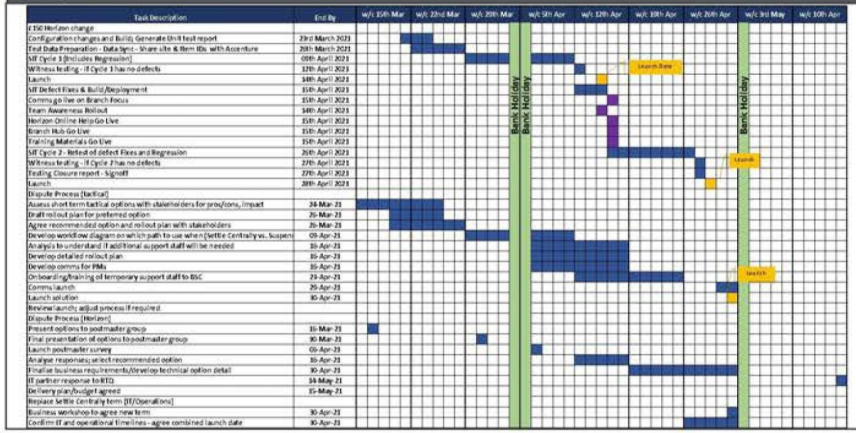
Oxblood Red Impact Improvement Actions

Improvement Summary

- Currently the PMs can only 'Settle Centrally' for amounts of > £150 and any amount less than this currently needs to be 'made good' by either cash or cheque by the PM. Also, there is no dispute functionality within Horizon in order to allow PMs to easily dispute any amounts that have been 'settled centrally'.
- POL are working on the fix to reduce the Settle Centrally amount to £0. We are then reviewing the terminology 'settle centrally' which we will be replacing (within IT systems and operational documents) as a subsequent change.
- KPMG have identified 29 work packages recommended for POL to implement, including the disputing of balance queries on Horizon and further end to end improvements in the dispute and investigations process to significantly improve Postmaster experience and address a range of CIJ and HIJ's.

References	Ownership	Status
Deloitte Ref - BI2 IDG Tracker Ref – M112 CIJ/HIJ Judgement Area – CIJ 4	GE-Amanda Jones Accountable: Tim Perkins Responsible: Jacki Adams	Amber

Proj Plan



Current update, Progress Projection and Detriment

£150 value removal:

- The fix of issues found during testing is underway and pending a newly planned test phase, launch is expected to complete mid-end April.
- Manual workarounds options have been developed to mitigate the impact of the delay, and discounted. No changes to operational process will be made before launch but an update will be issued to postmasters to explain the issue due to be fixed.

Investigations/Disputes:

- Workshops are underway with business leads and postmasters to agree the IT, process and business change required to develop and deliver an enhanced disputes process. Each element of this workstream contains IT change, business change and the need for cultural change.
- There is a plan to deliver 20 of the 29 KPMG recommendations by May to create the first version of a new Target Operating Model (TOM 1.0) as part of this tactical options for disputes are being developed for launch by May (outside of Horizon). Remaining recommendations if feasible will form part of future operating models.

Detriment:

- £2.9M provisioned to cover detriment costs. Detriment scope is currently under analysis.

Risks and Issues

- There is an issue of postmaster detriment before the £150 value is removed. The impact of this is that there will be new work scoped to identify individual cases of detriment and remedy them. The detriment review is currently in the remediation backlog awaiting prioritisation.
- The risk is that further test issues delay the £150 IT change beyond end April. The impact of this is ongoing non-compliance to CIJ findings.
- There is a risk of complexity because the solutions for parts of this work are interlinked. The £150 element is due to deliver in April, but further work will deliver over several months after that once the scale of the design change is clear.
- There is a risk that requisite data may not be available, the impact should that risk occur is that it will be harder to align specific detriment per postmaster, and therefor the remediation approach may have to make assumptions that could result in individual postmasters receiving less/more financial remediation than if we had accurate data.

POL00448765

Provision of a Dispute Mechanism for PMs on Horizon

Oxblood Red Impact Improvement Actions

Improvement Summary

- This improvement this covers a number of HIJ areas including the provision of a 'dispute button' on Horizon and the underpinning processes required to support the resolution of disputes, including their investigation, determination of issues, provision of relevant transaction data to Post Masters (including audit and key stroke data)
- The improvement must allow for PMs to successfully register that they do not agree with a proposed amendment to branch accounting records and support a workflow that delivers a robust and auditable set of steps that validate (or refute) the need for the amendment

References	Ownership	Status
KPMG Ref: 1 IDG Tracker Ref: M114 CIJ/HIJ Judgement Area: HIJ 14	GE-Jeff Smyth Accountable: Simon Oldnall Responsible: Dean Bessell	**Amber** Good progress towards implementation of a tactical solution. Technical solution will be dependant on agreement and capacity to deliver changes to Horizon platform

Current update, Progress Projection and Detriment

- Workshop with Postmasters to validate long term candidate solution. Postmasters decided they needed more time to review and agree on preferred option
- In parallel tactical options validated agreed on options that should be investigated further (use of 'settle centrally' button along with 'suspense' account)
- Received report writing guidance from DPO – to be incorporated into guidance notes for investigation teams as part of Target Operating Model
- Existing contractual arrangements reviewed, imitations and proposed changes identified to negotiate with Fujitsu.
- Information Architecture interaction model drafted
- Options for securing supply of counter log file discussed, both short- and long-term options identified

Proj Plan

A list of strategic candidate solutions is developed	22/2/21	Complete
Agree tactical solution for 1.0	19/3/21	In progress
The recommended strategic option (for 2.0) is validated with internal stakeholders and Postm asters	26/3/21	In progress
Strategic solution technology requirements (for 2.0) are documented	9/4/21	Planned
RTQ for 2.0 technology solution is raised	12/4/21	Planned
1.0: to-be tactical solution and supporting processes go-live	w/c [26/4/21]	Planned
The development of recommended long-term option commenced	1/5/21	Planned
2.0: strategic dispute mechanism and supporting processes go-live	[1/8/21]	Planned
3.0: full functionality of dispute mechanism go-live	[1/3/22]	Planned

Risk/Issue	Impact	RAG	Comments
Issue that a tactical solution does not fully address the letter of HIJ-14 and/or create confusion with the long-term solution	Failure to meet the letter of HIJ finding / create confusion for PMs		Mitigation action in progress, options have been identified and discussed. Currently moving towards agreement on solution.
Risk that Investigation teams may not be ready for volume of disputes raised through new channel	Long time to resolve disputes Poor Postmaster experience		De minimis criteria currently being discussed and agreed upon, and on track to be implemented on time. Discussion as to what extra staffing may be required is on-going.
Risk that supplier capacity is limited for design and delivery	Roll out delay		Discussions being actively held with the team to identify if / what we can re prioritise. Outcome TBC at this stage.
Development commercials might be significant	High cost		Investigations on going as to the costs.
Risk that Postmasters are not satisfied with tactical and vetted strategic options	Roll out delay / high cost		Postmasters have been consulted on possible strategic options. They are currently digesting the options before returning with a view of what is most appropriate for them.

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ATMs

Oxblood Red Impact Improvement Actions

Improvement Summary

There is a lack of documented clear procedures and processes to manage ATM transaction disputes. Disputes are raised by customers using Post Office ATMs via the LINK dispute process which is managed by the Bank of Ireland (BoI), who are the LINK member. Furthermore, BoI is exiting the Post Office ATM Agreement by 31st March 2022 and new procedures and processes need to be established going forward to ensure effective end to end management that is controlled and transparent and fair to Postmasters.

References	Ownership	Status
Deloitte Ref - Final Deloitte, BI3 IDG Tracker Ref - M88 CIJ/HIJ Judgement Area - CIJ 4	GE-Owen Woodley Accountable Martin Kearsley Responsible: Wendy Luczywo	The project is reporting green as currently tracking to plan.

Proj Plan

Task Description-	Apr-21					May-21				June-21			
	2	9	16	23	30	7	14	21	28	4	11	18	25
Review processes with BoI for fraud and reversal management				X									
Review BoI Agreement and OLA with BoI & identify improvements					X								
Document & flow chart all procedures & processes under BoI Agreement						X							
Embed process in POL to ensure ATMs are balanced weekly and follow up with Postmasters not undertaking this activity							X						
Implement changes to fraud & reversal management & BoI contract (assuming BoI agree to changes)										X			
Document future (Post BoI) procedures & processes with Vocalink (new provider) for dispute management	X												
Document future (Post BoI) procedures and processes with POL reconciliation team for dispute management								X					
Implement control framework for ATM dispute tracking in line with 3 lines of defence model Develop regular reporting for senior management team								X					
Implement balancing obligations into PM contracts (post BoI)					X								

Current update, Progress Projection and Detriment

Transaction corrections are only being made to Postmasters for cash retracts where the Postmaster has acknowledged that there is a surplus at the ATM when it is balanced and recorded on the surplus button on Horizon. There is no longer a detriment in live. In all other cases charges are not passed to the Postmaster and this ceased on 29th January 2021.

The ATM strategy will result in the implementation of revised procedures and processes that will start to be implemented in September 2021 as each ATM is migrated to the POL ATM network where POL will be the LINK member. Migration will be completed by end March 2022.

Initial analysis underway to determine the scale of the impact on Postmasters.

Issues have been identified with the way that ATM disputes are managed with BoI, especially with respect to suspected fraud at the ATM and the way that reversed transactions are handled by the Bank. It is very likely that this has caused detriment to Postmasters. The agreement with BoI is unclear in places and has resulted in POL standing losses that may not be appropriate. Additionally POL is obligated by BoI to undertake regular balancing at ATMs and this is not always completed by Postmasters resulting in POL taking responsibility for any disputes that could not be resolved under LINK scheme rules that dictate that ATMs must be balanced.

Debt provision is too early in the process to quantify. We are awaiting the output of the KPMG review before knowing if we should provide and how much to provide.

Risks and Issues

There is a risk that requisite data is not be available to identify Postmasters who may have been subject to detriment in the past

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Appeals and disputes for contract terminations

Oxblood Red Impact Improvement Actions

Improvement Summary

- The appeals and dispute process regarding contract terminations has not been clearly communicated to PMs to ensure they understand the options available to them and that the procedures and timescales are clear. There is a contractual appeals policy in place for legacy contracts, which is clearly documented. However, for Locals and Mains contracts, the right of appeal was taken out. A new appeals policy is currently being finalised which will allow PMs on all types of contracts to appeal a termination.
- A consistent appeals process is being developed including an independent appeal panel which allows appropriate PM representatives to ensure a fair and transparent process is in place. Once finalised this will be communicated to all, including both internal stakeholder and Postmasters and full training provided.

References	Ownership	Status
Deloitte Ref :OF1 Service and Sup Plan IDG Tracker Ref M94 CIJ/HIJ Judgement Area 8 (1,2,9)	GE : Amanda Jones Accountable: Andy Kingham Responsible: David Southall	Currently reporting Amber as work on independent Decision Review panel has just commenced. No agreed framework in place for delivery.

Proj Plan

KEY

Task Description	Mar-21					Apr-21				May-21				
	1	8	15	22	29	5	12	19	26	3	10	17	24	31
Contracts within scope for the appeals/ dispute process defined.	■													
Postmaster Termination Appeals Policy approved by RCC			■											
Postmaster Termination Appeal Policy approved by ARC				■										
Decision Review Panel Framework developed and options outlined				■										
Decision Review Panel standard operating procedures developed					■	■	■	■	■					
Decision Review Panel standard operating procedures approved									■					
Define and build training plan										■				
Communicate policy to all key stakeholders										■				
Communicate policy & process to PMs										■				

Current update, Progress Projection and Detriment

Postmaster Termination Appeals policy (known as the Postmaster Termination Decision Review policy) drafted and submitted to ARC on the 19 March 2021. Policy drafted to ensure that all postmaster contract types have the right to dispute a decision to terminate the agreement.

Work in progress to define how an independent appeals panel would look and would work with inputs from Deloitte as to try and benchmark against other Franchise models. Meeting(s) to be held with procurement team and architect of NED panel process on the 22 March 2021 to understand options. Framework to be drafted by 26 March 2021 to outline options and seek GE input (Amanda) on preferred approach. Input being sourced from legal services.

Although the drafted policy allows postmasters on all contract types to dispute a decision there is currently no independent panel in place

Risks and Issues

a) Setting up of and independent Decision Review Panel. Currently no process in place to establish an independent panel and in doing so POL is unable to meet its commitment to postmasters. Look to mitigate by developing a framework of options for GE review.
b) Delivery Date. As panel framework has not been agreed there is a risk that the project won't be delivered by aspirational date

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TRACKER WORK IN PROGRESS

The IDG also reviews the status of "Red" PM impact rated actions

CIJ Red Impact Improvement Actions: 12 week activity plan and status

Issue	Impact Rating	Start Date	Target Deliverable (End Date)	(RAG) we 19/03	Progress	Responsible	Accountable	Progress (% complete)	Mar-21					Apr-21					May-21				
									1	8	15	22	29	5	12	19	26	3	10	17	24	31
Streamline Urgent Horizon Comms	Red	26/02/2021	31/05/2021	G	Tracy Marshall has not yet been	Katrina Holmes	Tracy Marshall	25%														
Difficulties in providing remuneration MI	Red		31/08/2021	G		Alex Todd	Nick Beal	25%														
Lack of PM-centric metrics and transparency in tiering system	Red		31/08/2021	G	Due to lockdown this is not	Regional	Andy Kingham	25%														
Cash discrepancy investigation procedure misalignment	Red		31/08/2021	G	CCTV systems in cash centres are	Doug Brown	Russell Hancock	25%														
Accounting disputes process	Red		31/05/2021	G	Currently on track for end of May	Accounting	Tim Perkins	25%														
Complaints handling processes	Red	11/02/2021	31/05/2021	G	1. Policy approved by RCC 16 Mar	Mel Fischer	Tim Perkins	50%														
Absence of SLAs for issue resolution processes	Red		31/05/2021	G	1. SLs for Complaints - 10 days	Mel Fischer -	Tim Perkins	50%														
Systems in use for PM interactions and technology strategy	Red		31/03/2022	G		TBC	Jeff Smyth	25%														
Values/Behaviours - refresh values	Red	01/02/2021	31/03/2021	G	New Values/Behaviours created to	Jo Barnickle	Juliet Lang	90%														
Postmaster Empathy in mgmt - connect senior management	Red	19/02/2021	31/03/2021	G	Adopt an Area initiative launched	Jo Barnickle	Juliet Lang	80%														
GLO Lessons Learned	Red	In progress	19/03/2021	G	All Hands Town Hall planned	Richard Taylor	Nick Read	75%														
Lack of overarching data strategy	Red	31st May	31/08/2021	G		TBC	Jeff Smyth	0%														
Perception of bias in Investigation process	Red		31/05/2021	G	As OF1. No dependencies; but	David Southall	Andy Kingham	0%														
Quality issue with cash pouches	Red	15/03/2021		A	Barcode range confirmed,	Andy Stevens	Russell Hancock	25%														
Comprehensive and transparent investigation of postmaster transactional concerns to	Red		26/04/2021	G	Includes HIJ-0011	Neil Davey	Simon Oldnall	25%														
Improved processes to resolve current bugs (current KELs). Stage 2	Red		24/06/2021	G	Discussion on requirements for	Martin Goldbold	Simon Oldnall	15%														
Historic KELS- Technical workshops complete	Red	006a:	12/02/2021	R	006a: Fujitsu BEDs report received	Martin Goldbold	Simon Oldnall	10%														
Historic KELS- Create regression testing suite	Red		30/04/2021	R		Martin Goldbold	Simon Oldnall	15%														
Historic KELs/SDLC/QA processes- create regression pack	Red		30/06/2021	R	006b: Currently blocked	Martin Goldbold	Simon Oldnall	15%														
Stress testing HNGA -Create NFT framework	Red	009a:	15/04/2021	A	009a: Currently blocked.	Harsh Soman/	Simon Oldnall	5%														
Stress testing HNGA-Determine current DR approach & create DC policy	Red		15/03/2021	A	009b: Awaiting SME	Harsh Soman/	Simon Oldnall	20%														
Software Development Life Cycle / Quality Assurance (SDLC/QA) Process Improvements-	Red	02/04/2021	02/04/2021	G	Initial draft of Test Policy	Dan Addy/ Harsh	Simon Oldnall	20%														
Proactive identification of Horizon HNGA software issues -deliver recommendation of most	Red	12/03/12	30/04/2021	A	Analysed Fujitsu reference data	Dan Addy	Simon Oldnall	10%														
Streamline Urgent Horizon Comms	Red	26/02/2021	31/05/2021	G	Ongoing, reports due this week	Dan Addy	Tim Perkins	25%														
Privileged Access Management / Remote Access to Horizon Branch Database- Discover,	Red	24/02/2021	21/05/2021	G	Discussion with Sandie Borthwick	Dean Bessell	Simon Oldnall	40%														
Multiples contractual status	Red	05/03/2021	31/08/2022	G	End to end review of multiple	Harriet Keilthy	Emma Conroy	1%														
Service Mindset Training	Red	01/02/2021	31/05/2021	G	Identified a service provider (First	Mel Fischer	Tim Perkins	15%														
4.Policies and Procedures - Onboarding	Red		30/04/2021	G	Training Plicy and Onboarding	Tracy Marshall	Tracy Marshall	75%														

Note: Data presented in these slides is as of 18 March, before the Postmaster Journeys Final Draft was released to Board (19 March). Thus there may be slight differences in numbers being resolved now

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Approach to substantive GLO conformance

Background

- By comparing the original judgements (CIJ and HIJ) with the improvements delivered (and planned), are we now (or will we be) substantively conformant? 'Substantive' is used to acknowledge that until all POL process are mapped out end-to-end, there remains a risk that further issues will be identified.
- Since the judgements, a large number of reviews and subsequent improvements have been delivered, including the most recent Deloitte and KPMG work.
- CIJ introduced the requirement for POL to act in good faith in the performance of its obligations and exercise of its rights under its postmaster contracts and take reasonable care in performing its functions (particularly those which could affect the accounts and therefore liability for alleged shortfalls. Each area of operation (e.g. Onboarding) needs to be reviewed against these requirements.
- HIJ provided specific issues to address. However, a similar process needs to be taken – review the judgement alongside the improvements, does that deliver a substantively conformant position?

- **Recommendation to secure confidence of GLO conformance:**
- Form a blended team of operational, technical and legal skills to combined review and assessment of conformance.
- POL internal teams are heavily focussed on delivering improvements. To quickly generate additional capacity, plan to utilise skills and POL knowledge present with external parties.
- NRF, KPMG and Deloitte will be engaged to complete a rapid assessment of GLO Conformance. Approach will see multiple parallel teams taking judgement themes and delivering a reasoned position on conformance.
- By exploiting the knowledge and experience already present in external parties, POL will avoid distracting internal resources from essential improvement delivery work. Internal resources will still be involved (POL must *own* this work), but the additional time burden can be substantially reduced by capitalising on knowledge elsewhere.

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Postmaster Communications and Network Capacity

- Given multiple improvements being delivered simultaneously, management of change and communications is a priority.
- While there are existing processes to manage network capacity and operational communications, we need to and are doing more, including recruiting additional BAU resources to better manage for Postmasters.

- **Network Capacity Planning**
  - Our existing Branch Engagement Team operate a "Network Gateway" process, managing all Network change delivered to ensure changes are fit for purpose, impact assessed, tested, appropriately scheduled and coordinated to minimise branch impact and avoids peaks.
  - Given the breadth of changes requiring implementation, we are reviewing our prioritisation criteria (due for completion mid-April), considering the magnitude of impact on postmaster financials, customer experience and day to day branch operations.
  - In addition, a new approach to Horizon UAT is being developed with the Horizon IT team, involving Postmasters at early design and release stages.

- **Operational Communications**
  - Accountability for operational communications is in the process of being transferred from the central POL communications team to the Postmaster effectiveness area, reinforcing the importance of postmaster communications and the need for coordination and prioritisation, with the postmaster in mind.
  - A number of areas have been highlight for improvement (number of communications, channel, relevance, timing etc) and these will reviewed in the coming weeks.
  - Immediate tactical fixes already being deployed (e.g. establishing a communications gateway team, reminding POL colleagues of the appropriate comms channels, adjusting content of weekly Branch Focus).

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HIJ – Section title

Subtitle

POL00448765

Horizon Issues Judgment Remediation: Overall Summary

- In October POL commissioned a piece of work that would provide status against key areas of HIJ findings (the KPMG 'audit')
- This work has delivered an interim report which has identified key areas where we need to rapidly implement process and technology changes that will progress us towards conforming with the judgement
- We have now received a series of reports from Fujitsu that provide some context and their views on HIJ findings and KPMG are continuing to probe these areas with supplementary questions/requests for further technical detail
- In parallel we have initiated a programme activity to fully remediate the HIJ issues and deliver a robust set of capabilities to manage Horizon across the remainder of its lifetime
- This programme has been initially focussed on a 12 week 'fast fix' approach to provide accelerated delivery and to set the foundations for the longer remediation
- KPMG are bolstering their team over the next 2 weeks to ensure that we are well structured to successfully deliver the fast fix as a Phase 1 and then move rapidly onto the next phase(s) of remediation
- We have now identified 13 areas of agreed focus where we are working collaboratively with Fujitsu to further investigate & remediate areas which will have benefit to Postmasters
- Additionally as part of this initial 12 week period KPMG will complete their assessment of status against the judgment and confirm their recommendations for the overall programme

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KPMG Audit Work

- This activity is the completion of the Horizon Audit work commenced in October 2020,
- A draft interim report was submitted to Post Office in December 2020, with revised version submitted February 19 post feedback from stakeholders.
- The Report assessed six areas identified in the Horizon IT Judgement: Privileged Access Management (PAM), Software Development Lifecycle (SDLC), Known Error Logs (Historic and Current), Remote Access, and Horizon Next Generation Robustness.
- In order to complete this work KPMG will require detailed insights into the areas directly managed by Fujitsu
- This access is being managed via the same set of interactions focussed on rapid remediation in order to not distract resources from the delivery of the remediation activities
- Availability of Fujitsu resource is being closely monitored and this critical dependency will be elevated at CEO/CEO governance meeting in early April
- Key milestones for completion of are shown below

Audit Completion Plan		
Receipt of Fujitsu responses to our initial evidence request for SDLC, Testing, PAM/RAM	19 March	Complete
Receipt of responses to evidence request for Testing, Current and Historic KELS	26 March	On track
Response to Robustness Report	2 April	On track
Updating Interim Report with additional evidence received.	9 April	At risk
First draft of a Final Report for circulation	16 April	At risk
Final Report issue	30 April	At risk

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Fujitsu Commitments to Fast Fix Plan

- The following initiatives have support from Fujitsu and enable us to progress with completion of the audit as well as remediating key areas of HIJ findings; The delivery/completion date represents when we expect to have completed these activities to a level whereby they represent substantive progress towards demonstrable conformance with the Judgement findings

Initiative	Delivery/ Completion Date
Testing of the historic 29 KELS to confirm closure	9/4
Define a process for current dispute investigation (and resolution) identifying Horizon Functionality as required	2/4
Define a process for historical dispute investigation (Fujitsu activities)	9/4
Identify Requirements for Enhancement/deployment of full counter key/session logging	9/4
Validate/test key HNGA transaction area	30/4
Testing Improvements (across the test lifecycle)	23/4
Identify Requirements to Enhance the APADC and Reference Data processes	23/4
Review and enhance reconciliation processes & consider system changes to avoid need to reconcile	16/4
Define and operate a more efficient Incident and Problem process – ensuring PM awareness of what is going on and status of issues and fixes, and follow up to themes	9/4
Refresh/Enhance APPSUP process (managing privileged access to Horizon)	2/4
Decommission the Fujitsu operated Transaction Correction Tool	30/4
Identify additional operational metrics that Fujitsu can provide to POL that build PM confidence in Horizon robustness	16/7
Review all the governance meetings held to ensure that they are impactful and focussed robust management of Horizon	30/4

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Mapping Of Fast Fix Activity Against HIJ Findings

- The priority initiatives have been mapped to the HIJ findings. This does not indicate how completely the HIJ will be addressed, as some will only be partly addressed with the finding.
- The wider remediation programme will provide a more complete response. That mapping is ongoing and RAG against HIJ findings will be assessed against completeness of initiatives and how overall conformance (in conjunction with legal) is assessed
- The robustness area (currently assessed as no remediation action to date) is being investigated via the KPMG audit work and we expect to identify remediation activities in the next 2 weeks

Conformance assessment	
No remediation action to date	
Interim 1.0 planned	
1.0 in place	

			HIJ Findings													
			#1	#2	#3	#4	#5	#6	#7	#8	#9	#10	#11	#12	#13	#14	#15
			Bugs cause discrepancies	No bug/error alert	Robustness	Errors from forms	Reconciliation	Controls did not stop errors	Remote access	Comms to SPM & FJ	Reports & investigation for SPMs	Remote change with no PM consent	Permission controls	PAM & FJ records	RAM affect reliability	No dispute ability	Tx correction
Ref	Initiative	RAG															
1	Dispute button															✓	
2	Keystroke logging									✓	✓						
3	Access to Tr data									✓	✓						
4	Share Tr data									✓	✓						
5	Current KELS		✓	✓	✓	✓	✓	✓									
6	Historic KELS		✓	✓		✓	✓	✓									
7	Identify HNGA issues		✓	✓	✓	✓											
8	Inform errors to PMs			✓													
9	Test HNGA under load		✓	✓	✓	✓		✓									
10	SDLC / QA		✓	✓	✓	✓	✓	✓									
12	PAM/RAM								✓			✓	✓	✓	✓		
13	Hz online help			✓							✓						✓
14	Investigate Tr concerns									✓	✓					✓	
15	Independent audits		✓		✓	✓	✓	✓	✓			✓	✓	✓	✓		
	IT change & gov		✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓

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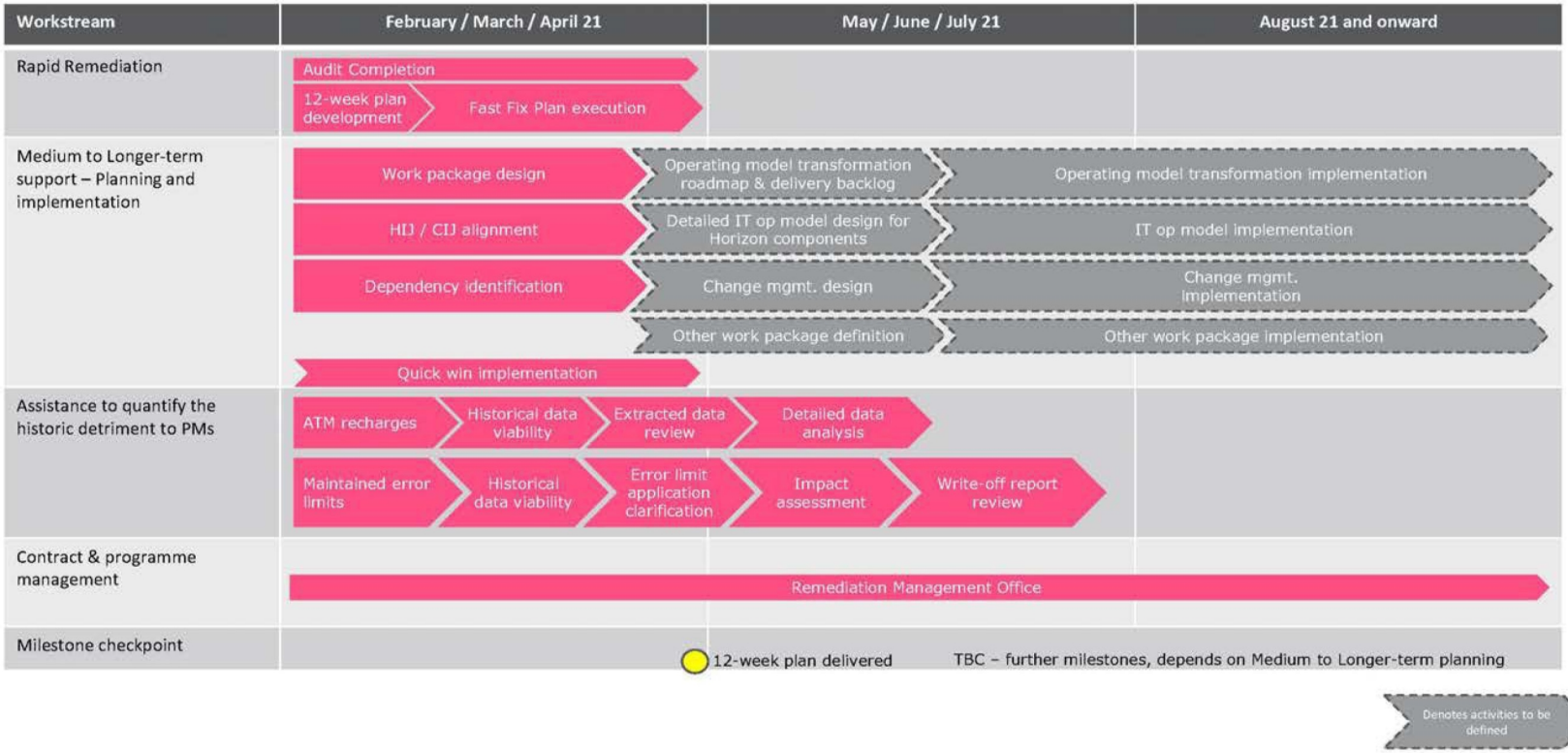
HIJ Remediation Overall Programme plan

- The overall programme plan sets out in the short term, audit completion, ongoing remediation of HIJ issues as well as next steps to plan for wider TOM and the assistance to historic detriment work.
- Work is progressing (w/c 22/3) to complete the detailed programme plan beyond the short term, fast fix activity



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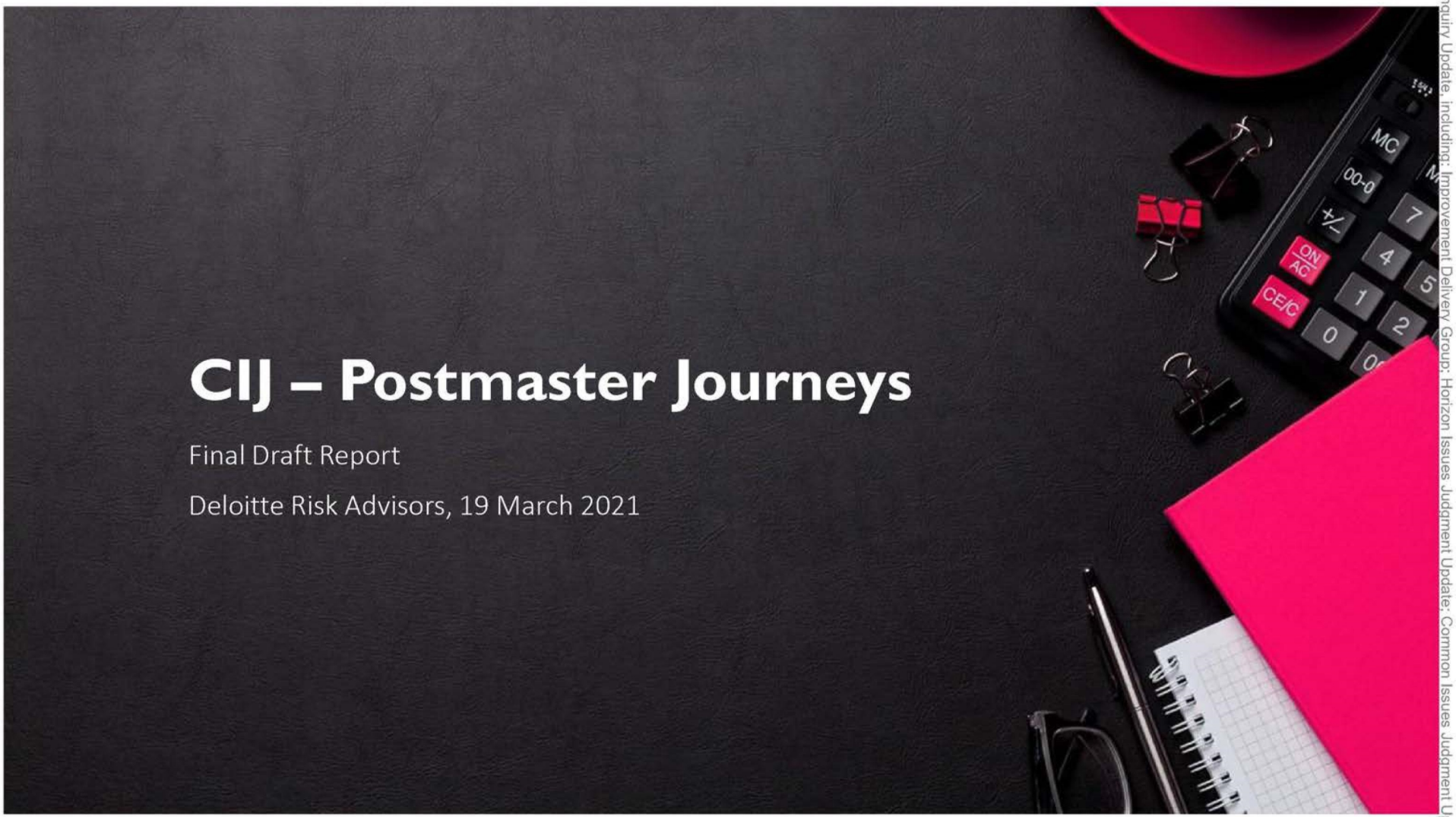

CIJ – Postmaster Journeys

Final Draft Report

Deloitte Risk Advisors, 19 March 2021

POL00448765

The PM Journeys Report identified 44 improvements completed and recommended a further 59 to put PMs completely at the heart of all we do

Rating	Rating Description	Number of findings identified by work stream					
		Governance	On-Boarding & Early Days	BAU: Continuous Activities	BAU: Issue Resolution	Off-Boarding	Total
Urgent Priority	Urgent priority, must fix issues – **non-compliance with the outcomes of the CIJ ruling** and / or where there is a **detrimental impact** on PMs, where **detrimental** means any form of PM harm –including where that there is a significant contractual issue and, a negative financial impact and/or an impact on PMs from a relationship or wellbeing perspective.	0	0	2	3	1	**6**
High Priority	There is a risk of **potential detriment** to Postmasters, or a **significant reputational risk** to POL.	5	0	5	3	1	**14**
Medium Priority	This change would **significantly improve** the Postmaster experience.	2	6	12	2	4	**26**
Low Priority	It would be **beneficial** to make this change to improve the Postmaster experience.	0	6	4	3	0	**13**
Total		**7**	**12**	**23**	**11**	**6**	**59**
Improvements Implemented	Improvements noted as part of this work that have been made in the last 12-18 months.	-	13	21	9	1	44

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9 Themes across all improvement opportunities were identified

1. **Create a single overarching governance forum** to help oversee and drive required PM related decisions and actions through to completion. The Voice of the Postmaster Forum is a step forwards, though need to build on IDG for a wider risk-based governance forum focussed on PMs.
2. Develop **detail below the purpose** and **communicate expectations as part of the culture workstream** to truly achieve a shift in colleague attitude.
3. Proactively **use data to drive insight** to support action and decision-making by creating a detailed plan (e.g., proactive sharing of branch performance with PMs).
4. There is still more required to **develop a PM communications framework**: consistency of messaging and approach to create the appropriate balance between focus and use of a range of channels to communicate with PMs.
5. Multiple IT systems are required to paint a holistic view of a PM at any one time which results in siloed working and disjointed PM support. **Review systems architecture for efficiency of use and support.**
6. **Enhance the processes that PMs must go** through to handle cash and products ensuring an understanding of end-to-end accountability of the customer and PM journey for cash and products.
7. There is still huge complexity in the number of different PM contracts and related PM obligations. **Document and communicate clearly to PMs the appeals and dispute process**, including SLAs and monitoring processes.
8. **Provide further organisational clarity** on roles and responsibilities across teams supporting PMs.
9. Work to **provide further support to PMs** to help them grow and manage their businesses (e.g., data provision, training, etc)

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The PM Journeys report identified 6 "Urgent Priority" actions, now being tracked by IDG

- Progress status in the PM Journeys report was as of early March. More progress has been made on a number of these items (e.g,. RCC has approved Appeals process but final comms to PMs won't be until early May)
- Other items (e.g., PM debt uncertainty) have just started given the new finding from the PM Journeys report

Urgent Priority Improvements			
Reference Number	**Finding Name**	**Finding**	**Progress**
OF1	Appeals and disputes for contract terminations or suspensions	The appeals and disputes process regarding contract terminations or suspension has not been clearly communicated to PMs to ensure they understand the options available to them and that the procedures and timescales are clear.	
BI1	Maintained Error Limits	Where there is a difference in a POL settlement account for a process affecting branches (for example ATM or Lottery) for a specific amount (which varies by product), rather than issuing a transaction correction which would move the difference to a PM's branch account, the amount is instead 'written off' to a POL P&L account leading to potential PM financial detriment.	
BI2	Settle Centrally	Currently the PMs can only 'Settle Centrally' for amounts of > £150 and any amount less than this currently needs to be 'made good' by either cash or cheque by the PM each month. Also, there is no dispute functionality within Horizon in order to allow PMs to easily dispute any amounts that have been 'settled centrally'.	
BI3	ATM transaction disputes	There are a lack of effective procedures in place to manage ATM transaction disputes, raised by customers through Bank of Ireland (BoI), who are the Link member currently managing the POL ATM network. This leads to potential PM detriment.	
BC1	Shortfall Resolution Scheme Exceptions	The historical shortfall resolution scheme does not cover the period between each branch's migration to HGNA in 2017 and 2018 and the common issues judgement in 2019. Should PM detriment have occurred in this period (e.g. arising from contract termination or unpaid suspension), this detriment will not have been investigated or compensated.	
BC2	Postmaster Debt Uncertainty	No investigation has been conducted to identify and resolve any PM debt accrued between the implementation of HGNA and the establishment of new ways of working between HMU and BAU. This leads to a risk that PMs who accrued debt in this period do not have certainty over their historic debt balances and do not understand if, how, or when they will be resolved.	

Note: Progress indicated in the PM Journeys report is as of early March

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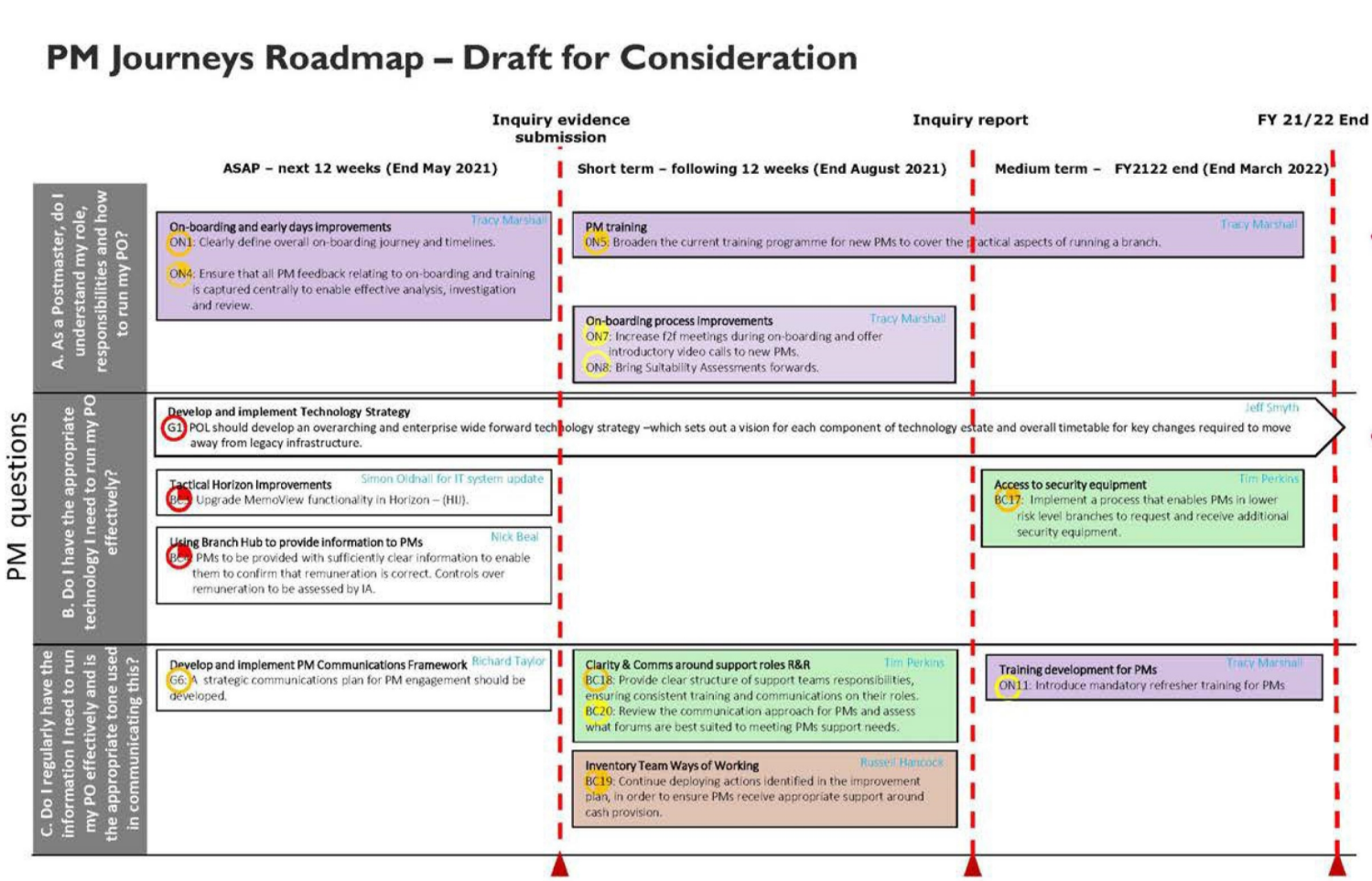
PM Journeys Roadmap – Draft for Consideration



- The draft Roadmap groups individual improvement areas into work packages as suggestions for programme planning
- The 4 highlighted individual accountabilities make up the majority of actions and form part of a larger programme overseen by the COO called PSIP: Postmaster Service Improvement Programme

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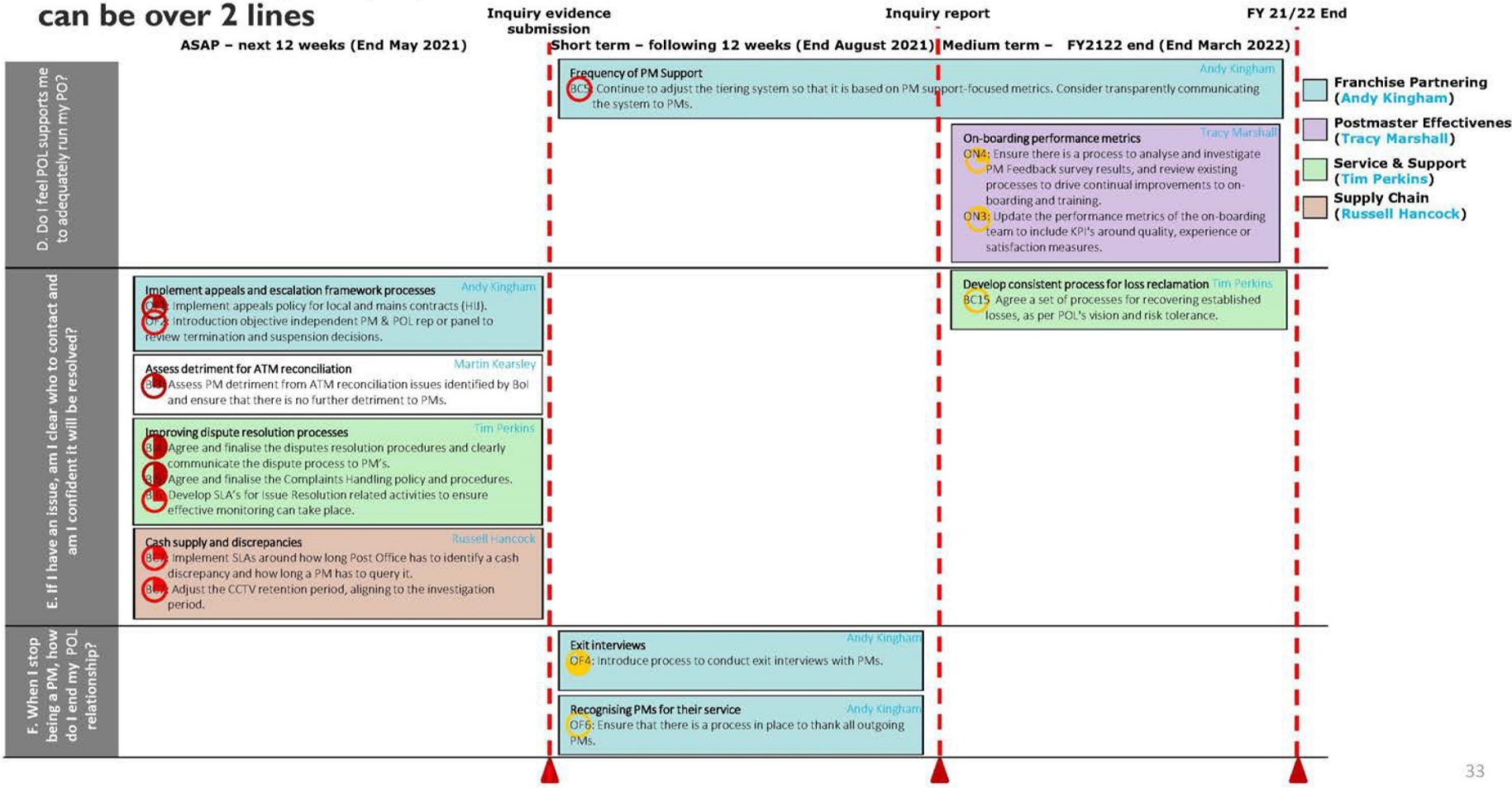

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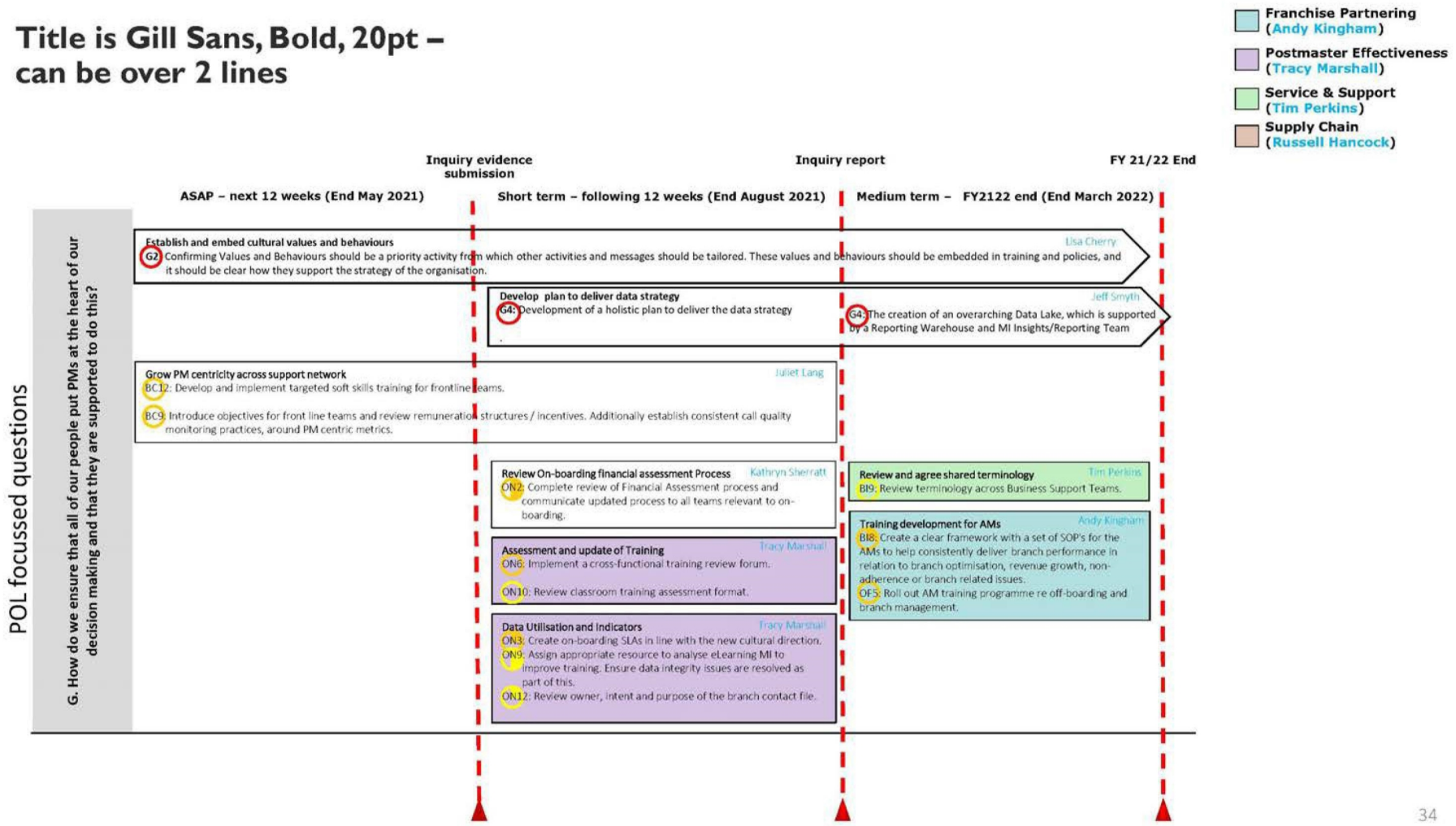

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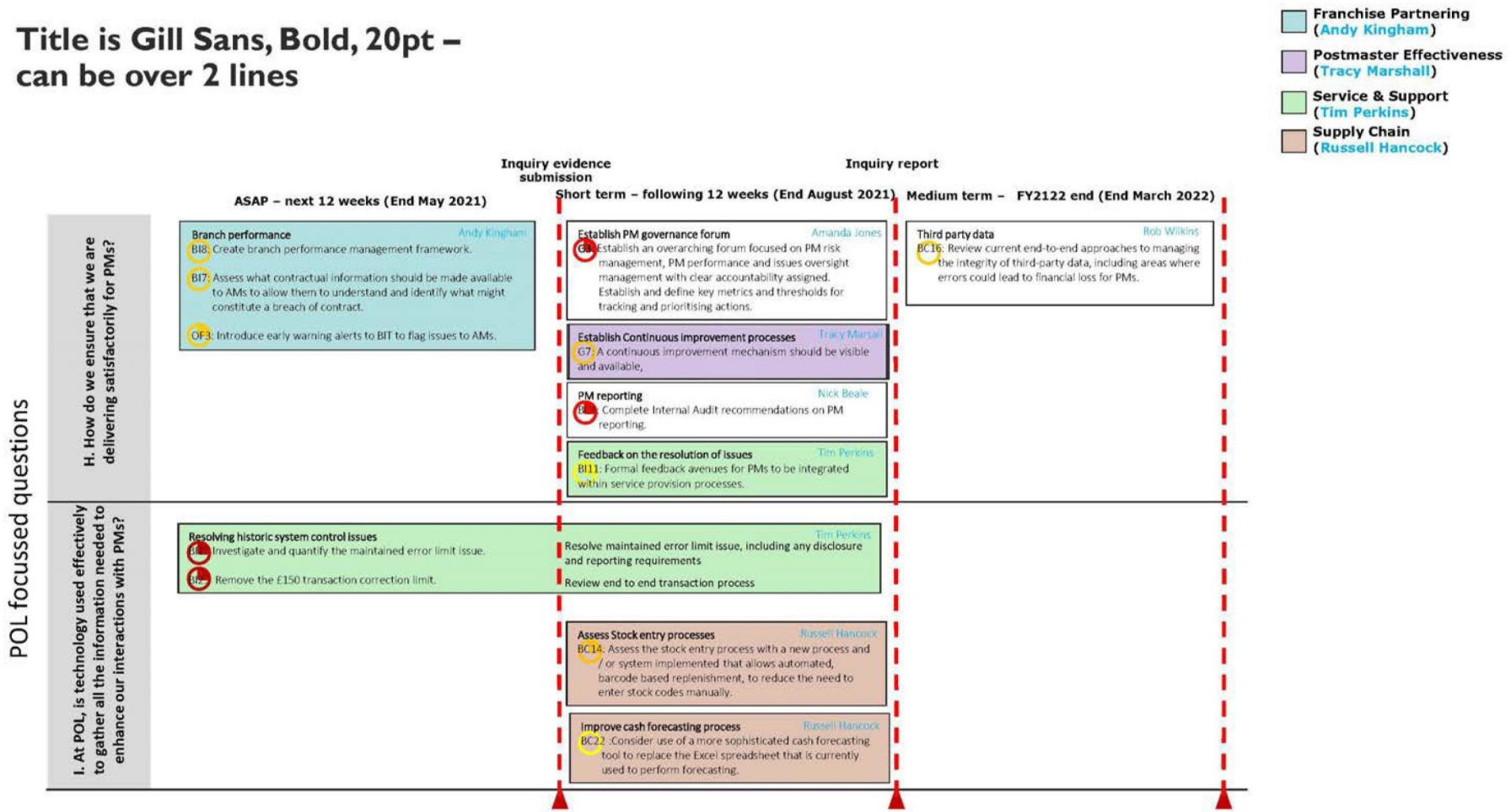

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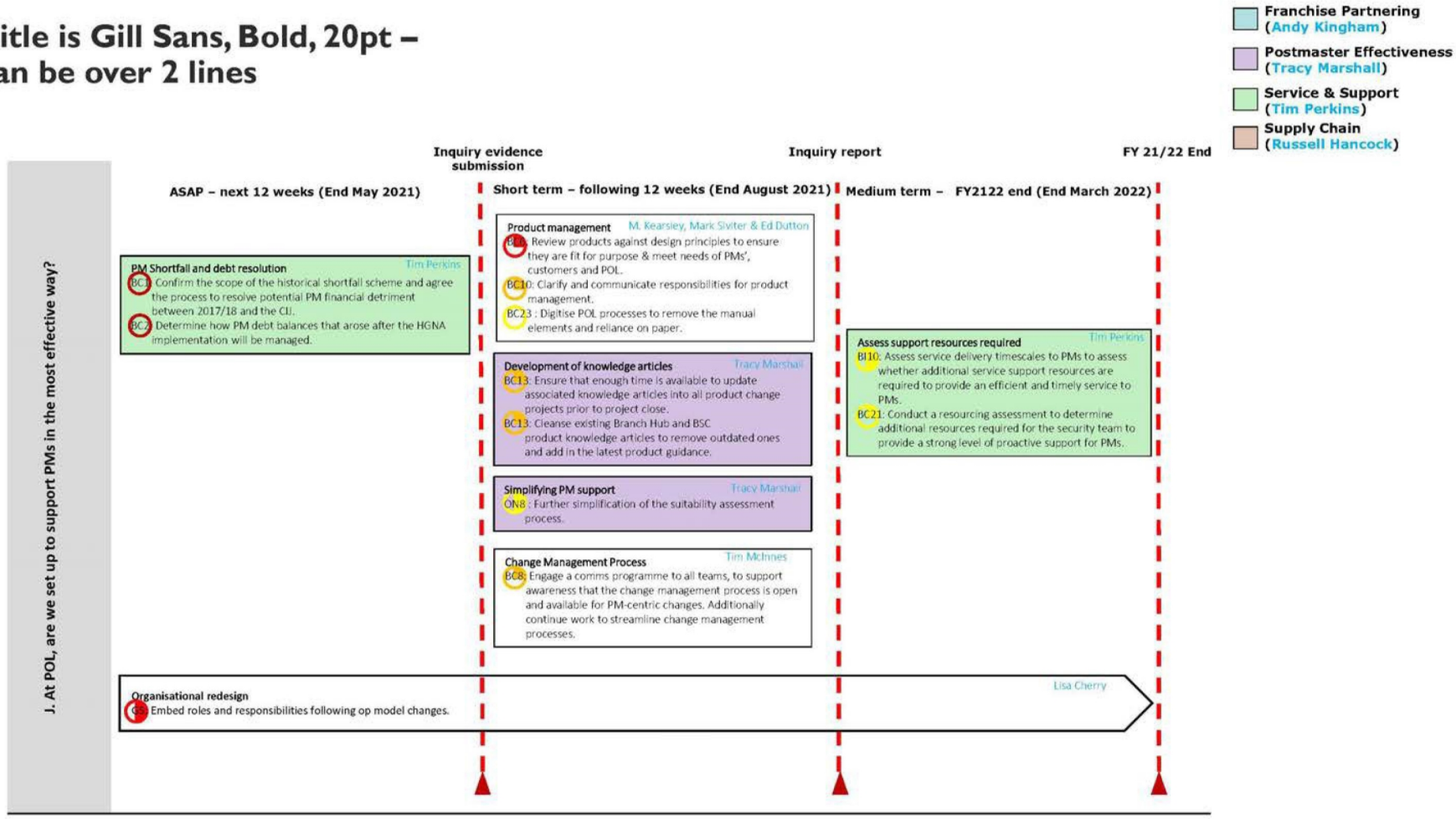

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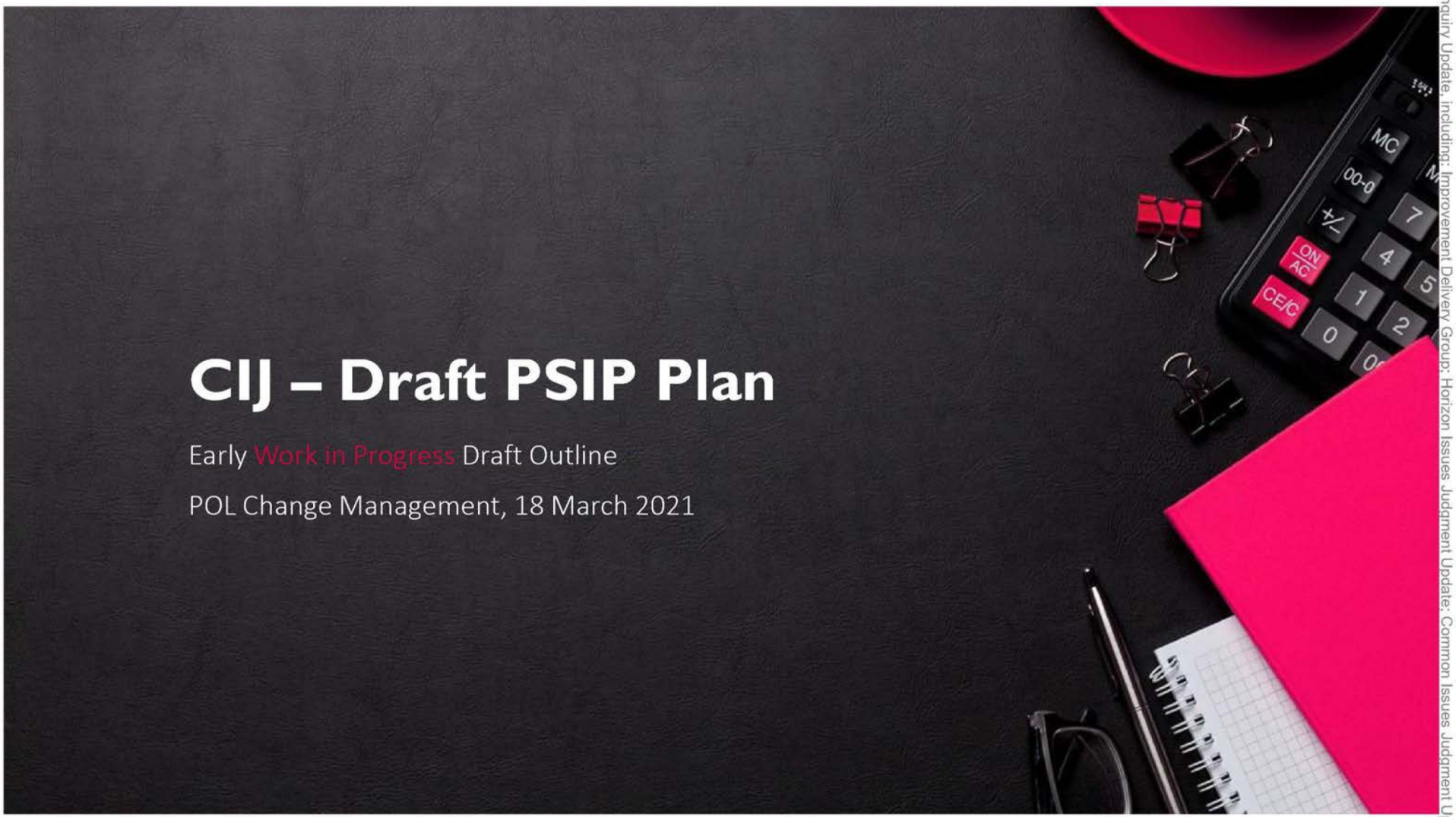

CIJ – Draft PSIP Plan

Early Work in Progress Draft Outline

POL Change Management, 18 March 2021

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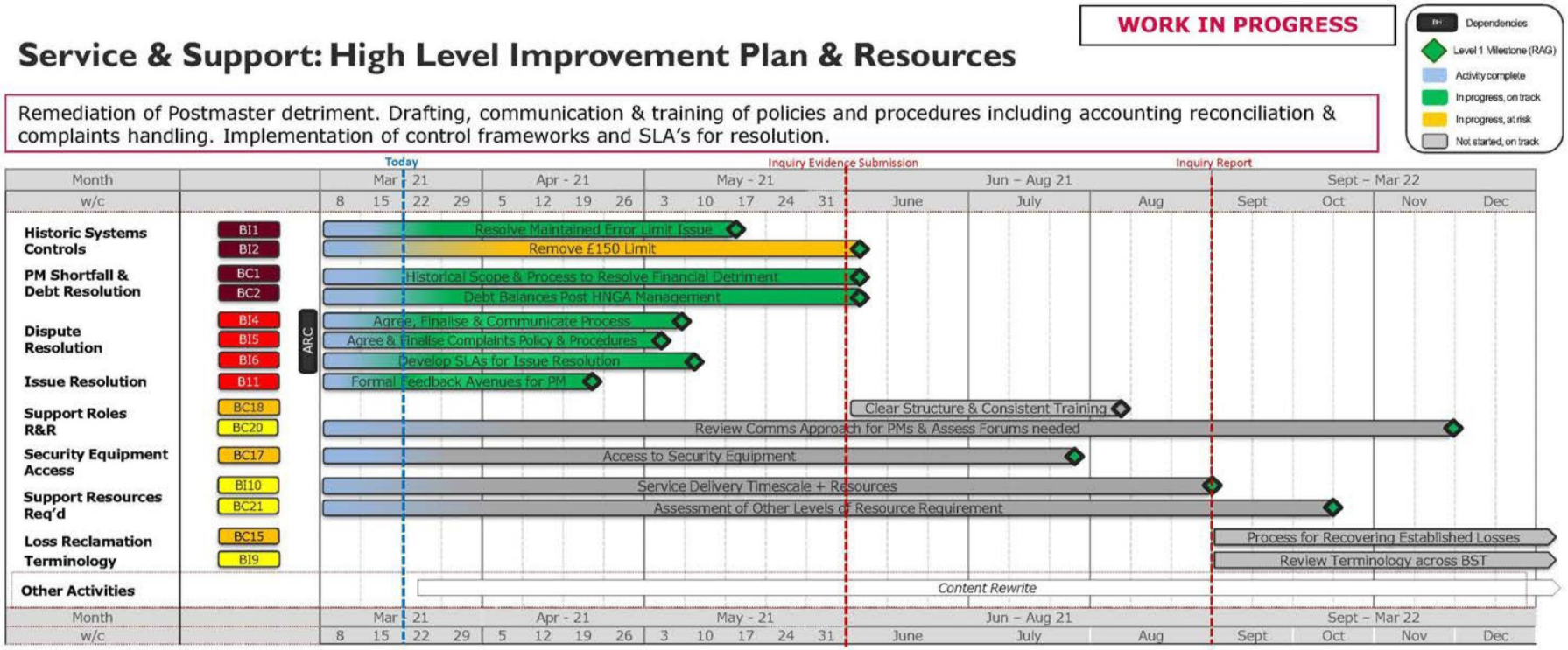
Service & Support: High Level Improvement Plan & Resources

WORK IN PROGRESS

Remediation of Postmaster detriment. Drafting, communication & training of policies and procedures including accounting reconciliation & complaints handling. Implementation of control frameworks and SLA's for resolution.



Historic Systems Controls	**PM**: Carl N. (HNGX)	**PM**: Carl N (HNGA)	**BA**: Giselle Kelly	**BA**: Neil Crowther	**SME**: PO Grade
PM Shortfall and Debt Resolution	**PM**: Harriet K	**BA**: Neil C	**KMPG**: Julie Bruce	**BA**: TBC	**Legal**: TBC
Dispute Resolution	**PM**: Hayley Miller	**BA**: Vanessa O	**BA**: Giselle Kelly	**BA**: Marie Pyatt	**KMPG**: Kathryn W	**SME**: Neil Davey
Issue Resolution	**BAU**: Mel Fischer	**SME**: Neil Davey			

Support roles R&R	**BAU**: Mel Fischer
Security Equipment Access	**BAU**: Mark Raymond
Support Resources Required	**BAU**: TBC
Loss Reclamation Terminology	**BAU**: TBC

Resource in place
Resource to be replaced
Resource being secured, in process
Resource not yet found

Note: Data presented in these slides is as of 18 March, before the Postmaster Journeys Final Draft was released to Board (19 March). Thus there may be slight differences in reference numbers

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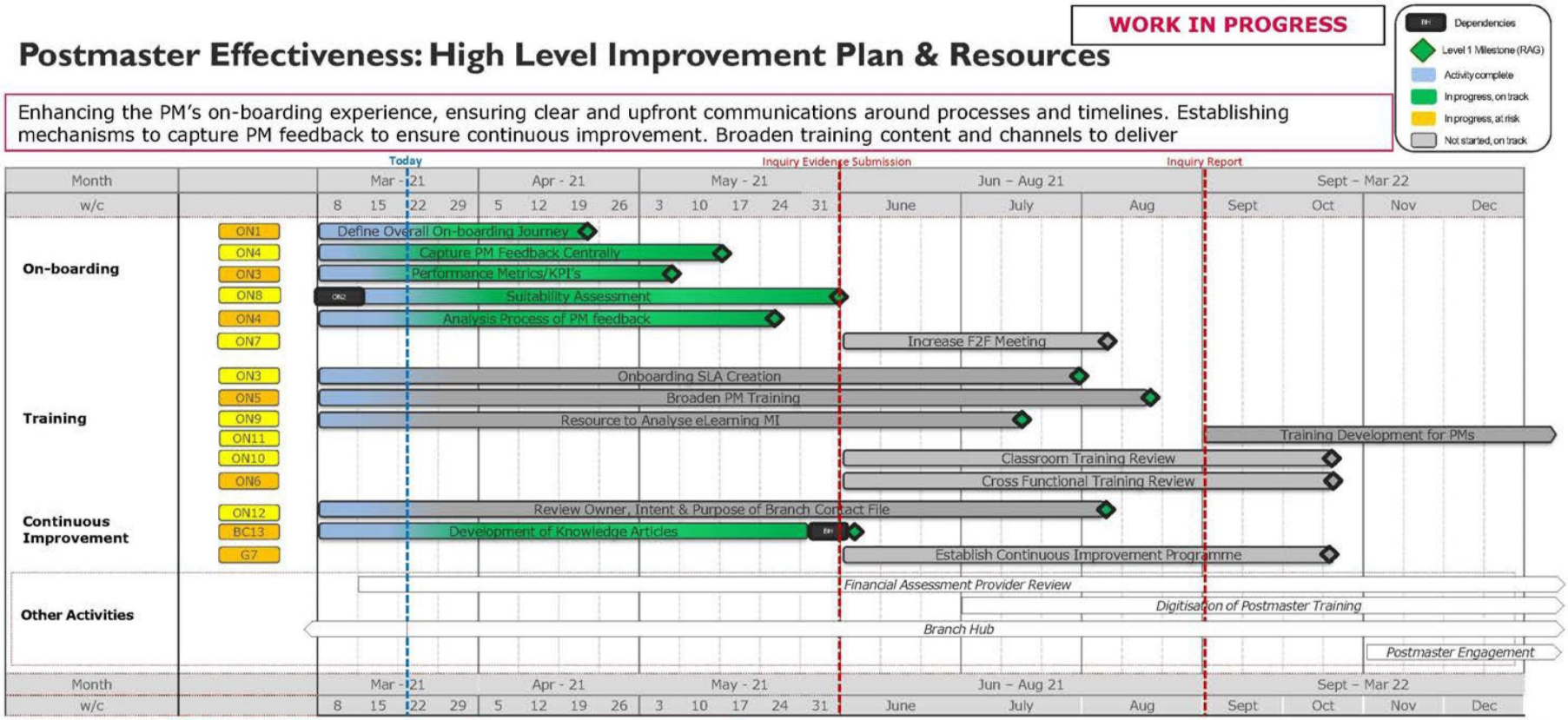
WORK IN PROGRESS

Postmaster Effectiveness: High Level Improvement Plan & Resources

Enhancing the PM's on-boarding experience, ensuring clear and upfront communications around processes and timelines. Establishing mechanisms to capture PM feedback to ensure continuous improvement. Broaden training content and channels to deliver



Onboarding/FA	PM: Debbie Johnson	BA: Alex Poli	SME: Hugo Grenyer	3rd Party Supplier
Training	PM: TBC	BA: Interviews in progress	SME: Ranjeet Jouhal	
Continuous Improvement	SME – Katrina Holmes			

- Critical resource gaps – RFI process and procurement requirement for 3rd party Financial Assessment capabilities

Resource in place
Resource to be replaced
Resource being secured, in process
Resource not yet found

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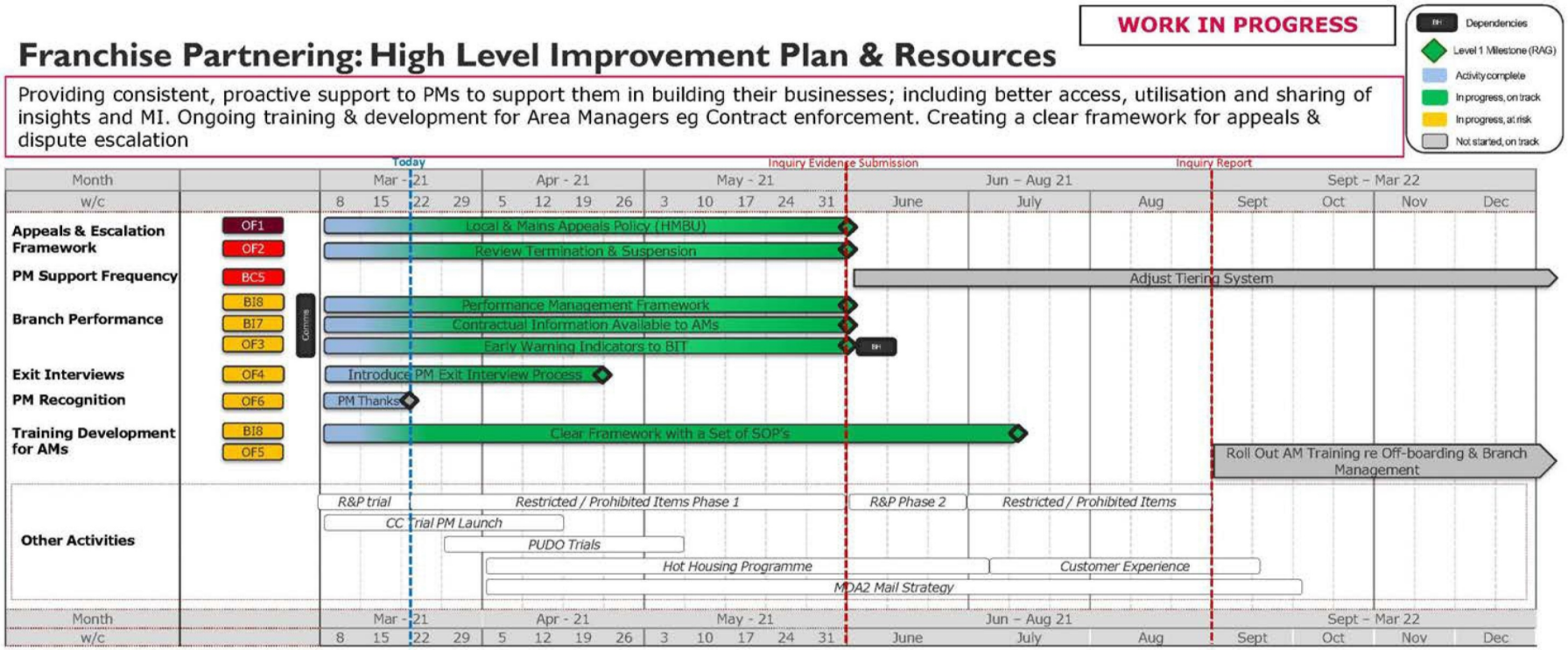
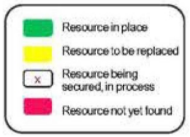
WORK IN PROGRESS

Franchise Partnering: High Level Improvement Plan & Resources

Providing consistent, proactive support to PMs to support them in building their businesses; including better access, utilisation and sharing of insights and MI. Ongoing training & development for Area Managers eg Contract enforcement. Creating a clear framework for appeals & dispute escalation



Appeals & Escalation Framework	**SME:** Noor Stone (in process)	**SME:** AM backfill (in process)
PM Support Frequency	**SME:** Noor Stone (in process)	**SME:** AM backfill (in process)
Branch Performance	**BAU:** Nick Beal	
Exit Interviews	**BAU:** Rhi Thomas	
PM Recognition	**BAU:** Reena Patel	**BAU:** Rhi Thomas
Training Development for AM's	**SME:** Rhi Thomas	**SME:** Donna Poulter



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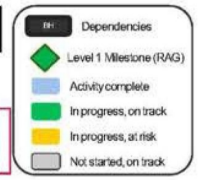
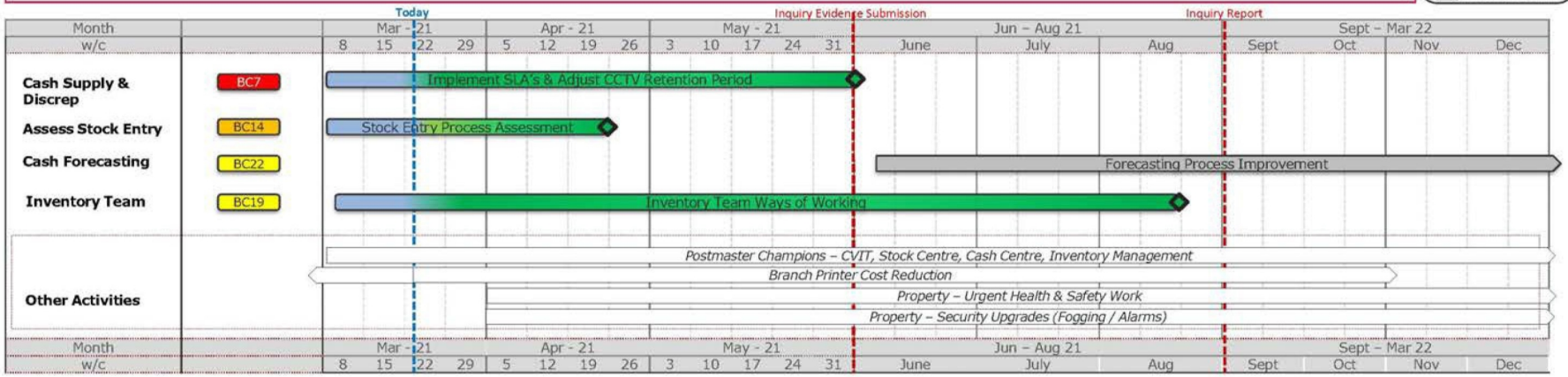
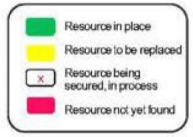
Supply Chain: High Level Improvement Plan & Resources

WORK IN PROGRESS

Ensuring the supply chain successfully supports the Postmaster in managing cash and stock, enabling a culture of openness and transparency.







Cash Supply and Discrepancy	**PM:** tbc	**BA:** Gemma Morrow
Assess Stock Entry	**BAU:** tbc	
Cash Forecasting	**BAU:** tbc	
Inventory Team	**BAU:** Becky Portch	

Note: Data presented in these slides is as of 18 March, before the Postmaster Journeys Final Draft was released to Board (19 March). Thus there may be slight differences in reference numbers

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Postmaster Journey – Issues, Risks, Dependencies and Assumptions

- **Key Risks/Issues:**
  - Possibly under resourced due to unknown scope (e.g., PM shortfall, debt resolution and remediation).
    - **Mitigation** – re-aligning and upgrading internal resources to support key workstreams alongside urgent recruitment.
  - Current immaturity of the overarching programme structure and medium term project scoping.
    - **Mitigation** – working to establish core programme controls, delivery cadence, clear roles and responsibilities and linkages to other programmes (e.g., Branch Hub, MDA2, Network Strategy) to facilitate successful delivery.
  - Organisational design is under consultation and could impact the delivery plan.
    - **Mitigation** – On-going review and re-alignment of consultation feedback to assess any impact on the organisation design.

- **Key Dependencies:**
  - Fujitsu delivery within specified timelines
  - Procurement of services of an independent 3rd party to provide assurance against the perception of bias in Postmaster disputes (OF1).
  - Debt provision for any identified postmaster detriment.
  - Sales MI/BIT (BC4 and BC5), Knowledge Articles (BC12/BC13) Reporting (BC7), communications (BC20) manual process (BC23) feedback (Bi11) to be delivered by BTU/Branch Hub
  - Communication & training materials for behaviour and cultural changes

- **Key Assumptions:**
  - All resources required to deliver "ASAP – Next 12 weeks" on-boarded by mid April, all remaining resource requirements scoped by end April.
  - Fast-tracked governance to secure funding to enable the full delivery plan for short/medium term.
  - Detriment analysis and assessment will have been completed by the end of May. The remediation will follow.

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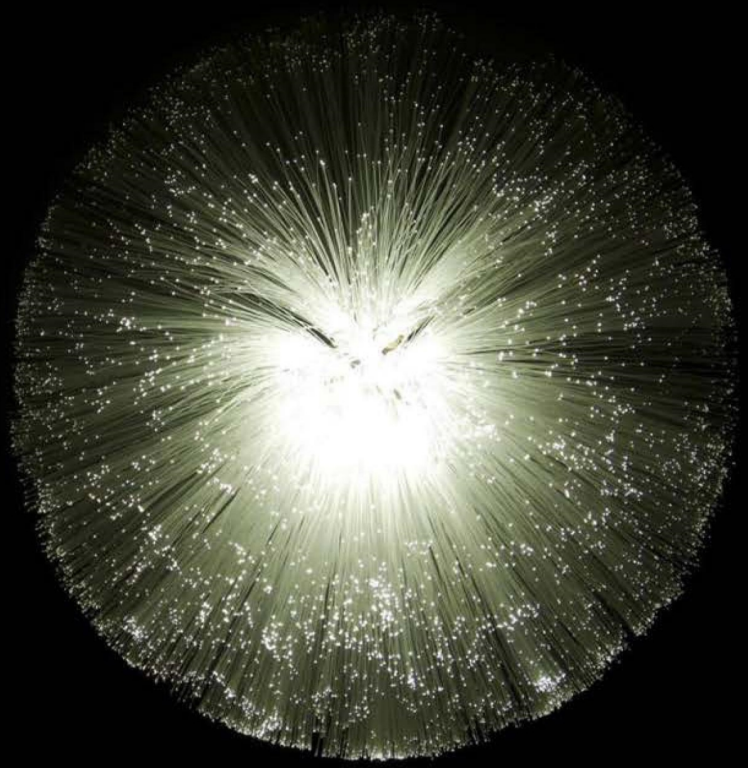

Postmaster Journeys

Post Office Limited

Final Draft Report - March 2021

Tab 3 Public Inquiry Update including: Improvement Delivery Group: Horizon Issues Judgment Update; Common Issues Judgment Update: Postmaster J

CCRC Meeting - 25 March 2021-25/03/21

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Important Notice

This document ("Report") has been prepared by Deloitte LLP ("Deloitte" or "we") for Post Office Limited ("POL") in accordance with our engagement letter dated 4 January 2021. The report is produced solely for the use of Post Office Limited for the purpose set out in the Engagement letter. Its contents should not be quoted or referred to in whole or in part without our prior written consent except as required by law. Deloitte LLP will accept no duty or responsibility to any third party, as the report has not been prepared, and is not intended for any other purpose.

The Report has been prepared on the basis of the limitations set out in the engagement letter and on page 13 and 92. The scope of our services and any deliverables will be limited solely to the Services set out in this engagement letter. We will make no representations in respect of and will not consider any other aspect of your operations.

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1.1 Executive Summary

Introduction

In January 2021, Deloitte was commissioned to undertake a piece of work for Post Office Limited (POL) looking at the extent to which the organisation has moved towards its stated aim of 'putting Postmasters (PMs) at the heart of the business'. Postmasters operate their businesses through a variety of different business structures. Therefore, a reference to a Postmaster or PM in this report could, depending on the circumstances, mean an individual, a limited company or a partnership. In the case of a limited company or partnership, the recommendations in this report will typically apply to the partner/director or employee with main responsibility for running the branch, and, in the case of individuals who do not work in their branch regularly, many of the recommendations in this report apply as much to a branch manager or officer in charge of operating the branch on their behalf as to the individual who has entered into a contract with Post Office.

This work builds on findings and improvements made by POL as a result of both the Common Issues Judgement (CIJ) and Horizon Issues Judgement (HIJ), as well as looking at wider improvements that have been (or should be) made to mitigate the risk of PM detriment, looking at cross cutting organisational themes such as culture, systems and management information in the governance section (see pages 38-47) as well as specific potential improvements across each element of the PM journey from on-boarding to off-boarding (see pages 48-90).

The work was completed between January and March 2021 with this report summarising both improvements made over the last 12-18 months as well as making recommendations around areas for further focus and investment going forward - setting out the position and progress on findings at the beginning of March 2021. Each finding is classified as urgent, high, medium or low priority based on the potential PM detriment (see table on page 8 for definition). These findings were based on evidence obtained from across the business and through a series of interviews and conversations with key stakeholders. This work did not include detailed systems assessment, testing or verification of the timing of improvements made, planned and in progress, nor did it include direct contact with PMs (see section 1.2 for full details of scope, approach and limitations and Appendix D those spoken to as part of this process). All findings and recommendations have been discussed and verified with business owners.

For each finding the report makes associated recommendation(s) setting out proposed activity to address the finding, as well as specifying named responsible and accountable individuals. The recommendations are structured into an overall roadmap of activity (see section 3). This roadmap has been developed to prioritise urgent and high-risk areas of activity around preventing PM detriment. This work did not take into account cost or resourcing implications and POL will need to consider these further in finalising implementation plans.

Context to the work

Post Offices are a key part of the UK high street and supporting PMs to succeed and thrive is key to the long-term success of the organisation. However, over many years, layers of culture and working practices across POL have built up that have considered PMs in part as a means to securing network coverage, with the organisation focussed on moving towards a more commercial footing rather than consistently prioritising support to, and interactions with, PMs. Related to this there has also been a lack of significant or ongoing investment in information technology or wider processes to support PMs, meaning that the working practices in branches are outdated and not consistent with elements of good practice that would be expected across comparable sectors.

Over the past two years there has been positive change in the way that POL looks to support PMs. A good example of this is the introduction of area managers (AMs) around two years ago - a move almost universally recognised by PMs as a huge step forward in terms of the support they receive. On the receipt of the CIJ, Post Office undertook a significant programme of work led by the Operations Director to implement improvements to both comply with the judgement but also to make things easier for branches. Further improvements have also come about since the launch of the new Purpose statement, and ongoing organisation changes, including senior management organisation re-design rolled out from September to November 2020. These positive changes have helped to simplify and improve POL interactions with PMs and to start to change culture and ways of working. The HIJ and CIJ have also acted as catalysts for change making a number of specific recommendations that the business has been taking forward. The linkage and relationship between this piece of work on 'PM Journeys' and these wider activities is shown in Figure 1 the following slide.

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1.1 Executive Summary

Scope

This PM Journey work looks wider than the specific recommendations from the CIJ to call out a range of potential further improvements that have been, and could, be made across the PM journey to support the strategy of 'Putting PMs at the heart of the business'. This is aligned with ongoing improvements, including work taking place as part of the wider organisational redesign activity and through the culture change programme.

Following the HIJ and CIJ a number of operational and wider improvements have taken place across the organisation. Work completed by Norton Rose Fullbright (NRF) has looked at the operational progress in meeting specific requirements from the CIJ and remaining gaps, with Internal Audit tracking progress against closing any NFR found when reviewing the operational improvements made. Similarly KPMG has undertaken work to look at progress in addressing HIJ requirements, and there have been ongoing improvements on some of the specific technical Horizon issues raised in the HIJ. This report does not repeat specific findings from these activities but does note the work being progressed and the tracking of progress that is now taking place through the Improvement Delivery Group (IDG).

Figure 1: How PM Journey fits in with wider work across the network



In addition to these areas, business owners have been undertaking reviews as part of business as usual and have changed and improved ways of working. The creation of the Historical Matters Unit (HMU) has also added focus and momentum to activity to address historic issues (not covered by the scope of this Project).

This work has been taking place over the last 12 months against a backdrop of a global pandemic, with the organisation adapting to new ways of working and supporting the safely and wellbeing of PMs and POL employees whilst maintaining, and in many cases enhancing, PMs' ability to improve the support and offerings provided to customers.

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1.1 Executive Summary (continued)

Overall Findings

We have called out 44 areas where we have noted improvements that have been made over the last 12-18 months. These improvements span right across the business and include improved onboarding processes (e.g., improvements to initial assessment and training processes) guidance and support for PMs (e.g., through the PM support guide, and improved branch support tools) and communication (e.g., improved call centre scripts and wider PM communications). There is evidence of increased focus and momentum across the organisation to deliver improvements and 'Put PMs at the Heart of the Business' with many of the findings and recommendations set out in this report being addressed through activity that has started and been prioritised over the last three to six months. Examples of positive changes implemented over the two-month period that this work has been underway include setting up the new 'Voice of the PM' Forum, changes and further improvements to direct communications with PMs and the progress being made as part of the culture change programme to instigate activity such as pairing of senior leaders with PO branches to facilitate understanding and knowledge sharing.

There remain significant opportunities for further improvements in POL interactions with PMs. Some of the findings raised as part of the HIJ and CIJ, (e.g., transaction disputes and the defining and communicating of an appeals process for PMs who have a dispute with) have not yet been fully addressed (though we note action is in progress), and several wider areas identified as having potential to go further to make a real difference to PMs are not yet in place. The cultural shift needed to support a focus on the PM is key to this and has not yet been fully communicated or embedded across the organisation.

Specifically, we raise 6 urgent priority, 14 high priority and 26 medium priority findings, with Figure 2 below showing how these are spread across different elements of the PM Journey. The urgent and high priority findings are summarised in Figure 3 alongside an indication of progress made to date in addressing these.

Figure 2: Table of findings and improvements identified, by rating and work stream

Rating	Rating Description	Number of findings identified by work stream					
		Governance	On-Boarding & Early Days	BAU: Continuous Activities	BAU: Issue Resolution	Off-Boarding	Total
Urgent Priority	Urgent priority, must fix issues – **non-compliance with the outcomes of the CIJ ruling** and / or where there is a **detrimental impact** on PMs, where **detrimental** means any form of PM harm –including where that there is a significant contractual issue and, a negative financial impact and/or an impact on PMs from a relationship or wellbeing perspective.	0	0	2	3	1	**6**
High Priority	There is a risk of **potential detriment** to Postmasters, or a **significant reputational risk** to POL.	5	0	5	3	1	**14**
Medium Priority	This change would **significantly improve** the Postmaster experience.	2	6	12	2	4	**26**
Low Priority	It would be **beneficial** to make this change to improve the Postmaster experience.	0	6	4	3	0	**13**
Total		7	12	23	11	6	59
Improvements Implemented	Improvements noted as part of this work that have been made in the last 12-18 months.	-	13	21	9	1	44

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1.1 Executive Summary (continued)

Overall, the majority of findings (particularly those rated as urgent or high priority) raised in this report can be grouped into nine thematic areas, which are summarised below and set out in detail in Section 5 of this report:

Governance	There are currently limited mechanisms in place to review POL performance in providing services to PMs, nor a single overarching governance forum to help oversee and drive required PM related decisions and actions through to completion. The Voice of the Postmaster Forum recently created is a step forwards, but we recommend a wider risk-based governance forum focussed on PMs, building on the current IDG.
POL Culture and Staff Support	The culture developed across POL over many years has not focussed on PMs. The new purpose statement and plans currently underway as part of the culture work stream will drive improvements. However, there is a long way to go to truly achieve this shift in attitude. Developing detail below the purpose and continuing to communicate expectations across the business will be key in making further improvements here.
Data and Management Information	Although POL has access to a significant amount of data, this is not used proactively to drive insight to support action and decision-making. Whilst there is an overarching data strategy, there is no detailed plan below this nor funding/resources set aside to deliver against this. Examples of areas for improvements include PM remuneration data and proactive sharing of branch performance with PMs.
POL & PM Communications	There have been improvements in both operational communications (e.g. tone in letters to PMs) and more strategic communications, but there is still more to be done to develop a communications framework and ensure consistency of messaging and approach to create the appropriate balance between focus and use of a range of channels to communicate with PMs.
Systems and Technology	There has been a historical lack of investment in IT to support PMs and there are many known issues in Horizon which are being progressed. Multiple systems are in use by different teams, and a combination of these systems are required to paint a holistic view of a PM at any one time. This results in a siloed approach to working and the provision of disjointed support to Postmasters.
Cash and Products	Cash handling is an issue frequently raised by PMs as a problem area. Cash forecasting to meet branch cash requirements is not close to good practice and there is confusion and inconsistency around the support provided to PMs. Products such as Lottery and ATM are also flagged as problem areas, with issues around transactions correction processes and manual cash processes representing key parts of this.
PM Obligations and Dispute Resolution	PM responsibilities are not always clear and, despite some simplifications, there is still huge complexity in the number of different contracts and related obligations. The appeals and dispute process regarding contract terminations or suspension or for general issues, such as transaction corrections, has not been clearly documented and communicated to PMs. SLAs have not been set for issue resolution processes and there is also no effective monitoring in place for the efficiency or quality of POL's response to issues raised.
Roles and Responsibilities and Organisational Design	Roles and responsibilities across teams supporting PMs are not always clear. The organisational design work in progress is making changes to improve this and it will be critical to ensure that there is sufficient clarity and that changes are communicated effectively and consistently to support their implementation and drive improvements.
Proactive Support to PMs	There is opportunity to provide further support to PMs to help them grow and manage their businesses. Some data is currently shared, but this is limited and not provided consistently meaning some PMs receive more proactive support than others. Training is not always aligned to the needs of different PMs e.g. business improvement training to help in driving revenues is not provided to all branches.

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1.1 Executive Summary (continued)

Progress made to date

As well as the 44 areas where improvements have already been implemented, in approximately two-thirds of the recommended areas for further improvement we noted that work was either already underway or has started during the duration of this project. Specifically:

- Out of the 6 urgent priority findings, 4 have activity in progress
- Out of the 14 high priority findings, 12 have activity in progress
- Out of the 26 medium priority findings, 17 have activity in progress
- Out of the 13 low priority findings, 8 have activity in progress

In addition, Internal Audit has been assessing the implementation status of the Norton Rose Fulbright (NRF) recommendations to address the CIJ findings. As of 10 March 2021, Internal Audit reported that 29/34 recommendations were complete, 4/34 were in progress (with a significant overlap with those called out in this report e.g. around onboarding policies and procedures and operator engagement) and the remaining 1 had been postponed. Of those in progress all are reported as being on track for completion at the end of March 2021. (Note: We have not independently checked or verified these findings as part of this Project).

Furthermore, we note that progress is being made on implementation of the HIJ actions through the work being undertaken through the IT teams and supported by KPMG. However, aside from the high-level recommendations we make here about overall IT and systems strategy, and a small number of references to specific technology fixes needed (e.g. finding BC3 around use of memo view for urgent communications), we do not list out or repeat progress and recommendations reported in this area, as this was beyond the scope of this piece of work.

Suggested Roadmap

As well as identifying a number of thematic and specific findings this report also sets out a high-level roadmap for delivering the recommendations. This roadmap (see section 3) sets out groups of activities against different topic areas and is broken down into three recommended time periods for completion:

- **ASAP** - To be implemented as soon as possible, with completion by May 2021.
- **Short Term** - To be implemented in the near future, after the ASAP improvements, by August 2021.
- **Medium Term** - To be implemented over the course of FY21/22, with completion reached before March 2022.

Where recommendations are by their nature more complex and require a longer-term action, we have used an arrow box to indicate that they will remain a work in progress beyond March 2022.

On the whole, urgent and high priority findings are flagged to be addressed immediately, though we note that there are some findings, that while work can start, will not be completed until later in the time period because of the complexity or reliance on third parties. Similarly, medium and low priority findings are typically included later in the time period; however some are grouped with more urgent issues where it makes sense to address them at the same time or where they represent a quick win and can be addressed more immediately.

[redacted]

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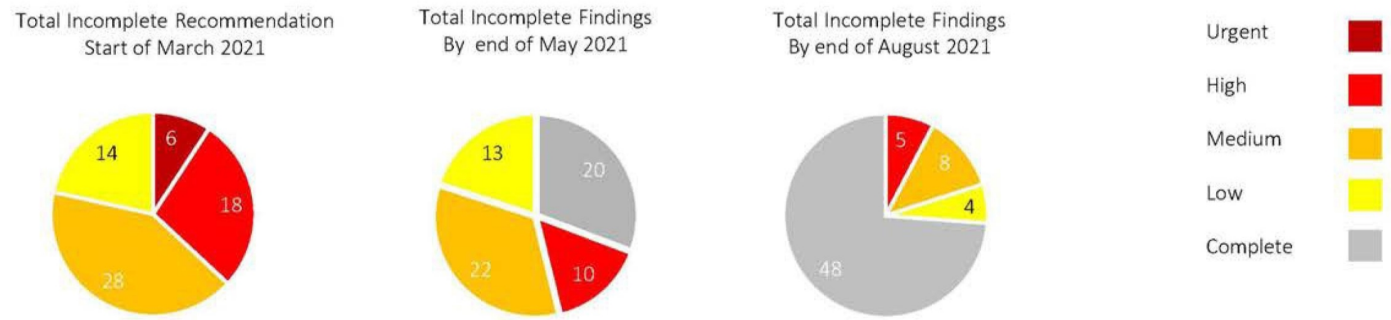
1.1 Executive Summary (continued)

Closing down recommendations

Assuming that recommended actions from this report are completed in line with the targets set in the roadmap, the charts below illustrate how the status of findings will evolve (please note we have broken down our 59 findings out in to 66 actions, as some findings contain both shorter and longer term actions).

Figure 3: Charts illustrating the progression of findings resolution



By the end of March 2022, only longer term actions should remain incomplete, such as: embedding cultural values and behaviours, implementing technology and data strategies, plus any actions which cannot commence until after the period of time included within the Roadmap e.g. transition of ATM management to POL and review of the Lottery agreement with Camelot.

This roadmap does not take into account cost or resourcing implications and POL will need to consider these further in finalising the more detailed implementation plans to deliver against this. Meeting the timescales suggested will require investment and focus of the organisation both in the short term (e.g. through the shifting of resources to urgent and high priority areas), and over a sustained period to genuinely drive change, particularly given that some elements of this – most notably shifting culture and addressing the technology debt – will take time.

Throughout the report its findings, we have been clear to set out accountable and responsible owners as this is key to delivery. We recommend that this action plan is delivered as a focussed programme or set of programmes of work going forwards with a single overall accountable owner and work package and work stream leads. Progress should initially be reported to and monitored by the Improvement Delivery Group (IDG) as an interim measure and then moved to the new (recommended) PM Governance forum, once this is operational.

Implementing these changes provides a real opportunity for POL to build for the better, genuinely moving towards its aim of 'Putting Postmasters at the heart of the business' and supporting long term success for both POL and the PM community.

[1] Post Office Horizon IT Inquiry to establish a clear account of the implementation and failings of Horizon over its lifetime

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1.2 Background, Scope and Approach

BACKGROUND AND OBJECTIVES

Post Office Limited ('POL') has a core strategic aim to put Postmasters ('PMs') at the heart of its business. As part of the implementation of this strategy, POL needs to understand the extent to which the interests of PMs' have been embedded across POL, and where additional activity can be taken forward to better take into account PMs' needs.

In January 2021 Deloitte (referred to as 'we' throughout this report) was commissioned by POL senior leadership to undertake a piece of work looking at the 'Post Master Journey' (the 'Project') and areas of interaction between POL and PMs, to consider the progress made by the organisation towards it aim to 'Put Postmasters at the Heart of the Business'.

This Project involved the consideration of core activities and overall end-to-end processes across POL in relation to PMs - looking at the extent to which there have been improvements made over the last 12-18 months, where there are activities in progress or planned, and where there are existing gaps in PM support that POL should consider addressing and any further work that may be needed to support achievement of this strategic aim.

Note: Post Office's Postmasters operate their businesses through a variety of different business structures. Therefore, a reference to a Postmaster or PM in this report could, depending on the circumstances, mean an individual, a limited company or a partnership. In the case of a limited company or partnership, the recommendations in this report will typically apply to the partner/director or employee with main responsibility for running the branch, and, in the case of individuals who do not work in their branch regularly, many of the recommendations in this report apply as much to a branch manager or Officer in Charge operating the branch on their behalf as to the individual who has entered into a contract with Post Office.

SCOPE

This purpose of this Project was to:

- Understand POL's core processes and activities in respect of PMs to identify:
  1. What improvements have been made over the past 12-18 months in terms of POL interactions with PMs
  2. What improvements are planned or in progress to improve POL interactions with PMs
  3. Any existing gaps and further improvement opportunities (referred to as 'findings' throughout this report) POL should address in support of its strategic aim.
- Consider wider thematic areas that could strengthen POL interactions with PMs including (but not limited to) governance and organisational structure, accountability and responsibilities, communications and relationship management and training.
- Develop a risk-based prioritised roadmap showing potential sequencing of improvements to support interactions with PMs. Whilst this did not include an assessment of the costs of implementing these changes, it does focus on the areas that are likely to have the largest potential impact in reducing the risk of PM detriment.

We considered the above by conducting a wide range stakeholder interviews across POL to understand current processes and activities across the organisation from a Governance standpoint, and across the four stages of the PM journey below:



We have also performed a high-level review of documentation to aid process understanding, or to validate stakeholder feedback, where we felt this was required.

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1.2 Background, Scope and Approach (continued)

APPROACH

This Project was conducted as follows:

- We mobilised a leadership team and five core teams each consisting of two to three individuals with access to relevant additional subject matter experts. Four of these teams led the analysis of activities within in each of the four stages of the PM journey based on the initial list of activities within each stage as provided by POL. The final team focused on the wider thematic areas that could strengthen POL interactions with PMs including (but not limited to) governance and organisational structure, accountability and responsibilities, communications and relationship management and training.
- Work was broken down into three two-week 'sprints' across the project with key findings reported to POL project leadership at the end of each sprint phase (refer to Appendix C for a list of meetings held with POL leadership, including summary of content presented).
- Each team conducted interviews with stakeholders across POL to understand what improvements have been made to date and what improvements are planned or in progress. We also considered what further improvement opportunities exist for POL.
- Information was obtained by:
  - Interviewing the head of each business unit and relevant team members across POL
  - high-level review of documentation to aid process understanding, or to validate stakeholder feedback, where required.
- Where we identified any gaps or further improvement opportunities, we validated our findings and suggested recommendations with POL responsible and accountable action owners.
- We presented emerging findings and recommendations periodically at weekly Postmaster Experience Roadmap Steering Committee meetings and bi-monthly Postmaster Experience Roadmap Forum meetings (refer to Appendix C for a full schedule of meetings held, including POL attendees and information presented at each).

Our fieldwork was completed based on review of key business documentation and workshops and interviews with stakeholders across the business between 11 January and 2 March 2021 (see Appendix D for a full list of stakeholders consulted). The findings in this report reflect the latest position as of 3 March 2021.

LIMITATIONS

The scope of this Project did not include:

- Direct contact with PMs (however, we did consider the extent to which POL engages with PMs to support the overall strategic aim of putting PMs at the heart of the business and looked at feedback e.g. from the PM Survey on issues that matter most to them, spoke to Area Managers around issues faced by PMs and considered information and wider evidence including on PM complaints).
- Operational effectiveness testing.
- Review of the underlying IT system controls and environment.
- Assessment of improvements in activities and processes made prior to March 2019.
- Assessment of the design or effectiveness of improvements made, or improvements planned or in progress.
- Testing or verification of the timing of improvements made, or of improvements planned or in progress. Information on timings has been obtained through discussion with Management only.
- Cost assessment of any additional activities that could be used to further strengthen POL interactions with PMs. (Given the limited funding available POL may therefore need to prioritise activity contained with the recommendations or in some cases may choose to implement a different approach).
- Detailed consideration of the historical issues covered by the 2019 Horizon Issues and Common Issues Judgements – though as highlighted on the previous slide this work was completed with awareness of activity happening in these areas and any findings and recommendations mentioned here are made in with this wider context.
- Validation of work under taken by Internal Audit or other third parties.
- Legal analysis or engagement in connection with the process and report.

Furthermore, this Project is one of a number of related activities taking place across POL following the Commons Issues and Horizon Issues Judgements (the 'Judgements'). This includes work around culture and IT system (See figure 1). This Project has been conducted separately and does not:

- Summarise the work performed across the different areas of POL
- Formally assess any follow on or follow up activity in relation to these Judgements.

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1.3 Summary of Urgent Priority Findings

The following table summarises the urgent priority findings with a brief description of each of these and an indication of progress in addressing each of these. Further detail on the finding, recommendations and details of the accountable and responsible owners for each of these is included is included in Sections 5 to 9.

Urgent Priority Improvements			
Reference Number	**Finding Name**	**Finding**	**Progress**
OF1	Appeals and disputes for contract terminations or suspensions	The appeals and disputes process regarding contract terminations or suspension has not been clearly communicated to PMs to ensure they understand the options available to them and that the procedures and timescales are clear.	
BI1	Maintained Error Limits	Where there is a difference in a POL settlement account for a process affecting branches (for example ATM or Lottery) for a specific amount (which varies by product), rather than issuing a transaction correction which would move the difference to a PM's branch account, the amount is instead 'written off' to a POL P&L account leading to potential PM financial detriment.	
BI2	Settle Centrally	Currently the PMs can only 'Settle Centrally' for amounts of > £150 and any amount less than this currently needs to be 'made good' by either cash or cheque by the PM each month. Also, there is no dispute functionality within Horizon in order to allow PMs to easily dispute any amounts that have been 'settled centrally'.	
BI3	ATM transaction disputes	There are a lack of effective procedures in place to manage ATM transaction disputes, raised by customers through Bank of Ireland (BoI), who are the Link member currently managing the POL ATM network. This leads to potential PM detriment.	
BC1	Shortfall Resolution Scheme Exceptions	The historical shortfall resolution scheme does not cover the period between each branch's migration to HGNA in 2017 and 2018 and the common issues judgement in 2019. Should PM detriment have occurred in this period (e.g. arising from contract termination or unpaid suspension), this detriment will not have been investigated or compensated.	
BC2	Postmaster Debt Uncertainty	No investigation has been conducted to identify and resolve any PM debt accrued between the implementation of HGNA and the establishment of new ways of working between HMU and BAU. This leads to a risk that PMs who accrued debt in this period do not have certainty over their historic debt balances and do not understand if, how, or when they will be resolved.	

Progress Summary: The Harvey Balls give an estimate of progress made towards addressing the findings at start March 2021 based on conversations with key stakeholders across the business, These progress updates have not been fully tested or verified and are included here to given a high-level indication of progress only:



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1.3 Summary of High Priority Findings

The following table summarises the high priority findings with a brief description of each of these and an indication of progress in addressing each of these. Further detail on the finding, recommendations and details of the accountable and responsible owners for each of these is included is included in Sections 5 to 9.

High Priority Improvements			
Reference Number	**Finding Name**	**Finding**	**Progress**
G1	Complex Systems landscape making single view of PM challenging	There are a number of different systems in use for processing and recording interaction with PMs, as set out in the diagram shown in Appendix G. Multiple systems are in use by different teams, and a combination of these systems are required to paint a holistic view of a PM at any one time.	
G2	Values and Behaviours not yet embedded across organisation	The desired cultural shift to putting the PM at the heart of all activities has not been consistently embedded yet across POL. Additionally, 'Post Office Values' have yet to be developed and communicated.	
G3	No overarching PM focussed governance forum	To date, there has been no overarching mechanism in place for review of POL performance in providing services to PMs or a governance forum to help oversee and drive required PM related decisions and actions through to completion	
G4	No detailed plan to implement the high-level Data Strategy	There is no detailed plan for activity behind the high-level data strategy or agreed funding and resourcing to take forward activity around MI, data utilisation and optimisation.	
G5	Insufficient clarity on roles and responsibilities	POL's organisation is complex and there is a lack of clarity between teams on roles and responsibilities, which undermines a cohesive approach across the Postmaster journey. This is being addressed by some of the organisational re-design activity, but will need to be embedded.	
BC3	Use of memo view may mean that PMs are not sighted on all urgent communications	The processes in place to push urgent operational communications (e.g. around notification of scam calls) to branches is based around memo view. At present, messages are not retained on the system, meaning that if PMs miss them initially they may be unaware of security or other business critical risks.	
BC4	Insufficient PM Remuneration MI	PMs are not provided with sufficient information to understand their remuneration from a performance perspective and are unable to readily assess how their remuneration compares with other similar branches or their own trading performance in prior years.	

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1.3 Summary of High Priority (continued)

The following table summarises the high priority findings with a brief description of each of these and an indication of progress in addressing each of these. Further detail on the finding, recommendations and details of the accountable and responsible owners for each of these is included is included in Sections 5 to 9.

High Priority Improvements			
Reference Number	**Finding Name**	**Finding**	**Progress**
BI4	Accounting disputes process	Accounting disputes processes have not been clearly documented and effectively communicated to relevant POL staff, nor has guidance been produced and shared with PMs to clearly explain the options available to them and what the procedures and timescales for reply and resolution are.	
BC7	Cash discrepancy investigation procedure misalignment	There is no Service Level Agreement (SLA) for investigating cash discrepancies (e.g. a PM having less cash in their tills than their system declares), which can result in such discrepancies, on occasion, not being fully investigated before the CCTV data is removed, which happens after 90 days.	
BI5	Complaints handling processes	Complaints processes have not been clearly documented or effectively communicated to relevant POL staff. Additionally, guidance has not been produced or shared with PMs explaining the options available to them and what the procedures for complaint reply and resolution are.	
BI6	Absence of SLAs for issue resolution processes	SLAs have not been set for issue resolution processes across POL and there is also no effective monitoring in place for either efficiency or quality of POLs response to issues raised.	
OF2	Perception of bias in Investigation process	There is no clear objective party involved (from a PM perspective) during POL's suspension, investigation or termination processes, or in situations where there has been appeal lodged regarding these items.	
BC5	Lack of PM-centric metrics and transparency in tiering system	Historically, branches have been assigned a tier to determine the level of support provided to the PM by their AM, from Tier 1 (high 'priority') to Tier 3 (lower 'priority'). This tiering approach is based on branch customer numbers rather than being based on PM need and has not been transparently communicated to PMs.	
BC6	Design methodology and process	Many existing products have been designed based on cost-based metrics and in isolation, rather than in a manner that prioritises the PM experience. This has led to several PM-operated day-to-day processes being complicated and difficult to administer.	

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Key Themes

Tab 3 Public Inquiry Update including: Improvement Delivery Group: Horizon Issues Judgment Update; Common Issues Judgment Update: Postmaster J
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2.1 Thematic findings

In the course of this work, a number of themes have become apparent in respect of the observations raised. Nine themes span the entire Postmaster journey, where there are a number of significant (particularly urgent and high priority) findings, which we have summarised in this section.

The nine themes are:

Figure 4: Themes illustration



Each theme has been structured to show a summary of the observations made, key progress or activities in progress and suggested recommendations or principles for consideration. The findings in these nine themes are summarised in this section then described in more detail in the Detailed Findings Sections 4 to 9.

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2.2 Themes: Governance

Theme	Summary of observations and recommendations
1. Governance  *How are PM centric risks identified, mitigated and monitored?*	**Context** Governance is key to supporting business strategies and objectives, to support alignment and focus on the right areas of activity and to ensure risks are mitigated in areas that are critical to delivering desired outcomes. POL's desired shift to a PM centric business needs clear governance and end-to-end oversight. **Current position** There is no single overarching end-to-end governance over risks and activities that could be detrimental in their impact on a PM. Our findings have highlighted a number of areas where key aspects have been lacking across POL in respect of focussing attention, resource and activity on PM centric issues. • To date, there has been no overarching mechanism in place to review POL's performance in providing services to PMs or a governance forum to help oversee and drive required PM related decisions and actions through to completion. This lack of an end to end PM centric forum and visibility of PM related issues has manifested throughout POL and resulted in a disparate and non-cohesive way of working with PMs and with less focus on the issues that matter most to PMs. In addition, there has been insufficient information made available across POL and to PMs to support driving a more PM centric approach e.g. branch trading MI **(Ref G3).** • Risks impacting PMs have not previously been well articulated, and further effort is required to make the impact on the PM clearer in risk descriptions. There is also currently no mechanism supporting the shifting of attention onto emerging risks that may require more attention or are operating outside of risk appetite as the risk management framework in place does not allow these to be identified or discussed in an appropriate governance forum **(Ref G3).** • Management information is key to supporting governance and decision making and multiple observations around the quality and use of it have been highlighted in section **2.4**. Improvements are required to ensure the right information is being collated in order to drive appropriate decision making by POL, so that activities and focus can be on those areas where attention is required. The current MI and reporting in place does not provide sufficiently clear insights into how POL is performing against its PM centric objectives, or a clear enough view on branch performance or conformance insights through the KPIs in place. MI has not been optimised to support decision making, and there has been no centralised forum where end-to-end PM related MI has been received and reviewed by management to support these objectives. We note some good recent progress in this area with the introduction of the Voice of the Postmaster forum in February 2021, which will review PM insights and some PM metrics. • As noted further in the Culture section (**3.3**), POL has not historically had a culture which encouraged transparent feedback or continuous improvement activity. This is a key part of an effective governance framework, to learn and improve processes on a continual basis. **(Ref G7).** **Recommendations** Specific recommendations for these areas are set out in Section 5. The Voice of the Postmaster Forum and Improvement Delivery Groups recently created are a step forward in addressing some of the issues, and the Postmaster Director role (once filled) should also add more focus to the governance aspects. We recommend a wider risk-based governance forum (section 5, **G2**) is developed where focus is on risks and issues that impact PMs and POLs ambitions with respect to working with PMs. Information and data, including intelligence from AMs, should inform areas of focus and where attention is required. Actions should be driven through to completion by this forum, with clear accountability and responsibilities in place. A forum of this nature would be considered good practice for a significant area of business risk.

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2.3 Themes: POL Culture and Staff Support

Theme	Summary of observations and recommendations
2. POL Culture and Staff Support  *Does the culture support the strategy and are mechanisms in place for colleagues to support PMs?*	**Context** Historically, POL has not consistently focused on the organisational culture and how this can support and drive desired strategic objectives. Focus has been on a commercial perspective rather than on ways of working with PMs to focus on their needs and requirements to deliver outcomes. A clear shift is required across the organisation which requires a significant amount of effort. Steps are underway to progress this through the work being undertaken as part of the Culture programme but this will need ongoing focus to ensure a genuine shift in focus towards PMs happens across POL. **Current position** A number of observations have been made in the course of this Project about the culture of the organisation in regards to ways of working with PMs, communication, and shared values and behaviours. Putting the PM at the heart of the business is not yet embedded throughout POL's culture, processes, and resourcing structures. Examples include: • Values and Behaviours are not yet articulated across POL (at the time of reporting). Whilst we understand there are plan in place to do this, as yet these have not been clearly articulated or agreed **(Ref G2).** Cultural initiatives and activities (described at **G2**) under the Driving Postmaster Centricity workstream have already started prior to these values being articulated. • Core policies and processes in operation across the PM lifecycle have not always considered PMs needs or had the view of a PM embedded within them. The POL strategy has previously focused on cost reduction and commercial return. We also noted a lack of cultural and soft skill training provided to key PM facing teams, such as the security team and support teams, which has not adequately equipped teams to support PMs effectively **(Ref BC12).** • In addition job descriptions, recruitment and induction processes don't currently reflect the PM centric approach or focus on how PM services needs to be built into performance objectives **(Ref BC9).** • Consistent feedback mechanisms and continuous improvement have not been in place across the organisation. Many issues have been raised to various external and internal groups over a period of years but no action has been taken or followed through as a result. This has impacted colleague motivation across POL and PMs who do not feel as though their concerns or suggestions have been listened to and taken into consideration. In addition, it is not clear to some colleagues how to make suggestions for improvements and what the appropriate mechanism is to do this. This absence of a continuous improvement culture also impacts the ability of the organisation to assess and respond to valid feedback that may be gained from those in operational roles **(Ref G7).** **Recommendations** Plans are in place to start addressing the required shift in culture throughout the organisation, and these activities **(Ref G2)** will bring POL up to date with what many organisations have been doing for some time, e.g. twinning of senior leadership to day to day operational teams, spending time in different parts of the organisation, articulating clear values etc. These will provide a baseline from which POL should continue to develop and embed the required cultural changes. Overall, the organisation needs to define its core values, behaviours and purpose in a way that can be understood by all, embedded and consistently adopted across POL's ways of working and colleague communications. The new purpose statement and plans underway as part of the culture workstream will drive improvements, but there is a long way to go to truly embed this shift in attitude. Developing detail below the purpose and continuing to communicate expectations across the business will be key. Focus needs to be on where the PMs fit into the organisation, what their critical role is and how POL teams can 'work together' to achieve strategic ambitions.

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2.4 Themes: Data and Management Information

Theme	Summary of observations and recommendations
3. Data and Management Information  *Does POL use data and MI effectively to support the achievement off strategic objectives, and the decisions in relation to better outcomes for PMs?*	**Context** Several observations and findings have been made in the course of this work about ways of working with PM and how to use management information (MI) in respect of driving decisions and the right outcomes and behaviours. **Current position** There are a number of areas where MI has been lacking across POL in respect **(1)** Overall ownership and strategy; **(2)** How data is collated and accessed; **(3)** How the data and MI is used, and by whom; **(4)** How insights are drawn and presented; and **(5)** How and where MI is being reported. Currently, a significant amount of organisational redesign is underway. Whilst the design principles and need for PM prioritisation have been considered, detail behind the overarching MI, data utilisation and optimisation strategy has not been developed. The key findings in respect of Data and MI include: • POL has a high-level data strategy but there are no detailed plans to support putting this in place or resources or funding allocated to progress this activity. As a result, this limits the ability for POL to make use of best practice in relation to data optimisation and utilisation, such as leveraging data to innovate products and services and using telemetry to enhance and improve the PM and customer experience. **(Ref G4)** • Numerous systems exist in POL, and there is no single view of a branch and all the interactions that POL has with them. This limits the ability to have a clear view of insights that can be used to enhance the PM experience. For example, it was found that the field teams can view what the central teams' action, whilst the central teams cannot view what the field teams are actioning. **(Section 2.6, Ref G4, OF3, POL IA Review: Postmaster Reporting)** • At present MI and reporting does not provide complete end to end PM insight or enable forward looking decisions to be made, nor does it show how POL's strategy is performing to ensure that POL is achieving the desired outcomes **(Ref G2, BI6)**. Where metrics exist, there are no early warning indicators or baseline metrics that exist in either the Branch Insight Tool (BIT) or in the MI available to POL management and the AMs, which limits POL's ability to take proactive measures to prevent issues or capitalise on consumer trends. **(Ref OF3, G1, BI6, POL IA Review: Postmaster Reporting)** • PMs are not provided with sufficient information to understand their remuneration. Whilst remuneration advice slips are provided, PMs are not able to assess how their trading compares to other similar branches or compare their trading results (and remuneration) with prior years. Additionally, whilst remuneration and sales reports are available on Horizon, these are not user friendly, and PMs are often not aware of these reports or how to use them. **(Ref BC4)** • POL could do more to actively support PMs to improve branch performance. Heavier emphasis is placed on the tier 1 branch network, with tier two and three branches having access to some remote support but less frequent AM contact and input. Further details of this are set out in Findings **BC4, BC5, BI6, BI7, and OF3**. PMs additionally have limited visibility of their performance data (including TCs) and do not have access to standard, automated information that will improve revenue or sales. POL also does not use the data it has available to prioritise the provision of support to improve branch performance. **Recommendations** A plan setting out further detail to deliver the data strategy should be developed (**Ref G4**). This should include the approach, priorities and requirements for funding and resources to take this forward. It is key that PMs are provided with the tools enabling them to monitor and grow their own business using MI. Whilst it is recognised that data analytics is an area where a lot of investment could be made, short term focus should be on optimising existing data to support governance forums in ensuring that the right outcomes are being met. The data strategy should be in line with an overall technology strategy **(Section 2.6)**. Potential longer-term considerations would be costly and take significant investment, such as an overarching data lake, which is supported by a reporting warehouse and MI Insights/Reporting Team or implementing a Self-Service MI Function through existing tools such as Branch Hub.

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2.5 Themes: POL and PM Communications

Theme	Summary of observations and recommendations
4. POL & PM Communications *How are PMs communicated with, and how are internal communications considered?*	**Context** Effective communication between POL and PMs is key to strengthening effective working relationships. Communication methods have been raised multiple times during this project with respect to the need to improve specific day-to-day operational communications with PMs and their effectiveness, clarity and consistency. The recent PM survey further highlighted that 62% of PMs want to see 'better communications in general', with 57% noting the importance of 'simpler communications'. Communication to date has often focused on what POL want to share or think is important, rather than what PMs need or what is important to them. **Current position** Some important improvements in day-to-day operational communications that have already taken place, with tactics and content rationalisation ensuring PMs have clearer and more accessible messages. Examples of this are at findings **BI23** and **BC29** and include areas such as updates to letters and call centre scripts to reflect more PM centric wording. At the strategic level, there have been attempts to communicate 'the why', listen to PM feedback, expand the conversation on different channels, and better target messages **(G6).**. There is now a clear effort in ensuring communications to PMs are more useful and tailored to PMs Despite these improvements, this Project identified several key areas where further work is needed, including: • Development of an overarching communications framework, including a documented, scoped and planned project to improve the communications between PMs and POL, setting out clearer distinctions and accountabilities between operational and strategic communications. • The proliferation of new ways of communicating to PMs (e.g. new channels such as use of WhatsApp) – perhaps in response to the difficulties of targeting this audience, the current approach risks confusion, incoherent messages, and insufficient POL control on the information going to PMs. Careful consideration should be applied here. • The need for a formal processes to ensure that the contents of this strategy (e.g. key messages or vital PM-centric information) is disseminated to the people and functions (AMs and Contact Centre, for example) that have the most touchpoints with PMs. As well as these overarching themes, there are several specific findings that touch on PM communications e.g., **BC20, BC3 and ONS 80.** **Recommendations** Overall, we recommend implementing and coordinating a strategic communications framework for PM engagement to cement the planned activities and formalise the work already being done – this should be resourced appropriately to allow effective delivery. Recommendations are set out in the detailed findings section for the specific day-to-day communications issues noted.

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2.6 Themes: Systems and Technology

Theme	Summary of observations and recommendations
5. Systems and Technology  *Does the IT infrastructure support a single view of PMs and support them in running their businesses?*	**Context** Across POL there is currently no centralised enterprise technology strategy and no vision overall for the target desired technology landscape. There has been historic under-investment in technology (particularly to support PMs) which has resulted in a disparate and disjointed system landscape. The most recent PM survey shows that a desire to 'simplify/improve horizon' is the 2nd highest priority area for PMs, with 71% of them flagging this as an issue. **Current Position** There are numerous different systems in use for processing and recording interactions with PMs, as set out in the diagram shown in Appendix G. Multiple systems are in use by different teams, and a combination of these systems are required to paint a holistic view of a PM at any one time. This results in a siloed approach to working and the provision of disjointed support to Postmasters, with customer support teams not having visibility of previous issues / or queries raised. The systems in use often do not 'speak' to each other, so there is potential duplication, and effort spent on aligning information or entering data. Systems are very limited in terms of a two-way flow of data (**Ref G1**). Some systems are old and do not contain the level of functionality required for day-to-day tasks, which leads to slower processing, limited use of systems and teams using workarounds to enable them to access and utilise data e.g., Galaxy. There has been a lack of investment in Supply Chain technology, which has contributed to several issues for PMs and has not enabled them to be able to effectively manage cash and stock, for instance. **Recommendations** There are specific recommendations for individual findings in the detailed findings sections 4-9. However, there are thematic recommendations for POL to consider which are longer term to optimise the systems and technology landscape. Specifically, there is a need to develop an overarching and enterprise-wide forward technology strategy, setting out a vision for each component of technology estate required to support operating processes and an overall timetable for key changes required to more away from legacy infrastructure. As part of this strategy there should be a clear view, developed in conjunction with the rest of the business, on critical elements including: • Clarity on standard operating procedures and processes which should be supported by technology. • Is a single customer view the goal? What is the optimal way to achieve this? • How can POL systems provide a branch with all the details needed to provide the support in one place: such as cash and stock management requirements, transaction data, onboarding processes, and transaction corrections? • What information would be self service for PMs? How does this link to PM requirements/capability/ training? • The extent to which POL continues to rely on 3rd parties vs development internal capability for systems changes and upgrades. *(Note: wider specific Horizon related IT improvements as a result of the HIJ are being taken forward as part of the work being undertaken by KPMG. Findings and recommendations here are consistent with that activity but do not seek to replicate the detail of that work).*

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2.7 Cash and Products

Theme	Summary of observations and recommendations
6. Cash and Products *What processes are in place to support PMs in safely managing cash and providing daily product offerings?*	**Context** This theme summarises the high priority findings noted around cash and product management, each of which could lead to PM detriment and collectively comprise a thematic area where significant improvement is required. Overall, 65% of PMs report day-to-day systems, processes and products (including cash management) as priority areas for improvement, as per the PM Consultation Survey 2020/2021. Currently, processes around cash management require heavy manual involvement, which is inefficient and leads to cash handling risks. Furthermore, transaction disputes remain an area of concern, with further clarity required around POL's strategy in this area (particularly in relation to investing in systems and products that reduce the risk of disputes occurring) and additional assurance needed to ensure any historic detriments are managed effectively. **Current position** There are a number of areas where we have raised observations, including: • Cash forecasting remains heavily manual, with an excel spreadsheet used by teams. Additionally, cash counting devices are not consistently used across the network, which leaves PMs vulnerable to cash counting errors. Whilst it may not be financially expedient to provide all PMs with cash counting devices, further consideration is required around the provision of such devices across the network given their importance in mitigating errors. **(Ref BC22)** • Transaction disputes continue to be an area of concern, with no consistent procedures in place. This risk is particularly high around ATM transaction corrections, with aged machines and reliance on Bank of Ireland's data leaving PMs vulnerable to financial detriment. **(Ref BI1)** • Key products operated by PMs daily are cumbersome and require heavy manual input, most notably ATM and Lottery products. **(Ref BC6)** **Recommendations** Detailed recommendations are set out in Section 4-9 of the report. Overall, POL should consider enhancing its processes for cash forecasting, as well as use of good practice equipment and procedures in order to ensure processes in this area are robust and meet the requirements and challenges of PMs. Aligned with this, POL's 'historical matters' should continue to be the subject of scrutiny, with an assurance review required to ensure PMs are compensated for any historical detriment in a fair and transparent manner. Additionally, key products used by PMs must be intuitive, simple to use, integrated within Horizon (in so far as is possible) and support robust financial controls to support and protect PMs. Central to the challenge of addressing these known product issues (particularly ATMs and Lottery) has been a lack of organisational clarity around who is responsible for addressing product issues, which has been coupled with an under-investment in long-term solutions. ATMs provide a good example, with some PMs not having access to cash counting devices and counting cash in their ATMs manually. The risk of manual cash counting error this results in is amplified by POL providing PMs with insufficient support in managing Bank of Ireland discrepancy claims, which leads to an increased risk of PM detriment. Organisational design review activities intend to make this clearer, by placing end-to-end responsibility for all product customer journeys with the product teams, who will be equipped with the authority and accountability to resolve product issues. The key challenge for management will be supporting product owners (and holding them to account) in working with the business to ensure optimisation from a PM perspective, rather than solely in support of POL cost drivers. Additional challenges are presented by contractual relationships with 3rd parties vis-à-vis products, which will require robust commercial and contract management.

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2.8 PM Obligations and Dispute Resolution

Theme	Summary of observations and recommendation

7. PM Obligations and Dispute Resolution
 	
Are the processes and practices in POL ensuring fair and transparent treatment for PMs?
	Context
	This theme summarises several of the urgent and high priority findings identified around PM obligations and dispute resolution, noting that clarity in PM obligations – together with the dispute resolution process – has been a historic area of weakness for POL (as referenced in CIJ).
	
	Current position
	The key findings in relation to this theme are summarised as follows:
	
	• There is a large degree of complexity in the number of PM contracts in place. Following the CIJ this has been reduced, but there are still a large number (c30+) of variants that can be used. PMs and AMs have inconsistent understanding and knowledge of such contracts due to their complexity and varied contractual obligations, which at times results in the non-enforcement of contractual terms. There has also been a reduced desire to enforce such terms following the GLO. This has resulted in a significant downturn in suspensions and terminations, with four suspensions and zero terminations in FY20/21 compared with 70 in FY19/20. An example was given by an AM whereby a PM was unaware that operating a MyHermes alongside a Post Office is a breach of contractual obligation **(Ref BI7)**.
	
	• The appeals and dispute process regarding contract terminations or suspension is still being developed. Work remains to be done to establish an independent party's involvement in the investigations (and decision-making processes) for both POL and PMs regarding terminations. It was noted that there is a contractual appeals policy in place for legacy contracts, which is documented; however, for Locals and Mains contracts, the right of appeal was taken out. Work is underway to address this gap. **(Ref OF1 & OF2)**
	
	• The process for handling complaints and dealing with queries or issues raised by PMs has not been clearly defined**,** nor have appropriate guidelines been developed and made available to PMs, to help ensure that they are aware of the assistance available to them. Additionally, clear SLAs for issue resolution activities have not been set, to enable monitoring and help to identify and address any emerging areas for improvement. **(Ref BI4, BI5 & BI7)**
	
	• Three instances have also been identified where issues have been noted with the accounting reconciliation processes, which are highlighted below:
	  o Maintained error limits – Where there is a difference in a POL settlement account for a branch affecting process (for example ATM or Lottery) of specific amounts rather than issue a transaction correction which would move the difference to a Postmaster's branch account, the amount is instead 'written off' to a POL P&L account. These differences could result in a write off being a cost or a benefit to the PM. **(Ref BI1)**
	  o Settle centrally - Currently PMs can only 'Settle Centrally' for amounts of > £150 and any amount less than this currently needs to be 'made good' each month by either cash or cheque by the PM **(Ref BI2)**
	  o ATMs - Procedures in place to manage ATM transaction disputes, raised by customers through Bank of Ireland (BoI), who are the Link member currently managing the POL ATM network, are not effective. **(Ref BI3)**
	
	Recommendations
	Recommendations with regards to specific findings are made in the detailed finding section of the report. In summary, there is a need to create a clear framework for contracts, including a schedule of obligations to the contracts. Additionally, policies and procedures need to be drafted, communicated and trained on in relation to appeals, dispute escalation, and accounting reconciliation processes. Furthermore, in relation to the accounting reconciliation, processes, systems and controls need to be reconsidered in line with the revised practices **(Ref BI1, BI2, BI3, OF1, OF2).**

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2.9 Roles and Responsibilities and Organisational Design

Theme	Summary of observations and recommendations
8. Roles and Responsibilities and Organisational Design  *Are POLs organisational structures and teams' roles and responsibilities conducive to supporting the right outcomes for PMs?*	**Context** In order to put the PM at the heart of the business, the organisational structure and the POL teams' roles and responsibilities needs to be reflective of this PM centric goal. This work has highlighted the complexity of the current POL organisation and an overall lack of clarity between teams on roles and responsibilities, which undermines POL's ability to apply a cohesive approach across the PM journey. The organisation redesign work in progress seeks to remediate this, but there will need to be high clarity in order for the changes to be successfully embedded across the organisation and drive tangible improvements. (**Ref G5**). **Current Position** Throughout the course of our work, we noted several findings that highlight a lack of clarity over roles and responsibilities, which could have a detrimental impact on PMs. Overall, sentiment has indicated a need to simplify the organisational structure to support POLs future strategic ambitions and goals. • AMs spoken to over the course of the Project had different views on their core roles and responsibilities. For example, one AM considered themselves to be the conduit between the PM and POL from a perspective of facilitating conversations between the parties, while another stated that helping PMs grow and manage their business effectively was their core responsibility. **(Ref BI8)** • To reduce organisational complexity, all PM support teams have recently been brought together under the Retail & Franchise Network Director. However, interviews with support team members indicated that the roles and responsibilities of the teams are still unclear. Agreement of the field and support centre teams roles and responsibilities is required between functional heads. • Due to numerous organisation shifts over the recent years, there have been many name changes to the support function roles resulting in confusion amongst both PMs and POL over who is the correct team to contact. For example, the Cash Management team was recently renamed as the Inventory Management team, but due to a poor communication programme PMs were not adequately aware of this change and have thus not been willing to engage with outbound calls from this team. Similarly and the Network Provision Lead 'NPL' has changed names up to five times in the last five years. Whilst their role has had minimal change, but this has led to confusion from other teams. **(Ref BC10)** • As set out in the governance theme, there has been no overarching mechanism or forum in place with the specified role and responsibility for reviewing POL performance in providing services to PMs **(See section 2.2).** **Recommendations** Organisational redesign is in progress, and good improvement has been made to date, with the aim of simplifying the organisational structure to support the desire to put at the heart of the business. To date, reorganisation to the GE-1 level has been rolled out, with the second tranche of changes announced on the 3rd March 2021. As an example of the changes made, product owners (ATM, Lottery etc.) will now be responsible for the end-to-end processes for their product, including any historic issues and/or future activities. This clarity in accountability is crucial as it has been a critical issue previously. However, the changes will be challenging to the individuals directly involved, so there is a clear need for the change to be clearly communicated, understood and for consultation to be undertaken on capacity and knowledge issues, particularly in respect to historical matters, to ensure that the issues can be addressed effectively. The organisational redesign process will help to ensure roles and responsibilities are clear as there will be a focus on PMs specifically for those teams who are directly PM serving below GE-1. However, further work is needed in ensuring the roles and responsibilities of the support teams and field teams are clearly documented and communicated to the PMs as well as the wider business; following this, POL should reassess and consider whether the support levels are sufficient to support the desired op model and outcomes (**G5**). Detailed recommendations can be found within section 5-9.

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2.10 Proactive Support to Postmasters

Theme	Summary of observations and recommendations
9. Proactive Support to PMs  *How does POL provide proactive support to Postmaster in relation to Branch Growth, Postmaster Training and Upskilling, and on-going customer support?*	**Context** Part of the move towards putting PMs at the heart of the business should be around POL providing more proactive support to PMs to improve their branch performance - for example, supporting them in increasing sales of certain products, or improving elements of their customer service. With access to information on transactions and sales across a branch network of 11,500 branches, there is a huge potential to use this information to identify suggestions and improvements to support individual branches. This has the potential to have a significant positive impact on both PMs and POL. **Current position** At present, however, as set out in the detailed findings sections, there are several observations that demonstrate support levels are not consistent, or delivered in a way to maximise impact: • Despite the improvements in the last 18 months to the on boarding training process, PM training is still primarily focussed on products and common transactions with limited direct PM training around areas such as how to grow or improve business performance only provided to a limited number of branches. **(Ref ON5)** • The Branch Insight Tool (BIT) pulls together all the back-office information on a branch and compiles it for ease of use by AMs. PMs do not have access to this tool and as such must request any information directly from the AM. Due to limited AM capacity, MI is usually only shared when they visit PMs, and therefore since Tier 3 branches are visited much less frequently (every 6 months) when compared to the tier 1 and tier 2 branches, there is less opportunity for them to receive relevant insight data. **(Ref BC4, BC5, BI8)** • To date, there is no self-service function for PMs to access their branch MI, and as a result all MI must be requested directly through the AMs. This limits the ability of a PM to easily make informed decisions to grow their business and thus limits POL's ability to meet strategic objectives. **(See Section 2.4)** • While AM job descriptions include a focus on supporting PMs to grow their business, the approach taken by AMs differs significantly. Of the AMs spoken to, not all were aware of this wider role but were focussed only on query and issue resolution. **(Ref BI8)** It is also understood that in relation to training there are a number of improvements underway, and consideration of delivery methods is in progress to make training as flexible and innovative as possible **(ON27).** **Recommendations** Recommendations with regards to specific findings are made in the detailed finding section of the report. In summary, POL should provide more consistent proactive support to their PMs to support them in building their businesses. This would include better access, utilisation and sharing of insights and MI **(See Section 2.4).** Additionally, further training for PMs is needed which should be targeted to what would be the most valuable to them based on their input and feedback. Both points in relation to MI and training were incorporated into the hothousing programme which significantly grew branches and it is therefore recommended that the hothousing programme is restarted. Such proactive support in areas as diverse as customer services, managing teams, sales and marketing is typically seen in wider retail/franchise businesses and therefore could be positively leveraged in POL too.

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Roadmap

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3.1 Prioritised Roadmap

Introduction to the Roadmap

The following pages set out our suggested roadmap for the implementation of the recommended actions identified. The roadmap sets out groups of activities against different topic areas, which focus on questions about the Postmaster Journey from the PM and POL perspective as set out in the table on the right.

The required actions to address the recommendations made in this report have been organised into three 'lanes' to indicate the time period in which we believe the action should be completed. We have 59 findings, with recommendations relating to each divided into the following categories: :

- **ASAP -** To be implemented as soon as possible, with completion by May 2021. Ahead of the submission of evidence for the inquiry[1].
- **Short Term -** To be implemented in the near future, after the ASAP improvements, by August 2021. Before the expected release date of the Inquiry[1] report.
- **Medium Term -** To be implemented over the course of FY21/22, with completion reached before March 2022.

Where recommendations are by their nature more complex and require a longer-term action, we have used an arrow box to indicate that they will remain a work in progress beyond March 2022.

There are several findings that need to be addressed over a longer time scale. These include some of the low priority findings that are not expected to commence until the end of the roadmap activity as well as longer term improvements, such as the move away from the Horizon system and the implementation of a full IT and data strategy, which will continue beyond this period. Relevant 'owners' have been identified for each action, and group of actions, on the following basis:

- **Accountable Owner –** the individual (at GE level for Governance findings and GE-1 level for all others) with responsibility for ensuring that the action is completed.
- **Responsible Owner –** the individual who has functional responsibility for developing the solution and completing the action.

For each action, or set of actions, we have included a single accountable owner to ensure that there is clarity, even when activities may straddle more than one Business area. Having this single accountable owner is key to ensuring that the set of recommendations is addressed fully and to avoid issues 'falling between the cracks.'

Ref.	PM focussed questions
A.	Do I understand my role, responsibilities and how to run my Post Office (PO)?
B.	Do I have the appropriate technology I need to run my PO effectively?
C.	Do I regularly have the information I need to run my PO effectively and is the appropriate tone used in communicating this?
D.	Do I feel POL supports me to adequately run my PO?
E.	If I have an issue, am I clear who to contact and am I confident it will be resolved?
F.	When I stop being a PM, how do I end my relationship with POL?
Ref.	**POL focussed questions**
G.	How do we ensure that all of our people put PMs at the heart of our decision making and that they are supported to do this?
H.	How do we ensure that we are delivering satisfactorily for PMs?
I.	At POL, is technology used effectively to support our interactions with PMs?
J.	At POL, are we set up to support PMs in the most effective way?

This roadmap has been developed to prioritise urgent and high-risk areas of activity around PM detriment. **This work did not take into account cost or resourcing implications and POL will need to consider these further in finalising implementation plans**. Meeting the timescales suggested will require investment and focus of the organisation both in the short term e.g., through the shifting of resources to urgent and high priority areas, and over a sustained period to genuinely drive change, particularly given that some elements of this, particularly shifting culture and addressing the technology debt, will take time.

Our Recommended actions - The Roadmap includes recommended actions that have been identified by us as sensible ways to address the issue identified in the relevant finding. We recognise that when assessing the actions, Post Office Limited (POL) may identify an alternative approach to address the issue, to a similar or better level, and is within the spirit of the action identified by us – which is fine and to be expected in some instances.

Guide to the roadmap - the roadmap combines recommendations from multiple findings to address specific themes. Each box groups a cluster of actions that logically sit together and the position of the box indicates the period when the recommended action is expected to be completed. The circles provide an estimate of progress to date and the overall accountable owner for the activity within the box is show in the top right.

[1] Post Office Horizon IT Inquiry to establish a clear account of the implementation and failings of Horizon over its lifetime

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3.1 Prioritised Roadmap (continued)

PM questions

	ASAP – next 12 weeks (End May 2021)	Short term – following 12 weeks (End August 2021)	Medium term – FY2122 end (End March 2022)
	Inquiry evidence submission	Inquiry report	FY 21/22 End
A. As a Postmaster, do I understand my role, responsibilities and how to run my PO?	**On-boarding and early days improvements** — Tracy Marshall ON1: Clearly define overall on-boarding journey and timelines. ON4: Ensure that all PM feedback relating to on-boarding and training is captured centrally to enable effective analysis, investigation and review.	**PM training** — Tracy Marshall ON5: Broaden the current training programme for new PMs to cover the practical aspects of running a branch. Tracy Marshall **On-boarding process improvements** ON7: Increase f2f meetings during on-boarding and offer introductory video calls to new PMs. ON8: Bring Suitability Assessments forwards.	
B. Do I have the appropriate technology I need to run my PO effectively?	**Develop and implement Technology Strategy** — Jeff Smyth G1: POL should develop an overarching and enterprise wide forward technology strategy –which sets out a vision for each component of technology estate and overall timetable for key changes required to move away from legacy infrastructure. **Tactical Horizon Improvements** — Simon Oldnall for IT system update BC3: Upgrade MemoView functionality in Horizon – (HIJ). **Using Branch Hub to provide information to PMs** — Nick Beal BC4: PMs to be provided with sufficiently clear information to enable them to confirm that remuneration is correct. Controls over remuneration to be assessed by IA.		**Access to security equipment** — Tim Perkins BC17: Implement a process that enables PMs in lower risk level branches to request and receive additional security equipment.
C. Do I regularly have the information I need to run my PO effectively and is the appropriate tone used in communicating this?	**Develop and implement PM Communications Framework** — Richard Taylor G6: A strategic communications plan for PM engagement should be developed.	**Clarity & Comms around support roles R&R** — Tim Perkins BC18: Provide clear structure of support teams responsibilities, ensuring consistent training and communications on their roles. BC20: Review the communication approach for PMs and assess what forums are best suited to meeting PMs support needs. **Inventory Team Ways of Working** — Russell Hancock BC19: Continue deploying actions identified in the improvement plan, in order to ensure PMs receive appropriate support around cash provision.	**Training development for PMs** — Tracy Marshall ON11: Introduce mandatory refresher training for PMs

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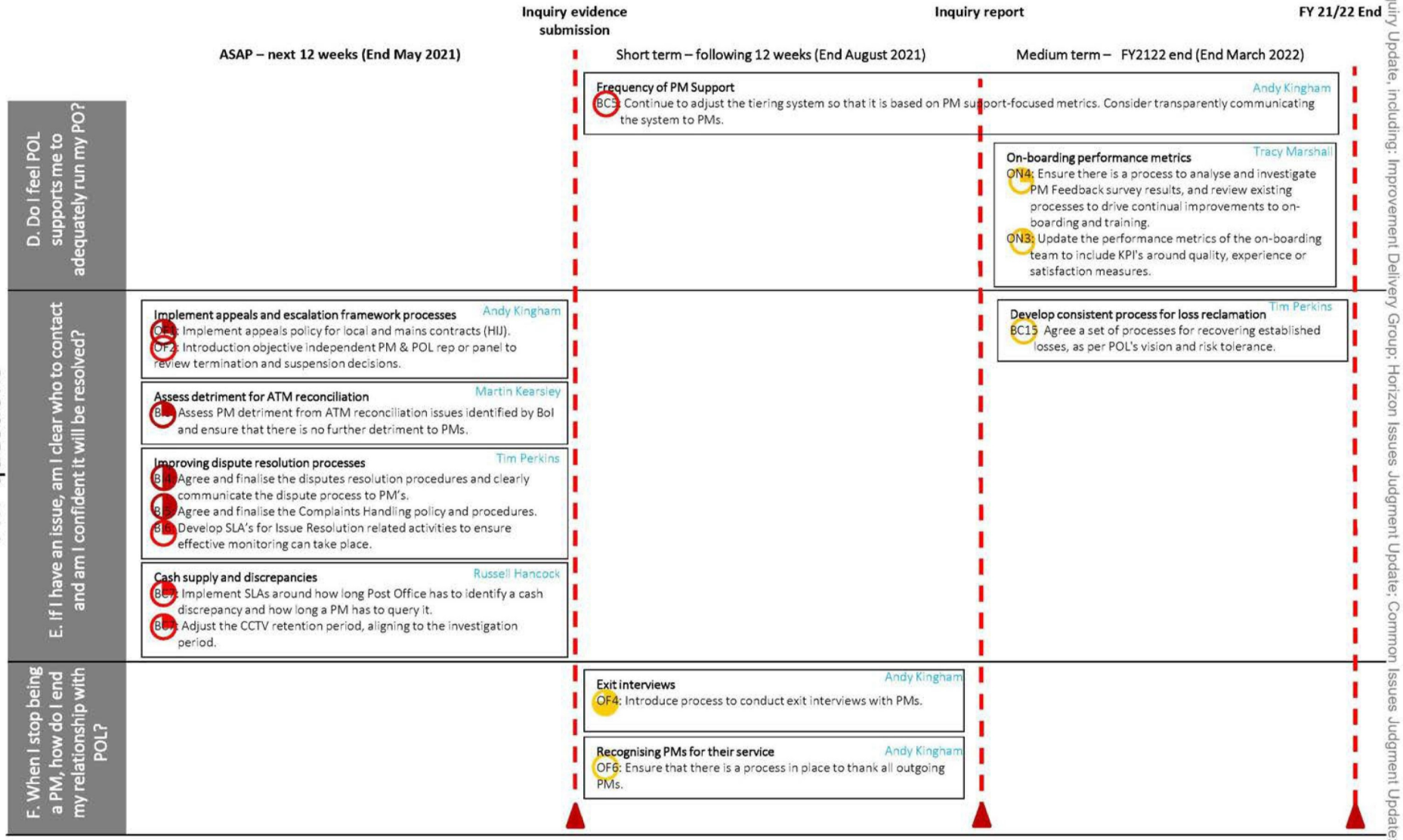
3.1 Prioritised Roadmap (continued)



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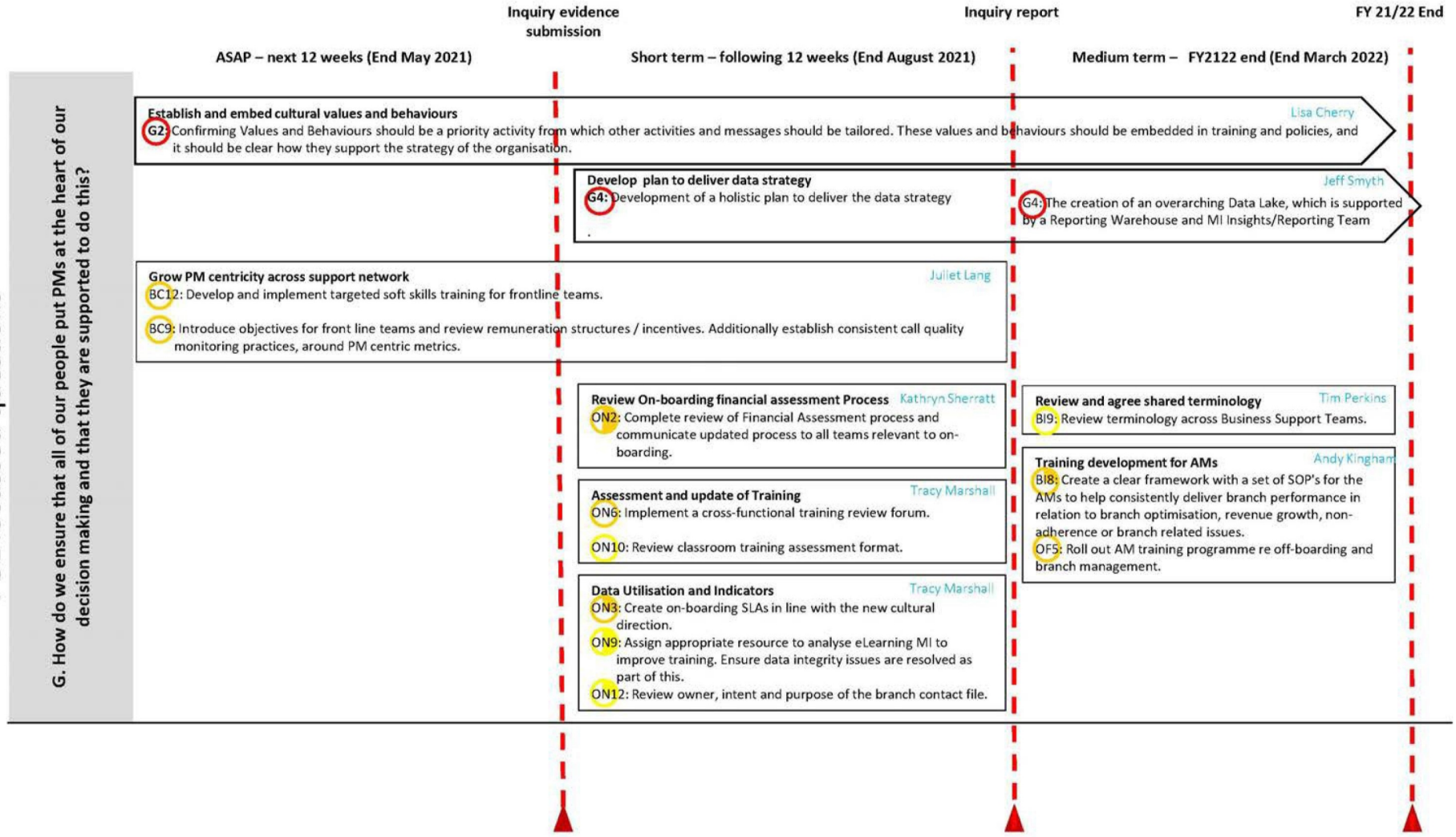

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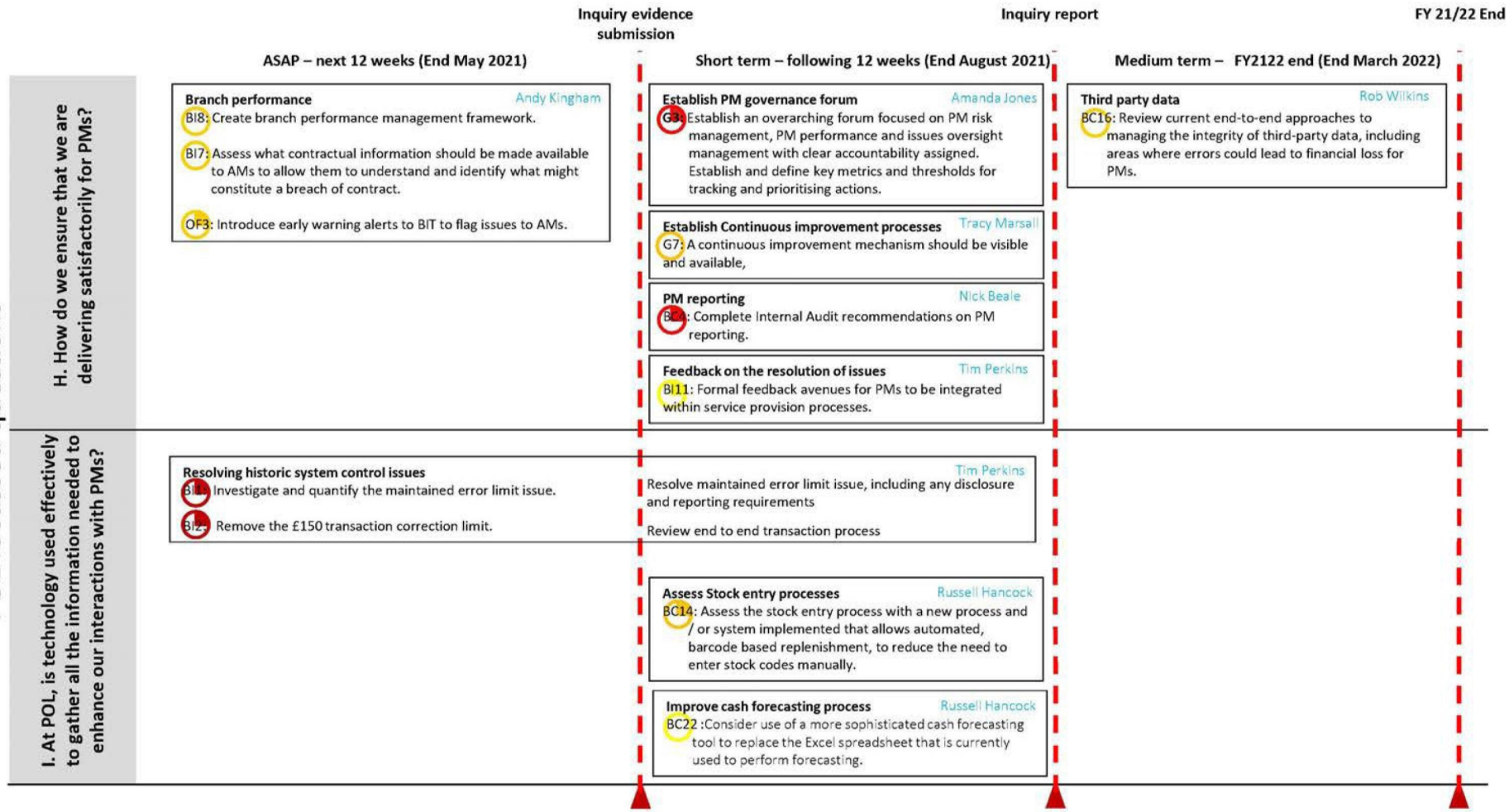

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Tab 3 Public Inquiry Update, including: Improvement Delivery Group; Horizon Issues Judgment Update; Common Issues Judgment Update; Postmaster J
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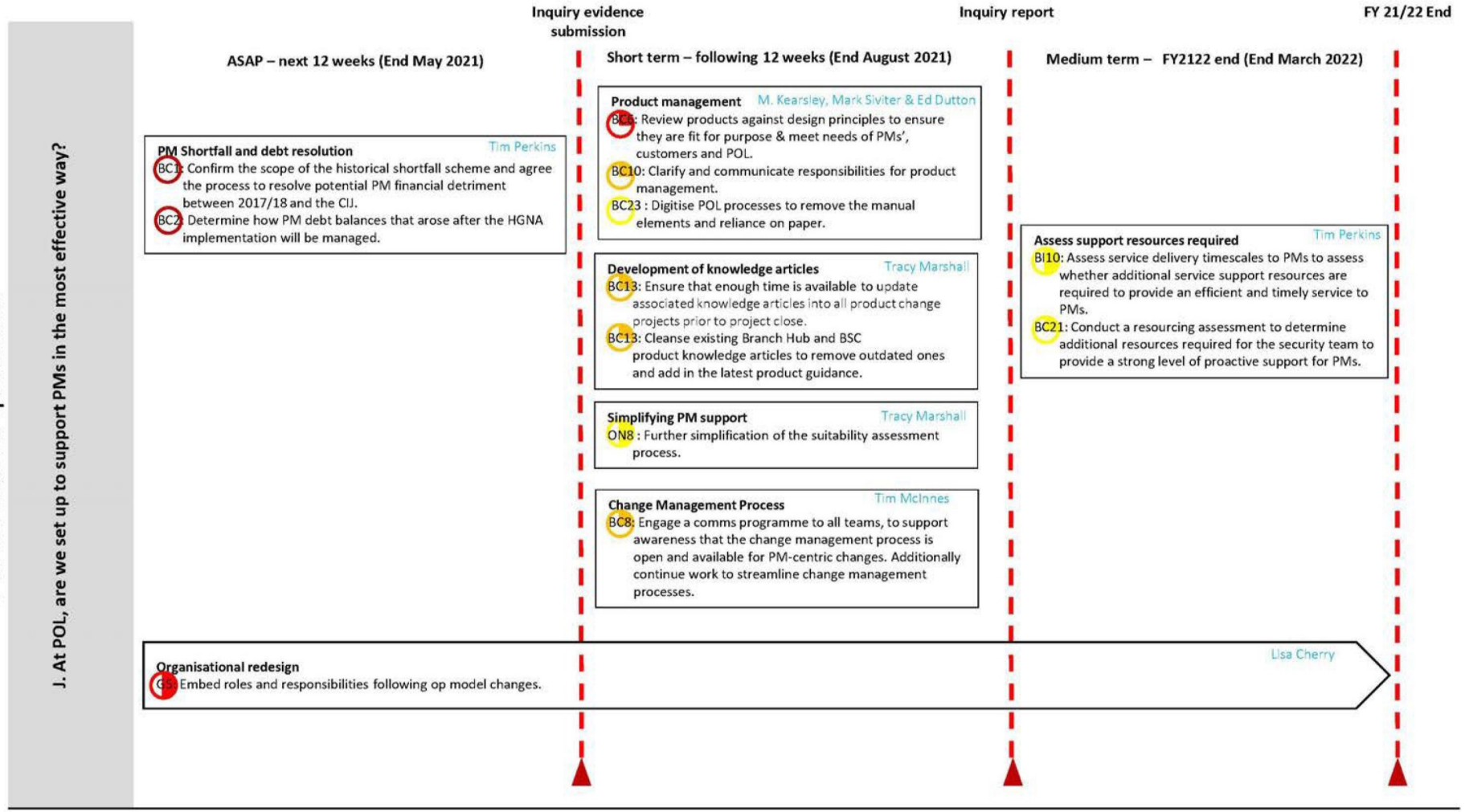
3.1 Prioritised Roadmap (continued)



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Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below. The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that may exist or all improvements that might be made. Any recommendations made for improvements should be assessed by you for their full impact before they are implemented.

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Deloitte LLP

London

March 2021

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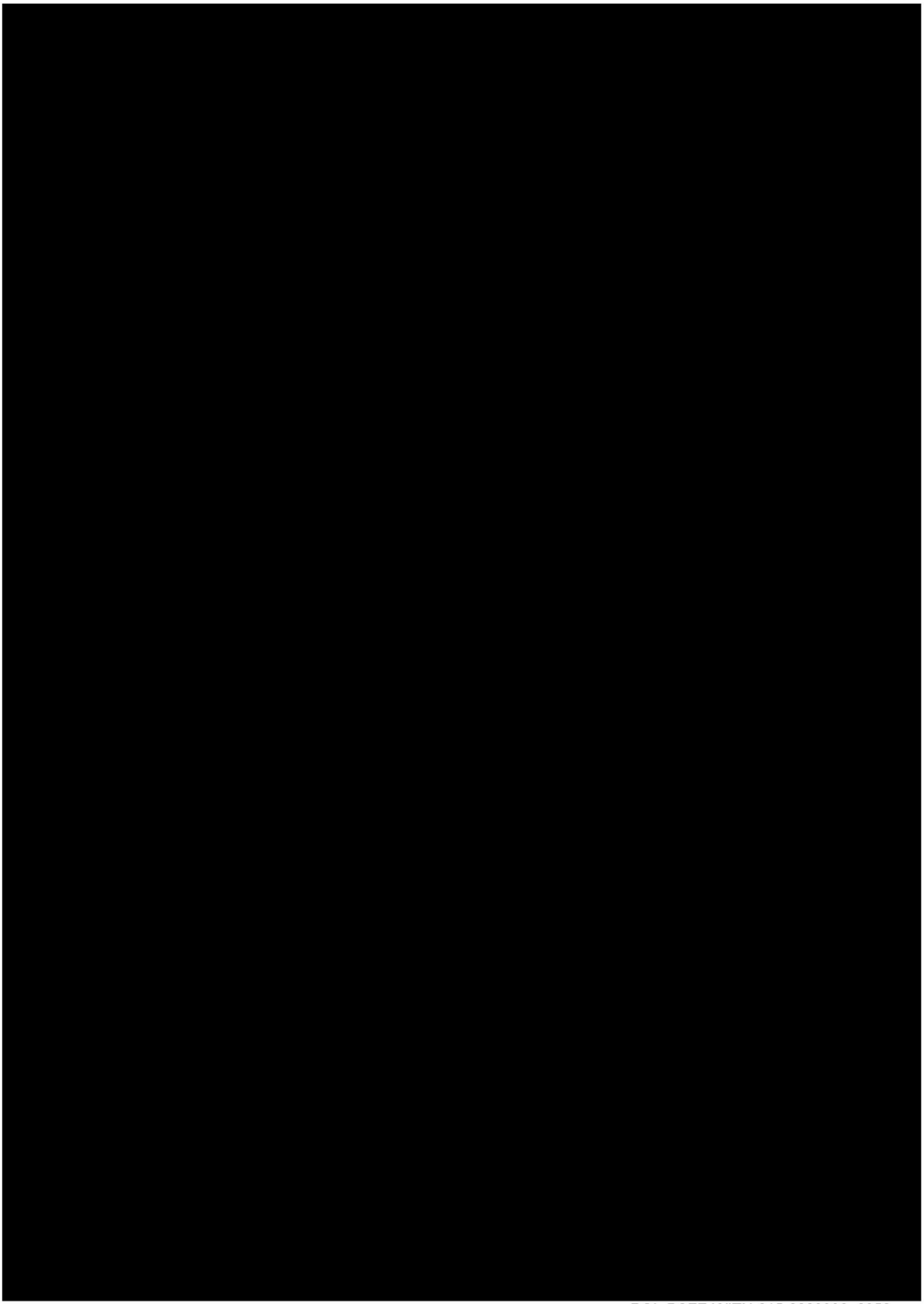

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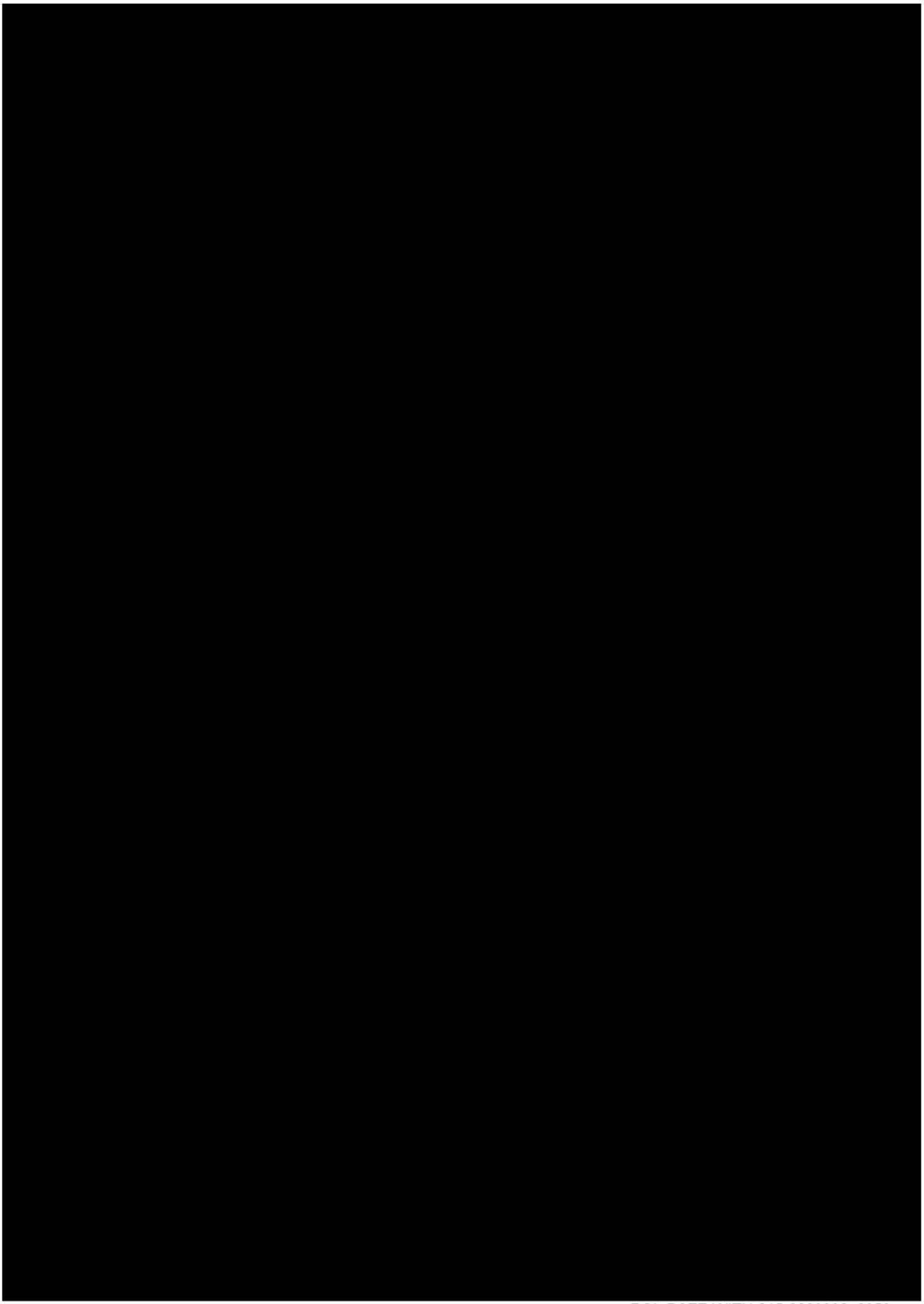

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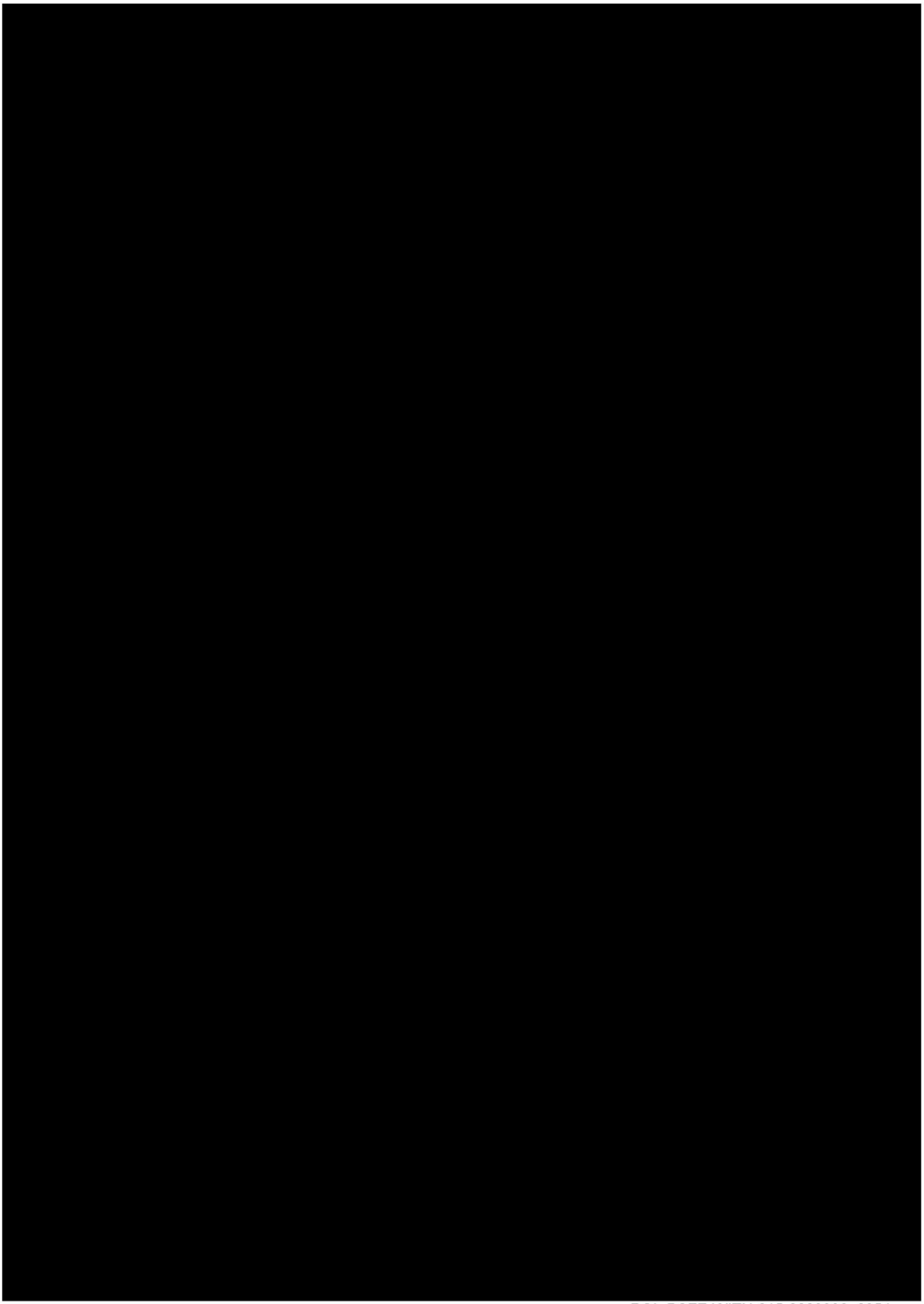

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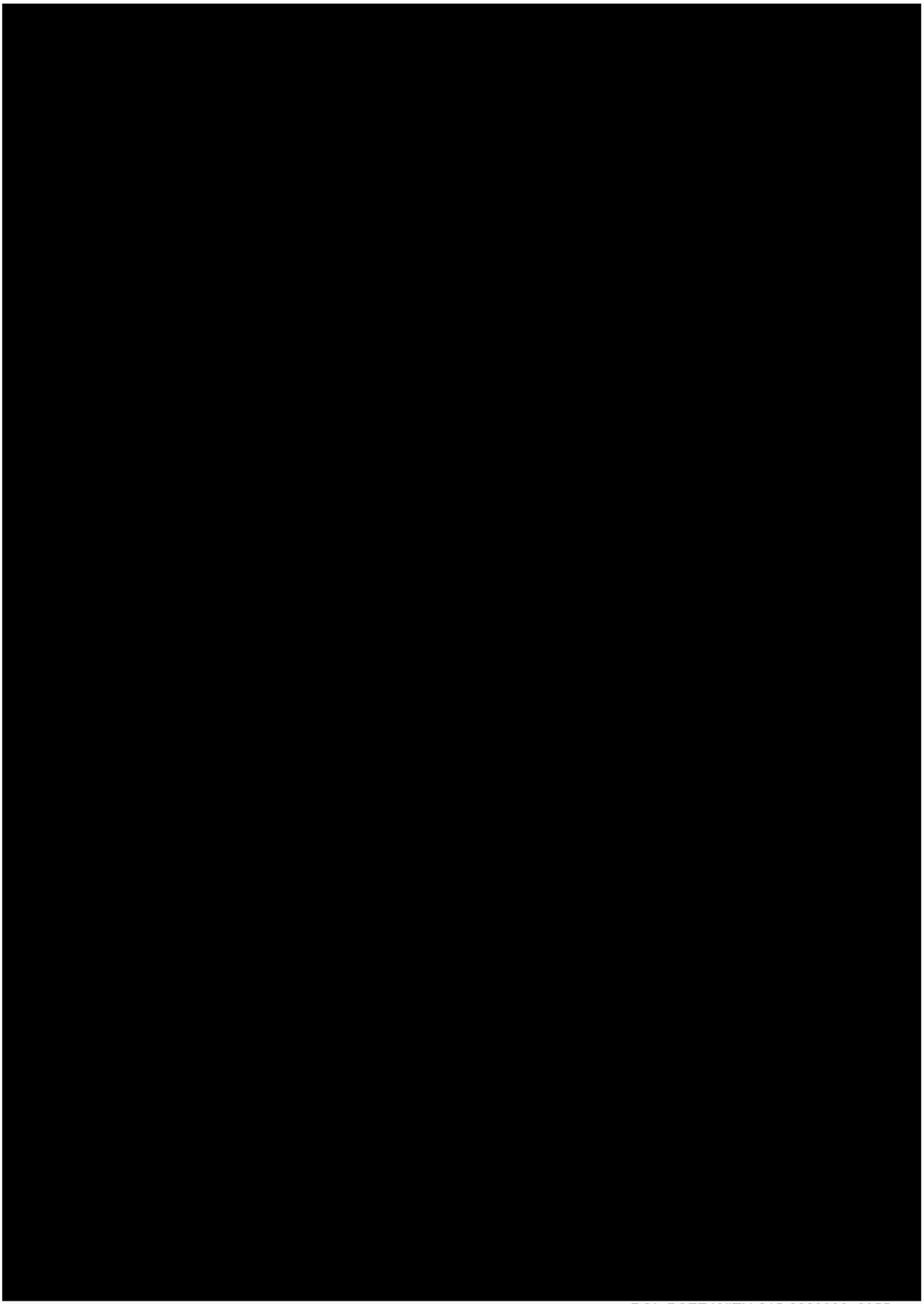

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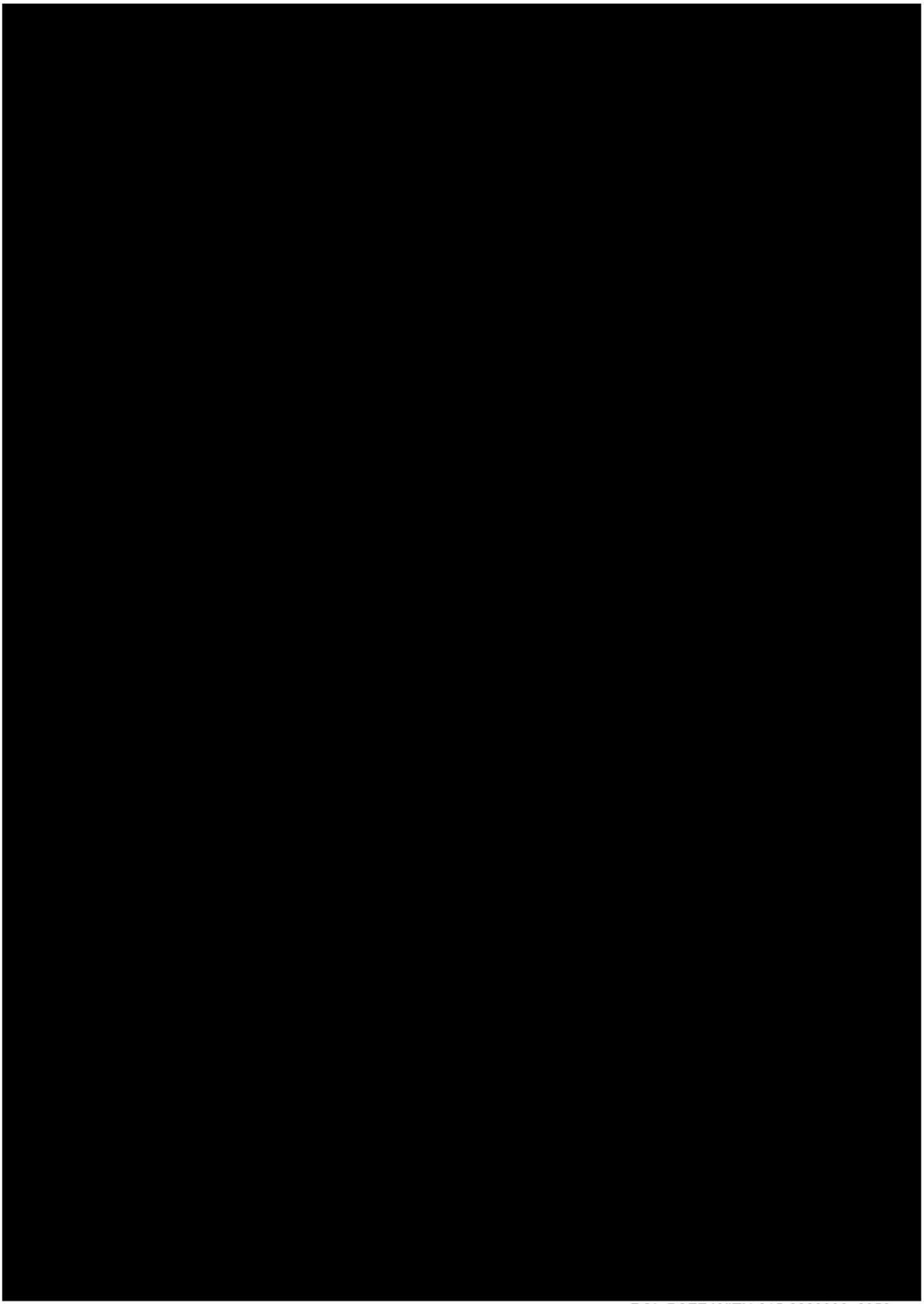

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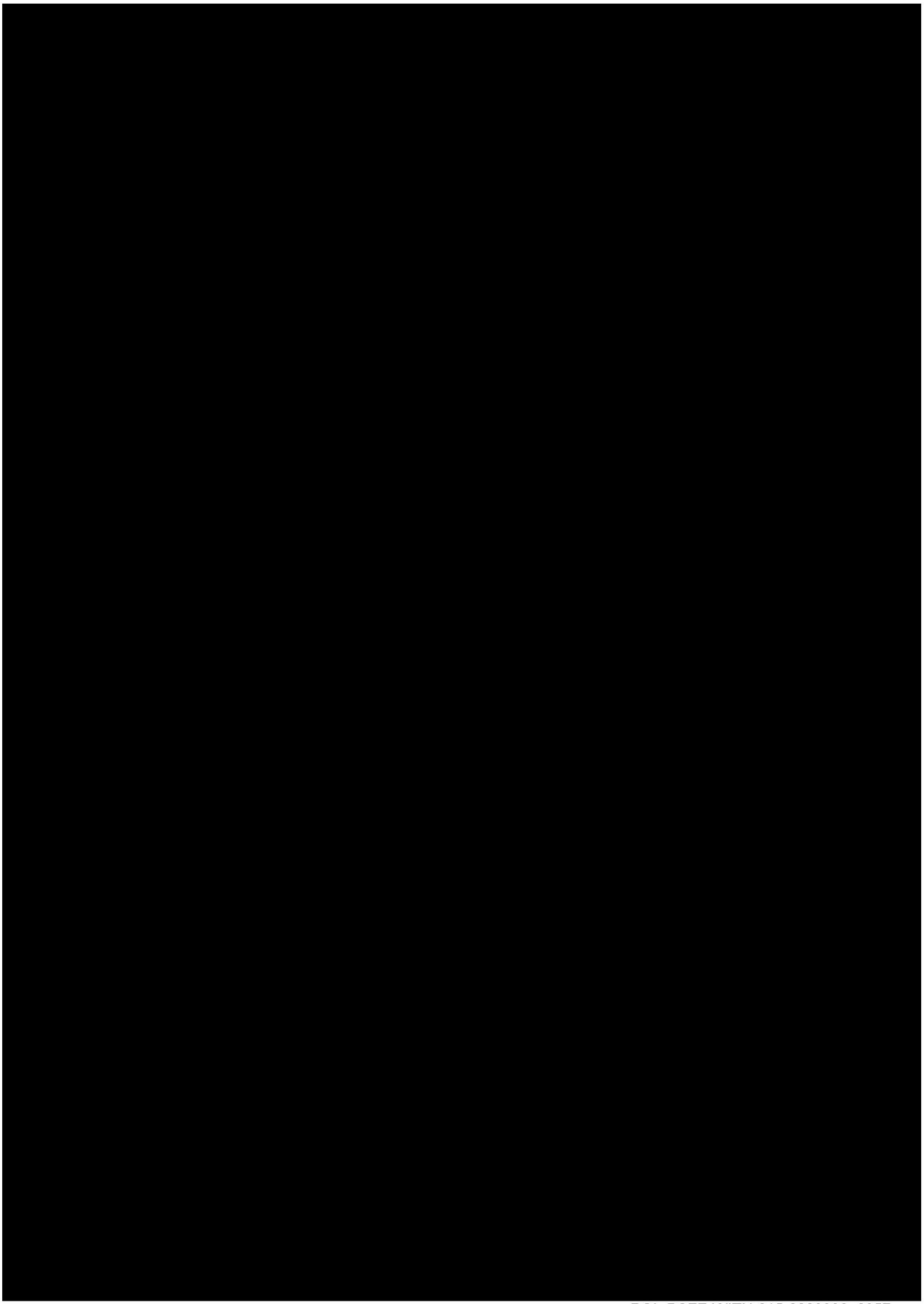

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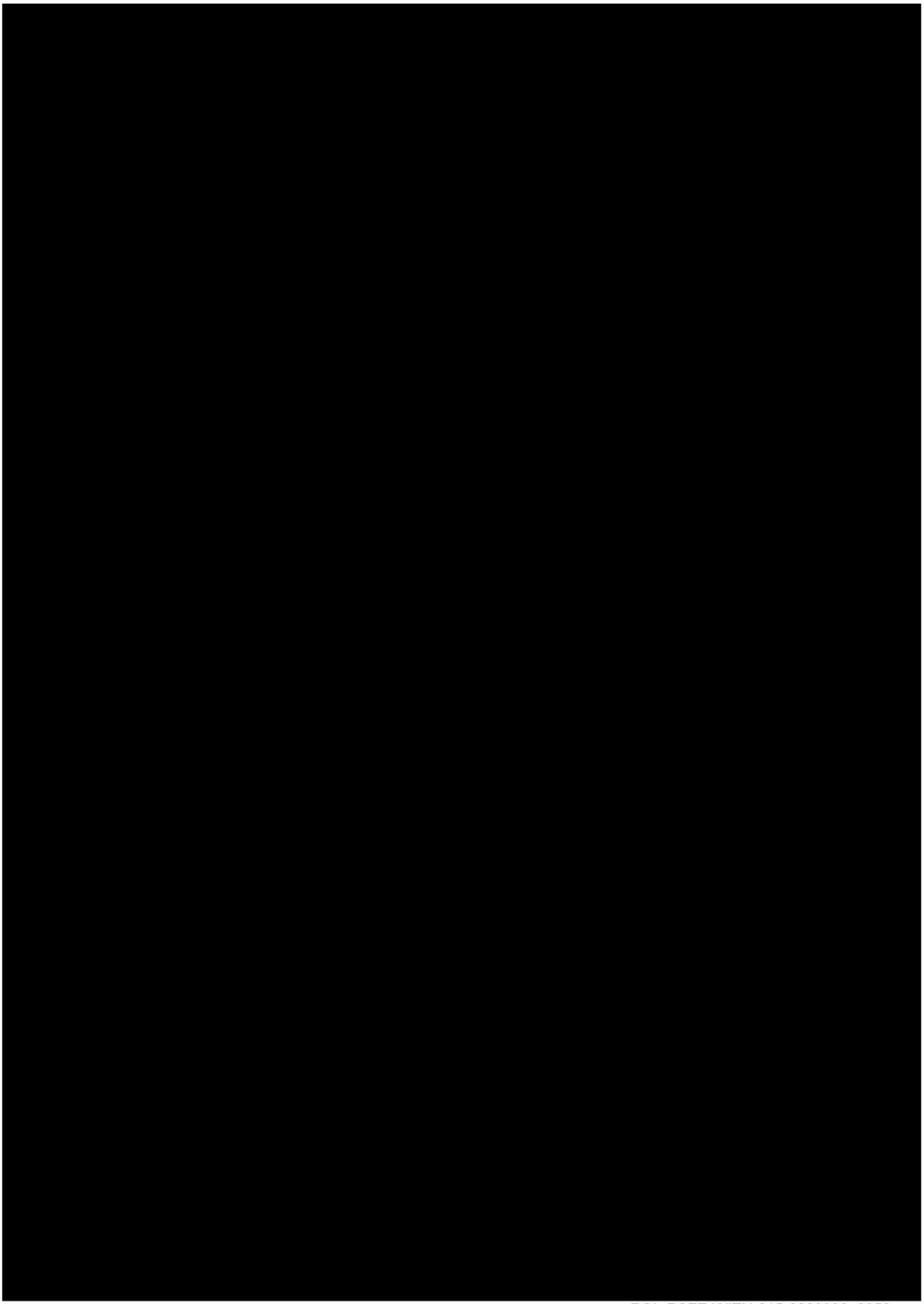

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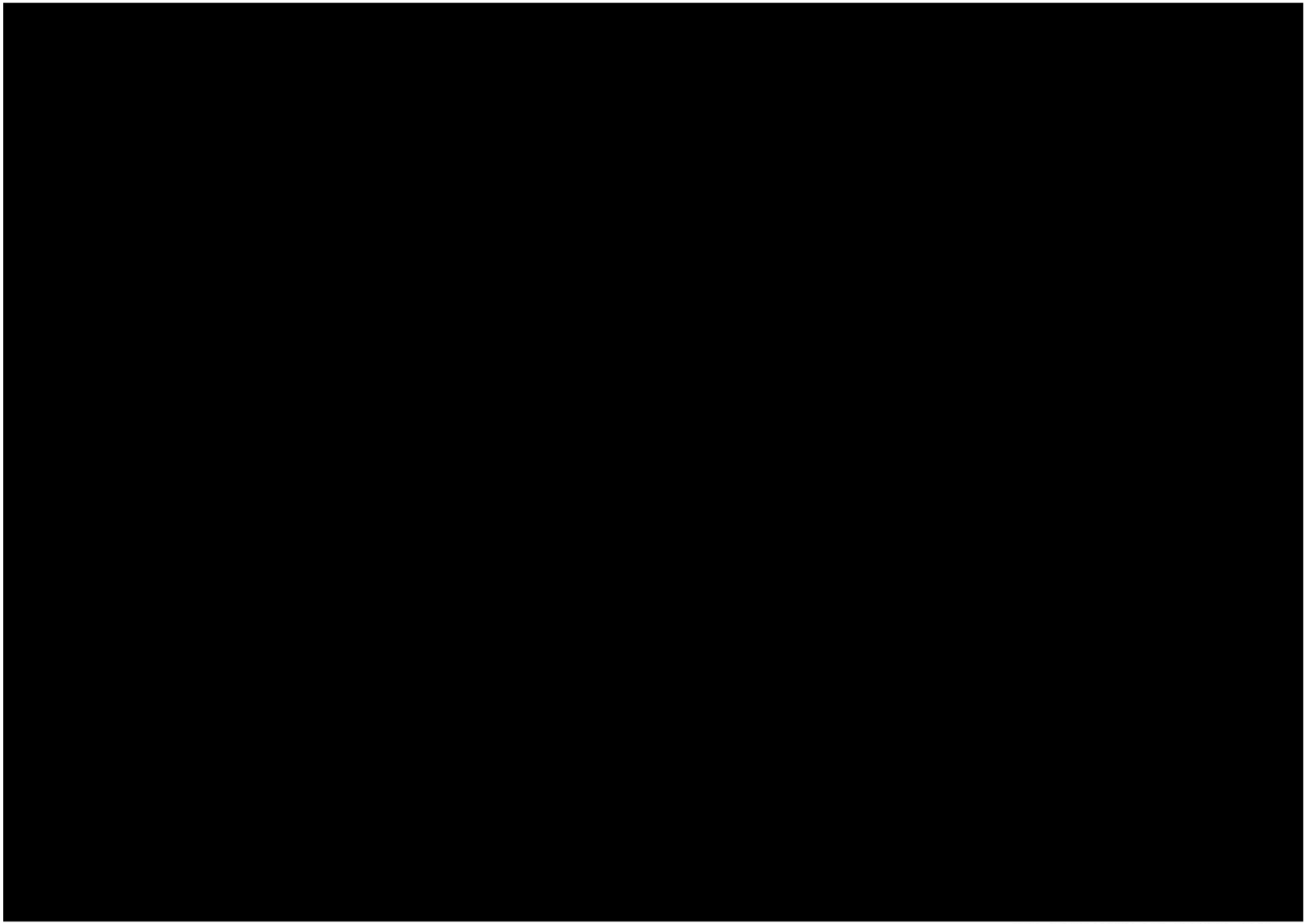

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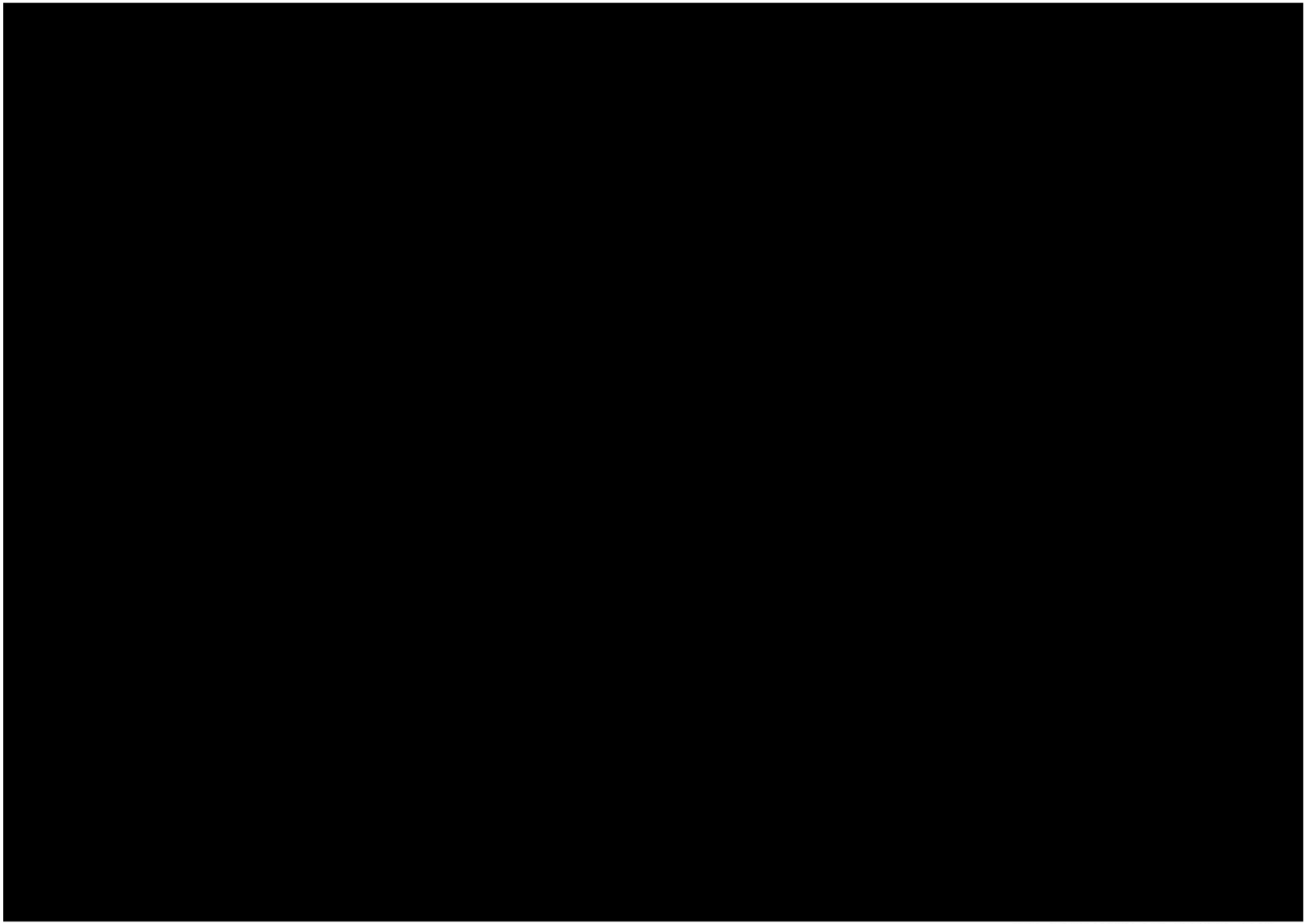

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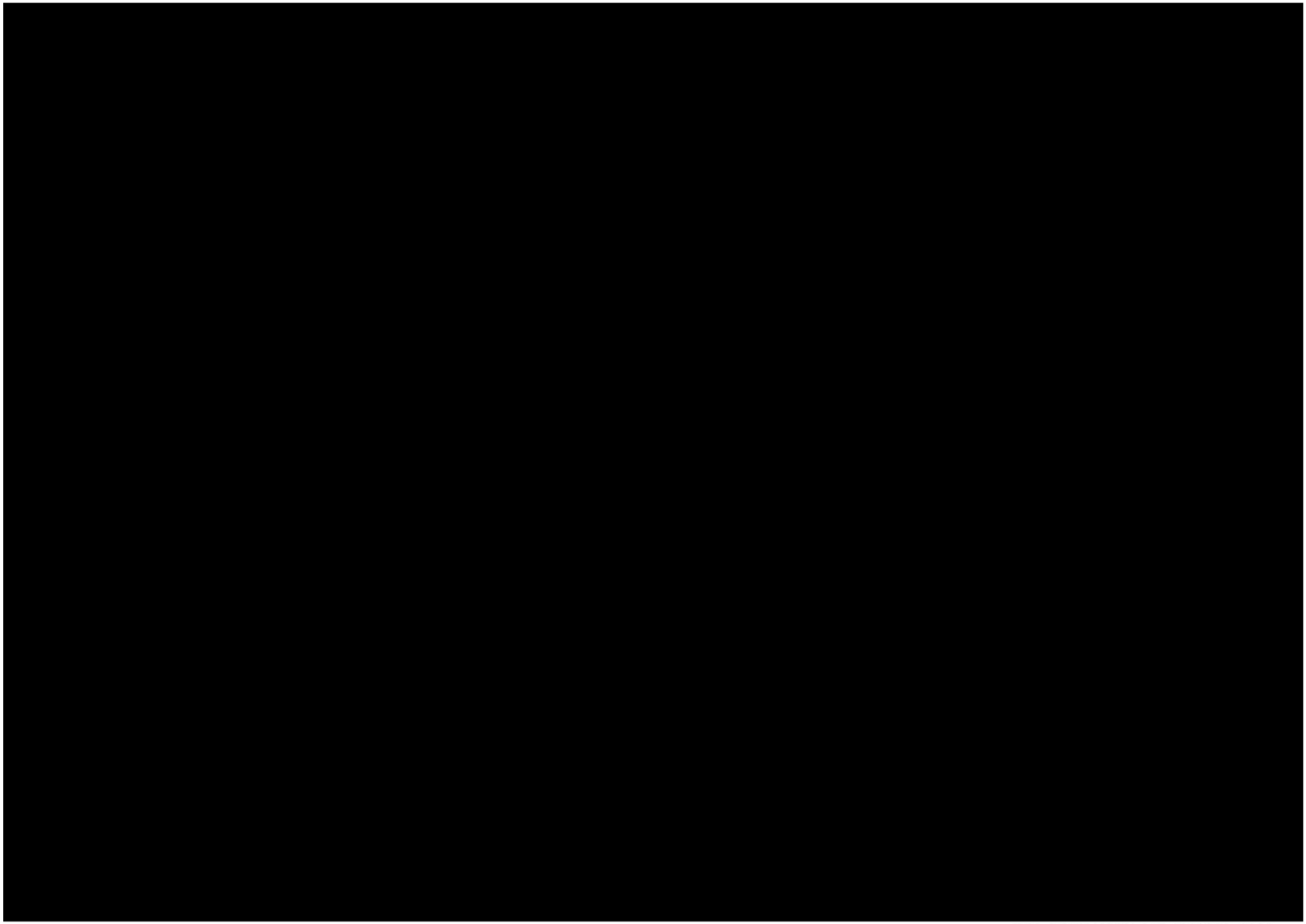

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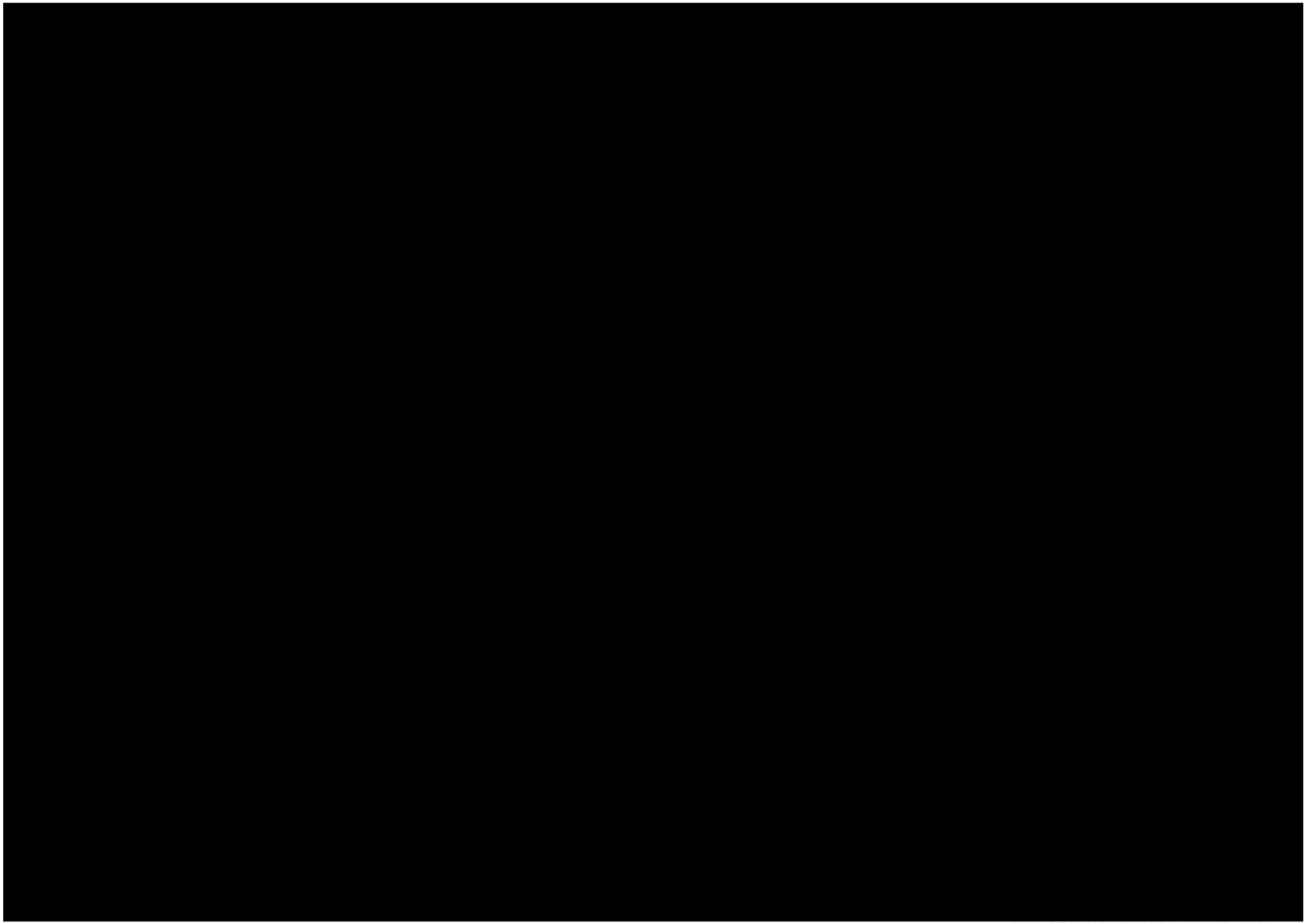

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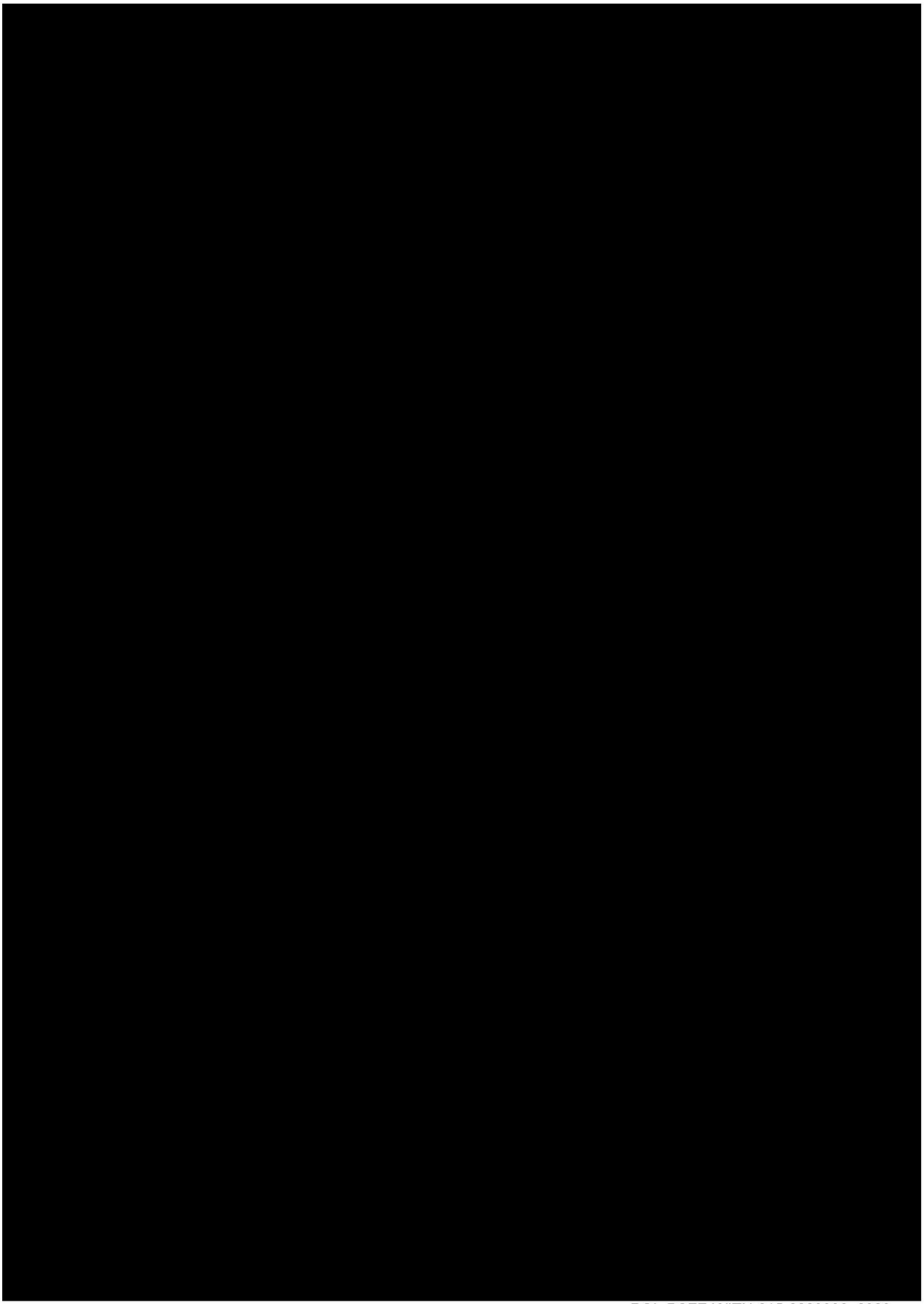

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POST OFFICE LIMITED
BOARD REPORT

Title:	MDA2 Contract Approval	**Meeting Date:**	24th November 2020
Author:	Mark Siviter, MD Mails & Retail	**Sponsor:**	Owen Woodley, Group Chief Commercial Officer

Input Sought: Decision

The Board is requested to;

i. Approve Post Office Limited entering the MDA2 contract with Royal Mail Group ('RMG'), based on the recommendations and main terms set out in the paper and the Risk Note [Risk Note published within the Reading Room] to the Board on 24th November 2020.

ii. Delegate authority to the Group Chief Executive Officer and Group Chief Commercial Officer to finalise the agreement in accordance with the summary of MDA2 terms within the Risk Note provided to the Board and to agree any further non-material changes required to finalise the deal. The Risk Note includes a summary of MDA2 terms and the MDA2 legal risks. In the event of material changes being proposed we would revert to the Board with recommendations prior to signing.

iii. Following Investment Committee approval, authorise a further IRRELEVANT (in addition to current approved exceptional spend of IRRELEVANT) to complete and sign the new MDA2 contract (total project spend: IRRELEVANT). *[See Appendix 3 for breakdown]*
This will be used to complete:
   a. Linklaters and Internal legal resource for contract drafting
   b. Stamp Stock Options stand up project
   c. Commercial model and Agent Rem project stand up
   d. Other MDA2 implementation requirements

Previous Governance Oversight

- In April, the Board approved a mandate to progress MDA2 through legal drafting based on the commercial deal described in the 8th April board paper, subject to circulating the final summary of the terms to the board.
- In July, the Board was asked to note the progress made on the legal drafting, and it was confirmed that once the drafting was agreed a contract summary and risk note would be shared with the Board for approval.

Executive Summary

Consistent with the April mandate the negotiation team has now almost completed the legal drafting of MDA2 following a delay in the summer driven by an RMG restructure and the loss of their lead negotiator through that process. The only material change since the last update to the board in July is a revised commencement date of 29th March 2021.

Both parties are keen to close out the final drafting topics before the end of November with a view to signing the new agreement in early December.

Questions Addressed

- What does the new deal mean for Postmasters?
- Why has the commencement date changed?
- What is the latest view of the financial impact of MDA2?

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Report

Question 1. What does the new deal mean for Postmasters?

1. Under MDA2, if we applied the existing basis of Postmaster remuneration (based on 19/20 data), winners would in aggregate be IRRELEVANT better off and 'losers' would in aggregate be IRRELEVANT worse off.

   Our recently implemented remuneration modelling enables us to understand the impact for each and every branch at individual product level based on actual ongoing data and we are now able to monitor this on a monthly basis.

2. IRRELEVANT
3.
4.
5.

6. Our intention is to mitigate these impacts through adjustments to our remuneration structure (possibly with transitional support payments), direct 121 engagement with postmasters via the Area Manager organisation to explain the changes (every branch will be provided with its own individual before and after remuneration statement) and focussed support in driving activity to maximise opportunities from the new value based commission incentives.

7. We are negotiating to implement these new remuneration arrangements by April 2022 at the latest but we will seek to do this earlier if we can. That time period will allow us to consult transparently and fully with Postmasters. In the meantime, we will continue to remunerate Postmasters in the current format.

8. The new commercial construct is designed to incentivise better behaviours, performance and conformance, and this will afford branches the opportunity to improve their income, and specifically;

   a. IRRELEVANT
   b.
   c.

9. For the first time in Post Office history, we have the scope to work directly with other partners and handle non-RMG parcels in the network - an opportunity for generating new

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income streams for Postmasters with first trials set to go-live before Christmas with Amazon.

10. We also forecast a reduction in Postmasters' workload over time through MDA2 which supports the emerging network strategy in providing for an increase in simpler transactions and a decrease in complex and time-consuming products, specifically:
    a. IRRELEVANT
    b.
    c.
    d.
    e.

11. To support the changes in the MDA2 the table in Appendix 2 provides the Communications Timeline for Postmaster messaging (please note this is draft and subject to revisions).

Question 2. Why has the commencement date changed?

12. The previous intention was for the new commercial framework to be implemented at the end of March 2021 but with the new contract formally implemented at the end of March 2022. However, we are now proposing to implement both elements at the of March 2021.

13. This was important in closing down any risk of further delays to concluding the negotiations. And we also secure the ability to sell online a year earlier and lock in the freedoms of the new contract earlier as well.

Question 3. What is the latest view of the financial impact of MDA2?

14. The only changes to the medium case average growth/decline assumptions over 5 years since our update in July are;
    a. parcels moved from -0.5% to -1% across products to flat to -2%
    b. Home Shopping Returns from 8.4% to 8.2%

15. These changes have no material impact on the forecast of broadly flat IRRELEVANT million p.a. for the first five years of MDA2.

16. The projected risks to the commercial deal, the likelihood of those risks materialising, and the proposed mitigations are in Appendix 1: MDA2 Risk Mitigation Plan

Next Steps & Timelines

17. We are aiming to agree the contract with RMG before the end of November and move to the contract approval process including electronic signature in early December.

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Appendix 1

MDA2 Risk Mitigation Plan

Risk	Impact over 5 years	Probability	Mitigation Plan	Mitigation plan start date	Planned date of mitigation complete
1. Extended industrial action at RMG	IRRELEVANT	Low to medium	Requirement in MDA2 on RMG for contingency plans	29/03/21	29/03/21
2. Medium Parcels taken out of USO		Medium	POL to engage in USO review and influence outcome	30/09/20	Ongoing with annual review
3.Small Parcels taken out of USO		Low	POL to engage in USO review and influence outcome	30/09/20	Ongoing with annual review
4. Additional 1% migration to RMG online (1-2% assumed in medium case)		Medium	Board/GE have previously de-prioritised the sale of RMG products online. This risk will be monitored and reviewed on an ongoing basis.	07/12/20	Ongoing with quarterly review
5. No increases to RMG prices		Low to medium	No mitigation, MDA2 shared risk and reward commercial structure	29/03/21	29/03/21
6. CPI -0.5% below medium case forecast of 1.5%		Low to medium	No mitigation, MDA2 shared risk and reward commercial structure	29/03/21	29/03/21
7. HSR and Local Collect growing at 1% less than medium case		Low to medium	No identifiable mitigation in MDA2, therefore PUDO strategy forecast to increase Local Collect and HSR, to make up shortfall.	07/12/20	Dependency on PUDO Plan
8. RMG compete head-to-head in retail and take 100% revenue from POL top performing c220 branches which account for 10% of POL Mails revenue		Low	1. POL should benchmark its prices and ensure they remain competitive for RMG 2. Restrict Agents from dealing directly with RMG	29/03/21	Ongoing with quarterly review
9. Long term agreement with limited rights terminate.		Low	Contract management plan in place to avoid missing the termination window if POL wanted to terminate.	29/03/21	28/03/32
10 Changing the Network shape and size could lead to non-compliance with the DUSP condition.		Low	Committed to meet the DUSP condition.	29/03/21	Ongoing with annual review
11 RMG not supporting POL Network Strategy specifically for lighter formats.		Low	Negotiation team are engaged with Royal Mail to obtain support for lighter formats.	29/03/21	29/03/21

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Risk	Impact over 5 years	Probability	Mitigation Plan	Mitigation plan start date	Planned date of mitigation complete
12 Commercials flow down has an impact on agents remuneration.	IRRELEVANT	High	Agents Remuneration review planned in the round next financial year and no change to Postmaster pay prior to review being completed.	07/12/20	28/03/22
13 A failure to give 3 months notice of new carriers and to flow through MDA2 obligations into contracts with third party PUDO contracts.		Low	Contract management plan in place to ensure flow down of MDA2 terms are aligned with its rights in third party PUDO contracts.	07/12/20	Ongoing with quarterly review
14 There is a risk that the proposal of stamp stock inventory management may miss the deadline of March 2021		Low	Project in place to create proposal.	01/11/20	March 2021
15 Service Levels are missed and POL are exposed to financial service credits		Low to medium	Immediate plan to review and assess the current ongoing mitigations, with the view to strengthen to meet a target of reducing the risk and meeting the Service Levels.	07/12/20	Ongoing with annual review
16 There is a risk that there is ongoing miss-selling of products in the Network.		Low to medium	Design and implement a plan to reduce miss-sold products in the Network.	07/12/20	Ongoing with annual review
17 POL will have less flexibility to refuse changes under the MDA2 terms.		Medium	Risk accepted no mitigation plan	29/03/21	29/03/21
18 There is a risk that the delayed communication between signing the contract with Royal Mail to the subsequent communications to Agent's on the impact on their remuneration could cause a reaction.		Medium	Communications plan to mitigate this risk is being worked on.	01/09/20	30/11/20

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Appendix 2

Postmaster communications activities…

MDA2 Communications Timeline: Draft v0.3 Work in Progress					
Date & time	**Stakeholder /Audience**	**Communication**	**Purpose/Activity**	**Comms delivered by**	**Commentary**
Day A – 7	NFSP	Pre-notify	Background of new contract	Mark Siviter	Under review
Day A – 1	Unions	Pre-notify	Background of new contract	Lee Kelly	Lee Kelly to advise on timings – early on Day A
Day A – 1	BEIS/UKGI	Pre-notify	Background of new contract	Patrick Bourke	
Day A – 1	Multiple Partners	Pre-notify	Background of new contract	Relationship Manager	
Day A 6am	Contract Signed notification to all required audience	Project go / no go for external comms	To give approval for PR and external comms	Mails Team	
Day A 7am (tbc)	External audiences	Press release	Explaining new agreement – strategic importance to POL, benefits to postmasters and customers	Karim Aziz/Cardew	POL Press release simultaneous to Royal Mail Regulatory News Service announcement
Day A 7.15am	Postmasters	Message from Nick Read	Explaining new agreement – hugely positive in ever changing Mails world. Key messages – Agent Remuneration review and analysis is underway using detailed modelling, this will involve a period of Postmaster engagement and, as with all remuneration changes of this nature, a 6-month notice period before the changes are implemented.	Nick Read Amanda Jones	Note: Potential to be specific about timeframe of Agent Remuneration review e.g. begin Jan 21 to conclude by May 21. Also need to consider giving a 'guarantee' that remuneration will not change until review is complete. Comms team to work with Amanda Jones and Mark Siviter on a package of multi-channel communications

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MDA2 Communications Timeline: Draft v0.3 Work in Progress					
Date & time	**Stakeholder /Audience**	**Communication**	**Purpose/Activity**	**Comms delivered by**	**Commentary**
			Current implementation plan has notice given in May 2021 with new rates implemented in November 2021. Postmaster engagement will run throughout and we will explain on the day of announcement and in the weeks to follow that we want their involvement. Option 1 – Print letter /e-mail from Nick Read plus potential video message Option 2 – E-mail from Nick Read and Memo view on day of announcement to ensure all branches are informed, plus potential video message		support for Postmasters.
Day A 7.15am	DMBs Supply Chain Colleagues	Note from Nick Read	Explaining new agreement – hugely positive in ever changing Mails world	Comms	
Day A 8.30am	Area Managers	Conference call	Area Manager call with updates from Mark Siviter and Nick Beal (remuneration process/next steps)	Nick Beal/Mark Siviter	
Day A 9am	Area Managers	E-mail	Area Manager brief featuring: • Overview/PO position • Clarification of messages and FAQs	Comms	
Day A 09.15am	News Wires, e.g. PA, Reuters, Bloomberg	Conference Call	Nick Read and Owen Woodley to set tone of reporting	Richard Taylor / Karim Aziz / TB Cardew	

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MDA2 Communications Timeline: Draft v0.3 Work in Progress					
Date & time	**Stakeholder /Audience**	**Communication**	**Purpose/Activity**	**Comms delivered by**	**Commentary**
			why this is a good deal for POL		
Day A late morning	1-2-1 calls with journalists e.g. Michael Pooler at FT	Call	Nick Read and Owen Woodley to explain further why this is strategically important for POL	Richard Taylor / Karim Aziz / TB Cardew	Note – free time needed in diary; calls to be arranged on the day if sufficient interest
Day A 6pm	Postmasters	National Postmaster Call	An opportunity to position the new contract and deal with questions about remuneration immediately (Agent Remuneration review and analysis which will be a 6-month process).	GE/Mark Siviter /Andy Kingham/ Nick Beal	
December 2020 – March 2021	Postmaster engagement continues	Multi-channel	Continuing to set the scene and explain length of process Possibility of first advisory group for this topic Asking Postmasters to help shape output	Amanda Jones Regional and Area Managers	Postmaster engagement plan will be worked through with Agent Remuneration and Network team on best approach. Decision on approach has a hard dependency on the proposed Q1 Remuneration Review.
Feb 2021	IMPLEMENTATION ACTIVITY		Horizon ID changes completed	Chris Howard	
Feb 2021	IMPLEMENTATION ACTIVITY		Detailed branch analysis for every branch and Postmaster/Partner	Chris Howard	
May 2021	IMPLEMENTATION ACTIVITY		Validate final remuneration rates for all contract types (after collating 3 months of data)	Chris Howard	
May 2021 – November 2021	IMPLEMENTATION ACTIVITY		6-month notice period for postmasters begins	Chris Howard	

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MDA2 Communications Timeline: Draft v0.3 Work in Progress					
Date & time	**Stakeholder /Audience**	**Communication**	**Purpose/Activity**	**Comms delivered by**	**Commentary**
May 2021	NFSP	Call	Engagement on new rates	Nick Beal	
May 2021	Multiple partners	Call	Engagement on new rates	Relationship Manager	
May 2021	Postmasters	Letter	Letter explaining rem changes are on the way Updated rates via printed letter	Agents Pay Team	
May 2021	Area Managers	Conference call	Area Manager call/briefing ahead of remuneration comms to Postmasters from Amanda and issue of rate cards	Andy Kingham /Nick Beal /Mark Siviter	
May 2021 onwards	Postmasters	Visits to branches	Area Manager visits to adversely impacted branches for support conversations. Mails team to provide supporting Postmaster centric materials/toolkit for this. Each Area Manager provided with impact analysis pack.	Area Managers	
May 2021 onwards	Multiple Partners	HQ calls	Engagement sessions. Each Account Manager provided with impact analysis pack.	Mark Siviter /Amanda Jones	
November 2021	IMPLEMENTATION ACTIVITY		New Postmasters contracts active	N/A	N/A

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Appendix 3

Investment Committee further funding approval

1. SUMMARY OF CHANGE

SNow Id	PRJ0012266		
Project Name	Mails Strategy MDA2 Negotiation		
GE Project Sponsor	Owen Woodley		
Project Manager	Katie Ennis		
Date initiated	24th November	**Decision required by**	30th November
Proposed change Provide a short description of the proposed change	1. 2. 3. IRRELEVANT		
Reason for change Explain why the change is necessary, and benefits associated with it	The Contract with Royal Mail comes to an end in IRRELEVANT The key external dependency of this work is upon RM (the contract principal), their negotiating team and their approach. Due to recent announcements within Royal Mail, there have been changes within the team which has impacted timelines as well as outcomes. Protracted negotiation has impacted spend which is projected to exceed the approved budget IRRELEVANT		

2. FINANCIAL SUMMARY

in (£m)	Actuals	Actuals	Actuals	Actuals + Forecast	Total Spend	Approved Funding	Variance
Combined	17/18	18/19	19/20	20/21	Total	Total	Total
Capex	IRRELEVANT						
Opex							
Exceptional							
Total							
Variance							

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3. GOVERNANCE HISTORY

Governance History

new item or edit this list

MID:Meeting Date	MID:MType	Request Type	Decision	RequestSummary
24/11/2020	Board	Change Request	Scheduled	Milestone slippage and IRRELEVANT additional exceptional funding
09/11/2020	IC	Change Request	Approved for Board	Milestone slippage and IRRELEVANT additional exceptional funding
08/04/2020	Board	Change Request	Approved at Board	IRRELEVANT exceptional spend for consulting support and Legal costs.
06/04/2020	IC	Change Request	Approved for Board	IRRELEVANT exceptional spend for consulting support and Legal costs.
13/03/2020	IC (Offline)	Change Request	Approved at IC	There will be an increase of IRRELEVANT Exceptional Spend for the McKinsey work in 19/20 and then a further IRRELEVANT to complete the contract construction in Q1 20/21. Total request including SPO levy is IRRELEVANT
30/10/2018	CAG	Change Request	Approved at CAG	NDA - No Information provided
23/04/2018	IC	Change Request	Approved at IC	Tom Wasilewski and Mark Siviter joined the meeting and Mark summarised the request. There was a debate on the need for funding for Next Best Alternative (NBA). Mark & Tom to review the need and timing for NBA funding (circa IRRELEVANT and update the business case accordingly and resubmit case for pre implementation funding to Michael A Brown.
17/04/2018	CAG	Change Request	Approved for IC	
02/05/2017	ECG	CR Drawdown	Approved at ECG	Funding request in support of the next steps as set out in the Mails Strategy which was reviewed and endorsed by GE and Board in June 2016. Request is for: IRRELEVANT in 2017/18 with an immediate drawdown of IRRELEVANT, followed by IRRELEVANT in 2018/19.
14/11/2016	Offline	CR Drawdown	Approved	

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POST OFFICE LIMITED
BOARD REPORT

Title:	Mails PUDO Strategy	**Meeting Date:**	30th March 2021
Author:	Mark Siviter, Product Portfolio Director	**Sponsor:**	Owen Woodley, Group Chief Commercial Officer

Input Sought: Noting

The Board is asked to please note:

i. The launch of the Amazon Click and Collect trial
ii. The roadmap and releases for the PUDO project

Previous Governance Oversight

- Post Office GE and Board (January 2021)
- Post Office GE (March 2021)
- PUDO SteerCo (Ongoing)

Executive Summary

- Executing the PUDO strategy remains a central element of the wider Mails strategy and a key revenue growth opportunity.
- Delivery of the strategy has accelerated since January 2021, with the Amazon Click and Collect trial launching to customers and receiving its first parcels on 1st March 2021. Postmaster feedback will be sought on a regular basis to identify improvements to the trial and future roll-out.
- Two of the four-week sprints focused on addressing key design and deployment issues have been completed, resulting in a revised product roadmap that sets out staged deliverables over the next 12 months.
- The next releases include extending network coverage for Amazon and onboarding 'Carrier 2' at scale across the network, in time for Christmas peak 2021. Client evaluation has resulted in DPD being identified as the next preferred carrier. Commercial and technical conversations have started, whilst constructive dialogue continues with other target clients.
- Significant progress has been made on the pricing and discount structures to support these negotiations. Our pricing approach now reflects existing market convention more closely, with item rates per service, and there is continued evidence to support the potential for a Post Office premium. Price points seek to balance volume growth and associated footfall benefits with protecting the financial value for Postmasters and Post Office.
- We propose to align Postmaster remuneration with the equivalent Royal Mail Group ('RMG') service using supplementary payments to incentivise behaviours, such as scanning conformance and sharing of product margin.
- A detailed review of the end-to-end economics, and therefore the true margin, will be completed in April 2021, following finalisation of the preferred technical approach.

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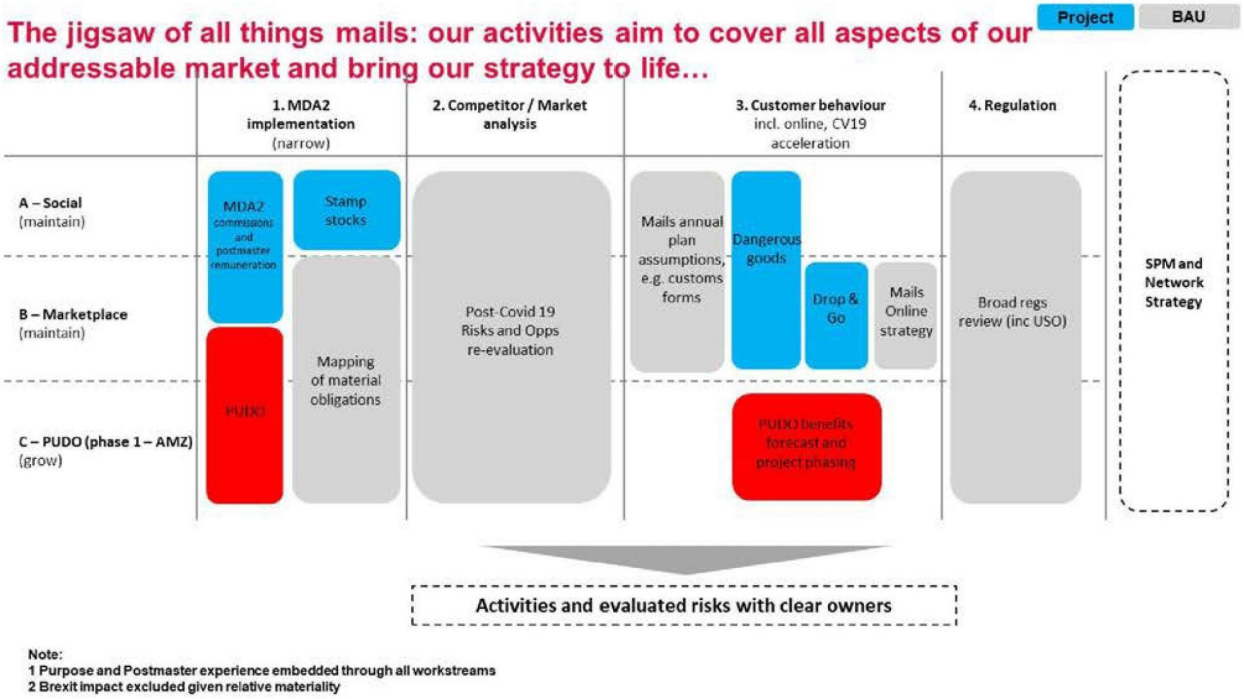
Questions addressed

1. How does PUDO fit with our wider evolving Mails strategy?
2. How is the Amazon trial progressing?
3. What is our intended deployment roadmap?
4. What is the proposed approach to commercials?
5. What are the next steps?

Report

Question 1 – How does PUDO fit with our wider evolving Mails strategy?

1. Our mails strategy is focused on our right to play in key market segments, and takes a dual approach centred around:
    a. Maintaining our market-leading positions in Social and Marketplace segments; initiatives here include embedding MDA2 and driving ongoing improvements to our customer and postmaster journeys, e.g. on Drop and Go
    b. Growing in attractive e-commerce services where we are currently under-represented, leveraging MDA2 contractual freedoms
2. The various mails-related initiatives currently in train to help us deliver against this strategy are visualised in the table below, working alongside the evolving Network strategy and SPM programme.
3. The PUDO initiative is a key element of our Mails strategy, aimed at growing our market share in attractive e-commerce services (1.b. above)



Note:
1 Purpose and Postmaster experience embedded through all workstreams
2 Brexit impact excluded given relative materiality

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Question 2 - How is the Amazon Trial progressing?

4. The objective of the PUDO strategy is to build a material new income stream by accessing the growing e-commerce market to offset the inherent risk to core revenue from consumer buying behaviour moving from in-branch to online sales.
5. The trial of click and collect services for Amazon went live for customers on Monday 1st March as planned, marking the first time Post Office has accepted parcels from a carrier other than RMG. To date over 2,500 parcels have been received with scanning compliance of 97% vs target of 98.5% as branches adapt to the new operational process.
6. There are currently 145 branches live, with a further five pending a final decision. The primary reason among independents for declining to participate was a concern over space. In order to reach the target of 200 trial sites, and in addition to re-contacting these branches once evidence on dwell time is available, , we are working with Amazon to identify a further 50 branches by extending the trial areas.
7. PR and public awareness of the trial has been low key, consistent with Amazon's preference. An article by The Grocer has been picked up and shared via various trade media, despite being initially overshadowed by Amazon's launch of the till-less 'Go' shop.
8. A fortnightly survey will be distributed to Postmasters, via their Area Managers, to capture feedback. In addition, we are working with our Network colleagues to establish Postmaster user groups to co-create future process design.

Question 3 - What is our intended deployment roadmap?

9. Over the last six weeks, we have refined our high-level roadmap (Appendix 2) to reflect learnings from ongoing market engagement, with the principle changes being:
    a. Greater granularity of deliverables with better cross-functional alignment;
    b. Earlier inclusion of returns, to test operational feasibility;
    c. Shorter intervals between delivery of releases (every 3 or 4 months).
10. While an important milestone, the c.200 trial branches do not yet offer Amazon the scale needed, therefore expanding network coverage remains a priority, with the focus on having a route to a minimum viable network number of >1k branches by the end of 2021.
11. Of the 700 branches with Identity tablets originally intended to contribute to this target, analysis shows only c.360 meet Amazon's revised opening hour requirements, raising the question of whether a stop-gap device may be needed pending deployment of the wider business device solution. We are working closely with the IT, SPM and Network teams regarding the options and expect to have a clear recommendation within the next month.
12. We have evaluated and prioritised the major market players in terms of scale of opportunity and organisational compatibility. Our priority prospects in descending order are DPD, Hermes, DHL and UPS. Yodel remains of interest but is complicated due to its ongoing relationship with Collect+.
13. Engagement continues, each at varying degrees of maturity. DPD is the most advanced with workshops taking place to finalise detailed technical specifications. Similar workshops are planned for Hermes and DHL in March.

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14. We continue to prioritise Pick Up (**PU**DO) services - i.e. Click and Collect and un-deliverables - due to their lower strategic tension and operational simplicity for Postmasters. Customer Drop Off (PU**DO**) continues to present capacity and segregation challenges which we are working through closely with Network and a dedicated Postmaster forum we have formed specifically to help design operational process.

15. The requirement to accept mail items sold online may become a challenge to securing comprehensive deals - especially with Hermes where it represents a core volume - due to the threat it poses to RMG and Post Office sales income from migrating customers online. This is a broader challenge for the evolving mails strategy.

16. Our ambition is to have scaled access (>1k branches) to the Network for a second carrier in time for Christmas peak this year using an APADC-enabled integration to Horizon.

17. Integration and network deployment need to be completed prior to carrier operational freeze in September 2021. Subsequent roadmap releases in January and April 2022 focus on extending network coverage, adding Carrier 3 and completing the current proposition set.

18. As the immediate roadmap is now clear, we are starting to consider how to extend and integrate the core PUDO proposition into the development of the wider mails strategy. Added-value services such as age or ID verification and customer shipment consolidation need to be consistent with the digitisation of other mails customer journeys.

19. In addition, we continue to carefully consider the potential use of lockers, which remains a major area of industry focus. The significant investment now being made by various parties such as Amazon and Inpost is increasing awareness, if not use, but is likely to result in network fragmentation in the short term, further challenging their economics.

Question 4 - What is the proposed approach to the commercials?

20. Our approach to pricing these new services seeks to maximise volumes (and associated footfall benefits for Postmasters) whilst reflecting and protecting the unique value Post Office brings through our brand and network.

21. We have developed a pricing framework (Appendix 3). Well-established market price structures and growing competitive intensity effectively rule out seeking a network access fee or undifferentiated flat rates (as seen in the Banking Framework or the MDA1 models).

22. Our approach follows the convention of individual item transaction fees differentiated by product and/or carrier, with pricing levers to incentivise scale, duration and deter cherry picking of the network. The latter is addressed through blended pricing - item rates assume a standard geographic distribution across the network with rates reset if the actual profile deviates significantly.

23. High entry price points are intended to deter access by multiple, small scale operators, with discount levers to deliver competitiveness for target clients. Analysis of carrier economics suggest a best-case range of 70p-90p an item. Our current view is that securing the largest clients will be closer to 60-80p an item.

24. Current proposals align Postmaster remuneration with equivalent RMG services in order to provide simplicity and prevent differential treatment of customers/parcels. Additional

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increments, such as for achieving scanning targets, are being considered to incentivise sound operational practice.

25. Complete end-to-end economics for PUDO are being developed pending confirmation of the direct operating costs expected from the technical approach set out previously and finalisation of the appropriate ongoing Postmaster remuneration strategy.

Question 5 – What are the next steps?

26. The plan to deliver the next release by 1st June (Appendix 4) includes:

a. Get the Amazon trial fully embedded with clear measures against KPIs and learnings captured;
b. Start extending Amazon to c.1k branches;
c. Secure agreement with and integrate Carrier 2 into Horizon;
d. Complete the resourcing of the PUDO team and the full handover from McKinsey.

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Appendix 1 Questions from the last Board

Ken McCall - How do we maximise operational compliance to key processes such as parcel scanning and dangerous goods?

One of the objectives of the Amazon trial is to identify the natural level of network compliance to new operational processes, as well as any inherent or structural inhibitors to their achievement.

Item level scanning and data richness of third party PUDO services provides greater visibility allowing more timely and targeted interventions.

Remuneration supplements can be used to incentivise conformance while the risk of being deprioritised by retailers or carrier websites provide a dis-incentive to fail.

Carla Stent - How do we manage Amazon's expectations regarding network expansion

While keen to extend network access, Amazon are also bound by practical considerations specifically; development of local customer demand and the speed at which the supporting Amazon Logistics distribution becomes economic to serve each area.

Their current ambition is to add approximately 3k Post Offices branches over the next 12-24 months, working with us to build a shared expansion plan.

Carla Stent - In a multi-carrier world, how do we ensure customers are clear which carrier services they access at which branch?

This remains a key question, and is subject to ongoing consideration reflecting our engagement with key market operators.

For the majority of individual customer journeys the issue is limited as consumers are increasingly led and limited by the choices presented to them digitally by the retailer.

In summary; for pick up services the locations available to consumers are determined and presented by the retailer, based on their carrier agreements and their wider commercial objectives. This happens at the checkout or direct communications following a failed delivery.

For drop off services, the growth in digital returns means the location options are increasingly presented digitally to the customer at the point the return QR code is issued.

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Appendix 2 High Level Product Roadmap

Release #	1	2	3	4	5	4 Ideal end-state
Deadline	1st March 2021	1st June 2021	1st September 2021	1st Jan 2022	1st April 2022	TBC
Outcome	MVP Live	Strategic technology solution	Network extension	Proposition expansion	Full PUDO proposition	Full PUDO proposition at scale
Objective	▪ Deliver basic proposition to customer whilst informing future design choices for customer / Postmaster needs	▪ Demonstrate functionality of POL technology with new 'standard' carrier to prove solution potential ▪ Scale Amazon trial to suitable branches	5 Expand PUDO offering to larger network scope, in time for peak	▪ Demonstrate multi-carrier capabilities at scale to prove resilience of operational network	▪ Launch market-leading proposition delivering PUDO business objectives (i.e., financial targets) across an optimal network	▪ Deliver consistent customer offer across all PUDO locations
Description Carrier and product mix	▪ Amazon: C&C (Trial)	▪ Amazon: C&C 1 Carrier 2: C&C + Undeliverables *[+ Returns]*	▪ Amazon: C&C [+ Online Accept] ▪ Carrier 2: C&C + Undeliverables *[+ Returns]*	▪ Amazon: C&C [+ Online Accept] ▪ Carrier 2: C&C + Undeliverables *[+ Returns]* ▪ Carrier 3 : C&C	▪ Full PUDO proposition for multiple carriers	▪ Full PUDO proposition for multiple carriers
Technology	▪ Leveraging Amazon app and devices, manual back-end processing; RM through Horizon	▪ Amazon app on existing POL Identity tablets (with critical back-end processes automated) ▪ Horizon for Carrier 2 & RM	▪ Amazon app on "stopgap" devices & existing POL Identity tablets ▪ Horizon for Carrier 2 & RM	▪ Amazon app on "stopgap" devices & existing POL Identity tablets ▪ Horizon for Carrier 2, 3 & RM	▪ Amazon on combination of devices (possibly including express device); Horizon for Carrier 2, 3 & RM	▪ Amazon app & all other carriers available on same device via SPM ▪ Full suite of SPM device options (e.g., counter, RAD, SSKs) to be selected based on branch type
Network	▪ Across 200 branches in 3 regions	▪ 500 branches for Amazon[1]; 200 branches for Carrier 2	2 1.5k branches for Amazon[3]; 3 1-2k branches for Carrier 2[2]	▪ 1.5k branches for Amazon; 3-4k branches for Carrier 2; 200 branches for Carrier 3	▪ 3-4k branches for all carriers	▪ ~9k branches with carriers overlapping

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Appendix 3 High Level Pricing Structure

1 | Overview of PUDO pricing strategy

Key objectives of price setting

- **Win substantial PUDO volumes from key strategic carriers**, rather than assortment of smaller contracts
- **Mitigate strategic risks**, by securing partnerships of ideal duration & provisions
- **Avoid 'cherry picking'** to ensure optimal uptake of PUDO network
- **Maximise value generation for Postmasters**, whilst safeguarding against excessive operational burden

Overall pricing structure

Consists of 2 key pricing mechanisms

1. **A set rate card** per carrier,
   - **Distinct pricing per product** (based on weighted average calculation of value of POL PUDO network access vs Carrier's network)
2. **Fee adjustments**, progressing from,
   a. **MVP** – forward adjusted discounts or surcharges *(see final column)*
   b. **Future state** – dynamic pricing options which vary depending on operations (e.g., capacity, additional product features, etc.)

Rate card

Product	Price range
Click & Collect	£0.70 - £0.80
Undeliverables	£0.70 - £0.90
Returns	£0.70 - £0.80
Online Accept	TBC

Fee adjustments (MVP)

Contractually-agreed adjustments to rate card as follows,

Discounts for,

- Significant PUDO volumes delivered
- Commitment to longer partnership

Surcharges for

- Deviation from expected fall-to-earth profile

Keys for implementation

- **Tailor negotiation approach** depending on nature of carrier discussions
- **Ensure tracking mechanisms in place** for volumes / incomes to inform continuous refinement of pricing model

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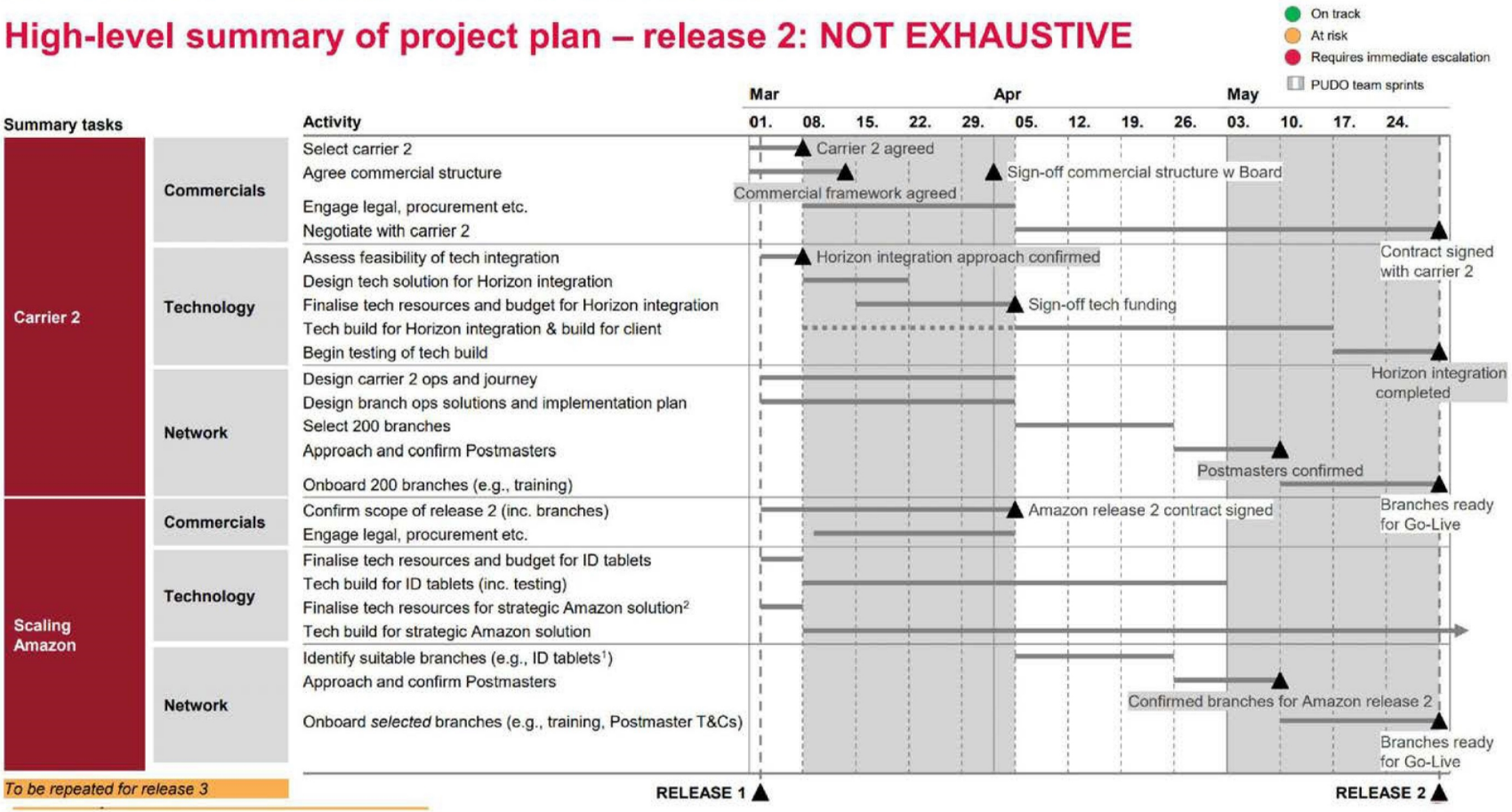
Appendix 4 High Level Project Plan

High-level summary of project plan – release 2: NOT EXHAUSTIVE



1 770 branches with ID tablets, sub-section expected with suitable location
2 Remuneration automation and Location Data Services – not a dependency for release 2

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POST OFFICE LIMITED
BOARD REPORT

Title:	Banking Framework 3 (BF3)	**Meeting Date:**	30th March 2021
Author:	Martin Kearsley, Cash and Banking Portfolio Director	**Sponsor:**	Owen Woodley, Group Chief Commercial Officer

Input Sought: Decision

The Board is invited to authorise the Banking Team and Executives to engage Framework member banks in April and informally present BF3's proposals regarding:

i. Pricing structure of BF3
ii. Pricing and expected volumes for each bank during BF3 and beyond
iii. Propositional improvements and initiatives to support BF3

And to delegate approval to negotiate to the CEO/CCO within agreed ranges

Previous Governance Oversight

1. July 2020 Board meeting presentation on approach to BF3
2. January Board meeting update / noting paper on BF3 background, plan and progress
3. Executive and Non-Executive Director Board one-to-ones held throughout February
4. GE socialisation 17th March 2021

Executive Summary

BF3 commercial and contract proposals must be released by June 30th, 2021. Each bank must decide by December 31st 2021, whether to remain in the Banking Framework or to terminate.

Cash and Banking is a key pillar of the business. We aim to maintain full engagement - no leavers - as we move from BF2 to BF3, and continue that into BF4, optimising our income. External research with banks and the wider market identified key Banking Framework IRRELEVANT

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IRRELEVANT Correct BF3 positioning will place the Post Office central to UK cash provision and reduce the likelihood of any banks exiting, thus promoting a smooth transition to BF4. To deliver this, we propose a deal with a revenue range of IRRELEVANT, profit contribution of IRRELEVANT, and Postmaster remuneration of IRRELEVANT.

We expect compression in the market as banks and ATMs close, increasing Post Office footfall until c.2025, decreasing thereafter. By then the Post Office should be the core national cash network delivering an improved Postmaster model and better customer journeys. This may include self-service and counter cash automation, subject to a separate business case.

Since September we have engaged banks collectively in contract evolution with UK Finance and the next step post-Board is to discuss BF3 pricing bilaterally. Accenture have now completed their review and supported the development of the proposed BF3 pricing model and deal strategy.

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Questions addressed

1. What is happening in the cash market?
2. What are Framework members and Postmasters' pain points?
3. What options do banks have?
4. How have we approached BF3?
5. What is the proposed deal structure?
6. How are we approaching the banks and how will they respond?
7. How are we creating an external environment that supports our aim?

Report

Question 1. What is happening in the cash market?

1. UK Cash usage continues to decline, with annual falls of c.5% forecast from 2022. Following a steep 2020 COVID-19 driven decline, a modest recovery in 2021 is expected.
2. Post Office's cash market share will benefit from continuing bank and ATM closures.
3. Competitive solutions have been analysed, and the related pricing models clearly illustrate the challenge Post Office faces, particularly in Withdrawals, shown in Appendix 1.
4. The expected shape of our Banking Framework cash transaction volumes, modelled across BF3 are shown in Appendix 2. A further paper detailing changes and impacts has been placed in the reading room.

Question 2. What are Framework members and Postmaster's pain points?

5. Accenture interviewed the top 5 banks and several Postmasters to understand their views on the good and bad points of the Banking Framework and the Post Office relationship.
6. Key findings included concerns over - IRRELEVANT IRRELEVANT IRRELEVANT Additional background is included in the reading room document and Appendix 3.
7. The overall BF3 proposal seeks to address many of those pain points.

Question 3. What options do banks have?

8. Banks can choose to remain in the framework at either BF2 or BF3 prices or leave at the end of BF2.
9. Access to cash legislation being considered by HMT, FCA and others is expected to mandate the banking industry to provide appropriate coverage for cash services. This will likely make participation in the framework essential for deposits, but only 'desirable' for withdrawals during BF3, as there are existing viable alternatives (ATM, cashback etc).
10. However, emerging competitive channels for deposits and withdrawals, which although immature, pose a future risk to our income stream and the stability of the framework.
11. Our view is whilst banks may fully participate in BF3 they are likely to explore alternatives to spread their risk before BF4. If our pricing is not competitive, or we severely break their trust again, then they will further encourage new entrants such as the IRRELEVANT through deposit-taking ATMs.

Question 4. How have we approached BF3?

12. We will maximise Post Office's commercial benefit from the framework while maintaining full bank participation.

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13. Improving the operation of our banking services through Postmaster training, evolving the contractual terms, and adding the possibility of counter automation (subject to a separate business case) is designed to benefit Postmasters, customers and the banks by addressing the pain points raised.
14. We have engaged with the banking industry and UK Finance to evolve the existing framework contract terms, upon which our deal structure has then been based. We engaged with the Top 5 banks to align our future directions, and build more strategic relationships, including further branch evolution dependent on a long-term partnership with Post Office.
15. Accenture completed a full market assessment, including anonymised interviews with key banks and Postmasters. From this, we stated our design principles and developed a comprehensive set of commercial options to achieve the objectives stated above. These principles can be seen in Appendix 4.
16. We refined our proposal and modelling through engagement with Steerco, GE, 1-1 Board member briefings and by testing the principles and outline directions with the largest 5 banks.

Question 5. What is the BF3 proposed deal structure?

17. We propose a further IRRELEVANT from 1.1.23 to 31.12.25, IRRELEVANT IRRELEVANT
18. The three major components all alter to reflect market feedback:
    1. Framework Fee – to be capped at IRRELEVANT per annum, IRRELEVANT IRRELEVANT (which would peak at c IRRELEVANT – significantly above the Post Office 'Network Access Fee' requirement). This fee has been modified to a marginal approach using a curve rather than stepped tiers, incentivising the migration of higher volumes of transactions to Post Office branches.
    2. IRRELEVANT
    3. IRRELEVANT
19. The above major components are all geared to encourage further engagement and volumes and are illustrated in Appendix 5. Our proposed pricing structure aims to incentivise volumes and enable flexibility for clients, whilst targeting existing exploitation of the deposits model.
20. Following a IRRELEVANT discussion welcoming a possible IRRELEVANT (BF3 and BF4), we are exploring options to further encourage long term strategic partnerships.
21. We will IRRELEVANT IRRELEVANT
22. Moderating our revenue growth through the BF3 period is IRRELEVANT IRRELEVANT
23. We have considered revenue sensitivity resulting from one or more significant leavers and defined at what point the Banking Framework ceases to fully recover fixed costs (ignoring transactional contribution). Please see Appendix 6.
24. The impact of a large bank leaving the framework is significant, and we propose to mitigate this risk by IRRELEVANT IRRELEVANT This is illustrated in Appendix 7.

Question 6. How are we approaching the banks and how will they respond?

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25. Post Office has briefed the top 5 banks at the operational and strategic level about the possible outcomes of our BF3 work. Stating an intent to be 'net neutral or better' than BF2, and to embrace longer term commitment, branch investments and closer strategic ties has generated significant interest.
26. This will be followed up in April with further meetings, up to and including CEO to CEO. Our proposal to the banks will be a firm IRRELEVANT (the baseline) with the potential to move through the proposed ranges (staying within the overall envelope of the deal) depending on overall industry reaction.
27. Following a series of meetings gathering and adapting to that reaction, we propose to return to the Board in June to present the final position for final approval. We would then formally release the proposal, together with contract terms, to all banks by 30th June.
28. We would then brief ministers, stakeholders and industry figures to ensure Post Office remains central to the Access to Cash debate ensuring banks go through their governance processes (to the end of December) constantly reminded of our prime position in cash.
29. With c.85% of all revenues being generated by the Top 5 banks, the possible response of each of these has been 'war-gamed' to assess specific situations and likely reactions. 4 out of 5 (IRRELEVANT) will benefit from this proposal (see Appendix 8), the only bank to be significantly negatively affected is IRRELEVANT
30. The combination of the proposed pricing changes delivers a net neutral or better position for almost all banks during BF3 (See Figure A below).

Figure A. Total BF3 Revenues* – Proposed BF3 Pricing vs Staying on BF2

Banking Group	BF3 Total Fee Framework	Delta vs staying on BF2	BF3 Framework Fee Component	Delta vs staying on BF2	BF3 Withdrawal Fee Component	Delta vs staying on BF2	BF3 Deposit Fee Framework	Delta vs staying on BF2
IRRELEVANT								

31. The impact on the Top 5 banks is assessed below:
    A. IRRELEVANT – providing access to the IRRELEVANT Their response to BF3 pricing will be to IRRELEVANT IRRELEVANT
    B. IRRELEVANT intentions remain a serious concern. Despite backing down to remain in BF2, they continue to press ahead with IRRELEVANT IRRELEVANT The BF3 proposals are designed to counter this risk.
    C. IRRELEVANT will benefit from the pricing model and are strategically aligned with Post Office at the CEO-CEO level. No emerging issue.
    D. IRRELEVANT is in the same position as IRRELEVANT and will continue into BF3

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E. IRRELEVANT while lower volume than the other, remains a supportive and strategically aligned partner and will continue in BF3.

32. Other banks benefit from reduced overall charges based on Post Office assumptions of future volumes. These assumptions have been tested with IRRELEVANT and others and confirmed to be within their expectations. Some (potentially IRRELEVANT) will expect / demand better pricing, although the Accenture feedback from Phase 1 has shown that it is not the quantum that most destabilised the banks and damaged the trust placed in us during BF1, but the lack of transparency around what the fee covers and the lack of time allowed for their internal processes.
33. Our defence would therefore be to potentially provide a clearer breakdown of the areas that the Framework Fee supports, highlighting the value the fee covers, and attempting to address that 'pain point'.

Question 7. How are we creating an external environment that supports our aim?

34. We intend to mitigate the risk of non (or selective) acceptance by any one bank via a combination of careful commercial engagement, supported by a IRRELEVANT IRRELEVANT This will position us at the centre of the current discussions on the 'Access to Cash' agenda.
35. We continue to rebuild trust with members after BF2 'pain points' – regular bilateral meetings with the major banks at both operational, strategic and executive levels are the key means to achieving this and will be further developed between now and December to ensure full participation.

Financial Impact

P&L Items Directly Attributable to Banking Framework (£m p.a.)	Commentary	Remainder of BF2			BF3 Proposed		
		2020	2021	2022	2023	2024	2025
IRRELEVANT							

Modelling based on all banks moving to BF3 pricing, including IRRELEVANT.

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Risk Assessment, Mitigations & Legal Implications

36. A full risk report will be prepared based on final BF3 contract and commercial terms.
37. Immediate issues that might arise, based on an even more 'dominant' BF3, will be continued calls for regulation or further oversight. Current engagement with FCA and PSR shows little appetite for formal regulation, but this is being closely monitored.

Postmaster Implications

38. We are assuming no Remuneration rates change during BF3. However, Postmasters will benefit from increased volumes, projected to deliver IRRELEVANT of remuneration over the 3 years, IRRELEVANT more than BF2.
39. If Banks exit (or reduce participation in) the Banking Framework, Postmaster remuneration

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40. Future implementation of automation, subject to business case, will deliver quantifiable operational benefits to Postmasters – faster processing in branch, better customer journeys and greater in-branch security for the higher cash volumes. We are also enhancing training plans and simplifying our cheque service to benefit Postmasters.

Other stakeholder impacts

41. Less than full participation will produce negative responses from government, media and influential pressure groups on the access to cash and financial inclusion agenda.
42. A greater commitment from the Banks to the Framework would deflect bank investment in competitor channels.

Other Options Considered

43.
44.
45.
46.

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Next Steps & Timelines

47. April: Progress with participant bank bilaterals
48. Collate feedback on pricing levels, structure, gauge appetite for staying on BF2, volume forecasts
49. May: Based on outcome from bilaterals, re-model and finalise BF3 Commercials
50. In June, present final BF3 proposal to Board for final approval to formally release to member banks
51. End of June, formally release BF3 pricing to Framework member banks

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Appendix 1 – Post Office BF2 Pricing v Competition

COMPETITIVE PRICING CURVES





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Appendix 2 – Cash Transaction Volumes / Scenarios

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Proposed BF3 Profit Contribution: Baseline Volume Forecasts vs Extreme Scenarios
(£millions, projected volumes and profit contribution based on proposed BF3 pricing)

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Extreme Volume Scenarios

- **Adverse Market** *i.e. overall volumes are 15% lower than Baseline in* ***unlikely event*** *there are no more bank branch closures and market cash usage decline is double what we expect. All members sign up to BF3 /* **no exits.**
- **Bank Exits** *i.e. overall volumes are 30% lower than Baseline in the* ***unlikely event*** *that – despite being presented with BF3 proposal and having the BF2 pricing as a fall back option – IRRELEVANT* ***exit fully*** *in BF3 followed by IRRELEVANT in BF4. Those members that do stay sign up to BF3.*

In highly adverse market conditions, the BF3 proposal **could still earn a profit of** IRRELEVANT during BF3, and IRRELEVANT during BF4.

In the unlikely event that some banks exit (despite the BF2 pricing fallback option and an attractive BF3 proposal) the BF3 proposal could earn a profit of IRRELEVANT during BF3, IRRELEVANT of BF IV onwards, IRRELEVANT **Bank exits have the greatest impact on the bottom line.**

Appendix 3 – Pain Points expressed by Banks

Client Requirements Concern

Coverage	Customer Experience		Partnership & Collaboration		Optionality
The Post Office remains a key part of bank servicing strategies – particularly for its coverage/ability to serve rural communities and provide face-to-face service to customers who need it	The Post Office branch experience is sufficient at a basic level, but there remain service differentiators that prevent them from fully replacing branches	IRRELEVANT	The banks' ability to see Post Office as a strategic partner is prevented by the lack of proper strategic collaboration seen as crucial to mutual value, limiting their appetite to deepen relationships	IRRELEVANT	Banks are somewhat **polarised** on optionality, with some interested in sharing more transaction types with Post Office, and others are very reluctant to deepen the relationship at all

- In **Phase I** we conducted interviews with both **Postmasters** and **Clients**.
- They shared many of the same concerns (albeit from different perspectives).
- While banks do care about service, network coverage and a number of other areas, their **primary issues with the BF agreement currently** are a) **Price** and b) **Partnership.**
- They're seeking **greater flexibility and transparency / fairness from pricing** (i.e. less about the amount the pay, more where it goes and what it subsidises).
- From partnership, they'd like to **collaborate and engage more** – specific banks also want to feel **less like Post Office is abusing its monopoly** position in the **counter cash service** space.

Appendix 4 - Design Principles to ensure Strategic delivery

Banking Framework 3 has 7 design principles that will inform the direction of the agreement and that can be used to evaluate proposed options

BF3 DESIGN PRINCIPLES

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Appendix 5 – Key Area Pricing Components

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Appendix 6 - Profit Contribution Sensitivity

Volume Tipping Point – Income coverage of banking related costs

Proposed BF3 Framework Fee (FF) 2023 Revenue vs Various 2022 Volume Scenarios
(£millions, projected Framework Fee Revenue based on proposed BF3 pricing)

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Baseline Scenario

- *Baseline – the most likely view of volumes and P&L, based on internally estimated impact of: bank branch closures, market cash usage decline and POCA retention on Framework transaction volumes. This is the latest view and has evolved throughout the BF3 design process.*

Realistic Volume Scenarios

- Realistic Downside – new Baseline but with: IRRELEVANT

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Specific call outs

- It is not possible to calculate a definite volumetric breakeven point as it is not a linear relationship between volume and profit contribution due to volume tiered rate cards. ***i.e. losing 10m transactions through one large bank vs losing 10m transactions through several smaller banks will have different profit impacts.***
- A possible "breakeven" point is just und IRRELEVANT i.e. c.

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Appendix 7 - Scenarios

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Conclusion

- Granted, when compared to the best IRRELEVANT BF2 scenario, the BF3 pricing proposal does look IRRELEVANT during BF3 – namely to the tune of IRRELEVANT between 2023 – 2025.
- However, the BF3 proposal's benefit and purpose becomes IRRELEVANT
- Its prevention of member-exits in BF3 and IV is expected to generate an additional IRRELEVANT in revenue compared to even to the optimistic IRRELEVANT approach.

BF2 pricing to ensure BF4 full engagement

Appendix 8

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POST OFFICE LIMITED
BOARD REPORT

Title:	Digital Identity Partnership	**Meeting Date:**	26th January 2021
Author:	Elinor Hull – COO, Identity Services	**Sponsor:**	Owen Woodley - Group Chief Commercial Officer

Input Sought: Noting

This paper provides the Board with information about the signed collaboration license agreement with Yoti Ltd ('Yoti') for identity services.

Previous Governance Oversight

- On 29th July 2020, the Board agreed to endorse the preferred partner for Post Office's strategic digital identity future and the commencement of partnership negotiations.
- On 25th November 2020, the GE agreed to endorse moving forward to final deal negotiations for a collaboration license deal with Yoti.
- On 12th January 2020, the GE endorsed contract signature on a collaboration license agreement with Yoti.

Executive Summary

- Post Office has an opportunity to cement its position as the leading UK brand in the emerging digital identity market, thereby giving the potential to grow long term revenue and modernise our brand and purpose.
- The scale and nature of the market in the long term is unclear at this point, but we continue to believe that there is the potential for exponential long-term growth in the long run. However, we do not have the capability or technical skills in-house to operate a solution, nor the capacity to invest in them. Given this, and our focus on Core areas of the business, the PSG work concluded that digital identity should be a platform play with our preferred business model being to work with a partner with the technology, distribution capabilities and cash to deliver our market ambitions, rather than investing significant sums required to develop our own platform.
- IRRELEVANT
- The deal will bring a fixed annual IRRELEVANT by way of a license fee and is projected to return an incremental IRRELEVANT net profit and IRRELEVANT Postmaster remuneration over 5 years through IRRELEVANT in-branch transactions and IRRELEVANT digital transactions.
- This will be our first example of a true platform proposition; it minimises our expenses and management attention whilst leveraging our brand to give us an interest in a market that has the potential to grow significantly over the longer term.

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Questions addressed

1. Why have we done this deal?
2. Why is this a good proposition for Postmasters?
3. What are the key components of the deal?
4. What is the projected financial return?
5. What does this mean for Verify and our relationship with Digidentity?

Report

Question 1: Why have we done this deal?

1. As discussed in previous Board meetings, identity assurance is a large and growing market - McKinsey size this at £2-4bn pa, growing at over 5% pa as regulation and digitisation grows. There is now significant investment going into the sector - c$6bn pa globally according to Crunchbase) with key sectors including government services, financial services, employment vetting, travel and retail.

2. Post Office's current branch identity services (in-branch verification and document certification service) are not sustainable in the long run and over the next five years will move into serious decline due to three core disruption risks:

    a. Government policy/legislation changes - over the next three years many identity checks needed to be performed face-to-face will be enabled digitally.

    b. Technological disruption - automated document processing and fraud detection.

    c. Reusable identity - reducing the frequency of need for face-to-face identity as customers can prove once and reuse many times.

    If we choose to do nothing, income and Postmaster remuneration will significantly decline over the next four years, eventually to zero, and we would remove our presence in Digital Identity post GOV.UK Verify in September 2021.

3. Following market analysis and a partnership procurement activity, IRRELEVANT and Yoti were shortlisted. IRRELEVANT

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4. Yoti made a IRRELEVANT proposal addressing previous concerns, which was concluded as the most beneficial to Post Office under a collaboration license agreement. Yoti, founded in 2014, is a UK leader in digital identity technology. They have an existing consumer-centric, reusable digital identity platform downloaded by over 9m consumers globally - 2m in the UK.

5. A partnership with Yoti will deliver benefits against the Post Office purpose:

    a. Postmasters: IRRELEVANT Postmasters remuneration.

    b. Contribution: IRRELEVANT trading profit over 5 years.

    c. Simplification: Yoti will IRRELEVANT

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d. Brand: 10-16m customers could be interacting with our brand through the app, and 3.5m through our branches over 5 years, helping customers access the services they need at the time they need them.

Question 2: What does this deal mean for our Postmasters?

6. Combining Post Office's network access with Yoti's digital identity technology will create a unique multi-channel proposition to the UK's identity needs, providing reusable identity alongside transactional online and in-branch services.

7. In-branch verification will provide support for specific processes or customers who require identity verification face-to-face. Yoti will create an in-branch service that utilises their online verification technology to verify documents that customers bring into a branch.

8. The benefits to Postmasters of the new in-branch verification services are:

   a. New transaction opportunity - forecast IRRELEVANT Postmaster remuneration over five years from IRRELEVANT transactions.

   b. Simpler and quicker transactions - transition from Horizon to a tablet-based service will enable a simpler experience with the time-consuming document inspection and attribute matching now completed digitally. Expectation is that a transaction will be <3minutes.

   c. Reduction in training needs - the transaction will be focused on accurately digitising customers' documents, not on speculation as to the validity of the document. There will be no need for identity specialists in branch.

   d. Ability to influence sales - it is proposed that there will be additional remuneration to Postmasters for successfully up-selling a digital identity, e.g. the creation of a digital identity account following a passport application.

Question 3: What are the key components of the deal?

9. Post Office has negotiated a collaboration license agreement for Yoti to provide technology solutions and E2E business operations (product, sales, marketing and support functions) with Post Office providing access to our branch network and our brand for a range of B2C and B2B identity services. A contract synopsis of key terms can be found in Appendix 1.

10. Post Office will receive an annual brand and IRRELEVANT from Yoti of IRRELEVANT. Operating profit will be split IRRELEVANT and Yoti, including IRRELEVANT IRRELEVANT

11. IRRELEVANT

12. The duration of the agreement is for IRRELEVANT years and can be terminated on IRRELEVANT years notice. If termination is not served by either party at IRRELEVANT years, the agreement will continue until such time termination is served.

13. Post Office has several termination protections at exit as follows:

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b. IRRELEVANT

c.

14. It is expected that the Post Office digital identity app will launch in Q1 21/22 and the in-branch verification service in Q2 21/22.

15. The partnership will be governed by a monthly Oversight Board which Elinor Hull and Ed Dutton will sit on for Post Office. IRRELEVANT and Post Office will have equal voting rights and the board will be responsible for the setting of strategy, financial budgets and forecasts and go-to-market plans and for the monitoring of monthly performance.

Question 4: What is the projected financial return?

16. Forecast modelling is for a cumulative profit for the collaboration of IRRELEVANT over a IRRELEVANT IRRELEVANT (Post Office IRRELEVANT share is IRRELEVANT. The P&L and cash flow can be seen in Appendix 2.

17. The main driver of operational costs is Yoti's IRRELEVANT Trading profit margins after Year 2 are consistently high IRRELEVANT as Yoti will fund product development costs outside of the collaboration and in return retain IRRELEVANT of the profits whilst Post Office keeps IRRELEVANT

18. Combining our declining legacy in-branch identity services with the Yoti collaboration income, the IRRELEVANT cumulative return for Post Office's identity service business is IRRELEVANT operating profit contribution and IRRELEVANT Postmaster remuneration. This is a IRRELEVANT Postmaster remuneration and IRRELEVANT net profit improvement to our 4YP projections.

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19. Post Office have negotiated an annual IRRELEVANT license fee which improves cashflow and provides annual income certainty.

	Q4 20/21	Year 1 21/22	Year 2 22/23	Year 3 23/24	Year 4 24/25	Year 5 25/26	Cumulative Total
Overall Cash Flow (£m)	IRRELEVANT						

20. Technical accounting has assessed the deal to be a 'joint operation' and therefore Post Office must account for IRRELEVANT of the joint P&L. Against budget forecast, the impact of the accounting treatment is highest in 21/22 at IRRELEVANT of losses which is recovered two years later. The worst case scenario, if there is IRRELEVANT revenue in 21/22 and all operating costs remained the same, is that Post Office would have to account for IRRELEVANT of losses. IRRELEVANT

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must account for the early years' losses, all contractual liability for losses sits with Yoti. The impact to Post Office's P&L is shown below (noting that cashflow is unaltered).

	Q4 20/21	Year 1 21/22	Year 2 22/23	Year 3 23/24	Year 4 24/25	Year 5 25/26	Cumulative Total
Overall P/L (IFRS11)	IRRELEVANT						
Overall P/L (pre IFRS11 accounting)							

Question 5: What does this mean for Verify and our relationship with Digidentity?

21. Cabinet Office received funding in the November 2020 Spending Review to extend Verify for its final six-month term through to September 2021. Subsequently, Government Digital Services (GDS) has confirmed that they will not have a new solution ready to replace Verify and hence will need to continue the service for a further 12-18months. They are currently deciding whether to extend the current contract with Post Office and Digidentity or to run a restricted procurement for this extended period.

22. Post Office plans to negotiate an extension with Digidentity for the initial six-month extension March-September 2021 whilst we build our new solution with Yoti and then move to Yoti as our Verify platform from September. GDS has already indicated their support for this change and have met Yoti under NDA to assess platform integration needs. It is expected that terms with Digidentity for this six-month period will remain similar to current.

23. Digidentity have an exit obligation to provide IRRELEVANT A IRRELEVANT to Yoti's platform. At the least we will contact all Post Office Verify customers and tell them of our new service and provide a link to create a new account. Subject to Digidentity's co-operation, best case is that we will migrate customers' data from Digidentity to Yoti's platform and then Yoti provide new account access details to the customer.

24. Given the need to finalise negotiations with Digidentity, we will schedule contract signing announcement communications sensitively so as not to disrupt the desired outcomes. GDS is due to finalise the pricing for March-September '21 and the commercial route to extend Verify duration by end of January '21.

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Appendix 1 - Contract Synopsis

PURPOSE STRATEGY AND GROWTH: Post Office Identity Services	
Postmasters:	IRRELEVANT Postmasters' pay with potential up-selling remuneration | Post Office is there for those who need identity services face-to-face IRRELEVANT from IRRELEVANT deal, IRRELEVANT from in-branch verification (IBV) & document certification service (DCS))
Contribution:	co IRRELEVANT ading profit over 5 years IRRELEVANT from IRRELEVANT deal, IRRELEVANT from IBV & DCS)
Simplification:	IRRELEVANT nanages all Post Office identity services business & takes the hit of losses until profit generated whilst POL receives IRRELEVANT license fee per annum
Brand:	14m Customers interact through the Post Office App & 5.5m through Post Office branches, helping them access the services they need, when they need them

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Appendix 2 - Post Office Identity Services P&L

	Identity Services P/L						
	Q4 20/21	Year 1 21/22	Year 2 22/23	Year 3 23/24	Year 4 24/25	Year 5 25/26	Cummulative Total
Partnership Gross Revenue	IRRELEVANT						
Postmaster pay							
Partnership Cost of Sales							
Partnership Gross Profit							
Partnership Operating Costs							
Partnership Net Profit							
JV accounting @35%							
Verify							
DCS							
IBV							
Digital identity BU Revenue (BAU)							
Total Revenue							
Postmaster Pay (BAU)							
Staff Costs							
Trading Profit							
POL Investment							
Overall P/L							

Cash Flow:	Q4 20/21	Year 1 21/22	Year 2 22/23	Year 3 23/24	Year 4 24/25	Year 5 25/26	Cummulative Total
Digital identity BU Revenue (BAU)	IRRELEVANT						
POL Investment							
POL Cash Flow from Partnership							
Partnership funded POL staff costs							
License Fee							
Overall Cash Flow							

Assumptions:

- App launch in Q1 21/22, Integrated branch services Q2 21/22
- Post Office Investment costs: Legal IRRELEVANT & Product implementation IRRELEVANT – in Post Office budget
- IRRELEVANT by Yoti
- IRRELEVANT
- IRRELEVANT
- IRRELEVANT license fee, held in our Balance sheet as deferred Income and will not show on the P/L
- IRRELEVANT postmaster pay & IRRELEVANT net profit improvement to 4YP

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POST OFFICE LIMITED
BOARD REPORT

Title:	Telecoms Sale Completion	**Date:**	30th March 2021
Author:	Meredith Sharples, Director of Telecoms	**Sponsor:**	Owen Woodley, Group Chief Commercial Officer

Input Sought: Noting only

The Board is asked to note that the Telecoms transaction has now successfully completed, and the business has transferred to Shell Energy Retail Ltd ('SERL').

Previous Governance Oversight

- Post Office Board on 26th May 2020
- Post Office Board on 8th November 2020
- Post Office Exceptional Board on 1st and 2nd December 2020
- Post Office Board on 26th January 2021

Executive Summary

- The sale of the Telecoms business has been reviewed at a number of previous Board meetings and as agreed at the Board meeting on the 26th January, Post Office signed an agreement with SERL on the 1st February.
- To avoid the CMA potentially imposing a group injunction on Shell Group, SERL requested that the transaction structure was amended to enable signing on 1st February 2021 and completion on 15th March 2021.
- The Telecoms business has been run by the current management team since signature while working closely with SERL and being cognisant of competition issues.
- The sale was successfully completed on the 15th March and funds have been received.
- SERL and Post Office will agree a post-completion financial true-up within the next 110 business days.
- The actual amount of network cease charges incurred by SERL will be notified to Post Office by 30th April 2022, with any repayment of the contingent amount to be paid to Post Office by 31st May 2022.
- Post Office will continue to support SERL pursuant to the Transitional Service Agreement ('TSA'); these activities are focused within the next 6 months, but will continue until the earlier of 12 months or the completion of customer migration by SERL from Fujitsu.

Questions Answered in this Paper

1. What is the status of the Telecoms transaction?
2. What are the post-completion obligations?

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Report

Question 1: What is the status of the Telecoms transaction?

1. The transaction was signed on the 1st February 2021 and was then completed on the 15th March 2021 at 23.59, funds have been received.
2. The Telecoms team (9 FTE) has now TUPE transferred to SERL and relevant employee data records have also been transferred.
3. All Post Office Telecoms customers have been contacted and informed of the change in ownership; the customer response has been within expectations. Further customer communications from SERL are planned post-completion and SERL will continue to use the Post Office brand while on the Fujitsu platform.
4. All associated contracts have been novated to SERL, with the exception of Indesser which has been assigned and the novation will now be negotiated directly by SERL.
5. Details of Postmasters' remuneration totalling IRRELEVANT have been shared with the relevant Postmasters and will be paid in March 2021.

Question 2: What are the post-completion obligations?

6. The transaction has been structured to offer a clean break, however there are a number of short-term and long-term obligations for Post Office. The obligations are laid out in detail in Appendix 1, but cover:
    a. Regulatory/compliance obligations e.g. data requests, Ofcom etc.;
    b. Financial completion statement;
    c. Tasks considered under the Transitional Services Agreement e.g. web support, Branch payments etc.
7. The management of Post Office's obligations will be delivered by a Separation Manager but will also be reliant on BAU resource within Post Office such as Finance and Marketing teams.
8. SERL and Post Office will perform a post-completion financial true-up based on a Completion Statement:
    a. SERL has up to 65 business days to prepare a draft of the completion statement;
    b. Post Office then has up to 45 business days to review and challenge;
    c. A dispute mechanism is in place if agreement cannot be reached.
9. SERL potentially faces certain charges as customers transfer from the TalkTalk network. These charges were not known to SERL at the time of their offer and a deduction to the purchase price of IRRELEVANT was agreed to reflect that. However, it was also agreed that if the actual cease charges incurred by SERL are less than IRRELEVANT then SERL must refund the difference to Post Office. The actual amount incurred by SERL must be notified by SERL to Post Office by 30th April 2022, with supporting evidence. Any resulting repayment to Post Office must be made by 31st May 2022.

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Appendix 1: Post Completion Obligations

No.	Obligation/Right	Resource required	Time Frame
	Business Purchase Agreement		
1.	**Cease Charges:** SERL is obliged to pay to Post Office any amount by which the actual amount of Cease Charges payable to Fujitsu under the HPBB Agreement fell short of the amount by which the purchase price was reduced by the expected Cease Charges Cost.	Resource required by Post Office should be quite limited but it may be necessary to ensure that SERL are complying with their obligations under this provision, analyse any documentary evidence provided by SERL and legal support may be required.	On or before 30th April 2022 with payment to be made on or before 31st May 2022.
2.	**Business Receivables:** From Completion, Post Office is obliged to pay to SERL any money in respect of Business Receivables that it may receive post-completion.	Specific agreement has been reached in respect of branch payments which may be made into a Post Office account. Post Office's obligation to pay such money to SERL arises on becoming aware of amounts received by POL in error.	As soon as practicable and in any event within 15 Business Days of becoming aware of such money.
3.	**Contracts**: There are certain obligations to address the failure of any contract to properly transfer to SERL.	The only issue we are aware of is the Indesser Agreement which will be assigned to SERL at Completion. Legal resource may be required if there is a post-Completion negotiation between Indesser and SERL to novate the Indesser Agreement as Post Office would be a signatory to the novation.	February 2027.
4.	**Non-compete**: Post Office is obliged to comply with certain non-compete restrictions	These should not require additional resource unless Post Office requires legal advice as to what Post Ofice may/may not do.	18 months following completion.
5.	**Further assurance**: There are various obligations to ensure that the Business and the Assets are transferred to SERL in circumstances in which they have failed to properly transfer at Completion or they are mistakenly with POL rather than SERL (or vice versa).	If this arises it may require legal and operational support but this is unlikely.	The requirement is 'promptly' after Completion – within 5-15 Business Days.
6.	**Wrong pockets**: If assets have mistakenly remained with Post Office, Post Office is obliged to transfer those assets to SERL.	Post Office has an obligation to ensure that any assets that should have transferred as part of the Business are transferred to SERL. If this arises it may require legal and operational support.	For a period of 12 months post-Completion.

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No.	Obligation/Right	Resource required	Time Frame
7.	**Regulatory obligations**: Post Office has certain regulatory obligations which it either retains because they are non-transferrable or because the transfer of regulatory obligations are carved out of the transfer of the business. Broadly, the retained obligations relate to: • PSD2 Audit • Ofcom requests/disclosures • Data protection obligations	Post Office is likely to need ongoing regulatory/data protection support and potentially legal support to ensure that their obligations continue to be met.	PSD2 Audit – obligation should be completed by the end of this financial year. Ofcom requests and data protection obligations are indefinite.
8.	**Completion Statement**: Post Office to review and respond to draft Completion Statement which will be provided to Post Office by SERL within 65 Business Days of completion.	Post Office will require both external and internal accountancy support and possibly legal support in respect of this process.	Post Office will have 45 Business Days to review the draft Completion Statement – there may follow a period of resolving any disagreements between the parties.
	Customer Contracts Novation Agreement		
9.	**Customer objections**: Post Office is obliged to inform SERL if Post Office is notified by any customer that they object to the novation of their contract to SERL.	Post Office may require some resource to pass any such objections onto SERL.	February 2027 but given that all customers have been notified, resource should only be required for a short period.
	DPA/DSA		
10.	**Post Office has ongoing data protection obligations and must comply with its obligations as a data controller/processor under the DPA and DSA.**	Post Office will require ongoing data protection support.	6 years and 7 months from the date in which the relevant customer terminated their agreement with Post Office so the number of previous customers this relates to will deteriorate over time.
	Payout Agreement		
11.	**Payouts**: Post Office's payouts team has a number of obligations under this agreement, however this agreement was negotiated by the Post Office payouts team based on its standard form payouts agreement and its usual terms with third parties.	Post Office payouts team.	Ongoing until terminated.

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No.	Obligation/Right	Resource required	Time Frame
		TSA	
12.	**Separation Manager**: Separation Manager to manage day-to-day TSA relationship, meet/speak weekly with SERL's separation manager, agree written Separation Plan with SERL, and respond to change requests.	Separation Manager (funded by SERL).	Ongoing throughout term of 12 months (or earlier customer migration) Separation Plan to be agreed within 20 Business Days of completion.
13.	**IT Services**: Transfer external hard drive and password on completion containing documents required for the business.	Post Office/CMC.	Completion date only.
14.	**Email Services:** Transfer hard drive and password on completion containing transferring employee emails.	Post Office/CMC.	Completion date only.
15.	**Web Pages:** Discuss in good faith and use reasonable endeavours to agree best approach to transition web pages to SERL. Invoice SERL monthly in arrears for charges.	Post Office digital team.	3 months from completion (can be terminated by SERL on 1 months' notice).
16.	**Branch payments:** - Facilitate branch payments via Payzone. - Make branch payment data available to FJT. - Weekly (on Mondays) remittance of branch payment amounts in Post Office central bank account - Invoice SERL monthly in arrears for charges	- Payzone team - Horizon team - Post Office Finance team	12 months from completion (can be terminated by SERL on 1 months' notice).
17.	**Pay monthly cards:** Supply payment cards to end customers. Invoice SERL monthly in arrears for charges	Separation manager working with CPI under the payment cards contract.	12 months from completion (can be terminated by SERL on 1 months' notice).
18.	**Alternative Format Documents:** Provision of braille, large print and audio for low-volume communications. Invoice SERL monthly in arrears for charges	Separation manager working with Bayfield Media under the Bayfield contract.	[Until 1 July 2021] (can be terminated by SERL on 1 months' notice).
19.	**Router Order Fulfilment:** Provision of Post Office's Royal Mail account for order fulfilment of routers and ancillary equipment. Invoice SERL monthly in arrears for charges	N/A (Net Lynk continues to use the Supplier's Royal Mail account).	12 months from completion (can be terminated by SERL on 1 months' notice).

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POST OFFICE

Postmaster consultation survey: key themes

Final Data

Monday 22nd February 2021

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Project progress



Sept – Oct 20: QUALITATIVE CONSULTATIONS with 63 Postmasters

Oct 20 – Jan 21: QUANTITIATIVE SURVEY with 1,767 completes

23rd Feb 21: SEGMENTATION DEBRIEF

Feb - Mar 21: STAKEHOLDER & POSTMASTER SHARING SESSIONS

Mar 21: X3 CO-CREATION GROUPS

Mar 21: FINAL DEBRIEF

nb profiling the segment is the easy part. Embedding and activating segments within POL is a critical next step

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POST OFFICE

Summary

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1. Sentiment

1. Just under half of Postmasters have a *poor* relationship with Post Office (feeling like a subordinate, feeling undervalued, a sense that Post Office does not understand their day-to-day realities)
2. Added to this, about a third feel *lukewarm* – taken together we might say two thirds have a sub-optimal relation with Post Office, which shines a light on the scale of the challenge
3. Their relationship with Post Office aside, the majority say they are confident in their ability to run a post office (although some say they don't get the support they need)
4. While running a successful business is obviously important, serving the local community is the key reason for being, and remaining, a Postmaster. It's quite important to understand the role community plays – for Postmasters it provides a sense of *purpose*.
5. Nearly all Postmaster re deeply concerned about the future. It is not just the situation with COVID-19 that gives cause for concern. Many are extremely worried about increased competition from Royal Mail and the inevitable (further) digitisation of products and services
6. It adds up to a pretty bleak picture. Almost one third say they will cease to be a Postmasters in the next 5 years. It does not mean a third will actually leave the brand, but it is a useful barometer for the scale of negative sentiment that exists today.

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2. Engagement

1. Three-quarters of Postmasters are satisfied with their Area Manager – as we saw through the consultation interviews, they are often perceived by Postmasters as being "on my side"
2. Area Managers score highly for being supportive, helpful, understanding and logical – but the helpdesk and other central communications perform less well.
3. Most Postmasters prefer online communications (web portal and email) for day-to-day interactions, but half want 'human' contact (phone or f2f) when they have an urgent issue
4. Around three-in-five express an interest in being more involved in Post Office decision- making (around one-in-ten indicate no interest)…

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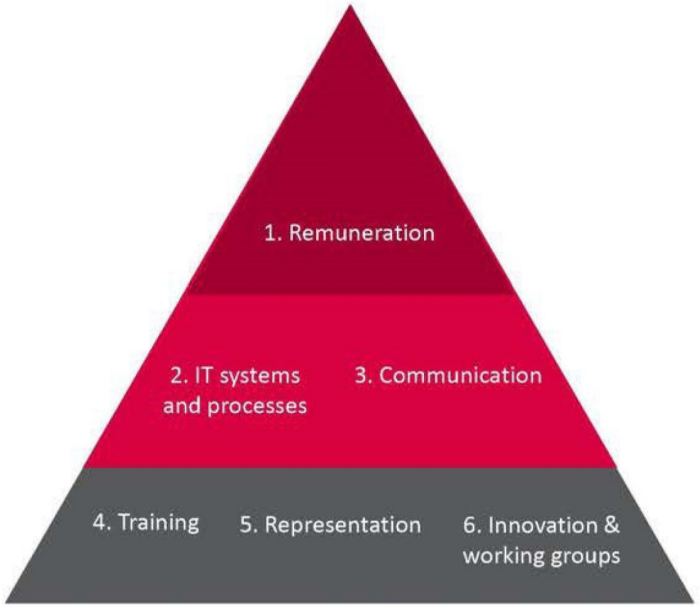
3. Priorities for improvement

1. Remuneration is Postmasters' number 1 priority area for improvement – only 14% feel they receive appropriate remuneration for the products and services they offer
2. IT systems and process, and communication are key – between 60% and 70% would like to see improvements in these area
3. The two most popular ways in which Postmasters would like to be involved in different types of decision-making (e.g. for marketing, operations, products & services, customer service and significant issues) both involve Area Managers – via one-to-one meetings and working groups



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Postmaster sentiment

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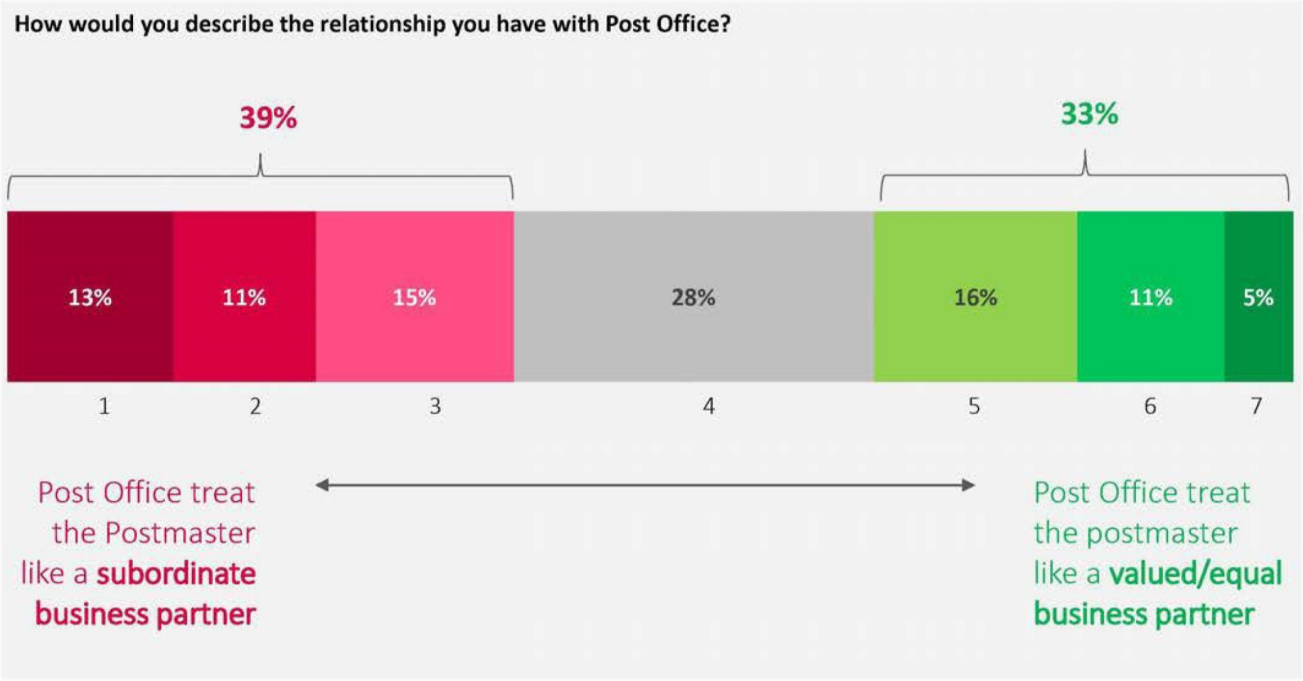
About 2 in 5 Postmasters feel they are treated like a subordinate business partner by Post Office



Question: B1 How would you describe the relationship you have with Post Office?
Base (1767)

'Post Office only think about their own profit/loss. They don't support us as a business partner. Post Office pay lots of money to Business managers, Support manager – it doesn't make any sense from a business prospect, because they do not work or support us when we need it.'

*'I think **POL has developed a 'culture'** that is very dictatorial towards agency branches over the years, & Postmasters have not been represented properly…There should be a more positive culture of, 'working with' rather than being, 'done to'… There are a few glimmers of light that may come to something. My AM is highly professional, extremely hard working & understanding of my branch needs. [Post Office] has been energetic & personally responsive. I cannot tell you how important that is to me feeling valued as opposed to feeling trapped in a doomed business model with my life savings becoming worthless.'*

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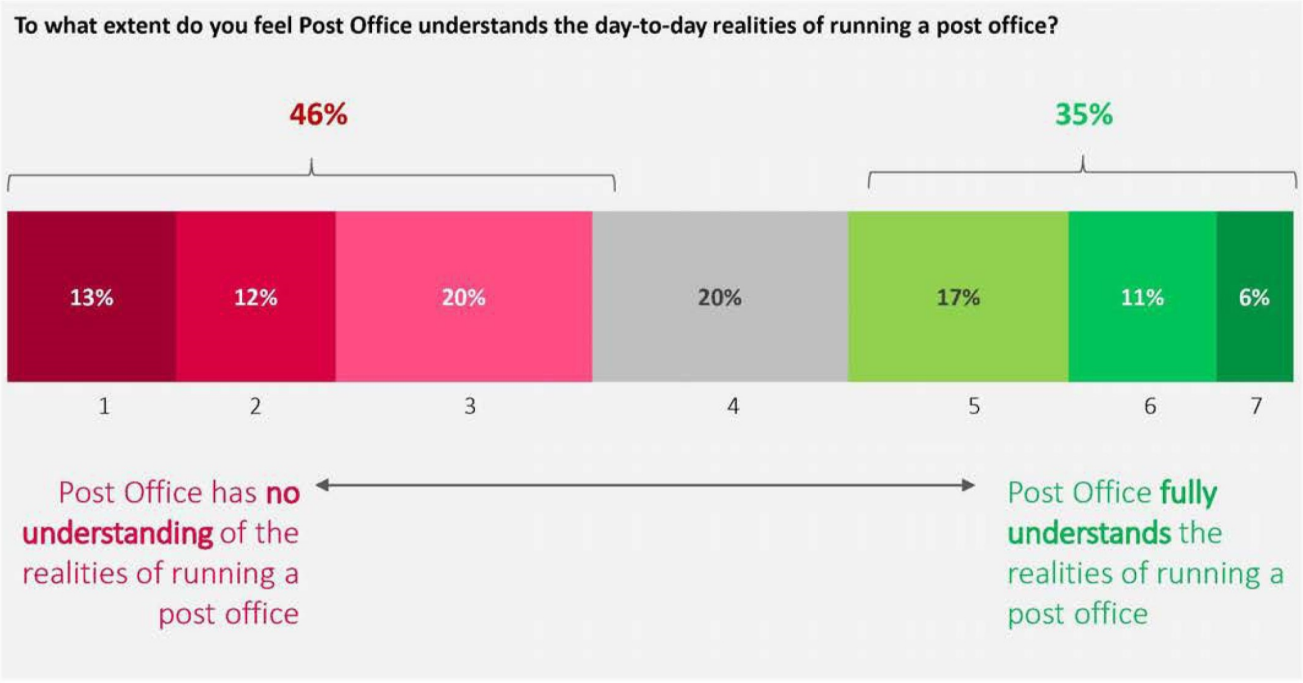
Almost half feel Post Office does not understand the day-to-day realities of running a post office



Question: B4 To what extent do you feel Post Office understands the day-to-day realities of running a Post Office?
Base (1767)

'I feel that a lot of people above me in management have been recruited from other business and have only ever stepped into the post office branches as customers and don't understand the challenges we face' Scoring 2/7

'There is a full understanding of the process of completing transactions by the Post Office however crucially missing is the insight into the daily challenges and difficulties postmasters face.' Scoring 5/7

'I feel that a lot of people above me in management have been recruited from other business and have only ever stepped into the post office branches as customers and don't understand the challenges we face' Scoring 2/7

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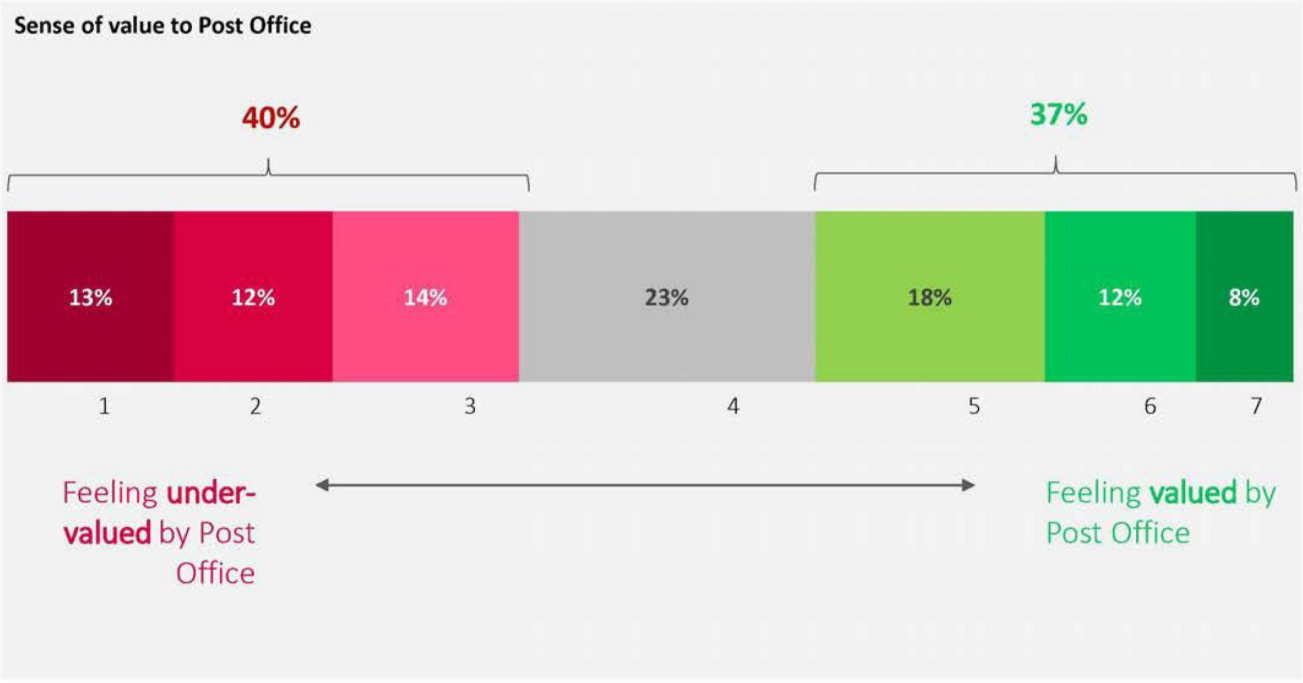
And a similar proportion (2 in 5) feel under-valued by Post Office



Question: B2 How would you describe your sense of value to Post Office? e.g., do you feel valued by Post Office for what you do?
Base (1767)

*'Recognition in more real terms the work complexity of each product and its associated payment.... **eliminate the " them and us" scenario** which did seem to be diminishing.... The tail wags the dog and this going forward needs to be reversed. Communicate honestly to eliminate damage created by "leakes". Ensure they don't happen ....**please let me feel confident in knowledge about my future** rather than customers /post man /citv drivers updating me first! **Make me feel valued and respected and give me tools to do the job I love** ...A POST OFFICE ...not a shop that happens to be able to perform a few Post Office services ...I am a Main for a reason!!'*

'Mainly, we need to be paid more for what we do to make us feel valued. We need to feel as though we are partners, not subservient and irrelevant.'

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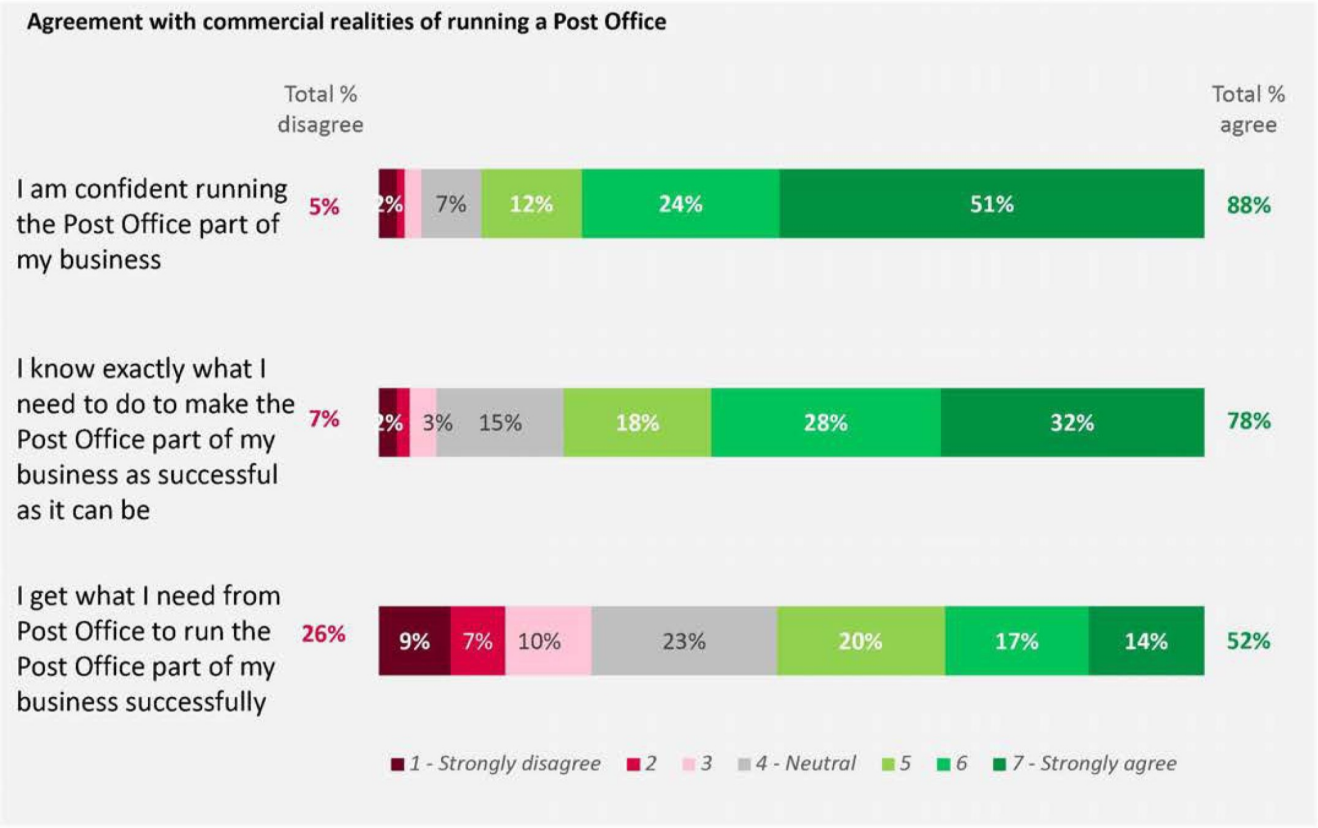
Most back themselves to run successful businesses – but a quarter say they do not get what they need from Post Office



Question: B6 Thinking firstly about the commercial realities of running your business.
Base (1767)

- Postmasters who have **a Local Model branch** are more likely to agree that they get what they need from Post Office to run a successful business. Along with those from an **Asian background**
- Postmasters who are **confident in using all types of technology** are more confident in:
  - Running a Post Office
  - Knowing what to do for a successful business
  - And feeling they get what they need from Post Office to do so

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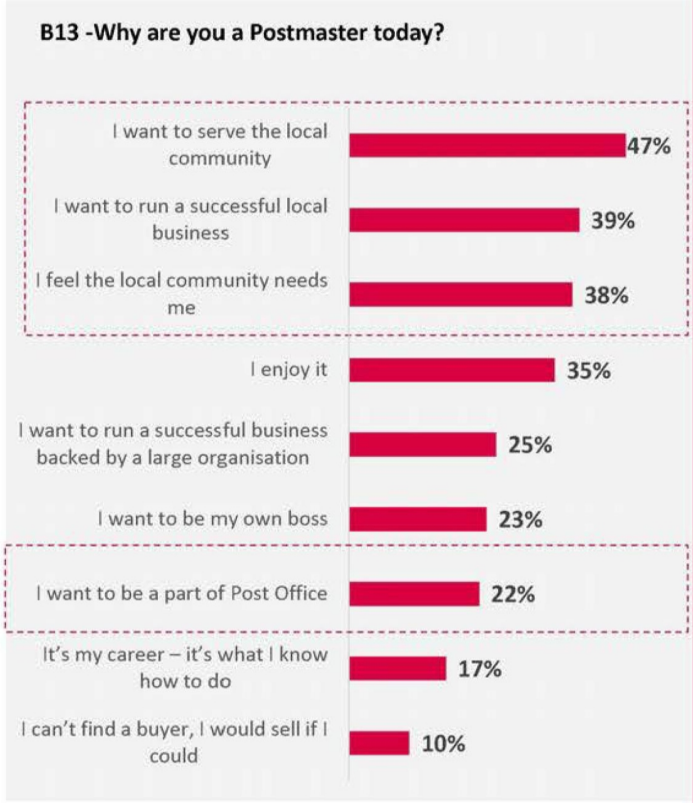
Community service provides *purpose*. Almost half say they are Postmasters because they want to serve the community/ they feel obligation to the local community





Question: B12 Why did you become a Postmaster? B13: Why are you a Postmaster today? Base (1767)

- **Female** Postmasters tend to be a little bit more motivated by serving the community
- Postmasters in **London** are more likely to want to be part of Post Office today, while those in the **South West** are more likely to say they would sell if they could
- **White background** Postmasters are a little more likely to be driven today by serving the community, while **Asian background** Postmasters tend to be a little more motivated by running a successful local business

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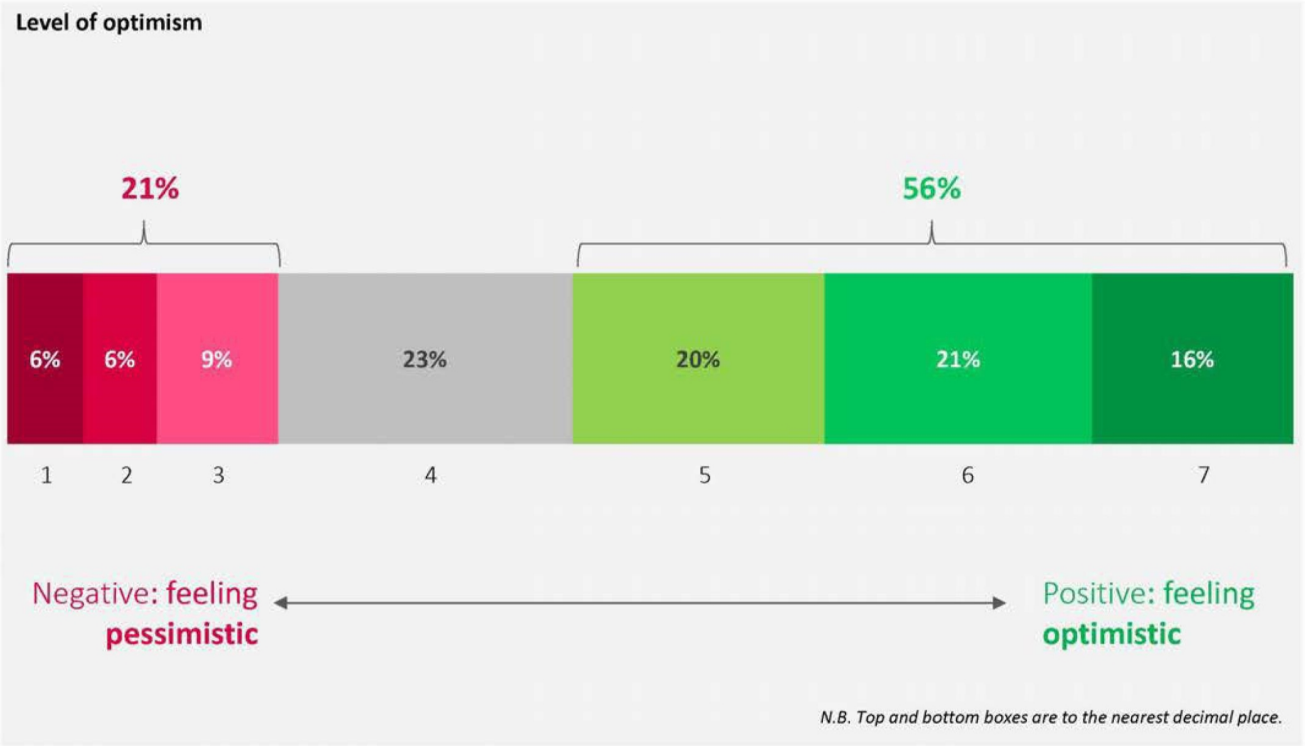
The majority take deep pride in what they do - 56% tell us they feel optimistic about being a Postmaster



Question: B3 How do you feel about being a Postmaster in general? B6 Please say the extent to which you agree or disagree with the following statements.
Base (1767)

- Postmasters in **London** are more likely to feel valued and optimistic
- **Local Model** branch types are more likely feel optimistic
- Postmasters who have an **older customer base** tend to feel pessimistic about being a Postmaster along with branches in the **South West**
- Postmasters who feel confident using all types of **technology** feel optimistic
- Those who are from an **Asian background** tend to feel more optimistic

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Competing forces are shaping how Postmasters feel, driving them into separate camps and shaping their relationship with Post Office

1. Sentiment towards Post Office - often weak or mixed because their interactions with Head Office, Area Managers, satellite offices etc. are inconsistent

2. Sense of pride/ optimism that comes from doing their job well in local communities – this if often very strong (but actually has little to do with Post Office Ltd, its more to do with personal ego/ job satisfaction/ fulfilment)



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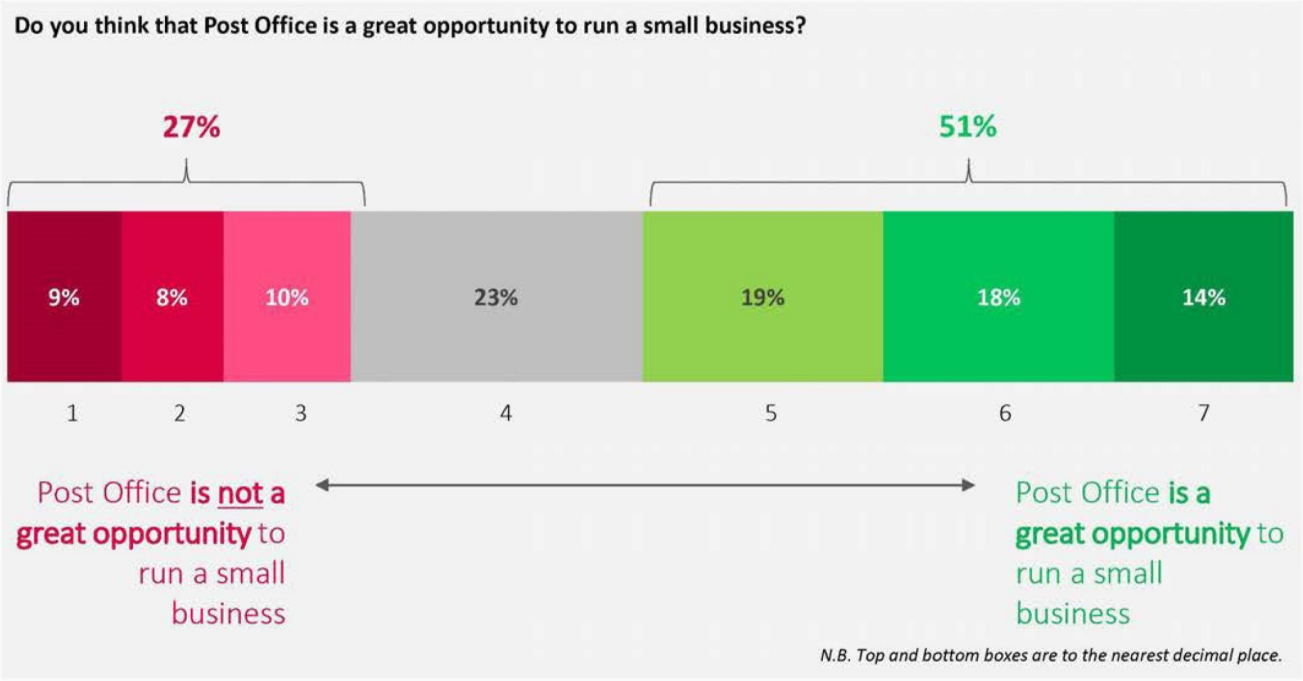
It means only half feel Post Office is a good opportunity to run a small business



Question: B8 Please read the following and express your opinion using the scale below.
Base (1767)

'I feel proud to be associated with such brand but somewhere I feel, we are not tapping into its full potential. This job isn't like any other shop-assistant job where anyone can stand behind the counter and serve. It requires certain skills-sets above honesty, integrity and reliability. This don't come cheap!! It is not that I don't feel for the brand PO, It is a huge Brand with largest network and solid creditably among the UK-consumers.'

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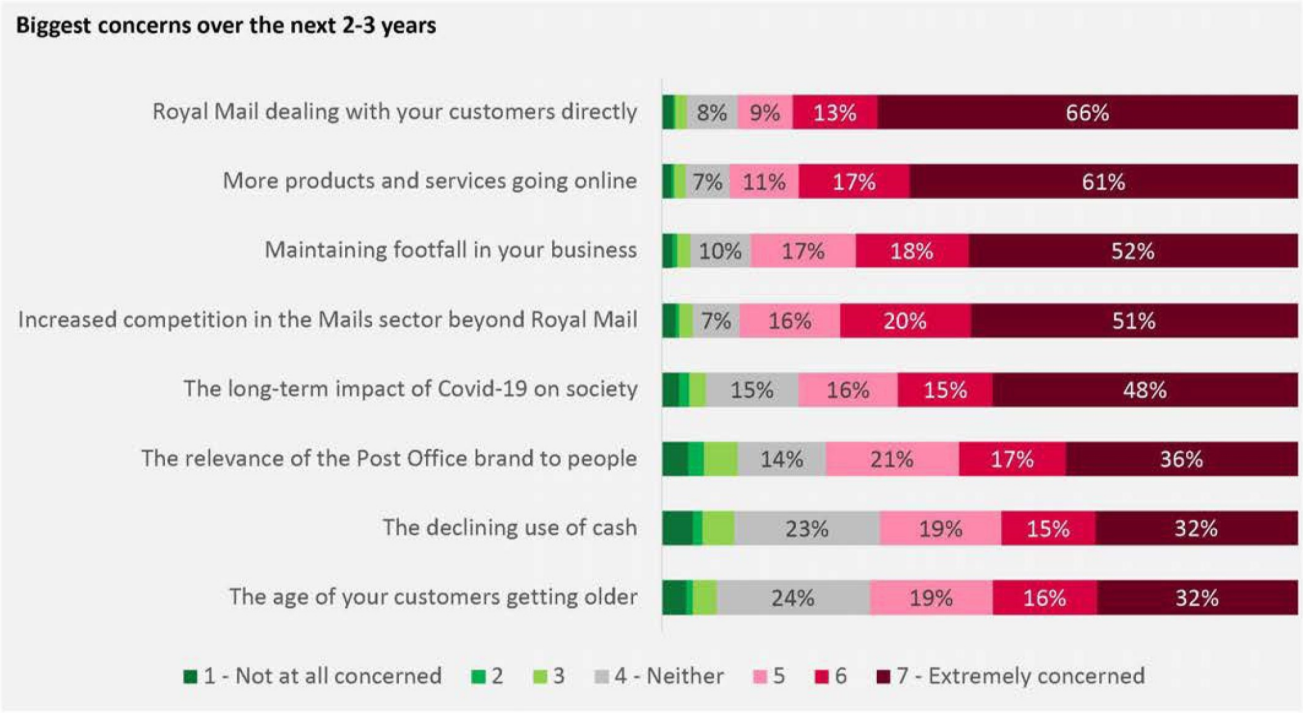
The majority are deeply concerned about how the next 2-3 years will play out



Question: G1 Thinking ahead over the next 2-3 years, how concerned, if at all are you about the following in terms of their impact on your business?
Base (1767)

- 9 in 10 concerned about **Royal Mail dealing with customers direct**
- 9 in 10 concerned about **more products going online**
- 9 in 10 concerned about increasing competition from Royal Mail
- 9 in 10 concerned about maintaining their footfall
- 8 in 10 concerned about the long-term impact of Covid 19

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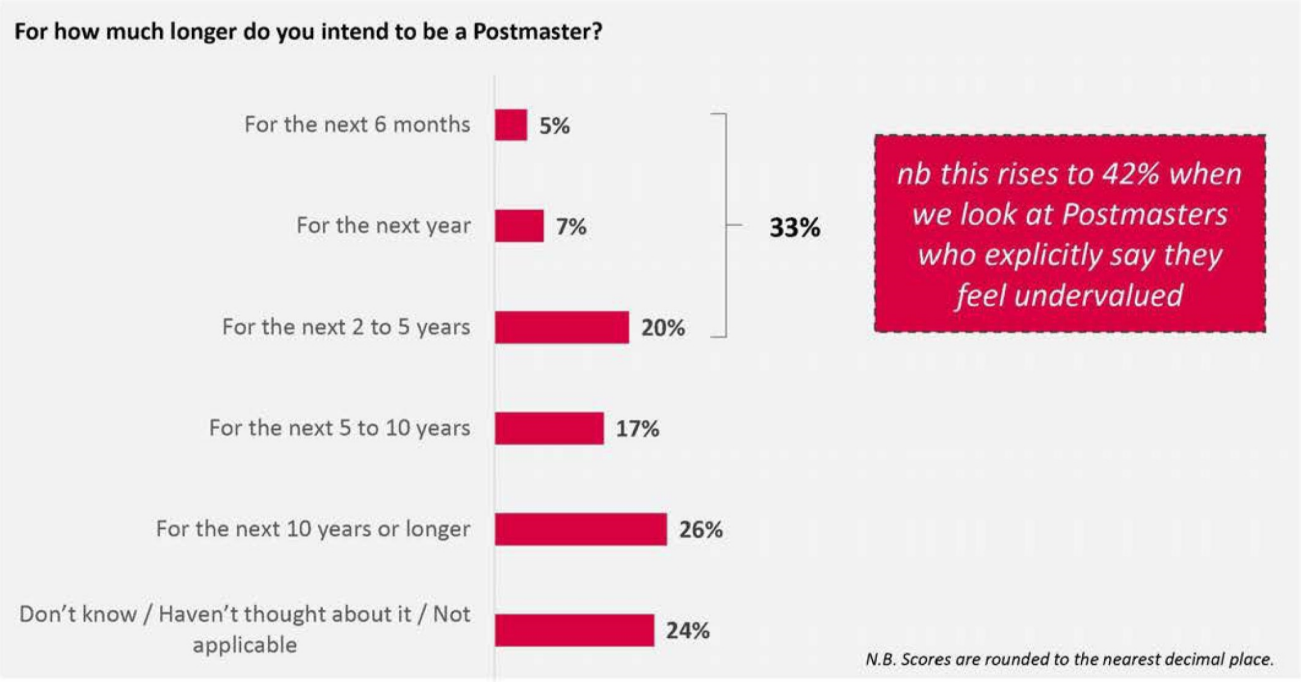
c. 1 in 3 claim they will cease to be Postmasters in the next 5 years



Question: B14 And, for how much longer do you intend to be a Postmaster?
Base (1767)

'I need to find a buyer so I can retire but I feel so connected and part of something when at work'

'It would be difficult to sell given uncertainty created by POL & other stakeholders such as HMG & RM'

'Get better remunerations for Postmaster and other benefits like retirement pension scheme'

'Would like to retire but find that the Transformation team has not helped and the payout that I get is not set – we get no backing from them'

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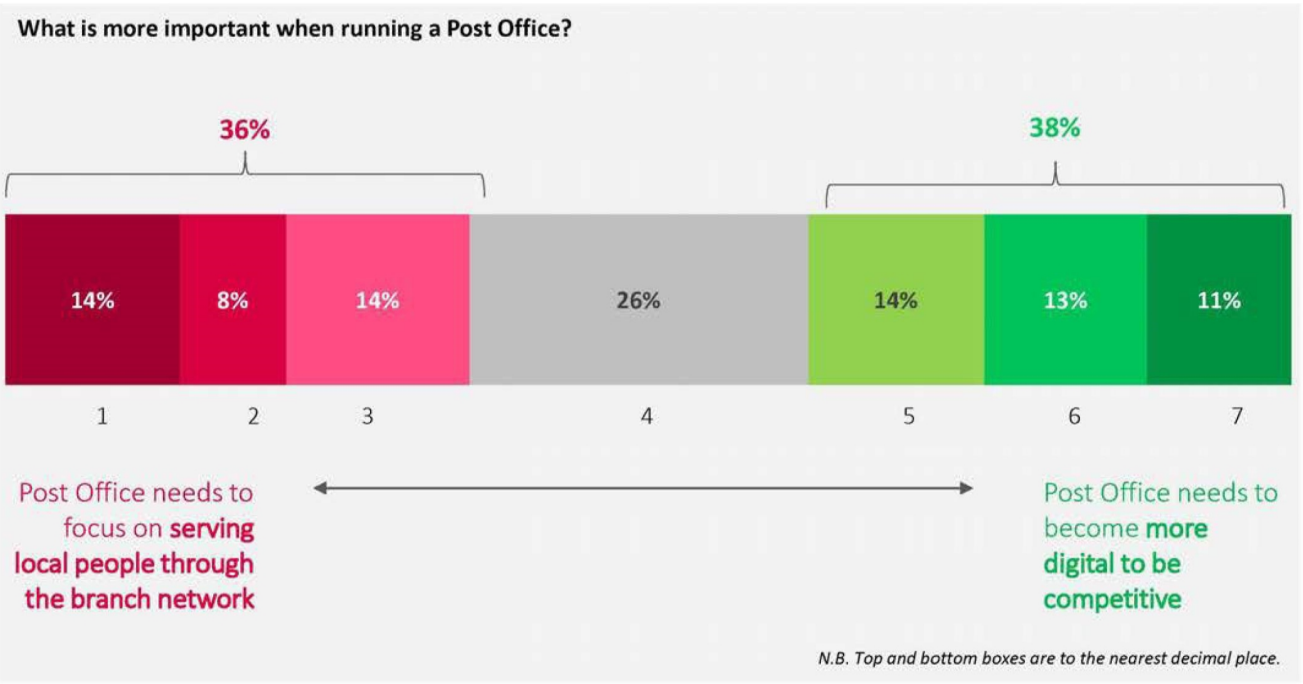
There is no consensus among Postmasters on the future direction of the business

What is more important when running a Post Office?



N.B. Top and bottom boxes are to the nearest decimal place.

Question: B10 Please read the following and express your opinion using the scale below.
Base (1767)

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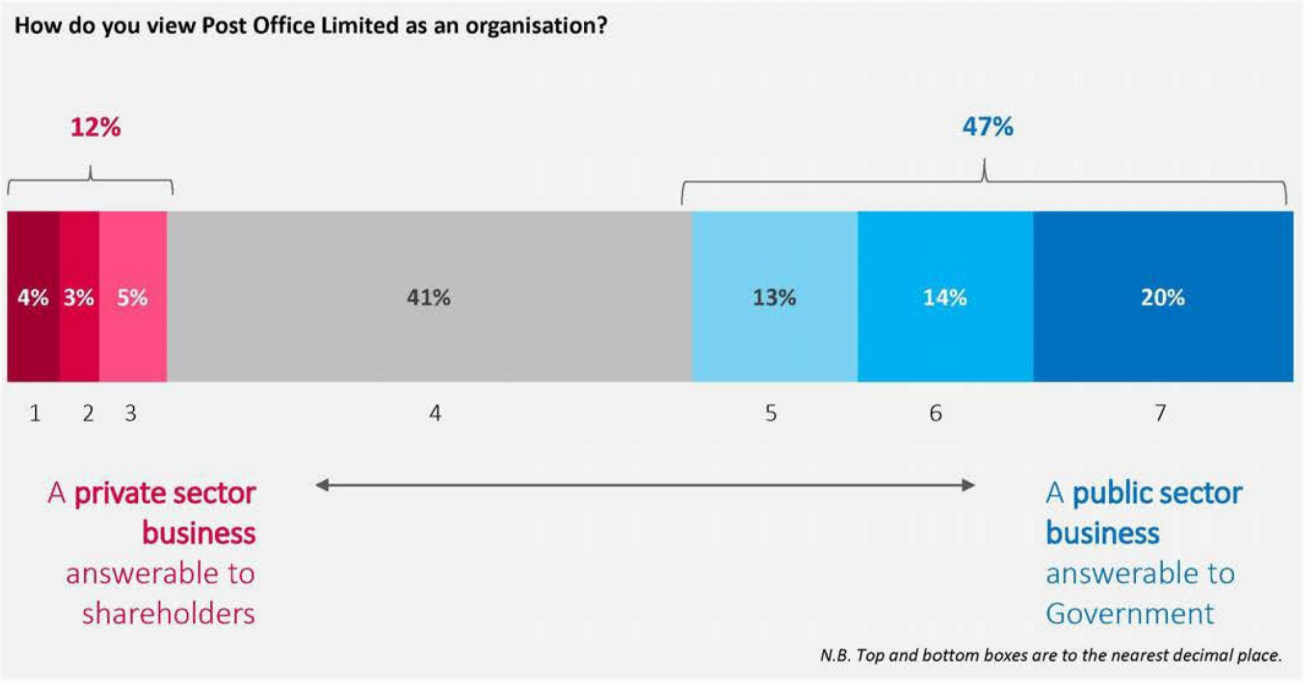
There is also confusion about whether post offices can rely on the taxpayer or rely on the paying customer



Question: C2 How do you view Post Office Limited as an organisation? *Base (1767)*

'We run the Post office on a daily basis. Not closed at all. However, we are exhausted as we have to work nonstop to save on staff fees to break even. No government grant available as within a council building and when spoken to Post Office for help financially, was told we are ok and cannot help. Mentally this is breaking us. Council Post office ltd, no one wants to help. All Post offices close to us are shut received government grants staff furlough all stress free. Not for us, we have to work to support the community to pay the bills otherwise our debts get bigger . Where is that fair and how can you say that we are supported from Post office ltd. All we hear from our area manager is that we are doing well and will get through it and others are just as bad as us!'

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POST OFFICE

What is working well?

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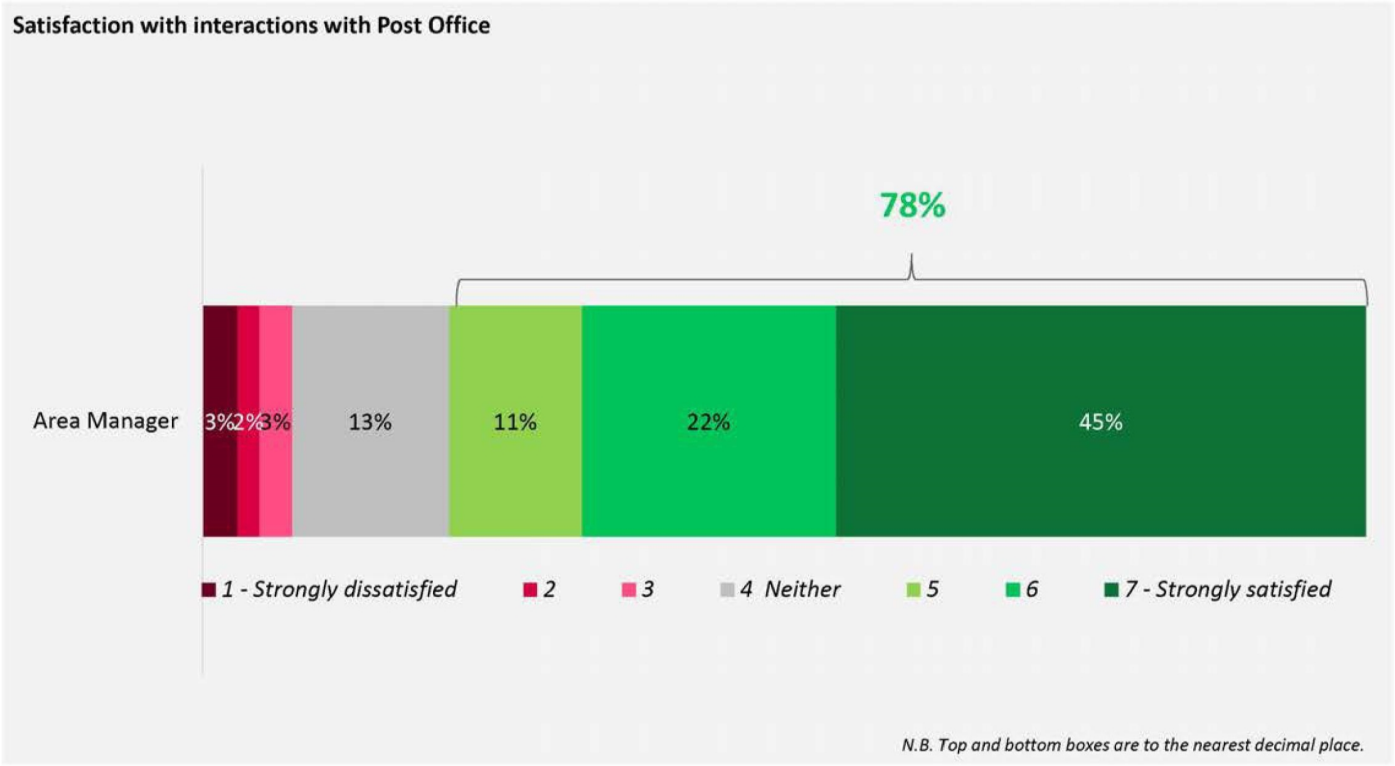
Area Managers receive strong scores



Question: D2 This time thinking about your interactions with Post Office and the systems and processes in place to enable these.
Base (1767)

- c.3 in 4 Postmasters are satisfied with the performance of their Area Manager

'We have a superb area manager. She gets to know us personally and is easily available at any time. It's a such beautiful addition to my retail business which gives me a kick to grow all the time.'

'Until the appointment of the area managers, which has been one of the better things PO have done recently, communication was very poor. Keep up the improvements in this area.'

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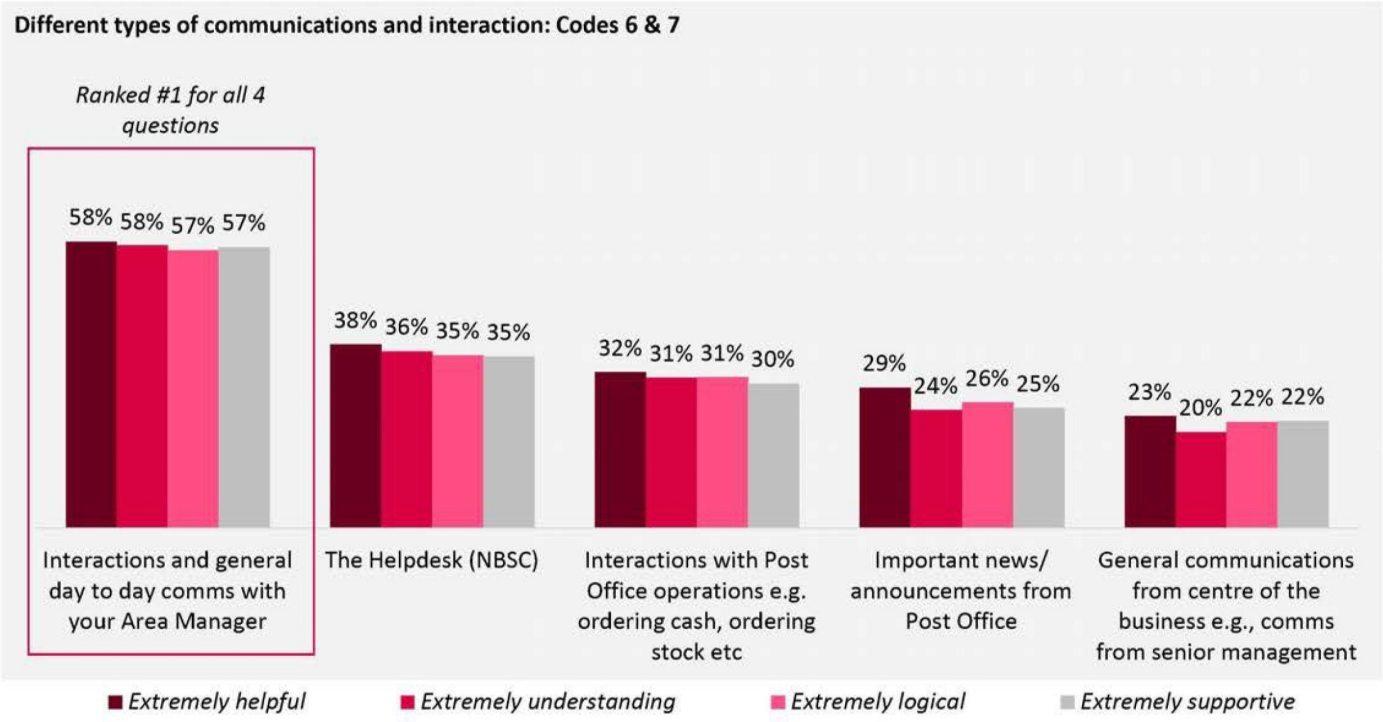
Postmasters feel interactions with their Area Manager are rewarding but the quality of interactions with other staff are concerning



Question: D3a to d. Please think about the different types of communications/ interaction Postmasters have with Post Office, please rate each on the following: Base (1767)

*'Each post office has different and unique dynamics in which they operate. Post office ltd need to focus on individual postmaster's needs by having **Area managers devolving that working relationship with post masters in their area. That way a postmaster will feel heard and felt part of this great organisation.** Area managers mostly communicate to either give postmaster bad news i.e. withdrawal of a service from their branch or some kind of telling off. POL need to work on developing one to one relationship with postmaster for greater output of their potential. **We feel alone** swimming in the sea and see no one swimming along side us.'*

'The shift in relationship between Postmaster and Post Office is encouraging, helped by the reintroduction of Area Managers, with what appears to be a shift towards how they can help the Postmaster run and operate the business.'

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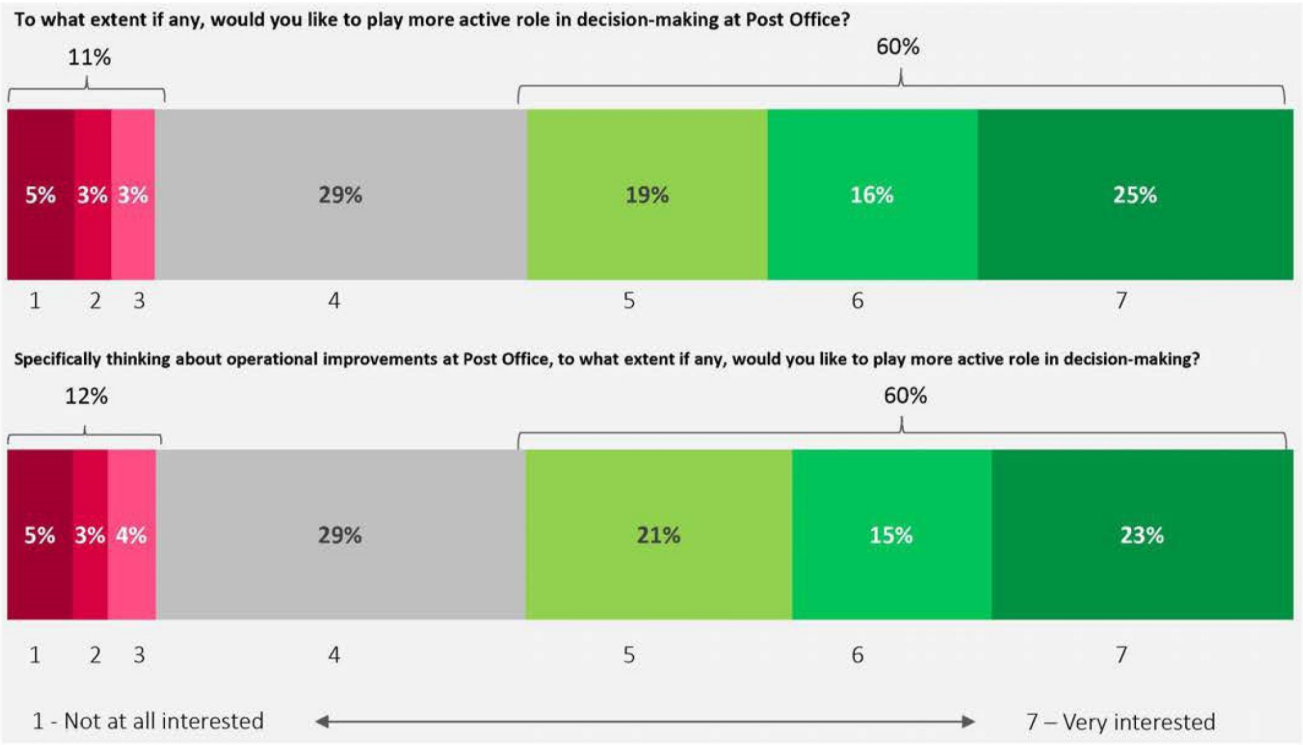
There is significant interest in getting involved and playing a more active role in Post Office



Question: F3a To what extent if any, would you like to play more active role in decision-making at Post Office? Base (1767)

N.B. Top and bottom boxes are to the nearest decimal place.

- Very interested group:
  - 35-44s
  - Male
  - Those confident in technology
  - Main branch
  - Indian background
- Not at all interested group:
  - Female
  - Older customer base (under 55)
  - Not confident in technology East of England
  - White background
- Neutral group
  - Over 55s
  - Female
  - Sub Payments Sub Office

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POST OFFICE

Priorities for improvement

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For ease we have grouped the priority items into themes

1. Remuneration & profit	2. IT systems and processes	3. Communication
• Changes to remuneration • Creation of forums/ working groups to focus on remuneration	• Simplify Horizon • More efficient day-to-day systems e.g. cash and stock ordering • Simplify Branch Hub • More/ better management information made available	• Better communication in general between PMRs and PO • More transparency around questions/complaints/ queries • Simpler communications
4. Training	**5. Representation**	**6. Innovation & working groups**
• More/ better training available to Postmasters • Creation of initiatives to help Postmasters come up to speed • Upskilling of PO staff at Helpdesk, Cash centre etc. • Better training/ support for Area Managers	• Improvements to representation • Creation of a Non- Exec PMR • Greater access to senior management at Post Office • Greater Access to Area Manager	• More products to sell • Creation of forums/ working groups to focus on innovation • Creation of forums/ working groups to focus on Operational matters • Creation of forums/ working groups to focus on CX matters

1st priority

At least c.60% say these areas require improvement

2nd priority

Still important, but not as critical as first priority

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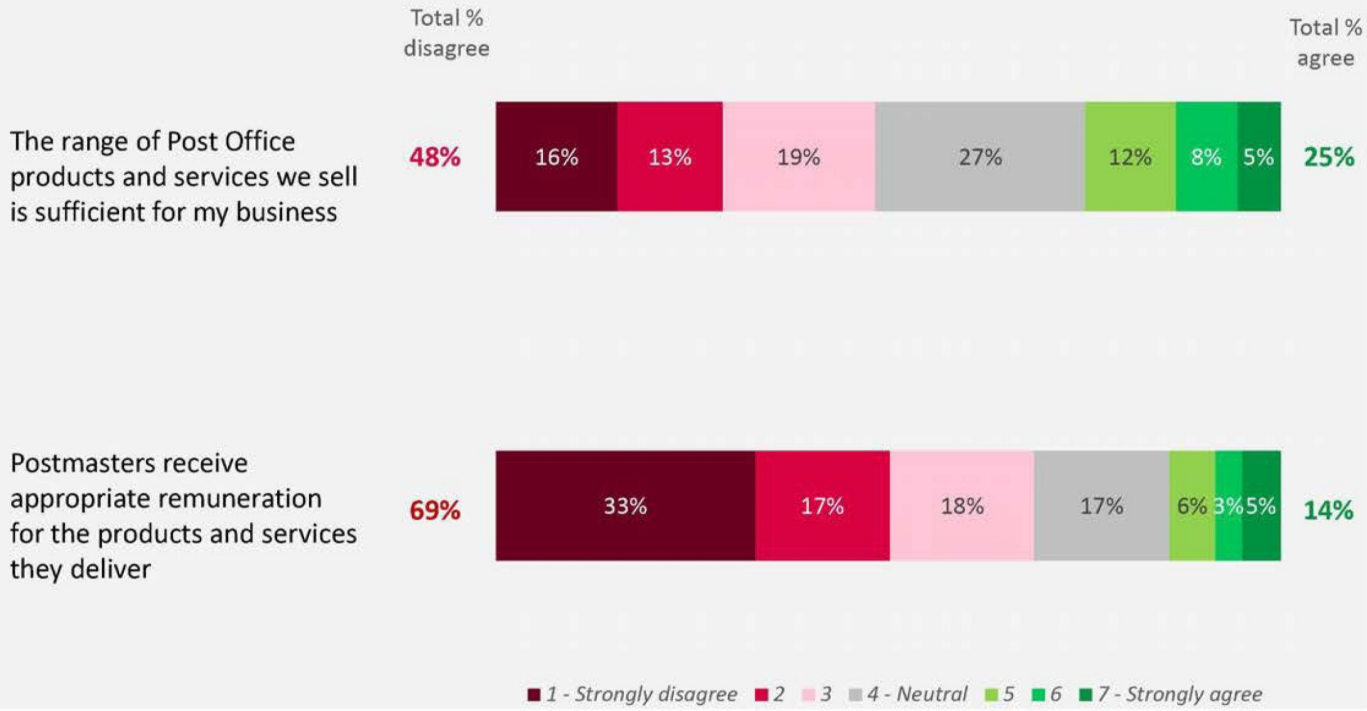
1. **Remuneration & profit** – half are dissatisfied with product range, c. 7 in 10 are dissatisfied with remuneration

Agreement with realities of running a Post Office business



Question: D1 Thinking firstly about the commercial realities of running your business.
Base (1767)

N.B. Top and bottom boxes are to the nearest decimal place.

'The remuneration is a joke. We can't afford to keep enough staff on the counter because of the remuneration we receive compared to national minimum wage. Due to which we lose customers who aren't willing to wait longer time scales. Postmasters all over have prioritised other businesses due to this, as they need better income to help support them. This is why the post office is losing most it's customers to online or other revenues.'

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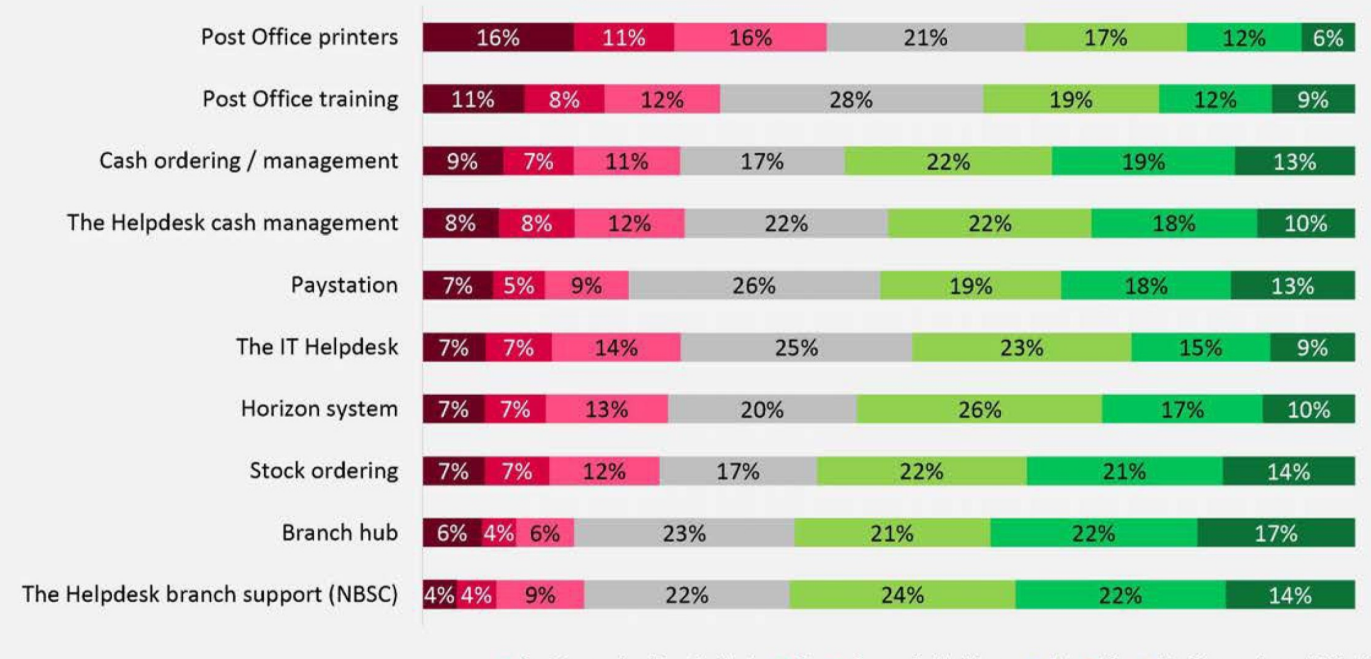
2. IT systems and processes – considerable dissatisfaction c. half are less than satisfied on every measure

Satisfaction with interactions with Post Office and the systems and processes in place



Question: D2 This time thinking about your interactions with Post Office and the systems and processes in place to enable these.
Base (1767)

'Improving Horizon/ PayStation , Currently very outdated, Needs a full upgrade, no point just a few colour changes , also again why can't there be a till button so I can serve my retail customers? The amount of customers I have to turn to the other counter is frustrating. PayStation is not viable as it takes far too long processing , can't this be Linked to the Computer?'

'I believe that horizon could be a lot simpler especially for mails and there are easy quick wins.'

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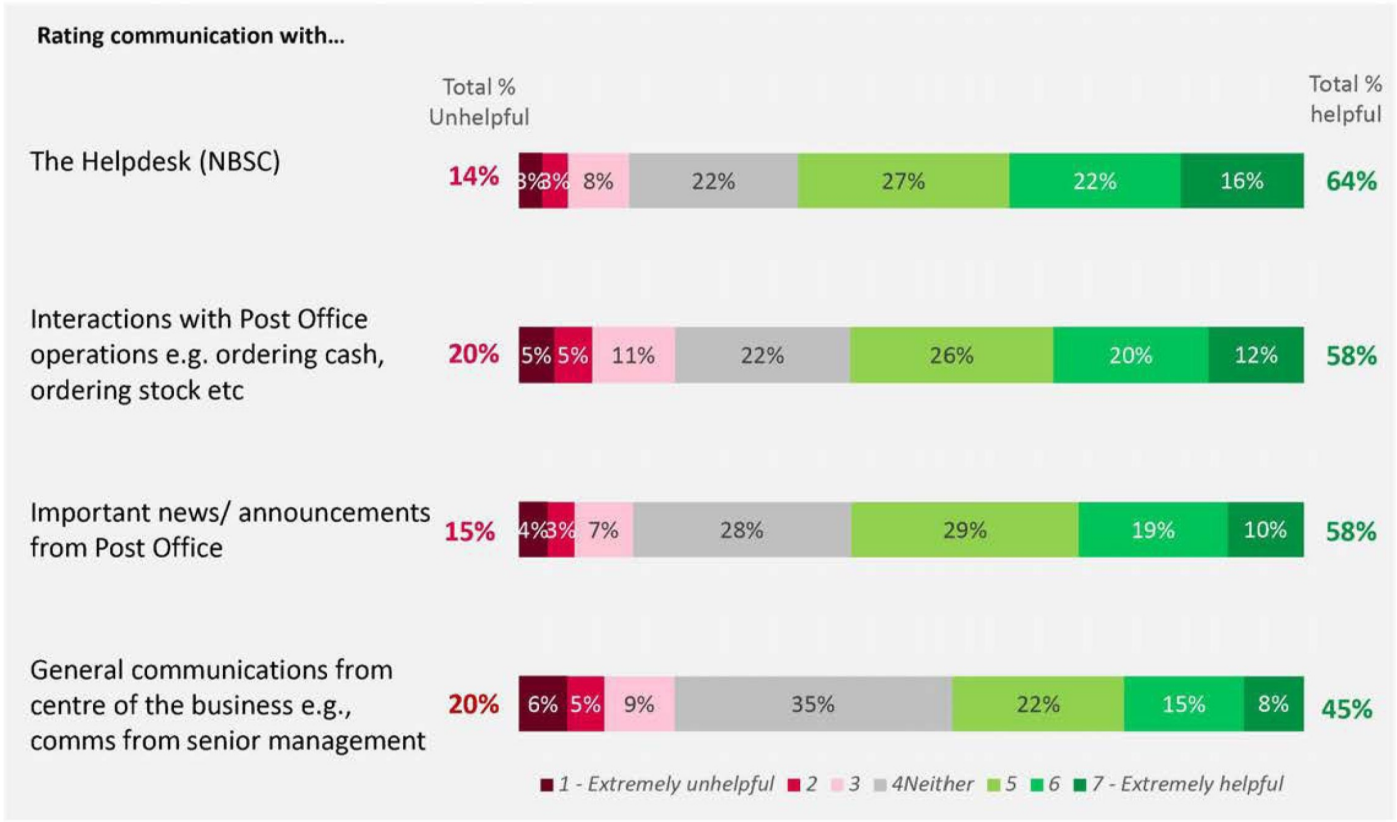
3. Communication. Plenty of opportunity to improve quality of interactions



Question: D3a to d. Please think about the different types of communications/interaction Postmasters have with Post Office, please rate each on the following:
Base (1767)

N.B. Top and bottom boxes are to the nearest decimal place.

'I just feel in the last 12 years I've been a Postmaster, I've never felt important. You ring helpdesk they've previously not been helpful and cash management are very rude.'

'I took over my Post Office 6 years ago..., I could not speak to anyone at Post Office about this as there are no published numbers. ***I contacted the help desk many times and all they could do was send an email on my behalf....*** *This should never happen in this day and age. I now have an Area Manager, but I feel she comes up against the same issues... Again, we are unable to speak with people.* ***Communication is key and fast responses in a world of instant service - my relationship with Post Office is fine until I need help!'***

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Next steps

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Socialising the insights and enlisting the help of PMRs

1. X5 group sharing sessions with PMRs x6 group sessions with key stakeholders

- Quadrangle to present key findings to PMRs and stakeholders and priorities (c.15 mins)
- Then host a group discussion on how we might begin to address the issues

Delivers…

- Rapid sharing of survey findings to PMRs
- Sense checks the key areas for improvement
- Enlists PMRs help in beginning to tackle key challenges

2. Prioritise working session

- Quadrangle and PO team sift PMR suggestions
- Come to an understanding of what is and isn't possible e.g. weed out suggestions that are inoperable/ commercially inviable
- Feed in our own ideas for improvement
- Identify **5-6** priority initiatives we want to take into #3

3. x3 co-creation workshops

- Sessions organised around top 3 priority areas (remuneration, IT/systems and communications)
- Each session driven by top 2 emerging ideas/ solutions
- Attendees to include PMRs, key people from Post Office and wider stakeholders

Delivers…

- Execution plan to address top priority areas
- Commitments to change (PMRs and Post Office)
- Finally, keeping us honest – a plan for monitoring progress

In train: first sharing sessions happening w/c15th Feb

Scheduled for w/c 1st March

Segmentation delivered in tandem

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End of presentation

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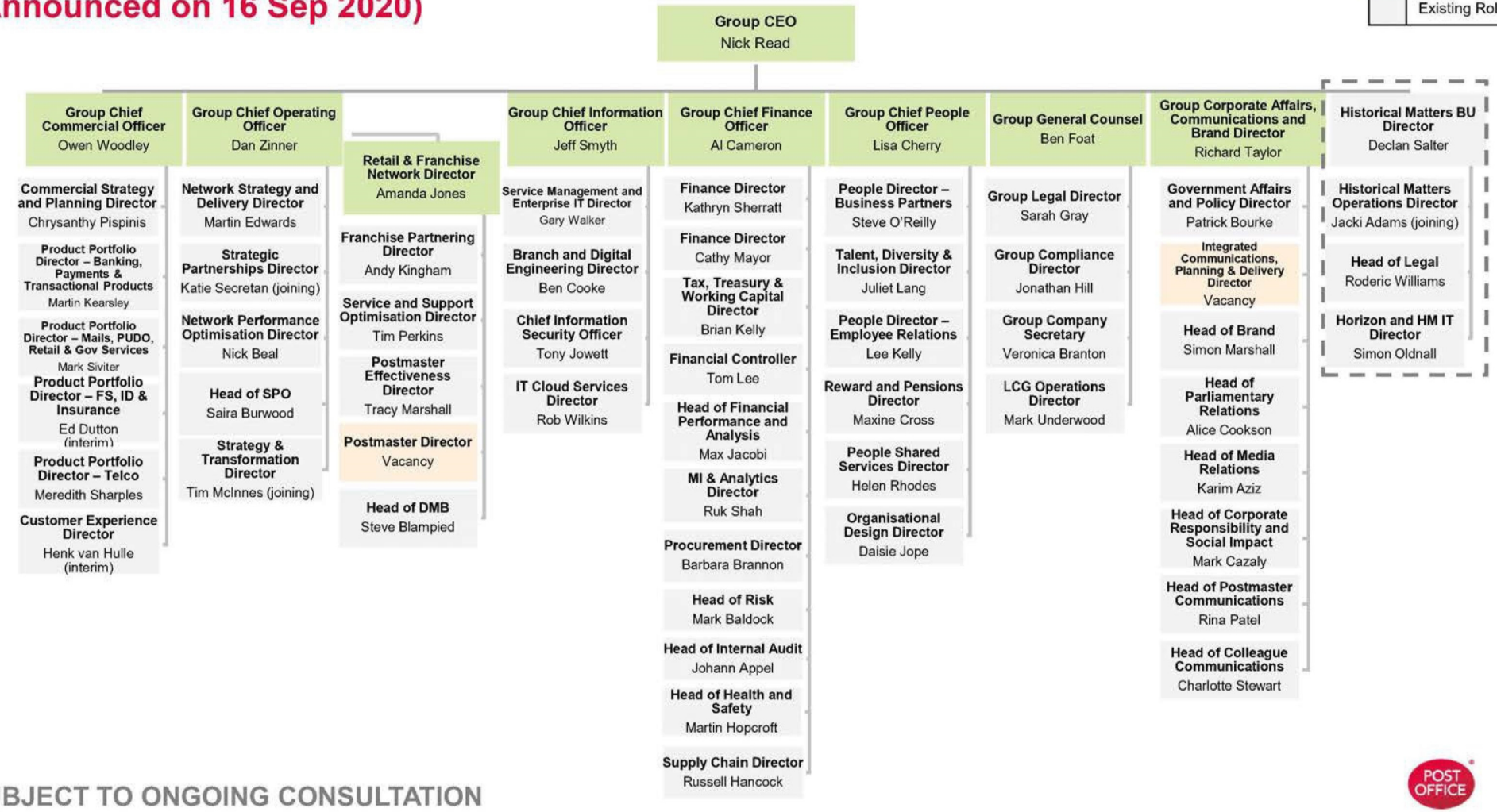
Proposal for GE Direct Reports – Stands up on 13 Nov 2020 (Announced on 16 Sep 2020)

	GE Member
	Vacancy
	Existing Role



SUBJECT TO ONGOING CONSULTATION

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Tim Parker
Chairman
Post Office Limited
Finsbury Dials
20 Finsbury Street
London
EC2Y 9AQ

Paul Scully MP
Minister for Small Business, Consumers & Labour Markets
Department for Business, Energy & Industrial Strategy
1 Victoria Street
London
SW1H 0ET

28 August 2020

Dear Paul,

Four Year Plan and Funding Request

Post Office Limited (POL) has submitted its Four Year Plan and Funding Request today. The Directors of POL[1] support the Funding Request to HM Treasury for IRRELEVANT and the underpinning Plan.

The Four Year Plan

The Board has reviewed eight iterations of the Plan or financial forecasts over the past eight months and the Funding Request that will support its delivery. The trading position has been difficult and volatile because of Covid-19 but at least 90% of the Post Office network remained open during the lockdown period. Uncertainties remain, particularly in the travel market, but POL has cemented its position in providing access to cash and this service and mails are central to our Four Year Plan, as is the flexibility in format and propositions required for our commercial sustainability.

As a Board, we have discussed the Plan and Funding Request, questioned, tested, provided challenge on certain areas and assumptions and have been able to speak to key individuals separately, as well as at Board meetings. The Funding Request includes several strategic developments, such as the Network Strategy, and spending requirements that are critical for the business, such as IT system development. Directors have participated in briefing sessions and held strategy sessions on all of the main areas for which funding is sought. Additionally, BEIS commissioned KPMG to provide a report on the Four Year Plan; while this review is for UKGI it has been helpful for the Board in providing an additional source of independent scrutiny and testing.

[1]Tom Cooper, Shareholder Representative and Non-Executive Director of POL, has been fully involved in the Board's discussions but recused himself from the board's decision to propose this Four Year Plan and Funding Request to BEIS because he will continue to represent the Shareholder with any questions or changes required to the Plan post submission.

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The POL Board believes the Four Year Plan provides a good picture of our central trading assumptions, the measures we can take to reduce our cost base and the funding needed to develop as a commercially sustainable business. We support the key drivers which are to focus on Mails and Banking, which provide much of our revenue, and 80% of Postmasters'; to right-size the business and its cost base to reflect this focus on our core; to continue to deliver the SGEIs and the social benefits these bring; to make running a Post Office an attractive proposition, re-casting our relationship with Postmasters through bringing in their ideas and providing the support and formats that can work for the entrepreneurial and provide fair recompense to those offering a service to their community.

Some benefits will not be realised until after the funding period and many projects are interlinked, for example the Network Strategy is supported by IT developments. Our submission includes that longer time horizon of benefits. There are also proposals that need to be developed further and issues which we as a board will monitor:

- the proposals for the Network Strategy and the Fujitsu/ SPM work need to be developed further and the business cases will need to approved by the Board and the Shareholder before any funds are released
- the non-staff cost base remains high with many fixed costs during this funding period. The executive is focussed on right-sizing these costs and the Board will oversee progress and maintain focus in this area, acting where we can now, for example, when renegotiating contracts
- there are uncertainties about the shape of the post-Covid retail market and over a four year period market conditions will change so Post Office will need to adapt as required. Our governance arrangements to support this are described below.

Governance Arrangements

Our investment spend processes and governance have strengthened during the year and remain a focus for the Board with a report, including the progress of key projects, provided for each scheduled meeting. These reports are also shared and discussed with the Shareholder with approvals sought wherever required. POL adopted new Articles of Association and agreed a Framework Document with the Shareholder in April 2020. This has given greater structure to our governance arrangements and we now have a regular pattern of quarterly accountability meetings with BEIS. That structure supports how we would approach seeking Shareholder input and obtaining approval where proposals within the Funding Plan need further development and a supporting business case prior to the release of funding.

At executive level, POL's Investment Committee reviews, tests and approves business cases with project progress reported to it and with further tranches of funding approved by it. Spend of £IRRELEVANT or above must be approved by the Board and any matter of strategic importance would also be discussed by the Board. Shareholder approval is required for sums of £IRRELEVANT or more and for some other relevant transactions.

Tom Cooper, the Shareholder representative, is also a Non-Executive Director of POL, so participates in Board discussions and he and his UKGI Team meet with the POL Finance and Change Teams regularly. This regular contact together with meetings with BEIS, including the quarterly accountability meetings, provide both informal and formal mechanisms for obtaining input and approvals.

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Value for Money

We believe the Four Year Plan and the Funding Request that supports it represents Value for Money to the taxpayer. It is designed to maintain access to vital services for many individuals who are underserved; this may be because they do not have a bank account or a bank branch in their neighbourhood, they live in a rural area, they are not online or have more trust in a face-to-face service. It is also aims to develop the commercial sustainability of the business so that the cost of serving the underserved can lessen over time. The top priorities of the Spending Review are to strengthen the UK's economic recovery from COVID-19 by prioritising jobs and skills and levelling up economic opportunity across all nations and regions of the country by investing in infrastructure, innovation and people. The Post Office Plan supports both. We aim to grow our network to over 12,000 branches and we provide services to individuals, small businesses and start-ups nationwide which supports jobs and levelling up because that service is universal.

The plan includes our core assumptions and proposals; inevitably some will change but we have tested a number of scenarios and where less funding is secured fewer benefits can be delivered, while the costs are deferred rather than eliminated. Naturally, we appreciate that Government resources are severely stretched so we have included all the self-help measures we could identify. That includes redundancies for some Post Office employees and these redundancies bring costs to the Plan. However, our plan to expand the Post Office network to over 12,000 branches and the service Post Office's provide to small businesses support employment.

In sum:

- the POL Board believes the Four Year Plan provides a good picture of our central trading assumptions, the measures we can take to reduce our cost base and the funding needed to develop as a commercially sustainable business while maintaining delivery of the SGEIs
- the POL Board supports the IRRELEVANT Funding Request to HM Treasury that facilitates the delivery of the Four Year Plan
- the Board had reviewed, tested and challenged the Plan's assumptions and the Funding Request over a number of months and our submission highlights proposals which require further development
- there are uncertainties about the shape of the post-Covid retail market and over a four year period market conditions will change so Post Office will need to adapt its plans as required. The governance arrangements for obtaining Board and Shareholder input and approval for changes are robust

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- we believe the Plan represents Value for Money as it is designed to allow Post Office to continue serving the underserved while lessening the cost of this to the taxpayer over time by increasing branch profitability and making it more attractive to be a Postmaster.

Best wishes,

GRO

Tim Parker
Chairman
GRO

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POST OFFICE LIMITED
UKGI REPORT

Title:	Response to 11th August Letter	**Date:**	28th August 2020
Author(s):	Dan Zinner & Max Jacobi	**Sponsor(s):**	Nick Read & Al Cameron

Context

This document forms the Post Office Limited (POL) response to a letter from UKGI dated 11 August. The letter highlighted a number of areas where UKGI, BEIS, HMT and Minister Scully would like us to consider potential changes to the current draft four-year plan reviewed with the POL Board on 28 July, with a view to reducing the scale and structure of our funding request.

Responses

In responding to the discussion points raised by UKGI it should be noted that the short timescales involved mean that the responses are necessarily indicative, and would require further work to confirm in an updated detailed submission, alongside requiring Board review and ratification. We are, however, keen to support the current funding processes and Government agenda in whatever way we can, and have addressed each of your points below.

IRRELEVANT

In responding to this point we have factored in the request that we should include supporting litigation legal spend (but not settlement costs) which we currently estimate will cost around IRRELEVANT over the funding period. Adding this to our current submission of IRRELEVANT would therefore yield an overall funding requirement of IRRELEVANT

Whilst our original submission centred on an Equity injection, we have also discussed allocating this between subsidy, grant, equity and loan mechanisms, with a potential scenario as follows:

- Subsidy of IRRELEVANT over the period, which represents a continuation of the subsidy levels received relating to loss making branches;
- An Investment Grant of IRRELEVANT to support our various investments;
- A loan of IRRELEVANT (which would convert in to equity at the end of the funding period should we not have a suitable cash surplus).

This being the case there are two key areas worth further discussion?

- How would such a loan potentially work?
- What are the risks and implications around Net Liabilities if a different capital structure was used?

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How could such a loan work?

For discussion purposes we have put forward IRRELEVANT as a loan amount and agreement on any upfront amount will be critical, however, we also recognise that the amount of funds that could be returned will be dependent on our business performance and any sale of business assets. This therefore means the loan could be higher than IRRELEVANT, with IRRELEVANT IRRELEVANT Whilst a higher loan would be one mechanism to recover any excess earnings a dividend route may be more appropriate as it would protect both Security Headroom and Net Assets and ensure affordability for POL.

There are many options for how to structure such a loan vehicle, but one option could be:

- IRRELEVANT

Another further loan option would be a longer term loan, with repayments commencing at the end of the funding period and being repaid over a IRRELEVANT period from that point (with interest charged in line with previous option), with this being a simpler and more predictable arrangement for all parties.

Risks and Implications around Net Liabilities

As discussed in the paper discussed at the 28th July Board, if a material cash injection over the period was made this would likely avoid POL dropping in to a Net Liability position. Funding through subsidy and investment grant with only a relatively small loan would still improve our Net Asset position over the funding cycle.

Being in a net liability position matters for several reasons, and our initial view of the implications of moving to net liabilities is below, however, further confirmation work is ongoing with POL legal to confirm all elements:

- It is a legal indicator of insolvency of which we have to notify some clients.
- We have a IRRELEVANT operational facility in place with IRRELEVANT that provides an intra-day overdraft, IRRELEVANT IRRELEVANT
- IRRELEVANT

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- IRRELEVANT
- IRRELEVANT could IRRELEVANT IRRELEVANT
- Given the quantum of funding (up to IRRELEVANT provided by IRRELEVANT in this way this would have significant implications for the business.
- A secondary consideration is that any issues triggered with IRRELEVANT could have implications with other partner agreements.
- There are also commercial considerations – a deteriorating Net Asset position could adversely impact supplier and client negotiations, including potentially needing to agree waivers with IRRELEVANT and IRRELEVANT
- A practical way to avoid a default, and the associated impacts would therefore be to introduce more equity into the capital structure either by means of new equity or via a debt for equity swap.

Alongside Net Assets we have also flagged the need to reform the current Security Headroom calculations and agree a sensible minimum level to work to that provides us an appropriate buffer against natural fluctuations. We have provisionally signalled £200m as a sensible level to aim for once we have updated the calculation, but welcome further debate on this.

IRRELEVANT

In reviewing the savings already being delivered in the current plan it is assumed that these savings are able to be funded, which may not be possible should any investments be deprioritised (or delayed) as this would have a flow through impact on cost savings.

Not all our investments are designed to reduce costs. Some are commercial or technology in nature and increase our cost base in support of gained revenues or Network improvements. Due to the scale and nature of our business and the markets we operate in, we also have a material amount of regulatory, compliance and maintenance spend, which whilst all grouped as "investment" will not increase revenues or decrease costs:

Investment Area (excluding PGLO)	Spend (£m)
Cost Reductions (e.g. people costs)	IRRELEVANT
Commercial Network & Channel Investment	
Commercial Product Investment	
Maintenance and End of Life - Technology investments	
Maintenance and Regulatory - Other	
Total	

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Alongside these investments we have submitted the following annual shifts in non-staff costs between current rates and 23/24:

- IRRELEVANT reduction in Identity costs as we transition away from AEI machines to tablets.
- reduction in Supply Chain through various Cash Transformation initiatives.
- CIO run-rate costs are expected to increase by around IRRELEVANT over the cycle, driven by
  - of dual running costs for the SPM Horizon Replacement system,
  - IRRELEVANT of Branch Hub run costs, which brings staff cost savings higher than IRRELEVANT per year,
  - of run costs for PCI solution,
  - IRRELEVANT of contracted inflationary increases,
- reduction in HR costs, predominantly around insurance and central benefits,
- of reduced Property costs as we rationalise our estate and renegotiate contracts,
- IRRELEVANT of increased costs from the supply and distribution of CV-19 related PPE,
- (10%) increase in marketing spend as we invest in our Brand and core products,
- increase in Insurance costs, in support with forecasted revenue increases,
- Further to the above, our current plan includes an escalating stretch target of IRRELEVANT (around 10%) of annual savings over the period. This combines with the IRRELEVANT of reductions listed above to a 14% gross reduction over the period (excluding the business driven increases from CIO, Insurance and Marketing).

Some of these investment plans are further along in the planning and execution than others, but even if funding is allocated, no spend will be conducted without each investment going through the agreed governance processes, including Board approval for any total investment spend over IRRELEVANT and agreement of benefits.

Looking to what further cost savings might be targeted in the next funding period beyond those already submitted, some options are discussed below:

POCa

The main term of our POCa contract with DWP expires in IRRELEVANT but due to delays in conversion activity due to Covid19 and lack of clarity on the type of exit DWP wish to pursue, or their timescales to deliver, the 4YP assumes IRRELEVANT of extension, at a cost of IRRELEVANT The impact of this could potentially be reduced if Government were to actively support the mass migration approach, forcing mainstream banks to take on remaining POCa customers. While challenging to deliver, this option offers us the IRRELEVANT
If Government can fully support this approach and gain agreement from the banks by the end of this calendar year, there is the potential to exit POCa earlier in 2022, reducing POL's costs by IRRELEVANT

Staff Costs Savings

POL Board approved in July IRRELEVANT to enable the reduction of c. 110 non-DMB FTE's (net) in September 2020. This request included capability builds within technology to enable further and future FTE reductions. Further FTE reductions are anticipated in late FY20/21 to achieve a total c. 250 FTE reduction for all of FY2021 and will be presented to POL Board in the Autumn.

Both FY 20/21 tranches cost IRRELEVANT in total, and provide an in year saving of IRRELEVANT annualised at IRRELEVANT

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We expect more FTE's can be removed during FY 21/22 after business process redesign and implementation of technology changes have occurred. This is forecast to cost IRRELEVANT with an in year saving of IRRELEVANT annualised at IRRELEVANT These costs include severance, technology enablement and programme delivery.

We continue to explore ways to moderate the quantum and timing of spend. These include options around reducing severance pay while providing adequate incentives for colleagues to exit the organisation voluntarily whilst still maintaining industrial relations. Options could include:

- Reduce IRRELEVANT We could reduce costs by IRRELEVANT if agreed and adopted prior to the September 2020 exits. This reduces to IRRELEVANT saved if applied for FY 21/22 reductions.
- Reduce severance terms to Statutory terms. IRRELEVANT cost reduction if adopted prior to the September 2020 exits. £IRRELEVANT cost reduction if adopted for FY 21/22.
- Application of IRRELEVANT Public Sector Severance Pay cap provided for within Enterprise Act 2016. The impact of implementing this provision prior to the September 2020 exits is up to IRRELEVANT cost reduction. IRRELEVANT cost reduction if applied for FY 21/22.

Risks associated of changing severance terms including Unions taking action to protect their members and colleagues less likely to leave on voluntary redundancy given the economy post Covid 19. This could lead to a compulsory redundancy situation which has not occurred in POL over the last 5 years and there would be a risk of legal challenge costs in response, diminishing any savings as we would be in breach of our employment contract and subject to employment claims.

Other Non-Staff Cost Options

The Board and KPMG have both recognised that given the relationships with revenue and the contracts in place, further reducing non staff costs will take time and money. We are setting up a programme to progress this as discussed at the Board. We have also reduced non staff costs in the outer year by a further IRRELEVANT challenge. To do more would be dangerous as we don't not have the plan or the investment spend necessary to deliver it.

It is also worth highlighting on non-staff costs, that the vast majority of our non-staff cost base (circa 85%) support revenue and service delivery (as opposed to central management overhead), and so further material reductions in this area will likely require changes to which products we deliver and how we deliver those.

A few areas we have already explored include:

- IRRELEVANT reduction in Insurance marketing spend, with a corresponding IRRELEVANT reduction in income;
- IRRELEVANT reduction in Telephony marketing, with a corresponding IRRELEVANT impact to incomes;
- IRRELEVANT CIO saving by changing Postmaster contracts to require them to provide internet at their sites;
- Reduction in level of Security provided to agents (including safes), currently costing around IRRELEVANT per annum;
- IRRELEVANT reduction in HMRC fees associated with same day FX sales sites, with the impact being to only allow for pre-order travel money sales.

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We would also see a corresponding drop in costs (and revenues) should we divest ourselves of any business (e.g. Telephony, Insurance).

IRRELEVANT

We have been reviewing the GLO cost submission of IRRELEVANT (at the time of this letter) which includes IRRELEVANT of programme costs (£IRRELEVANT over the next funding cycle) given further discussions with POL Board.

We have been exploring the following areas for possible reductions:

- The assumptions to consider economies of scale and the utilisation of previous work
- Renegotiation of fees with our external legal providers to explore volume discounts, optimising fixed fee arrangements
- The ability to use a blended approach of differently priced legal providers to optimise overall cost efficiencies
- Consider the build-up of our internal capability over the longer term.

We are due to return to POL Board and UKGI shortly, however, through further work on the above areas, we are currently reducing our legal costs submission over the funding period from IRRELEVANT

IRRELEVANT

At this point it is probably worth reconfirming that our Network team have always, and will continue to, consult closely with local communities when looking at options around each DMB branch to ensure we always meet customer demand with sufficient capacity of Post Office availability (a mix of locations, counters and services provided).

The term "franchise" refers to the previous default (and more expensive) scenario where we create a new, large Main (or equivalent) franchise site nearby. The term "closure" refers to a scenario where we "close" a DMB without opening a new large Main (or equivalent) franchised site nearby. We would only suggest a "closure" if the current customer demand could be met

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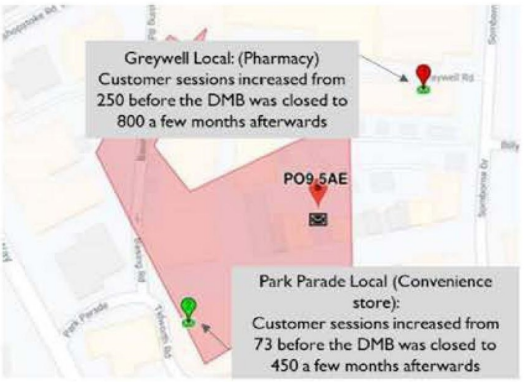
through either 1) the existing nearby Post Office locations; 2) an increase in capacity current Post Office locations (e.g. adding more counters to a Local to become a Local Plus) or; 3) to add additional Local locations to meet customer demand. There are scenarios where we use a combination of option 2) and 3). It should be noted that when we suggest a "closure" we are often helping to sustain local franchise businesses by increasing their footfall and remuneration, thus ensuring sustainability of these franchise branches.

For example, in IRRELEVANT (below) we opened two new Locals near to the DMB, one in a convenience store and one in a pharmacy, a few months before closing the DMB which was closed in September 2018. Within 3 months the customer sessions at these two Locals increased by 600% and 300%. Overall, the migration level is 99%, meaning that the two Locals combined have picked-up nearly all of the business that was previously undertaken in the DMB while at the same time helping to drive footfall and increase business at these 2 local shops.



Recent transaction data, post Covid-19, suggest an acceleration of the customer shift away from the DMB format (i.e., a large Main). As of FY2021, 74% of our DMBs are now unprofitable. When comparing DMBs to the rest of the estate, Q1 FY1920 (Pre-CV19) v. Q1 FY2021 (Post-CV19), we can see that DMBs have been impacted more severely by Covid than our franchised post offices and as a result we now estimate that the 86 loss-making DMBs cost POL and additional IRRELEVANT (in lost profit) annually.

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Profitability of the 116 DMBs Pre versus Post Lockdown

DMB branches' profitability: Pre-Covid Lockdown	DMB branches' profitability: Post-Covid Lockdown
Pre-Covid 42 DMBs are profitable (above the line) and 74 are unprofitable (below the line)	*Post-Covid only 30 DMBs are profitable and 86 are unprofitable*

Profitability of 116 DMBs



We are concerned that the DMB format itself has become even more untenable. When we compare the performance of DMBs to Large Mains (the most similar franchise format comparator) we see that DMBs have performed less well. Weekly Customer sessions in the 116 DMBs have on average dropped 52% YoY compared to just 35% on average for Large Main franchise branches and income in the 116 DMBs was down 74% YoY versus 63% on average for Large Mains. We have yet to investigate this on a profitability level, yet this reinforces our understanding that the DMB format is less sustainable than an appropriately located large Main format. However, what is very clear is that both large formats, DMBs and Large Mains, are under-preforming compared to smaller formats, which reinforces customer behaviour shifts in the market. We will investigate this further as part of our overall Network Strategy. Please note in the table below we have used average income and average customer sessions per month for open branches, which may fluctuate during the period, but have been averaged out pre- and post-lockdown.

Activity	DMBs			Large Mains			Rest of Mains			Local			Legacy			Outreach		
	Pre-Lockdown	Post-Lockdown	% change	Pre-Lockdown	Post-Lockdown	% change	Pre-Lockdown	Post-Lockdown	% change	Pre-Lockdown	Post-Lockdown	% change	Pre-Lockdown	Post-Lockdown	% change	Pre-Lockdown	Post-Lockdown	% change
Average Income per branch per month (£k)	IRRELEVANT																	
Average customer sessions per branch per month																		

Pre-Lockdown: April – July 2019. Post-Lockdown: April – July 2020.

Large Mains are those over 3000 customer sessions and therefore include ex DMBs that are now franchised.

When investigating further, we can see that High and Medium density areas (where DMBs are located) have been worse impacted by Covid than Low Density areas, as customers visited post offices near to their homes (in rural and sub-urban areas) rather than their work (in urban areas).

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% Change is measured by comparing April – July 2019 versus April – July 2020	In High Density areas (i.e. City centres)			In Medium Density areas (i.e. High Street)			In Low Density areas (i.e. High Street)		
	DMBs	Versus	Large Mains	DMBs	Versus	Large Mains	DMBs	Versus	Large Mains
% change in Income pre versus post Covid	-76%	Versus	-64%	-77%	Versus	-62%	n/a	Versus	-56%
% change in customer sessions pre versus post Covid	-56%	Versus	-37%	-54%	Versus	-31%	n/a	Versus	-15%

With regards to potential program cost savings, we have re-evaluated two alternative options – one lower at lower cost and one delivering full "All Franchise" replacement. Scenario 2 is what we have currently submitted for funding, with scenarios 1 and 3 being the alternatives. Cross-cutting these two options, we have also evaluated the impact of reducing redundancy payments:

	Option	Overview	Cost	Full Benefit EBITDA	Cost of option if only pay 'Market Rate' redundancy	Cost of option if only pay Statutory redundancy	Other implications
1	All Franchise	Assumes 75 exits in 20/21 and 48 exits in 21/22 with 2 year full resource	IRRELEVANT				Paying Statutory redundancy or Market Rate redundancy in lieu of current POL terms, risk of legal challenge by Unions due to agreed Managing the Surplus Framework (MTSF).
2	Mix of closure & Franchise/Local	Assumes 58 closures and 58 franchise/ replacement with Local formats in nearby area and 6 months resource in 21/22.					Whilst we would try to focus closures on areas where there is sufficient capacity in the nearby branches, some customers may be impacted. Amending redundancy terms could ignite Industrial Action across the business as this would impact more than the DMB colleagues.
3	All future closures (42 in FY20/21) (74 in FY21/22)	Assumes 42 closures in January and 6 months resource in 21/22. This pipeline is unlikely to be delivered as announcements would be planned for Oct and may not be possible until Jan 2021 with delivery in Q1					Closing DMBs with no replacement PO provision will: • Generate significant Political noise. • Reduce Network Numbers • Compromise customer provision

It is our understanding that in a redundancy situation, POL cannot pay less than the T&Cs as the MtSF Collective Agreement is contractual. We could seek to change the existing terms and collective agreement, but this would be subject to consultation with both colleagues and Unions. We have been advised that if we did not pay the T&Cs it could result in a group litigation, as not paying MtSF terms would impact almost all POL employees, not just DMB colleagues. We have explored TUPE'ing our DMB colleagues to our franchise partners, but our franchise partners have not taken us up on this offer.

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The POL Network Strategy is intended to deliver the political & social agenda whilst also transitioning the Post Office to commercial sustainability:

#	AREA	KEY OBJECTIVES FOR OUR NETWORK STRATEGY
1	Accessibility	Maintain a network of at least 11,500
2	Accessibility	Meet our 6 network access criteria, especially rural communities
3	Sustainability	POL to be profitable, sustainable and growing
4	Social Obligations	Meet our social obligations to Postmasters and local communities

We have developed a package of initiatives that we believe will deliver on these diverse objectives requiring IRRELEVANT in funding, which we believe represents a conservative approach to the transition plan supporting the Post Office Network Strategy. This plan is addressing a key step in transitioning Post Office to a more commercially sustainable network by ameliorating our historical format decisions which served the Post Office, and our Shareholder, for a previous point in time with different customer behaviours and postmaster needs (i.e., large formats with many counter positions intending to serve many, long transactions as the "front office of Government").

	Activity	Description	# branches	Investment required	Rationale
1	Deploy into Whitespace locations	Deploy a mix of Essentials (1,360), Basics and other light-touch formats into the 1800 whitespace locations	1,800	IRRELEVANT	• Our geo-analysis indicates that there are 1,800 locations across the UK (mainly in urban areas) where we currently don't have a post office, but customer demand dictates that we need one. • Needed to provide headroom for closures.
2	Rural areas	We will seek to create vibrant 'Community Hubs' with a post office at its heart in sustainable rural businesses (Co-ops, local pharmacies, pubs, etc).	150		• Investment in these Community Hubs, will help to off-set other activities, that might reduce service in rural areas, such as closures of some rural branches. This will ensure that we are investing in sustainable rural locations.
3	Pro-active branch closures	We will close 500 under-performing post offices: 300 are Legacy branches (50 Hard to Place and 250 Community) and 200 are Outreaches.	500 (closures)		• These 500 branches provide limited social value (i.e. they serve very few customers and there are alternative post offices nearby) and they are commercial unviable and unsustainable • £3.6m of this will support 50 Hard to Place branches.
4	Replace ~700 Right Format Right location BAU churn	We expect to see ~1,100+ BAU churn over the next 3 years. They will be largely replaced with Essentials.	700		• Every year around 350 post offices close and need to be replaced with new operators. • Whilst some churn is avoidable, much churn is due to retirement or fraud and we need to replace these branches in order to maintain service in those communities

This IRRELEVANT investment will yield an annual benefit to POL at maturity of IRRELEVANT. Over the course of the IRRELEVANT funding period the return is negative in absolute terms but is as expected as investments in fixing the current network to meet changed customer and retailer host needs are longer-term in nature and support the long term goal of post office sustainability. The IRRELEVANT of Network investments must also be reviewed relative to the c. IRRELEVANT already spent in the Post Office Network Transformation and a significant portion of this investment spend is the finality of that programme.

While the requirement to deliver network numbers (11,500) creates an element of drag on the return on investment within the period and slows our ability quickly transition to a commercial network, we understand the need and have planned as such. This short-term investment return challenge is contrasted with the underlying and on-going cost of running an underperforming

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network, which we estimate to be IRRELEVANT p/a and includes the cost of supporting Outreaches and the cost of churn as shown below.

(Directly attributable) Cost of Churn to POL per year (£k)		*Other costs*
Cost to POL p/a (£k)	**IRRELEVANT**	• **Does not include cost -**
Outreach vehicle maintenance costs		• **Cash losses:** Losses from branches that are shut due to suspension / fraud
Net Contribution lost		• **Brand impact of closures:** Inconvenience to customers and communities. Difficult to quantify, but clearly has an impact on sales and our brand equity in those areas.
Closed POs cost ('make good'/recover kit)		• **Senior leadership time:** Closures take up a large amount of Management time firefighting, responding to MP's etc.
Exceptional payments to Temp ops		
Setting up new locations		
Capital cost of replacement		
Off-boarding agents		
Outreach branches fixed agents rem		
Project Management of replacement		
Cost of Churn p/a		

As with all investment plans, we acknowledge the requirement for a fully detailed business case to be approved before spend can occur, and that a funding envelope is being agreed at this point. In addition, we acknowledge there are several dependencies that this network strategy is relying on: IRRELEVANT

IRRELEVANT

Options to accelerate our transition to a fully commercially sustainable network are currently being developed and evaluated. Beyond this funding request there remains at least IRRELEVANT locations which we would ideally like to exit or change the format deployed in the location to create a more profitable Post Office and improve convenience for customers. This represents a potential opportunity to reduce agent pay by possibly IRRELEVANT pa yet would also require at least IRRELEVANT of additional investment. These options are not included in our funding request or this response nor have they been detailed out (this is high level at this stage).

In addition, there will be several locations where will have the potential to exit existing outreach branches while continuing to meet access criteria. Transition options are currently being developed and evaluated to accelerate the transition of these branches. The key elements of these options which are not in the existing funding request include an accelerated conversion of legacy to new formats and an accelerated conversion of "Mains" to new formats. These alternatives have the potential to provide better outcomes for customers and for postmasters if funding can be secured, however, we have put forward what we believe is the right mix of transition, profitability, customer and postmaster benefit as well as funding request.

The funding submission for our Network Strategy is a package of inextricably linked measures that, when combined, create a virtuous circle of network improvement. Unwinding one portion of it may have knock on effects in other areas. If we were not to pro-actively close the non-profitable branches there may not be the customer demand available to open the new profitable branches for postmasters and POL, (i.e., if we tried to open a branch without closing a non-preforming branch, we would dilute profitability of both branches, by spreading the same amount of customers over an increased number of branches).

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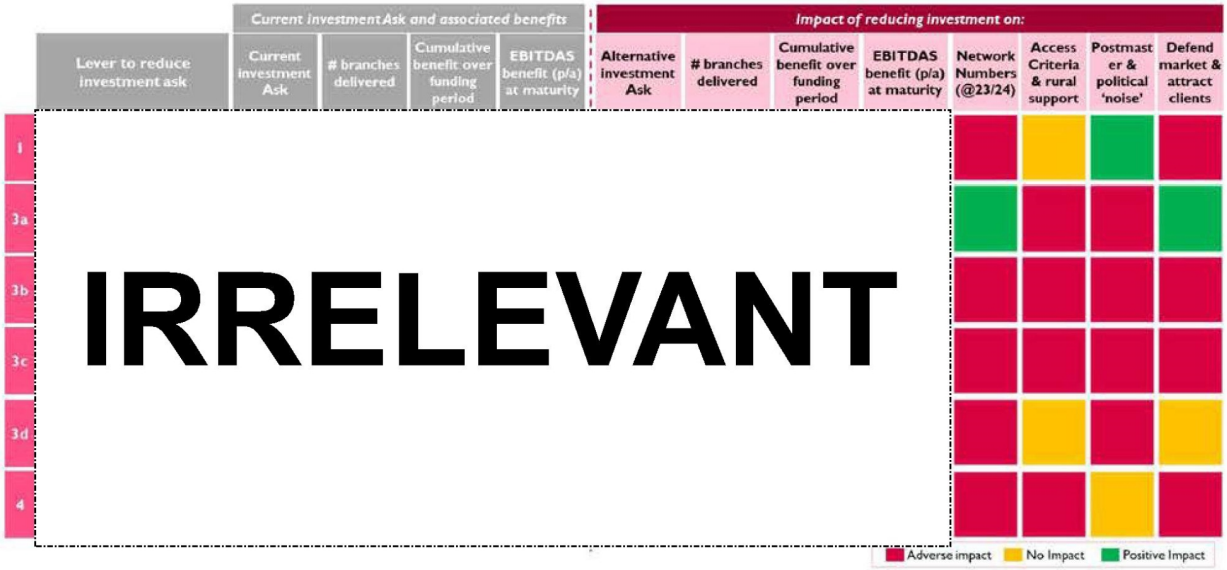
We understand the significant pressures on the public purse and so have set-out 6 high-level options below to reduce this investment cost, whilst also setting-out the implications of reduced funding, as reducing the investment will reduce the financial return and will impact our ability to deliver other commercial, social and political objectives. We have not included an option to reduce the IRRELEVANT investment in "community hubs" (i.e., **Option 2**) for rural areas given their IRRELEVANT For the options below, please refer to the first slide in this section which splits the IRRELEVANT investment into 4 investment activities. The options correspond to these 4 areas.



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Option 1: Dilution of urban (whitespace) penetration

- Instead of deploying new post office formats in 1,800 whitespace locations we would instead just do 900 locations (but noting that we would still have to invest in about 200 more outreaches to maintain network numbers above 11,500).
-

Benefits Impacts with this approach:	Challenges with this approach:
• **Financial impact:** IRRELEVANT reduction in investment IRRELEVANT down to IRRELEVANT, would lead to a IRRELEVANT reduction in EBITDAS over the funding period and a IRRELEVANT p/a reduction in EBITDAS at maturity. • If we reduce Whitespace to just 900 then we will have to cost-in 200 Outreach to ensure that network numbers remain above 11,500. • If we reduce Whitespace to 1,350, then the investment is reduced to IRRELEVANT but the cumulative benefit over funding period is reduced to IRRELEVANT and EBITDAS at maturity is IRRELEVANT	• **Network Numbers:** Deploying the 1,800 post office formats in whitespace locations helps to offset the branches that we plan on closing, so that our network numbers remain above 11,500. Reducing the amount of whitespace to 900 creates a high risk to us maintaining a network above 11,500 branches through the funding period and substantially inhibits our ability to close sub-optimal branches as we will have no meaningful buffer in network scale. • **Defend market share and attract clients:** Our competitors have already penetrated these (mainly urban) whitespace locations and we risk falling significantly behind, especially in key future growth markets such as PUDO. • **Deals with Multiples:** We want to develop strategic partnerships with great, sustainable Multiples, such as the Co-op. Reducing the amount of whitespace locations will reduce the number of strategic partnerships that we can deliver. • **Meet customer demand:** The whitespace locations are primarily in urban areas. If we cannot deliver here we risk not being able to meet the needs of the next generation of convenience-focused, younger, urban-based customers

Option 3a: No Proactive Closures

- Our plan is to close ~500 branches that provide little social value to customers and communities and are unprofitable (with no path to profitability) for POL.
- 300 are branches (including 50 Hard to Place branches) and 200 are Outreaches.
- We could not proactively close any of these branches

Benefits Impacts with this approach:	Challenges with this approach:
• **Financial Impact:** There is a IRRELEVANT cumulative benefit to POL (IRRELEVANT p/a at maturity) in our funding ask. This compares favourably with 'nil' benefit in the alternative ask. There is a IRRELEVANT EBITDAS at maturity. By having no proactive management of the network it is highly likely that we will need to have an increased number of reactive opening s to meet access criteria, of circa 250 branches. Without doing this we are unlikely to access all of the whitespace opportunities.	• **Better for Postmasters:** This will enable many long-serving PMs, trapped in Hard to Place branches to leave the network with dignity. It also allows us to exit locations where there is no longer the population density to sustain a post office. • **Delay:** The only branches that we would close are those that provide very little social or commercial value AND have no chance of ever becoming commercially (socially) viable. So by not closing these branches now, all we are doing is kicking the can down the road, whilst continuing to provide sub-optimal services to customers and communities and dragging on POL's P&L. • **Starling Risks:** Some of the ~500 branches that we would want to close are at higher risk of future Starling claims.

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Option 3b: Pro-active closures without NT payments or Option 3c: Even more aggressive closures without compensation

- In these scenarios we could push ahead with our (recommended) plans to close ~500 under-performing branches, but we would not make any NT payments (this is the part we don't recommend)

Benefits impacts :	Challenges with this approach:
• **Financial Impact:** Whilst the alternative ask is financially favourable in this scenario, the political, stakeholder and legal concerns make this scenario unviable.	**Option 3b:** • **Political noise:** This could create a significant amount of political noise from the Postmasters themselves, their local communities and local MPs. • **Legal Challenge:** It is unclear at this stage, but there is the potential that this could lead to a legal challenge. • **Supporting Postmasters:** This extremely aggressive approach would contradict all the work we are undertaking to build stronger partnerships with postmasters. **Option 3c** would have all of the downsides set-out above for 4 with a higher intensity and scale.

Option 3d: Additional closures with compensation

- This scenario would see us increase forced closures significantly beyond the 500 we have recommended to 1000

Benefits impacts with this approach:	Challenges with this approach:
• **Financial Impact:** Again, the financial outcome is favourable in the Alternative ask, but the political, stakeholder and legal concerns make this scenario unviable. • **Cost:** Closing branches is not cheap. So we have optimised the level of closures at 500 to maximise the returns	• **Network numbers:** Closing branches on this scale will reduce our network numbers and possibly our access criteria. • **Increased political noise:** Closing 500 branches will be difficult, but closing even more will become very difficult.

Option 4 No replacement of Churn

- Last year around 350 branches churned. If we followed this approach then we would not replace any of the branches that churn.

Benefits Impacts with this approach:	Challenges with this approach:
• **Financial Impact:** Reducing the investment has a significant impact on benefits both during funding period and at maturity. In the submission the dilution of benefits in the funding period is due to the loss of income, from lighter-touch formats compared to locals and mains. • **Loss of Income:** Whilst some of the volume from a closed branch might migrate to a nearby post office, much of it would be lost (potentially forever) to the competition	• **Churn is unpredictable** with no active management of branch replacements there is a substantial risk we would encounter failures against our access criteria. Maintaining a network of 11,500 branches through the funding period would also be a key risk. Even if access criteria and network numbers are met this could result in areas of the UK being left under-served. • **Impact on customers and communities:** Not replacing branches that churn would leave some customers and small businesses without access to cash, mails & government services. There is a particular potential risk to vulnerable customers and POL meeting it's equality (PSED) requirements. • **Impact on High Streets:** Were a major High St retailer to close stores, taking their post offices with them, if we do not replace these 'High St' locations, then this would be yet another blow to footfall on our High Streets. • **New Blood:** When we replace churn we look for entrepreneurial hosts that will help to grow the post office

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Horizon: *With POL's contract with Fujitsu coming to an end within the Spending Review period, and a long-term solution needed for the network, we agree that you need to progress work on a future system as a matter of urgency. We also understand that at this stage it is difficult for POL to set out detailed cost forecasts or timelines for this work. As a result, in your proposal to BEIS, we would like you to set challenging targets for the business to deliver a solution at a lower cost or, alternatively, so that the overall funding required is reduced. In addition, while BEIS will seek budget cover for these costs, it will not approve any funding commitment until plans are more advanced.*

POL is currently running a twin-strand approach to the upcoming Fujitsu contract end. The first strand seeks to extend the support for Horizon beyond March 2023 pending a new system being delivered. CAPEX forecast assumes procurement and transition to another Service Integrator following Fujitsu stating they have no wish to extend beyond their existing term. OPEX forecast assumes an unfavourable outcome beyond 2023 as a result of a difficult procurement process with the new supplier seeking a premium for supporting a legacy, ageing and politically difficult system over a limited duration.

Given the uncertainty, options exist to vary the risk included. If we presume Fujitsu quickly agree to an extension (by March 2021), on terms similar to the current contract (no cost increase or changes), the OPEX forecast could be reduced by c.£20m and CAPEX by c.£15m over a 4 year period. However, Fujitsu must agree to these outcomes and there seems little appetite for them to do so. As such, Fujitsu could choose to increase the costs and demand protracted negotiations on terms, and a 30% cost increase is not uncommon elsewhere in Government for similar scenarios. Using this, an optimistic and pessimistic scenario has been created.

Scenario	20/21	21/22	22/23	23/24	24/25	TOTAL
Baseline OPEX (£m)[1]	IRRELEVANT					
Optimistic OPEX (£m)						
Pessimistic OPEX (£m)						

[1] 21/22 & 22/23 costs are higher in baseline as they are predicated on transition costs for an SI partner, including dual run (I.e. matching CAPEX assumptions). The optimistic and pessimistic cases only consider FJ extension, hence no transition or dual run required.

Of note, to maintain the option of procuring a replacement service if Fujitsu refuse to extend, POL must, and will, commence preparatory work now. POL will have a better view on the likely Fujitsu outcome towards the end of 2020 and plan to keep options open until then.

The second strand focusses on delivering a replacement system to replace Horizon - Strategic Platform Modernisation (SPM). A core principal of SPM is the provision of a lower cost, modern and flexible IT solution. Over the next 4 months a detailed cost forecast is being developed, along with a high-level plan. Until this time, the costs are based on professional experience and external benchmarking (McKinsey) with other development programmes.

An option which could be considered is the timing of SPM. In the event that FJ provide a viable and acceptable extension, or a new SI partner is found, which allows Horizon to be fully supported for an extended period, SPM could be delayed. This will result in lost opportunities around operational efficiencies and technology modernisation but would remove short-term CAPEX investment. However, until we can be sure about the Fujitsu outcome, or a procurement for a new SI, we must continue SPM. The alternative that POL must face is a genuine risk that we cannot secure a viable ongoing support arrangement for Horizon and yet the entirety of the POL operation remains reliant upon it.

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Notwithstanding the above, if SPM was delayed by a year, there would be potential opex savings of IRRELEVANT and Capex savings of IRRELEVANT in the next funding period (although potentially these would still occur further out).

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Whilst we fully support the need to minimise POL's funding requirements, we also need to ensure that the proceeds of any business asset are distributed in a way that is not detrimental to PO Ltd. The sale of any business asset will reduce our ongoing profit levels, and if we do not have the ability to reinvest the proceeds to further improve our remaining business then the sustainability of the overall business will be eroded over time. We must therefore ensure that we have access to a predictable level of cash during the funding period, however, there is potential to return any surplus cash that a sale might create above our funding needs.

In the first response section above we have raised the possibility of part of our funding coming through a loan, which would have the potential to be paid off at the end of the funding cycle. We would suggest that the loan value not exceed 80% of the net gain cash inflows from the sale of any business over the funding period. That is to say that such a loan would allow us to potentially return 80% of the net sale price less lost revenues over the period. For discussion purposes we have estimated IRRELEVANT at this stage, but this would need to be agreed through further cashflow scenario analysis.

We believe such a system allows us to return funds under the right circumstances without harming the business. By keeping 20% of the net inflows we are also incentivised to maximise any sale price.

In all cases, any sale of business assets would need to be agreed with UKGI and BEIS to make sure that any sale prices provided appropriate value to the Government, and did not impede POL's ability to deliver its key Government objectives.

On the point of asset financing, there are only a few areas where we are considering material asset purchases in our plan:

- ATM and SSK purchases are already planned on a lease model to minimise our cash outlays.
- Branch Technology Replacements – these are currently flagged as around IRRELEVANT of capital purchases, however, we are exploring whether we could contractually lease these through the current Computacenter contract and whether it would financially punitive.

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POST OFFICE LIMITED
UKGI REPORT

Title: Post Office Funding Submission **Meeting Date:** 28 August 2020

Context

This document provides further detail behind Post Office Ltd's (POL's) vision and associated funding request to UKGI and BEIS as part of the 2020 Government Spending Review. We are keen to remain in sync with the Government's departmental spending decisions and understand that there will be further discussion, agreement and formalisation over the coming months. We have prepared for a three-year period to March 2024. A capital submission is also required for 2024-25 but we are not seeking additional funding.

We submitted an initial discussion draft in February. This requested £150m of network subsidy and the need for conversations on network rules, security headroom, Postmaster alignment and the responsibility for future legal outcomes.

CV-19 has reduced in year profitability by c. 90%, further reduced security headroom and brought branch numbers temporarily below 11,000. The Board approved an updated 4 Year Plan (4YP) to March 2024 in May which highlighted the impact of CV-19, our inability to continue to fund the GLO, a period of negative security headroom and net liabilities but also a return to material trading profit and the potential for future, commercial sustainability. KPMG provided some assurance over this work for UKGI.

This document has been reviewed and agreed with the Post Office Board in line with the Chairman's accompanying letter.

Executive Summary

Post Offices matter more than ever. Our renewed purpose affirms the importance of our UK-wide network and the people and businesses that rely on us. We have the opportunity to over-index with customers that matter to the government's agenda, including those in small cities and towns across the UK.

In this paper, we will deal with the hard numbers and the scale of the services we provide. Less tangibly but as importantly, we do more than that. The dry bones of locations and transactions do not fully capture the emotional importance of the services our Postmasters provide. We appreciate they are not important to the affluent, online, visiting City Centres. But if we are not in local, provincial, rural and urban deprived communities fear, isolation and deprivation will increase. If we are not there:

- people fear that their communities are being undermined
- older people worry that without us, withdrawing POCA will stop them accessing their cash
- people without computers and wi-fi are isolated and cannot easily do their business with Government – no digital identity – or corporates like the energy companies or simply send a birthday present

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- people in 3,500 communities would have to travel to post a parcel, get cash or pay their bills. With limited bus networks this means driving, or as many of these people cannot afford a car, catching lifts, dependent on neighbours.
- for vulnerable older people, we are often their only social interaction. Without us they will become more isolated with real consequences for their physical and mental health
- we have multiple examples of Postmasters checking on customers and saving their lives, giving advice on how to avoid scams and providing practical support. Without us, people will be lonelier and more scared.

The importance of the Post Office was reinforced during the recent CV-19 lockdown. Through our tireless efforts to support and encourage postmasters to continue serving their communities, 90% of the physical network remained open. Our support of postmasters was a direct result of our self-funded remuneration guarantees and the 8.3m items of PPE we supplied. However, it was not just postmasters, and their own local businesses, which benefited, our customers did as well:

- During the midst of the CV-19 crisis, our opening hours and our retail location availability was greater than other retailers such as the banks. In fact, many Postmasters have given feedback that banks were directly pointing their customers to our branches
- When the banks closed their doors, we reconfigured our operations, within 3 days, to ensure delivery and continuity cash to vulnerable people through our CashDirect service. To date we have completed 800 cash deliveries, distributing nearly £200k in pensions and benefits to isolated customers.
- As a leader in U.K. cash transportation, we were able to quickly work with other industry partners to provide backup delivery and cash processing capability. Customers noticed and we are, for example, now serving more Lloyds customers than we were before lockdown.
- When the Coronavirus hit hard in local communities, we responded to the sudden closure of branches by opening a "pop-up" post office to meet local needs. There was widespread local press coverage, praising Post Office for responding to the situation so quickly in Yarm, Stockton on Tees, England and Maestag, Bridgend County Borough, Wales.

Now, after the lockdown, PO transactions are recovering faster than other businesses: mails is operating at higher volumes than before lockdown and ATM usage has remained 10% higher than the industry average. We achieved this without recourse to additional government funding while increasing our projected profitability through significant self-help measures that mean we expect to make a trading profit in 2020/21.

By delivering the national access criteria, Post Offices are the only national, physical retail network, delivering:

- free, national access to cash
- critical support for the digital economy, enabling 40% of parcels sent by consumers and small businesses, to support economic recovery and the opportunity for 'levelling up'
- trusted connections to digital services including insurance, identity, telephony and financial services
- access to competitive markets for customers who do not use digital services
- the last shop in c. 7,588 rural and urban deprived communities
- footfall to support high street and convenience retailers
- reduced carbon emissions through more local journeys, contributing to the Government's ambition to reach net zero carbon emissions by 2050

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This has been made possible by sustained material financial support from Government. Everyone involved with Post Office recognises how essential that has been and is grateful.

In the first two years of the current funding period we have substantially delivered the promised returns for that money. We have consistently delivered the access criteria and expect to continue to do so. We maintained over 11,500 branch locations until CV-19 and are back above 11,200. We have delivered a commercial performance that improved year after year and ahead of expectations until CV-19 hit. Our commercial revenue had improved by IRRELEVANT, offsetting further declines in Government revenue of IRRELEVANT Our costs have fallen by IRRELEVANT and FTEs by 59%.

Not everything has gone according to plan and we are learning lessons:

- Just before the 3 Year Plan (3YP), we implemented SAP Success Factors to support our people administration. This was poorly developed and implemented. We have substantially strengthened our controls around change management and a recent Internal Audit demonstrated improvement.
- We inherited our core IT systems from the Royal Mail Group and under-estimated the cost of updating them, spending more on projects that deliver stability and resilience but not always substantive improvements or lower costs. We have a fundamental task to deliver the right IT system to supersede Horizon and are planning this with great caution and care.
- The GLO has not helped. On advice, we defended the claims robustly but lost in all material respects. We have accepted the Judge's findings, requiring us to accelerate material cultural and operational change which will be of enduring benefit. This has cost us IRRELEVANT more than plan with more to come. We have learnt the litigation lessons and have been managing the upcoming workers' rights case differently.
- We acknowledged in 2019 that we had tilted the commercial balance of Post Office away from Postmasters. We have invested in higher remuneration, stronger field teams and improving back office support. This is a fundamental cultural change which is underway but incomplete.

Commercial sustainability is taking longer and costing more than we hoped for four reasons: the need to increase agents' remuneration; the increasing cost and time to replace systems; the cost of and focus on the legal management of the GLO; and CV-19 lockdown. These are resolvable by us except for the GLO.

There remains an opportunity to deliver a commercially sustainable, national Post Office service of significant value to the Government and the public with added flexibility, making if fit for purpose for the 2020s. We can deliver:

- More than 12,000 branches, distributed nationally and meeting the national access criteria offering the right services, in the right places at the right time notably for urban deprived areas and rural communities
- A different relationship with Postmasters, served and enabled by POL
- Free national access to cash, mails and bill payments not only essential to consumers but also fundamental to business start-ups and SMEs helping kickstart the economic recovery.
- Support, care and commercial opportunity for vulnerable and marginalised people and communities, critical to the levelling-up agenda, guaranteeing support for rural and urban deprived areas
- A Post Office structure that can invest sufficiently in the business from its profits, enabling some profit sharing with both Government and Postmasters.
- Fewer and shorter car journeys than any alternative service provision

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There is a huge amount to do and this is an ambitious plan. Key successes required will be:

1. Extending our Royal Mail (RMG) agreement and expanding into the parcels market across the UK, enabling small businesses in every town convenient access to sending and receiving parcels.
2. Delivering a 3rd Banking Framework which sustains access to cash and facilitates easy cash deposits for local businesses across the UK; and remains highly profitable while reassuring the banks that they can continue to outsource to us.
3. Re-building our broader travel business post CV-19.
4. Reducing the costs and management support for other businesses including IRRELEVANT IRRELEVANT This will involve IRRELEVANT IRRELEVANT
5. Reducing our cost base (excluding Postmaster remuneration) by a further 11% and our headcount to IRRELEVANT
6. IRRELEVANT
7. Delivering a new relationship with Postmasters where we are simpler and cheaper to deal with, are far more supportive and engage in a mutually beneficial, commercial partnership, enabled by technology.
8. Replacing Postmaster contracts with modern versions, consistent with the GLO and ensuring that Postmasters cannot be confused with workers or employees.
9. Increasing automation in the network without funding kit ourselves.
10. Replacing the Horizon system and its Fujitsu support arrangement by 2023 or as soon as possible.
11. Growing a Post Office network to above 12,000 branches for the first time in many years as we open substantially more flexible formats across the country, meeting the needs of customers, clients and, of course, our postmasters who are the face of the Post Office.
12. Opening up the possibility of a dividend payment to Government, matched by Postmaster profit share.

To deliver, we need the following support from Government:

- A revised definition of a Post Office and the required SGEIs a Post Office must deliver. This IRRELEVANT
- Your full-throated support for our commercial agenda. Our shared agenda would benefit from Government publicly supporting our role in sustaining the right to use cash including the importance to businesses of cash deposits and also in the development of trusted digital identity markets.
- To support this plan, we are requesting during this funding period an upfront equity injection of IRRELEVANT, the continuation of our current Network Subsidy grant of IRRELEVANT throughout the funding period as well as a loan of IRRELEVANT to allow us to continue funding the ongoing group litigation.
- A separate funding workstream for the future costs of compensating Postmasters under the GLO and for any changes in workers' rights. This will be supported by IRRELEVANT IRRELEVANT IRRELEVANT
- A revised definition of Security Headroom, matching any changes in the IRRELEVANT
- IRRELEVANT

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The financial support required is significant; we understand there have never been more claims on the public purse. In addition, some of the proposed measures help customers but do not require additional funding. We also believe that this plan gives the best long-term financial outlook for Government while providing critical support to the stated objectives for the Comprehensive Spending Review, notable securing economic recovery and levelling-up.

We expect there to be significant debate about our proposals. Indeed, we welcome analysis of every part of this plan to ensure that our funding and our targets are consistent. Only the Government can decide its priorities. The Government can of course give less support as long as we match the support with the requirements we have to deliver. The risks of lower funding are impairing our ability to deliver stable IT, maintain the network, force us outside our financial arrangements, make more controversial cost savings including accelerating the closure without replacement of Crown offices, or sell assets at undervalue in today's markets while certainly delaying or preventing commercial sustainability.

Our report is divided into the following sections:

1. Do Post Offices Matter?
2. Are we delivering our current commitments and what have we learnt?
3. What does success look like?
4. How will we deliver success?
5. What support do we need from Government?
6. What are the key risks?
7. What assurance is being undertaken?
8. What happens if we get less funding?
9. What would the 4YP look like if we sold Telephony?
10. What is the outlook to beyond 2023-24?
11. What are the next steps?

We are hugely grateful to colleagues in BEIS and UKGI for their support, challenge and engagement.

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Report

1. Do Post Offices Matter?

In November 2016, analysis by YouGov and London Economics for BEIS valued the contribution of Post Office to the UK at between £4.3 -9.7bn per annum. This has not been updated but we believe the value drivers are even more valid today:

- National access, providing a level playing field for individual customers and businesses, not just in city centres and the affluent south-east, but urban deprived provincial communities and rural areas.
- Footfall to support high street retailers
- Support for the last shop in 7,588 rural and urban deprived communities
- The last, national source of free access to cash and a UK wide network for deposits.
- Trusted connections to digital services for customers
- Access to competitive markets for customers who do not use digital services
- Reduced car usage, operating within 1 mile of 93% of the population

Commentators sometimes assume that PO is declining, notably as social mail reduces, and branches are seen as a throwback designed solely to protect the elderly. Trading patterns during Covid-19 refute this, with sending and receiving of parcels becoming more important, and innovative ways to receive cash valued by multiple demographics. Overall, our commercial business is thriving and until the CV-19 lockdown was growing. It has also been returning faster from lockdown than other businesses. The challenges are real but so is the opportunity of growing customer demand.

For example, cash and banking services are increasingly important as retail banks continue to close branches. New research by Citizens Advice in their report *Banking on it* (July 2020) states that: "more than half (55%) of postmasters say there are no bank branches in the community their post office serves, and in rural areas this rises to 3 in 4 (74%). Over 2 in 3 postmasters (67%) who've seen a local bank shut say it led to a significant increase in the use of banking services at their post office".

One key measure is customer sessions, a weekly assessment of the number of times a customer has bought at least one item in a Post Office. This had grown again in the past year and is at 92% of pre-lockdown levels:

Average Customer Sessions (millions per week)				
2016-17	2017-18	2018-19	2019-20 (Pre CV-19)	2020-21 YTD (Post CV-19)
10.6	10.4	10.3	10.4	9.6

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Another measure is our turnover with third party, commercial organisations, which has been growing steadily since 2013-24, a testament to the commercial value of being the only truly UK wide network:

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During lockdown, 90% of Post Offices remained open, reflecting Postmasters' understanding of their value to their communities and our determination to support them with some c. IRRELEVANT of additional remuneration and c. IRRELEVANT of PPE (to protect both Postmasters and Staff). We ensured that cash remained available nationally. We did not furlough staff except in our commercial travel joint venture, FRES and did not apply for any forms of direct CV-19 Government support. Most staff have been helped to work from home and where that has not been possible, have been supported with PPE. All of our staff have been paid in full whether they were able to come to work or were too vulnerable to do so.

While PO's commercial revenue has suffered badly from CV-19, with an effective shutdown of our travel businesses, the performance of our two core businesses – mail & parcels; cash & banking - shows how critical we are to the UK economy.

Our parcels business slowed in the first month of the crisis, but is now performing materially ahead of the prior year as the digital economy strengthens, growing small and medium parcels in particular:

20/21 YTD YoY Growth in RM Parcels

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In our cash business, while we are operating at 80-85% of pre-CV-19, it is worth noting that:

- Our ATM business dropped some 10% less than the industry and remains around 85% of normal levels, compared to the industry average of 50%, benefiting from our greater presence outside city centres where people are most vulnerable to a loss of access to cash.
- While cash usage has dropped, we have gained customers from large banks who have further deteriorated their customer service during CV-19. As shown in the chart below, we are processing more transactions for Lloyds Bank than we were before lockdown:



By any measure POs remain critical to the whole economy and not just people that otherwise might be left behind. No 10 recognised this, thanking Post Offices in a CV-19 briefing.

The pressures on the high street are getting worse – we already represent some 2% of the remaining estate, and that will likely increase if we can maintain the network.

As the only truly national, physical network our Postmasters provide a further value to their customers and to the UK as a whole. We appreciate that Post Offices can be of limited importance to affluent, online savvy customers who routinely visit City Centres. We do not deal in luxuries, we provide basic services that people depend upon to pay their bills and maintain their independence. If we are not in local, provincial, rural and urban deprived communities fear, isolation and deprivation will increase. If we are not there:

- people fear that their communities are being undermined
- older people worry that without us, withdrawing POCA will stop them accessing their cash
- people without computers and wi-fi are isolated and cannot easily do their business with Government – no digital identity – or corporates like the energy companies or simply send a birthday present
- people in 3,500 communities would have to travel to post a parcel, get cash or pay their bills. With limited bus networks this means driving or as many of these people cannot afford a car, cadging lifts and dependent on neighbours
- for vulnerable older people, we are often their only social interaction. Without us they will become more isolated with real consequences for their physical and mental health
- we have multiple examples of Postmasters checking on customers and saving their lives, giving advice on how to avoid scams and providing practical support. Without us, people will be lonelier and more scared.

Post Offices matter to customers more than ever because *we're here, in person, for the people who rely on us*.

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2. Are we delivering on our commitments and what have we learnt?

We are 27 months into a 3 Year Plan (3YP) that lasts from April 2018 to March 2021. It is important to remember that comparison against that 3YP includes a significant element of forecasting for the current financial year. More importantly, in common with most businesses, the shape of delivery has been severely damaged by CV-19,

When we quote the 3YP we are focusing on the documents approved by the Board in October 2017. In addition, there was an earlier and more detailed document setting out our requests and proposals in June 2017. This document was not the same as the 3YP and in particular, we did not receive a proposed loan facility of up to IRRELEVANT million.

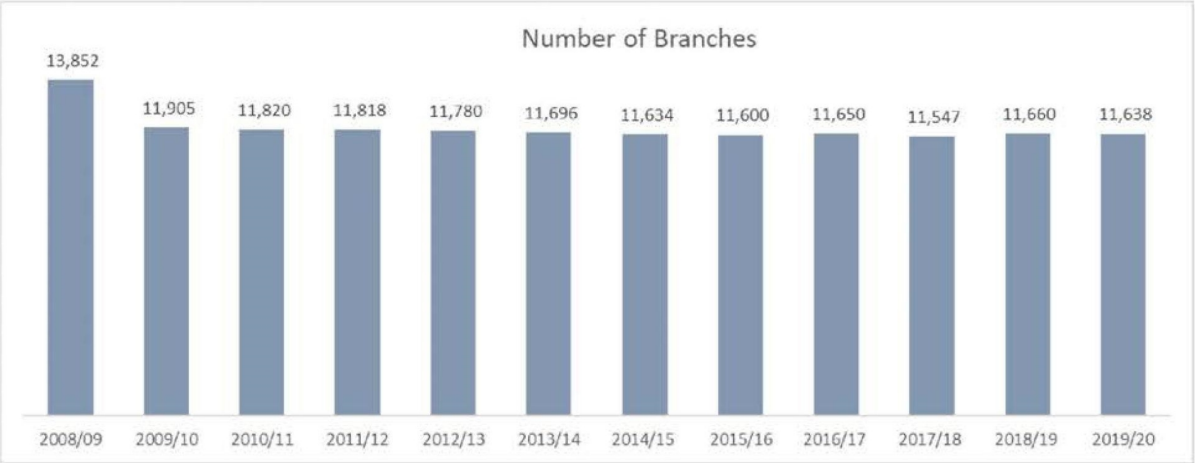
Our primary objectives for the current 3YP period are:

- Maintain a national network of more than 11,500 Post Offices.
- Meet national Network Access Criteria.
- Reduce Funding over time, in line with the agreed investments.
- Protect 3,000 Rural Branches.
- Deliver commercial progress to IRRELEVANT EBITDAS in 2020-21.

We have been successfully delivering these requirements in the first two years of the cycle, and had been forecasting to continue to do so through to March 2021, prior to CV-19.

11,500 branches

Our network has remained stable in overall size as set below and consistently above 11,500



In April 2020, as lockdown and vulnerability concerns hit, branch numbers dropped to 10,987, with 9,675 full branches and 1,312 outreach locations open. However, a number of Postmasters are elderly and vulnerable who were shielding and needed to remain closed at this time . At the end of July, this recovered to 11,250. A waiver for CV-19 closures is in place to 30 September with extension options.

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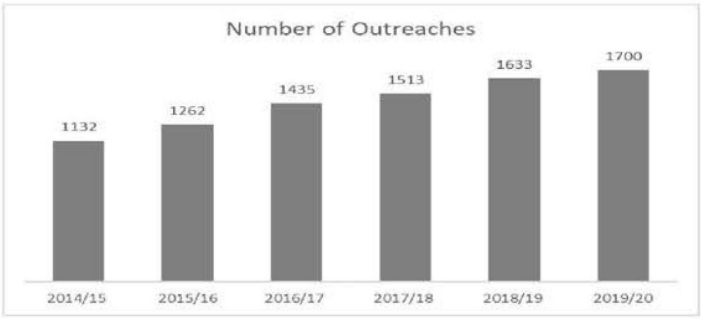
Access criteria

The network has consistently maintained the national access criteria. At March 2020, this was as follows:

Criteria	Total Population within 3 miles	Total Population within 1 mile	Deprived Urban Population within 1 mile	Urban Population within 1 mile	Rural Population within 3 miles	Postcode Districts less than 95% Population within 6 miles
Target	99%	90%	99%	95%	95%	0
Performance	99.7%	92.7%	99.4%	98.3%	98.7%	7

We do note however, that the number of part-time outreach branches has grown, reflecting limited customer demand and retailer appetite in specific locations. This is expected to accelerate if we are managing the same inflexible definition of a Post Office and SGEI requirements. With greater flexibility we may be able to reduce the reliance on unprofitable, one-size-fits-all outreach formats while maintaining protection for vulnerable customers and increasing opportunities for businesses.



Reducing funding

The goal of reducing funding requirements over time also continues to be met, with total funding for the current funding cycle (18/19 to 20/21) being maintained at IRRELEVANT, 58% of the previous three-year funding of IRRELEVANT

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This can also be demonstrated as follows:

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Rural branches

While the 3,000 rural branches was a 2017 Conservative Party manifesto commitment not tied to a specific group of branches, we have maintained the rural network throughout.

Commercial Progress

We were on track to delivering IRRELEVANT in 2020-21, having delivered a trading profit of IRRELEVANT in 2019-20, including accounting policy changes of IRRELEVANT

IRRELEVANT

This has been accomplished by continuing to offset the consistent decline in Government revenues with commercial growth, as set out below.

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Against the backdrop of these relatively static revenues, profit improvement has come from a more efficient cost base. The improvement in 2019-20 was especially pleasing as within our overall cost savings, we deliberately reversed the long-term decline in Postmaster pay:

IRRELEVANT

In January, we were discussing a trading profit for 2020-21 with the Board of IRRELEVANT This has been shattered by CV-19, with revenue expected to fall by some IRRELEVANT. In the plan approved by the Board in May, this was partly offset by additional cost reductions, projecting a trading profit of IRRELEVANT for the year. We have agreed to revise this forecast in September as the impact of CV-19 becomes clearer.

Revenue had been developing more strongly than in the 3YP and trading profit exceeded 3YP until CV-19. Of the IRRELEVANT profit reduction versus the 3YP for 2020-21, half relates to the collapse of profitability in our FX business, FRES with a total profit impact on travel of c. IRRELEVANT

£m	18/19 Actuals	19/20 Actuals	20/21 Baseline	20/21 3YP*	Difference
Revenue	IRRELEVANT				
Cost Of Sales					
Net Income					
Agents Pay					
Staff Cost					
Non Staff Cost					
FRES					
Other Income					
Trading Profit					

* Adjusted for accounting changes and network team impacts

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Even with the impact of CV-19, Postmaster remuneration is forecast to be IRRELEVANT higher than assumed in the 3YP and we have also invested in more people in the field visiting branches IRRELEVANT and in 2019-20 back office work to support GLO recommendations (IRRELEVANT of operating costs). Despite this, we have worked hard to decrease our running costs and, as such, our estimated costs for the year are some IRRELEVANT lower in 3YP.

In the last 5 years we have reduced BAU FTE from some IRRELEVANT today, and our benchmarking is targeting an outcome of c. IRRELEVANT FTE in the next phase. This is subject to the availability of investment funding for redundancies and technology investments.

	FTE at Period End
Total FTEs	IRRELEVANT

Investments played a significant part in the 3YP discussions, and we originally planned for a cash spend of IRRELEVANT (excluding litigation), which was supported by IRRELEVANT of investment grant alongside the reinvestment of our own profits. Including brought forward spend from 2017/18 (IRRELEVANT, non-cash spend (IRRELEVANT, the equivalent total investment spend envelope was IRRELEVANT excluding litigation.

We report change spend monthly to UKGI. Our forecast change spend for the 3YP period is some IRRELEVANT higher, mainly due to greater investment in IT and in cost reductions. However, we are maintaining headroom and the costs of in-year redundancies and IRRELEVANT IRRELEVANT IRRELEVANT Benefits of IRRELEVANT are forecast to miss by IRRELEVANT of which IRRELEVANT relates to the agreement with the IRRELEVANT IRRELEVANT A full summary is set out in Appendix 1.

Cash and borrowing

During the 3YP period, we have operated within our financial arrangements, paying for the GLO from cash efficiencies. However, our security headroom has been under pressure from the IRRELEVANT of GLO spend, that was not substantively included in the forecast, and then the reduction in IRRELEVANT abilities from CV-19, which peaked at an impact of c.IRRELEVANT in early April. This has partly reversed with headroom up from marginal levels to IRRELEVANT at end June. We are forecasting and IRRELEVANT IRRELEVANT such as a second, national lockdown, the Minister for Postal Affairs has indicated that we can IRRELEVANT

Funding availability from Bank of England (BoE) had fallen in line with cash withdrawals being sent out from our cash centres, before being given extra support during CV-19. We are in discussions with BoE on whether this remains the right mechanism given our importance to cash infrastructure nationally and rising deposit levels. BoE is undertaking a review with a proposal promised in 2020.

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Learnings

We are learning as we go, recognising that we have made mistakes. Key areas are as follows:

- Just before the 3YP period, we implemented SAP Success Factors to support our people administration. This was a very poorly implemented project that continues to cause us issues today. We have substantially strengthened our controls around change management including stronger governance, particularly earlier in the process. A recent Internal Audit summary demonstrated improvement in change management.
- We under-estimated the cost of fixing the business, notably in IT, spending more on projects that deliver resilience but not always improved effectiveness or lower cost. IRRELEVANT was, with the benefit of hindsight, spent on IT where cheaper technologies became available later. We have a fundamental IT task to deliver around Horizon and are planning it with great caution and care.
- Our approach to the GLO has been extremely unhelpful. We defended the claims, believing we were both right and likely to win. We lost comprehensively. We have embraced the Judge's comments, embarking on material cultural and operational change which will be of enduring benefit. This has cost us IRRELEVANT more than plan with more to come. However, we believe that the true incremental cost of defending is some IRRELEVANT and the material costs of settlement, new claimants and criminal case reviews are necessary, unavoidable and primarily relate to the period under RMG control. We have learnt the litigation lessons and in the upcoming workers' rights case have been ensuring that the full Board reviews the advice regularly, that the advice is more diverse and the evidence better tested.
- We acknowledged in 2019 that we had tilted the commercial balance of Post Office away from Postmasters. Following a review and consultation, higher pay was brought in and higher banking earnings on deposits were accelerated. We invested in the field teams and are continuously improving back office support. Recognising that POL's job is to serve Postmasters and help them thrive is a fundamental cultural change which is underway but incomplete.

Commercial Sustainability

The longer-term goal for POL has, since independence, been commercial sustainability. We have defined that as POL continually generating enough cash from commercial trading that it can pay for its own investments without needing further financial support from Government. This is a fantastic goal: other Post Offices are not separated from their Royal Mail equivalents and many still require state support. Trading profit, which excludes Government support, was our most incentivised measure from 2015-20 to demonstrate progress towards that goal.

In the discussion paper preceding funding in 2017, we indicated that we would be making trading profits after 2020-21 that at c. IRRELEVANT a year, should be sufficient for commercial sustainability.

The paper requested IRRELEVANT of loan funding to accelerate change and noted a discussion about swapping that for three more years of network subsidy totalling IRRELEVANT Neither was forthcoming, so it is perhaps logical that further funding is required and our original proposal in February was IRRELEVANT

In addition, we have, funded IRRELEVANT of unbudgeted GLO spend while at the same time, we have been hit by IRRELEVANT of net CV-19 cash impacts including the impact on trading and the deterioration in headroom.

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We are proud of managing both of these within our current headroom, which show how seriously we had improved trading profit and made cash management more efficient.

We believe that the IRRELEVANT requested is therefore more consistent than might initially appear to be the case:

	£m
Loan access not agreed previously and therefore not invested.	IRRELEVANT
Unbudgeted Litigation spend	
Impact of CV-19 on cashflows	
Litigation Costs (excl. Settlements) over funding period	
Total Impacts Beyond 3YP Baseline	
Current 4YP Request	
Variance	

We also acknowledge that we did not sufficiently consider two further factors:

Firstly, the cost of replacing IT, not to reduce costs but to make the business resilient and sustainable, is greater than we thought. The Fujitsu contract for Horizon ends in 2023 and we had contracted for the right to buy the underlying IP – we knew this was likely to be required during the next funding period - but the full costs of replacement are likely to be very high, much higher than we would have assumed.

Secondly, our 3YP projected evolution towards a steady state, where the major changes had been completed and problems resolved and we would be running in "BAU". Given the tumultuous changes arising from IRRELEVANT, tightening regulation and now CV-19, we now recognise that there will never be steady BAU for a business with as many different lines of products and services as Post Office. Change will never stop. As a result, we see a sustainable level of trading profit being higher – IRRELEVANT rather than IRRELEVANT.

We do believe that this is achievable, but no one pretends it is without risk: the delivery agenda is acute and the world keeps evolving. Some elements of cost control to achieve sustainability also require political support, IRRELEVANT and redundancy programmes.

UKGI has asked us whether the PO is "investible". If by that, we mean either being net cash positive across the next three years or alternatively that we could market this support as a commercial proposition to, say, a Private Equity company, the answer is clearly "no".

We talk in the alternative approaches about what you would have to do if there was no funding – and it is similar to what you would have to do to make this more of a commercial investment:

IRRELEVANT

That is doable and it would certainly reduce funding. We still do not believe it would be investible as a purely commercial vehicle because in the long term – 5 to 10 years – it is not clear of the scale of residual demand.

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More importantly, we do not believe that we have ever been tasked to creating an investible business – we have been and we believe still are tasked with creating a network that is available to all, stable or growing and providing free access to cash and parcels across the UK as an important cornerstone of the levelling up agenda. We can deliver that, and we have a good chance based on the commercial progress to date and our plans, of not asking for funding for 2024-27.

3. What does success look like?

We aim to maintain national access to the network for customers while reducing Government financial support and driving to a delayed commercial sustainability. Our detailed work in this area has focused us on three priorities, which we believe are shared by BEIS as our shareholder and primary funder:

- providing easy, nationwide, physical and digital access to customers for cash, parcels and other key services;
- supporting Postmasters to thrive through a combination of training, support, simplification and pay; and
- driving the business to be self-supporting through investment, cost reduction and commercial progress.

We can deliver:

- A national infrastructure of more than 12,000 branches, distributed nationwide to meet our current access criteria, which supports the growth of small businesses across the country, especially in areas that need it most.
- A different relationship with Postmasters, served and enabled by POL, helping to support and throw their small businesses.
- Free national access for consumers and small businesses and SMEs to cash, Mails and bill payments.
- Support, care and commercial opportunity for vulnerable and marginalised people and communities, critical to the levelling up agenda, guaranteeing support for rural and urban deprived areas.
- A Post Office structure that can invest sufficiently in the business from its profits, enabling some profit sharing with both Government and Postmasters.
- Fewer and shorter car journeys than any alternative service provision, contributing to the Government's ambition to reach net zero carbon emissions by 2050.

We have been asked to comment on whether 11,500 "matters" and if so why. We do not think there is any particular magic to 11,500 – our understanding is that it was broadly the size of the network at the point at which the target was set. In order words, the Government of the day wanted no more net closures.

Within the 11,500 locations there are around 2,000 with less than 50 transactions per week, accounting for little over 1% of our total business.

Vulnerability protections are encapsulated in the access criteria, which could be met with fewer branches, probably around 9,500 (provided they are in the right locations).

We informally discussed with UKGI and BEIS reducing the number and their sense was that the savings would not justify the political capital spent on a round of net closures. We have sympathy with this and are proposing retaining the 11,500 in future and being facilitated to increase the network over time. What costs POL too much is being close to the target so that

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every closing PO has to be replaced immediately whether the replacement is of the right quality or not and we are constantly anxious about a failure of a multiple partner.
What does matter deeply is that we retain our local, physical presence and the connection with our customers.

We recognise that the change in definition that we are after will make people anxious about our commitments and whether we are seeking too much "freedom". We want to reassure the Government that this is not our intention. For clarity:

- You have signalled the current political sensitivity around closing our Directly Managed (Crown) Branches and the impact this will have on our overall 11,500 target. We understand this current sensitivity and undertake not to close DMBs without creating a new franchised post office location, without a BEIS discussion. At the same time, we wish to maintain an open dialog with you about our overall Post Office Network vision and the place DMBs have in that vision. In any specific DMB case, we will always follow a public consultation and never diminish the capacity for the local area to meet local demand. In few cases we may find through the consultation process that surrounding Post Offices are sufficient to absorb the customer demand. History has indicated that this will not usually be the case, so we will plan to increase local capacity to meet customer demand from a DMB.
- We will seek to solve "trapped" Postmasters who wish to retire but no replacement Postmaster came forward under Network Transformation: the rules of that programme prevented compensation without replacement, making retirement unaffordable. Over the next 3 years we will make modest contributions to enable retirements and appropriate replacements where required. New formats may make this easier but in some cases there may not be direct replacements when the branch is in the wrong place and access criteria are already protected.
- Under our proposed definition, Mails will be the enabling SGEI. Our bill payments are provided from around 24,500 outlets including Payzone and should not therefore be of concern.
- The revised definition allows us to open additional urban branches that we want for our non-exclusive Mails and Parcels services, enabling us to compete effectively in these locations where convenience is paramount for customers. These will not be commercially viable if we have to have cash – especially as many urban areas are well and competitively supplied by the Banks.
- We will maintain our specific commitments to accessibility in rural and urban deprived areas. We will provide POCA to customers under our contract with DWP. We will need the Government to continue to work with us to enable a full migration to bank accounts, with our support, as soon as possible: on low interest rates and reducing accounts we lose money on POCA and those losses could grow.
- For assurance, we will work with you to agree targets and limits around cash provision and the rural and urban deprived networks. However, it is important that we can negotiate with the Banks on BF3 pricing without them believing that we have to provide cash nationally whether they pay for it or not. The obligation to sustainably fund replacement networks when they close their own should be retained by the Banks who should then pay partners such as us to deliver services to their customers.
- The obligation should be retained by the Banks who should then pay us to deliver it.

We believe that these are the priorities for Government. If different priorities emerge in these discussions, our plans will change. To get there we will require both financial investment and changes to the rules we operate under, while protecting Government's control.

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We must also reach ongoing and mutually satisfactory arrangements with the commercial partners whose products we sell or give away: the major banks, Royal Mail Group, the energy companies and others.

4. How will we deliver success?

Delivering success requires that we improve our delivery for customers, our support for Postmasters, our attractiveness for clients and our own cost reductions. This will require us to deliver the following critical changes. One of the complexities of agreeing 3-4 year forward funding for an organisation like Post Office is that we are constantly having to adjust our plans for changes in the economy, competition, technology and customer need. We commit change spend only when we have to and usually in small increments. Our plans cannot all be complete at any point and will evolve.

1. Replacing our agreement with RMG while expanding into the wider UK parcels market. We expect to reach agreement with RMG this year. RMG has already volunteered that the next agreement must be non-exclusive. Market analysis shows opportunity in the Pick-Up-And-Drop-Off (PUDO) market, serving other carriers. We may want to sell more products online.
2. Delivering a 3rd Banking Framework which remains highly profitable while reassuring the banks that they can continue to outsource to us. We imposed a very large price rise on the banks as part of BF2, which runs from January 2020 to December 2023. We are already collecting feedback across the cash market on the future relationship. We will define this over the next six months and seek to negotiate BF3 in the first half of 2021. We envisage significant change, reassuring the banks that they can continue to move volume to us. Clear and public Government support will make a difference.
3. Re-building our broader travel business post CV-19.
4. Reducing the costs and management support for other businesses including Mortgages, Savings, Identity, Telco and Insurance. This will need further changes agreed in our relationship with the Bank of Ireland.
5. Reducing our cost base by a further 15% (versus 19/20) and our headcount to 1,600-1,700. We had 7,787 FTE post-independence and 3,214 today. Of the remaining employees some 600 will be supporting cash logistics, although we are in discussions, which we expect to complete in 2021, about outsourcing and/or membership of a cash utility.
6. Closing all owned branches to reduce the cost to serve. While we recognise the political sensitivities, especially when we are below 11,500 locations, we continue to believe it is the right thing to move to a fully franchised model and away from complex and expensive working practices and high rental costs. We expect to be out of DMBs by Autumn 2021, although in discussion we are proposing to continue franchising into new branches unless there is a very clearly sufficient local supply.
7. Delivering a new relationship with Postmasters where we are simpler and cheaper to deal with, are far more supportive and engage in a mutually beneficial, commercial partnership, enabled by technology. Alignment with Postmasters is critical and improving but fragile. We are therefore proposing that any financial return should be shared between a dividend to BEIS and a profit share with Postmasters: we have always advised that a dividend on its own would not be politically workable.
8. Increasing automation in the network without funding kit ourselves.
9. Replacing the Horizon system and its Fujitsu support arrangement by 2023 or as soon as possible thereafter. This is complex, controversial, risky and will be extremely expensive. We are working through the technical options now.
10. Replace Postmaster contracts with modern versions, consistent with the GLO judgments and ensuring that Postmasters cannot be confused with workers or employees.

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11. A network that we could grow above 12,000 branches for the first time in many years as we open substantially more Mails and Bill Pay branches in City Centres that are well served for cash and enabling no DMBs, fewer outreaches and fewer legacy branches that are unable to operate as limited companies (discussed later in the investments section).

We are focusing on cash and headroom and at a high level we would summarise our draft plan as follows:

	FY21/22 £m	FY22/23 £m	FY23/24 £m
Security Headroom brought forward			
Cash Inflows/(Outflows) from Operations			
PY Baseline Cashflows (excl. FRES)			
Network Strategy (Growth and Cost Reductions)			
Banking & ATM Commercial Growth			
Supply Chain and Back Office Improvement			
Operational Restructuring Benefits			
DMB Franchising Benefits			
Mails Commercial Investment Growth			
Telco Growth & RFP Benefits			
Other Net profit/(loss) movements			
Agents' Pay Timing Shift			
Subsidy			
FRES dividend			
Cash (Outflows)/Inflows from Investments			
Network Strategy Investments			
Strategic Platform Modernisation			
Cash & Banking Services Product Investments			
Supply Chain and Back Office Improvements			
Operational Restructuring			
Further franchising DMBs			
Mails Commercial Investment			
Telco Investments (incl RFP)			
Mandatory IT Contract Reprocurements			
Other Invesmtent Spend			
Unwinding of Previous Investment Provisions (e.g. Redundanc			
Litigation			
Increase/(decrease) in client payables (non Santander)			
Finance costs (Incl. Interest)			
Equity injection/ividend/loan repayment			
Loan			
Security Headroom carried forward			

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Note that cashflows from operations is driven by, but does not exactly mirror, EBITDAS. This is predominantly due to the recognition of certain costs and revenues being different to their cashflows as in line with IFRS accounting standards (e.g. Telephony customer acquisition costs are paid for at the start of the contract, but spread over the life of the customer revenues).

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We have also noted in the above table the possible outflows of a dividend or loan repayment. This is illustrative and would obviously need to be agreed as part of these discussions, however, this demonstrates that there would be room for such a projected payment whilst still maintaining a Security Headroom above IRRELEVANT. We assume that this would combine a return to BEIS and matching Postmaster profit share.

From a more traditional p/l perspective, our draft 4YP has the following profit shape:

Area	P&L Grouping	20/21	21/22	22/23	23/24
Trading Profit	Gross Income	IRRELEVANT			
	Cost of Sales				
	Agents Pay				
	Trading Staff Costs				
	Trading Non-Staff Cos				
	FRES				
	POCA Income				
Trading Profit Total					
Overheads	Overheads - Staff				
	Overheads - Non-Staf				
Overheads Total					
Grand Total					

With revenue increases being driven by a recovery across all areas from CV-19 in 21/22 (with a slower recovery in travel), followed by growth in our Mails PUDO offerings as well as further Banking market share expansion.

Area	20/21	21/22	22/23	23/24
Mails	IRRELEVANT			
Banking & ATMs				
Telephony				
PO Money				
Insurance				
Lottery & Retail Other				
Bill Payments				
Identity				
Supply Chain				
Re-imagining the Postmaster Experience				
POCA				
Central				
Grand Total				

Our Telephony business (if not sold) will likely grow as well through customer acquisition and further moves to Fibre. However, this requires investment (in customer acquisition, Fibre routers and the IRRELEVANT cost of transitioning to 2 new service providers based on our recent RFP) as well as increasing cost of sales. We have made a strategic decision to sell the business but in the current markets, price, value-for-money and timing is deeply uncertain. We have therefore retain the business in this plan but describe the potential net impact of a sale below.

PO Money is expected to remain fairly static, with low interest rates likely to stay low for the duration of the 4YP, and the Travel Money market making slow recovery and Postal Orders continuing to decline.

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Insurance revenues should grow over the 4YP as our investments in Home Insurance bear fruit and the travel market starts to open up again, although with a two year recovery on travel.

Although a slowly declining market overall, we will continue to target further market share in the Bill Payments space, stabilising revenues after a post CV-19 recovery. However, this is a risk area if we see a systemic shift online.

Trading Staff Costs will continue to decrease as we further franchise our DMB estate with Overheads staff also decreasing as we push towards our targeted end state of around IRRELEVANT IRRELEVANT If there is a viable opportunity to outsource cash logistics, further FTE reductions will follow. However, this may prove unlikely and net savings would have to be shared with the banks.

Non-Staff costs will increase through a combination of several factors:

- Increased revenues will drive up the non-staff costs that support them (such as transaction fees and postage).
- As we drive towards IRRELEVANT we will be required to automate and digitise further, with a corresponding increase in non-staff costs.
- Necessary refreshes of our IT systems (such as Horizon replacement, EUC replacement) will also increase our non-staff costs in this area.

Our proposed investment profile (including litigation costs) is as follows. However, we know that we will not create detailed business cases or approve spend for some time. Most of our change spend is managed in relatively small increments close to the time, giving us better control. It does mean that there is a lot of uncertainty in looking ahead 3-4 years:

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Investments	Spend 21/22 to 23/24	Benefits Rebaselined 21/22 to 23/24
IRRELEVANT		
Total Spend incl. GLO	553	148

The two largest pillars of our investment are the overhaul of the Horizon Branch accounting system and investment in the shape of the Network, however, we are also signposting a number of important areas we feel should be invested in.

Within IT we have included IRRELEVANT of investments for delivery of a new S**trategic Platform Modernisation (SPM)** programme to improve the quality, functionality and cost of our branch IT platform, currently Horizon. The intent is to ultimately deliver a new, modern, next-generation core IT platform to enable the digital transformation of our branch and on-line

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operations; The sooner we invest in SPM, the sooner we will be able to exit Horizon. The first part of this work, currently being undertaken, is to identify the commercial and Fujitsu relationship next steps given the urgency of current and upcoming Horizon and supplier challenges. The exact plan, financial payback and technical architecture is not known at this time.

The SPM programme will constitute one of the biggest transformational activities for Post Office in recent years. The current Horizon trading platform is now over 20 years old and doesn't meet the need of a modern Post Office. Our postmasters tell us they require greater simplicity, and flexibility in format. Our business needs to be able to quickly assess, design and deploy new customer solutions. To enable these fundamental requirements, we must have a system capable of doing so - the trading platform for our future. The projected costs within the 4-year plan represent an estimate of how much a programme of this magnitude could cost, but given the embryonic nature of the programme, the estimates given are clearly high level and should be considered to have large uncertainty bounds.

Captured within the costs is an allocation for a problematic and protracted process to resolve live Fujitsu contractual issues, which will contribute to the financial headroom for SPM. We expect Fujitsu to be exceptionally aggressive in these negotiations. Any influence Government can bring to bear as a fellow customer may help.

Overall, based on the information available, an estimate has been created for the costs to deliver SPM, including the required work to sustain Horizon in the interim. This estimate is high level and requires considerable further work. This will be completed during the early phases of the SPM programme (signposted for 20/21) to provide more clarity and certainty on potential costs, but also to allow the right business decisions to be made about direction and priority. We are currently flagging an illustrative breakdown over 2020/21–2023/24 of:

- IRRELEVANT

The sustainability of our brand and business is built upon the **Post Office network**: it is the foundation of our commercial and social purpose. And the network is our postmasters. Without a proposition which works for them we cannot sustain the nationwide scale and service levels needed to increase convenience for customers, drive growth in priority markets such as PUDO, and support communities with access to cash and other essential services. We are therefore flagging this as a key investment area for the 4YP, earmarking IRRELEVANT over the cycle (under "Transforming Postmaster Relationships per investment table").

The reality is that our current branch propositions are not attracting and retaining the great retailers we need to deliver our strategy. As a result we are falling behind our competitors in urban areas while spending IRRELEVANT each year just managing network churn, with increasing numbers of outreach required to plug the gap to higher numbers of branches, which are generally loss making and provide a poorer customer experience.

The feedback from retailers is clear: they want control over the products they offer their customers and greater flexibility around how they integrate a post office into their main business, including simpler options which can be run without the need for dedicated staff and counters. Covid-19 has made these changes all the more urgent.

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Balancing our customer & client needs, shareholder priorities and commercial sustainability, we envisage a future network with the following key characteristics:

- Still meeting the six access criteria to safeguard access to communities across the UK, with the 11.5k target largely an irrelevance because we have expanded beyond that number.
- A shift away from c2k sub-optimal, underutilised outlets to new branches located in great retailers & community hubs in areas of higher customer demand.
- Greater flexibility in how the product offering & operating model for each branch is tailored to the needs of the postmaster and the local market, but with every branch still providing access to core mails and – if required by the community and underpinned by the right commercial arrangements with the banks - access to cash & banking services.
- A queue of prospective postmasters & Multiples wanting to take on a branch or expand their business with us, ensuring we have great locations and hosts to meet customer demand.
- We will fund the resolution of "trapped" branches that failed to be completed during Network Transformation due to lack of alternative supply.

The investment we are signposting supports delivery of the above through delivering outcomes in three areas:

1. A more flexible formats range which gives postmasters greater choice over the services they offer and a wider range of options around how the post office can be integrated with their own retail operation, including through new light-touch options which do not require dedicated staffing or complex training.
2. Modern franchise arrangements which match external best practice to support our postmasters to grow their business. This will be underpinned by a tiered operational model with different levels of account management, planning, training and marketing support will allow both sides to reduce costs and increase sales.
3. Stronger strategic partnerships with a portfolio of great retailers that are conveniently located where our customers live, work and shop. These might be traditional players such as Co-op or new hosts such as Boots – and will also include the upgrading of suitable Payzone partners as part of a more coherent approach to managing our total network.

In order to deploy the new formats at scale, we will need to reframe the definition of a post office with BEIS, moving from the rigid requirement to include all SGEI services to a more flexible approach with access to parcels services as the core anchor in all branches. Ultimately this flexibility will strengthen our proposition to customers and communities in urban and rural communities, including start-ups and small businesses, ensuring we can attract and retain great postmasters running thriving local businesses.

While alternative approaches exist, our plans assume the following:

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	Locations - Maintain Rural Network (Low active churn)
Current number	IRRELEVANT
CV-19 returns in 2020-21	
Close DMBs	
DMB franchising/replacement	
Reduce outreaches	
Reduce small, fixed pay branches	
New rural models	
Churn of branches we want to keep	
Full service openings (to replace churn)	
Whitespace development	
End March 2024 total	
EBITDAS change (23/24 exit rate)	
Set-up/Compensation Costs	

We can reduce costs by reducing branch numbers. However, managing the network close to a contracted number, as we have been since independence is expensive and leads to sub-optimal decisions. There is no magic in 11,500 but a smaller number requires politically unpalatable branch closures in rural locations that are not required to meet access criteria you can tell us. Our need is to have clear blue water between us and the target.

Alongside these strategic investments, we have also included a net IRRELEVANT to finish the franchising of our DMB business, which has been a Board and UKGI priority, and something we have accelerated over the current 3YP. This enables a significant shift in the way we work with far fewer employees.

We would like to invest further in our Mails products, particularly in PUDO., We believe we can increase revenues, create a more relevant product for our customers, deliver an easier solution for our postmasters, and most importantly provide significant access points for small businesses participating in e-commerce across the country, contributing to the economic recovery required after Covid-19.

We have earmarked a material amount of Telco investment, which is largely to support a mandatory RFP process (and to a lesser degree router investment for our customers moving to fibre). However, this figure could be reduced depending on the timing of any sale that might be made of this business.

We want to invest in our Banking & ATM offerings, with IRRELEVANT earmarked for building a more profitable and sustainable ATM offering, which is not so beholden to BOI, alongside investment in Cash Automation (e.g. teller cash recycling machines, Deposit ATMs) to improve our cash handling efficiency and improve the Postmaster experience around cash.

The large reductions in administrative staff costs that we have already flagged will require investment spend both in redundancy costs and also the build of enablers (e.g. process automation), with a current view of IRRELEVANT over the 4YP period, although we are currently targeting to front load this spend to deliver the benefits as soon as possible.

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From a cashflow point of view, we expect borrowing to develop as follows, with Security Headroom restabilising above IRRELEVANT in 21/22 through the net effect of the capital injections, operational inflows, and investment spend:

	P12 20/21	P12 21/22	P12 22/23	P12 23/24
Balance Sheet Headroom	IRRELEVANT			
Available Government Loan				
Government Loan				
Headroom				
Target Minimum Headroom				
Balance Sheet Headroom				
Security Headroom				
Network Cash				
Cash at Bank - POL				
Client Debtors				
Trade & Other Debtors				
Total Security				
Government Loan				
Santander				
Total Obligations				
Security Headroom				
Net Funding Position				
Available Government Loan				
Available NRF				
Available Funding				
Government Loan				
Demonetisation - NCS				
Cash at Bank - POL				
Net Fundng Position				
Net Funding Position Headroom				

With Security Headroom being driven by the following elements:

	FY21/22 £m	FY22/23 £m	FY23/24 £m
Security headroom b/f	IRRELEVANT		
Operational			
Investment spend			
Litigation			
Working capital			
Financing			
Security headroom c/f			

Further detail of our EBITDAS 4YP is attached as a separate document (Appendix A).

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5. What support do we need from Government?

To deliver, we need the following support from Government. This is significant and we understand that there have never been more claims on the public purse. However, we also believe that the return will be worthwhile and indeed critical to other political objectives:

Network definition

We have debated the right balance of rules to ensure that we can flexibly respond to customer needs while protecting access for the vulnerable. While the 11,500 commitment was arbitrary and not justified by customer need, we recognise that the political difficulty of changing it may be greater than the benefit. The real cost of maintaining the number is because we are so close to 11,500, every churning location must be replaced immediately, regardless of the circumstances.

To ensure we have the flexibility we need to meet both postmaster and customer requirements we propose using the existing Funding Agreement definition that a branch is IRRELEVANT

IRRELEVANT

IRRELEVANT – which specifically are 1st & 2nd class stamps & labels; Signed For; Special Delivery by 1pm; and International Air & Surface mail (with no weight specifications). In some of the additional branches we propose to open in 'whitespace' locations this Mails SGEI will be fulfilled as part of our broader PUDO propositions, giving customers a convenient solution to drop-off parcels they have purchased online. These new formats will also include bill payments and other simple products, but not necessarily providing cash, which is well supported and expensive for retailers to run. This change would enable us to grow the network and improve its quality as set out in the previous section. Rural, urban deprived services and the access criteria that protect vulnerable and left-behind customers will be rigorously maintained.

Funding

We are asking for IRRELEVANT of additional funding in the combined form of equity and subsidy, alongside a IRRELEVANT loan. This is similar to that received in the previous funding period but materially more than expected as a result of CV-19 and Litigation self-funding. We have included above a reconciliation explaining the need for more funding. Section 4 sets out the gap between the need to invest and the cash we can generate.

We have requested the funding as equity and subsidy because it helps to resolve our issues with net assets and postpone our issue with security headroom (below). We initially suggested a one-off, up-front equity injection to reduce costs and complexity. This has been amended to split between IRRELEVANT up front and IRRELEVANT after a year in response to suggestions from BEIS and UKGI.

We talk below about the strategic decision and the uncertainties around a disposal of our Telco business. We are happy to work with you on some formula to allow a repayment of equity in the event that the Telco disposal net of lost income transforms our outcomes, and this is discussed in more detail in the accompanying response to the 11th August UKGI Letter.

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Funding - Litigation

In addition, it is clear that the ongoing cost of the post-GLO work cannot be borne by POL within its current arrangements. The costs of defending the GLO were rightly funded by us. Nonetheless, the settlement of the civil claim and secondary claims would still have had to be paid to bring these long-standing complaints to an end, and the costs relating to criminal appeals still incurred, recognising that they relate primarily to actions, the vast majority of which (including decisions to prosecute and the conduct of those prosecutions) took place before POL became an independent business.

A separate paper has been shared, setting out the proposal to ring-fence and preferably separate the conduct of the litigation from POL to ensure its independence. In that we recommend that the independent operation has oversight over our dealings with Postmasters.

The current legal and associated programme costs are c IRRELEVANT over the funding period and there are likely to be further claims which could conceivably cost IRRELEVANT (recognising that this range is subject to a number of qualifications and assumptions given that the claims have not yet been made).

In addition, as flagged in February, we are facing litigation in the employment tribunal that 120 Postmasters are workers. If they are successful this could give rise to claims from postmasters across the network that they are entitled to various worker rights, such as pensions, sick pay and holiday pay. [redacted]. If we lose, it is hard to see how all Postmasters could be workers, for example those who are large limited companies, who manage multiple outlets, or who provide no personal service. A segment of our postmasters are higher risk than others.

Nonetheless, we had strong advice that we would win the GLO and we did not. At its extreme, if all Postmasters were considered workers, it would cost POL IRRELEVANT per annum and a back sum of IRRELEVANT for historical claims, although a more conservative estimate is costs of IRRELEVANT per annum and back pay sum of IRRELEVANT for the higher risk branches. It is important to note that these figures are only estimates at this stage. There is no precedent for translating postmasters' complex fee structures and working arrangement (which include separate retail and non-post office business rates) into worker rights such as holiday pay and wages.

This cannot be funded by the business, whether it arises from the tribunal case, or indeed otherwise in the future from legal re-interpretation or new law. In addition, we suspect that many Postmasters would not want worker status and any enforced change would seriously jeopardise the current business model. We will continue to defend the case and to explore and implement strategies to mitigate the risk inherent in the network, including only engaging postmasters through genuine Limited Companies, improving the way we engage with postmasters, improving remuneration and, in some cases, the opportunity for postmasters to take time away from branches.

Borrowing

The definition of Security Headroom is no longer consistent with the way the modern business works. Every time a fixed asset is purchased, headroom is reduced. Thanks to the cost of the litigation and the contraction from CV-19, we no longer have the headroom to manage this ongoing deterioration and without change will miss the headroom target in 2021-22 and 2022-23.

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We have been working with BEIS to IRRELEVANT IRRELEVANT IRRELEVANT as well, improving headroom by c. IRRELEVANT at current levels.

In addition, to achieve a balance, we believe that the value of our fixed assets in our audited accounts should be added to the calculation. The argument has been made that the nature of our fixed assets would be hard to dispose of in the open market. This may be theoretically correct but even the cash can only revert to Government if Post Offices are completely and permanently closed. Better for the calculation to reflect the money we spend and become sustainable.

It is also worth noting that in early lockdown, headroom fell by over IRRELEVANT in four weeks so some capacity is appropriate.

We are not proposing any increase in borrowing limits on the BEIS facility, so we will continue to improve cash efficiency. However, if our Bank of England facility is reduced, we will need matching funding from either BEIS or a commercial lender. The BoE is not indicating this and has been supportive, but the rules will have to change to maintain the current facility.

Other support

BEIS and HMT have been consistently generous financial supporters: the business was essentially bankrupt on independence and your support saved Post Offices. However, commercial support across Government has been affected by departmental agendas and an understandable bias to outsourcing.

It is clear from our conversations with the Banks that our task in landing BF3 will be easier if all Government agencies and regulators reinforce the importance of PO as a channel for cash. Across Government, we could also be championed as the most trusted provider of digital identity, showing Government leading the way and securing benefit from its commercial development. If that took off or we ended up in a more monopolistic situation, we would share profits with HMG.

BEIS will remain in control of POL after a funding decision is reached, and we propose the continuation of the following controls:

- BEIS approves all annual and three-year plans. Without that approval, annual funding will not be provided.
- BEIS approves directors' remuneration and incentive targets.
- The business operates a detailed and comprehensive change process to approve individual business cases that must be triggered before spending is incurred.
- A plan to fund an investment does not constitute permission to spend money.
- The Board, with BEIS representation, approves all investments with a lifetime cost of more than £5m. Investments of more than £50m together with specific transactions such as acquiring and selling businesses must be individually approved by BEIS.
- If an investment looks like it will miss its ROI target by more than 10% it must be reviewed and re-approved by the original approving body, including the Board.
- Monthly tracking and oversight are undertaken across the change portfolio and frequent Post Investment Reviews are undertaken.
- The monthly results of the business are reviewed by the Board and separately by UKGI.

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We appreciate your counsel, support, and challenge across BEIS and UKGI and often HMT. We could achieve quicker and better alignment with a streamlined governance structure with single, combined, monthly meetings that would enable HMT, BEIS and UKGI to deliver their objectives more easily.

6. What are the key risks?

In February, we identified key risks including the GLO, the workers' rights claim, security headroom and the size of the Bank of England facility. We have proposed ways in which these risks can be mitigated above. We do not believe we can deliver commercial sustainability within our current rule set.

Otherwise, our ability to move the Horizon branch trading system onto the cloud, replace it for branch "tills", transaction processing and branch accounting by the end of the contract in March 2023 is a complex and concerning issue. We believe that Fujitsu will be largely unsupportive and will seek to monetise their position aggressively even if it risks our ability to trade: as a result they also must exit, although we recognise this could be both expensive and may need more time. Any Government willingness to put pressure on Fujitsu, given their other Government contracts, would be greatly appreciated.

None of our plans assume a second national lockdown and we do not yet know how much of our business will, in the end, return.

We must recruit and retain a constantly improving senior leadership team who can match up to the challenges ahead. This is being made more difficult by the increasing pressure on remuneration and redundancy pay. However, for now, the pressures of CV-19 on the jobs market has reduced the risk.

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7. What assurance is being undertaken?

KPMG has provided UKGI and BEIS with a detailed review over our forecast models and our 4YP approved by the Board in July.

In terms of the key strategic challenges, we have had the following governance and third-party support:

Strategy Area	Board Reviewed	3rd Party Support and Assurance
2020/21 Budget (including 4 year plan assumptions)	Mar-20	
Agents' Remuneration	Oct-19	Egremont
Agents' Remuneration	Jul-19	Egremont
Bank of Ireland Relationship	Jul-19	
Cash and Banking Market Assessment	Jun-20	Reinvigoration
Cash Utility Strategy	Jul-19	
Digital Identity Strategy Update	Oct-19	
Digital Identity Strategy Update	Jul-19	
Fujitsu Contract/ SPM	Jun-20	
Group Litigation Update	Jul-19	
Insurance Strategy	Jan-20	
Insurance Strategy	Jul-19	
Legal Enterprise Optimisation	Jul-19	
Legal Entity Optimisation (Framework Agreement and Articles of Association)	Nov-19	
Legal Entity Optimisation (Framework Agreement and Articles of Association)	Sep-19	
Network Policy Framework	Jun-20	Deloitte, Berkley, Egremont
Network Strategy	Sep-19	Deloitte, Berkley, Egremont
Payzone Bills Payments Strategy	Oct-19	
Postmaster Engagement/ Representation	Jun-20	
Purpose of Post Office	Jun-20	
Purpose, Strategy, Growth	Jan-20	Mckinsey
Purpose, Strategy, Growth	Nov-19	Mckinsey
Purpose, Strategy, Growth (PSG)	Oct-19	Mckinsey
Royal Mail Negotiations	Sep-19	
Royal Mail Strategy	Nov-19	
Starling (Workers' rights litigation)	Jul-19	
Starling (Workers' rights)	Jan-20	
Telcoms Strategy	Jul-19	
Telecoms Strategy	May-20	Cambridge Management, Grant Thornton, DMW
Telecoms Strategy	Jan-20	Cambridge Management, Grant Thornton, DMW
Telecoms Strategy	Oct-19	Cambridge Management, Grant Thornton, DMW

The Board have also been presented with litigation updates on a quarterly basis.

The critical question is how certain you can be that we will deliver a delayed commercial sustainability – or is this just a staging post in an eventual recognition that modern POs always need subsidising?

We do recognise longer term challenges and we believe that the cost of a PO must be substantially reduced through automation before longer term shifts online and away from cash take too much footfall away. However, even post CV-19, we believe this point is some years away and it can be managed.

Assurance can sensibly be taken from the fact that we are projecting a point of commercial sustainability with a trading profit of c. IRRELEVANT some 50% higher than in our earlier assumptions. We also believe that pre-CV-19 delivery of our promises should be reassuring, as was the growing customer sessions and commercial revenue.

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In the meantime, the most likely source of failure is that the cost of change grows while earnings are slower to return. In this eventuality, we would sell our Telco business and possibly our Insurance business in order to make the cash available to complete the cost journey set out above. It should provide additional assurance that we can complete the job if we receive the support requested.

8. What happens if we get less funding?

If we got less funding or the shareholder required a more investible outcome, we would:

- Sell both Telco and IRRELEVANT
- IRRELEVANT
- IRRELEVANT
- IRRELEVANT

We would materially reprioritise our investment portfolio, slowing down organisational structure changes and commercial development, along with their associated tangible and non-tangible benefits. In the near term, we would focus on delivering against the DMB strategy, contractual change, litigations, BAU and Regulatory outcomes, and little else.

We would seek a 10-year extension with Fujitsu and other IT providers in exchange for lower costs to serve.

Almost inevitably, the lack of investment and support for Postmasters and customers would reduce the stability of the business and make it harder to make the changes required following the GLO. This could lead to a network reduction programme that would damage us publicly, creating a vicious circle with the clients that fund trading such as the banks. We would expect to end at c. 10k branches.

If we got substantial funding but less than requested, we would have to make at least one material intervention. That might be the sale of Telco but as shown, the numbers are not compelling. We would probably have to do a long-term deal with Fujitsu to retain Horizon with high operating costs. This will be problematic for GLO purposes.

On the more extreme scenarios, we would IRRELEVANT

IRRELEVANT

In practice, we believe that Government support after 2024 would be much higher than under our proposed plan and would likely return to historical levels unless there was a wholesale abandonment of network requirements.

It is also worth noting that if funding is uncertain and we retain the risk of having net liabilities, the Board will be placed in a very difficult position legally: this is where our responsibilities under the Companies Act and the Insolvency Act differ from those of Government. Net liabilities are an indicator of insolvency as defined by the Insolvency Act. Given such an indicator, we will find it increasingly difficult to sign long-term arrangements, limiting our progress. Within a

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relatively limited time period we may have to cease some initiatives and make further reductions to employee numbers. Furthermore, our clients may seek additional security, our suppliers additional insurance or accelerated payment, and our credit lines may be experience upwards price pressure. This could also be avoided by Government providing extensive guarantees, but we recognise that these may be more onerous than the funding decision.

9. What would the 4YP look like if we sold Telephony?

As already discussed, the business has already made the strategic decision to sell the Telephony business if suitable circumstances can be agreed. Based on this business unit transferring out of POL at the end of 20/21 for an approximate net sale price of £120m, an updated financial view of the 4YP financials is shown below. This has a net impact on cashflows of around £41m over the period (after lost profits are adjusted for) and the business's preference is to sell because of the complexity that the business brings. We would be happy to discuss a mechanism whereby, if a materially better outcome is forthcoming, funding can be returned (and this is discussed further in our response to UKGI's letter from 11th August).

	P12 20/21	P12 21/22	P12 22/23	P12 23/24
Security Headroom without Telco Sale	IRRELEVANT			
Security Headroom with Telco Sale				
Movements				

Area	P&L Grouping	20/21	21/22	22/23	23/24
Trading Profit	Gross Income	IRRELEVANT			
	Cost of Sales				
	Agents Pay				
	Trading Staff Costs				
	Trading Non-Staff Costs				
	FRES				
	POCA Income				
Trading Profit Total					
Overheads	Overheads - Staff				
	Overheads - Non-Staff				
Overheads Total					
Grand Total					

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	P12 20/21	P12 21/22	P12 22/23	P12 23/24
Balance Sheet Headroom				
Available Government Loan				
Government Loan				
Headroom				
Target Minimum Headroom				
Balance Sheet Headroom				
Security Headroom				
Network Cash				
Cash at Bank - POL				
Client Debtors				
Trade & Other Debtors				
Total Security				
Government Loan				
Santander				
Total Obligations				
Security Headroom				
Net Funding Position				
Available Government Loan				
Available NRF				
Available Funding				
Government Loan				
Demonetisation - NCS				
Cash at Bank - POL				
Net Fundng Position				
Net Funding Position Headroom				

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10. What is the outlook beyond 2023/24?

Clearly the further out we try to look the more speculative our view becomes, however, there are likely material trends that can be discussed along with their potential impacts on POL:

- Whilst Banking & ATM revenues grow over the 4YP as we further increase our market share, this will likely stabilise towards the end of the 4YP, with bank branch closures reaching a minimum level. At this point the longer-term decline of cash in the UK will likely erode our revenues in this area. It is also worth noting that a third iteration of the Banking Framework agreement will be implemented from January 2023 which will change commission rates.
- We would expect to see a slightly and slow decline in Mails beyond the 4YP, with PUDO revenues stabilising and traditional mails products such as stamps continuing their slow historical decline.
- We have modelled the continuation of low interest rates over the 4YP, with this particularly affecting our PO Money revenues. A further economic recovery post 4YP would likely boost profits in the Savings, Mortgages and Loans area (from interest rate increases), along with Travel Money (as people start travelling more).

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The above factors would therefore likely see our revenues stabilise or slightly decline from the predicted 23/24 exit level. To maintain our profitability we would therefore look to reinvest a portion (but not all) of our profits to expand in to new products, increase market share, and reduce costs further, including encouraging Postmasters to invest in automation and reduce staff costs. We may see wholly automated Post Offices.

Extrapolating out the above would credibly show a sustainable business in 24/25. Cashflows from operations would be expected to exceed outflows from investments and other items by around IRRELEVANT, allowing a build-up of retained earnings that could form a potential dividend stream.

Area (£m)	20/21	21/22	22/23	23/24	24/25	24/25 Logic
Banking & ATMs						
Mails						
PO Money						
OE						
Telephony						
Insurance						
Lottery & Retail Other						
Identity						
Bill Payments						
New Format Impact						
Re-imagining the Postmaster Experier						
POCA						
Covid-19 Response						
Central						
Comms						
Digital						
LCG						
HR						
Finance						
Central Marketing						
Network Operations (excl. Property)						
Property						
Supply Chain						
Network & Central Retail						
CIO						
Grand Total						

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24/25 Investments	£m
IT Investments	
Mails Commercial Investments	
Banking & ATM Commercial Investments	
Postmaster & Network Investments	
Other Investments	
Regulatory, Compliance & Maintenance	
Grand Total	

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24/25 Investments	£m
Operational Cashflows	
Interest and Tax	
Investment Spend	
Grand Total	

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11. What are the next steps?

This paper (along with associated documents submitted on 28th August) will now become part of the BEIS submission to HMT in September. The current Government timetable for the Spending Review expects the conclusions to be published in November, and we expect other meetings and discussions along this timeline as the Government works through this timeline.

Once we have agreed 4YP funding, BEIS and POL will agree a new contract. This will allow us to finalise our financial accounts for 2019/20 (ARA), as it is a required element of our proof of being a Going Concern.

We continue to abide by the EU State Aid regulations, as we have done throughout the current 3YP period. Whilst we are committed to carrying this on, the future structure of State Aid post Brexit is still to be agreed at a Government level. We therefore note that this future action at this stage, although we cannot currently plan a response.

In our discussions with BEIS, they have also noted that depending on the decisions made about the size and shape of the Network during this process, a public consultation may be required in the future to ratify and steer any changes.

All the above will require close working with UKGI and BEIS in particular, and we thank them for the support they have given us thus far in this process.

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1. Appendix – 3YP Investment Detail

	3YR Plan FY18/19 to FY20/21											
	Spend						Benefits					
	FY18/19	FY19/20	FY20/21	All Periods			FY18/19	FY19/20		FY20/21		All Periods		
	Actual	Actual	Forecast	Forecast	3YR Plan	Forecast vs 3YR Plan	Actual	Actual	Incremental	Forecast	Incremental	Forecast	3YR Plan	Forecast vs 3YR Plan
Further franchising DMBs														
Network Expansion														
Horizon Integration Hub														
Multi-year Crown Project														
Self Service Kiosk (SSK)														
Service Oriented Central Sup. Branch Hub														
Automation Strategy														
Network and Postmaster Investment														
Other Smaller Projects Simplify														
Simplify the retailer proposition														
Mails Projects														
Customer Hub – Additional Verticals (Falcon)														
Identity Services Investments														
Project Galaxy														
Telco Investments														
Travel Hub														
Digital Developments														
Eagle														
Reclassification from Capex to Opex														
Sale & Leaseback														
Cash & Banking Services														
Bill Payments														
PO Insurance Investments														
Vehicles														
Falcon - Peregrine														
Youth Strategy														
Other Smaller Projects Modernise														
Modernise our products and services														
Project Everest Incl. Belfast exit														
Risk and Resilience														
PCI Compliance														
EUC Branch Deployment														
End-of-Life Replacements														
Receipt Printers														
IT Service Transformation Programme														
CDP reprocurement														
Change Excellence (Project Trafalgar)														
Integration, Microservices & API Layer														
Computacenter Run Services Transition														
IT Security Programme														
EUC Programme														
Network Evolution and Enhancement														
Strategic Platform Modernisation														
IT GLO Improvements														
IT Contract Reprocurements														
Other Smaller Projects Build														
Build innovative, flexible and secure IT														
Supply Chain and Back Office Improvement														
Property														
Data & Analytics Excellence - DAE (Arrow)														
HR Programmes														
Operational Effectiveness														
LCG Programmes														
Other Smaller Projects Digitise														
Digitise and optimise the business														
Back Office Systems Transformation														
Modernise our skills, polices and processes														
General Data Protection Regulation (GDPR)														
Payzone (Panther)														
Covid-19														
Central														
Transforming Agents Relationships														
Other Smaller Projects Regulatory														
Non-UKGI Funded														
Post Office														
Group Litigation														
Post Office Including Litigation														

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2. Appendix – 4YP Investment Detail

	3YR Plan FY21/22 to FY23/24										
	Spend				Benefits						
	FY21/22	FY22/23	FY23/24	All Periods	FY21/22		FY22/23		FY23/24		All Periods
	Forecast	Forecast	Forecast	Forecast	Forecast	Incremental	Forecast	Incremental	Forecast	Incremental	Forecast
Further franchising DMBs											
Network Expansion											
Horizon Integration Hub											
Multi-year Crown Project											
Self Service Kiosk (SSK)											
Service Oriented Central Sup. Branch Hub											
Automation Strategy											
Network and Postmaster Investment											
Other Smaller Projects Simplify											
Simplify the retailer proposition											
Mails Projects											
Customer Hub – Additional Verticals (Falcon)											
Identity Services Investments											
Project Galaxy											
Telco Investments											
Travel Hub											
Digital Developments											
Eagle											
Reclassification from Capex to Opex											
Sale & Leaseback											
Cash & Banking Services											
Bill Payments											
PO Insurance Investments											
Vehicles											
Falcon - Peregrine											
Youth Strategy											
Other Smaller Projects Modernise											
Modernise our products and services											
Project Everest Incl. Belfast exit											
Risk and Resilience											
PCI Compliance											
EUC Branch Deployment											
End-of-Life Replacements											
Receipt Printers											
IT Service Transformation Programme											
CDP reprocurement											
Change Excellence (Project Trafalgar)											
Integration, Microservices & API Layer											
Computacenter Run Services Transition											
IT Security Programme											
EUC Programme											
Network Evolution and Enhancement											
Strategic Platform Modernisation											
IT GLO Improvements											
IT Contract Reprocurements											
Other Smaller Projects Build											
Build innovative, flexible and secure IT											
Supply Chain and Back Office Improvement											
Property											
Data & Analytics Excellence - DAE (Arrow)											
HR Programmes											
Operational Effectiveness											
LCG Programmes											
Other Smaller Projects Digitise											
Digitise and optimise the business											
Back Office Systems Transformation											
Modernise our skills, polices and processes											
General Data Protection Regulation (GDPR)											
Payzone (Panther)											
Covid-19											
Central											
Transforming Agents Relationships											
Other Smaller Projects Regulatory											
Non-UKGI Funded											
Post Office											
Group Litigation											
Post Office Including Litigation											

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Area	P&L Grouping	Area 3	Driver 2	Driver 1	20/21, 21/22, 22/23, 23/24
Identity	Gross Income	Passports	BAU Trading	Trading	
Identity			Identity Products Modernisation	Project	
Identity			Digital Check & Send	Project	
Identity		Identity Services	BAU Trading	Trading	
Identity			IDS In Branch Verification	Trading	
Identity		DVLA	BAU Trading	Trading	
Identity		Digital Identity	Digital Identity	Project	
Identity		Environment Agency	BAU Trading	Trading	
Identity		UKVI	BAU Trading	Trading	
Identity		Verify/Digital Identity	BAU Trading	Trading	
Identity	**Gross Income Total**				
Identity	Cost of Sales	Digital Identity	Digital Identity	Project	
Identity		Verify/Digital Identity	BAU Trading	Trading	
Identity	**Cost of Sales Total**				
Identity	Agents Pay	Identity Services	IDS In Branch Verification	Project	
Identity		Passports	Digital Check & Send	Project	
Identity			Identity Products Modernisation	Project	
Identity		Identity	BAU Trading	Trading	
Identity	**Agents Pay Total**				
Identity	Trading Staff Costs	Identity	BAU Trading	Trading	
Identity	**Trading Staff Costs Total**				
Identity	Trading Non-Staff Costs	Identity Services	In Branch Verification	Project	
Identity		Gemalto/AEI	Identity Products Modernisation - Gemalto Exit (SIA/DVLA)	Project	
Identity			BAU Trading	Trading	
Identity		Consultancy & Advisory Services	BAU Trading	Trading	
Identity		Tablet Rental	Identity Products Modernisation - Tablet Rental	Project	
Identity		Project Opex	BAU Trading	Trading	
Identity		Passports	Digital Check & Send	Project	
Identity			Identity Products Modernisation	Project	
Identity		Other Operating Costs	BAU Trading	Trading	
Identity	**Trading Non-Staff Costs Total**				
Identity Total					
Supply Chain	Gross Income	HVMs	HVMs	Trading	
Supply Chain		Stock dist & Warehousing	Stock dist & Warehousing	Trading	
Supply Chain		CIT & Cash Processing	CIT & Cash Processing	Trading	
Supply Chain		Bank Distribution	Bank Distribution	Trading	
Supply Chain	**Gross Income Total**				
Supply Chain	Overheads - Staff	Commercial Relationships - Exit Midway	BAU Trading	Trading	
Supply Chain		ATM Strategy	Enabling Supply Chain	Project	
Supply Chain		2019/20 Admin OD Review	BAU Trading	Trading	
Supply Chain		Swindon Strategy (updated from Business Case)	Future of Stock	Project	
Supply Chain		BlueP - Lean operations in Swindon	Blueprint	Trading	
Supply Chain		Banking Framework	Banking Framework	Project	
Supply Chain		Staff Costs	Pay Awards	Trading	
Supply Chain			BAU Trading	Trading	
Supply Chain	**Overheads - Staff Total**				
Supply Chain	Overheads - Non-Staff	Cash Transformation - Lean Cash	Cash Transformation - Lean Cash	Project	
Supply Chain		Cash Transformation - Dynamic Scheduling	Cash Transformation - Dynamic Scheduling	Project	
Supply Chain		CAT 8 Replacement	Vehicle Strategy	Project	
Supply Chain		Cash Transformation - Accenture Forecasting	Cash Transformation - Accenture Forecasting	Project	
Supply Chain		Future of Cash	Future of Cash	Project	
Supply Chain		BlueP - Routing & integrated inventory	Blueprint	Project	
Supply Chain		BlueP - Potential JV	Blueprint	Project	
Supply Chain		ATM	BAU Trading	Trading	
Supply Chain		Other	BAU Trading	Trading	
Supply Chain		T&S Costs	BAU Trading	Trading	
Supply Chain		Losses	BAU Trading	Trading	
Supply Chain		I-Box	BAU Trading	Trading	
Supply Chain		FRES	BAU Trading	Trading	
Supply Chain		Equipment	BAU Trading	Trading	
Supply Chain		Banking Framework	BAU Trading	Trading	
Supply Chain		Vehicle Costs	BAU Trading	Trading	
Supply Chain		Swindon	BAU Trading	Trading	
Supply Chain		Stationery	Branch Printer Cost Reduction 2019	Project	
Supply Chain			BAU Trading	Trading	
Supply Chain	**Overheads - Non-Staff Total**				
Supply Chain Total					
Finance	Overheads - Staff	Finance	Blueprint	Trading	
Finance			Less GLO	Trading	
Finance			BAU	Trading	
Finance	**Overheads - Staff Total**				
Finance	Overheads - Non-Staff	Finance	Non-Staff Costs Efficiency Target	Trading	
Finance			Property & Facilities Management	Trading	
Finance			Vehicles	Trading	
Finance			Other Operating Costs	Trading	
Finance			Brand & Marketing	Trading	
Finance			IT Infrastructure & IT Services	Trading	
Finance			Staff & Agent Related Costs	Trading	
Finance			Consultancy & Advisory Services	Trading	
Finance			Finance & Losses	Trading	
Finance	**Overheads - Non-Staff Total**				
Finance Total					
CIO	Overheads - Staff	ATOS insource Business IS team	ATOS insource Business IS team	Trading	
CIO		EUC Colleague & Shared support	EUC Reprocurement	Trading	
CIO		New Application support	BAU Trading	Trading	
CIO		Rob Wilkin's CCoE team	Rob Wilkin's CCoE team	Trading	
CIO		Internal Staff Costs BAU	BAU Trading	Trading	
CIO	**Overheads - Staff Total**				
CIO	Overheads - Non-Staff	CIO OE Savings Flow Through	OE - Lower Staff	Project	
CIO		Cost Challenge	Cost Challenge	Trading	
CIO		Computacenter	BAU Trading	Trading	
CIO		PCI-DSS Reaccreditation	PCI-DSS Reaccreditation	Trading	
CIO		Computacenter "Replacement Colleague"	BAU Trading	Trading	
CIO		Licences for business automation solutions	BAU Trading	Trading	
CIO		Horizon HiH (Fujitsu)	British Gas	Project	
CIO		Licences and Support	Branch Hub	Project	
CIO		Decommissioning costs (Bracknell, Stevenage co-lo facility, ATOS Winnerish)	Strategic Platform Modernisation	Project	
CIO		Security	Security	Trading	
CIO		CDP (Accenture)	BAU Trading	Trading	
CIO		Ingenico Platform & Transactions (via Fujitsu)	PCI	Project	
CIO		Strategic Platform Modernisation	Strategic Platform Modernisation	Project	
CIO		CFS (Accenture)	CFS (Accenture)	Trading	
CIO		Other IT Costs	Other IT Costs	Trading	
CIO		Software Licences	Software Licences	Trading	
CIO		Computacenter "Replacement Branch"	EUC Reprocurement	Project	
CIO			BAU Trading	Trading	
CIO		Verizon (Networking)	OE - Less Admin Sites	Project	
CIO			BAU Trading	Trading	
CIO		Horizon (Fujitsu)	BAU Trading	Trading	
CIO	**Overheads - Non-Staff Total**				
CIO Total					
Comms	Overheads - Staff	Efficiency savings	Spans & Layers	Project	
Comms		Baseline + pay award	BAU Trading	Trading	
Comms	**Overheads - Staff Total**				
Comms	Overheads - Non-Staff	Comms	BAU Trading	Trading	
Comms	**Overheads - Non-Staff Total**				
Comms Total					
HR	Overheads - Staff	Efficiency savings	Blueprint	Project	

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HR		Baseline + pay award	BAU Trading	Trading	IRRELEVANT
HR	**Overheads - Staff Total**				
HR	Overheads - Non-Staff	HR	Legal Costs	Trading	
HR			Property & Facilities	Trading	
HR			Vehicles	Trading	
HR			IT Infrastructure & Services	Trading	
HR			Brand & Marketing	Trading	
HR			Other Operating Costs	Trading	
HR			Consultancy & Advisory	Trading	
HR			Finance & Losses	Trading	
HR			Staff & Agent Related	Trading	
HR	**Overheads - Non-Staff Total**				
HR Total					
Central	Gross Income	Gamma income	BAU Trading	Trading	
Central	**Gross Income Total**				
Central	Agents Pay	Central	Top up	Trading	
Central	**Agents Pay Total**				
Central	Overheads - Staff	Central	Rounding Fix	Project	
Central			Blueprint	Project	
Central			BAU Trading	Trading	
Central	**Overheads - Staff Total**				
Central	Overheads - Non-Staff	Central	Further Self-Help	Trading	
Central			BAU Trading	Trading	
Central	**Overheads - Non-Staff Total**				
Central Total					
Network Operations (excl. Property)	Overheads - Staff	Network Operations (excl. Property)	Network Ops Transformation - Losses	Project	
Network Operations (excl. Property)			Service Oriented Central Sup. Branch Hub	Project	
Network Operations (excl. Property)			Horizon Quick Wins	Project	
Network Operations (excl. Property)			Fit & Proper	Project	
Network Operations (excl. Property)			BAU	Trading	
Network Operations (excl. Property)	**Overheads - Staff Total**				
Network Operations (excl. Property)	Overheads - Non-Staff	Network Operations (excl. Property)	Network Ops Transformation - Losses	Project	
Network Operations (excl. Property)			Non-Staff Costs Efficiency Target	Trading	
Network Operations (excl. Property)			Service Oriented Central Sup. Branch Hub	Project	
Network Operations (excl. Property)			BAU - Brand & Marketing	Trading	
Network Operations (excl. Property)			BAU - Property & Facilities Management	Trading	
Network Operations (excl. Property)			BAU - IT Infrastructure & IT Services	Trading	
Network Operations (excl. Property)			BAU - Vehicles	Trading	
Network Operations (excl. Property)			BAU - Other Operating Costs	Trading	
Network Operations (excl. Property)			BAU - Staff & Agent Related Costs	Trading	
Network Operations (excl. Property)			BAU - Finance & Losses	Trading	
Network Operations (excl. Property)	**Overheads - Non-Staff Total**				
Network Operations (excl. Property) Total					
Property	Overheads - Staff	Property	Staff Costs	Trading	
Property	**Overheads - Staff Total**				
Property	Overheads - Non-Staff	Property	Non-Staff Costs Efficiency Target	Trading	
Property			Finance & Losses	Trading	
Property			Staff & Agent Related Costs	Trading	
Property			Brand & Marketing	Trading	
Property			Vehicles	Trading	
Property			IT Infrastructure & IT Services	Trading	
Property			Legal Costs	Trading	
Property			Other Operating Costs	Trading	
Property			Property & Facilities Management	Trading	
Property	**Overheads - Non-Staff Total**				
Property Total					
Digital	Overheads - Staff	Central Marketing and Digital	Digital	Trading	
Digital	**Overheads - Staff Total**				
Digital	Overheads - Non-Staff	Digital non-staff	Digital non-staff	Trading	
Digital	**Overheads - Non-Staff Total**				
Digital Total					
Central Marketing	Overheads - Staff	Central Marketing and Digital	Marketing	Trading	
Central Marketing	**Overheads - Staff Total**				
Central Marketing	Overheads - Non-Staff	Non-Staff Savings Challenge (Business Wide)	Targetted Savings	Trading	
Central Marketing		Bill payments and Payzone	Bill payments and Payzone	Trading	
Central Marketing		MoneyGram	MoneyGram	Trading	
Central Marketing		Identity	Identity	Trading	
Central Marketing		Banking Services	Banking Services	Trading	
Central Marketing		Transactional Banking	Transactional Banking (ATM)	Trading	
Central Marketing		CVM	CVM	Trading	
Central Marketing		Credit Card	Credit Card	Trading	
Central Marketing		Instor POS	Instor POS	Trading	
Central Marketing		insight	insight	Trading	
Central Marketing		Mails	Mails	Trading	
Central Marketing		PR/test-learn/Brand ops	PR/test-learn/Brand ops	Trading	
Central Marketing		Agencies	Agencies	Trading	
Central Marketing		Telecoms	Telecoms	Trading	
Central Marketing	**Overheads - Non-Staff Total**				
Central Marketing Total					
PO Money	Gross Income	Travel Money (including App) - Fixed	BAU Trading	Trading	
PO Money		Branch (MoneyGram) - vble	BAU Trading	Trading	
PO Money		Mortgages / loans / savings	BAU Trading	Trading	
PO Money		Travel Money (including App) - Vble	BAU Trading	Trading	
PO Money		Branch (MoneyGram) - Fixed	BAU Trading	Trading	
PO Money			MG re-Procurement	Project	
PO Money		Credit Cards	Credit Cards (Severn)	Project	
PO Money		Postal Orders - breakage	BAU Trading	Trading	
PO Money		Online (Western Union)	BAU Trading	Trading	
PO Money		Branch (MoneyGram)	BAU Trading	Trading	
PO Money	**Gross Income Total**				
PO Money	Cost of Sales	Mortgages / loans / savings mitigations	BAU Trading	Trading	
PO Money		MoneyGram	BAU Trading	Trading	
PO Money		Credit Cards	BAU Trading	Trading	
PO Money		Postal Orders	BAU Trading	Trading	
PO Money	**Cost of Sales Total**				
PO Money	Agents Pay	Agents pay - Insurance	BAU Trading	Trading	
PO Money		Western Union	Digital Remittances	Project	
PO Money		Agents Pay - Credit Cards	BAU Trading	Trading	
PO Money		Agents Pay - Postal Orders	BAU Trading	Trading	
PO Money		Agents Pay (mortgages, savings, loans)	BAU Trading	Trading	
PO Money		FS&T	BAU Trading	Trading	
PO Money		MoneyGram & Western Union	BAU Trading	Trading	
PO Money		Agents pay - Travel Money	BAU Trading	Trading	
PO Money	**Agents Pay Total**				
PO Money	Trading Staff Costs	Staff costs - Investments	BAU Trading	Trading	
PO Money		Staff costs - SME	BAU Trading	Trading	
PO Money		Staff costs - Transactional products	BAU Trading	Trading	
PO Money		Other	BAU Trading	Trading	
PO Money		Staff costs - existing Balance sheet products	BAU Trading	Trading	
PO Money	**Trading Staff Costs Total**				
PO Money	Trading Non-Staff Costs	Other	BAU Trading	Trading	
PO Money		MG Contract retender savings	MG Retender	Project	
PO Money		Non-staff cost efficiency efficiency	BAU Trading	Trading	
PO Money		Credit Card Migration costs	BAU Trading	Project	
PO Money		Costs - SME	SME proposition	Project	
PO Money		MG Contract retender costs	MG Retender	Project	
PO Money		Costs - Investments	Investments	Project	
PO Money		Other costs - other admin, lead team	BAU Trading	Trading	
PO Money		Other consultancy / advisory / legal	BAU Trading	Trading	

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PO Money		Non staff costs -Balance sheet products	BAU Trading	Trading	IRRELEVANT
PO Money		Non Staff costs - Transactional products	BAU Trading	Trading	
PO Money		Eagle Fund commitment	Eagle Fund Commitment	Project	
PO Money		HMRC regulatory costs	HMRC fee FX branch changes	Project	
PO Money			BAU Trading	Trading	
PO Money	**Trading Non-Staff Costs Total**				
PO Money	FRES	FRES profit share	BAU Trading	Trading	
PO Money	**FRES Total**				
PO Money Total					
Telephony	Gross Income	Dual Broadband (Fibre)	BAU Trading	Trading	
Telephony		Dual Broadband (ADSL)	BAU Trading	Trading	
Telephony		Home phone	BAU Trading	Trading	
Telephony		Other - Phonecards	BAU Trading	Trading	
Telephony		Other - SME & SIM-only	Other - SME & SIM-only	Trading	
Telephony	**Gross Income Total**				
Telephony	Cost of Sales	COS -Reprocurement benefit	Telco Reprocurement	Project	
Telephony		COS-IFRS 15 Impact	BAU Trading	Trading	
Telephony		Telephony Cost of Sales	BAU Trading	Trading	
Telephony	**Cost of Sales Total**				
Telephony	Agents Pay	Telecoms	BAU Trading	Trading	
Telephony	**Agents Pay Total**				
Telephony	Trading Staff Costs	Telecoms	Additional Cost Efficiencies	Trading	
Telephony			BAU Trading	Trading	
Telephony	**Trading Staff Costs Total**				
Telephony	Trading Non-Staff Costs	Telecoms Managed Services & other direct costs	Additional Cost Efficiencies	Trading	
Telephony			Telco Reprocurement	Project	
Telephony			BAU Trading	Trading	
Telephony	**Trading Non-Staff Costs Total**				
Telephony Total					
Insurance	Gross Income	Travel	BAU Travel	Trading	
Insurance		Home (New)	Home Insurance Transformation (Nemesis)	Project	
Insurance		Car	BAU Motor	Trading	
Insurance		Over 50s	BAU Protection	Trading	
Insurance		Life	BAU Protection	Trading	
Insurance		Van	BAU Motor	Trading	
Insurance		Pet	BAU Other	Trading	
Insurance		Gadget	BAU Other	Trading	
Insurance		Lifestyle	BAU Protection	Trading	
Insurance		Home (BGL)	Home (BGL)	Trading	
Insurance		Current Trading Adj.	BAU Trading	Trading	
Insurance	**Gross Income Total**				
Insurance	Cost of Sales	Pet	BAU Other	Trading	
Insurance		Gadget	BAU Other	Trading	
Insurance		Home (BGL)	Home (BGL)	Trading	
Insurance		Van	BAU Motor	Trading	
Insurance		Life	BAU Protection	Trading	
Insurance		Over 50s	BAU Protection	Trading	
Insurance		Car	BAU Motor	Trading	
Insurance		Travel	BAU Travel	Trading	
Insurance		Home (New)	Home Insurance Transformation (Nemesis)	Project	
Insurance	**Cost of Sales Total**				
Insurance	Agents Pay	Insurance	BAU Trading	Trading	
Insurance	**Agents Pay Total**				
Insurance	Trading Staff Costs	Staff costs	Additional Cost Efficiencies	Trading	
Insurance			Travel Continuous Improvement and Other	Project	
Insurance			Home Insurance Transformation (Nemesis)	Project	
Insurance			BAU Trading	Trading	
Insurance	**Trading Staff Costs Total**				
Insurance	Trading Non-Staff Costs	Other	Additional Cost Efficiencies Challenge	Trading	
Insurance		Home (BGL)	BAU Home	Trading	
Insurance		Pet	BAU Other	Trading	
Insurance		Change	BAU Other	Trading	
Insurance		CEO	BAU Other	Trading	
Insurance		Finance	BAU Other	Trading	
Insurance		Van	BAU Motor	Trading	
Insurance		HR	BAU Other	Trading	
Insurance		Compliance	BAU Other	Trading	
Insurance		Life	BAU Protection	Trading	
Insurance		Pricing	BAU Other	Trading	
Insurance		Operations	BAU Other	Trading	
Insurance		Over 50s	BAU Protection	Trading	
Insurance		Car	BAU Motor	Trading	
Insurance		Home (New)	Home Insurance Transformation (Nemesis)	Project	
Insurance		Travel	BAU Travel	Trading	
Insurance	**Trading Non-Staff Costs Total**				
Insurance Total					
Mails	Gross Income	Labels (1st and 2nd Class)	BAU Trading	Trading	
Mails			SSK Procurement	Project	
Mails		Special Delivery	BAU Trading	Trading	
Mails			PUDO Project	Project	
Mails			Developing Capabilities	Project	
Mails		International Priority & Standard	BAU Trading	Trading	
Mails		Other Trading	BAU Trading	Trading	
Mails		Parcelforce	BAU Trading	Trading	
Mails		Home Shopping Returns	BAU Trading	Trading	
Mails		Stamps (1st and 2nd Class)	BAU Trading	Trading	
Mails		Fixed Fee	BAU Trading	Trading	
Mails		Mailwork	BAU Trading	Trading	
Mails		RM Signed For	BAU Trading	Trading	
Mails	**Gross Income Total**				
Mails	Cost of Sales	Mails CoS	BAU Trading	Trading	
Mails	**Cost of Sales Total**				
Mails	Agents Pay	Retail	Core Trading	Trading	
Mails	**Agents Pay Total**				
Mails Total					
Lottery & Retail Other	Gross Income	Lottery	Lottery	Trading	
Lottery & Retail Other		Retail (Inc Gift cards & Other)	BAU Trading	Trading	
Lottery & Retail Other			Blackhawk Giftcard Implementation	Project	
Lottery & Retail Other	**Gross Income Total**				
Lottery & Retail Other	Cost of Sales	Retail CoS	BAU Trading	Trading	
Lottery & Retail Other		Lottery CoS	BAU Trading	Trading	
Lottery & Retail Other	**Cost of Sales Total**				
Lottery & Retail Other	Agents Pay	Retail	Core Trading	Trading	
Lottery & Retail Other	**Agents Pay Total**				
Lottery & Retail Other Total					
Banking & ATMs	Gross Income	Banking Services	Banking Services	Trading	
Banking & ATMs			Tele Cash Recyclers	Project	
Banking & ATMs			FM - Cheque Scanning	Project	
Banking & ATMs			Deposit Automation	Project	
Banking & ATMs			Banking Framework	Trading	
Banking & ATMs		ATM Replacement	ATM Strategy	Project	
Banking & ATMs		ATMs	ATMs	Trading	
Banking & ATMs		New POCA Product	New POCA Product		
Banking & ATMs	**Gross Income Total**				
Banking & ATMs	Cost of Sales	Banking Services CoS	BAU Trading	Trading	
Banking & ATMs		ATM Cos	BAU Trading	Trading	
Banking & ATMs			ATM Strategy	Project	
Banking & ATMs	**Cost of Sales Total**				
Banking & ATMs	Agents Pay	Banking	Banking Framework	Trading	

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Banking & ATMs		ATMs	ATM Strategy	Project	IRRELEVANT
Banking & ATMs		Retail	Core Trading	Trading	
Banking & ATMs	**Agents Pay Total**				
Banking & ATMs Total					
POCA	Gross Income	POCA	POCA Contract Close	Trading	
POCA		New POCA Product	New POCA Product		
POCA	**Gross Income Total**				
POCA	Cost of Sales	POCA CoS	POCA Contract Close	Trading	
POCA	**Cost of Sales Total**				
POCA	Agents Pay	POCA	Core Trading	Trading	
POCA	**Agents Pay Total**				
POCA	POCA Income	POCA Other Income	POCA Contract Close	Trading	
POCA	**POCA Income Total**				
POCA Total					
Bill Payments	Gross Income	Payment Services	Payment Services	Trading	
Bill Payments			British Gas	Project	
Bill Payments			RPOS	Project	
Bill Payments		Payzone	Payzone (Panther)	Project	
Bill Payments	**Gross Income Total**				
Bill Payments	Cost of Sales	Payments CoS	BAU Trading	Trading	
Bill Payments		Payzone	Payzone (Panther)	Project	
Bill Payments	**Cost of Sales Total**				
Bill Payments	Agents Pay	Payments CoS	RPOS	Project	
Bill Payments			British Gas	Project	
Bill Payments		Payzone	Payzone (Panther)	Project	
Bill Payments		Retail	BAU Trading	Trading	
Bill Payments	**Agents Pay Total**				
Bill Payments	Trading Staff Costs	Payment Services	BAU Trading	Trading	
Bill Payments		Payzone	Payzone (Panther)	Project	
Bill Payments	**Trading Staff Costs Total**				
Bill Payments	Trading Non-Staff Costs	Payment Services	BAU Trading	Trading	
Bill Payments		Payzone	Payzone (Panther)	Project	
Bill Payments	**Trading Non-Staff Costs Total**				
Bill Payments Total					
Network & Central Retail	Agents Pay	Retail	Suspended Postmasters	Trading	
Network & Central Retail			Agents Pay Review	Trading	
Network & Central Retail			Core Trading	Trading	
Network & Central Retail			DMB Strategy	Project	
Network & Central Retail	**Agents Pay Total**				
Network & Central Retail	Trading Staff Costs	Staff - DMB	DMB Strategy	Project	
Network & Central Retail			BAU Trading	Trading	
Network & Central Retail		Staff - Non DMB	Blueprint	Project	
Network & Central Retail			Network Development	Project	
Network & Central Retail			BAU Trading	Trading	
Network & Central Retail	**Trading Staff Costs Total**				
Network & Central Retail	Trading Non-Staff Costs	Non Staff - Retail	TCR & Deposit Automation Recoveries	Trading	
Network & Central Retail			POCA Contract Close	Trading	
Network & Central Retail			ATM Strategy	Project	
Network & Central Retail			RPOS	Project	
Network & Central Retail			Deposit Automation	Project	
Network & Central Retail			TCRs	Trading	
Network & Central Retail			Network Development	Trading	
Network & Central Retail			Card/Cheque processing	Trading	
Network & Central Retail			BAU Trading	Trading	
Network & Central Retail	**Trading Non-Staff Costs Total**				
Network & Central Retail Total					
LCG	Overheads - Staff	Efficiency savings	Blueprint	Project	
LCG		Baseline + pay award	BAU Trading	Trading	
LCG	**Overheads - Staff Total**				
LCG	Overheads - Non-Staff	LCC	Consultancy & Advisory Services	Trading	
LCG			Other Operating Costs	Trading	
LCG			Property & Facilities Management	Trading	
LCG			Vehicles	Trading	
LCG			Non-Staff Costs Efficiency Target	Trading	
LCG			IT Infrastructure & IT Services	Trading	
LCG			Staff & Agent Related Costs	Trading	
LCG			Brand & Marketing	Trading	
LCG			Legal Costs	Trading	
LCG	**Overheads - Non-Staff Total**				
LCG Total					
OE	Overheads - Staff	OE	Further Organisational Effectiveness (POM)	Project	
OE	**Overheads - Staff Total**				
OE Total					
New Format Impact	Agents Pay	New Format Impact	New Format Impact/NEO Network Strategy	Project	
New Format Impact	**Agents Pay Total**				
New Format Impact Total					
Covid-19 Response	Overheads - Non-Staff	Covid-19 Response	Covid-19 Response	Project	
Covid-19 Response	**Overheads - Non-Staff Total**				
Covid-19 Response Total					
Re-imagining the Postmaster Experience	Gross Income	Re-imagining the Postmaster Experience	Re-imagining the Postmaster Experience	Project	
Re-imagining the Postmaster Experience	**Gross Income Total**				
Re-imagining the Postmaster Experience Total					
Potential Agents Pay Increase	Agents Pay	Potential Agents Pay Increase	Potential Agents Pay Increase	Trading	
Potential Agents Pay Increase	**Agents Pay Total**				
Potential Agents Pay Increase Total					
Non-Staff Stretch	Overheads - Non-Staff	Non-Staff Stretch	Non-Staff Stretch	Trading	
Non-Staff Stretch	**Overheads - Non-Staff Total**				
Non-Staff Stretch Total					
Grand Total					

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EXECUTION VERSION

___ March 2021

THE SECRETARY OF STATE FOR BUSINESS, ENERGY AND INDUSTRIAL STRATEGY

AND

POST OFFICE LIMITED

FUNDING AGREEMENT

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THIS AGREEMENT is made on ___ March 2021.

BETWEEN:

(1) **THE SECRETARY OF STATE FOR BUSINESS, ENERGY AND INDUSTRIAL STRATEGY** of 1 Victoria Street, London SW1H 0ET, (the ***Secretary of State***); and

(2) **POST OFFICE LIMITED**, a company incorporated in England and Wales (registered number 2154540), and whose registered address is 20 Finsbury Street, London EC2Y 9AQ (***POL***).

WHEREAS:

(A) The Parties entered into the 2018 Funding Agreement (as defined below) in respect of funding for certain post office services during the 2018-21 Funding Period. This Agreement replaces the 2018 Funding Agreement which is automatically terminated on the Parties entering into this Agreement.

(B) The Secretary of State has requested that POL continues to provide a national network of post offices across the United Kingdom and Services of Public Economic Interest (as defined below) across that network.

(C) The Secretary of State has agreed to enter into this Agreement in order to provide funding to POL to enable it to continue to provide the Services of Public Economic Interest across that national network in respect of the 2021/22 financial year. The Secretary of State makes this funding available to POL under the Post Office Network Subsidy Scheme Order 2007 (SI 2007/962).

NOW THIS AGREEMENT WITNESSES as follows:

1. INTERPRETATION

1.1 In this Agreement, including the recitals, Schedules and Appendices, unless the context requires otherwise:

2018 Funding Agreement means the funding agreement entered between the Parties dated 16 April 2018.

Actual SPEI Cost is defined in Schedule 3 (*Calculation of Actual SPEI Cost*).

Annual Plan has the meaning given to it in Schedule 4 (*Milestones*).

Articles of Association means the Articles of Association of Post Office Limited adopted by a written resolution passed on 19 March 2020.

Branch means any outlet of POL that makes it possible for customers to access the Services of Public Economic Interest set out in row 1 of Schedule 6 *(SPEI Services)*. An outlet of POL shall include any post office counter or any means of transacting one, some or all of the Services of Public Economic Interest at a third party premises and any other facility (including an "outreach" facility) designated for the transaction of business with members of the public by or on behalf of POL.

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Business Day means a day (not being a Saturday or a Sunday) on which banks are open for general non-automated banking business in the City of London.

Civil Claims means the claims arising out of historic prosecutions as summarised in the document titled Annual Report Insert – Civil Claims Arising Out of Historic Prosecutions dated 1 February 2021.

Deprived Urban Areas means:

(a) the most deprived fifteen per cent. (15%) of super output areas in England;

(b) the most deprived fifteen per cent. (15%) of data zones in Scotland; and

(c) the most deprived thirty per cent. (30%) of super output areas in Wales and Northern Ireland,

based upon each country's then current index of multiple deprivation.

Effective Date means 1 April 2021.

Financial Counterparties means National Westminster Bank plc, Santander UK plc, Barclays Bank plc, Lloyds Bank plc or The Bank of England.

Financial Quarter means the period commencing on one Quarter Date and ending on the day before the next Quarter Date.

Fundamental Change means the occurrence of any of the events listed in Part A of Schedule 2 (*Fundamental Change*).

Funding Period means the period commencing on or around 1 April 2021 and ending 31 March 2022.

Government means Her Majesty's Government.

Group Litigation Protocol means the information sharing protocol in respect of the Postmaster Complaints (as defined therein) between POL and UK Government Investments (on behalf of the Secretary of State) dated 20 May 2020 (as the same may be amended from time to time by written agreement between the parties to it).

Letter of Support is a letter from the Secretary of State dated on or around the date of this Agreement confirming that the Secretary of State places a high priority on the Post Office's ability to continue delivering the vital public services and has committed to provide funding to POL.

Milestone means, in respect of the Funding Period, the requirements set out in Schedule 4 (*Milestones*).

Network Access Criteria means the criteria set out in Schedule 5 (*Network Access Criteria*).

Network Investment means a subscription for shares in the capital of POL for cash by the Secretary of State pursuant to clause 5.6 (*Government Funding for SPEI Funding Purpose*).

Parties means the parties to this Agreement.

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PO Group means POL and its subsidiaries from time to time.

Potential Fundamental Change has the meaning given to it in Part B of Schedule 2 (*Potential Fundamental Change*).

Principles of Community Engagement means the Principles of Community Engagement on changes to the Post Office Network published in June 2018 and agreed with Citizens Advice, Citizens Advice Scotland and the General Consumer Council for Northern Ireland as amended, varied, supplemented or changed from time to time.

PSA2000 means the Postal Services Act 2000.

PSA2011 means the Postal Services Act 2011.

Quarter Date means each of 1 April, 1 July, 1 October and 1 January.

Relevant Payment has the meaning given to it in clause 4 (*Delayed payment*).

Remedy Period has the meaning given to it in clause 4 (*Delayed payment*).

Required Payment Date has the meaning given to it in clause 4 (*Delayed payment*).

Rural Areas means those areas which are not Urban Areas.

Services of Public Economic Interest means the provision of access to the services listed in Schedule 6 *(SPEI Services)* across the network of Branches in accordance with the Network Access Criteria as set out in Schedule 5.

SPEI Funding Purpose means: (i) maintaining a network of Branches in accordance with the Network Access Criteria; and (ii) ensuring the provision of SPEI Services over that network, in each case during the Funding Period.

SPEI Network Subsidy Payment means a payment by the Secretary of State of an amount calculated to compensate POL for the net cost of maintaining a network of Branches beyond its optimal size. That network must meet the minimum access requirements as set out in Schedule 5 *(Network Access Criteria)*.

SPEI Services means some or all of the Services of Public Economic Interest.

SPEI Subsidy Statement has the meaning given to it in clause 5.9 (*Government Funding for SPEI Purpose*).

Starling Litigation Protocol means the information sharing protocol in respect of the Starling Litigation (as defined therein) between POL and UK Government Investments (on behalf of the Secretary of State) dated 8 July 2019 (as the same may be amended from time to time by written agreement between the parties to it).

Strategic Plan means POL's strategic plan agreed between the Parties covering the period from 1 April 2021 to 31 March 2024 which:

(a) for the period from 1 April 2021 to 31 March 2022 will align with the Annual Plan (which has been approved by POL's board prior to the start of the Financial Year subject to Secretary of State approval) but, to the extent that that Annual Plan differs

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from the 2020 spending review bid, POL shall produce a reconciliation of those differences as part of the submission of that Annual Plan to the Secretary of State; and

(b) for the period from 1 April 2022 to 31 March 2024 will be agreed between the Parties prior to 1 April 2022.

Urban Areas means communities with ten thousand (10,000) or more inhabitants in a continuous built up area.

VAT Amount has the meaning given to it in clause 5.13 (*Government Funding for SPEI Purpose*).

1.2 In this Agreement, except where the context otherwise requires:

(a) a reference to a person (which shall include any individual, firm, company, corporation or other body corporate, government, state or agency or any association, trust, fund or partnership (whether or not having separate legal personality)) shall include, as appropriate, its successors, permitted assignees or transferees and, in the case of the Secretary of State, persons appointed to act on his behalf;

(b) a reference to an enactment or statutory provision shall include a reference to any subordinate legislation made under that enactment or statutory provision and is a reference to that enactment, statutory provision or subordinate legislation as from time to time amended, consolidated, modified, or re-enacted;

(c) words in the singular shall include the plural and vice versa;

(d) references to one gender include other genders;

(e) a reference to any agreement or other instrument (other than an enactment or statutory provision) shall be deemed to be a reference to that agreement or instrument as from time to time amended, varied, supplemented, substituted, novated, assigned or restated;

(f) a reference to a clause, Schedule or Appendix shall be a reference to a clause of, or Schedule or Appendix to, this Agreement;

(g) a reference to "includes" or "including" shall be construed without limitation to any events, circumstances, conditions, acts or matters specified after those words;

(h) references to dates which do not fall on a Business Day shall be construed as references to the immediately subsequent Business Day;

(i) the headings are for convenience only and shall not affect its interpretation; and

(j) references to this Agreement include this Agreement as amended or supplemented.

1.3 The Schedules and Appendices form part of this Agreement and shall have the same force and effect as if expressly set out in this Agreement, and any reference to this Agreement shall include the Schedules and Appendices.

2. EFFECTIVE DATE

2.1 This Agreement starts on the Effective Date.

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3. CONDITIONS

3.1 The obligation of the Secretary of State under this Agreement to make any SPEI Network Subsidy Payment or provide the Network Investment is conditional on the relevant Milestone having been achieved.

3.2 The obligations of POL under clauses 5 (*Government Funding for SPEI Purpose*), 7 (*Strategic Plan*), 9 (*Employee Incentive Arrangements*) and 11 (*Public Consultation, Communication and Equality*) during the Funding Period are conditional on:

(a) the relevant Milestone having been achieved; and

(b) the relevant SPEI Network Subsidy Payments or Network Investment having been received.

Deliverables

3.3 On execution of this Agreement, POL shall deliver (or ensure that there is delivered) all those documents listed in Schedule 1 (*Deliverables*) in a form and substance satisfactory to the Secretary of State (acting reasonably).

Fundamental Change

3.4 Without prejudice to the accrued rights and remedies of the Parties, the obligations of the Secretary of State to make or facilitate any payments in accordance with this Agreement and the obligations of POL under clauses 5 (*Government Funding for SPEI Purpose*), 7 (*Strategic Plan*), 9 (*Employee Incentive Arrangements*) and 11 (*Public Consultation, Communication and Equality*), may be terminated with immediate effect by written notice of the Secretary of State upon the occurrence of a Fundamental Change.

3.5 If on the date on which any payment is due to be made by the Secretary of State to POL under this Agreement a Potential Fundamental Change exists, the Secretary of State shall be entitled to withhold such payment until such time as:

(a) a Fundamental Change occurs, whereupon clause 3.4 shall apply and the Secretary of State shall have no obligation to make that payment; or

(b) the Potential Fundamental Change ceases to exist, whereupon the payment shall become immediately due and payable.

3.6 Until the date on which the last SPEI Network Subsidy Payment or Network Investment is due to be made by the Secretary of State to POL under this Agreement, POL shall promptly disclose to the Secretary of State any matter or thing of which its board of directors becomes aware after entering into this Agreement which constitutes, or which in the reasonable opinion of its board of directors is reasonably likely to give rise to, a Fundamental Change or a Potential Fundamental Change.

4. DELAYED PAYMENT

If any SPEI Network Subsidy Payment or Network Investment to be made by the Secretary of State to POL under this Agreement (a ***Relevant Payment***) is not made on, or by the date on which it is required by clauses 5.5 and 5.6 (*Government Funding for SPEI Purpose*) to be made (the ***Required Payment Date***), then during the period between the Required Payment Date and the end of the tenth (10th) Business Day thereafter (such period being the ***Remedy Period***), the

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Parties shall continue to comply with their respective obligations under this Agreement and the Secretary of State shall make the Relevant Payment within the Remedy Period

5. SPEI GOVERNMENT FUNDING FOR THE SPEI PURPOSE

5.1 Subject to clause 5.2, POL undertakes to the Secretary of State that it will for the duration of the Funding Period: (i) maintain a network of Branches in accordance with the Network Access Criteria; and (ii) provide across that network the SPEI Services.

5.2 The Parties acknowledge and agree that:

(a) the Secretary of State expects POL to maintain a network of at least eleven thousand five hundred (11,500) Branches for the duration of the Funding Period. Should the number of Branches fall below eleven thousand five hundred (11,500) during the Funding Period, POL shall within twenty (20) Business Days develop a plan to remedy the shortfall, which shall be subject to the Secretary of State's approval (acting reasonably);

(b) save to the extent permitted by clause 5.2(c), the Secretary of State requires POL: (i) to make available for purchase through its network of Branches the SPEI Service set out in row 1 of Schedule 6 *(SPEI Services)*; and (ii) to make available for transacting the SPEI Services set out in rows 2 and 3 of Schedule 6 *(SPEI Services)*, in accordance with the Network Access Criteria (Schedule 5 *(Network Access Criteria)*);

(c) POL may not withdraw a SPEI Service from a Branch save for: (i) as a result of changes to POL's contractual requirements to provide that SPEI Service; or (ii) where it is requested by the existing or prospective postmaster and is deemed necessary by POL to ensure continuity of other services at the location. POL shall notify the Secretary of State of each case where a SPEI Service has been withdrawn from a Branch by including a statement in the report or reports submitted pursuant to clause 7.2(a);

(d) the delivery of the SPEI Services by POL across its network will be governed in accordance with contracts or other agreements under which the terms of the provision of the individual SPEI Services are specified. The delivery of the SPEI Services does not replace or change in any way any contracts or other agreements under which the terms of the provision of the individual SPEI Services are specified; and

5.3 POL may not, without the Secretary of State's approval (acting reasonably), use the SPEI Network Subsidy Payments or the Network Investment for any material project delivery spend related to strategic platform modernisation which is additional to the spend required to mobilise a team, prepare a business case or stand-up initial piloting activities for strategic platform modernisation and where such spend does not exceed, in aggregate, ten million pounds (£10 million). Subject to clause 2 (*Conditions*) and clause 6 *(Withholding, Suspending or Repayment of Government Funding*), the Secretary of State agrees to make SPEI Network Subsidy Payments and provide the Network Investment to POL during the Funding Period of the amounts specified in clauses 5.5 and 5.6, to enable POL to meet its obligations in clause 5.1.

5.4 The SPEI Network Subsidy Payments for the Funding Period shall be made in a manner or manners to be determined by the Secretary of State in his absolute discretion (but having

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consulted with POL as to the impact thereof (if any) on their profit and loss accounts and the tax treatment of such payments).

5.5 The SPEI Network Subsidy Payment payable in the Funding Period shall be up to fifty million pounds (£50,000,000) made by way of payment to POL in equal quarterly instalments on each Quarter Date during the Funding Period or as otherwise agreed between the Parties.

5.6 The Network Investment to be provided in the Funding Period shall be one hundred and twenty-five million pounds (£125,000,000). The investment shall be made in two instalments at six month intervals during the Funding Period for the amounts set out in the Annual Plan and in the report delivered in accordance with clause 7.2(a), or as otherwise agreed between the Parties, by way of a subscription for shares in the capital of POL for cash by the Secretary of State using the form of subscription letter set out in Schedule 7 (*Agreed Form Subscription Letter*).

5.7 In ascertaining for any purpose of this clause 5 the amount or maximum amount of any SPEI Network Subsidy Payment no account shall be taken of: (i) any VAT Amount which may be payable under clause 5.13; or (ii) the benefit of any interest receivable on any amount held by POL prior to its expenditure.

5.8 It is acknowledged by the Parties that any part of the SPEI Network Subsidy Payments received by POL under a network subsidy scheme pursuant to section 103 of the PSA2000 (currently expected to be the amounts specified in clause 5.5 above) would be treated as revenue in POL's accounts, which has an impact on POL's operating profit. Should any SPEI Network Subsidy Payment (or part thereof) be made in the Funding Period in any manner which would result in it not being treated as revenue in POL's accounts then any target operating profit applicable for any purpose to POL, or the PO Group as a whole, in the Funding Period shall be reduced by the amount of any SPEI Network Subsidy Payment (or part thereof) received in any such manner in the Funding Period.

5.9 Within three months following the signature of POL's accounts in respect of the Funding Period, POL shall provide to the Secretary of State a statement (the ***SPEI Subsidy Statement***) setting out in writing the Actual SPEI Cost for the Funding Period, together with supporting calculations properly prepared in accordance with the requirements in Schedule 3 *(Calculation of Actual SPEI Cost)* and a clear explanation of how the amounts have been calculated. The SPEI Subsidy Statement shall be accompanied by confirmation from POL that POL used the SPEI Network Subsidy Payment in accordance with the terms of this Agreement.

5.10 If following the end of the Funding Period:

(a) the SPEI Subsidy Statement shows that the amount of the Actual SPEI Cost for the Funding Period is less than the amount of the SPEI Network Subsidy Payment set out in clause 5.5; or

(b) the amount of the total investment spend as set out in the Annual Plan for the Funding Period (excluding amounts used to pay external legal fees in connection with any proceedings in relation to Postmaster Complaints (as defined in the Group Litigation Protocol), the Starling Litigation (as defined in the Starling Litigation Protocol) and the Civil Claims as disclosed (in written form) to the Secretary of State) is lower than the Network Investment (in accordance with clause 5.6),

POL shall, within ten (10) Business Days of a request by the Secretary of State, reimburse to the Secretary of State, without deduction, an amount equal to the difference.

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5.11 POL shall use each SPEI Network Subsidy Payment and the Network Investment only to meet the direct and indirect costs associated with: (i) maintaining a network of Branches in accordance with the Network Access Criteria; and (ii) ensuring the provision of SPEI Services over that network, calculated in accordance with Schedule 3 *(Calculation of Actual SPEI Cost)* (or to make any reimbursement required to be made by POL pursuant to clause 5.10).

5.12 POL shall not use the SPEI Network Subsidy Payment or the Network Investment for the purposes set out in paragraphs (a) to (i) below. In so far as POL have additional resources, from current or retained profits then POL may undertake these activities (where permitted under the Articles of Association):

(a) to fund lobbying (via an external firm or in-house staff) in order to undertake activities intended to influence or attempt to influence Government or political activity or attempting to influence legislative or regulatory action;

(b) to directly enable one part of Government to challenge another on topics unrelated to the SPEI Funding Purpose or SPEI Services;

(c) to petition for additional funding;

(d) for entertaining, in particular any entertainment aimed at exerting undue influence to change Government policy;

(e) payments for activities of a party political or exclusively religious nature;

(f) for the giving of gifts;

(g) to pay external legal fees in connection with any proceedings in relation to Postmaster Complaints (as defined in the Group Litigation Protocol), the Starling Litigation (as defined in the Starling Litigation Protocol) and the Civil Claims as disclosed (in written form) to the Secretary of State;

(h) to pay statutory fines, criminal fines or penalties; or

(i) for payments for unfair dismissal.

5.13 It is the mutual opinion of the Parties that any payment of an instalment of the SPEI Network Subsidy Payment received by POL will not (and POL agrees not to take any steps with the intention of procuring that they will) constitute, for VAT purposes, the consideration for any taxable supply and that, accordingly, the receipt by POL of such instalment of the SPEI Network Subsidy Payment should not give rise to any liability of POL (or any other member of the PO Group) to account for VAT in respect of any such receipt. Notwithstanding the foregoing opinion, if it should, at any time (whether or not a time falling within the duration of this Agreement), be determined by Her Majesty's Revenue and Customs that such instalment of the SPEI Network Subsidy Payment must be treated as the consideration for taxable supplies made by POL (or, as the case may be, by any other member of the PO Group) and that in consequence POL (or such other member of the PO Group) is liable to account for VAT in respect of the receipt of any of such instalment of the SPEI Network Subsidy Payment (the ***VAT Amount***), POL shall notify the Secretary of State of that determination within five (5) Business Days of being so advised by Her Majesty's Revenue and Customs and the Secretary of State shall, as soon as reasonably practicable following notification of such determination, make a payment to POL, in addition to all amounts otherwise payable by the Secretary of State to POL under this Agreement, of a sum equal to the VAT Amount, against production of a valid VAT invoice.

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5.14 If Her Majesty's Revenue and Customs issues a determination as referred to in clause 5.13 the Parties shall (acting reasonably) consult as to what action to take regarding such determination. If the Secretary of State disagrees with the determination he may, within ten (10) Business Days of being notified by POL of such determination, give written notice to POL that he requires POL (or any other member of the PO Group) to obtain a review by Her Majesty's Revenue and Customs of that determination; and POL (or such other member of the PO Group, as the case may be) shall promptly request (the form of that request being subject to reasonable review by the Secretary of State) Her Majesty's Revenue and Customs to undertake such review. In the event that the review results in POL obtaining a refund of any VAT Amount, or not being required to pay a VAT Amount, in each case in respect of which the Secretary of State shall have made a corresponding payment under clause 5.13, POL shall promptly refund to the Secretary of State the amount of such corresponding payment.

6. WITHHOLDING, SUSPENDING OR REPAYMENT OF GOVERNMENT FUNDING

6.1 Without prejudice to the Secretary of State's other rights and remedies, the Secretary of State may at his discretion reduce, withhold or suspend payment of any instalment of the SPEI Network Subsidy Payments or the Network Investment due to POL and / or require POL to repay all or part of the SPEI Network Subsidy Payment or the Network Investment if:

(a) subject to clause 5.12, POL uses the SPEI Network Subsidy Payment or the Network Investment for a purpose other than the SPEI Funding Purpose or fails to comply with any of its obligations under clauses 5 (*Government Funding for SPEI Purpose*), 7 (*Strategic Plan*), 9 (*Employee Incentive Arrangements*) and 11 (*Public Consultation, Communication and Equality*) during the Funding Period;

(b) POL receives funding from a third party for part or all of the same purposes as the SPEI Funding Purpose (in which case, the Secretary of State's recovery will be limited to an amount equal to the third party funding for the relevant SPEI Funding Purpose);

(c) the Secretary of State has incorrectly paid money to POL as a result of an administrative error or other reason;

(d) POL fails to achieve any Milestone referred to in Schedule 4 (*Milestones*) by the date specified in that schedule, until such Milestone is achieved;

(e) POL fails during the Funding Period or has failed prior to the Funding Period to meet any requirement in relation to consent or approval pursuant to article 8 of the Articles of Association; or

(f) any of the following events arise:

(i) POL is, in the reasonable opinion of the Secretary of State, delivering the SPEI Funding Purpose in a negligent manner, provided that the Secretary of State has given POL written notice that he believes that the SPEI Funding Purpose has been provided negligently and POL has failed to remedy the provision of the SPEI Funding Purpose within twenty (20) Business Days of such notice; or

(ii) POL obtains debt funding from a third party which, in the reasonable opinion of the Secretary of State, undertakes activities that are likely to bring the reputation of the SPEI Funding Purpose or the SPEI Services or the Secretary of State into disrepute, provided that the Secretary of State shall have no right to reduce, withhold or suspend payment where POL has obtained such debt

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funding from a third party which is regulated by any arm of the Government or which has the right to do business in the United Kingdom by reason of the European Union passporting system or other equivalent system enabling such third party to trade freely in the United Kingdom. The Parties acknowledge that any equity funding is likely to constitute a variation of rights attaching to the special share in POL held by the Secretary of State and therefore will require prior written consent in accordance with the Articles of Association;

(iii) POL knowingly provides the Secretary of State with any material information relating to the provision of the SPEI Funding Purpose that is materially misleading or inaccurate;

(iv) POL is involved in any illegal activity in the provision of the SPEI Funding Purpose; or

(v) the Secretary of State is required to exercise its rights under this clause by an order of a court.

6.2 If any of the events in clause 6.1 occur and the Secretary of State reduces the SPEI Network Subsidy Payment or the Network Investment for the Funding Period then POL shall perform such of its obligations under this Agreement as shall be correspondingly adjusted by POL and the Secretary of State.

6.3 The Secretary of State also has the right to impose reasonable additional terms and conditions to the SPEI Network Subsidy Payments or the Network Investment if any of the events set out in clause 6.1 occur, or if the Secretary of State has reasonable grounds to believe that it is necessary to protect public money.

7. STRATEGIC PLAN

7.1 Unless otherwise agreed by the Secretary of State, POL shall not apply the SPEI Network Subsidy Payment or Network Investment for a purpose inconsistent with the Strategic Plan or make any material deviation from the Annual Plan.

7.2 In order for the Secretary of State to monitor POL's progress in delivering the Strategic Plan:

(a) POL shall provide, in a form and substance satisfactory to the Secretary of State (acting reasonably), a report or reports, approved by POL's board of directors, setting out an overall assessment of POL's activities during the previous Financial Quarter. Subject to POL's board of directors having reviewed and approved the report(s), such report shall be provided no more than thirty (30) Business Days after each Quarter Date in the Funding Period, and shall include:

(i) a summary of POL's financial and change spend performance over the Financial Quarter and its expected future financial and change spend performance as compared to the Annual Plan;

(ii) a report analysing the impact of any changes to the provision of SPEI Services at any Branch or Branches on groups with protected characteristics and any measures proposed to mitigate any negative impacts on such groups;

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(iii) information on expected drawings by POL on the cash provided to POL pursuant to the Network Investment for the remaining duration of the Annual Plan; and

(iv) a statement setting out each case where a SPEI Service has been withdrawn from a Branch, as per 5.2(a); and

(b) the Secretary of State may request information on a routine and an ad hoc basis. The Secretary of State will ensure that information requests are not overly onerous and POL will use its reasonable endeavours to satisfy all information requests.

8. FINAL CONTRIBUTION

POL acknowledges that the SPEI Network Subsidy Payment and Network Investment to be provided by the Secretary of State pursuant to this Agreement represents the Secretary of State's final funding contribution in respect of POL's obligations over the Funding Period to: (i) maintain a network of Branches in accordance with the Network Access Criteria; and (ii) ensure the provision of SPEI Services over that network in accordance with the Strategic Plan.

9. EMPLOYEE INCENTIVE ARRANGEMENTS

9.1 POL may maintain an incentive scheme, approved by the Secretary of State, for its senior executive team in a manner which is designed to ensure, and is consistent with ensuring, the delivery of the Annual Plan.

9.2 POL confirms that accordingly, no such bonus arrangements will pay out in respect of a Funding Period in which POL seeks and obtains funding in addition to the SPEI Network Subsidy Payment or the Network Investment from the Secretary of State over and above that anticipated in this Agreement, as a result of a failure by POL to perform in accordance with the requirements of the Annual Plan (other than as a result of a change in Government policy or other reasons beyond POL's control including funding related to historical litigation matters).

10. JOINT VENTURES

10.1 Unless otherwise agreed with the Secretary of State, POL agrees that it shall only enter into joint ventures with third parties for purposes consistent with the delivery of the Strategic Plan and provided that the joint venture is structured on the basis that it would not (according to Government advice) be classified as part of the public sector in accordance with a guidance note for public sector bodies forming joint ventures with the private sector by Her Majesty's Treasury dated March 2010 or any subsequent replacements for this guidance note.

11. PUBLIC CONSULTATION, COMMUNICATION AND EQUALITY

11.1 POL shall at all times comply with the Principles of Community Engagement.

11.2 POL acknowledges the commitment that any individuals taking any decision or exercising any other function on POL's behalf should do so having due regard to the relevant protected characteristics as set out in section 149 of the Equality Act 2010 and that appropriate steps be taken to inform all people making decisions or exercising functions on POL's behalf of these equality duties. This is reflected in POL's Equality, Diversity and Inclusion Policy and POL shall ensure that this commitment is maintained in the performance of its obligations under this Agreement.

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12. CONSENTS

The Secretary of State hereby consents, for the purposes of the Articles of Association and any other document or arrangement under which its consent or approval is required, to the execution and performance by POL of this Agreement and the documents and arrangements to be entered into pursuant to, or otherwise contemplated by, this Agreement (other than any agreement contemplated in clause 10 (*Joint Ventures*)). The Secretary of State agrees that such consents will take effect notwithstanding any failure to comply with any procedural requirements of such articles or other documents in connection with the obtaining of such consents.

13. CONFIDENTIALITY

13.1 Each Party undertakes to the other Party that, subject to clause 13.2, it shall treat as strictly confidential all confidential information. For the purposes of this clause 13, ***confidential information*** shall mean:

(a) the provisions of this Agreement, and the Strategic Plan; and

(b) the negotiations relating to this Agreement and the Strategic Plan.

13.2 Clause 13.1 shall not prevent the disclosure by a Party of any confidential information:

(a) to those of its officers (including auditors), employees and agents as it considers have a need for such information in the performance of their respective functions and who shall in each case be made aware by such Party of its obligations under this Agreement and shall be required by such Party to observe the same restrictions on the use of the confidential information as are contained in this clause 13;

(b) to its professional advisers who are bound to such Party by a duty of confidence which applies to the confidential information disclosed;

(c) to the extent required by applicable law, legal contractual obligations with Financial Counterparties or by the regulations of any regulatory or supervisory authority to which such Party is subject or pursuant to any order of court or other competent authority or tribunal;

(d) which shall have entered the public domain or ceased to be confidential other than as a result of a breach by such Party of its obligations under this clause 13;

(e) where the Letter of Support is provided to third parties in which POL has a contractual relationship having received consent to provide such third party with the Letter of Support from Carl Creswell in writing (whether by way of an email or letter);

(f) which was already known to such Party prior to its disclosure to such Party other than as a result of a breach by such Party of an obligation of confidentiality;

(g) as such Party, acting reasonably, considers necessary in connection with any investigations, inquiries, or actual or threatened proceedings in connection with POL or any of its directors;

(h) in the case of POL, to the extent that its board of directors acting reasonably, considers disclosure necessary from time to time in its statutory accounts;

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(i) to the extent that the Secretary of State, acting reasonably, considers disclosure necessary from time to time in the published accounts of the Department of Business, Energy and Industrial Strategy or Her Majesty's Treasury;

(j) to the extent required by any Parliamentary obligation;

(k) to the extent required for the purposes of any examination pursuant to section 6(1) of the National Audit Act 1983 of the economy, efficiency and effectiveness with which the Secretary of State has used his resources; or

(l) with the prior written consent of the other Party.

13.3 If a Party becomes required, in circumstances contemplated by clause 13.2(c), (g), (h) or (i) to disclose any confidential information, such Party shall, to the extent permitted by law, give to the other Party such notice of such disclosure as is practicable in the circumstances and shall, to the extent permitted by law and practicable in the circumstances, consult with the other Party as to the extent of such disclosure.

14. NOTICES

14.1 A notice to be served pursuant to or in connection with this Agreement shall be in writing and, unless otherwise stated, served in person or sent by pre-paid first class post, e-mail or any other electronic method of communication as agreed by the Parties to the relevant Party at its address or e-mail address set out below, or such other address in England or Wales or e-mail address notified by it to the other Party and marked for the attention of the person or department therein specified.

14.2 The address and addressee of each Party at the date of this Agreement are:

Name of Party	Attention	Address	E-mail Address
Secretary of State	Department for Business, Energy and Industrial Strategy	1 Victoria Street, London SW1H 0ET	Carl.Creswell GRO GRO
POL	Company Secretary	20 Finsbury Street, London EC2Y 9AQ	LegalNotices GRO GRO

14.3 Notice shall be deemed to be received on the date and time specified below (save that where such notice would otherwise be deemed to be received after 17:00 London time on a particular day, it shall be deemed to have been received at 9:00 London time on the next Business Day):

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(a) in the case of a notice served in person, upon delivery at the address of the addressee;

(b) in the case of a posted letter, on the second (2nd) Business Day after posting; and

(c) in the case of e-mail or any other electronic method of communication agreed by the Parties, when actually received in readable form.

14.4 Each Party undertakes to notify the other Party by notice served in accordance with this clause 14 if the address specified by that Party herein is no longer an appropriate address for the service of notice or if it is desired to substitute any individual addressee of that Party named in clause 14.2.

14.5 In proving service of any notice under or in connection with this Agreement it will be sufficient to prove:

(a) in the case of a letter, that such letter was properly stamped or franked, addressed and placed in the post or in the case of personal delivery, was left at the correct address; and

(b) in the case of an e-mail, that e-mail was duly transmitted to the e-mail address of the addressee referred to in clause 14.2.

15. ENTIRE AGREEMENT

15.1 This Agreement and any documents referred to in it or annexed to it constitute the whole and only agreement between the Parties relating to its subject matter and, for the avoidance of doubt, supersedes any other prior arrangement, understanding or agreement between the Parties relating to the subject matter of this Agreement.

15.2 Each Party acknowledges that in entering into this Agreement, it is not relying on any pre-contractual statement, which is not set out in this Agreement.

15.3 Except in the case of fraud, neither Party shall have any right of action against the other Party arising out of or in connection with any pre-contractual statement except to the extent that it is expressly provided for in this Agreement.

15.4 For the purposes of this clause 15, ***pre-contractual statement*** means any draft, agreement, undertaking, representation, warranty, promise, assurance, forecast, estimate or arrangement of any nature whatsoever, whether or not in writing, relating to the subject matter of this Agreement made or given by any person at any time prior to the date of this Agreement.

16. GENERAL

Secretary of State

16.1 Nothing in this Agreement fetters the powers conferred on the Secretary of State by the PSA2000 and the PSA2011.

Costs

16.2 Save as expressly provided for elsewhere in this Agreement, each of the Parties shall at its own expense do all such things as shall be necessary to give full effect to the obligations imposed on it under this Agreement.

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Third parties

16.3 For the purposes of the Contracts (Rights of Third Parties) Act 1999, no person other than a Party shall have any rights in respect of this Agreement.

Counterparts

16.4 This Agreement may be executed in any number of counterparts and by the Parties on separate counterparts, each of which when so executed and delivered shall be an original, but all the counterparts shall together constitute one and the same instrument.

Partial invalidity

16.5 If any term or provision in this Agreement is held to be illegal or unenforceable in whole or in part under any enactment or rule of law, such term or provision or part shall to that extent be deemed not to form part of this Agreement but the enforceability of the remainder of this Agreement shall not be affected.

Rights, variations and waivers

16.6 The rights and remedies of the Parties shall not be affected by any failure to exercise or delay in exercising any right or remedy or by the giving of any indulgence by the other Party or by anything whatsoever except a specific waiver or release in writing and any such waiver or release shall not prejudice or affect any other rights or remedies of the Parties. No single or partial exercise of any right or remedy prevents any further or other exercise thereof or the exercise of any other right or remedy.

16.7 No variation of this Agreement shall be of any effect unless it is agreed in writing by or on behalf of each Party.

16.8 Any waiver of any right, power or remedy under this Agreement must be in writing and may be given subject to any conditions thought fit by the grantor. The person seeking the waiver shall disclose to the grantor all material facts then in that person's knowledge relevant to the subject matter of the waiver. Unless otherwise expressly stated, any waiver shall be effective only in the instance and only for the purpose for which it is given.

Remedies

16.9 Without prejudice to any other rights or remedies that either Party may have, each Party acknowledges and agrees that damages alone would not be an adequate remedy for any breach by a Party of the provisions of this Agreement, and that the remedies of injunction and specific performance as well as any other equitable relief for any threatened or actual breach of the provisions of this Agreement by a Party may be more appropriate remedies and that no proof of special damages shall be necessary for the enforcement of this Agreement.

Governing law and jurisdiction

16.10 This Agreement and any non-contractual obligations arising out of or in relation to this Agreement shall be governed by and construed in accordance with the law of England and Wales.

16.11 Each Party hereby submits to the exclusive jurisdiction of the courts of England.

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EXECUTED by the Parties on the date first written above.

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SIGNED by
for and on behalf of
THE SECRETARY OF STATE FOR BUSINESS, ENERGY AND INDUSTRIAL STRATEGY

Signature: GRO
Name: Carl Creswell
Title: Director, Department for Business, Energy and Industrial Strategy

SIGNED by
for and on behalf of
POST OFFICE LIMITED

Signature: _____
Name: Nick Read
Title: Chief Executive Officer

Signature: _____
Name: Alisdair Cameron
Title: Chief Financial Officer

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SCHEDULE 1

DELIVERABLES

A certified copy of a resolution of the board of POL:

(a) approving the terms of, and the transactions contemplated by this Agreement and resolving that it execute and perform this Agreement;

(b) authorising a specific person or persons to execute this Agreement on its behalf; and

(c) authorising a specified person or persons, on its behalf, to sign and / or dispatch all documents and notices to be signed and / or dispatched by it under or in connection with this Agreement.

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SCHEDULE 2

Part A
Fundamental Change

A Fundamental Change will have occurred if:

1. an order has been made or resolution has been passed for the winding-up of, or a provisional liquidator to be appointed in respect of, POL;

2. an administrator has been appointed in respect of POL;

3. a receiver (which expression shall include an administrative receiver) has been appointed in respect of POL;

4. POL is unable to pay its debts as they fall due within the meaning of section 123 of the Insolvency Act 1986;

5. a moratorium is declared in respect of the indebtedness of POL or POL enters into a moratorium or a composition, assignment or similar arrangement with its creditors generally;

6. a scheme of arrangement is approved, or proposed by POL, under Part 26 of the Companies Act 2006 with a view to rescheduling or restructuring POL's indebtedness;

7. a voluntary arrangement has been proposed by POL under section 1 of the Insolvency Act 1986 in respect of POL; or

8. an event analogous to the foregoing has occurred in relation to POL in any jurisdiction outside England.

Part B
Potential Fundamental Change

A Potential Fundamental Change exists at any time if at that time a Fundamental Change shall not have occurred but:

1. a petition has been presented or a meeting has been convened for the purpose of winding-up POL or appointing a provisional liquidator in respect of POL and such petition has not been discharged or such meeting has not been held; or

2. POL is currently taking steps with a view to appointing an administrator or agreeing a moratorium, composition, assignment or similar arrangement with its creditors generally.

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SCHEDULE 3

CALCULATION OF ACTUAL SPEI COST

1. The amount of the Actual SPEI Cost shall be the actual costs incurred by POL in connection with the provision of the loss-making network of Branches in accordance with the terms of this Agreement.

2. Only Branches that made a loss during the Funding Period are to be included in the calculation of the Actual SPEI Cost. Subject to Schedule 3 paragraph 4, the Actual SPEI Cost is to be calculated by the following equation:

   Actual SPEI Cost = (B+C) – A (if positive) where:

   A = Total revenue from loss-making Branches;

   B = Direct costs attributable to loss-making Branches; and

   C = Indirect costs attributable to loss-making Branches.

3. For the purposes of calculating the Actual SPEI Cost, the costs shall include, without limitation, all variable and fixed costs associated with the provision of the loss-making network of Branches including contributions to pension funds, interest costs, central costs, depreciation and amortisation costs of any employee incentivisation arrangements and the costs of transforming the network, in each case whether such costs are recurring or exceptional and will be calculated on an annual basis.

4. The Secretary of State reserves the right to change the basis of the calculation of Actual SPEI Cost in the event of a relevant change in the applicable subsidy rules.

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SCHEDULE 4

MILESTONES

Network Size

Subject to clause 5.2 (*Government Funding for SPEI Purpose*), POL's network meets the Network Access Criteria as reported by POL in each report delivered in accordance with clause 7.2(a).

Annual Plan:

POL has provided an annual report to the Secretary of State prior to the start of the Funding Period, setting out the steps that it will take in respect of the Strategic Plan (or any variation to it, agreed by the Parties where material) during that forthcoming Funding Period (the ***Annual Plan***).

Each year the Secretary of State (acting reasonably) will agree with POL a timetable for POL to provide a draft and final version of the Annual Plan. This timetable will, among other things, include providing the Secretary of State with a POL board-approved draft Annual Plan prior to the start of the Funding Period.

This Annual Plan should include:

(a) POL's annual budget;

(b) a reconciliation of any differences between POL's annual budget and the projected income statement, statement of cash flows and balance sheet in the Strategic Plan;

(c) information on the network of Branches, including its planned size and confirmation of POL's intention to continue to comply with the Network Access Criteria and an impact assessment of the network change plan with respect to POL's public sector equality duty responsibilities, as per clause 11.2;

(d) the proposed drawings by POL on the cash provided to POL pursuant to the Network Investment;

(e) information on the investment activities that POL plans to undertake;

(f) an update on POL's forecast financial performance for the current Funding Period; and

(g) information on any other outcomes set out in POL's Strategic Plan that do not form part of (a) to (f) above.

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SCHEDULE 5

NETWORK ACCESS CRITERIA

1. POL's network of Branches must enable the following criteria to be met:

   a. nationally, ninety per cent. (90%) of the UK population are within one (1) mile of the nearest Branch;

   b. nationally, ninety-nine per cent. (99%) of the UK population are within three (3) miles of the nearest Branch;

   c. in Urban Areas, ninety-five per cent. (95%) of the total population are within one (1) mile of the nearest Branch;

   d. in Deprived Urban Areas, ninety-nine per cent. (99%) of the total population are within one (1) mile of the nearest Branch; and

   e. in Rural Areas, ninety-five per cent. (95%) of the total population are within three (3) miles of the nearest Branch.

   In addition, the following criterion will apply at the level of each and every individual postcode district, establishing a minimum level of coverage at a very local level:

   f. in each postcode district, ninety-five per cent. (95%) of the population to be within 6 miles of their nearest Branch.

2. In applying the above criteria POL shall in addition take account of geographical constraints such as rivers, mountains and valleys, motorways and sea crossings to islands, and public transport infrastructure, so as not to impose undue hardship when considering the appropriate Branch network.

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SCHEDULE 6

SPEI SERVICES

Post Office are required to provide the below SPEI Services in accordance with clause 5.2:

	SPEI Service	SPEI Service Details
1.	Access to postal services.	Provision of access to postal services which the universal service provider (Royal Mail Group Limited) is required to provide under regulatory conditions and directions issued by Ofcom in accordance with section 36 of the Postal Services Act 2011 and the Designated Universal Service Provider Conditions issued by Ofcom on 27 March 2012.
2.	Universal access to basic cash and banking facilities.	Provision of basic cash and banking, principally for the benefit of financially or socially excluded customers and businesses local to post office branches, e.g. cash withdrawals, cash deposits, cash transmission facilities (e.g. including postal orders) and cashing of cheques.
3.	Universal payment facilities for public utility services.	Provision of facilities for payment of electricity, gas, telecommunications and water bills. Payment options include pre-payment and other budgeting schemes (e.g. including savings stamps).
4.	Provision of services on behalf of Central and Local Government	Provision of access to Government services as per separate contractual agreements with Central and Local Government and public sector agencies.

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SCHEDULE 7

AGREED FORM SUBSCRIPTION LETTER

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Department for Business, Energy & Industrial Strategy

Department for Business, Energy & Industrial Strategy
1 Victoria Street,
London SW1H 0ET
T GRO
E enquiries GRO
W www.gov.uk

To the Board of Directors
Post Office Ltd.
Finsbury Dials
20 Finsbury Street
LONDON
EC2Y 9AQ

14 December 2020

Dear Post Office Board of Directors,

LETTER OF COMFORT – IN CONFIDENCE & WITHOUT PREJUDICE

This letter is in response to your request that BEIS provide the Board of Post Office Limited (the "Company") with comfort to assist the Board in maintaining its view that the Company continues to be able to meet its liabilities as and when they fall due. This forms part of the going concern assessment for the Company's accounts for the year ended 29 March 2020 and the Board's approach to continued management of risks around the legacy postmaster litigation liabilities. The information provided in this letter is confidential and may not be disclosed to any third parties (other than your legal advisers and auditors) without our prior written consent.

BEIS notes that the number of applications under the Historic Shortfall Scheme (the "HSS") has been materially higher than expected resulting in a corresponding increase in possible scheme claims and costs. One consequence of this is that, subject to a reliable valuation of liabilities expected to become available in January 2021, the Company may decide to recognise a provision in its accounts in the 2020/21 financial year. BEIS understands that this provision may put the Company into a net liability position, which the Company has an obligation to disclose to certain third parties if it will be in breach of contracts with these counterparties.

The Company has informed BEIS that, while some payments under the scheme can be funded by the Company, it expects that any amount in excess of the original budget will be unaffordable for the Company without a reallocation of funding from its business as usual budget. Subject to a reliable valuation of liabilities expected to become available in January 2021, the Company has informed BEIS that it expects total compensation claims under the HSS to exceed the original budget.

BEIS also notes the risk the Company faces in relation to compensation claims from postmasters that may have their convictions overturned and the Company expects that any successful claims may start crystallising in the 2021/22 financial year. The Company has informed BEIS that these claims may be material and could also be unaffordable for the Company.

BEIS understands these risks and the constraints they place on the Company. The BEIS Secretary of State is sole shareholder of the Company. Moreover, in light of the vital public services that the post office network provides to millions of customers across the UK, BEIS

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places a high priority on the Company's ability to continue delivering the policy objectives laid out in the Funding Agreement between the Company and BEIS.

To this end, successive Governments have invested over £2 billion since 2010 to safeguard and modernise the Post Office and ensure its sustainability for the future. Through the current Funding Agreement, which covers the period April 2018 – March 2021, the Government has provided £210 million investment funding and £160 million subsidy (a total of £370 million).

You have been informed of the outcome of the 2020 Spending Review in which Government has provisionally granted Post Office £177m of capital spending (of which £52m is a loan) and a £50m subsidy for the uncommercial network for the period April 2021 – March 2022.

Over this period, Government has also approved extensions of the Company's £950m Working Capital Facility and £50m Revolving Credit Facilities, plus appropriate waivers when needed.

The Company has informed BEIS that it needs certainty now regarding its commitments in relation to the forthcoming HSS compensation payments, given the proximity of possible provision. BEIS also understands that any request in the current financial year is likely to form part of a forthcoming wider request from the Company to cover all exposures outlined in this letter.

While not constituting a financial guarantee, BEIS is working with UKGI to develop a business case and apply to HM Treasury for future funding, with the aim of enabling the Company to meet its obligations regarding the payments under the HSS scheme and compensation payments due to postmasters that may have their convictions overturned. In each case, this is subject to business case approval by BEIS and HM Treasury.

In the event that any future funding from the Government is provided, the Company will be subject to the funds being assessed under the relevant State aid or subsidy rules in place when the funds are granted and the final approval of BEIS and HM Treasury. The provision of any funding will also be subject to the Company being able to demonstrate that (to the extent relevant in the context of legacy liabilities) it will share in the cost, that the payments are otherwise unaffordable to the Company and that the recommended course of action offers value for money for the taxpayer.

Yours sincerely,

GRO

Tom Taylor
Finance Director