



Post Office Board Agenda

Date	
31 July 2018	
Start Time	Finish Time
12.30hrs	16.30hrs
Location	
1.19 Wakefield	

Present		In Attendance	
<ul style="list-style-type: none"> • Tim Parker (Chairman) • Paula Vennells • Ken McCall • Alisdair Cameron 	<ul style="list-style-type: none"> • Tom Cooper • Tim Franklin • Shirine Khoury-Haq • Carla Stent (by phone) 	<ul style="list-style-type: none"> • Jane MacLeod (Company Secretary) • Veronica Branton (Minute Secretary) • Debbie Smith (CEO - Retail) • Martin Kearsley (Banking Framework Director) 	<ul style="list-style-type: none"> • Jeff Lewis (IT) • Ben Foat (Legal Director) • Jono Hill (Compliance Director) • Micheal Passmore (Finance Director) • Owen Woodley (CEO – FS&T)

Agenda Item		Action Needed	Purpose	Lead	Timings
1.	Board re-appointment	Ratification	To ratify the decision of BEIS to re-appoint Tim Parker as Chair of Post Office Limited for a four year term until 30 September 2022.	Ken McCall	12.30hrs
2.	Annual Report and Accounts: ARC	Approval	The Board is requested to approve the ARA subject to finalisation and to approve delegation of authority to Tim Parker, Paula Vennells and Alisdair Cameron to finalise any outstanding matters and sign thereafter.	Al Cameron/ Tim Franklin	12.35hrs
	Remuneration Committee	Approval	The Board is requested to approve the proposals recommended by the Remuneration Committee.	Ken McCall/ Natasha Wilson	
3.	Appointment of External Auditors	Approval	The Board is requested on the recommendation of the Audit Committee to approve the appointment of the External Auditor.	Tim Franklin	
4.	Minutes of previous Board and Committee meetings including Status Report	Approval	Minutes formally agreed.	Jane MacLeod	12.50hrs
5.	CEO Report	Noting and Input	CEO to update the Board on the report.	CEO	12.55hrs
6.	Financial Performance Report	Noting and Input	CFOO to update the Board on the report.	CFOO / Micheal Passmore	13.15hrs
7.	UKGI Quarterly Report	Decision	For the Board to approve the quarterly funding request.	CFOO	13.30hrs
8.	CE Performance Report – Retail	Noting and Input	To update the Board on retail performance.	Debbie Smith	13.45hrs



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9.	Banking Framework	Discussion and Input	To update the Board on negotiations on the Banking Framework.	Debbie Smith/ Martin Kearsley	14.10hrs
10.	Corporate Structures I	Discussion and Input	For the Board to discuss initial thinking and analysis on changes to the corporate structure.	Jane MacLeod/ Ben Foat/ Jono Hill	14.40hrs
11.	Postmaster Litigation (including contingency planning)	Noting and Input	To update the Board on the Postmaster Litigation.	Jane MacLeod	15.00hrs
12.	FRES Update	Decision	To update the Board on the analysis of the potential purchase of the other half of FRES and seek the Board's approval of the next steps.	Owen Woodley	15.20hrs
13.	Everest	Noting and Input	To update the Board on Project Everest.	Jeff Lewis	15.40hrs
14.	Back Office Transformation	Noting and Input	To update the Board on the Back Office Transformation Programme.	Al Cameron	15.50hrs
15.	Items for Noting				16.05hrs
	15.1. Sealings	Noting	For the Board to be aware of the affixing of the Seal.	Jane MacLeod	
	15.2. Health & Safety	Noting	To update the Board on Health & Safety.	Al Cameron	
	15.3. Future Meeting Dates	Noting	For the Board to note the future meeting dates for 2018.	Jane MacLeod	
	15.4. Forward Agendas	Noting	For Board to note.	Jane MacLeod	
16.	Any Other Business				16.15hrs

CLOSE

Re-appointment of Chairman

Author: Veronica Branton, Head of Secretariat Sponsor: Jane MacLeod, Company Secretary
Meeting date: 31 July 2018

Executive Summary

The Articles for Post Office Limited state that:

“APPOINTMENT OF CHAIRMAN AND DIRECTORS

(A) Chairman

The Special Shareholder shall be entitled from time to time to appoint and remove any person as chairman of the company by notice in writing delivered to the company and signed on behalf of the Special Shareholder.”

The Chairman has confirmed that he wishes to serve a second term, the Special Shareholder has provided written consent and the Board is invited to ratify the re-appointment.

Input Sought

1. The Board is invited to **RATIFY** the re-appointment of Tim Parker as Chairman of Post Office Limited for a four year term of office until 30 September 2022.

Input Received

2. The Special Shareholder has provided written consent to the re-appointment.



**Post Office Limited
Board Meeting**

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON THURSDAY 24 MAY 2018 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ AT 11.15AM

Present:	Tim Parker	Chairman (TP)	
	Alisdair Cameron	Chief Financial and Operations Officer (CFOO)	
	Tom Cooper	Non-Executive Director (TC)	
	Tim Franklin	Non-Executive Director (TF)	
	Shirine Khoury-Haq	Non-Executive Director (SK)	
	Ken McCall	Senior Independent Director (KM)	
	Carla Stent	Non-Executive Director (CS)	
	Paula Vennells	Group Chief Executive (CEO)	
In Attendance:	Jane MacLeod	General Counsel & Company Secretary (JM)	
	Veronica Branton	Minute Secretary (VB)	
	Debbie Smith	Chief Executive, Retail (DS)	item 9
	Martin Kearsley	Banking Director (MK)	item 7
	Owen Woodley	CEO – FS&T (OW)	item 8
	Rob Houghton	Group Chief Information Officer (RH)	items 9 & 10
	Martin Hopcroft	Head of Health and Safety (MH)	item 13
Apologies:	None		ACTION

1. DECLARATIONS OF CONFLICTS OF INTEREST

Tim Franklin noted, in relation to the item requesting a capital injection into PO Insurance (item 5.), that he sat on the PO Insurance Board.

2. PO LIMITED BOARD APPOINTMENT AND COMMITTEE APPOINTMENTS

The Board **RESOLVED** to appoint Shirine Khoury-Haq as a Non-Executive Director of Post Office Limited for an initial period of three years with effect from 24 May 2018, subject to the usual clearances.

The Board **RESOLVED**, on the recommendation of the Nominations Committee:

- to appoint Tom Cooper as a member of the Remuneration Committee
- to appoint Shirine Khoury-Haq as a member of the Nominations Committee and the Remuneration Committee.

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

Minutes of the meeting of the Board held on 27th March 2018 were **APPROVED** and **AUTHORISED** for signature by the Chairman.

4. CEO's REPORT

4.1 The Board **NOTED** the CEO's report.

4.2 The CEO updated the Board on a number of recent issues and answered a number of questions:

- there had been 4 outages with Verizon which was unacceptable and the CEO would be meeting the Verizon CEO. An additional back-up centre was being set



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up for us. The outages had affected a lot of branches sometimes in the middle of the day

- preparation for GDPR continued as it came into force on 25 May 2018. PWC's view was that PO Limited was further progressed than many organisations; however, we had not yet revised all of our contracts to be GDPR compliant and in some instances other parties to a contract were requesting changes to the liabilities in the contract. This had been reported at the last ARC meeting
- work on Project Panther was on track and contracts should be ready for signature next week
- Unite had voted in favour of a 2.6% pay deal for the manager population the previous day
- the PO Graduates had given an excellent presentation to the GE on their projects and we would like them to present to June or July Board
- McColl's had reported that they were not making a profit in their branches containing POs; however, we had worked on some pilot stores with McColl's which had been successful.

5. FINANCIAL PERFORMANCE REPORT

5.1 The Board **NOTED** the Financial Performance Report.

5.2 The CFOO reported that:

- our figures were better than budget by about £1m but that some of the Telco error would need to be reflected in our figures
- Easter cash was coming back in
- the rate of change we needed to deliver this year was behind but we would be focussing on that at the next Investment Committee meeting
- Bol was seeking to exit the ATM market and we would need to consider the strategic issues linked to this for us.

5.3 A number of issues were raised:

- whether the parcels market was robust. It was reported that the only significant risk flagged to us by RM was GDPR but this mostly affected junk mail and this was not where PO generated trading profit
- that it would be helpful to have an explanation of the economics of ATMs and how the market operated. Tim Franklin noted that he had run the ATM network at Barclays and had offered support to Owen Woodley as he considered Bol's proposals. It was noted that the discussions on ATMs needed to be linked to the discussions on the Banking Framework. The longer term need for access to cash was also discussed, including whether we needed to be cautious about investing in an ATM network if we were moving quickly to being a cashless society (discussed further under item 8. below)
- that it would be helpful to receive more information and graphs that showed the indicative growth and profitability of the business looking at performance for the previous period and where we were heading. It was suggested that this could be structured like a balanced scorecard looking at each product group.

(see 8. Below)

CFOO

6. POST OFFICE INSURANCE REGULATORY CAPITAL

6.1 It was noted that we did not currently charge for capital provided to PO Insurance but did charge for the services we provided. It was thought that it would be



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worthwhile considering the approach for future, especially as we began to set up additional subsidiaries.

6.2 The Board **RESOLVED** to:

1. grant written consent to the allotment by Post Office Management Services Limited of 5,000,000 ordinary shares of £1.00 each
2. approve the subscription of 5,000,000 ordinary shares of £1.00 each in POI, for a total consideration of £5,000,000
3. authorise any one Director or the Secretary to execute on behalf of the Company any documentation in connection with the allotment of the shares.

7. ANNUAL REPORT & ACCOUNTS 2017/18 (ARA)

7.1 The CFOO updated the Board on the work required to complete the ARA.

Firstly, it had been agreed with the ARC that we would not seek to finalise the ARA until the end of June given the delay in POLSAP migration and the further post balance sheet event work required.

Secondly, we were still confirming with EY that we remained correct in holding the NCS borrowing off balance sheet.

Thirdly, and most seriously, the day after the ARC, an issue had been identified by the Telco Team in which we had overstated accrued, unbilled income by c. £5.2m: £0.4m in 2016-17 and £4.8m in 2017-18. The error had been made within reporting received from Fujitsu, who ran the billing systems. We believed that £5.2m was a prudent figure but revised reporting from Fujitsu was expected within the next few days and the number might change.

The 2016-17 error was small and EY had already identified a larger credit adjustment: as a result so no change was required to previously published financial statements.

For 2017-18, AC noted that we had identified some credits in our work relating to 2017-18 trading that might, at least in part, offset the impact of the error. He recognised that this was uncomfortable although the Board would also remember that we had been explicit about managing our judgements prudently because of the risks we ran.

The Board asked a number of questions and AC clarified that:

- we were considering two trading related areas of possible mitigation, the Bol settlement and agents' pay accruals, where the situation had been changing towards year-end and we now had more information to base our judgements on
- this was not a general round of small judgements
- old credits or provision releases retained because of risk in POLSAP would not be released and if they were, there would be no impact on 2017-18 EBITDAS because they could not be considered part of last year's trading
- the process for all adjustments would be for the executive to write a paper on each proposed item. EY would reach its own judgement. Management, ARC, Board and EY would all need to agree our 2017/18 trading figure which was specifically disclosed in our audited financial statements.

For the other outstanding items, the POLSAP work was underway and given the



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Telco issue, we were working through all the balance sheet accounts to identify and work through any further high risk items.

A call had been arranged with the Bank of England for the following week to discuss whether NCS borrowing should be included on our balance sheet or not.

7.2 The issues raised were discussed in detail, including the following:

- what controls existed on checking and testing accruals. AC reported that there were several controls to ensure that we accrued the number in line with the reporting, supported by monthly business and financial balance sheet reviews. The increase in unbilled income had been questioned and had been attributed to a number of factors including the New Call acquisition, price increases and increases in customer numbers. This had not been proven and we should have spotted the issue on the balance sheet well before the £5m accrual had been reached
- how we would assure ourselves that we were still holding appropriate provisions if we were stripping some of our prudence out. A question was asked about whether this was an instance of weak controls and systems for which we had been holding the provisions. AC re-confirmed that old provisions etc. relating to POLSAP were fully retained. We would only adjust for items that were directly related to 2017-18 trading where the evidence was improved
- it was noted that we were comfortable having a prudent approach but our incentive plan was based on trading performance and if that had been overstated that needed to be considered when determining the bonus payments to be made. The Chair of ARC would need to be comfortable that the figures were right and that all the necessary work had been done to support using some of our provisions. AC agreed – our core bonus measure was EBITDAS which would be agreed by the Board and EY as part of finalising the financial statements. Any related bonus payments should flow from that published, audited measure. Clearly, with an opportunity to make changes to the personal element of bonuses as required
- the Board then discussed how accountability for the error should be reflected in bonus payments to specific individuals, noting that there was a chain of responsibility. Board Members were broadly comfortable with the trading figure in the ARA being the basis of bonus payments for staff other than those identified as having specific accountability for the error but this would be a matter for discussion at the Remuneration Committee once further work had been done, considering both causation and fairness. It was noted that EY had concerns about the risks associated with the migration from POLSAP and would be more comfortable to sign-off the accounts post migration in the autumn to make sure we understand the full picture
- independent review of our controls was supported in addition to management actions and learnings but there was concern that this might not be quick enough if we waited for a new firm. It was agreed that we should do a deep dive into certain areas that could be more targeted with the current Internal Audit team leading
- everyone agreed that there were lessons that needed to be learnt. We were a business with a billion pound turnover but which did not generate significant trading profit currently so an over accrual of £5m was a significant issue.



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7.3 The next steps **AGREED** were:

1. the extended post balance sheet events reviews of POLSAP balances, which were already underway, would be completed to ensure we had not missed any liabilities or had unsupported assets on our balance sheet
2. a review would take place of any other high risks accounts that might exist
3. we would prove and document the loss of income for prior years on the Telco error
4. we would assess and separately document potential credits for two items: the main BoI profit share and agents' pay. Before recommending any adjustment the documentation would need to prove not only that credit should be taken but that it developed late in 2017-18, was trading and that we were more comfortable with it now post balance sheet than we had been at the time
5. the meeting would take place with BoE to discuss whether NCS should be on or off balance sheet
6. a series of reviews to provide further assurance over the financial control framework – for example, on revenue recognition, would be agreed with Internal Audit
7. an additional ARC call and Board call would be set up for the end of June or very early July
8. a RemCo meeting would be set up, with the timetable and structure agreed with the Chair of RemCo. The issues noted in relation to the RemCo discussions on bonus were that:
 - we were not seeking to unfairly penalise individuals or "set an example" but those with some accountability in the process needed to understand that controls for which they were partly responsible had led to a significant failing
 - the Committee would need to receive recommendations on the approach it should consider taking informed by the work being undertaken to understand the error.
9. a decision would need to be reached by 6 June 2018 on whether bonuses should be paid at our best view for June explaining that more might be payable later or to defer payments. This decision would need to reflect the possibility that the ARC might wish to defer the signing the accounts until we had migrated from POLSAP, which would probably be October/November 2018.

8. FUTURE OF BANKING FRAMEWORK

8.1 Debbie Smith introduced the paper. Responsibility for the Banking Framework had moved to the Retail Business unit in March 2018. Work had also been taking place on POCa and ATMs, looking at the strategic links between these and the Banking Framework. This review had led us to conclude that cash would still have a role in the future; it would keep cash in our communities; drive footfall in branch; and drive social inclusion. We had been considering what more we could do with our Banking Framework.

Martin Kearsley provided an overview of the developing strategy:

- we wanted to encourage Lloyds to get more of their customers to use PO
- we would be developing a plan and coming back to the Board which would inform Framework 2
- we intended to charge the banks more for our service because handling cash was time consuming for PO



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- we were bringing in additional resource through an individual who had run the Lloyd's network for a number of years
- we wanted to get all the banks to go with us into Framework 2
- the opex charges were high but we could still make the business case work.

8.2 A number of points were raised, including:

- the more structured approach was welcomed and the development of banking services linked to the Banking Framework was seen as a good opportunity
- the impact on customers of expanding our banking services was discussed, including whether there could be any negative impacts on existing customers, such as increased queue times. It was noted that that could be the result if we did nothing to speed up the transaction processes; however, we were tackling a number of transactional elements such as introducing money counters. The development of our banking services was seen as commercially viable and with social purpose. It linked into our wider retail strategy giving customers greater choice in how they interacted with us, while automating and simplifying processes to help reduce queue times
- whether the capex figure was too low, including for the investment which would be needed to increase security in branches as access to cash on the high street continued to reduce. It was suggested that the banks should be funding the capex, given that they would be saving on capex while our costs would increase. We needed clarity on where we would achieve our margins and the cost of capital needed to be reflected as well as the risks and costs associated with increased security requirements
- that we needed to re-assess regularly what was needed to keep our branches secure, for example supplying cameras when cash was being counted. The Board would need to be assured that appropriate security measures were in place, including in branches in rural communities which could be more vulnerable
- it was noted that a visit to Norway was taking place in a couple of weeks to see the equipment in place in their branches to minimise the handling of cash and improve security. It was reported that a business case was being developed around investing in improved security in branches but thought would be given to how to join this up with the development of the Banking Framework and the costs we should be asking the banks to meet
- whether we had the right range of skills and experience in the team to get the best possible deal or if any additional support was needed both on negotiating and landing the deal. For example, did we need external advisers who had expertise in determining costs and charges?
- whether the figures included in the paper were sufficiently robust. It was noted that the costs might be understated currently, noting the earlier discussion on investment in improved security, but that we had not yet looked at how we should charging the banks for the capex investment. The development of the Banking Framework was a growth area for the business and needed to address how costs would be covered in the long term without a subsidy
- that the deal struck with the first party was critical because it would provide the benchmark for subsequent deals
- we had to be clear what we were asking from Postmasters offering a banking service and what we were offering them in return. Agents' pay was clearly an issue
- that it would be helpful to have a refresher on ATMS and the history of POCa before coming back to the Board on our developing strategy on these issues.

MK

Strictly Confidential

**Post Office Limited
Board Meeting****9. PEREGRINE UPDATE**

- 9.1 Owen Woodley introduced the paper which provided an update on our re-negotiations with Bol and highlighted a number of issues:
- we had engaged Fenchurch to do some modelling work for us, looking at the cost of doing a deal/ not doing a deal with Bol, including the evergreen deal with FRES. Currently, we had a 50/50 deal with FRES on foreign currency but Bol returns were around £8m ahead of ours
 - the signals on achieving a positive deal remained good; the only note of caution was that Bol's latest figures had been weak and they had been reticent about their commitment to the UK market. It was noted that the Bol Group CEO would be setting out the Group Strategy publically in about 3 weeks' time.
- 9.2 A number of points were raised, including:
- it was noted that in the event of Bol wanting to end its deal with us, it would be difficult for them to do anything before the end of our contract. They would have to be able to sell the business
 - our dialogue with Bol would be different if we were looking to buy the other half of FRES. It was noted that raising the funds and getting Government approvals to progress the sale would not be straightforward. The work done by Fenchurch suggested a value of between £250 – 270m but a lot would hinge on whether Bol wanted to exit the UK market and many issues needed to be considered. For example, we would need to understand what synergies could be achieved through the acquisition, the routes to acquire funding and whether we could stage payments
 - that it would be helpful if the next Board report could set out what our plan B would be if Bol decided it wanted to quit the UK market or did not want to continue its contract with PO Limited in the longer term.
- 9.3 The Board supported the approach set out in the paper of pursuing Option 2 while keeping Option 3 open in the short term.

The Board **RESOLVED** to:

- allow the executive more time to conclude the re-negotiations
- delegate authority to the executive to agree a 9-month value share
- support further advisory firm engagement.

In addition, it was **AGREED** that OW would:

- come back to the Board with a fact list on our contractual terms
- circulate by email a summary of Bol's Group Strategy announcements on 13 June 2018 and our take on what this meant for our negotiations
- include a "Plan B" in the next Peregrine Board report on our options should we not be able to re-negotiate the deal with Bol to our satisfaction.

OW**10. EVEREST**

- 10.1 Rob Houghton introduced the paper, highlighting a number of issues:
- we had a fixed price contract with Fujitsu over the next five years but were trying to get better value from this by trying to offset some opex spending with capex



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spending. To make the best use of the options available to us we needed to increase our total contract spend by around £10 m

- we did not think there were significant procurement risks because the additional spend related to hosting services which were within the existing scope of the “Trinity” services. Anything outside this would have to be tendered for and Fujitsu would need to be competitive to win any additional work
- the relationship with Fujitsu had been developing positively but we still had concerns about their capability delivery in some areas, especially digital. They had not performed well on agile delivery but some capable individuals had been assigned to our account and the situation was improving (e.g. the acknowledgement that our cloud service should be on the Azure platform and not K5)
- RH was comfortable with the Azure platform but was going to link in more with Government CIOs who had more experience of the platform. Shirine Khoury-Haq also offered to introduce RH to people to Lloyds who worked with Azure
- RH had been concerned about recent outages. Around 2,500 branches had been down for part of the afternoon of the previous day. The problem had been a digital certificate that had been configured incorrectly due to human error. In response to this we had sought assurance on the control measures they had in place and the reasons that the problem resolution diagnosis had taken longer than it should have
- there had been Verizon failure this morning. This was more concerning to us than the Horizon outages. There were two core hubs in London and Manchester but a third NetWare hub was being built that came on stream in June. However, the failure that had occurred would not have been prevented by a third hub and the fit for service check that was issued each morning had been green. It was noted that the contract had been signed in 2013/14 when the trading situation had been different and had been significantly cheaper than the next provider in the tender process. We had already warned that we would consider going out to tender if performance did not improve
- we were also concerned about the potential loss of senior technical people as Fujitsu switched more of its business offshore
- the June IT strategy discussions would give these issues a fuller airing.

In order to secure net operating expense reductions of £30m over the period 2018/19 to 2022/23, the Board **RESOLVED** to approve that the executive continue with negotiations to:

1. sign contract change notes, in June, with Fujitsu to “switch” £30m of operating expenses to capital investment and
2. sign incremental contracts change commitment of up to £10m (subject to telecoms review and negotiation).

11. BACK OFFICE TRANSFORMATION

11.1 The CFOO introduced the paper and highlighted a number of issues:

- the plan had been late, over budget and a number of things had not worked first time. We now had suitably skilled people in post and were being thorough in our approach. Migrating from POLSAP entailed risk and we were taking on lessons learned from previous exercises and reporting back on this to the ARC. A fundamental learning for us was the need to do much more testing as we went and include much more user acceptance testing, including front line uses



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- we had been taking more people out of the business from cash and finance and back filling these roles to allow more testing deploying people who understood the business. All the changes had been made and end to end re-testing was taking place
- at best the migration would be delayed until September 2018, at worse we would need to defer migration until after the Christmas period, if we could not migrate safely enough or quickly enough. There were concerns about using POLSAP for longer than absolutely necessary. The funds being sought today were to make the existing infrastructure as secure as possible
- Internal Audit and Deloitte had been re-testing the plan
- that we would need to know by July whether we would be proceeding with the migration in September/October 2018.

A number of issues were raised, including:

- that it was a programme management issue as well as a testing issue and whether we had the right Programme Management resource in place. It was reported that we had considered this issue seriously and had hired the best resource we had been able to in December 2017
- that while we had changed our approach to testing it might not cover everything, for example, we had not yet fully tested our interfaces with HMRC.

Rob Houghton and Shirine Khoury-Haq would discuss the migration in more detail outside the meeting.

The Board **RESOLVED** to **APPROVE** an additional £4.9m drawdown and a potential further £1.7m to enable the completion of Phase 1 of the Back Office Transformation.

12. CONTRACTS

12.1 Print Management Contract Award

The Board **RESOLVED** to **APPROVE** the award of a two year contract for £5.519m with HH Global including ring fencing £100k of the saving for the recruitment of additional resource in Marketing.

13. POSTMASTER LITIGATION – LEGALLY PRIVILEGED

13.1 Jane MacLeod provided an update on the Postmaster Litigation and the Subcommittee meeting held on 15 May 2018, including the sequence of trials and the focus of each:

- the first trial (November 2018) would focus on the meaning of the contract and the second (March 2019) on how Horizon operated
- a piece of work was being led internally on contingency planning
- we would get an updated view from the QCs in September 2018
- £3m had been spent on the case last year and forecasting £9m for this year.

It was noted that the case had reputational implications and that while there were 560 claimants in this case, in absence of a conclusive judgment, there was nothing to stop there being further cohorts of claimants in the future.



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Board Meeting**

14. Performance Report – Health & Safety, including review of Robbery Risk and Violence

- 14.1 The CFOO introduced the report and Martin Hopcroft provided an overview of the work being done to increase security in branches, including that:
- violence and robbery risks were growing, even where there were limited goods to shop lift
 - we did not have a lot fogging technology in branches currently but would like to invest more here because it had been very effective where it had been used
 - our guidance to Postmasters was not to fight back if provoked but people sometimes did when placed in that situation
 - we were working with the British Retail Consortium on safety initiatives
 - we had rated 4 out of 5 on our H&S audit. Our systems were robust and we were taking a proactive approach to investigating low level incidents.

A number of points were raised, including:

- that it would be helpful to understand how branches were classified as high risk
- that we should be over protecting rather than under protecting and it would be helpful to have a count on safety measure like how many cameras were in branches
- it would be helpful to understand the costs associated with putting cameras in rural branches
- that a statistic of 0.3 Lost Time/ Hours Worked (LTIFR) per 1000 employees would be considered world class. The figure for our supply chain was 0.6.

It was **AGREED** that the Board would receive a review of robbery risk and violence in the network twice a year.

AC/ MH (to do)

15. ITEMS FOR NOTING

15.1 Sealings

The Board **RESOLVED** that the affixing of the Common Seal of the Company to the documents set out against items numbered 1658 to 1681 inclusive in the seal register was confirmed.

15.2 Future Meeting Dates

The future meeting dates were noted.

15.3 Forward Agenda

The forward agenda was noted.

Meeting closed at 14.37 pm.

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Chairman

.....
Date



Post Office Limited Board Strategy Day, Session 1, 26 June 2018

Present:

Tim Parker, Chairman (TP)
 Paula Vennells, Group Chief Executive (PV)
 Ken McCall, Senior Independent Director (KM)
 Tim Franklin, Non-Executive Director (TF)
 Shirine Khoury-Haq, Non-Executive Director (S K-H)
 Carla Stent, Non-Executive Director (CS)
 Al Cameron, Group CFOO (AC)

Apologies:

Tom Cooper, Non-Executive Director (TC)

In attendance:

Tom Aldred, UKGI (TA)
 Veronica Branton, Minute Secretary (VB)
 Rob Houghton, Group CIO (RH)
 Jane MacLeod, Company Secretary (JM)
 Cathy Mayor, Finance Director Retail (CM) (items 1 & 2)
 Tom Moran, Network Development Director (TM)
 Debbie Smith, Chief Executive – Retail (DS) (items 1 & 2)
 Ed Tucker, Head of Network Strategy (ET) (items 1 & 2)
 Owen Woodley, Chief Executive – FS&T (OW)

The Chairman welcomed everyone to the meeting.

1. Overview of Strategy days

Tom Moran provided an overview of the Strategy days. Day one would focus on the Retail Strategy and the potential to acquire the other half of FRES. There would also be two technology showcases. Day two would focus on the Insurance Strategy and improving IT services in branch.

2. Retail Strategy

Conclusions of discussions

The Board supported the direction of travel proposed. Key elements in the successful execution of a retail strategy that met our customers' future needs were:

- Better understanding of our customers, our network and their future requirements (e.g. developing a geographical blueprint of where we had outlets – PO Mains and Locals and Payzone – what services were needed, and where there were gaps)
- Changing the model to introduce the new formats discussed and develop the franchise proposition
- Technology upgrades/ technological enablers (e.g. simple SSKs focussed on bill payments and mails)
- How we managed cash (providing banking services drove footfall but brought requirements for space, training and security and the additional costs needed to be part of our charge to the banks)
- Agents: their capability (great service, great merchandisers); our proposition (stripping out labour costs supported by self-service technology and simpler processes; freeing up space; offering a range of franchise formats)
- Retail partners/ running our own stores (the right partners for the PO of the future, including those who could bring in a younger customer base)



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- The right products in the right places (e.g. where we sold which financial service products)
- Stripping out cost through a combination of the above factors.

Detailed discussions on Retail Strategy:

2.1 Overview

Debbie Smith shared her thoughts and insights about the Post Office retail network having started as CEO – Retail in January 2018. She had spent a lot of time in the business, in branches and with externals, including the multiples. DS wanted to capture the Board's thoughts on the proposals for developing the Retail Strategy and the approach to executing its delivery. The Retail Strategy wasn't yet complete but would always continue to develop to keep it dynamic.

DS's approach was customer in. PO was a strong brand, value driven and with a passion for customers and the way we worked. There was a huge opportunity to make a positive difference for our customers but we needed to be clear about how we remained relevant to our customers and maintained our position on the high street. The possibility of being "last man standing" on the high street differentiated us and where Postmasters were getting it right they were making a fundamental difference to the communities they served. However, we were in a period of transformation. Some standard elements that DS had expected to be in place were not, including:

- ease of communication with branches,
- weekly trading reports including all the relevant customer data
- consistent and high quality management of the network. While some branches were first rate others were down at heel. We were not sufficiently customer led. Sometimes there were two queues when there should be one. We didn't always have the right currency to hand in some dynamic urban areas where you'd expect that provision.

Retail was changing faster than ever. Our strategy was about catching up and developing what our customers wanted for the future. It would be format driven, developing our franchise capability and being best in class to create great customer experience. Amazon and John Lewis represented good role models through offering an integrated proposition while engaging their people to deliver a great experience.

2.2 Retail Strategy – Customer Insight

Ed Tucker presented the findings from the customer research initiated in February 2018. This had included qualitative and quantitative research (2,500 customers online). We had asked participants to summarise what they wanted from the Post Office and how we should develop to achieve this. The consistent findings were:

- Convenience
- Simplicity
- Modern (and the need to modernise)
- Extended opening hours.



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The services most sought were postal, passport and bill payments. The positive associations with PO were that it was friendly, provided great service and was trusted. The negative associations were understaffing, queues, that it was too busy and that it lacked privacy.

Customers' needs were very different now. Mails was still the dominant service (65-70% of business in branch) but the brand meant little to younger consumers and they were used to being able to do things on their phone. We needed to catch up to be relevant to that market.

Our strategy had three key elements: Network segmentation; less is more; clear understanding of product profitability. This would help facilitate our customers' vision for the future which included:

- self-service
- online
- core range (across all branches)
- full range (including finance and travel insurance in a smaller number of branches).

Customer feedback was that we should set up separate POs for financial services but we did not envisage having branches that provided FS only. PO Plus in 1,500 branches was one idea but we'd need to understand the implications of this fully. In this model, all insurance products, other than travel insurance, would only be sold in PO Plus.

As well as introducing different PO formats we needed to improve our offer to agents from recruitment to on-boarding to engagement.

The dependencies on the successful execution of the strategy included people, technology and brand strategy.

2.3 Discussion points

Customers

- If our starting point was looking at the customer and what best serves them **how do we segment our customers?** It was reported that we hadn't done much work on segmenting our customers in Retail. The vast majority of customers coming into POs were retail customers. If you started segmenting down into age groups etc. a lot more work would be needed, for example, analysing customers' needs by geographical area. It was felt that we needed to understand our customers better because we should be maximising profitable spend when customers were in branch or shopping with us online and we needed to develop a structure that delivered more profitability. When looking at a geographical area it would be helpful to understand what our partners were making in their overall business. We know how much PO pays them, we know how many staff they have and it ought to be possible to do some sensible modelling based on footfall.
- The scope of our **consumer insight** and how this could feed through to the relationship managers was discussed. It was reported that we had a good basic oversight of the network but were working on what data we held, should hold and the format of that at the moment. For example, historically we had not captured data from agents' calls but were now doing so. This helped us understand things like whether a small number of POs were requiring a disproportionate amount of support.



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- That for **Millennials**, Amazon's collect plus generally came up before the PO option. RM and their model would be important for us and PV had met with their new CEO and was discussing these issues.

Agents/ partners

- The scope to link up with one of the **major supermarkets** was discussed. It was noted that there would be issues to address where the supermarket offered banking services we couldn't sell our banking or insurance products there or have brochures promoting these products in the same space.
- The **footfall drivers** in branch. It was noted that we had been discussing these with our partners. It was clear that you had to be a successful retailer to make running a PO work but running a PO drove significant footfall into your business.
- **Our branches weren't only based in retail outlets** but in libraries, pubs, etc. but it remained the case that there has to be something driving the revenue in addition to offering PO services.
- What the **retailers of the future** would look like and who would fit into which of the formats we were envisaging was discussed. A clear understanding of this was likely to answer some of the millennial engagement issues.
- Some of the **multiples** were already showing interest in things like SSKs but we needed to provide simpler models and sort out remuneration. Some of our competitors, like Costa, already offered the benefits we were proposing.
- There was tension between the current network and what we would like our ideal network to look like. We needed to have a **compelling proposition for the retailer**, looking at which products we would offer in which formats and which retailers would be attracted by that.
- The challenges of being a **franchise provider** were discussed. We had to offer an attractive proposition to retailers but we also needed a model which could integrate well. Many of the services we offered would need to be primarily self-service and frictionless for the agent. If we wanted to provide cash that needed to be paid for through the banking framework. That would leave our multiple partners better off (labour and training were key issues for the multiples). Low cost kiosk solutions would be key to the local offer but the challenge remained of the larger POs that weren't profitable for us.
- **Agents' pay** would be brought to the Board for further consideration later in the year as this was fundamental to the development of the strategy. We could have great format models but needed to have agents who wanted to run them. Technology and simplification would be fundamental to driving out some of these costs as well as reducing the number of products that agents had to sell.
- It was reported that there was a collection of things we were doing to support and increase the **capability of the agents**. We still needed to improve our recruitment process which was too slow.
- Our **benchmarking on recruitment** was discussed and it was noted that as well as being slow there was a higher dropout rate than you'd expect. We were forcing people through a single process and should switch to a risk based approach, for example speedy boarding for agents who met agreed criteria.
- Agent pay costs would become variable if we closed our DMBs. We carried around **£47m of fixed agents' pay** currently. This included hard to place branches, for agents who had to drive to a number of sites, and for the work we did for "Mailwork". Part of the challenge with agents' pay was that increases to the minimum wage for their staff had



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reduced profits significantly and that made our simplification and technology programmes all the more important.

- Our role in **supporting the merchandising capability of the retailer** was discussed. It was noted that while running a PO drove footfall, a bad retail proposition served neither the agent, the customer nor the PO. A consistently good retail offering could change our numbers and level of profitability.

Format/ operating model/ network

- Historically we had had a number of **formats that didn't always provide appropriately for our customer base**. In tandem with reducing the number of DMB's, we were proposing the development of 4 or 5 different franchise models/ formats.
- That we needed to understand the **commercial format** properly, including if financial service products were to be offered at far fewer branches. It was noted that we were not proposing branch models which only sold FS products, however the proportion of FS sales varied considerably from branch to branch. This would be plotted out to help us consider the transition. It was noted that wherever we had travel money we wanted to be able to sell travel insurance.
- Whether we had factored in **seasonality** to the strategy, such as queue management, making the network more agile with pop-ups etc. It was reported that Christmas brought 200-300% normal volumes. Our technology development would allow some sales to be done on the network till and we could cut wait down times through enabling more to be done online in advance of going into branch. Our operating model and cost base were driven by maximum demand at Christmas – we needed to drive more flexibility into the operating model.
- The scope to investigate **sharing networks/ share economy systems** that could address some of the volume issues was discussed. It was thought that this idea warranted investigation.
- The current **PO structure** was discussed. It was reported that a **Main** had a main counter and a subsidiary counter and was required to staff the counter when their retail outlet was open (which became more achievable as we drove more self-service). A **Local** didn't have a subsidiary counter; however, a lot of Locals did not operate very differently to a Main although **our rate for Mains was 30% higher**. The cost of fitting out a Main branch was at least £30k and these costs were split between the retailer and PO. A 12 month notice period was required to move from Main to Local status but this would lead to some of those branches being unprofitable. It was suggested that we think about we could do to mitigate the impact on a Main of changing to a Local. This could include savings on staff costs through simplifying cash and banking, the use of SSKs and reducing the space used up by PO which could then be used for selling more retail goods.
- It was noted that a **fortress counter** went into branches that were handling a lot of cash. For some retailers having to have an extra till which also required extra space was unattractive and could put in question our ability to be "last man on the high street" providing cash. However, devices such as the Norwegian cash counters could strip out a lot of complexity.
- That the **Payzone acquisition** would give us additional outlets and we could start looking at which stores could offer more services. The network was UK wide but mixed in terms of quality. We needed to look at density of service requirements in particular areas and map out a blueprint of what we needed across the country. Then we could look at what we were able to deliver in particular areas and where there were gaps in our



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distribution network. Not all outlets would need to offer a full PO service or even be branded as POs. A geographical sales team would be needed to support this network.

- It was noted that first two **formats** proposed focussed on bill payments and customer returns which could be delivered through efficiency and technology. If we were planning to disrupt the system by changing the formats for POs and introducing new technology it would be better to do this only once. How this might be achieved was discussed. An option was to take a region, look at how many Mains, Locals and Payzone stores it contained and how much it would cost to make the change from Mains to Locals (e.g. buying the Mains out on a year's contract). We would need to be able to differentiate for customers the services we offered in different types of POs e.g. PO Express. There can be a very different feel between POs currently and we were not clear on our franchise expectations. The quality of people was also issue, for example WH Smith ranked poorly on customer service. The scope to run our own PO multiples was raised as well as the challenge of addressing whether we were operating with the right partners to meet our future aspirations.
- Our **cost base** was discussed and whether we would start seeing the direct margin we made on each product when we moved away from fixed pay. However, it noted that this was complicated in practice because some costs, like the Horizon system, supported many products.

Technology/ simplification

- The scope to test and roll out a **simple mails kiosk**. It was noted that there were home shopping opportunities but we needed to work with RM on these issues.
- The scope to **free up space in branches and simplify staff training** was discussed. It was reported that we were contractually obliged to have mails segregation¹. This was a process cost and a space cost. Some of the rules in place with RM were complicated and the cumulative impact of complexity across a range of services meant that you needed specially trained staff. DS noted that her preference would be for Postmasters to have a longer training period and to get them really engaged. But for other staff, online training that enabled them to sell a small range of products might be sufficient.
- The **scope to drive down the cost of SSKs** was discussed. Each machine cost £12k at the moment. We were looking at procuring the third generation of self-service machines currently. Having a simpler, cheaper, easier to operate kiosks would offer us significant advantages. POs which had this functionally internationally used them mostly for mails and had skipped the legacy technology.

Costs

- We still had **high costs** in the business that produced **minimal return**. DS was working to understand these costs and see how they could be stripped out. We needed to focus on what we were good at, where we could get sufficient market share, and where we were commercially viable.

¹ It was noted that we could review our operating model. E.g. we could look at having one mail bag that could be taken way to be sorted.



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Products

- Whether it still made sense economically to sell **life insurance**. We needed to be sure that each business was doing the right thing economically and charging the right costs to one another
- That access to **banking services** could become more important than access to mails so was a key issue for us.
- The **profitability of the products** offered by PO was discussed because it looked as though about 20% of the products drove about 80% of the profit. However, it was reported that almost all of the products offered made some contribution.
- **Product lines** and the **quality of service** were also critical. We had worked with Co-op recently in two of their stores with POs and had managed to increase their income. Customers would always want choice but we needed our standards to be consistent. We needed to develop leadership and build and maintain relationships across our network. There should be geographical relationship owners who would make visits and set up regular conference calls that agents could join.

Brand

- Whether customers still confused **PO and RM**? It was confirmed that this was true but that the services provided were so linked that only very heavy brand advertising would distinguish us and the association with RM was broadly positive.

3. FRES

3.1 Overview

Owen Woodley provided an overview of the discussions that had led to consideration of acquiring the other half of FRES. Bol's focus on its UK business was on margin and not volume. They wanted to get out of credit cards. They had ambitions to grow their loan book but this would require a significant injection of capital. We needed to better understand Bol's appetite to sell.

FRES delivered a solid performance but was struggling with depressed exchange rates and BREXIT. It was the market leader in travel money but that market was changing fast with a number of fintechs operating. We had done some early work on synergies but needed to do more to verify our numbers. We also needed to understand this in the market context. It was also noted that we had limited options to get out of our evergreen arrangement with Bol.

Work was going to be done on how the business could be built horizontally and on the back office forex functions. A full recommendation would be brought back to the Board.

3.2 Discussion points:

- We needed: a) a proper understanding of the **current marketplace** and how profitable it was; b) an understanding of **future profitability**; and, c) a clearer picture of the **cost of purchase** and how this could be funded.
- We needed to look at the **impact of running the whole of FRES** as well as the cost of buying it. For example, it would reduce our prudence by about £100m and restrict our ability to do some of the other things we wanted to. OW reported that analysis would



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be brought back on these issues, noting that there was an opportunity for the business to rationalise its approach and pricing strategy which could weed out some of the smaller players. FRES's market share was 24/ 25% and the next largest player was M&S with 11%.

- FRES could be a **valuable stand-alone business** as the largest provider of foreign exchange but would also increase our strength as a franchise provider.



Board Strategy Day, Session 2, 27 June 2018

Present:	Apologies:
Tim Parker, Chairman (TP)	Tom Cooper, Non-Executive Director
Paula Vennells, Group Chief Executive (PV)	
Ken McCall, Senior Independent Director (KM)	
Tim Franklin, Non-Executive Director (TF)	
Shirine Khoury-Haq, Non-Executive Director (S K-H)	
Carla Stent, Non-Executive Director (CS)	
Al Cameron, Group CFOO (AC)	
In attendance:	
Tom Aldred, UKGI (TA)	
Veronica Branton, Minute Secretary (VB)	
Rob Houghton, Group CIO (RH)	Items 1. & 2.
Jane MacLeod, Company Secretary (JM)	
Tom Moran, Network Development Director (TM)	
Owen Woodley, Chief Executive – FS&T (OW)	Item 3.

1. IT demonstrations

1.1 Overview

Rob Houghton provided an overview of the IT self-service app that had been piloted and showed the feedback videos on before and after IT service provision.

There were some common complaints about IT support, including the length of time it took to get through to the support desk, not always getting the right support when you did and not knowing when an engineer would arrive¹.

The app had been rolled out to 100 branches. There was still manual work going on in the background but we wanted to roll the app out much further. However, we were likely to hit a point at which some Postmasters didn't want to download and this was part of a bigger issue about not be a true franchise at the moment.

We faced challenges in our communication with agents. Not all were on-line. Their service needs were different. We were still quite paper based. In time we needed to create one access point through one app for agents. Only shutting down other channels would create significant business benefits.

We had spoken to agents about what would make the biggest difference to them. Being able to manage stock was their number one ask. The app allowed a number of sources of data to be bunched together and was independent of Horizon so was a way of communicating when there were problems with Horizon.

We were not far off being able to say this was how we were going to deliver IT, communications and training. That would be much better for agents but we needed to give them a lead time.

¹ Being able to track where the engineer is through the app should cut calls to ATOS.



1.2 Discussion points

- Whether it would be possible to show **serve time/ queue times** through the app. It was reported that we don't have a way of recording this for all branches currently. However, the data elements within the app could be added to, removed or customised. We knew how many people were transacting at a branch which provided a proxy for queue times. While having cameras in branch could be useful for understanding queue times/ customer satisfaction this bore a high infrastructure cost.
- It was reported that one of our priorities was for agents to be able to **order notes and coins online** which they currently had to order through a Call Centre in Bristol. The cash management system would count everything automatically but the first step would be to consolidate our call centres. We had written to about 3,000 agents requesting excess cash back and this exercise had shown that a lot of agents didn't understand how the system worked and so there was a drive to communicate more and better.
- It was felt that in our conversations with agents we needed to **avoid a "centre knows best" approach** through listening to agents and understanding their needs properly.
- The pros and cons of **giving agents equipment**, such as an IPad, to make sure all could access on-line resources was discussed. The cons were cost and ongoing support. It was suggested that charging a lease fee could drive a feeling of ownership and some phone companies would provide free handsets if the individual subscribed to a contract for a specified period.

2. IT Strategy

2.1 Overview

Rob Houghton provided an overview of our IT Strategy covering service issues and supply strategy; Fujitsu; architecture strategy. We had made some significant changes but still had a long way to go. We were currently facing the challenge of moving from one supplier to four. The roll out of new counters should have been completed by the end of September, POLSAP migration would then start and we had begun to open up our IT architecture.

Service issues and supply strategy

- The **Horizon** service had been good although we hadn't yet been through a test of a complete shutdown of the system.
- The service provided by **ATOS** had been pared back.
- **Computacentre's** performance was poor on both execution and delivery. They provided all our desktops and laptops and some administration. They had not delivered on their PCI obligations and we were now exchanging legal letters. They should have been PCI compliant by December 2017. Having failed to meet this deadline we had been expecting them to get their PCI Certificate at the end of July 2018 but had been notified of further delays.
- **Verizon** was flying over their Group CEO to meet with PV and RH this week and they were now responding positively to our service improvement requirements, including investing in a third data centre which should give us greater resilience. Verizon would be making retrospective service credit payments for outages and we would be negotiating strengthened SLAs with them. However, it was noted that they had been within their contractual SLAs to date.



It was noted that there were not a lot of viable alternative providers but that there had been an unacceptable level of outages in the last few months. Talk Talk provided the ADSL lines into branches and Verizon managed this third party relationship. The network infrastructure was poor and lacked resilience. We needed to talk to Verizon about the suppliers they had chosen.

If Verizon started providing a really good service for us we could be a reference site for them.

Security

It had been difficult to get Fujitsu, Verizon and Accenture to feed in their event logs but this would start happening this week. This would lead to a lot of false positives over the next few months but that would settle down. The final pieces of work had still to be done. We would be using dark trace machine learning to predict odd patterns in the network. A Red team review would be carried out to try and hack data to test our security. This would help expose the gaps we had and would raise the security understanding across the organisation.

Architecture Strategy

RB explained that we had services and micro services². Micro services would go into Horizon. Horizon was a transaction database but we were opening it up and building in different functions, for example bill payments. Our first task was to get clarity on what we wanted to sell and where. The Customer Hub work was a precursor to HNGT which would sit on top of the Horizon system. We needed to tackle what we would do about Horizon at some stage and this would remove our dependency on Fujitsu. We would be migrating all the back end services into the cloud (Microsoft Azure). However, we would not be taking a big bang approach because migration was a risky process. We needed to be clear about what was going where and make it modular (e.g. a database for retail). We had built in the right to buy the intellectual property rights from Fujitsu.

Fujitsu update

The Opex figures for the next four years stood at £141m and the capex at £54m. The negotiations with Fujitsu to change this position had been challenging but we wanted to use the capital in a better place and were aiming to move to a verbal contract of £105m spend on opex and £101.5m on capex. HNGT, portal, and Belfast could all feed into that spend but we wanted to spend most of it in the next couple of years. The capex right off would be in 5/6 years.

A new procurement process would need to start in 2021 and we should make significant savings as we moved to a new contract. We needed to complete the first stage and then look at the future migration issues next year. We had three years to determine our strategy to move away from the current arrangements while making sure that service levels didn't drop off.

RH took the Board through the figures for 2020/21. £65.1m had been forecast originally but that figure had increased by around £10m. The difference included PO growth of £5.4m an extra £3m to Fujitsu and indexation of £1.6m which had been missed from the original

² Single function, secure, possible to be exposed to the wider world to build apps etc.



figures. However, we should be able to reduce the gap between the original forecast and the new forecast by 2020/21. The cost of counters had come down but counter rationalisation still represented a big opportunity for reducing costs. This could include removing some counters and replacing them with simplified kiosks. We needed a flexible, cheap way to get rid of redundant counters.

Points of discussion

- Whether we could terminate the contract with **Computacentre** given their failure to deliver PCI compliance and the reputational risk this posed for us. It was reported that there was a high termination fee attached to the contract and we would need to have cause to terminate but we were driving them hard.
- Whether we should announce the **next phase of our technology rollout/ approach** once we had completed the counter transformation in September 2018, giving notice if we needed to charge more for the service we provided in future. We wouldn't have needed to have completed the work at the time of the announcement.
- That we should be looking at things that made a difference to our **cost structure and optimised our franchise** in the relatively short term. For example, how far off are we were from getting a kiosk that was cost effective and did, say, 80% of what we might want it to do? Was there scope to put a branded simple kiosk into a major supermarket with a parcel drop? Could we have simple kiosks outside the existing PO network (e.g. label printing; parcel collection and delivery; space to store the items)? Should be taking an area and piloting these ideas? It was noted that the procurement process for new SSKs would take a few months but that we would need that time to work through all the requirements and scenarios.
- That we needed to analyse an **investment in cash machines** carefully looking at how far we would move to being a cashless society in the next 3-4 years.
- Whether we had the people and skills set we needed to drive **the automation/ technology catch up** required. It was reported that the team at 101 which had been working on Customer Hub brought many of these skills. It was suggested that it would be very helpful to pull together a small team who had the expertise to identify off the shelf items that could be plugged into the existing business and were focused on stripping out excess costs in the system for us, for agents, in the network. AC reported that a project had been initiated to strip out failure demand across the back office. Some of this would be through automation or robotics, some changing where things were routed, some doing things differently.
- The position with **"trapped" branches** was discussed. It was reported that we put in temporary operators in those branches where we were able to.
- That when the **ATM Strategy** came back to the Board we also needed to look at our whole cash strategy (**Action: DS**). It was noted that ATMs could do more than deliver cash.
- The rights to buy the **intellectual property rights** for Horizon were discussed. S K-H and RH would discuss this further to consider the documentation requirements given the diminishing number of people who would understand the system architecture. S K-H also had experience of how the regulator could help get a supplier to modularise and document the systems so that the intellectual property rights were viable. They would also discuss Portfolio delivery risk and cyber security. (**To do: S K-H/ RH**)
- It was noted that we had defined our **risk appetite on cyber security**, that there was a gap between this and our current position and that a cyber security awareness campaign was going to be rolled out.
- It was noted that it was difficult for Boards to assess **cyber risk** so clear recommendations were needed. The Board needed to understand the risks (regulatory



and other), what enhanced security would look like, the costs associated with this, the worst case scenario and a more realistic approach.

- The work on **HNGT** was discussed. HNGT should reduce queue times and allow us to adapt to customer requirements quickly³. The training requirements were less onerous. The changes required were taking place incrementally and the ordering was business driven.

It was **AGREED** that an item would be included on the Board agenda about the costs associated with rolling out cheaper, less sophisticated kiosks (the Post Office Express Model) once we had worked through the options and had processed our take aways from the visit to Norway to see their banks' cash counter technology. It was noted that this piece of work would not be ready for at least a couple of months. **(Action: RH/ AC/ VB)**

3. Insurance strategy

3.1 Overview

Owen Woodley provided an overview of the PO Insurance business. The business was performing well, we had identified the immediate priorities to deliver the existing plan but had five recommendations for future development.

Rob Clarkson explained the rationale underpinning the strategy proposals. The business was established, we were seeing benefits coming through on revenue and business growth but needed to grow our ambitions. We wanted to increase our share of the value chain and had been looking at what it would take to grow significantly. We were looking to build out our home insurance model and were well advanced in finding the capacity provider. By the end of year we would have reviewed our non-core business like car insurance, assessing whether or not they were detractors to our core business.

In considering growth options we had thought about whether we should move into owning the whole value chain (i.e. include underwriting function) but this was not seen as the right stage of our development to do so.

The PO brand brought us a lot of value and would help us where we wanted to be a disrupter. One part of this was the potential acquisition identified which could help us to become number 1 in the travel insurance market.

The 5 year plan was clear: get deeper into value chain; take more control; start to do more distribution and grow significantly.

The acquisition of a travel broker which specialised in travel insurance for older customers and those with impaired health was proposed. We hadn't yet undertaken due diligence. We wanted to be able to attract the part of population that was travelling more and had more sophisticated insurance needs. Our average premium was around £35 but the broker we were looking at buying had an average premium nearer £100 (albeit with a higher claims level). Once we had capability at product level and had increased our digital marketing we should be able to attract more customers. Acquisition rather than investment was favoured to allow us rapid scale of market entry. Tiff was the managing agent behind the provider we were seeking to buy and they also managed our complaints which were in line with industry averages.

³ Making changes to the "back end" of Horizon could take months.



3.2 Points of discussion:

- It was noted that we were not taking any **underwriting risk** at present. We had an arrangement with Aviva on life insurance. Control over the proposition and being able to simplify the customer journey was important for us.
- What **dependency the plan had on branches**. It was reported that 500 branches could sell the over 50s product over the counter. There was a real time interface with Horizon for details of a customer logged into the system but it was noted that the volume of consumers buying insurance through sites like Money Supermarket was growing exponentially. We didn't need lots of branches with consulting room space.
- **Loss ratio of our travel insurance products**. It was noted that the loss ratio was around 65% of net costs, rising to around 85% on impaired but with these policies attracting a much higher premium. Bringing the two books together should give us a better view of the blended costs.
- The **rationale for buying a complete entity rather than just the book** of the travel provider we were seeking to acquire. It was reported that the book alone was not for sale and we were also looking for the capability that came with the business. We had made initial advances to the owners who were keen to sell but had been speaking with other potential purchasers. The accounts of the provider had not been audited for the past few years, we needed to look at security issues and we needed to make sure we could lock in the skilled people essential to the business. KPMG would be supporting us to do the due diligence work.
- **Motor insurance** was discussed. It was noted that this was one of the products we would be reviewing because we were only a small market player. The whole market was under pressure with low margins and the move to automated or semi-automated cars meant that the market was likely to change significantly. However, as we were considering disruptor models, such as a app for the millennial renter market, we would need to consider whether not providing some form of motor insurance (e.g. for temporary car hire) made our overall proposition less attractive. We could consider including motor insurance as part of a disruptor product rather than a product line in its own right. If we wanted to move out of motor insurance our single arrangement with BGL ended in September 2019. We had about 110,000 existing policy holders and we could go out as a portfolio sale.
- The **fit of the PO brand with millennial renters**. It was noted that this group were high users of EBay and required access to mails. It was **AGREED** to go away and come back with a mock-up of a disruptor product for millennials (**Action: RC**).
- It was noted that when consideration had been given to **doubling our EBITDA again** we had discounted becoming an underwriter on home insurance because we did not currently have the scale or differentiation of risk selection. Only being a distributor limited capability to generate profit so being able to provide underwriting services would be beneficial in the longer term. To get to this point we would need to have run an insourced intermediary model for 18 months or so. We had spoken with some potential providers and recognised that choosing the right underwriter would be vital. We wanted a high degree of transparency on the financial terms and how the net rate was set. We then needed to develop capability and understanding of providing the service (focusing on two or three areas) without taking the regulatory risk.
- The scope to partner with an **aggregator**. It was noted that we had looked at this at a high level but had not proceeded further than this because some of our major customers, like British Gas, were disadvantaged by the aggregator model.
- The **Telco** business was discussed and whether we thought we would get value in the market if selling. It was reported that Sky had indicated they'd be interested in a broader



conversation about the possibility of being a thin brand layer. There were some concerns about pricing issues across the market. The business was making a £30m contribution at the moment which was good value for return but we didn't know how long this would last.

3.3 Outcomes

The Board supported the propositions and recommendations set out in the paper that:

1. POI was established, had grown capability and was well positioned to deliver on its ambitious current strategy growing contribution to over £40m within the next five years
2. POI should aim to become the largest retail Travel Insurance distributor, accelerating its growth through acquiring Ancile for no more than £15m, increasing annual contribution by £14m in 2022/23.
3. POI had the potential to disrupt the market and should seek £500K of seed capital to develop a prototype product by March 2019 with the intention of delivering a minimum of £5m of additional contribution by 2022/23.
4. POI should continue to build the internal intermediary for Home Insurance and return to the Post Office Board at a point where we could demonstrate an improvement in risk exposure when considering further involvement in the underwriting value chain. Becoming a Home Insurance Underwriter had the potential to drive an additional £20m+ annual contribution.
5. POI's Board had received and discussed analysis and research relating to the strategic proposals and were supportive of the direction and recommendations made in the report.
6. the existing strategy together with the additional options recommended should triple POI's current annual contribution from under £20m to over £60m by 2022/23. A subsequent move into Underwriting could increase this contribution to over £80m per annum.

It was also **AGREED** that Owen Woodley would come back to the Board with an integrated view of FS and Telco, working with Debbie Smith would make sure that the insurance strategy and the retail strategy were integrated. **(Action: OW/ DS)**

The Chairman noted that the team had responded convincingly to the challenge posed to them last year. The ambition to grow the insurance business and a strategy for doing so was now in place. The Board was supportive of the strategy but had wanted to make sure that the rationale had been tested fully.

4. Closing comments

The CEO noted that there was a lot of horizontal change across the business. This brought challenges, as had been set out in the cover paper, but we had brought proposals to the Board that we thought we could achieve. Programme planning/ capability and the capital spend position would be indicators of any overstretch.

Board Members had confidence in the Executive Team, their teams and the business structures to help deliver the strategy, the key strands of which were:

- removing DMBs
- finding self-service/ automated solutions for simple transactions
- getting the Fujitsu partnership right and going in the direction we wanted in the longer service to remove our dependency



- owning more of FRES
- carrying out the insurance developments discussed
- developing the Banking Framework
- cutting out costs at HQ.

Some of these initiatives would happen quickly, some would take longer but it was important to have scale of ambition.

The Chairman thanked everyone for their contributions and particularly the presenters and the teams which had demonstrated the apps.

Post Office Limited Board Actions as at 25.07.2018

REFERENCE	ACTION	ACTION OWNER (GE)	DUE DATE	STATUS	OPEN/CLOSED
Board Meeting 24 May 2018					
1. FINANCIAL PERFORMANCE REPORT	It would be helpful to receive more information and graphs that showed the indicative growth and profitability of the business looking at performance for the previous period and where we were heading. It was suggested that this could be structured like a balanced scorecard looking at each product group.	Al Cameron			Open
2. FUTURE OF BANKING FRAMEWORK	It would be useful to have a refresher on ATMS and the history of POCa before coming back to the Board on our developing strategy on these issues	Martin Kearsley	September 2018	Report to go to the Board in September.	Open
3. PEREGRINE UPDATE					
(a)	Come back to the Board with a fact list on our contractual terms	Owen Woodley	September 2018	To be added to the Peregrine report to the Board.	Open
(b)	Circulate by email a summary of the Bol's Group Strategy Announcements on 13 June 2018 and our take on what this meant for our negotiations	Owen Woodley	June 2018	Done. Note circulated on 18 June 2018.	Closed
(c)	Include a "Plan B" in the next Peregrine Board report on our options should we not be able to re-negotiate and deal with Bol to our satisfaction.	Owen Woodley	September 2018	To be added to the Peregrine report to the Board.	Open
Board Strategy Sessions 26 & 27 June 2018					
1. FRES	Recommendation on purchasing the other half of FRES (We needed: a) a proper understanding of the current marketplace and how profitable it was; b) an understanding of future profitability ; c) a clearer picture of the cost of purchase and how this could be funded and;	Owen Woodley	July 2018	Update to July Board	Closed

Post Office Limited Board Actions as at 25.07.2018

	d) an understanding of the impact of running the whole of FRES as well as the cost of buying it.)				
2.	Retail Strategy	Debbie Smith	September 2018	Overarching update paper to September Board	Open
2.a	The ATM Strategy should factor in our whole Cash Strategy (We needed to analyse an investment in cash machines carefully looking at how far we would move to being a cashless society in the next 3-4 years)				
2.b	Agents' Remuneration			Paper to November Board	
2.c	Rolling out of simple SSKs (It was AGREED that an item would be included on the Board agenda about the costs associated with rolling out cheaper, less sophisticated kiosks (the Post Office Express Model) once we had worked through the options and had processed our take aways from the visit to Norway to see their banks' cash counter technology. It was noted that this piece of work would not be ready for at least a couple of months.)			Timing TBC	

Post Office Limited Board Actions as at 25.07.2018

<p>3.</p>	<p>FS&T Strategy in branches</p> <p>Owen Woodley would come back to the Board with an integrated view of FS and Telco, working with Debbie Smith to make sure that the insurance strategy and the retail strategy were integrated.</p>	<p>Owen Woodley/ Debbie Smith</p>	<p>September 2018</p>	<p>Overarching Retail Strategy update to September Board to cover FS&T Strategy in branches.</p>	<p>Open</p>
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CEO's Report

Author: Paula Vennells Meeting date: 31st July 2018

Executive Summary

Context

Our target for 2018/19 is to achieve EBITDAS of £50m. Our areas for future focus will be:

Our key market ambitions

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

Our key measures of success

- **Grow our network**, doubling the number in town and city centres
- Become the **partner of choice for convenience retailers**
- Demonstrate **digital innovation in every transaction**
- Deliver **£100m profit** to reinvest in our business and communities

Our five priorities to deliver these outcomes

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

Input Sought

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

The Report

Looking Back

WHAT HAS GONE WELL?

- **Financial Performance**

- YTD Trading profit was £5.9m, £2m better than in the prior year. Trading profit was ahead of plan in P3 (£0.9m) and YTD (£2m). However, timing differences, with costs coming in later than planned account for £1.5m YTD.
- Revenue and profit are adverse to plan, by £1.6m YTD, due to the Telco issue. Otherwise revenue was £0.9m adverse in P3 at £72m and £0.2m adverse at £233m YTD.
- Net assets and funding were stable in the month at £226m and £820m respectively.

- **PO Travel app**

- Post Office Travel App launched in June, with c.9000 registered users, and averaging around 500 Travel Money Card links per day. The app is continuing to attract several hundred new customers every day. We will not know full performance impact until we are able to recruit customers online and the Fres app is fully removed later this year – but early signs are good.

- **Simplification**

- We have further simplified the daily 'branch balancing' process, saving agents around 17 minutes a week through reduced printing and streamlining the process. The new approach went live in July and has been well received by postmasters.

- **Branch upgrades**

- Branch Counter hardware deployment continues to target 70 branches a day with 16,500 counters now complete, running at 95%+ success rate; and due to complete September 2018, with a small number of cancelled sites moving into October.

- **Acquisition of Payzone**

- We announced our intention to acquire Payzone's bill payments business. Positive feedback was received from a number of stakeholders, including Nicky Morgan, Chair of the Treasury Select Committee, the Association of Convenience Stores, and the NFSP. Importantly, British Gas have delayed their tender by 12 months. Our communications plan worked as intended, flagging the bid as a notable development, but without fanfare, which might otherwise have detracted from the CMA approval process. We are responding to questions from the CMA, who are data gathering pre-notification.

- **June Board Awayday**

- Thank you for your participation in our recent Board Awayday. Your challenge and feedback were appreciated by the teams that took part; we will update you via board reports and discussions as usual.

- **Mails**

- Post Office YTD Mails performance is on budget with volumes slightly up YOY. The key areas of growth are Returns +33% and Local Collect +27%.

- **Ofcom complaints report**

- Telecoms quarterly complaints report published by Ofcom (Jan-Mar 18), published record low levels of 12 per 100k customers, this was 21 in the previous quarter. The improvement is a result of more focused and data-led complaints handling. (Reported stats may worsen next quarter as a result of price rises and Galaxy but we hope the new process will prevent a return to previous high levels.)

WHAT HAS NOT GONE WELL?

- **IT issues**

- There were several major incidents during June across the IT estate, impacting Back Office, Contact Centres and the branch network. All impacted suppliers are working on service remediation plans, most notably Verizon. I met with George Fischer, Verizon's Group President, to discuss a better way forward and a working plan with stronger commitment and improvement from them. We continue to consider alternative strategies, should they prove necessary.
- The weekly call with the FJ Group CEO has now moved to fortnightly, we are close to signing Everest; our next step is to improve ways of working and increase pace (on their side).

- **Travel Money**

- Our overall travel money performance continues to be under pressure, showing a 9% YOY decline in aggregate at this early point of the summer campaign; travel money online (TMO) is +50% YOY but is still a relatively small channel. Overall our income gap to budget is £0.3m YTD as the retail decline had been anticipated.
- Key challenges relate to TMO where we had an aspirational YOY target increase of 24%. Our actual TMO sales although well above last year, are c30% behind budget YTD; we have recently implemented improved pricing to compete harder with the supermarkets. The potential impact of the TMO (and lower in branch travel money card sales) across the full year would be c£1.2m in gross income.
- There is strong anecdotal evidence that our performance trends are in line with the market - for example, we understand that Travelex's key clients are seeing a similar pattern. Recent updates from the larger tour operators indicate that they are struggling to shift inventory with both TUI and Thomas Cook announcing discounts on a high volume of late holiday bookings and many domestic operators like Parkdean reporting record occupancy levels. We are continuing to work closely with FRES on mitigating strategies.

- **Retail underperformance**

- Retail revenue was -£0.7m adverse driven by POCa revenue (-£0.4m), due to slower than expected decline in the number of active accounts (fewer accounts trigger a higher payment threshold). In addition, below budget ATM volumes /availability (-£0.2m) and Payment Services timing (-£0.2m),

however these were partially offset by increased banking services volumes (£0.1m).

Looking Ahead

FUTURE FOCUS

• Government Affairs

- Kelly Tolhurst MP has been appointed as Parliamentary Under-Secretary of State at the Department for Business, Energy and Industrial Strategy, and is likely to take on the Postal Affairs brief. Previously she was PPS to Greg Clark when he was Business Secretary. Once officially confirmed, a full induction to the Post Office will commence.
- The BEIS Partner Organisations forum was held earlier this month, jointly hosted by the Permanent Secretary and the Secretary of State. We discussed Brexit, big data, and progress on diversity and inclusion. Brexit dominated. I will update at the meeting.
- I met Lord Gardiner, Parliamentary Under Secretary for Rural Affairs, about proactive management of our rural network (opening and closing branches to manage changing customer demands). It was a productive meeting; he is very supportive of Post Office and the contribution we make to rural communities. But he is keen we maintain absolute numbers in rural areas. (This is not always easy; Payzone may bring some relief.)

• IT future plans

- We continue to improve our risk position with successful completion of a Disaster Recovery Exercise carried out at ComputaCenter's Data Centre, which proved we can recover all CC's IT Services (vital services such as Active Directories, Office365, email, SharePoint).
- The Security Operations Centre (SOC) has begun receiving log sources from all partners (Fujitsu, Computer Centre, Verizon, Accenture). These initial log sources are being tested and reviewed. As a result, our Security Operations Centre will now receive automatic feeds relating to all security events (e.g. unusual firewall behaviour) from FJ, CC, Verizon and Accenture systems, which will ensure we are aware of any security issues in our estate from earlier, enabling us to take quicker remedial action if required.
- Post Office continues to progress the in-sourcing of our IT Supply Chain management from Atos, which will enable us to take on the relationship with suppliers for performance, security and escalation management. As demonstrated to the Board, Post Office is standing up a central 'Service Now' platform, to enable end user self-service which will be rolled out in Q3.

• Lottery – new IT roll out

- We have started the next phase of IT development, showcased to the Board at the Away Day. This will deliver Lottery Direct Settlement through retailers' tills by the end of October, replacing the current, flawed process. This work will protect £4.1m of at-risk EBITDAS. Initial feedback from McColls and Co-op, the largest multiples, has been positive. This work is being delivered by a joint Retail-IT-Fujitsu team using agile methodology – we will update the Board in September on this approach more broadly.

- **Telecoms**

- The PWC Audit of Telecoms Accounting Phase 2 work has commenced to ensure that all Telecoms financial reporting is accurate and fit for purpose. The Fujitsu accruals reporting issue created a £5.1m challenge to our 2018/19 and we will continue to work on options to close that risk. (Additionally, whilst we don't anticipate any further issues of this nature, the CFOO will review commercial control metrics for other product reporting areas this year.)

- **Peregrine**

- BoI Group has now appointed a lead negotiator from their Dublin team who will be based in London to drive the negotiations from their side. They are still reviewing advisory options but are likely to appoint Deutsche Bank shortly (their advisors in the run up to their recent Investor Day). They have now established an internal steering group for Peregrine, reporting into the group board. Given BoI's previous tendency to stretch out negotiations, we have advised them that we need to have made significant progress by the time of the Post Office Board meeting in September and to have reached final heads of terms well before the end of the calendar year, assuming satisfactory agreement.
- Fenchurch will be acting as our advisors.
- It is not clear at this stage whether the move to control the negotiations from Dublin will effectively restart the whole process, but we have already reiterated to the new negotiating team that our fundamental commercial requirements - resolution on FRES costs, a significant reduction in exclusivity and a genuine share of value between the two parties - remain unchanged.

- **PO Insurance**

- Planning is now well underway to deliver the strategic initiatives set out at the Post Office Board Awayday. KPMG have been appointed as specialist advisors on the potential TI acquisition.

- **Royal Mail**

- Tim and I had dinner with Peter Long, Chairman, and Rico Bank, Group Chief Executive of Royal Mail last month. It was a positive meeting, however with the recent management changes, more discussion is needed. Debbie and I met with Sue Whalley, CEO of Post and Parcels in June, we have a follow up meeting scheduled in August.

- **Identity Services – International Driving permits**

- As you may have seen in the press last week in the context of coverage on Brexit contingency planning, the DVLA have asked us to take on sole responsibility for issuing International Driving Permits (IDPs) in the UK from February 2019. We already offer the service in 100 branches (as a sub-contractor to the AA), issuing around 100,000 IDPs a year. Under the new arrangement we would take on full responsibility for the service across branch, digital and postal channels, displacing the AA and RAC.
- While financially the contract is insignificant based on current volumes (generating c£200k net income pa), taking on full responsibility for IDPs strengthens our relationship with the DVLA (providing leverage for forthcoming negotiations to extend our vehicle tax and driving licence services), and

reinforces our combined digital identity and travel proposition, alongside passports, travel money & insurance.

- In the event that no new agreement is reached between the UK and EU countries post Brexit to continue the reciprocal recognition of driving licences, demand for the service could increase significantly. At the maximum end this could result in 7 million annual transactions for the Post Office in a 'hard Brexit' scenario.
- To cope with this potential additional demand in the first phase we will extend the service to around 2,500 branches, but with the option to increase to over 4,000 if that proves necessary. No new branch hardware is required, and no changes are planned to Horizon.

• **Identity Services – other updates**

- Development work is continuing with Gemalto and Accenture in preparation for the launch of our new passport Digital Check & Send service, with roll-out across the 730 AEI branches expected during September and October. The delay in launch was required to incorporate further changes to the customer journey requested by the Passport Office (HMPO) and to correct an issue with Gemalto's initial software release which caused temporary disruption to our existing UKVI and DVLA services.
- Our GOV.UK Verify service has continued to trade strongly in 2018/19, with our market share increasing to over 50%, generating 50k customer acquisitions per month and £3.4m of profit contribution by the end of week 17. We are running targeted social media advertising to raise awareness of the Post Office service for relevant demographic groups throughout the year, starting with Universal Credit customers.
- Work is continuing to develop the commercial proposition for digital identity beyond government. Prototyping of the new product is underway, linking to the Post Office's travel range (passports, money and insurance) and enabling individuals to prove their age or identity in a retail environment (including Post Office and Payzone branches) or on a peer-to-peer basis. Martin Edwards will be in touch to demonstrate the prototype to Board members and discuss our latest plans for developing the external market; we will liaise with your offices to schedule these sessions over the summer.

• **Christmas planning**

- Our Christmas planning has started in earnest – we've introduced a "familiarisation day" to support all colleague in advance of going out to work in branches in December. The idea is to ensure all colleagues are made aware of new products, offers, regulations and the ever changing branch environment ahead of spending supporting branches during our busiest time of year; and to listen to customer feedback in a less pressured context.

• **Improving financial controls**

- As part of our continued efforts to improve our financial controls for change activity, we have reviewed financial tolerances applied to approved business cases. For Board approved business cases, work will continue unless we forecast:
 - a 10% or more increase in cost
 - a 15% or more reduction in Net Present Value (NPV)In such instances we would seek Board re-approval.

- **Personnel changes**

- Mo Kang officially starts on 3rd August as Group HR Director, replacing Martin Kirke.

RISKS OR CONCERNS?

- **Postmaster Litigation**

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

June 2018 (P3) - Performance

Author: Micheal Passmore

Sponsor: Alisdair Cameron

Meeting date: 31 July 2018

Executive Summary

Context

At the end of P2, trading profit was £7.1m, £1.1m ahead of plan. Funding headroom was £147m.

The P3 plan had revenue of £73.4m and a trading loss of £2.1m, giving a YTD trading profit of £3.9m.

Questions this paper addresses

1. What is the financial performance in P3?
2. What are the key areas for over and underperformance against budget?
3. Does the performance highlight any concerns over future delivery?

Conclusions

P3 revenue was £72.0m, £1.4m adverse to plan in the month, £1.8m adverse YTD.

P3 trading resulted in a loss of £1.3m, £0.9m better than plan. YTD trading profit of £5.9m is £2.0m ahead of plan.

Compared to the prior year, YTD revenue is £2.5m up at £232.5m and trading profit is £4.4m up at £5.9m.

Variances to plan include the impact of the telephony error in the budget, reducing revenue and trading profit by £0.5m in P3 and £1.6m YTD.

Costs were £2.1m better than plan YTD. However, £1.6m represents timing differences that are expected to reverse.

In trading, two significant trends are expected to be temporary. Verify is trading £0.6m ahead of plan YTD but Government is assessing a reduction in fee rates. POCA is trading £1m below plan YTD but we expect account number reductions to trigger a contractual rate increase from P4.

Underlying, Travel Money and Moneygram are trading below plan by £0.8m YTD, £0.4m in the month. We expect these trends to continue and are in discussions with FRES about online volumes. The underlying Telco business is behind on customer numbers and Average Revenue Per User (ARPU) showing a £0.3m gap in P3.

Performance focus is on travel, agreeing a new plan for telephony, remediating some challenges in the full year IT costs forecast and ensuring that we get the right cost trajectory into next year.

Balance sheet headroom in P3 was £162m above the minimum target of £200m, an increase of £15m.

Network numbers (May) were 11,608, being 108 above the commitment and an increase of 60 compared to year end.

YTD Change spend (Capex and Exceptional) was £42.7m, £21.3m behind budget due to delays in project mobilisations. This will not have an impact on in-year benefits from major projects and is the subject of a Q1 report to the Board.

Input sought

The Board is asked to note the financial performance and agree on the Scorecard/KPIs proposal for 2018/19.

The Report

Period 3 Financial Performance

£m	Period 3				Year to Date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Retail	41.5	42.2	(0.7)	-4%	135.3	136.0	(0.7)	-1%
FS&T (incl. Insurance)	24.8	25.6	(0.8)	2%	79.1	79.5	(0.4)	5%
Telco overstatement	0.0	0.5	(0.5)	n/a	0.0	1.6	(1.6)	n/a
Identity	4.7	4.1	0.6	14%	14.9	13.7	1.2	5%
Supply Chain/Other	1.0	1.0	(0.0)	-2%	3.2	3.4	(0.2)	-8%
Total Revenue	72.0	73.4	(1.4)	-1%	232.5	234.3	(1.8)	1%
Cost Of Sales	(10.4)	(10.1)	(0.2)	20%	(31.1)	(31.0)	(0.1)	9%
Net Income	61.6	63.2	(1.6)	-4%	201.4	203.3	(1.9)	0%
Agents Pay	(27.5)	(28.1)	0.6	-5%	(87.3)	(89.2)	1.9	-5%
Staff Cost	(14.6)	(14.8)	0.2	-5%	(45.7)	(45.7)	(0.0)	-1%
Non staff Cost	(24.7)	(26.1)	1.4	11%	(74.2)	(76.2)	2.1	4%
FRES	2.9	2.6	0.3	30%	8.3	8.5	(0.2)	0%
Other Income	1.0	1.0	(0.0)	n/a	3.3	3.1	0.2	n/a
Trading Profit	(1.3)	(2.1)	0.9	n/a	5.9	3.9	2.0	n/a
Network Subsidy Payment	4.6	4.6	0.0	-14%	15.0	15.0	0.0	-14%
EBITDA	3.4	2.5	0.9	-38%	20.9	18.9	2.0	10%
Depreciation	(4.8)	(4.6)	(0.3)	n/a	(17.2)	(13.5)	(3.7)	n/a
Interest	(0.5)	(0.5)	0.0	n/a	(1.9)	(1.6)	(0.3)	n/a
Change Spend	(6.4)	(5.1)	(1.3)	52%	(17.0)	(24.0)	7.0	24%
Investment Funding	11.7	10.8	0.9	100%	35.0	35.0	0.0	100%
Profit On Asset Sale	0.4	0.0	0.4	n/a	0.8	0.0	0.8	148%
Profit Before Tax	3.7	3.0	0.7	-52%	20.6	14.8	5.8	-9%

Summary P3 Performance Overview

- Retail revenue** was **-£0.7m** adverse and **trading profit** performance was **+£0.5m** better than the budget in the period. Adverse revenue performance was driven by POCa revenue (-£0.4m), due to budgeted volume assumptions being lower than actual volumes. The lower volume (<1m) would have triggered a higher unit price, now expected to crystallise in P4. In addition, revenue was affected by below budget ATM volumes and availability rates (-£0.2m) and Payment Services timing (-£0.2m), partially offset by increased banking services volumes (£0.1m). Trading profit over-performance was predominantly driven by agents' pay costs which have moved in line with revenue and delay in project opex spend (£0.5m).
- FS&T (incl. PO Insurance and excl. Telco overstatement) revenue** performance was **-£0.8m** adverse, predominantly being driven by reduced underlying Telco revenue (-£0.3m), lower Moneygram transaction values (-£0.2m) and PO Insurance Travel and Over 50s Life (-£0.3m). **Trading profit** performance was **-£1.0m** adverse due to a catch up of marketing spend in the period (£0.6m).
- Identity revenue** performance was **+£0.6m** favourable and **trading profit** performance was **+£0.7m** favourable to budget, continuing the positive trend in P1 and P2. The in-month over performance in revenue was driven by Home Office & Verify. YTD revenue is 9% up on budget and 5% up YoY.
- Operating Expenses** (Staff costs and Non-Staff costs) were £39.3m, **£1.6m** favourable to budget, see analysis in note 8.
- FRES** income was **+£0.3m** favourable due to budget timing differences.
- Trading profit** is £2.0m favourable YTD of which £1.6m relates to timing.
- Profit before tax** is **+£0.7m** favourable to budget, delivering £3.7m to bottom line. This positive variance is mainly driven by underspend in exceptional change spend.

Staff costs and non-staff costs (Operating Expenses)

	Period 3				YTD			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Retail	8.8	9.6	0.8	1%	28.2	29.0	0.8	(7%)
FS&T	5.6	4.7	(1.0)	(16%)	14.6	14.1	(0.6)	(14%)
PO Insurance	2.3	2.7	0.3	(26%)	6.6	7.4	0.8	(17%)
Identity	0.6	0.8	0.2	(5%)	1.6	2.1	0.5	0%
F&O	9.8	9.8	(0.1)	10%	30.1	30.5	0.4	10%
IT	8.1	8.4	0.3	2%	25.3	25.7	0.4	8%
HR	2.0	2.1	0.1	1%	5.8	6.1	0.2	(5%)
LRG	0.4	1.0	0.6	48%	2.4	2.7	0.3	(25%)
Communications	0.4	0.7	0.3	(67%)	1.6	1.6	(0.0)	(14%)
Central	1.2	1.2	(0.0)	(101%)	3.2	2.6	(0.6)	(19%)
SPO	0.0	0.0	(0.0)	(47%)	0.3	0.0	(0.3)	(58%)
TOTAL	39.3	40.9	1.6	(4%)	119.8	121.9	2.0	(2%)

8. Operating Expenses were £1.6m favourable in month and £2.0m YTD. £1.6m of YTD variance is timing related. In period variances are driven by FS&T (-£1.0m) predominantly from catch up of marketing spend, IT (£0.3m) benefiting from BT service credit and LRG (£0.6m) mainly due to the phasing of mystery shopper as noted in P2.

Balance Sheet & Cash Position

£m	Period 3	Period 2	Movement	Movement %
Fixed Assets	497	490	7	1%
Debtors	343	381	(38)	-10%
Cash	586	619	(33)	-5%
Creditors	(567)	(619)	52	-8%
Pension Surplus	3	3	0	0%
Provisions	(57)	(60)	3	-4%
Other	10	10	(0)	-1%
Loan	(588)	(603)	15	-2%
Net Assets / (Liabilities)	226	221	5	2%

Net Funding Position

£m	Period 3	Period 2	Movement	Movement %
Government Loan	(588)	(603)	15	-2%
Demonetisation - NCS	(234)	(209)	(25)	12%
Cash at Bank - POL	3	2	1	37%
Net Funding Position	(820)	(811)	(9)	1%

9. P3 cash and client debtor balances have returned to normal level after the May bank holidays. Prior year P3 balance was £221m higher, indicating increased effort over last 12 months to reduce the cash in network. However, this has not resulted in as great a reduction in borrowing because last year we received Government investment funding and network subsidy on day one.
10. Balance sheet headroom of £162m, £35m increase from P12 and £46m up on prior year P3.

Balance Sheet Headroom

£m	Period 3	Period 2	Movement	Movement %
Government Loan - Available Amount	950	950	-	0%
Government Loan - Drawn Amount	(588)	(603)	15	-2%
Headroom	362	347	15	4%
Target Minimum Headroom	200	200	-	0%
Headroom Above/(Below) Target	162	147	15	10%

Security Headroom

£m	Period 3	Period 2	Movement	Movement %
Network Cash	564	604	(40)	-7%
Cash at Bank - POL *	2	2	(0)	-16%
Client Debtors	134	173	(39)	-23%
Trade & Other Debtors - Business Debtors	193	189	4	2%
Total Security	892	967	(75)	-8%
Government Loan	(588)	(603)	15	-2%
Santander	(101)	(105)	3	-3%
Total Obligations	(689)	(708)	18	-3%
Headroom	203	259	(57)	-22%

Scorecard

Post Office Business Scorecard - FY18/19

Key Performance Indicators	Period 3					Year to Date				Full Year	
	Measures	BU	Actual	Target	Var	RAG	Actual	Target	Var	RAG	Target FY18/19
Deliver Profit											
Total Gross Income (excl NSP) £m	AI	72.0	73.4	(1.4)	●	232.5	234.3	(1.8)	●	965.1	
Trading Profit £m	AI	(1.3)	(2.1)	0.9	●	5.9	3.9	2.0	●	50.0	
Headroom £m (vs Board minimum limit)	AI					362	200	162	●	> £200m	
Change benefit delivery £m (WIP)	AI	3.0	3.7	(0.6)	●	7.9	8.2	(0.3)	●	40.2	
Mails - Total Labels Volume m	Retail	20.0	20.0	0.0	●	65.0	65.6	(0.6)	●	275.1	
Mails - Home Shopping Returns Volume m	Retail	3.8	3.4	0.4	●	11.6	10.5	1.1	●	46.0	
Banking Volume (m)	Retail	10.2	9.7	0.5	●	31.8	32.1	(0.3)	●	1301.5	
Closing Telecoms Customer Base (#)	FS&T	499,367	504,617	(5,250)	●					494,823	
Grow our Network - Customer											
Number of Branches (mth in arrears)	Retail	11,608	11,500	108	●					11,500	
Branch Availability	Retail	TBC	TBC			TBC	TBC			TBC	
Become the Partner of Choice - Customer											
Overall IT Supplier SLA Achievement (mth in arrears)	IT	95.5%	99.0%	(3.5%)	●	96.7%	99.0%	(2.3%)	●	99%	
Digital Innovation - Customer											
Trading income from customer Hub (£m)	FS&T	0	0	0	●	0	0	0	●	TBC	
# of Registered customers on app	FS&T	0	0	0	●	0	0	0	●	TBC	
# of website visits	AI	5,421,683	5,887,421	(465,738)	●	16,563,398	15,798,315	765,083	●	64,387,840	
Website Conversion ratio	AI	3.2%	3.2%	0.0%	●	3.2%	3.2%	0.0%	●	3.2%	
Care for our People											
Line Manager Index ¹	AI					69%	62%	7%	●	62%	
Female Representation in Senior Roles (3a & above) ²	AI					39.4%	40.4%	(1.0%)	●	43.0%	
BAME Representation in Senior Roles (3a & above) ³	AI					8.6%	8.8%	(0.2%)	●	11.1%	
Senior Vacancies filled by Internal Talent	AI	54.5%	50.0%	4.5%	●	48.6%	50.0%	(1.4%)	●	50.0%	
Absence	AI	3.1%	3.3%	0.2%	●	3.3%	3.3%	0.0%	●	3.3%	
Safety LTIFR	F&O	0.000	0.200	0.200	●	0.142	0.200	0.058	●	0.200	

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

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

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

Become the Partner of Choice - Customer

11. This measures overall IT supplier SLA achievement; 10 failed SLA's noted in May. Of these 6 relate to Gemalto for phone calls not being answered within 20 seconds and restoration of service not within agreed timeframe. Other failures noted are call abandonments (ATOS), timeliness of service catalogue requests (Computacenter) and incident resolution (Verizon). All failures have a return to green action.

Digital Innovation - Customer

12. For the number of website visits full year assumption we have extrapolated run rate based on current performance. We are projecting 64m web visits and 3.2% conversion for FY2018/19. This sees us delivering lower traffic vs prior year (70k), however we are driving better quality traffic which is demonstrated in the stronger YoY conversion (up from 2.4%).

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POST OFFICE

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APPENDICES

Appendices

1. Retail
2. Financial Services & Telecoms
3. Identity Services

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1. Retail

	Actual				Budget				Variance				RAG			
	Actual	Budget	Variance	RAG	Actual	Budget	Variance	RAG	Actual	Budget	Variance	RAG	Actual	Budget	Variance	RAG
Mails - Priority Volume m	2.9	3.0	(0.1)	●	9.4	9.6	(0.2)	●	39.5							
Mails - Total Labels Volume m	20.0	20.0	0.0	●	65.0	65.6	(0.6)	●	275.1							
Mails - Click & Collect Volume m	0.3	0.2	0.1	●	0.9	0.8	0.1	●	4.1							
Mails - Home Shopping Returns Volume m	3.8	3.4	0.4	●	11.6	10.5	1.1	●	46.0							
Banking All Transactions Volume m	10.2	9.7	0.5	●	31.8	32.1	(0.3)	●	1,301.5							
Payments Volume m	TBC	TBC			TBC	TBC			TBC							
No. of Horizon Customer Sessions	40.0	TBC			130	TBC			TBC							
No. of Retail Transactions per session	1.7	TBC			TBC	TBC			TBC							
Ease of Doing Business with (Effort)	83.1%	82.0%	1.1%	●	82.3%	82.0%	0.3%	●	82.0%							
Customer Drivers	86.9%	TBC			86.6%	TBC			TBC							
No. Complaints	2,284	TBC			5,234.0	TBC			TBC							
Number of Branches (mth in arrears)	11,607	11,500	107	●					11,500							
FS&T Referrals	TBC	TBC			TBC	TBC			TBC							
NNL Builds	10	19	(9)	●	83	93	(10)	●	0							
Branch standards - Losses Identified in Audit	0.7	TBC			1.2	TBC			TBC							
Branch standards - Quality of Branch Environment	0.0	0.0	0.0	●	0.0	0.0	0.0		0.0							
Branch Availability	TBC	TBC			TBC	TBC			TBC							
Churn - resignations	3	TBC			5	TBC			TBC							
Postmaster Engagement	0.0	0.0	0.0	●	0.0	0.0	0.0		0.0							

Em	Period 3				Year to Date				Full Year		
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY	Budget	FY17/18	YoY
Mails Trading	20.8	20.7	0.0	5%	67.0	67.4	(0.4)	4%	289.1	274.1	5%
Mailwork	0.8	0.8	(0.0)	-17%	2.5	2.5	(0.0)	0%	10.0	10.0	0%
RM Annual Fee	3.6	3.5	0.1	-7%	11.6	11.2	0.4	-7%	45.8	49.8	-8%
Gift Cards	0.3	0.4	(0.1)	11%	0.9	1.0	(0.1)	9%	6.6	5.9	11%
Lottery	2.3	2.1	0.2	-5%	7.6	6.8	0.8	-6%	27.8	31.2	-11%
POCa	2.4	2.8	(0.4)	-36%	7.1	8.1	(1.0)	-35%	29.7	40.3	-26%
Payment Services	1.6	1.9	(0.2)	-21%	6.2	6.2	0.0	-9%	26.8	27.1	-1%
ATMs	2.2	2.4	(0.2)	-9%	7.3	7.8	(0.5)	-7%	31.2	30.0	4%
Banking Services	7.4	7.2	0.1	1%	24.1	23.9	0.2	14%	97.0	87.8	10%
Other Retail	0.2	0.3	(0.1)	-61%	0.9	1.0	(0.1)	-52%	4.7	7.3	-37%
Total Revenue	41.5	42.2	(0.7)	-4%	135.3	136.0	(0.7)	-1%	568.6	563.5	1%
Cost Of Sales	(1.9)	(1.9)	(0.0)	-5%	(5.4)	(5.5)	0.2	-22%	(20.6)	(25.9)	-20%
Net Income	39.5	40.3	(0.7)	-4%	129.9	130.5	(0.6)	0%	547.9	537.6	2%
Agents Pay	(23.3)	(23.7)	0.4	-20%	(74.6)	(75.5)	0.9	-18%	(314.6)	(372.6)	-16%
Staff Cost	(5.9)	(5.9)	(0.0)	-9%	(19.1)	(19.2)	0.1	-7%	(74.2)	(83.1)	-11%
Non staff Cost	(2.9)	(3.7)	0.8	21%	(9.1)	(9.8)	0.7	59%	(42.9)	(30.1)	42%
Other Income *	1.0	1.0	(0.0)	n/a	3.3	3.1	0.2	n/a	12.0	5.3	126%
Trading Profit	8.5	8.0	0.5	129%	30.4	29.1	1.3	127%	128.2	57.1	124%

13. Mails performance was in line with budget for P3. Home Shopping Returns continues strong performance in P3 with 29% YoY growth and 6% ahead of budget driven by market growth in this area. This is offset by International Priority and Standard being adverse to budget due to reduced YoY trading volumes.
14. POCa was £0.4m adverse due to budget vs. actual volumes. Contract with DWP has tiered pricing – as number of active accounts reduce, the unit price increases. Budget assumed that we would be less than 1m accounts by P2, triggering higher unit price, however we have remained higher than 1m threshold and expect this to be the case until P4. Based on current trajectory, P2 and P3 downsides are expected to be recovered over the full year.
15. Payment services was £0.2m adverse in period due to timing of Allpay credit, but remains in line with budget YTD.
16. ATM performance adverse to budget by £0.2m driven by below budget volumes (-0.7m) and availability rates 2.0% below budget for the month at 94.0%. YoY reduction in volumes of 4% which is consistent with market decline. A series of initiatives are in flight to lift availability performance across the estate.
17. Agents Pay was (£0.4m) favourable mainly due to lower trading income.
18. Operating expenses are favourable to budget predominantly due to timing delays on project spend.

* POCa Revenue for previous year has been adjusted to reflect the change of accounting treatment and make revenue figures like for like comparable

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2. Financial Services & Telecoms (incl. PO Insurance)

	Period 3				Year to Date				Full Year
	Actual	Budget	Variance	RAG	Actual	Budget	Variance	RAG	Budget
Value of Mortgage Applications (£m)	125	205	(80)	●	358	519	(161)	●	3,050
Value of Mortgage Completions (£m)	57	144	(87)	●	188	363	(176)	●	2,135
Total value of Savings balances (£m)	13,857	13,900	(43)	●	13,857	13,900	(43)	●	TBC
Number of new Credit Card applications	4,880	7,044	(2,164)	●	13,248	22,892	(9,644)	●	91,568
Credit Card application accept rate	69%	58%	12%	●	70%	58%	13%	●	58%
Number of new Loan applications	6,342	5,404	938	●	20,952	17,564	3,388	●	71,608
Loan application accept rate	62%	58%	5%	●	61%	58%	4%	●	58%
Travel Money On Demand sales transaction volume	TBC	TBC			TBC	TBC			7,016
Travel Money On Demand sales transaction ATV	278	266	12	●	271	266	5	●	266
Number of MoneyGram Send transactions	218,890	210,204	8,686	●	501,238	484,938	16,300	●	2,895,484
Closing Telecoms Customer Base (#)	499,367	504,617	(5,250)	●	499,367	504,617	(5,250)	●	494,823
Telecoms ARPU	25.01	26.49	(1.48)	●	25.01	26.49	(1.48)	●	27.10
Telecoms Customer Churn	(1.5)%	(1.4)%	(0.1)%	●	(5.4)%	(4.5)%	(0.9)%	●	(17.8)%
Net Telecoms customer additions	(1,855)	1,965	(3,820)	●	(7,548)	5,204	(12,752)	●	(4,590)
Net Promotor Score (Telecoms)	TBC	TBC			TBC	TBC			TBC
Number of Postal Orders sold	220,800	221,065	(265)	●	736,310	742,945	(6,635)	●	2,800,000
Policies Sold: Post cooling off period (k)	110	110	0	●	292	273	19	●	997
Policies Renewed (k)	23	23	0	●	72	72	0	●	275
Policies In-Force "live" (k)	695	695	0	●	696	695	1	●	684
Net Promotor Score (Post Office Insurance)	36	36	0	●	36	36	0	●	36

	Period 3				Year to Date				Full Year		
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY	Budget	FY17/18	
PO Money (Savings, Loans)	3.3	3.2	0.1	-14%	10.6	10.4	0.2	-5%	42.9	57.9	-26%
Travel Money	2.5	2.7	(0.2)	8%	7.3	7.8	(0.6)	10%	30.9	28.1	10%
MoneyGram	1.8	2.0	(0.2)	-19%	6.0	6.3	(0.2)	-12%	25.5	25.9	-2%
Telephony	11.6	11.8	(0.3)	10%	37.6	37.9	(0.3)	9%	160.1	152.0	9%
Telephony Overstatement	0.0	0.5	(0.5)	n/a	0.0	1.6	(1.6)	n/a	5.0	0.0	n/a
Postal Orders	1.0	0.9	0.1	-14%	3.3	3.0	0.3	-15%	12.3	14.7	-16%
Insurance	4.6	4.9	(0.3)	9%	14.3	14.2	0.1	16%	57.9	47.8	21%
Total Revenue	24.8	26.1	(1.3)	-2%	79.1	81.1	(2.0)	5%	334.7	325.3	3%
Cost Of Sales	(7.9)	(7.8)	(0.1)	24%	(24.2)	(24.2)	0.0	17%	(101.6)	(91.6)	11%
Net Income	16.9	18.3	(1.4)	-6%	54.9	56.9	(2.0)	1%	233.1	233.8	0%
Agents Pay	(3.4)	(3.8)	0.2	n/a	(9.9)	(10.9)	1.0	n/a	(43.8)	(0.0)	n/a
Staff Cost	(1.4)	(1.5)	0.0	30%	(4.0)	(4.2)	0.2	0%	(17.0)	(17.8)	-3%
Non staff Cost	(6.5)	(5.9)	(0.7)	23%	(17.2)	(17.3)	0.1	23%	(67.3)	(61.1)	10%
FRES	2.9	2.6	0.3	30%	8.3	8.5	(0.2)	0%	33.8	34.4	-2%
Trading Profit	8.4	9.9	(1.5)	-39%	32.1	33.0	(0.9)	-28%	138.8	189.4	-27%

- Travel Money is £0.2m behind budget revenue; £0.1m of this is due to Travel Hub revenue not yet realised. Number of transactions on Travel Money Card and Travel Money Online also behind expectation.
- Adverse MoneyGram variance due to volume (-£0.3m) and rate (-£0.1m) with lower rate per transaction than expected. This has been offset by £0.2m true up of P2 invoiced v accrued amount.
- Underlying Telephony revenue adverse variance driven by lower ARPU than budgeted. Underlying YTD ARPU of 24.9 below 25.1 budget. Customer numbers at end of P3 also down on budget by 5,250.
- Insurance income was £0.3m adverse in the period due Travel insurance mix (-£0.2m) with lower branch and phone sales and higher aggregator sales plus lower income per policy all channels. Also reduced Life Over 50s volumes (-£0.1m) to plan reflecting revised phasing of activities.
- Cost of sales impacted by higher aggregator fees for Travel insurance.
- Agents Pay was £0.2m favourable mainly due to lower travel money and MoneyGram sales.
- Operating expenses were £0.7m adverse vs. budget in P3 due to marketing spend catch up; £0.3m favourable YTD due to consultancy spend with expectation to use on Eagle projects throughout the year.
- FRES profit share reflects FRES' actual position.

3. Identity

	Period 3				Year to Date				Full Year
	Actual	Budget	Variance	RAG	Actual	Budget	Variance	RAG	Budget
Paper Passport Volumes	172,703	132,254	40,449	●	600,552	501,540	99,012	●	1,325,118
Paper Passport Market Share	31.3%	28.0%	3.3%	●	30.8%	28.0%	2.8%	●	0
UKVI Volumes	44,528	37,303	7,225	●	136,888	117,996	18,892	●	402,998
Secure Collect Volumes	18,903	16,026	2,877	●	59,304	53,978	5,326	●	301,080
Tax Renewal volumes	570,358	548,449	21,909	●	2,009,162	1,839,998	169,164	●	6,957,814
10yr Renewal Volumes	22,669	29,659	(6,990)	●	72,882	92,144	(19,262)	●	289,504
Service Penalties	25,918	40,000	(14,082)	●	53,779	80,000	(26,221)	●	500,000
LoA2 Volumes	46,539	35,183	11,356	●	146,232	115,549	30,683	●	390,408
LoA2 Market Share	53%	50%	3%	●	53.0%	50.0%	3.0%	●	50.0%
LoA2 Conversion rate	54.2%	55.0%	(0.9%)	●	54.0%	55.0%	(1.0%)	●	55.0%
LoA1 Volumes	4,176	10,331	(6,155)	●	13,434	33,572	(20,138)	●	180,211
LoA1 Market Share	43.0%	40.0%	3.0%	●	38.0%	40.0%	(2.0%)	●	40.0%
LoA1 Conversion rate	72.7%	74.0%	(1.4%)	●	72.0%	74.0%	(2.0%)	●	74.0%
Re-Registration Volumes	3,000	1,200	1,800	●	12,621	3,900	8,721	●	30,790
Services Live	15	20	(5)	●	15	20	(5)	●	20

£m	Period 3				Year to Date				Full Year		
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY	Budget	FY17/18	YoY
Home Office	2.4	2.1	0.2	-15%	7.7	7.2	0.5	-17%	23.1	31.6	-27%
DFT/DLA	0.5	0.5	0.0	-4%	1.7	1.7	(0.0)	-10%	6.2	7.0	-11%
Identity Services	0.5	0.4	0.1	42%	1.3	1.2	0.2	33%	4.4	4.2	4%
Verify	1.3	1.0	0.3	n/a	3.8	3.2	0.6	140%	12.9	9.6	34%
Environment Agency	0.1	0.1	0.0	23%	0.3	0.4	(0.1)	-19%	0.7	0.9	-23%
Total Revenue	4.7	4.1	0.6	14%	14.9	13.7	1.2	5%	47.3	53.3	-11%
Cost Of Sales	(0.5)	(0.4)	(0.1)	142%	(1.5)	(1.3)	(0.2)	92%	(5.1)	(3.6)	40%
Net Income	4.2	3.7	0.5	7%	13.3	12.4	0.9	0%	42.3	49.6	-15%
Agents Pay	(0.8)	(0.8)	(0.0)	n/a	(2.8)	(2.7)	(0.1)	n/a	(8.4)	0.0	n/a
Staff Cost	(0.2)	(0.2)	(0.0)	n/a	(0.5)	(0.5)	0.1	n/a	(2.1)	0.0	n/a
Non staff Cost	(0.4)	(0.7)	0.2	-26%	(1.1)	(1.5)	0.4	-29%	(4.7)	(4.5)	5%
Trading Profit	2.8	2.1	0.7	-16%	8.9	7.7	1.3	-24%	27.0	45.2	-40%

27. Home Office and related services performed £0.2m ahead of Budget in the month, driven by strong performance of the UKVI BRP service, attributed to a Brexit impact of applications being brought forward.
28. Passport revenues are on budget for the month. Although volumes are running 9% higher than budget, overall income is flat, as they are derived wholly from the paper channel which carries a lower fee than digital. YoY, volumes have dropped by 30% and market share has dropped 12% (to 31%) as HMPO Digital Channel volumes continue to grow. PO Digital Check & Send is set to launch in Q3 to address this area.
29. Verify has continued its strong growth, exceeding budget by £0.3m in the month, and £0.6m YTD. YoY volumes have more than doubled, primarily driven by Universal Credit applicants who can now use Verify, and which commands the higher Level of Assurance fee. Post Office continues to be the market leader with 53% market share. Marketing and User Experience activities are being implemented to enhance performance further.
30. Recent discussions with GDS have highlighted Treasury's endorsement for the Verify service, which should help drive volume, but alongside expected downward pressure on price, as the service matures.
31. DVLA revenue is flat, but underlying volumes are up on budget with increased income offset by SLA penalties.
32. Operating Expenses are £0.2m favourable, due to reduced postage costs from more efficient use of supply chain.

Quarterly Delivery Report and Funding Request

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Sponsor: Alisdair Cameron

Meeting date: July 31st, 2018

Executive Summary

Context

As part of the agreed £210m investment funding for 2018-19 and 2019-20, BEIS flagged the need for regular reporting to ensure that plans could be adjusted in the event of under-performance. It was agreed with UKGI that the Board would approve a quarterly progress report enabling draw-down of the next tranche of funding. It was separately agreed that, we would report on network numbers and SGEI delivery.

Questions this paper addresses

1. What was Q1 change portfolio spend and how is that different from the plan?
2. What benefits have been delivered in Q1 and what is the full year expectation?
3. What is the change plan and funding requirement for Q2?

Conclusion

In Q1, we spent £43m out of a budgeted annual spend of £255m.

We delivered Q1 benefits of £7.9m (plan £8.2m) and are forecasting £40.9m of full year benefits against a plan of £40.2m.

The total change spend in Q1 was £22m less than forecast with broadly two components.

- We spent £27m rather than the £35m requested from UKGI because
 - Project Everest (Cloud enablement) and ATOS negotiations have taken longer than expected.
 - Data (Project Arrow) has been paused for a review of the future of the Credence software.
 - Branch kit (EUC) rollout is on track but settlement with the key supplier has been delayed.
 - Identity and Insurance projects were forecasted too optimistically given the need for strategic review and detailed requirements gathering respectively.
- We had carried forward some high level estimates, funded by ourselves, from last year which were not realistically timed. This will not recur.

Project prioritisation and certainty is being assessed over August by Finance and the Strategic Portfolio Office. We will then formally re-plan the annual spend at the end of Q2. However, it seems likely that the total spend in year may be less than £255m. The re-plan will also include a reassessment of future benefits delivery.

We do however expect to spend the £168m Government funding in year, £50m is requested for Q2 to deliver 10 DMB closures, 67 new branch openings, the final rollout of branch kit, the last phase of back office transformation and Insurance system changes. This is net of £8m carried forward from Q1.

Network numbers and SGEI delivery are not yet available for Q1 and will be reported separately.

Input Sought

The Board is asked to note the progress made and approve a request for £50m of Q2 funding from UKGI.

The Report

What was Q1 change portfolio spend and how is that different from the plan?

- In Q1, £43m was spent as change against a £65m budget. However only £8m of this underspend was from UKGI funding. Half of the Q1 underspend is within IT and this was mainly due to delays in contract negotiations and the need to focus on project delivery. Appendix 1 lists the projects in full with commentary in Appendix 2.

£'m	Q1 Plan	Q1 Actual	Variance
Simplify the retailer proposition	£ 16.8	£ 14.8	£ 2.0
Build innovative, flexible and secure IT	£ 23.9	£ 12.8	£ 11.0
Modernise our products and services	£ 17.7	£ 7.9	£ 9.7
Digitise and optimise the business	£ 2.6	£ 1.2	£ 1.4
Modernise our skills, culture, HR policies and processes	£ 3.0	£ 4.1	(1.0)
Regulatory & Group Litigation	£ 1.0	£ 1.8	(0.8)
TOTAL	£ 65.0	£ 42.7	£ 22.3
Of which UKGI funded	£ 35.0	£ 27.4	£ 7.6

- We are constantly re-forecasting our full year outrun. In year benefit-delivering projects are expected to cost £15m more than the budget of 159m.
 - Further franchising DMBs: We are announcing more ambitious plans in July creating an additional need for onerous contract provision costs
 - Back Office Transformation: As discussed at the board, the project is expected to overrun by £4.3m with the delay and October go-live.
- At the same time, we are likely to spend less in year on future-benefit delivering projects. Costs are now expected to decrease to £61m from £76m, mainly driven by:
 - Mails: We are not at a point in the RMG relationship where spent can be triggered.
 - Banking Framework – Future of Cash: More of this spend is likely to be BAU opex, not change.

Overall, we may conclude at end Q2 that we will not spend the whole £255m budget in 2018-19. However, we do expect to spend the investment funding of £168m. We will revert in October with a re-assessment including benefit implication.

What benefits have been delivered in Q1 and what's the current full year benefits expectation?

4. Q1 projects delivered benefit of £7.9m in line with the plan of £8.2m. In year benefits are expected to be delivered broadly in line with the plan.

£'m	Q1 Benefit Actual	Q1 Benefit Plan	2018-19 Plan	2018-19 Reforecast	Q2 Benefit
Simplify the retailer proposition	£ 3.2	£ 3.2	£ 11.8	£ 13.0	£ 2.5
- Further franchising DMBs	£ 1.6	£ 1.6	£ 4.8	£ 6.0	£ 0.6
- Network Expansion	£ 0.4	£ 0.4	£ 2.0	£ 2.0	£ 0.4
- Multi-year Crown Projects	£ 1.2	£ 1.2	£ 4.9	£ 4.9	£ 1.5
- Self Service Kiosk Rollout	-	-	£ 0.1	£ 0.1	-
Build innovative, flexible and secure IT	-	£ 0.1	£ 7.3	£ 7.2	£ 0.5
- Branch Printer Replacement	-	-	£ 0.5	£ 0.5	-
- CDP re-procurement	-	-	£ 0.5	£ 0.5	-
- EUC Branch Deployment	-	-	£ 0.6	£ 0.6	-
- HNGT Lite	-	-	£ 0.9	£ 0.8	-
- PCI/Payments Hub	-	-	£ 0.2	£ 0.2	-
- Project Everest – Cloud enablement	-	£ 0.1	£ 4.0	£ 4.0	£ 0.5
- Project Nelson -Atos Negotiations	-	-	£ 0.5	£ 0.5	-
- Software Asset Management	-	-	£ 0.1	£ 0.1	-
Modernise our products and services	£ 3.9	£ 4.1	£ 17.1	£ 16.9	£ 3.6
- PO Insurance	-	£ 0.1	£ 4.6	£ 4.6	£ 0.7
- Project Galaxy	£ 3.9	£ 3.9	£ 11.6	£ 11.6	£ 2.6
- Falcon – Travel Hub	-	£ 0.1	£ 0.9	£ 0.7	£ 0.3
Digitise and optimise the business	£ 0.9	£ 0.9	£ 3.5	£ 3.5	£ 0.9
- Success Factors Ph1 Completion	£ 0.9	£ 0.9	£ 3.5	£ 3.5	£ 0.9
Modernise our skills, culture, HR policies and processes	-	-	£ 0.5	£ 0.3	-
- Back Office Transformation	-	-	£ 0.5	£ 0.3	-
Total Trading profit impact	£ 7.9	£ 8.2	£ 40.2	£ 40.9	£ 7.4

What is the change plan for Q2?

5. We expect to spend £58m in Q2, excluding any spend on Payzone which is not funded by Government. Net of £8m carried forward, we are requesting £50m drawdown.

£'m	Q2 Forecast	Approval Status	Strategic Stage
Simplify the retailer proposition	£ 24.9		
- Further Franchising DMBs	£ 17.0	√	Execute
- Network Expansion	£ 7.1	√	Execute
- Agents / Postmasters Portal	£ 0.5	√	Execute
- Other smaller projects	£ 0.4	√	Execute
Build innovative, flexible and secure IT	£ 14.1		
- Branch Printer Replacement	£ 2.0	√	Execute
- CDP re-procurement	£ 1.2	√	Execute
- EUC Branch Deployment	£ 3.9	√	Execute
- Project Everest – Cloud enablement	£ 0.4	√	Design
- Project Nelson -Atos Negotiations	£ 1.0	√	Execute
- Risk and Resilience	£ 1.4	√	
- Full Think Client Deployment (Solar Full)	£ 1.9	√	Execute
- Other End-of-life replacements	£ 2.0	√	Execute
- Other Smaller Projects	£ 0.4		
Modernise our products and services	£ 8.0		
- PO Insurance	£ 3.3	√	Design
- Identity Projects	£ 1.7	√	Execute
- Property	£ 1.2	√	
- Falcon – Travel Hub	£ 1.0	√	Execute
- Other smaller projects	£ 0.8	√	Execute
Digitise and optimise the business	£ 2.1		
- Project Arrow	£ 0.3	√	Design
- Success Factors	£ 1.4	√	Execute
- Other smaller projects	£ 0.4	√	Execute
Modernise our skills, culture, HR policies and processes	£ 3.7		
- Back office Transformation	£ 3.7	√	Execute
Regulatory & Group Litigation	£ 4.0		
- GDPR	£ 1.6	√	Execute
- Group Litigation	£ 2.3	√	Execute
Other Small projects	£ 0.9		
Estimated to be delivered in Q3	-		
TOTAL	£ 57.6		
Funding remaining from Q1	(7.6)		
Q2 Funding Request	£ 50.0		

- √ Approval at Gate 2 or beyond, development in progress
 √ Approval at Gate 1, designing the project

POST OFFICE
BOARDPAGE 1 OF 3
APPENDICES

APPENDIX I – Project level spend analysis

£'m	Q1 Plan	Q1 Actual	Variance	RAG
Simplify the retailer proposition	£ 16.8	£ 14.8	£ 2.0	
- Further Franchising DMBs	£ 5.0	£ 4.8	£ 0.2	●
- Network Expansion	£ 7.5	£ 7.3	£ 0.2	●
- Agents / Postmasters Portal	£ 0.6	-	£ 0.6	●
- Automation	£ 1.1	£ 1.2	(0.0)	●
- Other Smaller Projects	£ 2.6	£ 1.6	£ 1.0	
Build innovative, flexible and secure IT	£ 23.9	£ 12.8	£ 11.0	
- Branch Printer Replacement	£ 2.0	£ 2.7	(0.7)	●
- CDP re-procurement	£ 1.9	£ 0.2	£ 1.7	●
- EUC Branch Deployment	£ 6.1	£ 3.8	£ 2.3	●
- Project Everest – Cloud enablement	£ 3.5	£ 1.5	£ 1.9	●
- Project Nelson -Atos Negotiations	£ 1.5	£ 0.1	£ 1.4	●
- Risk and Resilience	£ 3.1	£ 1.9	£ 1.2	●
- Full Thin Client Deployment (Solar Full)	£ 2.3	£ 2.3	(0.1)	●
- Other End-of-life replacements	£ 1.2	-	£ 1.2	●
- Project Trafalgar	£ 1.0	-	£ 1.0	●
- Other Smaller Projects	£ 1.5	£ 0.3	£ 1.1	●
Modernise our products and services	£ 17.7	£ 7.9	£ 9.7	
- PO Insurance	£ 2.3	£ 0.2	£ 2.1	●
- Banking Framework – Future of Cash incl. Vehicles	£ 0.6	-	£ 0.6	●
- Project Galaxy	£ 2.4	£ 2.2	£ 0.2	●
- Mails Projects	£ 2.1	£ 0.3	£ 1.8	●
- Digital Check & Send	£ 1.4	£ 0.4	£ 1.0	●
- Property	£ 1.5	£ 0.1	£ 1.4	●
- Falcon – Travel Hub	£ 1.5	£ 1.3	£ 0.2	●
- Identity Projects	£ 2.2	£ 0.2	£ 2.0	●
- Other Smaller Projects	£ 3.6	£ 3.2	£ 0.4	●
Digitise and optimise the business	£ 2.6	£ 1.2	£ 1.4	
- Project Arrow	£ 1.5	£ 0.2	£ 1.3	●
- Success Factors	£ 0.6	£ 0.3	£ 0.3	●
- Cash Management	£ 0.0	£ 0.3	(0.3)	●
- Other Smaller Projects	£ 0.5	£ 0.4	£ 0.1	●
Modernise our skills, culture, HR policies and processes	£ 3.0	£ 4.1	(1.0)	
- Back office Transformation	£ 3.0	£ 4.1	(1.0)	●
Regulatory & Group Litigation	£ 1.0	£ 1.8	(0.8)	
- GDPR	£ 1.0	£ 1.3	(0.3)	●
- Group Litigation	£ 0.0	£ 0.5	(0.5)	●
TOTAL	£ 65.0	£ 42.7	£ 22.3	
Of which UKGI funded	£ 35.0	£ 27.4	£ 7.6	

Strictly Confidential

APPENDIX II - How major projects have performed in Q1?

Simplify the Retailer Proposition

Network Programmes

Overall, we plan to franchise 28 DMBs this year and open 338 new branches at a cost of £82m, including onerous contract provision. At the end of the Q1, we have franchised 7 DMBs and opened 83 branches and spend £9m.

Agents/Postmasters Portal

The project has been approved by the Investment Committee and shows no actual spend within Q1, a variance of £0.6m vs budget as the focus was on preparation.

Build Innovative, flexible and secure IT

CDP re-procurement

The plan to start deploying new common digital platform (CDP) was expected to be completed in Q2. However agreement on the transition to Amazon Web Services (AWS) caused a delay and is now expected to be completed early Q3.

EUC Branch Deployment

Continued delivery of Branch Technology refresh, with new kit in 15,000 counters out of 27,000 at end of Q1. Lower spend was due to final settlement agreement for completion of HNGA rollout which was assumed to be in Q1. (ca. £2m) Remaining delivery forecast is in line with the original plan.

Project Everest - Cloud Enablement

Development work on Phase 2 (of 9) on transition to cloud. Delay is due to finalisation of cloud enablement business case moving from Q1 to Q2. Spend has been therefore postponed.

Project Nelson

Payments have been negotiated to be milestone driven which delayed the spending. The first milestone is expected to be reached in Q2 and ramp up in spend is expected ahead of September delivery of new support model.

Risk and Resilience

Various projects maintaining service levels within IT. Evenly phased budget due to nature of works, with lower spend than expected seen in Q1 since the focus was given to key benefit delivering projects.

Modernise our Products and Services

Post Office Insurance

Post office insurance projects present an overall underspend of £2.1m mainly attributable to delays in various projects:

- CVM (Building cross sell and upsell functionality) and Pricing tool (Travel Ins and General Ins Pricing Optimisation) projects due to a deep dive review of the opportunity outcome and a reissue of the RFP to vendors with the objective of increasing the effectiveness of the solution. The end timeline has not changed, expected spend will still occur within a condensed time line.
- Cronus (Duck Creek system changes) delay in commercial negotiations with the implementation partner, Accenture. Run rate in future months expected to be ahead of original plan to catch up the delays incurred.

- Nemesis (Migration of Home insurance to Duck Creek system) due to increased focus on detailed design which has moved the spend phasing back.

Banking Framework – Future of cash

Future of Cash project shows no actual spend within Q1 with a variance of £0.6m against budget. This is due to type of spend classification as in the initial budget the spend was assumed to be capitalisable however YTD all incurred cost has been opex. This change has been reflected in the forecast and corrected for the rest of the year.

Mails Projects

Budget spend will largely be triggered by the outcome of conversations with RMG, creating opportunities or a need for defence spend.

Digital Check & Send

The HMPO Digital Check and Send project was scheduled for Q1 delivery. The project has delivered the design and build of the middleware, the connection between the middleware to HMPO and the connection between middleware and front end. Delivery of the project itself has been pushed back to Q3. Scope changes from Home Office has led to a delay. The impact of the delay has been an increase cost to the project of £0.4m

Property

Property capex projects are generally BAU in nature and are devolved in the background as they consist of small several small projects. The overall impact of these small projects is being quantified and a more accurate spend profile has been reflected in Q2.

Falcon Travel Hub

The Post Office Travel App has been delayed by 6 weeks and launched in June 2018 which has resulted in £0.9m cost increase and £0.2m benefit reduction. Expected revenue is currently tracking behind due to market conditions and less Travel Money Card sales than expected. However to date we have seen 2.5k top-ups via the app with an ATV of £254; and 130 Travel Insurance policies sold through the App. There was a serious technology outage on FRES's side for 3 days in June which prevented any Travel Money Card top-ups. We are also investigating why the ratio of App downloads between the Travel App and FRES App has swayed towards FRES in recent days.

Identity Projects

Identity Projects were postponed to enable a broader approval of the business case which is in progress and therefore resulted in underspending by £1.9m in Q1.

Digitise and optimise the business**Data (Project Arrow)**

The Data project, covering strategy, governance and delivery, has been passed pending the IT team agreeing the future of Credence.

Modernise our skills, culture, HR policies and processes**Back Office Systems Transformation**

Continued progress on replacement of POLSAP. The budget plan was June completion however due delays in the project, the current plan is to be completed towards Q3 which resulted to a £4.3m increased costs and reduction of in year benefit by £0.2m.

Retail CE's Report – July 2018

Author: Cathy Mayor Sponsor: Debbie Smith

Meeting date: July 2018

Executive Summary

Context

The Period 3 Retail Commercial Performance Report for the Board.

Questions this paper addresses

1. How are our sales and revenues performing against our targets and prior year?
2. What are the implications for our outlook and plans?
3. Competitor Information.

Conclusion

1. Retail has started the year well, restricting year on year income decline to -2%, just under Income budget (-£0.7m) and ahead on profit by £1.3m. Further upside to profit budget is anticipated.
2. Network customer sessions have been stable throughout the quarter at 10.2m sessions per week.
3. Customer service levels have continued to improve through the quarter across the network driven by the focus on customer drivers. Year on year P3 Effort improved +4% to 84.9% and the new Customer Driver score average is 88.6%.
4. In Mails, underlying trends continue with strong volume growth in Home Shopping Returns and premium services (Special Delivery) offsetting systemic decline in stamps.
5. In Banking, volume growth trends continue with withdrawals +6% and deposits +43%.
6. Work on Retail strategy is now switching to planning following the Board's endorsement of approach at the June away day.

Input Sought

For the Board to review and note.

The report

Overview of Financial performance

	Period 3						YTD					
	Actual	Budget	vs Bud	PY	vs PY	YoY	Actual	Budget	vs Bud	PY	vs PY	YoY
Gross Income (£m)												
Mails Annual Fee	4.4	4.3	0.1	4.9	(0.5)	-9%	14.1	13.7	0.4	14.9	(0.8)	-5%
Mails Variable	20.7	20.7	0.0	19.7	1.0	5%	67.0	67.4	(0.4)	64.3	2.7	4%
Banking Services	7.4	7.2	0.1	7.3	0.1	1%	24.1	23.9	0.2	21.2	2.9	14%
ATMs	2.2	2.4	(0.2)	2.4	(0.2)	-9%	7.3	7.8	(0.5)	7.9	(0.6)	-7%
POCA	2.4	2.8	(0.4)	4.0	(1.7)	-41%	7.1	8.1	(1.0)	11.9	(4.8)	-41%
Payment Services	1.6	1.9	(0.2)	2.1	(0.5)	-25%	6.2	6.2	(0.0)	7.0	(0.8)	-11%
Retail & Lottery	2.8	2.9	(0.1)	3.1	(0.4)	-12%	9.4	8.9	0.5	10.8	(1.4)	-13%
Retail Total	41.5	42.2	(0.7)	43.6	(2.1)	-5%	135.3	136.0	(0.7)	138.1	(2.8)	-2%
Retail Profit (£m)												
Mails	11.7	11.1	0.6	11.2	0.5	4%	37.7	36.2	1.5	36.6	1.1	3%
Banking Services	4.5	4.9	(0.4)	5.2	(0.6)	-12%	16.0	16.5	(0.4)	14.7	1.3	9%
ATMs	1.0	1.1	(0.1)	1.1	(0.1)	-7%	3.4	3.8	(0.4)	3.9	(0.5)	-13%
POCA	(0.1)	0.2	(0.3)	0.8	(0.9)	-111%	0.1	0.5	(0.4)	2.0	(1.9)	-94%
Payment Services	(0.3)	(0.3)	0.1	0.1	(0.3)	-440%	0.2	0.1	0.1	1.3	(1.1)	-85%
Retail & Lottery	0.8	1.0	(0.1)	0.8	(0.0)	-1%	3.1	2.7	0.3	3.4	(0.3)	-8%
Retail Total DPC	17.7	17.9	(0.2)	19.2	(1.5)	-8%	60.6	59.8	0.8	61.9	(1.3)	-2%
Fixed Agents Pay	(3.0)	(3.2)	0.2	(3.3)	0.4	12%	(9.3)	(9.3)	0.0	(11.0)	1.7	16%
Network & Sales	(5.6)	(5.6)	(0.0)	(6.2)	0.6	10%	(18.2)	(18.3)	0.1	(19.4)	1.2	6%
Retail Programme Costs	(0.2)	(0.7)	0.5	(0.3)	0.1	38%	(1.5)	(1.7)	0.3	(1.0)	(0.4)	-40%
Retail Central Costs	(0.4)	(0.3)	(0.0)	(0.2)	(0.1)	-57%	(0.8)	(1.0)	0.2	(0.7)	(0.1)	-9%
Retail Profit	8.6	8.1	0.4	9.1	(0.5)	-6%	30.8	29.5	1.3	29.7	1.1	4%

- Retail has started the year well, restricting year on year income decline to -2%, just under Income budget (-£0.7m) and ahead on profit by £1.3m. At this stage the profit upside is predominantly driven by product mix impact on agents pay within mails (lower volumes labels and Signed For) and a successful annual Mail count process generating +£0.4m YTD, with £0.6m of cost timing benefits offsetting adverse Cash & Banking services trading.
- POca is adverse to budget in Q1 due to stronger than anticipated active account volumes impacting the timing of tiered pricing assumptions. Currently close to 1m volume tier threshold below which per unit price increases 23%. The Adverse impact in Q1 is expected to be offset in the remainder of the year assuming the current trajectory of volume decline continues.
- Looking ahead, our view of opportunities outweighs risks with income upside of c£4m and profit upside of c£5m anticipated. The main upsides are from mails, where the team have facilitated an increase of £1.6m in the mail count annual fee through enhanced process management and a further £2.5m is probable once discussions around stamps billing process have concluded.

Market Update

4. The key trends of disruption and consolidation in the Retail sector continued apace this quarter. 'Bricks and mortar' non-food retailing saw a 4.1% sales decline in the quarter to end May 2018 on a like for like basis (Source: BRC/KPMG Sales Monitor), coinciding with a series of major store closure programmes and profit warnings from a host of household brands including M&S and House of Fraser. The convenience sector has continued to see sales growth of 2.7% (Source: IGD Convenience sector review June 18) in the first half of the year but for the first time in 5 years store numbers are flat year on year.
5. Sainsbury and Asda announced their intention to merge and Motor Fuels Group (the largest forecourt retailer in the UK) announced they plan to buy MRH (the second largest). Last month also saw Morrisons re-launch the Safeway brand to strengthen McColls own label range and both Tesco and Co-Op have indicated they will use their own brand to strengthen ranges in the symbol groups they have recently acquired (Booker and Nisa).
6. Hermes lost their case that couriers were independent contractors rather than employees. While significant for all operators with similar employment models, it is particularly material for Hermes, who are expected to appeal. The cost impact of treating all couriers as employees could negate Hermes current profitability (£35m) and/or require a price increase of up to 15p-20p an item. Such an increase would reduce their competitiveness but help raise UK parcel market rates.
7. DP DHL subsidiary UK Mail are expected to take over the Pass my Parcel operation whose closure was announced in June. Full details are not yet known but such a move would strengthen UK Mail's B2C proposition and relationship with Amazon, a major Pass my Parcel client.
8. Collect+ reported a +2% increase in volumes over the last 12 months and continue their aspiration of becoming multi-carrier, although no partnerships have been announced since the launch of this strategy over 18 months ago.
9. DPD have added a parcel send function to their customer app in a bid to attract higher margin consumer and marketplace volume. This is not expected to have a material impact on Post Office volumes but signals the intent and ease with which alternative offers can reach consumers. Other operators are expected to follow.
10. LINK have announced a trial with PayPoint to enable cash withdrawals and deposits over any PP counter. Whilst unlikely to be a robust challenge to our proposition, we are monitoring closely.
11. Bank closures continue apace with c.800 still to close in 2018, and expected new announcements likely to be made in the coming months.

Customers

12. Network customer sessions have been stable throughout the year at 10.2m sessions per week.

KPIs	Source	Current Period (P3)	Prior Period (P2)	Period Change	Prior Year (P3)	Year on Year	YTD	Target
Effort (% saying Post Office is Easy to do business with)	VOC	84.9%	84.6%	+0.3%	80.9%	+4.0%	84.6%	82%
Wait time Acceptability	VOC	96.3%	96.3%	0.0%	94.4%	+1.9%	96.2%	N/A

13. Network Effort has seen continued strong performance. With branches focusing on Drivers we can see the benefit feeding through to the Effort score, +2.6% ahead of target. Wait time acceptability continues its strong performance at 96.2% YTD.

Customer Drivers (CDS) (Measured for the first time this year)

KPIs	Source	Current Period (P3)	Prior Period (P2)	Period Change	YTD
Overall Customer Driver Score	VOC	88.6%	88.4%	+0.2%	88.6%
Friendly	VOC	88.4%	87.9%	+0.5%	88.3%
Professional	VOC	89.0%	88.5%	+0.05	88.9%
Knowledge	VOC	89.7%	89.7%	-	89.8%
Understanding	VOC	90.0%	89.6%	+0.04%	89.9%
Expectations	VOC	88.0%	87.7%	+0.3%	87.9%
Efficiency	VOC	86.7%	86.8%	-0.01%	86.8%

14. Travel workshops, focused on Driver behaviours throughout our travel suite has seen travel CDS grow 5.4% against Network CDS. We are adopting the same approach with mails workshops and adapting all other network training to gain the benefits of continuity which is seeing customer driver focus quickly becoming BAU.

Mails performance

15. Trading income is up +4% vs PY with Home Shopping Returns continuing to perform well, +31% year on year (£5m YTD, +£0.2m vs budget) with IMRG reporting UK online market growth of +16.9% YTD, whilst Labels continues to grow +3% (£23m YTD, -£0.2m vs budget). Stamps continue to decline -9%, although some improvement has been seen in P2 & P3, which is expected to bring it more in line with last year's -6% trend. Local Collect, whilst small (£280k YTD) is seeing good growth (+27%) which is expected to accelerate as new clients come online, notably ASOS and SDG.
16. Conversion of all branches to the new retail product proposition with WH Smith has been completed. Focus is now on optimising in store product mix to maximise sales.

Cash & Banking performance

17. Overall cash withdrawals across the market (ATM and counter) are reducing at c.5% p.a, with an expected impact on our ATM volumes in line with budget expectations. However counter volumes are holding well above budget so overall banking services are up +14% YTD to £24.1m, +£0.2m vs budget.

18. The UKF/EST 5-point marketing plan is developing well. New collateral is with the banks for inclusion into theirs.
19. After May Board, Future of Cash pricing is now being developed in time for Banking Framework2 discussions prior to end of Q3.
20. In POca, DWP pressure on customers to migrate from POca accounts is having a reducing effect, and DWP have confirmed they will cease to press for migration after November. New products and services are being proposed to DWP to assist in eventual POca replacement.
21. ATM transactions have been slow through Q1, mirroring the general reduction in cash withdrawals across other ATM networks (LINK volumes -4% YoY). Availability issues (94% vs target of 96%) continue to impact volumes and profitability. With c2,100 of the 2,350 network consistently achieving 97% availability, actions are being targeted at the c250 persistent offenders who are consistently cashing out driving the average down.

Payment Services performance

22. Contracts have been exchanged on Project Panther and public announcement commenced on 27th June, with positive responses from key external stakeholders and PayZone staff. The initial disclosure notice has been submitted to the CMA and dialogue commenced with the case team. Intelligence from PayPoint indicates they will push the state aid argument but our competition counsel remain confident in our position.
23. Client response has been very positive with Npower (c.23m Paypoint Txns p.a.) and Yorkshire Water (c.850k Paypoint Txns p.a.) requesting an overview of the potential coverage of the combined network and a commercial offer for exclusivity at the earliest opportunity. Senior level engagements are also planned with British Gas (c. 95m Paypoint Txns p.a.), EDF (c.27mn Paypoint Txns p.a.) and E.on (c.39m Txns p.a.) over the next two weeks.
24. Commercials and launch plans are being finalised for a Q3 launch with Epay for new mobile and digital content such as Amazon, Paysafecash, Netflix and Uber topups. Pre-award contractual discussions continue with Scottish Power for their Prepaid Energy Smart Meter business and we are preparing our Best & Final Offer following up the Power NI RFP. The contract renewal discussions with BT have progressed with a mutual commitment to sign a new deal by the end of the month.

Retail Strategy

25. Having secured the Board's endorsement of our proposed approach, we are now focusing on developing plans.
 - New, segmented formats: the HNGT business case, a critical enabler to our new formats, has been completed and will be approved this month. Joint work continues between Retail and FS&T to review FS&T products and decide how, and in which formats, they will be sold in the future. An agile working group is also exploring how we can develop and trial new self-service (kiosk) formats as soon as possible.

- Strong franchise relationships: we are starting a comprehensive review of agent remuneration and will report back to the Board in November. A review of our field team with the aim of improving how we support and engage with agents is underway.

Network Transformation Programme

26. The NT programme continues to perform strongly in its final year, having delivered 7,638 openings and 7,738 contracts to date. With 49 branches already converted and a further 40 planned in, we are likely to over-achieve our 2018/19 target of 100.

Directly Managed Branches (DMB) Programme

27. The DMB Programme is on track to conclude the Network Shape business case in 2018/2019, with a further 28 DMB exits and £4.6m of benefits to be delivered. We have exited 7 to date this year, with 11 more at various stages of the franchising process and a healthy pipeline in place to ensure delivery of the remaining 10.
28. Work continues in preparation for implementing the DMB business case approved by the Board in January. We will advertise in late July across c475 Post Code districts across the UK (190 of which contain a DMB), a necessary step to allow us to recruit new operators in these areas. We have an agreed Communications plan which includes briefing all DMB colleagues in the 190 branches on 31st July and also engaging with our unions and the NFSP. We will also be advertising for temporary operators across our network to allow us to exit DMBs at pace where there is no permanent solution available.
29. We have also concluded work, supported by BNP Paribas, to create standard leases so that we can sublet some of our DMB properties to temporary operators without landlords' permission. This activity is crucial to enabling delivery of 56 DMB exits in Q4 2018/2019 and £7.6m of benefit.

Network Development Programme

30. We have opened 82 new Local branches so far this year. Our full year target is 338 and we are slightly behind schedule but aim to be back on track by the end of Q2. Our pipeline of new operators continues to be relatively strong with a total of 252 potential new branches in the recruitment process. As noted in the Retail Strategy, securing enough good quality operators remains a challenge and we are focusing on improving our recruitment and on-boarding process to reduce the drop-out rate.

Appendix 1 – Retail Scorecard

P3 2018

AREA	MEASURE	Prior Month	Actual Month	Target Month	PY Month	Actual YTD	Target YTD	PY YTD	Status
PERFORMANCE	Gross Income £m	£42.4	£41.5	£42.2	£43.6	£135.3	£136.0	£138.1	
	Trading Profit £m	£8.9	£8.6	£8.1	£9.1	£30.8	£29.5	£29.7	
	Mails - Priority Volume m	2.9	2.9	3.0	2.9	9.4	9.6	9.5	
	Mails - Total Labels Volume m	23.1	20.0	20.0	19.0	65.0	65.6	64.7	
	Mails - Click & Collect Volume m	0.3	0.3	0.2	0.2	0.9	0.8	0.7	
	Mails - Home Shopping Returns Volume m	3.7	3.8	3.4	3.0	11.6	10.5	9.0	
	Banking All Transactions Volume m	10.8m	10.2m	9.7m	9.1m	31.8m	32.1m	27.8m	
	Payments Volume m	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A due to Credence data issues
CUSTOMER	No. of Customer Sessions	40.5	40.0		40.7	129.9		133.8	New measure from P3. No comparatives.
	No. of Retail Transactions per session	N/A	1.65						
	Ease of Doing Business With (Effort)	82.0%	83.1%	82%	77.0%	82.3%	82.0%	76.1%	
	Customer Drivers	85.9%	86.9%			86.6%			
	No. Complaints	2,950	2,284			5,231			P2 Data - One month in arrears
NETWORK	Branch Numbers (mth in arrears)	11,575	11,608	11,500	11,591				
	NPL Builds	19	10	19		83	93		
	Branch standards - Issues Identified in Audit	70.5	70.7		71.1	71.7		71.3	P2 Data - One month in arrears
	Churn - resignations	2	3			5			P2 Data - One month in arrears
PFOPIF	Diversity inc Women (Level 4 & above)	21%	24%		23%	75%		65%	PO target 43% for level 3A & above
	Trust our people (Line Manager Index)					50%		36%	

Appendix 2 – Retail Income by Product

Gross Income

£m	P3						YTD						Full Year		
	Act	Bud	Var Bud	PY Act	Var PY	%Var PY	Act	Bud	Var Bud	PY Act	Var PY	Var PY%	Bud	PY	%Var PY
Parcelforce	1.3	1.3	(0.0)	1.2	0.1	6%	4.1	4.2	(0.2)	3.9	0.2	4%	19.3	17.6	10%
Special Delivery	3.9	3.8	0.0	3.8	0.1	2%	12.5	12.4	0.0	12.2	0.2	2%	50.8	49.3	3%
International Priority & Standard	2.3	2.5	(0.2)	2.4	(0.0)	-2%	7.7	8.2	(0.5)	7.8	(0.1)	-2%	36.6	34.2	7%
Stamps (1st & 2nd)	1.1	1.2	(0.0)	1.2	(0.1)	-6%	3.7	4.0	(0.2)	4.1	(0.3)	-8%	19.9	20.8	-4%
Labels (1st & 2nd Class)	7.0	7.1	(0.0)	6.8	0.2	3%	22.7	23.0	(0.2)	22.1	0.7	3%	95.7	91.4	5%
RM Signed For	1.8	1.8	(0.0)	1.7	0.0	3%	5.8	5.9	(0.2)	5.6	0.1	2%	24.4	23.0	6%
Home Shopping Returns	1.7	1.6	0.1	1.3	0.4	29%	5.3	5.0	0.2	4.0	1.3	31%	22.1	17.6	26%
Other Trading	1.6	1.4	0.2	1.3	0.3	25%	5.3	4.6	0.7	4.6	0.7	15%	20.4	20.3	1%
Total Mails Trading	20.7	20.7	0.0	19.7	1.0	5%	67.0	67.4	(0.4)	64.3	2.7	4%	289.1	274.1	5%
Annual Fee	3.6	3.5	0.1	3.9	(0.3)	-7%	11.6	11.2	0.4	12.4	(0.8)	-7%	45.8	49.8	-8%
Mailwork & Mails non trading	0.8	0.8	(0.0)	1.0	(0.2)	-17%	2.5	2.5	(0.0)	2.5	(0.0)	0%	10.0	10.0	0%
Total Mails Non-Trading	4.4	4.3	0.1	4.9	(0.5)	-9%	14.1	13.7	0.4	14.9	(0.8)	-5%	55.8	59.8	-7%
Retail (Inc Gift cards & Other)	0.5	0.8	(0.3)	0.7	(0.3)	-35%	1.8	2.1	(0.3)	2.7	(0.9)	-33%	11.2	13.2	-15%
Lottery	2.3	2.1	0.2	2.4	(0.1)	-5%	7.6	6.8	0.8	8.1	(0.5)	-6%	27.8	31.2	-11%
Retail and Lottery	2.8	2.9	(0.1)	3.1	(0.4)	-12%	9.4	8.9	0.5	10.8	(1.4)	-13%	39.0	44.4	-12%
Payment Services	1.6	1.9	(0.2)	2.1	(0.5)	-25%	6.3	6.2	0.1	7.0	(0.7)	-10%	26.8	27.1	-1%
Payment Services	1.6	1.9	(0.2)	2.1	(0.5)	-25%	6.3	6.2	0.1	7.0	(0.7)	-10%	26.8	27.1	-1%
Banking Services	7.4	7.2	0.1	7.3	0.1	1%	24.0	23.9	0.1	21.2	2.8	13%	97.0	87.8	10%
Card Account	2.4	2.8	(0.4)	4.0	(1.7)	-41%	7.1	8.1	(1.0)	11.9	(4.8)	-41%	29.7	45.6	-35%
ATMs	2.2	2.4	(0.2)	2.4	(0.2)	-9%	7.3	7.8	(0.5)	7.9	(0.6)	-7%	31.2	30.0	4%
Cash & Banking Services	11.9	12.4	(0.5)	13.7	(1.8)	-13%	38.5	39.8	(1.3)	41.0	(2.6)	-6%	157.9	163.4	-3%
Total Gross Income	41.5	42.2	(0.7)	43.6	(2.1)	-5%	135.3	136.0	(0.7)	138.1	(2.8)	-2%	568.6	568.8	0%

Future of Cash – Banking Framework

Author: Martin Kearsley Sponsor: Debbie Smith

Meeting date: July 2018

Executive Summary

Context

1. The Post Office is becoming the major cash utility for the UK, as cash usage continues to decline. This presents a short to medium term opportunity, and a future risk.
2. The Banking Framework (BF), a key part of our Cash business, is a rolling contract with single break points at the 'three-year' point, the first one of these being 31.12.19.
3. Banks will automatically roll into the second three year period, including new pricing, from 1.1.20 unless notice is received by us by 31.12.18.
4. The Banking Framework has seen significant growth since launch with withdrawals currently c£68Bn growing at +7% pa, and receiving c£18Bn growing at +18% pa. It is set to expand again with the accelerating rate of branch closures likely to carry on until 2021 (but not all banks).
5. The Future of Cash project, linked to our North Star ambitions, identified capex (vans, equipment and branch upgrades) and opex (Agent remuneration, extra supply chain shifts) required to fund relevant expansion of PO to cope with increased cash handling from this expansion.

Input Sought

6. For the Board to review and discuss.

Strategic Opportunity

7. Branch closures are accelerating, particularly amongst the top 3 banks, generating significant savings for the Banks. This brings increased transactions and footfall to the PO but is putting significant pressure on PO operations and costs.
8. We are approaching the first Banking Framework 3 year review point in Nov 18.
9. There is an opportunity to develop a more strategic relationship with the major banks, to build longer term partnerships to improve our shared customers' experience, for example through simplification and automation, digital/customer experience integration, broader access and services.

How does Banking Framework work?

10. The BF is a rolling contract on a 3 year cycle, with single break points at the 'three-year' point, the first one of these being 31.12.19.
11. Pricing is set a year in advance for the following 3 year period:
 - PO notifies the banks of Changes Nov 18
 - Banks accept/reject Dec 18
 - Effective 1 Jan 2020 – 31 Dec 2022

12. Pricing is tiered based on volume thresholds. There is a fixed framework fee that increases at each tier (generating £22m PO Income in 18/19 based on 17/18 volume, previously £20m), along with a rate per transaction that reduces with volume (£69m in 17/18, Budget £75m).
13. We charge per transaction for Withdrawals, Deposits, cheques and change.
14. All banks are on the same standard terms. The top volume tiers will only impact the big banks.

What do we want?

15. Higher gross fees for deposits. Deposits are driven by business banking and more onerous and do not have the same footfall driving benefits of other customer types. The Post Masters are not appropriately remunerated for the effort involved (banking drives 10.5% of PO footfall, 11.5% of PO Income but only 7.8% of an Agents remuneration).
16. Higher fees from share of bank closure savings to cover investments and costs as PO needs to scale our infrastructure to the higher volumes (inc higher Agents remuneration). With growth comes excess cash and challenges to moving it, storing it, and other costs of handling it such as increasing security considerations (as more banks leave, Post Office becomes the only place with significant cash holdings).
17. Balance sheet funding, ie banks own cash. As well as the balance sheet cost, increased cash in the network is putting strain on our lending restrictions.
18. Review of operations and efficiency. More consistency across the banks ways of working would reduce PO complexity.
19. A partnership approach to drive the future strategic opportunities such as automation and simplification, identity verification, ongoing in-branch and digital customer service as cash usage declines, including investment funding by the banks. There is an opportunity to transform how we handle cash in the network which requires significant investment and from which the banks would benefit from future reduced rates and speed of processing.

How do we size the opportunity?

20. There are 3-4 banks with significant branch closure plans.
21. However, not all banks are closing branches. Some are expanding, eg Metro Bank, and so wouldn't accept a generic increase.
22. In conversations with our CFO, Lloyds have indicated they will save approx. £400m from branch closures.
23. We have recently recruited a banking consultant, who has worked at both Bank of Scotland and was the former Head of Counters and transaction services at Lloyds and are working with KPMG to size the opportunity.
24. We need to improve our understanding of the big banks pressure points and digital/efficiency opportunities.
25. It is also important we broaden our thinking beyond the immediate. Whilst the short term landscape is significant volume increase, the longer term will see volumes drop off from the peak.

What alternatives do the banks have?

26. Although competition is currently low, Paypoint have recently launched a cash product. It is currently believed that a retailer cash funded model would not cope with the cash volumes in the banking framework.
27. There are a number of smaller challenger banks innovating at pace.
28. The cost of technology is falling rapidly. The banks could therefore consider their own automated, self-serve network in the medium term.

High level Approach

29. The Nov 18 deadline under the BF renewal timescale is too tight to do something more significant than a standard rate increase. We therefore need to an extension, c3 months, to the BF notification period.
30. We will engage with the top 5 banks to ensure alignment with our thinking.
31. The biggest opportunity for a bi-lateral deal is Lloyds, so we will prioritise discussions with them.
32. However, it is important we maintain engagement with Santander, our biggest customer, who have less changes planned, and therefore have less future saving opportunity.
33. Construct a deal for everyone.
34. We will leverage support from UKF and the Government in our discussions with the banks.

What capability do we need?

35. We need to build the teams negotiating capability through external recruitment of a Lead Negotiator.
36. We need to engage at GE level with the key banks, to put senior stakeholder relationships in place before negotiations start in earnest.
37. Set up a governance group that meets as required, chaired by the CFO.

Next steps

38. Agree direction and bring back to the September board a detailed step by step plan, including red lines and negotiating mandate agreed by the Steering Group.

Alternative Corporate Structures

Author: Jane MacLeod

Sponsor: Jane MacLeod

Meeting date: 30 July 2018

Context

During the last year, the Board received papers relating to several emerging business initiatives which support our evolving strategy and which are likely to also necessitate the establishment of new corporate entities, e.g. Panther, potential acquisition by Post Office Insurance ("POI"), development of further Financial Services propositions arising out of Peregrine and planned expansion into regulated services through the Customer Hub. Realisation of these initiatives is now imminent, over the coming 6-9 months.

We believe our current group structure is sub-optimal to support effectively our medium-long term strategy, and following initial assessment, consider this would be better served by establishing a Holding Company ("HoldCo") over Post Office Limited ("POL").

This paper sets out the rationale for establishing a HoldCo, and seeks approval to proceed with detailed assessment of the resulting future corporate structure, for Board approval in September / October.

Questions this paper addresses

1. Why is the current structure suboptimal to support delivery of our strategy?
2. What are the benefits of using a HoldCo structure?
3. What are the costs of establishing a HoldCo?
4. What principles and criteria will be used to perform detailed assessment of our corporate structure options, and how would we progress this analysis?
5. How would we progress this analysis and develop the case for change, business case, and options / choices for implementation (e.g. big bang vs. incremental)?

Conclusions

1. Our initial assessment shows a HoldCo would better enable Post Office to deliver its strategy and manage the additional operational, regulatory and governance requirements which are created by that strategy, therefore we recommend proceeding directly to establish a HoldCo subject to the necessary Shareholder and regulatory approvals and corporate filings.
2. Further assessment is required to develop the group structure proposition as well as implementation options and choices, and business case for restructuring. The most optimal structure would allow, amongst other things, each part of the business to operate within their regulatory environment without adding additional obligations imposed by other parts of the business who are subject to heightened regulatory obligations.
3. External advisors will be required to support delivery of the analysis above.

4. A high level summary of the design principles and criteria, which include Post Office's North Star, Strategic Imperatives together with legal and financial (including taxation) is set out in Appendix 1 and 2.
5. A project will be established sponsored by Jane MacLeod, General Counsel, and lead by Ben Foat, Legal Director and Jonathan Hill, Compliance Director to provide a holistic assessment of the optimal group structure having regard to the design principles and criteria which will support the setting up of the various subsidiaries over the next financial year (rather than doing so in isolation without regard to the broader implications across the organisation).

Input sought

6. The Board is asked to approve, in principle:
 - i. The creation, of the HoldCo above POL, noting that further approval would be sought before operationalising the new structure, e.g. transferring / restructuring employees, assets, governance, subsidiaries etc.
 - ii. The proposed approach and indicative budget required to establish the HoldCo, and refine and perform detailed assessment of the future corporate structure.

The Proposal

HoldCo mitigates the risk of unnecessary regulatory oversight

7. HoldCo would be an enabler to help Post Office more effectively deliver its growth strategy by helping the company segregate its regulated businesses from its non-regulated businesses. Moreover, HoldCo could still own the POL brand, values and overall strategy over its businesses within a group structure.
8. The current corporate structure poses a significant risk that POL would need to become directly regulated by a number of authorities, particularly the FCA, if it is to progress the agreed strategy of increasing its share of its business value chains.
9. It is unlikely that POL would be able to achieve the required regulatory standards without substantial investment, restructuring, reporting, people change and training in the short to medium term, and this would therefore materially affect the Group's ability to deliver its strategic objectives.
10. Alternatively, if POL was to become directly regulated, it would subject its non-regulated businesses to a regulatory burden and cost that is disproportionate to the risks and placing them at a significant risk of becoming uncompetitive.
11. By setting up a group structure with a HoldCo, Post Office would, to a very large extent, remove these obstacles whilst enabling it to maintain control of its future.

Current corporate structure

12. Until June 2017, shares in POL were held by Postal Services Holding Company Limited ("POSH") which historically was also the holding company of Royal Mail Group plc. Following the disposal of all shares in Royal Mail, the government, as shareholder, concluded POSH was no longer needed. POSH was then liquidated and its shares in POL were transferred to the Secretary of State ("SoS") for Business, Energy and Industrial Strategy.
13. The resulting current corporate structure is outlined in Appendix 3.
14. There are currently several initiatives being implemented and considered which support delivery of our strategy and which are likely to necessitate the creation of new corporate entities in the near-term or involve the acquisition of existing corporate entities:
 - i. Panther (contracts for the acquisition have now been exchanged)
 - ii. Post Office Insurance (considering M&A which would involve acquisition of new entities)
 - iii. Expansion of the Customer Hub (planned to require a regulated entity to the extent this involves certain regulated services)
 - iv. New Identity proposition (significant impacted by procurement, speed to market and liabilities; anticipated will require a subsidiary or commercial Joint Venture)
 - v. FRES (potential acquisition of the 50% BoI-owned share)

Disadvantages of the current structure

15. Our current corporate structure results in various operational and strategic constraints, as outlined below.
16. **Direct Regulation** – The ability to engage with other non-BoI partners in FS, as a result of Peregrine, (e.g., for credit cards and investments) would effectively require Post Office to become regulated or would require the FS business to set up a separate regulated entity in its own right. Further, as the Customer Hub expands, as planned, into providing regulated services (i.e., Account Information Service Provider and Payment Initiation Service Provider services through PSD2) it is expected to need to be directly regulated. In each case it is likely that it would be both impractical and possibly not permitted for Post Office to become the regulated firm. Moreover, if it were to, this would subject its non-FS businesses to regulatory scrutiny from and compliance with the FCA and potentially additional regulatory obligations such as the Senior Managers & Certification Regime (“SMCR”) which would not presently directly apply to Post Office.
17. Other disadvantages of the current structure are outlined below:
 - i. **Regulatory compliance** – Contagion of regulatory compliance requirements, e.g. arising from the Financial Services activities;
 - ii. **Procurement constraints** – Contagion of constraints in procurement processes which arise from the Public Contracts Regulations (PCR).
 - iii. **Limited access to capital** – Our access to third party funding is limited by having the SoS as shareholder, and being subject to the Postal Services Act:
 - a) Equity - the Postal Services Act prevents the disposal of the Crown’s interest in POL, or issuing of shares to a third party to raise capital.
 - b) Debt - the HM Treasury convention is that public sector entities (i.e. POL or a majority-owned subsidiary) are only financed via the Exchequer, rather than debt issued by a third party.
 - iv. **Attractiveness to potential partners** – The consequences of our current structure limit our ability to attract potential partners to provide capability and funding to the Post Office, e.g. funding constraints, and SoS shareholding / role in decision-making.
 - v. **Liabilities** – As one legal entity, liabilities cannot be confined to the Business Unit where they are incurred and can be attributed to the wider business.

Future corporate structure

18. Based on the above assessment, we recommend establishing a new HoldCo over POL, to enable the delivery of our group strategy. An indicative future structure is set out in Appendix 4.
19. The creation of Holdco would be realised by SoS transferring to Holdco all the issued capital in POL, in consideration for the issue of shares by Holdco to SoS. Initially POI would remain a subsidiary of POL, however as part of the wider work on the optimum group structure, consideration will be given as to whether there are benefits to it becoming a direct subsidiary of HoldCo – particularly in light of any further acquisitions by POI.

Anticipated benefits of creating a new Holdco

20. There are various ways that additional entities (subsidiaries, sister companies and JVs) could be created under the Holdco to address some of the constraints mentioned above, help accelerate the execution of our strategy and deliver several potential benefits:
- i. **Direct regulation** – Importantly, the creation of a Holdco would obviate the need for POL to become directly regulated as a result of expansion into new financial services lines through Customer Hub or following Peregrine.
 - ii. **Regulatory insulation** - Both POI and the proposed PO Money 'NewCo' are designed to enable us to take greater control of the value chain in financial services without subjecting POL to the associated regulatory requirements.
 - iii. **Exemption from PCR** - It is possible for a subsidiary (e.g. POI) to fall outside the scope of PCR provided it has a commercial character (i.e. managed commercially to generate profit and is subject to normal market conditions).
 - iv. **Access to external capital** – Creation of subsidiaries under HoldCo could improve our ability to access external capital:
 - i. **Equity** – the restrictions mentioned regarding disposal / issuing of shares in POL do not apply to subsidiaries of POL which are not engaged in the provision of post offices. Therefore, subject to POL's articles, POI or other similar subsidiaries would have the potential to raise equity;
 - ii. **Debt** - the convention for public sector entities to be financed only via the Exchequer also applies to wholly / majority owned subsidiaries, but not to JVs (e.g. FRES, which is not directly controlled by POL).
 - v. **Limited liabilities** - Parent companies often form subsidiaries to limit their potential for losses e.g. from higher-risk business ventures and this will be a consideration for the proposed identity business. However, from a reputational perspective, the value of such a liability shield may be limited for the Post Office. It should also be noted that PCR exemption for commercial subsidiaries assumes that POL would not intervene to prevent insolvency.
 - vi. **Tax advantages** - Companies working across multiple jurisdictions, often use subsidiaries for tax arbitrage, although this is not currently applicable to Post Office. However, a tax advantage could potentially be created in other ways, e.g. putting our non-commercial network into a subsidiary with charity status.
 - vii. **Conflicts of interest** – A HoldCo structure should also remove the current and likely conflicts of interest (and inversion of standard practice) that currently arises from POI (an FCA regulated Principal) reporting into its parent (an Appointed Representative of POI). Instead POL, POI and the FS NewCo would become sister companies under Holdco;
 - viii. **Dividends** – Currently, the accumulated losses of POL effectively prevent the Group from paying dividends. It may be attractive to BEIS if it enables certain subsidiaries (e.g. FS, POI) to pay dividends into the HoldCo which could then either be paid to SoS, thus helping to create a more commercial relationship with SoS by providing a mechanism to return any 'surplus' funding if business performance allows; or conversely, dividend received by HoldCo could be re-invested into the relevant group entities and in doing so provide greater transparency of costs of that business. Any future profits could remain within

the group structure to support the ambition of being commercially sustainable and without the need for government funding in the future.

- ix. **Clearer commercial and customer focus** - Subsidiaries can help create a clearer sense of purpose, with greater autonomy, agility and specialism, such as is reflected in anecdotal feedback from POI.
21. The considerations above have been used to inform the detailed criteria we propose to use in the detailed assessment of the future corporate structure, which are presented in Appendix 2.

Proposed next steps

22. In parallel with the detailed assessment below, given the need for, and lead time involved in establishing a HoldCo, we propose to set up this entity this without delay, noting that further Board approval will be sought before operationalising the HoldCo.
23. We recommend refining and performing detailed assessment of the resulting corporate structure so the case for change, business case, implementation options and costings can be developed for Board approval.
24. The detailed assessment of the future corporate structure will be focus on:
- i. Four key design principles presented in Appendix 1
 - ii. 11 assessment criteria presented in Appendix 2
25. Before establishing the HoldCo it will be necessary to:
- i. obtain Shareholder approval;
 - ii. receive FCA approval for the change in control of PoI, as FSMA requires FCA approval for transactions involving the insertion of a new HoldCo even where there is no change in ultimate beneficial ownership. This would typically take up to 60 days.
 - iii. Decide the interim directors of the HoldCo for the purposes of registration and ancillary matters
 - iv. Obtain Board approval (in September / October) to approve the Share Transfer Deed (subject to FCA approval), transfer of the Shareholder's shares to HoldCo and the consequential updates to the register of members

Approvals sought

26. Board approval is sought in principal for the following steps. Financial approvals will be sought through the change funding processes.
- i. **Establishing the HoldCo** as described above.
 - ii. **Proceeding with detailed analysis of the future corporate structure.**
 - iii. **Proposal to seek further Board approval** in September / October for approval of the target Corporate Structure.

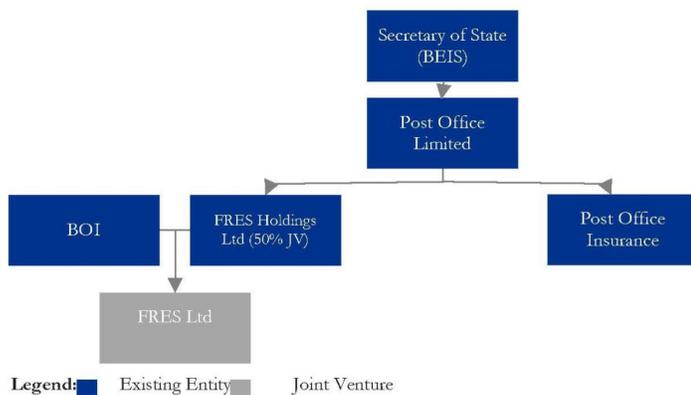
Appendix 1 – Design principles

Design Principle	Proof points
1) Better for customers	<ul style="list-style-type: none"> • The subsidiary structure should be invisible to customers – for them it’s just the Post Office. • Our ability to offer joined-up customer propositions across a number of product categories should be strengthen not diminished. • Clients and postmasters should also benefit from joined-up account management – they don’t want to be dealing with each subsidiary separately.
2) Simpler to run	<ul style="list-style-type: none"> • Decision making should be accelerated not slowed • No proliferation of governance - e.g. unless required for regulated entities and contractual JVs, we would streamline the number of additional subsidiary Board meetings as far as possible. • Single approach to capital allocations and change management maintained • Wherever appropriate support structures and technology should be shared across the group – we are too small to duplicate costs within each subsidiary
3) Great place to work	<ul style="list-style-type: none"> • Employees benefit from a clear sense of customer purpose and a more entrepreneurial culture • Flexible career structures across the Group, alongside the opportunity to specialise
4) Tax / Financial Engineering	<ul style="list-style-type: none"> • The corporate structure should not be designed solely for tax or similar financial engineering reasons.

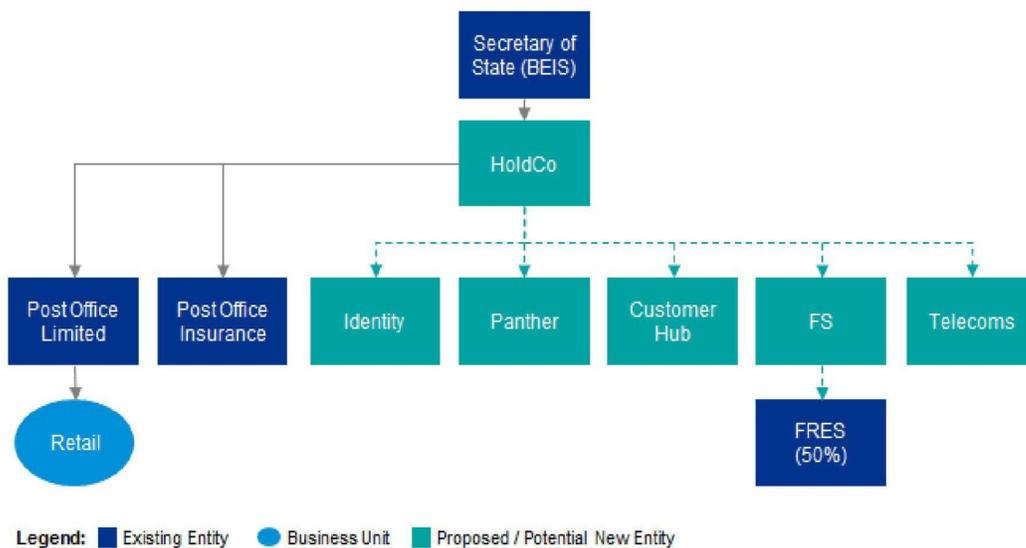
Appendix 2 – Key detailed assessment criteria (not exhaustive)

- 1) **Customer ownership** - Ability to 'own' the customer and share data across the various businesses where appropriate, and within customer permissions and regulatory boundaries
- 2) **Regulation** – Consideration of insulation from 'contagion' of regulatory obligations, and potential for regulatory conflicts (e.g. POMS)
- 3) **PCR / other government legislation** – Applicability of, and issues relating to, relevant legislation, e.g. the Public Contracts Regulations (ability to contract with internal and external parties), Freedom of Information Act, etc.
- 4) **Access to external capabilities / funding** – Ability to access external capabilities and funding (debt / equity); impact on existing funding & State Aid.
- 5) **Attractiveness to potential partners** (commercial and strategic) taking into account POL ownership structure
- 6) **Liabilities** - Ability to contain liabilities (corporate debts, fines, pensions liabilities, etc.)
- 7) **Governance and control** – Strategic and operational coherence, efficiency and effectiveness of governance structures across group
- 8) **Strategic agility** - Agility to develop and implement strategies / respond to market and competitor developments
- 9) **Dividend and cash traps**, use of legacy tax assets, VAT etc.
- 10) **Operating model** – implications relating to which entities employ Post Office people, own corporate assets, provide intra-group services, etc.) and an assessment of increased operating costs arising from the structure
- 11) **Costs and transition requirements** to implement the broader future corporate structure

Appendix 3 – Current Corporate Structure



Appendix 4 – Indicative Future Corporate Structure



POST OFFICE LIMITED
Board

Postmaster Litigation - Update

Author: Jane MacLeod

Meeting date: 31 July 2018

Executive Summary

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Context

As part of the Postmaster Litigation, the claimants are seeking to have a number of additional terms implied into the contracts between them. Regular updates on progress and issues are provided to the Board Litigation Sub-Committee, as well as to the Board.

There are no decisions required, however I propose to provide verbal updates on the following:

- Status update on the Court process
- Disclosure in the Accounts
- Contingency planning
- Review of Settlement Options.

Conclusion

Court Process

1. We are currently involved in:
 - finalising witness statements that will be used in the November Common Issues trial;
 - progressing the application for security for costs; and
 - working with our IT expert to develop the matters that will be the subject matter of the March 'Horizon' hearing.

Disclosure in the Accounts

2. There is significant work underway with Ernst & Young regarding the scope of the disclosure regarding the Postmaster Litigation as a contingent liability in the 2017-18 Accounts. There is a risk that EY may seek to include a 'Matter of Emphasis' regarding the litigation in their Audit Report. We have not yet seen any suggested drafting, so are currently unable to comment on the impact such a approach might have.

Contingency Planning

3. We have prepared a short table (attached) which applies a fairly simplistic 'RAG' status to the various outcomes and which will assist the update on contingency planning. This was discussed at the Board Litigation Sub-Committee in early July and work is underway to develop the responses to all items that are 'red' rated for either Likelihood or Impact. A further update will be provided to the Board in

September. We are also due to provide an update on the litigation, and in particular, the contingency planning to Alex Chisolm, Permanent Secretary of BEIS, on 10 September.

4. The CCRC has recently advised POL that it is nearing completion of its reviews. However, given that the CCRC's reviews touch on issues similar to those in the Postmaster Litigation (in particular with respect to Horizon), delivery of the CCRC's findings is likely to be delayed by that litigation.

Settlement Options

5. The Court expects both parties to engage in mediation between the conclusion of the Common Issues trial and the Horizon trial with a view to seeing whether, in light of the decision, some or all of the issues between the parties could be resolved. While it is too early to be able to set the content for those discussions, we are looking at options for mediators that we can propose to Freeths, as we need to ensure availability of appropriate mediators and get them pre-briefed as to the likely nature of the areas of discussion.
6. As previously flagged, we have instructed our Counsel to prepare a Merits Opinion following receipt of the Claimants' Witness evidence; this is likely to be available in late September. Following receipt of that opinion, we will consider whether there are options for settlement of some or all of the issues as between Post Office and some or all of the Claimants.

Input Sought

The Board is requested to Note the Update .

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DRAFT Contingency Planning: Risk Assessment Table

This document summarises in Counsel's Opinion on the Common Issues. By its very nature, it is simplistic and should not be relied upon in lieu of a careful reading of Counsel's Opinion.

Where we have offered a view on the impact on Post Office, this an initial view based on our current knowledge and we have not sought to set out an exhaustive list of impacts. We also note that the Common Issues are not discrete topics and there will be interplay between them. Success or failure on some points may lead to success or failure in other areas. Further, if multiple common issues are lost, they may have a compound effect greater than the risks identified below.

In preparing this risk assessment, we have not yet considered any mitigating actions that may be taken.

Likelihood of Post Office losing a Common Issue / an Implied term being found against Post Office		Impact on Post Office if a Common Issue is decided in favour of the Claimants	
5	Post Office is very likely to lose the issue / The proposed term is very likely to be implied	5	A significant adverse impact on the business that could threaten its existence.
4	Post Office is more likely to lose than win the issue / The proposed term is more likely than not to be implied.	4	A major adverse impact on the business that will have a considerable long-term commercial harm.
3	50/50	3	A material impact on the business that will cause some commercial detriment / increased costs
2	Post Office is more likely to win than lose the issue / The proposed term will likely not be implied.	2	There will be some impact on the business but the additional burdens / costs will be manageable.
1	Post Office is very likely to win the issue / It is very unlikely that the proposed term will be implied.	1	There will be negligible impact on the business



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	Issue	Likelihood	Impact	Comments
1.	<p>Relational Contract</p> <p>Was the contractual relationship between Post Office and Subpostmasters a "relational contract"?</p> <p>If so, this would mean that Post Office was subject to duties of good faith, fair dealing, transparency, co-operation, and trust and confidence?</p>	2	3	<p>Summary: Counsel is satisfied overall that Post Office is likely to succeed on this issue.</p> <p>Detail: There is some risk on this issue for Post Office due to:</p> <p>A) This area of law being in a state of development;</p> <p>B) The way each party is dependent on the close cooperation of the other, which puts a query over how the Subpostmaster relationship operates in practice;</p> <p>C) An imbalance of bargaining power and level of sophistication between Post Office and the Subpostmasters; and</p> <p>D) The SPMC and NTC having several characteristics of relational contracts, and the SPMC in particular not being particularly well drafted.</p> <p>If the court were to find that they <i>were</i> relational contracts, this doesn't necessarily mean that the "good faith term" should be automatically implied. Counsel's view is that it would be wrong to imply a term as to good faith into the SPMC and NTC.</p> <p>However, there is a significant question mark over what good faith actually means. It could be limited to whether Post Office acts honestly or the meaning could be taken further to mean putting Subpostmaster's interests above Post Office's interests.</p> <p>Impact:</p> <ul style="list-style-type: none"> • Post Office will be required to carry out more checking of its decision to make sure they align with the "relational contract", and will need to ensure its process adheres to that standard, which will require time and have a cost to it. • Post Office may need to balance acting in own best interests against Subpostmaster's interests. This would fetter Post Office's ability to run and evolve the business in the way it sees fit



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2.	<p>Implied terms</p> <p>Which, if any, of the 21 terms were implied terms (or incidents of such implied terms) of the contracts between Post Office and Subpostmasters?</p>			<p>Summary: There is a high threshold for the Claimants to reach to be able to imply terms into the contracts. There are some terms which are more risky than others.</p> <p>Detail: The Claimants are attempting to imply 21 terms into the contract. They are referenced below grouped in themes rather than the 21 specific terms.</p> <p>To dissuade the court that the 21 implied terms need incorporating into the contracts, Post Office has admitted two implied terms, which in Counsel's opinion render the additional implied terms unnecessary (the Stirling v Maitland Term and the Necessary Cooperation Term).</p> <p>However, there are no guarantees about how the Managing Judge will address each and every implied term.</p> <p>As matters stand, there are some arguments on the implied terms which are finely balanced. For example, the court may think it a small step to agree to a mutual duty to maintain trust and confidence in a business to business, agency relationship.</p> <p>If some of the implied terms are accepted, these may have a practical effect on requiring Post Office to do things which are not currently required by the contracts.</p> <p>Impact: See below which categorises the 21 implied terms into groups of similar terms and then provides commentary on each grouping.</p>
POST OFFICE IMPLIED TERMS				
3.	<p>Implied term (admitted):</p> <p>Cooperation</p> <p>Post Office and Subpostmasters would not take steps which would stop the other from complying with the contract</p> <p>Post Office and Subpostmasters would cooperate with the other as was necessary to enable the other to carry out their obligations as set out in the contract</p>	5	2	<p>Impact</p> <ul style="list-style-type: none"> • These terms apply a low threshold (eg. necessary cooperation) to all Post Office's activity in all areas that touch postmasters. • We would expect Post Office to be meeting these standards in most areas but we do not have a holistic view of Post Office's business to say this with certainty.



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CLAIMANTS IMPLIED TERMS				
4.	<p>Implied term: Exercise of powers 1</p> <p>[In relation to (i) contract variations and (ii) withholding Subpostmaster remuneration during suspension.]</p> <p>Post Office would exercise any power (under the contracts or generally) honestly and only for the purpose the power was created to achieve.</p> <p>Post Office will not exercise a power arbitrarily capriciously or irrationally.</p>	5	2	<p>Note: This issue has been split into two parts because it depends on which express terms are being considered.</p> <p>Post Office has a high degree of freedom when deciding to (i) vary the Subpostmaster Contracts and (ii) withhold Subpostmaster remuneration during suspension. Counsel has advised that the Court is likely to place some restrictions on these discretionary powers, namely that these powers should not be used arbitrarily, capriciously or irrationally.</p> <p>Impact</p> <ul style="list-style-type: none"> • Post Office will need to pro-actively consider and document in every case whether remuneration should be withheld during a period of suspension. This could lead to significant back-claims for withheld remuneration. Going forward this could be remedied with a process change to approve and document these decisions. • It is considered unlikely that Post Office would vary the Subpostmaster Contracts without careful consideration. More effort may be required to document these decisions.
5.	<p>Implied term: Exercise of powers 2</p> <p>[All other terms of the contracts]</p> <p>Post Office would exercise any power (under the contracts or generally) honestly and only for the purpose the power was created to achieve.</p> <p>Post Office will not exercise a power arbitrarily capriciously or irrationally.</p>	2	3	<p>Counsel is satisfied that Post Office's other powers under the Subpostmaster Contracts (eg. power to terminate) are unlikely to be fettered by these implied terms.</p> <p>Impact</p> <ul style="list-style-type: none"> • If this implied term does apply to other powers under the contracts (eg. right to terminate) this may slow down decisions and actions (eg. delay suspensions) and therefore cause losses to increase in branches. • It would give Subpostmasters wide grounds on which to challenge many decisions on Post Office. • Post Office would need to document decisions so to prove that they are not arbitrary or irrational. It should be noted that the threshold for irrationality is very high – a decision needs to be completely perverse for it to be classed as irrational. The greater risk is that the decision looks arbitrary or capricious because Post Office is not able to point to any audit trail on its decision making.



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<p>6.</p>	<p>Implied term: Quality of Horizon</p> <p>Post Office would provide a system which was reasonably well suited to its designated purpose, including:</p> <p>A) error repellency B) error prevention C) error detection/ identification D) a way to report errors to the Horizon user</p> <p>The system should be able to deal with errors both at the:</p> <p>1) data entry level; and 2) system level.</p> <p>The system should be able to carry out:</p> <p>i) data processing, ii) carrying out the relevant transaction; and iii) reconciling transactions.</p> <p>The system should also record any error issues as listed in points A – D above.</p>	<p>2</p>	<p>3</p>	<p>Impact</p> <ul style="list-style-type: none"> If Horizon does this already, then this implied term will have minimal impact. If Horizon does not meet these standards, Post Office would need to liaise with Fujitsu as to whether such changes to Horizon are achievable and if so, the cost of implementing them. If changes to Horizon were made, Post Office may need (depending on those changes) to roll out a training programme to Horizon users. Post Office would need to bear in mind the audience it was communicating to, as Subpostmasters may not necessarily understand technical error reports. There may need to be an additional team in place to interpret Horizon reports into a user friendly format.
<p>7.</p>	<p>Implied term: Communication of ability to alter branch data</p> <p>Post Office would not hide from Subpostmasters its ability to:</p> <p>A) alter data remotely;</p>	<p>2</p>	<p>2</p>	<p>Impact</p> <ul style="list-style-type: none"> This is probably a one off communication to Subpostmasters with some new internal training for staff. There may be some minor changes to day to day working of Post Office so to ensure that a consistent message is given about the functionality of Horizon.



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	or B) alter transactions which fed into the calculation of the branch accounts			
8.	<p>Implied term: Communication of problems in Horizon Post Office would:</p> <p>A) communicate known problems, bugs or errors in or generated by Horizon; and B) not hide/ fail to tell Subpostmasters of known problems, bugs or errors in or generated by Horizon which might have financial or other implications for Subpostmasters</p>	2	3	<p>Impact</p> <ul style="list-style-type: none"> • This would create an ongoing duty to inform Subpostmasters about problems in Horizon. Potentially this would extend to any bug, no matter how small. These communications would be onerous to prepare, taking considerable time and effort. • Subpostmasters may have a reduced level of confidence in Horizon as a result of regular updates about issues – this could lead them to "blame the system". • Post Office would need to take steps to understand the system more fully than it has had to previously. This could require obtaining technical advice on a frequent basis from Fujitsu, which would have a cost
9.	<p>Implied term: Communication of problems in branches Post Office would communicate and not hide/ fail to tell Subpostmasters the extent to which other Subpostmasters were having:</p> <p>i) issues relating to Horizon; and ii) the generation of discrepancies and shortfalls</p>	2	3	<p>Impact</p> <ul style="list-style-type: none"> • The business would need to consider the structure, the frequency and level of detail of the communication, all of which would require additional effort and cost. • Communication would have to be balanced against data protection and privacy issues. • Subpostmasters may have a reduced level of confidence in Horizon as a result of regular updates about issues – this could lead them to "blame the system". • It could increase the amount of time the business requires to deal with complaints about Horizon, discrepancies and shortfalls as more issues may be questioned.



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<p>10.</p>	<p>Implied term: Reasonable skill and care Post Office would supply its support services to Subpostmasters (eg. back-office accounting, the Helpline, training, etc.) with reasonable skill and care.</p>	<p>3</p>	<p>2</p>	<p>Impact</p> <ul style="list-style-type: none"> We do not have a holistic view of Post Office's business to provide an exhaustive comment, but those parts of the business we have studied have generally operated with reasonable skill and care. Any areas requiring improvement would incur costs of change. At present, any failure to exercise reasonable skill and care is a commercial problems only. If this term is implied, each failure is a breach of contract that could lead to claims by Subpostmasters for any losses caused to them.
<p>11.</p>	<p>Implied term: Relationship (1) Post Office would not take steps which would undermine the relationship of trust and confidence between it and the Subpostmasters (2) Post Office would take reasonable care in: A) performing its functions and/or B) exercising its functions within the relationship especially where the functions could affect the: 1) accounts 2) business 3) health and 4) reputation of the Subpostmasters</p>	<p>2</p>	<p>4</p>	<p>Impact</p> <ul style="list-style-type: none"> Post Office would need more safeguards in place to evidence that it was not taking steps which undermine the relationship Post Office would have to balance acting in own best interests against Subpostmaster's interests. This would fetter Post Office's ability to run and evolve the business in the way it sees fit



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<p>12.</p>	<p>Implied term:</p> <p>Shortfalls</p> <p>Post Office would:</p> <p>A) produce, keep and maintain accurate records of all transactions carried out using Horizon;</p> <p>B) be able to explain all relevant transactions;</p> <p>and</p> <p>C) use the records to explain any shortfalls.</p> <p>Post Office would co-operate in trying to:</p> <p>A) identify the possible or likely causes of any shortfalls without any input from the Subpostmasters and/or</p> <p>B) work out whether or not there was any shortfall by carrying out a formal investigation</p> <p>C) prove as a result of the investigation that the shortfall was properly attributed to the Subpostmaster under the contract.</p> <p>Post Office would not seek recovery of any shortfalls from the Subpostmasters unless and until:</p> <p>A) it had complied with its duties (which include the duties in the implied terms);</p>	<p>2</p>	<p>5</p>	<p>Impact</p> <ul style="list-style-type: none"> • This would reverse the current responsibilities between Post Office and Subpostmasters in relation to losses. • Post Office would need to put processes in place to enable it to explain all transactions and shortfalls. • This would make recovery of losses in branches very difficult if not impossible in many cases.
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	B) it had shown that the shortfall was a genuine loss to Post Office			
13.	<p>Implied term:</p> <p>Communication of information about shortfalls</p> <p>Post Office would fully and honestly tell Subpostmasters in general about the possible causes of shortfalls.</p>	2	3	<p>Impact</p> <ul style="list-style-type: none"> The business would need to consider the structure, the frequency and level of detail of the communication. This could be quite onerous given the size of the network. Communication would have to be balanced against data protection and privacy issues. Subpostmasters may have a reduced level of confidence in Post Office as a result of regular updates about issues. It could increase the amount of time the business requires to deal with complaints about Horizon, discrepancies and shortfalls as more issues would be questioned
14.	<p>Implied term:</p> <p>Training</p> <p>Post Office would provide adequate training and support.</p> <p>Post Office would especially provide adequate training and support where:</p> <p>A) new working practices were introduced;</p> <p>B) new systems were introduced; or</p> <p>C) where Subpostmasters were required to provide new services.</p>	4	3	<p>Impact</p> <ul style="list-style-type: none"> If Post Office already provides adequate training and support, this additional terms will have minimal impact. It should be noted that the admitted term of "necessary cooperation" will likely require Post Office to provide adequate training and support. If more is required from Post Office, this could require more trainers and training sessions, a greater amount of more detailed training material, consideration of the form of training and a way to track whether the training provided had been properly instilled into the audience aimed at. The impact would be further increased if this training was also required for Subpostmaster assistants. Additional in-house training may be needed to ensure face to face contacts are giving Subpostmasters consistent advice.
END OF IMPLIED TERMS				



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<p>15.</p>	<p>Supply of Goods and Services Act 1982</p> <p>Did Post Office supply Horizon, the Helpline and/or training/materials to Subpostmasters (i) as services under “relevant contracts for the supply of services” and (ii) in the course of its business, such that there was an implied term requiring Post Office to carry out any such services with reasonable care and skill, pursuant to section 13 of the Supply of Goods and Services Act 1982?</p>	<p>2</p>	<p>3</p>	<p>Summary: The Claimants have failed to identify the relevant provisions in the contracts which show that the parties have agreed, in exchange for something else (such as a fee), to provide a service to and for the benefit of the Subpostmaster. This therefore weakens the Claimant's position on this point.</p> <p>Detail: Contracts will only fall within the Supply of Goods and Services Act if they involve one party selling a service to another party.</p> <p>The key question is whether Post Office had a contractual obligation to provide Horizon, the Helpline and training as "services".</p> <p>The Claimants have not identified any specific contractual provision in which they say Post Office assumed an obligation to provide a service. However, there is scope for an argument on this point.</p> <p>The key concern is with the NTC, in which there is a possible provision that the Claimants could say means that Post Office had an obligation to provide the Helpline.</p> <p>Impact</p> <ul style="list-style-type: none"> This is what Post Office are arguably doing already. If Post Office was required to act beyond its current practice, it would need to assess the impact of any decisions regarding the "services" when making any changes to the provision of "services" or the content of the services Post Office would face issues if it was under an <u>obligation</u> to provide the "services" if there was an outage with Horizon, if access to the training/materials or the Helpline was unavailable due to a glitch, as Post Office would be liable for making sure Subpostmasters had access to these services.
<p>16.</p>	<p>Onerous, unusual or unfair terms</p> <p>Were any or all of the express terms in the GPOC paragraphs listed below onerous and unusual, so they would be deemed unenforceable unless Post Office brought them fairly and reasonably to the Subpostmasters' attention?</p>	<p>3</p>	<p>3</p>	<p>Summary: It is likely any clause will be classed as "unfair" so long as Post Office has provided the Subpostmaster with a copy of the contract before they entered into it.</p> <p>It will be a more difficult argument if the Subpostmaster did not have chance to consider the terms before signing.</p> <p>If the terms are found to be "unusual or onerous", Post Office will need to show that it brought these terms to the Subpostmaster's attention, if it wants to rely on those terms. Some problematic terms include the right to suspend, to suspend without pay and to terminate on 3 months' notice.</p>



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				<p>Whether this is an issue for Post Office will mostly be on a fact specific basis for each Subpostmaster, as generally the practice seemed to be that contracts were provided to Subpostmaster before the agreements were entered into.</p> <p>Impact</p> <ul style="list-style-type: none"> If terms are "unusual or onerous", they would be unenforceable against Subpostmaster. If this applied to business critical terms such as termination, suspension and loss recovery then this would have a critical impact on the relationship with Subpostmasters, albeit likely limited to those Subpostmasters who never saw their full contract terms before becoming a Subpostmaster. Going forward, Post Office needs to improve its contract origination processes, with clear evidence of Subpostmasters being given access to, and time to understand, their contract terms.
<p>17.</p>	<p>Liability for Losses</p> <p>What is the proper construction of section 12, clause 12 of the SPMC?</p> <p><i>Clause 12 states "The Subpostmaster is responsible for all losses caused through his own negligence, carelessness or error, and also for losses of all kinds caused by his Assistants. Deficiencies due to such losses must be made good without delay."</i></p> <p>What is the proper construction of Part 2, paragraph 4.1 of the NTC?</p> <p><i>Para 4.1 states: "The Operator shall be fully liable for any loss of or damage to, any Post Office Cash and Stock (howsoever this occurs and whether it occurs as a result of any negligence by the Operator, its Personnel or otherwise, or as a result of any breach of the Agreement by the Operator) except for losses arising from the criminal act of a third party (other than</i></p>	<p>2</p>	<p>5</p>	<p>Summary: Post Office is likely to succeed on the major issues arising out of the construction of these clauses.</p> <p>See also the comments above in relation to implied terms regarding shortfalls.</p> <p>NOTE: This is a high level summary. This area is highly nuanced and complex and needs further significant work.</p> <p>The major challenge on these clauses whether for a "loss" to be recoverable it needs to be a real financial loss to Post Office or whether it can be an accounting loss in a postmasters accounts. The difficulty with the former is that Post Office would need to track the loss in a branch accounts and show how that loss caused it real financial detriment. This would require a significant forensic accounting exercise, tracing a loss through all Post Office's back-office accounting systems.</p> <p>Impact</p> <ul style="list-style-type: none"> Losing this point would make it very difficult for Post Office to recover losses without significant effort and details investigation into every loss in every branch.

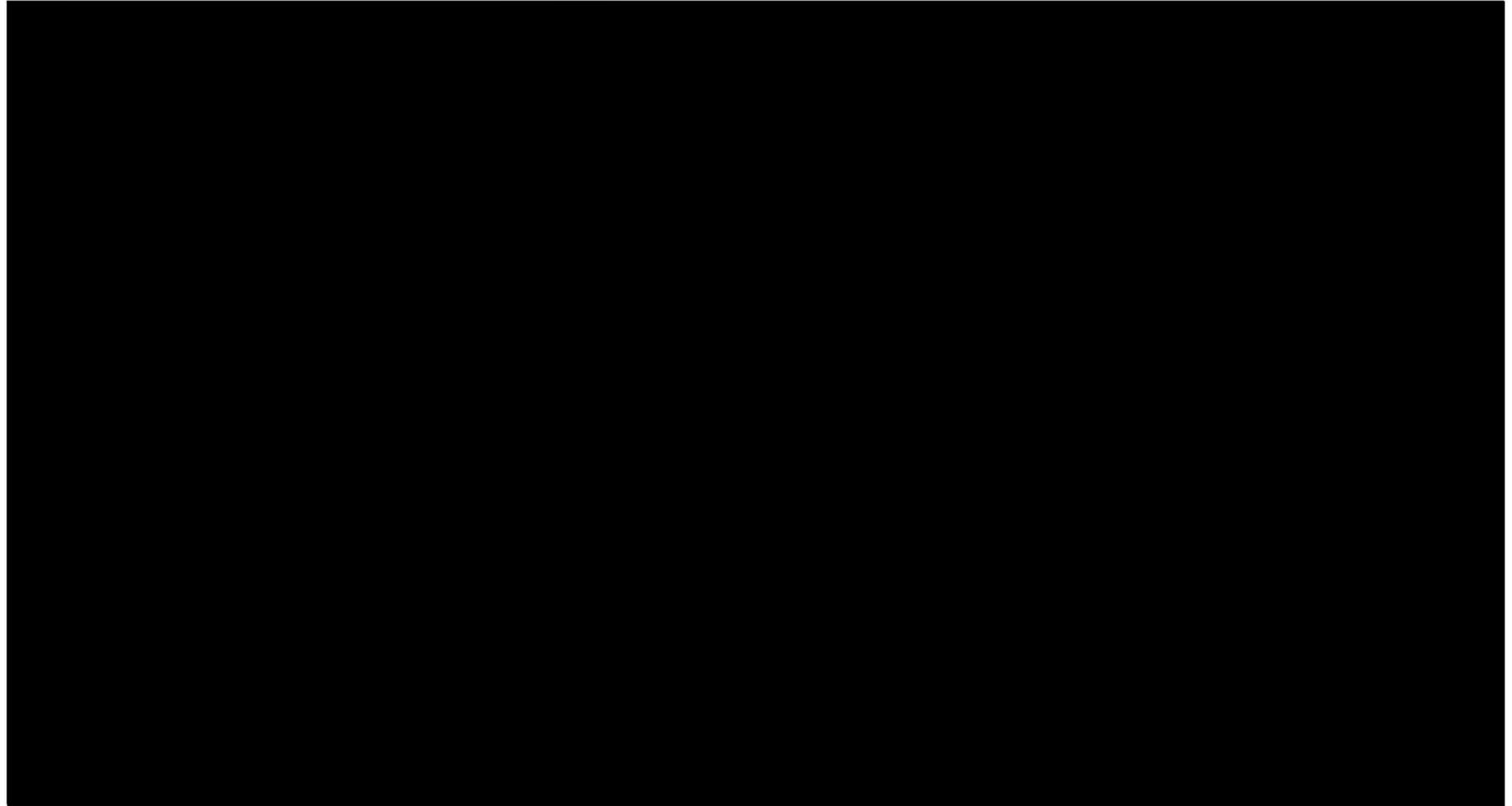


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<p><i>Personnel) which the Operator could not have prevented or mitigated by following [Post Office's] security procedures or by taking reasonable care. Any deficiencies in stocks of products and/or resulting shortfall in the money payable to [Post Office] must be made good by the Operator without delay so that, in the case of any shortfall, [Post Office] is paid the full amount when due in accordance with the Manual."</i></p>	A vertical bar consisting of a green section on the left and a red section on the right.	<ul style="list-style-type: none">• It also has the effect of shifting the burden of proof onto Post Office to show the root cause of the loss. In many cases, this will be impossible to discharge.• It may give rise to substantial claims for repayment of losses to Subpostmasters dating back many years.
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<p>20.</p>	<p>Suspension</p> <p>On a proper construction of the SPMC and NTC, in what circumstances and/or on what basis was Post Office entitled to suspend pursuant to SPMC Section 19, clause 4 and Part 2, paragraph 15.1 NTC?</p> <p>Note: the Claimants also seek an implied term in relation to Suspension.</p> <p>Post Office would not to suspend Claimants:</p> <p>A) without reasonable and proper cause; and/or</p> <p>B) when Post Office had breached its duties to the Subpostmasters.</p>	<p>4</p>	<p>2</p>	<p>Summary: There is a real risk that the court will find that there is an implied term that Post Office would only suspend SMPR where there was a <u>reasonable basis</u> for suspension on one of more of the grounds listed in the express clauses.</p> <p>Detail: The Claimants say these clauses act in a more limited way than the way Post Office has historically applied them. They seek to limit the circumstances in which Post Office can suspend Subpostmaster.</p> <p>For the most part, Counsel thinks the Claimants arguments are weak. However, there is a risk that the court could instead decide that although it will not imply a "reasonable basis" for the suspension, it may instead treat the right to suspend as a <u>discretion</u> which cannot be exercised arbitrarily, irrationally or capriciously by Post Office.</p> <p>Impact</p> <ul style="list-style-type: none"> • Post Office could still suspend but may need to take more care before exercising the right to suspend. • Ability to make quick decisions could be hindered • Concern for Post Office's reputation if it is required to keep a questionable postmasters in their position whilst investigations are carried out. • Risk to assets whilst decisions made.
<p>21.</p>	<p>Summary Termination</p> <p>On a proper construction of the SPMC and NTC, in what circumstances and/or on what basis was Post Office entitled summarily to terminate?</p> <p>Note: the Claimants also seek an implied term in relation to summary termination.</p> <p>Post Office would not terminate contracts:</p> <p>A) without reasonable and proper cause; and/or</p>	<p>1</p>	<p>2</p>	<p>Summary: Counsel considers it unlikely that the Claimants will be able to persuade the court to apply the limitations they propose on Post Office's power to terminate, either by way of an implied term or as a matter of construction.</p> <p>Detail: The Claimants are seeking to limit the circumstances in which Post Office can end their agreement with a Subpostmaster without any notice or hearing i.e. relationship ends immediately on Post Office's say so.</p> <p>Counsel does not think the Claimants are likely to persuade the court of their version of how this power should, in their view, operate.</p> <p>Impact</p> <ul style="list-style-type: none"> • Post Office could not terminate when it had committed even a trivial breach of contract. This would allow many Subpostmasters to contest the validity of their terminations.



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	B) when Post Office had breached its duties to the Subpostmasters.			
22.	<p>Termination on Notice</p> <p>On a proper construction of the SPMC and NTC, in what circumstances and/or on what basis was Post Office entitled to terminate on notice, without cause?</p> <p>Note: the Claimants also seek an implied term in relation to termination on notice.</p> <p>Post Office would not terminate contracts:</p> <p>A) without reasonable and proper cause; and/or</p> <p>B) when Post Office had breached its duties to the Subpostmasters</p>	2	3	<p>Summary: On the face of it there is no legal reason why the 3 (SPMC) and 6 month (NTC) notice periods should be construed any differently than as they are set out in the contract, as the words are plain and clear.</p> <p>Detail: Counsel does not consider that the court will read in a requirement, as requested by the Claimants, that Post Office must "<i>conscientiously consider what period of notice to give</i>".</p> <p>However, Counsel is concerned with the 3 month notice period, as this is a very short notice period for agreements of this kind. The Judge may have some sympathy with the Claimants on this point and may seek to moderate the contract in some way on this point eg. by extending the notice period.</p> <p>Counsel is less concerned with the 6 month NTC notice period.</p> <p>Impact</p> <ul style="list-style-type: none"> Post Office could not terminate when it had committed even a trivial breach of contract. This would allow many Subpostmasters to contest the validity of their terminations. The Claimant's proposed implied term would prevent Post Office from terminating on notice unless a Subpostmaster was in breach of contract. This would limit Post Office's ability to restructure its business by moving on agents who were no longer financially viable or in line with future business requirements.
23.	<p>Termination – Minimum 12 Months' Notice</p> <p>Do the express written terms of the SPMC and NTC between Post Office and Subpostmasters represent the true agreement between the parties, as to termination (in this regard, the Claimants rely on <i>Autoclenz v Belcher</i> [2011] UKSC 41)?</p> <p>If not, was the "true agreement" between the parties as alleged at GPOC, para. 71?</p>	1	3	<p>Summary: This is the Claimant's alternative formulation for its arguments in relation to termination rights. In essence, the Claimants are saying that the standard Subpostmaster Contracts are a sham and should be ignored. Instead, Post Office should not be able to terminate on less than 12 months' notice.</p> <p>Counsel thinks Post Office will win this point. Counsel's view is that Post Office is likely to succeed on the true agreement issue because:</p> <p>a) the <i>Autoclenz</i> principle is of limited application as the dispute does not focus on employment status</p>



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	<p>Paragraph 71 alleges that the "true agreement" was that termination had to be on reasonable notice (which was never less than 12 months).</p>			<p>b) the Subpostmaster contracts are "ordinary" or "commercial" agreements, made business to business and so the Autoclenz principle shouldn't apply</p> <p>c) the Claimants haven't stated any new express terms on termination;</p> <p>d) there is no conduct to suggest that the "true agreement" is what the Claimants allege;</p> <p>e) it is difficult to see how the Claimants can argue on the one hand that the termination provisions do not represent the "true agreement", but the rest of the contract does.</p> <p>Impact</p> <ul style="list-style-type: none"> See comments above in relation to Summary Termination and Termination on Notice.
<p>24.</p>	<p>Assistants</p> <p>Did SPMC section 15, clause 7.1; NTC, Part 2, clauses 2.3 and 2.5 and/or any of the implied terms contended for by the parties and found by the Court purport to confer a benefit on Assistants for the purposes of section 1 of the Contracts (Rights of Third Parties) Act, and if so which of these terms did so?</p> <p>What was the responsibility of Subpostmasters under the SPMC and the NTC for the training of their Assistants?</p>	<p>3</p>	<p>3</p>	<p>Summary: There is some risk that assistants had directly enforceable rights against Post Office in relation to training.</p> <p>Post Office accepts that it was required to provide Subpostmaster with training materials which allowed them to train their assistants, but its insists that assistants are trained by Subpostmasters. It denies that it had any duty to train assistants or that assistants could directly enforce such rights against Post Office.</p> <p>Counsel's view is that Post Office is unlikely to be required to train assistants and that this duty rests with the Subpostmaster.</p> <p>Impact:</p> <ul style="list-style-type: none"> Significant additional costs would need to be incurred to train all assistants in the network.

NOTE: Three issues (Compensation for loss of office x 2; Subsequent appointments) have been removed as from the latest Individual particulars of Claim these issues no longer arise

Opportunity to control FRES

Authors: Colin Stuart & Chrysanthy Pispinis

Sponsor: Owen Woodley

Meeting date: 31st July 2018

Context

The Post Office has an opportunity to acquire Bank of Ireland's 50% interest in FRES. In the context of Project Peregrine (the wider BoI negotiations), BoI has indicated that it would consider an offer for its FRES stake. This paper sets out the questions we need to answer to fully assess this opportunity and provides an interim update. Any acquisition of FRES is inextricably linked to the wider Peregrine negotiations and their potential outcomes, including resolving the mismatch of interests on FRES costs.

Questions addressed in this report

1. Why should Post Office consider an acquisition of FRES?
2. What is the value to Post Office?
3. How might we fund an acquisition?
4. What price might BoI accept?
5. What do we recommend and what are the next steps?

Conclusion

1. FRES is an attractive business for the right price - one where Post Office has a market leading position and is the only potential buyer. There are several strategic, customer, financial and operational attractions to an acquisition, including increased control of the value chain, receiving 100% of the returns, being more responsive to changing customer needs and wider strategic integration (Hub, Retail etc.).
2. From our work so far, we believe a fair valuation for 50% of the business is £260m to £300m. Under our ownership we see cost synergies worth c£10m p.a. - with a NPV of £80m to £100m - as well as strategic and customer benefits that come from taking control. Fully understanding the value to Post Office of such a transaction, including for our customers and agents, requires significant additional work and resource. We would also need to fund FRES's working capital support of c.£100m.
3. Objectively, BoI's minimum price range should be similar to our view, but for that they would have to believe that FRES's plans are optimistic, that the current cost mismatch should be included and that a control premium is not appropriate.
4. We would struggle to fund this in one go; we can create some funding capacity, but this would obviously limit cash flow for other priorities significantly. We could sell other business lines to raise funds, but they would likely be on lower multiples. It should also be noted that any funding arrangements will require the approval of our shareholder and the Treasury - a process that is likely to take several months.
5. Additionally we believe, as do our advisors, that the immediate priority is to progress the Peregrine discussions to achieve a rebalancing of the economics with c£16m of additional annual commissions being sought for Post Office from FRES. The revised economic arrangements can then form the basis of any takeover offer from us.
6. In conclusion, we recommend reverting to a potential acquisition later in the year once Peregrine is concluded and we have done further work on analysing the strategic growth opportunities from full control. In the meantime, we are exploring opportunities to drive near term synergies and increase influence over pricing.

Input Sought

The Board is asked to support the recommendation and next steps.

The Report

Why should Post Office consider an acquisition of FRES?

7. FRES is an attractive and profitable business with a leading market share position in the UK market. Post Office generates c.90% of its profits, and its Retailer business could present growth opportunities.
 - In 2017/18, FRES generated profit before tax of £85.1m, giving each of Post Office and BoI a dividend of £34.5m after tax. As at March 2018, FRES group had net assets of £133m, including loans of c.£100m from BoI.
 - Resolution of the FRES/Post Office cost mismatch would reduce FRES profitability to the tune of £16m per year.
8. There would be a number of benefits to Post Office in taking 100% of FRES, including full control over some of the wider strategic opportunities.

Strategic benefits

9. An acquisition would align with our North Star ambition to remain #1 in travel money. It would give Post Office much more control over its value chain in travel money – a market that customers associate with Post Office and its heritage. It would put future development under our control, better enabling us to leverage our strong market position and new developments like Customer Hub, and also enable us to respond to changing consumer needs, competitive pressures and disruptive business models.
10. It would also allow Post Office to control its own relationships across wholesale FX cash suppliers ensuring we are receiving best in class supply rates.
11. The current FRES joint venture agreement with BoI is evergreen. An acquisition would remove Post Office from a complex and convoluted set of contractual arrangements. Indeed, there is little scope in the current commercial construct to terminate the agreement or force an acquisition of BoI's share.

Customer benefits

12. The foreign exchange market is rapidly becoming more competitive with Fintechs like Revolut disrupting the market and increasing customer expectations. The business will need to become more responsive to changing customer needs. This will demand increased levels of agility and innovation.
13. The synergies of owning FRES sit comfortably with our aspiration to be a relevant financial services provider and will support building our brand beyond travel services to a new younger audience:
 - The current average age of Azimo, Transferwise, etc. customers in the UK is mid-thirties. In contrast, over 50% of Post Office customers who buy FX in branch are over 55 and the average Post Office TMO customer is 49.
14. From a FRES client standpoint, there are three main groups:
 - Wholesale: buy/sell of bulk currency (BofA, MoneyCorp)
 - Retailers: High street FX operators such as Post Office, TUI, John Lewis, Debenhams
 - Corporate: Implant bureau locations at corporate premises BAE, Morgan Stanley

15. We would recommend closing the corporate sites (as non-core) and seeking the associated discount from any purchase price.

Financial benefits

16. Post Office would capture all the returns currently associated with FRES and realise synergies.
17. FRES profitability will continue to remain challenging (UK YOY cash FX sales are estimated to be 9% below last year), with many disruptors currently prepared to forego profits for market share. At the same time, the regulatory environment is becoming ever-more complex and demanding (e.g. AML).
18. Should we purchase FRES (at the right price), future success will depend on our product integration capabilities and ability to quickly respond to evolving customer demand.

Operational benefits

19. On the whole, the FRES structure is representative of Post Office's whereby it consists of Exec team, Finance, Legal, Product, Client & Operations, Customer services, HR, Risk, IT, Back Office, Distribution, Sales & Marketing. Current headcount is c.280 employees.
20. However, the critical business area within the FRES purchase is the team who operate the "FX Wholesale services" and are therefore ultimately responsible for the supply and management of foreign currency stocks to both the Post Office and other FRES clients. A deeper understanding of how this function operates and interlinks with BoI is required to ensure that any purchase does not put this area of the business at risk.
21. A single business (rather than a JV) will provide a single culture to win in the marketplace, in contrast to the current FRES culture of delivering shareholder value at all costs.

What is the value to Post Office?

22. Determining the value of FRES to Post Office will be a key consideration for the price we might be prepared to pay for BoI's 50% share.
23. Preliminary desktop estimates indicate that c£10m of annualised cost synergies could be driven out by Post Office over time (combining supply chain operations, rationalising field teams, functional overlap) with estimated one-off access costs of c£7m.
24. This requires more work and further information on the business, which we can progress at a later stage. We will also investigate how the benefits might be accessed under the current ownership arrangements.

How might we fund an acquisition?

25. As noted in the June update paper, there are several options to fund an acquisition: internal; external; upfront; or phased over time – and there are a number of questions that we need to answer to come to a conclusion. The progress we have made in answering those is as follows:
 - What is the baseline facility and security headroom in our forecasts?
 - For 2018/19 the forecast facility headroom is between £250m to £400m across the year. Ongoing work with KPMG has identified that in-month

- headroom is less than month end by an average of c.£55m. However, over the Christmas/New Year period where period end forecasts are low and the intra period peak is very high, the in-month variance is c£200m to £300m.
- Taking intra-period peaks into account suggests headroom is estimated to fall to c£180m in P5 and c£150m in P10.
 - The above estimates do not include the impact of Cash Management Programme headroom benefits of or further opportunities to reduce cash in the network. These initiatives require further analysis.
 - What is the crossover to the Banking Framework and could our banking partners help to fund it?
 - The additional estimated network cash to grow the banking framework is currently assumed to come from existing facilities. However, the opportunity exists to approach banking partners to fund this as part of revised framework arrangements.
 - Could we sell another business line (e.g. Telecoms)?
 - The Telecoms business is potentially separable and arguably non-core to Post Office. Initial valuation work with Fenchurch suggests a sale value of £70m to £80m. However, the Telecoms business generates a contribution of more than £30m a year for Post Office, so a disposal would have a significant impact on profitability and is not recommended.
 - The other potentially separable business is Post Office Insurance. Internal valuation work suggests a value of £90m to £100m. However, Post Office Insurance is core to Post Office's strategy and much of its value lies in how we can develop it – disposing of the business now is not recommended.
 - Would we seek to fund the acquisition in one go, or over a period of time? Would a third party be able to help us fund it?
 - The profits of FRES itself would provide Post Office with £35m to £45m a year of additional cash. This could either increase headroom, be used to repay a third party, or pay instalments to BoI. The issue is the potential cost of the arrangements with any third party, which is likely to seek "private equity" type returns of 15% to 20% a year.
 - What existing FRES funding would we need to cover?
 - FRES has a loan from Bank of Ireland of c.£100m which funds FRES's working capital. We would need to replace this funding, either internally or externally, after any acquisition.
26. In summary, we would struggle to fund the acquisition in one go, though we could create some funding capacity. Our 3-year investment plan spend is £450m, of which £250m is allocated to DMBs and IT. Allocating significant spend to this acquisition would limit free cash flow for Mails and other potential priorities. We could sell businesses, but would be doing so on lower multipliers. It should be noted that any funding arrangements will require the approval of our shareholder and Treasury – a process that is likely to take several months.

What price might BoI accept?

27. There are a number of questions that we need to answer to come to a conclusion on what price we think BoI might accept. The progress we have made in on these is as follows:

- What might BoI's view be of FRES's future profit trajectory?
 - The FRES 3-year plan base case shows grow in profits, which would translate into BoI's 50% share increasing from £35m to £45m. This lacks credibility, as profits have been falling slightly, but will set BoI's negotiating position. BoI will potentially take this at face value, although we would argue that it is optimistic. A DCF valuation based on this suggests a value to BoI of **£320m to £365m**.
- How should we handle the mismatch issue from a negotiating standpoint?
 - The mismatch issue has been discussed as an integral part of the wider Peregrine negotiations and correcting it would reduce FRES profitability by £16m a year. A DCF valuation based on this suggests a value to BoI of **£265m to £312m**. Whilst BoI has consistently stated that any correction of the mismatch would be disregarded in determining an acquisition price, it will impact future profit trajectory.
 - From our discussions with Fenchurch we believe that our best opportunity to persuade BoI on the mismatch issue is to continue with the Peregrine negotiations (including the mismatch) until substantive agreement is reached and then make an offer to acquire FRES at the lower price (should we wish).
- Can we develop a convincing rationale for why BoI might accept a lower price?
 - We would argue that BoI's approach to the mismatch issue is inconsistent and that FRES's 3 year-plan is optimistic, even in the base case, and point to past history of slightly optimistic budgeting.
 - It is also worth noting that BoI would not be able to sell its share to anyone else, and that there is no FRES business without Post Office.
 - Taking these factors together would give a DCF value to BoI of **£260m to £300m**
- What is an objective view of BoI's minimum price?
 - Objectively, BoI's minimum price is in the range **£260m to £300m**. However, getting to that price requires BoI to believe that FRES plans are optimistic, that the profit misalignment should be included and that a control premium is not appropriate.
 - Additional factors to consider are the significant impact a sale of FRES would have on BoI's UK business and its public statement that FRES is an evergreen JV and part of its UK strategy (Investor Day June 2018). It may be that in the end, BoI decides it cannot afford to sell at any reasonable price.
- What might be the reaction if we made an exploratory offer and what impact might this have on the rest of our negotiations?
 - An exploratory offer would test BoI's perspectives on valuation.
 - However, BoI has shown high sensitivity on the subject of FRES in the past, and a low exploratory offer may frustrate them and jeopardise the outcome of the wider Peregrine discussions.

What do we recommend and what are the next steps?

28. In conclusion, and on discussion with our advisors, we do not think now is the right time to make an offer on BOI's share in FRES, for the following reasons:
 - a. There is a high likelihood we would be over-paying for BoI's share
 - b. It would present us with a funding challenge and limit optionality in other areas; selling other businesses would be on a lower multiplier
 - c. We should focus on resolving the cost mismatch in the first instance
 - d. There is more work to be done on the strategic opportunity of FRES, the value to Post Office, and how we should manage the business
29. We recommend progressing the Peregrine discussions to achieve a rebalancing of the economics of FRES with c£16m of additional commissions being paid to Post Office from FRES. The revised economic arrangements for FRES can then form the basis of any takeover offer by Post Office at a later stage.
30. We also recommend considering our options to evolve the FRES business and how we manage it, even if we do not buy it. This can cover:
 - a. Work with BoI to deliver some of the synergies identified (e.g. shared costs, one digital proposition)
 - b. Work with FRES to better understand areas of growth, e.g. pursuing opportunities in the Retailer space
 - c. Drive for more transparency on pricing and review pricing decision-making governance
 - d. Review FRES governance, including the Board set-up and Executive team
 - e. Explore – as part of Peregrine – a variation to the existing evergreen arrangement, including regular windows to consider strategic ownership of the business.

Appendix 1: FRES P&L

Budget 18/19	On-Demand £m	Pre-Order £m	TMO £m	TMC £m	Retail £m	Wholesale £m	IP £m	Corp £m	O/H £m	FRES £m
Sales	1,619	91	608	437	2,755	16,526	62	1,337		20,680
Gross Trading Income	103.9	6.0	13.1	21.5	144.4	19.9	1.2	5.5	0.5	171.5
POL Fee	(23.7)	(0.5)	(1.8)	(3.6)	(29.6)	0.0	(0.0)	0.0		(29.7)
Net Trading Income	80.2	5.5	11.3	17.8	114.8	19.9	1.2	5.5	0.5	141.9
Variable Direct Costs	(0.4)	(1.6)	(3.8)	(6.2)	(11.9)	(8.7)	(0.1)	(2.3)		(23.0)
Marketing	(1.8)	(0.1)	(1.6)	(0.9)	(4.3)	(0.0)	(0.4)	(0.2)	(0.4)	(5.3)
Overheads	(2.1)	(0.5)	(1.8)	(2.0)	(6.5)	(3.9)	(0.0)	(1.1)	(17.1)	(28.6)
Total Costs	(4.3)	(2.2)	(7.2)	(9.1)	(22.7)	(12.6)	(0.5)	(3.5)	(17.5)	(56.9)
PBT	75.9	3.3	4.1	8.7	92.1	7.3	0.7	1.9	(17.0)	85.0

Actual 17/18	On-Demand £m	Pre-Order £m	TMO £m	TMC £m	Retail £m	Wholesale £m	IP £m	Corp £m	O/H £m	FRES £m
Sales	1,636	91	498	353	2,577	16,605	52	1,106		20,340
Gross Trading Income	104.9	6.2	11.7	18.7	141.5	20.6	1.0	4.9		168.0
POL Fee	(23.3)	(0.5)	(1.3)	(3.0)	(28.1)	0.0	(0.0)	0.0		(28.1)
Net Trading Income	81.6	5.7	10.3	15.7	113.3	20.6	1.0	4.9		139.8
Variable Direct Costs	(0.2)	(1.6)	(3.8)	(5.2)	(10.8)	(8.6)	(0.1)	(2.5)		(22.0)
Marketing	(1.8)	(0.1)	(1.4)	(0.8)	(4.1)	(0.0)	(0.5)	(0.1)	(0.5)	(5.2)
Overheads	(2.1)	(0.5)	(1.5)	(1.9)	(6.1)	(4.3)	(0.0)	(1.2)	(15.9)	(27.6)
Total Costs	(4.1)	(2.3)	(6.7)	(8.0)	(21.1)	(13.0)	(0.6)	(3.8)	(16.4)	(54.8)
PBT	77.5	3.5	3.6	7.7	92.3	7.7	0.4	1.1	(16.4)	85.0

Appendix 2: Potential Synergies (preliminary view)

Potential cost synergies £m	Rate	Applied to £m	Benefit pa	Access cost
1. Wholesale operations savings - bring FRES Shepperton supply chain operations into Hemel	30%	9.5	2.9	(2.9)
2. Disband the FRES field team and transfer duties to existing POL teams	100%	1.8	1.8	(1.4)
3. Reduce costs associated with Corporate Income (M&S, etc) whilst retaining income. Decrease cost to income ratio from 67% to 50% (compared to 27% for on-demand)	17%	4.5	0.8	(0.4)
4. Merge head office teams and achieve an overall 20% staff cost reduction	20%	14.3	2.9	(2.1)
5. Renegotiate TMC running costs contracts and achieve 15% reduction	15%	6.9	1.0	0.0
6. Rationalise marketing across POL and FRES to improve efficiency. Achieve a 15% reduction	15%	5.0	0.8	0.0
7. Cost savings across various categories	20%	4.9	1.0	0.0
Total positive synergies			11.1	(6.8)
8. Costs of replacing the currency dealing credit line for FX acquisition (no charge currently from BoI)			(1.0)	0.0
Total net cost synergies			10.1	(6.8)

Update on Project Everest

Author: Jeff Lewis Sponsor: Rob Houghton Meeting date: July 18, 2018

Context

Everest is the Fujitsu renegotiation strategy constituting a revenue swap agreement which reduces operating expenses in return for committing our cloud and digital development strategy for the upgrade of the Horizon platform with Fujitsu. A Memorandum of Understanding (MoU) was signed with Fujitsu, November 2017. The MoU enables Post Office to break the fixed price nature of the Horizon Agreement, reduce operating expenses and reinvest the savings in strategic cloud and digital technology. This paper details the progress on implementation of the MoU principles, and the next steps

Questions addressed in this report

1. What has been achieved since signing the MoU?
2. What are the open items and how are they being completed?
3. What is the value of operating expense savings secured?

Conclusion

Project Everest has achieved a positive result in respect of its original objectives, with a number of change notes signed or ready to be signed. These meet the goals of breaking the fixed price model, securing future digital IP, securing Fujitsu as a digital partner and delivering significant operating expense reductions in Application Support and Maintenance. Due diligence and agreement on the move to the new cloud platform (Azure) will be completed by end August. Embedding the new services and models and driving cultural change will be delivered through a BAU project.

Input Sought

We invite the Board to note that we will:

- close Everest, complete transition and embed the new service models / operating processes through a BAU project
- separate out the Belfast and run this as a programme which will seek separate agreement from the board.

The Board has already agreed the principle of moving to variable cost and migration to Azure, the Belfast exit programme will set out how and when this should take place.

The Report

What has been achieved and signed since MoU approval?

1. The ability to redirect committed contractual spend out of operating expenses into new capital expenditure for development of the Horizon platform on strategic technologies.
2. The move to a variable based charging model from effectively 95% fixed capacity model.
3. Substantial reductions in charges for the Application Support and Maintenance (ASM) operating expense charges for "legacy Horizon", where we currently pay >£9m per annum:
 - Creation of development capacity from within current ASM service, to work on agreed capital projects, reducing operating expenses by up to £3m per annum (£13.4m in total.) Post Office and Fujitsu will cooperate to optimise the use of the development capacity across the Post Office IT change portfolio.
 - Guaranteed reduction of operating expenses of £6m (2018/19 - 2022/23) through operational efficiencies driven by an investment.
 - Target incremental reduction in operating expenses as we move to new digital / thin client applications from HNGA. Post Office target total savings £2-4m.
4. The principle that Fujitsu will be our digital development partner under a Digital Development Services (DDS) contract and Post Office will commit to a level of revenue for reduction in the development charge rates.
 - Contract and schedules agreed;
 - Charge rates for all services represent 25% reduction against the time and material rates paid prior to DDS;
 - The day rates for DDS have been benchmarked against Gartner data and are mid-range (average) against market rates for UK custom development;
 - Outcome based delivery with performance remedies for Post Office; and
 - Post Office commits to a minimum spend on DDS projects of £21m over 3 years. This is primarily filled through HNGT/ Solar and Agent Portal and "commissioned" in line with approved business cases.
5. The principle that PO will own all IPR for digital developments.

What are the open items and how are they being Completed?

6. Changing the cultural ways of working – limited progress from both sides, with a mix of strong change agents and reticent behaviours. A renewed emphasis will be placed on achieving this, using the transition to and embedding of the operational changes as a focal point. Joint initiatives will potentially include, leadership team and delivery IT briefings, mixed team risk mitigation workshops and participation in each other's internal communications.
7. Next phase of Belfast Exit and migration to Azure is undergoing further due diligence. The next steps are:
 - Understand the guaranteed hosting / related services savings, and ensure that these are aligned to the original commitments made (for K5);

- Understand the assumptions that are driving a forecast late delivery into Azure (May 19);
 - Fujitsu committed that Post Office would not have to pay for cloud enablement costs in Azure, having already paid for K5. Ensuring the parameters around this principle are clear, agreed and delivered is part of the due diligence work; and
 - Once agreement of a plan and associated costs are agreed we will proceed to a phased implementation under specific work orders.
8. In line with the revenue switch principles, Post Office will contract for capital projects to meet the committed Fujitsu contractual spend. Excluding 2017/18 and the IPR this value is approximately £80m. This commitment will be managed closely to mitigate any risk of underspend.

What is the value of the agreed Changes?

9. The benefits and risks from Everest are generally in line with the expectations from the May update. The overall operating expenses reduction is £35 -£38m for 2017/18 – 2022/23.
10. At the May Board we presented an aggressive target of £42m operating expenses reduction (from £141m to £99m). The reason for the difference is that Fujitsu were not prepared to commit to all of the revenue switch targets Post Office was seeking.
11. The Contract Change Note to be signed for ASM will generate £19m of operating expense savings up to 2022/23, with the potential for a further £2-4m as Post Office moves to a digital application service base.
12. The target savings from a move to cloud is £14-15m over the same period.
13. This represents a 30% reduction for 2018/19 to 22/23, including in year savings of £4.0m.

Everest Opex status - Jul 18	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
	£m	£m	£m	£m	£m	£m	£m
Contracted Opex	24.9	24.4	23.6	22.9	22.6	22.6	141.0
AS&M Opex to Capex	-	(2.5)	(2.8)	(2.7)	(2.7)	(2.7)	(13.4)
ASM Contracted Savings	-	(1.5)	(1.5)	(1.0)	(1.0)	(1.0)	(6.0)
Agreed Contract Changes Sub Total	24.9	20.4	19.3	19.2	18.9	18.9	121.6
Guaranteed Cloud Savings -15%	-	-	(0.7)	(2.1)	(2.1)	(2.1)	(7.0)
Target ASM savings -HNGA outcomes	-	-	-	(0.5)	(1.0)	(1.0)	(2.5)
Target Cloud Savings - 15%	-	-	(0.7)	(2.1)	(2.1)	(2.1)	(7.0)
Existing Services Sub Total	24.9	20.4	17.9	14.5	13.7	13.7	105.1

14. In order to meet the overall contractual spend commitment an equivalent increase in capital expenditure is required and this shift is demonstrated below. The increase in overall spend was agreed at May Board.

Total Fujitsu Spend £m	Contracted	Everest	Everest Var
Opex	141.0	105.1	(35.9)
Capex	54.7	100.5	45.7
Total Spend	195.7	205.6	9.9

Back Office Transformation

Authors: Tim Armit, Benjamin Cooke, Michael Clements, **Sponsor:** Alisdair Cameron **Meeting date:** 31 July 2018

Executive Summary

Context

In May, the Board approved a revised plan for the removal of POLSAP, with go live in September or October, recognising that September was the first possible date, with no contingency.

Agents Pay is already operating on the new systems. Cash processing is working in Belfast. The main future delivery is ensuring that sales and cash data will be delivered to and processed in SAP CFS and Transtrack CWC without going via POLSAP, enabling cash management and forecasting, settlement and billing with clients and financial reporting.

Questions addressed in this report

- 1) What progress has been made and when is go-live expected?
- 2) Should we invest to stabilise POLSAP infrastructure?
- 3) What assurance will we have that we will go-live safely?
- 4) How would we recover if we went live badly?

Conclusion

POLSAP process migration has progressed in line with the revised plan, with integration testing now in Phase 3 and data validation testing having completed two cycles, with 99% matching and all differences explained. Cash processing is in Phase 2 of Integration Testing.

A systems design change in Transtrack had a knock-on impact on the design of four Horizon interfaces. This has delayed testing and made September go-live impossible without a compromise on testing standards.

Two issues are being worked through to ensure October go-live: ensuring that high-volumes of data can always be processed within the overnight time frames; and resolving some specific issues within cash forecasting to ensure that the right denominations can be sent to individual branches.

POLSAP infrastructure has remained stable and we have more than 6 months' worth of spares. As a result the CIO has recommended and Steering Group agreed that we do not invest in an upgrade now. This is being continuously monitored.

The original re-plan was necessitated following a full review of proposed testing. We believe that our test approach is complete and provides assurance. Deloitte has reviewed the re-plan and has not recommended any material changes. In addition, we have commissioned DMW to review the test approach to ensure we are covering all bases.

Prior to go-live we will be getting additional assurance from Accenture's QA team over the deployment plans and will ask DMW to validate test results against our go/no-go criteria.

The Go/No Go criteria will give substantial assurance that the new systems are operating. We will have observed two days' live trading posted to CWC and CFS with settlement and billing calculated, cash movements processed and trial balance produced and matched. If we can't see these things operating, we will not go live. We will therefore have a high degree confidence that our basic operations will work and that errors and issues will be specific and capable of being resolved.

Nonetheless, we have assumed the worst and considered how we would manage in the event of failure. Reverting back to POLSAP would be difficult and would not be our preferred route unless the failure was very rapid and significant. Our assumption is therefore that we would seek to manage and fix.

These are not customer facing systems and in the event of failure there will be no direct or material customer impact. All of the activities including settlement have had to operate manually at some point and workarounds are available. For example, we can pay clients from Horizon and Credence data – and sometimes do so. We can estimate agents pay based on similar data and the prior month, etc.

The greatest challenge will come if we have to operate manually for an extended period. We will increasingly have to fund the branches to a higher value to ensure no one runs out of cash, reversing recent efficiency gains. We will struggle to resolve branch imbalances.

In the event of an extended period of manual working, the biggest challenge will be reconciling balances and resolving issues retrospectively as the team will be focused on managing BAU. We are therefore exploring with Accenture whether we should create a capacity offshore to trigger additional resolution support if needed.

On this basis we plan to continue working towards October go-live.

Input Sought

The Post Office Board is asked to note the contents of this report, requesting additional information as appropriate.

The Report

What has happened since last update?

1. Since the last board update the project has made significant progress. Our future processes/systems are demonstrating their readiness through end to end integration testing:
 - POLSAP Process Migration Project is now into Integration Test Cycle 3 and Data Validation Test Cycles 1 and 2 are complete, including settlement data validation to the satisfaction of the business (>99% match with all differences explained)
 - Cash Processing Project is now into Integration Test Cycle 2 with Cash Forecasting volume testing starting
2. Challenges have occurred in 3 areas that prevent a September Go-Live:
 - **Horizon Interface delays:** A late system design change had a knock-on impact on 4 Horizon interfaces, with adequate time for re-test this pushed our critical path to 8th October at the earliest.
 - **CFS High-Volume performance:** Settlement & billing processes are working as designed, yet at the scale of 1.5m transactions per day new challenges have come to light and are being worked through (good progress is being made on this topic)
 - **Cash Forecasting:** The new approach is very different to Post Office's current manual method – as test data is loaded in new requirements have occurred that may not be simple to deliver but may have a negative impact on cash balances post-live. These need evaluating and testing at scale.
3. Full clarity on two of the issues is not expected until the end of July, so will have more confidence in answering this question in August. Based on this uncertainty, five potential go-live dates are being evaluated from October to February.

Should we upgrade POLSAP infrastructure?

4. POLSAP is a business critical system used to settle £60bn to clients each year and manage ~£600k per day of cash across our network. A number of components sit outside our desired risk tolerance. In parallel to Back Office transformation a number of mitigation actions have taken place both to reduce the likelihood of failure and increase our resilience to component failure including: increasing onsite spare part stocks, holding "hot" spares, migrating to the new Belfast network and changes to working practise.
5. Whilst POLSAP remains outside of our desired risk tolerance the mitigation actions taken have improved our position since our last report, and none of the statistics being monitored have worsened. Post Office's IT leadership and the Fujitsu (infrastructure) and Accenture (application) service management teams are confident on their ability to continue to run the application until at least March 2018, likely longer. This position will be monitored monthly and should any of the underlying fundamentals change we have a prepared upgrade/migration fall-back plan, with enough spares to be confident in keeping the system stable until it delivers.

Why do we think when we do go live, we will do so safely?

6. By the time we go-live the program will have conducted stringent testing, met our Go/No-Go criteria, and completed a deployment activity which proves new functionality is operating before choosing not to continue POLSAP and releasing the new systems.

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7.3rd party assurance has completed for our plans, is underway on our test coverage and scheduled for our detailed deployment approach. Further detail on this assurance and our Go/No-Go Criteria is included in the appendices.

8. The diagram below shows the impact of designing POLSAP out of our architecture. The **POLSAP Process Migration** and **Cash Processing** projects are mostly distinct but must Go-Live together.



9. There is no change occurring to systems that interact directly with Post Office customers. In the worst case, our fears are that the Post Office would be unable to:

- Settle to clients
- Forecast and supply adequate cash to branches, potentially leaving customers unable to withdraw funds
- Report accurate financials

We have plans for the worst eventualities and are working hard to ensure that they cannot occur.

Test Summary

10. Each project is conducting the following testing:

- Process – 950 end-to-end process script per cycle, SIT1, SIT2, SIT3 & UAT
- Data – 3 data extract, transform, load and validate cycles
- Performance – High volume process testing at peak loads

11. Specifically, for our highest risk areas we will have demonstrated:

- Cash forecasting using actual historical data comparing the 13 week forward forecast against our POLSAP's forecast.
- 2 months of historical production Sales/Settle/Bill data validated against actual payments

12. We have engaged DMW to provide external assurance that our test scope adequately covers everything it should, they will also validate our results. Appendix 1 contains an overview of all our external assurance, which includes an Accenture QA on our deployment plans. Should testing not be complete – the project will not be able to meet our Go/No-Go criteria, also included in the appendix.

Deployment Summary

13. Deployment occurs in stages:

- **Technical** - All infrastructure changes and most code/configuration will be deployed in a "technical Go-Live" weeks before our business cut-over, when our processes migrate off POLSAP.

- **Business** – During the business cut-over there are checkpoints throughout the weekend. At each if our agreed criteria are not met, we are able to roll back to a restore point (Friday noon) and abandon the Go-Live attempt.

First Checkpoint: All data is loaded and validated, interfaces activated, systems technically ready.

Once this is passed the systems will begin operational catch up, interfaces that have been held since Friday will be run and results posted into the system. Business teams will conduct staged transactions to confirm systems are operating as expected.

Second Checkpoint: Friday and Saturdays trading data is posted with settlement and billing calculated in an acceptable time window, cash order forecast matches expectation, cash movements and branch REMs process from Horizon to CWC to CFS, trial balances for P&L and balance sheet match expectation, users can access from all key locations.

Only once this checkpoint is past, is the system released to all users. At this point restore to Friday noon with POLSAP processes is planned and achievable.

14. Due to the volumes that will have processed through the system by this point we can now be sure that the solutions are broadly working as designed. Smaller issues can occur in the following days e.g. an interface file from a 3rd party not arriving on time, just as happens today. These will be resolved by the project early life support team in conjunction with our service operations team – who face these types of challenges regularly.

What will be impacted if something goes wrong, and what are our plans to deal with it?

15. Our business teams are confident that should the worst occur and significant system functionality be impaired, they could survive tolerably for 2-3 weeks. Their confidence comes from the reality that system failures over the past years have meant these plans have previously been put into action. The only possible customer impacts are A) the branch/ATM not having adequate cash, or B) customer transaction corrections slowed.
16. The table at appendix 2 outlines our resolution approach in the business areas identified as most critical.

Appendix 1

Independent assurance received, underway and planned

A number of 3rd party assurance activities have been carried out and are listed below.

Purpose: Project Delivery	Partner: Deloitte	
Program Review Mar 2018. Scope of review included plan, resource and whether the program had implemented adequate measures in response to the root cause analysis conducted following slippages in Cash Processing and POLSAP Process Migration.		
Program Review May 2018. Scope of review included updated plan and response to previous review and lessons learned.		
Purpose: Process & Technical	Partner: SAP	
Design/Solution review Aug 2017 – SAP conducted a review of our intended process design using the Agency Business (AB) module and the integration approach for largest interfaces. The report is attached and we took their recommendations. We have retained SAP expertise and assurance across our AB delivery (2-5 days a month) as the module is not very common. The assessment and recommendations are attached. They have remained involved in the program for a few days a month as we have moved forward assisting with design decisions relating to Agency Business (AB).	N/A	 POL_TFC_ReportFinal_2017CW33.pdf
Infrastructure Sizing Assurance – Initially engaged in 2017 but placed on hold as SAP's tools provided wildly different results based on small changes in our predicted transaction volumes. May be re-engaged following our high volume testing (end July) if required, we are currently in the process of taking our own measurements.	None	None
SAP Go Live Checks (standard service for SAP Go-Lives) – Scheduled for shortly prior to Go-Live	Information available online "SAP goinglive check"	Pre-Go-Live
Post-Go-Live Monitoring Support (standard service for SAP Go-Lives) – one week post go-live		one week post go-live
Purpose: Test Coverage	Partner: DMW	
DMW have been engaged to focus on (a) is the overall programme test approach adequate and (b) does the test coverage provide sufficient confidence to deliver the quality outcomes required.	SoW  DMW BOT QA	Report 31 st July
DMW will also be engaged to validate that key test results have met our Go/No-Go criteria. Scope to be agreed following the above.	Requested	End Aug
Purpose: Deployment & Go-Live Readiness	Partner: Accenture (also major program delivery partner – but QA team not project team used)	
Accenture's QA team will be conducting a review on the project focused on our deployment plans, in the first week in August.	ToR  BOT QA - Deployment Approa	Report

Go/No Go Criteria

The program has stringent Go/No-Go criteria agreed with the Steering Committee. These are tracked in the lead up to Go-Live each requiring approval from responsible owners across the Post Office outside of the project team. Go/No-Go deployment meetings are planned with the

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Steering Committee prior to starting deployment activities, and at various checkpoints in the deployment process (outlined in the next section). If the project has a material deviation from the set criteria, go-live will be postponed.

The project is subject to Post Office's "One Best Way" methodology. Prior to going live "Gate 4" approval is required, at this juncture nominated resources from all business departments have to confirm their readiness. The project Go/No-Go decisions are in addition to this process – just prior to key technical steps occurring.

Test Criteria		IT Service Criteria	
SIT I,II,III	No major or critical defects outstanding. All regression testing complete and passed	Early Life Support (ELS)	In place & agreed by all parties
UAT	No major or critical defects outstanding. All regression testing complete and passed	Knowledge Transfer (KT) & documentation	All Knowledge Transfer (KT) & Documentation complete
Forecasting/High Volume (CPT)	Key end user processes e.g. forecasting tested in peak hour load	Helpdesk readiness	Helpdesk ready, routing confirmed, knowledge articles in place
High Volume Testing (PPM)	Two months validation for settlement and billing against live historical data	Support agreements in place	Third Party support in place
Data Criteria		Deployment	
Data objects ready for migration	Scope of migration defined	Deployment plan agreed	Signed-off by key stakeholders
Data Trail Run I,II,III	Load programs, extraction, transformation, load & validation tested	Rollback plans & checkpoint decisions clear	Plan to ensure how to roll back and when if a no decision
Open Items Clean up	Open items reduced to 200,000	Configuration/Code changes ready	Finalised transport / config List
Dress Rehearsal	Data objects loaded in time during deployment dress rehearsal.	Dress Rehearsal complete	Signed-off by key business stakeholders
Project Governance		Deployment	
Data Privacy Impact Basement (PIA)	PIA signed-off by Data Protection Team	Infrastructure ready	Infrastructure uplifted as per re-sizing specification and signed off.
Architectural Review Committee (ARC)	ARC approval	No IT Security concerns	Penetration Tests show no Medium, High or Critical risks without remediation
Gate 4	"One Best Way "- Gate 4 Approval	System resilient and recoverable	High availability and disaster recovery solutions are ready.
		Technical Operations ready	Technical operations teams have documented and understood processes
Technical Performance	Performance demonstrated at appropriate scale for key processes, interfaces, end user activity and batch/system admin activities.	Local Infrastructure / Peripherals	All required local infrastructure, devices, printers and peripherals are in place
Business Readiness			
Comms ready	All comms planned, prepared and signed off	Post-Live contingency planning ready	Plans in place for late no-go decision
Role design signed off	Signed off user role design	All users trained	Users trained to a satisfactory level
Roles assigned	Users created and roles assigned	Business readiness actions complete	Business ready for go-live
Client Comms	Comms planned, prepared and signed off		

Appendix 2

Risk	Likelihood	Impact	Examples	Resolution Approach
Cash Forecasting Fails	2	4	<p>Branch runs out of cash – customer unable to access</p> <p>Branch cash increases, lifting Post Office funding requirement</p>	<p>The cash forecasting module and planned Branch Cash deliveries/collections are being tested against our current cash forecasts using 2 years of historical data. At least 2 complete months must have been checked as accurate (i.e. not leading to a branch cash out, or funding increase) to meet our test Go/No-Go Criteria.</p> <p>Historical data will be loaded into the system prior to Go-Live, and interfaces checked during cut-over. A simulation forecast of planned orders will be checked during deployment, before the system is released to all users. At this point rollback to POLSAP remains an option.</p> <p>POLSAP plans orders for 13 weeks and Christmas cash orders are created in October in advance, hence should the orders be inaccurate, they can be manually overridden for 3 months whilst issues are resolved.</p>
Client settlement & billing fails	2	3	<p>Unable to settle with clients.</p> <p>Unable to bill clients</p> <p>Settlement or billing performed inaccurately</p>	<p>Settlement and billing calculations are being checked with real historical data for a 2 month period to confirm accuracy and processing performance. These will need to be confirmed as accurate to meet project Go/No-Go criteria.</p> <p>During deployment 2 days of trading data will be run through CFS as catch up. These will be processed and checked before the system is released to all users. At this point rollback to POLSAP remains an option.</p> <p>If a failure does occur the business has a tried and tested method of paying clients from the underlying Horizon and Credence data. This can operate for an extended period. The greatest challenge would be reconciling extended data sets as CFS came back online. To that end we are working with Accenture to have a team ready to support this activity should it occur.</p>
Agent Remuneration	1	3	<p>Unable to accurately calculate agent remuneration</p> <p>Unable to pay agents</p>	<p>Agent Remuneration processes are not being changed at this Go-Live, however they are subject to regression testing (as with all CFS functionality).</p> <p>Agent pay runs a month behind actuals. The Agent pay run will be readied before go-live and held off system (or paid a couple of days early, depending on the actual Go-Live date), to ensure Agent payments can be made even in the case of system failure.</p>
Customer Transaction Corrections	2	4	<p>A customer pays a £150 bill in branch, but the Post Master only keys £15.</p>	<p>The transaction corrections system is being copied over as-is from POLSAP and has already completed 2 system integration tests, with UAT planned.</p> <p>If the system is unavailable for some reason, Customers whose bills have not been fully settled will have their accounts updated directly with our clients, but the Post Office and Branch accounts will require reconciling and updating later.</p>

Post Office Limited Sealings

Author: Veronica Branton

Sponsor: Jane MacLeod

Meeting date: 31 July 2018

Executive Summary

Context

The Directors are invited to consider the seal register and to approve the affixing of the Common Seal of the Company to the documents set out against items number 1682 to 1696 inclusive in the seal register.

Input Sought

For the Directors to resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1682 to 1696 inclusive in the seal register is hereby confirmed.

POST OFFICE LIMITED
Register of Sealings

Date
25.07.2018

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1682 / Underlease	23/05/2018	18/05/2018	Underlease relating to Post Office, 47 Cheap Street, Sherborne, Dorset DT9 3AT between Post Office Limited and Timothy Nigel Blackburn.	Jane MacLeod, Company Secretary	Jean Reynolds
1683 / Tenancy Agreement	30/05/2018	24/05/2018	Tenancy Agreement in respect of 138 Stoke Newington High Street London between Post office Limited and Universal Office Equipment (UK) Limited.	Jane MacLeod, Company Secretary	Jean Reynolds
1684	30/05/2018	24/05/2018	Rent Review memorandum between Royal Mail Group Limited and Post Office Limited in respect of East Kirbride Deliver Office, 15 Cornwall Street, East Kirbride. Please note this was executed under signature rather than seal owing to Scottish law.	Jane MacLeod, Company Secretary	Jean Reynolds
1685	19/06/2018		Honiton Crown Post Office - Deed of Release of Dilapidations.	Jane MacLeod, Company Secretary	
1686	03/07/2018	03/07/2018	Filming Licence - Post Office, Bishops Stortford.	Jane MacLeod, Company Secretary	Jean Reynolds
1687	10/07/2018	10/07/2018	Deed of Surrender relating to Ground Floor 118/120 Queensway, London W2 between: 1) MB QW (Guernsey) Limited; and 2) Post Office Limited.	Jane MacLeod, Company Secretary	Jean Reynolds
1688	10/07/2018	10/07/2018	Lease relating to premises known as Ground Floor, 118/120 Queensway, London W2 between: 1) MB QW (Guernsey) Limited; and 2) Post Office Limited	Jane MacLeod, Company Secretary	Jean Reynolds
1689	10/07/2018	10/07/2018	Deed of Surrender relating to an underlease of part of premises known as Queensway MSP/EP, 118/120 Queensway, London W2 between: 1) Post Office Limited; and 2) Royal Mail Group Limited	Jane MacLeod, Company Secretary	Jean Reynolds
1690	10/07/2018	10/07/2018	Licence to underlet relating to a lease of the premises known as Ground Floor, 118/120 Queensway, London W2 between: 1) MB QW (Guernsey) Limited; 2) Post Office Limited; and 3) Royal Mail Group Limited.	Jane MacLeod, Company Secretary	Jean Reynolds
1691	10/07/2018	10/07/2018	Lease relating to part of the premises known as Queensway MSP/EP, 118/120 Queensway, London W2 between: 1) Post Office Limited; and 2) Royal Mail Group Limited.	Jane MacLeod, Company Secretary	Jean Reynolds
1692	10/07/2018	10/07/2018	Licence to occupy relating to Units 21 and 22, The Kingstanding Centre, Birmingham, B44 9HH.	Jane MacLeod, Company Secretary	Jean Reynolds
1693	10/07/2018	10/07/2018	Agreement for Sale relating to 7-9 Church Square, Leighton Buzzard, LU7 1AA	Jane MacLeod, Company Secretary	Jean Reynolds

POST OFFICE LIMITED
Register of Sealings**Date**
25.07.2018**Company Number**
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1694	10/07/2018	10/07/2018	Licence for Alterations - premises at Ground Floor, 37 Church Lane, Pudsey, LS28 7LB. Seal x 3	Jane MacLeod, Company Secretary	Jean Reynolds
1695	10/07/2018	10/07/2018	Deed of variation relating to Pudsey Do/CO, 37 Church Lane, Pudsey, Ls28 7LB between Royal Mail Estates Limited and Royal Mail Group Limited and Post Office Limited.	Jane MacLeod, Company Secretary	Jean Reynolds
1696	10/07/2018	10/07/2018	Licence for Alterations relating to Ground Floor, 37 Church Lane, Pudsey LS28 7LB, between: 1) Post Office Limited; 2) TNB Training Limited; and 3(Richard Mark Butcher and Carol Butcher.	Jane MacLeod, Company Secretary	Jean Reynolds

Performance Review – Health & Safety

Author: Martin Hopcroft

Sponsor: Al Cameron

Meeting date: 31st July 2018

Executive Summary

Context

- 1.1 Keeping our employees healthy and safe is fundamental to Post Office success. This is reflected in the Post Office Board's legal responsibilities and members of the board have both collective and individual responsibility for health and safety.
- 1.2 We have a rolling 3-year plan to drive compliance, targeting a reduction in safety metrics including accidents; lost time accidents (LTIFR); days lost; and personal injury claims. Our H&S reporting and safety management system has been externally audited and we also recognise the importance that wellbeing can play in creating engaged and motivated employees.

Questions addressed in this report

- 2.1 It has been agreed to provide a monthly performance report to the Board for noting and a more in depth Health & Safety deep dive report 6 monthly.

Conclusion

- 3.1 There has been a good start to 2018/19 and a 54% reduction in accidents reported in Q1 compared to 2017/18 (19 v 41) and a 75% decrease in Supply Chain (6 v 24). Accidents per 1000 employees have also reduced by 52% with Supply Chain reducing to 7.5 from 29.2. Lost time accidents have also reduced and the P3 YTD LTIFR is at 0.142 compared to 0.357 in 2017/18. Total lost days are 38 compared to 152 in 17/18.
- 3.2 The Supply Chain safety plan is progressing well with the introduction of Safety Champions, forums and review of local risk assessments and safe systems of work. Further workshops are planned to support development and share best practice, and external IOSH training planned for Q2.
- 3.3 We have seen a reduction in road traffic accidents in line with the 41% fall in fleet size. We are hoping to see further improvement through the introduction in Supply Chain of Telemetry which is now in place (tracking and analysis of driving performance) and Alcolock (breathalyser integration with key management). A draft overarching Road Risk Policy is being developed and shared with Safety Board, HRDs and presented back to Ops Board in July. Concern has recently been raised that some drivers (Commercial and Business) are not complying with the 'use of mobile phone whilst driving' policy. A communication is being issued with additional compliance checks planned to reiterate the requirement to undertake online training.

3.4

IRRELEVANT

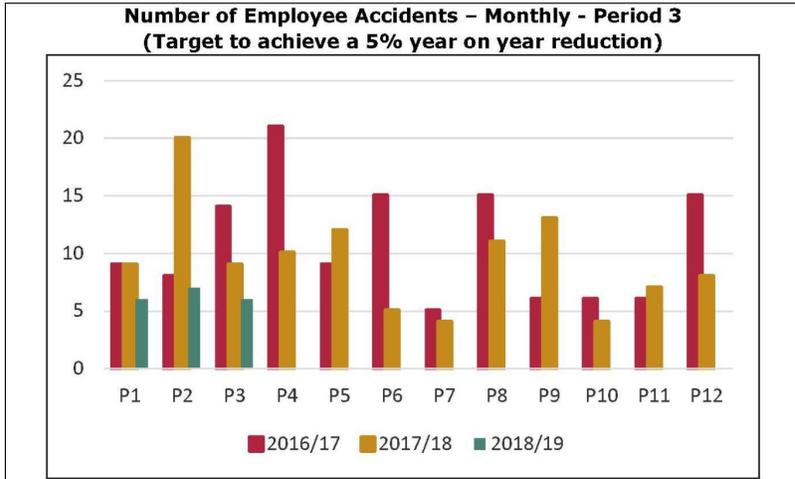
- 3.5 CVIT attacks remain low with 19 incidents over the last rolling 12mths compared to 24 during the previous 12mths. There were 2 incidents in May with one minor injury. Post Office robberies were also lower over the last rolling 12 mths at 136 (v 158). Whilst the number of robberies per 000 stores remain low compared to the Commercial Victimization Survey 2016 reporting an industry level of 13.8%, we are still seeing an increasing trend for POL robberies / attempts from 1.47% in 2015/16 to 2.19% in 2017/18. We therefore forecast an increase based on this recent trend. The Board have agreed to support recommendations from the recent Post Office review of robberies and violence. These include; Fogging, IP cameras, CCTV, endgates, body cameras, flip top tills, additional analysis of violence and aggression with improved training for employees and sharing best practice and guidance with Agents. A plan and business case is being developed. Further planning for upgrades has been undertaken, branches profiled and identified for appropriate solutions in preparation for a roll out plan.
- 3.6 The overall level of Property risk is predominantly low. An independent audit of Property Statutory Compliance is being procured. Current compliance is very good at 97%. Following recent incidents, gas cookers have been removed and CBRE are checking all appliances eg. microwaves, cookers, portable heaters during monthly maintenance visits. External statutory risk assessments (Fire, asbestos, legionella) have been undertaken and remedial actions are being closed by PiCs and CBRE. The H&S BPs are offering support and will provide regular updates to Ops Board.

Input Sought

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

Appendix 1

The Report – H&S Metrics – P3 (June) 2018/19



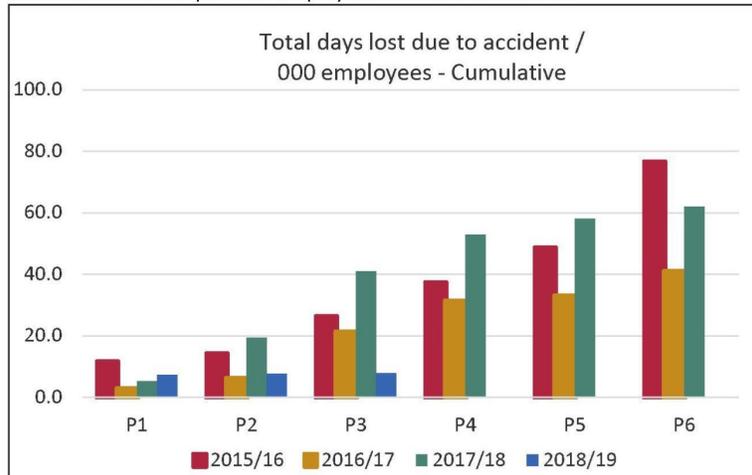
There were 6 employee accidents in P3 18/19 compared to 9 in P3 17/18

DMBs – There is a slight reduction to 12 accidents YTD in DMBs from 13 in 17/18. Causation is due to slips, trips and falls, stepping/ striking.

Supply Chain – There was a marked reduction of accidents in Supply Chain to 6 in Q1 18/19 from 24 during Q1 17/18.

The Supply Chain Safety Plan is being progressed and 3 workshops have been held for Safety Champions who are being given certified H&S training, sharing best practice, lessons learnt and promoting safety culture. Formal IOSH training has been planned for August and September.

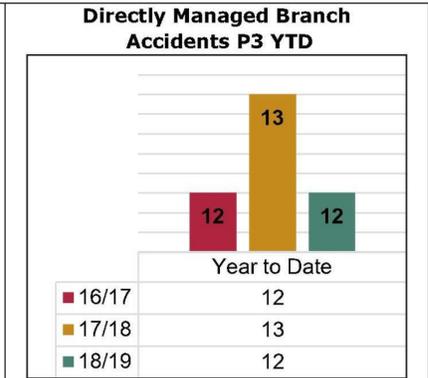
There has been 3 lost time accidents in 2018/19 incurring 38 total lost days. Cumulative Trends per 000 employees can be seen below.



NEAR MISSES

DMBs - Nil

Supply Chain – 3 near misses (2 Fork lift incidents & 1 external HGV hitting roller shutter door) recorded in June. One driver undertaken refresher training and an investigation into a cage design is under way at Swindon Stock Centre.



Road Risk

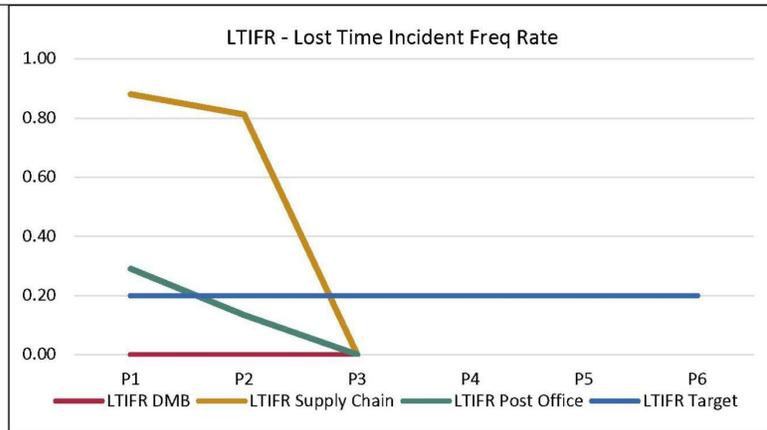
P3 18/19 – 4 RTCs

Blameworthy – 4 (poor observation, judgement of 3rd party positioning when manoeuvring).

Non Blameworthy – 0

Initiatives include:

- An overarching Road Risk Policy, with improved training and compliance checks and maintenance checks is being developed by the Fleet Management team to cover Commercial Fleet, Business Cars & Personal Car use.
- Scoping products to alleviate fatigue and support aging work force.
- Online Driver Training has been developed and launched for employees who drive on business. Checks against mileage claims are being undertaken and communication being issued to line managers to close gap.



All Post Office – Employee LTIFR P3 YTD

YTD P3 – 0.142
2017/18 out turn – 0.271
2018/19 target – 0.200
Benchmark – 0.300
Absence accidents/000 SIP:
0.61 YTD v 1.38 (YTD 17/18)

Supply Chain – Employee LTIFR P3 YTD

YTD P3 – 0.571
2017/18 out turn – 0.820
2018/19 target – 0.500
Benchmark 0.600 (BSIA update Q2)
Absence accidents/000 SIP
2.51 YTD v 2.43 (YTD 17/18)

Post Office CVIT Robberies – P2

There were 2 incidents reported in May v 1 in 2017/18 and there have been 19 incidents v 24 over previous 12 rolling months. Trend is being monitored closely. Violence has been used in 1 incident in May with an injury incurred. 2 used weapons v 3 incidents in P2 2017/18.

Current mitigating activity:

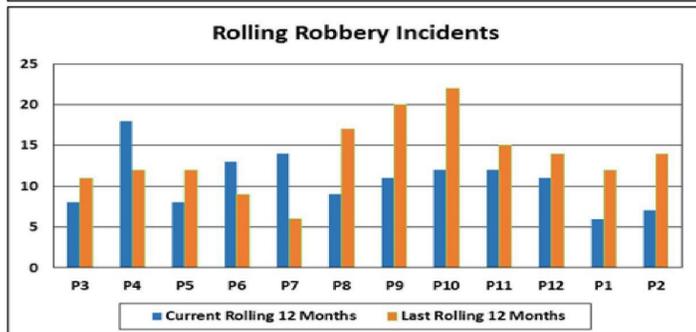
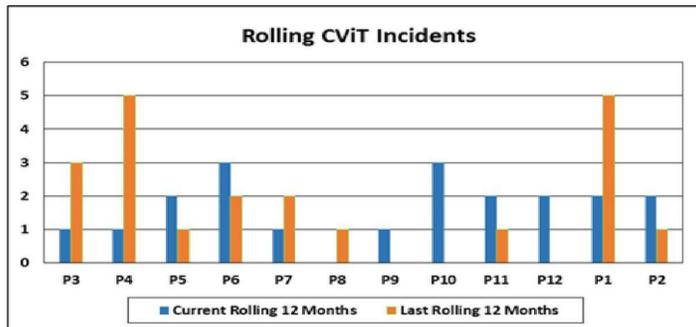
- Industry hotspot area in Merseyside, Security Manager working closely with police to provide as much van coverage as possible.
- Operation Guardian industry meeting attended on Merseyside to discuss current spike in activity and potential mitigations.
- 74 Cross Pavement Observations made by Security Managers during period, with the majority in high risk areas.
- Operation Stripe test conducted at London Depot and passed successfully by Depot staff.
- Male arrested and remanded in custody in relation to 2 CVIT Post Office incidents in West Midlands in February and May.

Post Office (All branch types) Robberies – last 6 mths:

Dec – 11 incidents v 20 (16/17)
Jan – 12 incidents v 22 (16/17)
Feb – 12 incidents v 15 (16/17)
Mar – 9 incidents v 11 (16/17)
Apr – 6 incidents v 12 (17/18)
May – 7 incidents v 14 (17/18)
129 robberies current rolling 12 mths v
164 previous rolling 12 mths

P2 2018/19

Violence – 0 vs 0 last year
Injuries – 1 vs 2 last year
Weapons - 4 (0 firearms, 2 blades) vs
13 last year (3 firearms, 8 blades).



Ongoing programme of security presentations/training delivered by Security Managers to Multiple partners. 59 branches visited during period (mainly high risk locations), as part of the Operation Torch programme to ensure security compliance in key areas.

In P2 there was a reduction in weapons used with 57% of incidents involving a weapon, this compares to 92% in P2 the previous year.

In P2 there was one injury, this was a result of the PM being pushed over during the incident.

The deployment of fogging and IP cameras is aimed to reduce robberies and the associated risks, as noted zero injuries, where activated

Post Office Limited Board Meetings

Author: Jane MacLeod Meeting date: 31 July 2018

Executive Summary

Context

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

Input Sought

The Board is requested to note the future meeting dates.

The Report

2018/2019

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

Draft Board Agenda for meeting on 25th September 2018

Description of Item	Timings	Origin	GE Sponsor	Presenter	Required Outcome
Minutes of previous Board and Committee meetings including Status Report	5	Board action from previous meeting	Jane MacLeod	Jane MacLeod	For noting
CEO Report	20	Standing item	CEO	Paula Vennells, CEO	For Noting
Financial Performance Report	20	Standing item	CFOO	Al Cameron, CFOO	For Noting
Postmaster Litigation	10		Jane MacLeod	Jane MacLeod	For Noting
Retail Strategy Update	30	Periodic action from forward planner	Debbie Smith	Debbie Smith	For Noting
Belfast Exit Business Case	30	Reserved decision	Rob Houghton	Rob Houghton	Decision
ATM and Cash Strategy	30	Strategic Update	Debbie Smith	Martin Kearsley	Decision
Peregrine Update	20	Strategic Update	Owen Woodley		For Noting
Payzone Update	20	Strategic Update	Debbie Smith		For Noting
Health & Safety	10	Standing item	Al Cameron		For Noting
Total No Minutes	195				

 Holding slot