



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

MINUTES OF AN ADDITIONAL MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON THURSDAY 9 MARCH 2023 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 09:30 AM¹

Present:	Henry Staunton	Chairman (Chairman)
	Tom Cooper	Non-Executive Director (TC)
	Zarin Patel	Senior Independent Director (ZP)
	Lisa Harrington	Non-Executive Director (LH)
	Saf Ismail	Non-Executive Director (SI)
	Elliot Jacobs	Non-Executive Director (EJ) (via Teams)
	Nick Read	Group Chief Executive Officer (NR)
	Alisdair Cameron	Group Chief Finance Officer (AC)
In attendance:	Rachel Scarrabelotti	Company Secretary (RS)
	Lorna Gratton	UKGI - Observer (LG)
	Simon Jeffreys	Observer (SJ)
	Max Jacobi	Finance Director - Commercial (MJ)
	Tim McInnes	Strategy and Transformation Director (TM)
	Zdravko Mladenov	Group Chief Digital and Information Officer (ZM)
	Liam Carroll	Procurement Director (LC)
Apologies:	Ben Tidswell	Non-Executive Director
	Brian Gaunt	Non-Executive Director

Action

1. Welcome and Conflicts of Interest, Inquiry Undertakings and Officer Changes

Welcome and Conflicts of Interest

A quorum being present, the Chairman opened the meeting. The Chairman called for the Directors to disclose any conflicts of interest. ZP noted that she was appointed as a non-executive director of the HM Treasury board. EJ reminded the Board of his conflict as a Postmaster and referenced Postmaster remuneration matters that were contained in the draft 3YP. SI noted this conflict also. The other Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

The Board acknowledged the attendance of LG and SJ as observers at the meeting. As observers, the Board was aware that all contributions made by LG and SJ to the meeting were observations only, and did not constitute advice, recommendations, directions or instructions. The Board confirmed that it would take due care not to be unduly influenced solely by a contribution made by LG or SJ and that it would reach its conclusion based on a balanced and diligent assessment of all the facts available to it.

Inquiry Undertakings

The Board noted that SJ, LG, MJ and LC did not have confidentiality undertakings to the Inquiry in place, and that these individuals would need to be excused from the meeting should the need to discuss information confidential to the Inquiry arise.

¹ This meeting is in addition to the scheduled meetings so standard items such as minutes and matters arising have been carried over to the meeting on 28 March 2023.



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Officer Changes

TABLED and **NOTED** was a report, 'Appointments to the Board and Committees'.

The Board **RESOLVED** to **APPROVE**:

- (i) Subject to the conclusion of satisfactory due diligence, the appointment of Simon Jeffreys as a Non-Executive Director of the Company's Board and Chair of the Company's Audit, Risk & Compliance Committee and that the Company Secretary be instructed to file form AP1 with the Registrar of Companies at the relevant time;
- (ii) The appointment of Ben Tidswell as Senior Independent Director of the Company's Board, effective from 14 March 2023; and
- (iii) The appointment of Brian Gaunt to the Company's Historical Remediation Committee, effective 14 March 2023.

2. FY 23/24 Budget and 3YP

TABLED and **NOTED** were the following papers:

- (i) 'FY 2023/24 Budget and 3 Year Plan'; and
- (ii) 'FY 2023/24 Budget and 3 Year Plan – Appendices'.

MJ and TM joined the meeting at 9:43.

AC spoke to the papers. Key discussion points were as follows:

- AC noted that it was very difficult to forecast mails performance as demonstrated over the past 3 years. The recent RMG industrial action and cyber incident were contributing factors. NR advised that the deterioration in the mails business was not going to be made up by the mails initiatives, and this could be accelerated given RMG price increases;
- AC shared his view that the deterioration in the mails business impacted in an unacceptable way on Postmaster remuneration. AC queried the minimum amount of Postmaster remuneration that could be paid in light of the current network strategy and whether an additional [IRRELEVANT] needed to be requested in the funding application to the shareholder;
- AC spoke to amounts for Postmaster losses, and whether the SLG could be reduced;
- NR detailed fully franchising the DMBs and supply chain. If funding was provided for these activities they would be undertaken by a ring fenced group, however NR was concerned as to whether there was capacity to do these activities at the same time as everything else;
- AC referenced moving costs in relation to the Inquiry and the potential savings that could be achieved if a firm other than HSF were instructed in relation to later phases;
- AC spoke to security headroom and the anticipated breach, which had been advised to the shareholder. AC detailed the drivers causing security headroom volatility;
- AC shared his view that the Board should recommend a plan to the shareholder following the Board meeting on 28 March, even if this was subject to the NBIT costs being concluded;



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- ZP noted the issue raised in respect of Postmaster remuneration and requesting additional funding for this. ZP advised that whilst she was inclined to agree queried however whether the request would be framed as an increase in subsidy. NR replied that this is how the request would be characterised;
- The way in which the funding request would be considered by HM Treasury was discussed;
- AC noted that the shareholder had indicated that they may have some underspend this year. LH queried if these additional funds were forthcoming whether there was direction as to the allocation for these. AC advised that whilst no direction had been given for these to be applied to anything specific, that it had been asked that these additional funds not be provided direct to Postmasters. SI raised the issue of Postmaster remuneration and the need for this to be sufficient. AC took the point, however shared his view that the issue was partly about redistributing remuneration to the more commercial branches however this would mean closing rural branches and this was not likely to be well received politically. In terms of requesting additional funding for Postmaster remuneration, the government may point to the network numbers which appeared positive at present. SI shared his view that an application should be made to the shareholder in respect of additional Postmaster remuneration, and also in relation to funding to fully franchise DMBs and supply chain. EJ agreed. TC advised that any request for shareholder funding for Postmaster remuneration needed to demonstrate how Postmaster remuneration was being managed in line with the network strategy;
- **ACTION** SI requested further detail on staff cost and also non staff cost increases. AC spoke to this query and advised that he could take SI through the detail. **ACTION** SI queried the benefits from commercial initiatives and advised that Postmasters were not feeling the impacts of these. MJ replied and advised that the team could have a session with SI to go through these. In relation to Postmaster remuneration, SI requested clarity on product set, and suggested that increases to Postmaster remuneration be linked to products that could make a significance difference in Postmaster remuneration. SI shared his view that a one off payment could assist with improving Postmaster morale. AC replied that any one off payments could be directed at branches that were strategically important, however which were struggling;
- In respect of the funding request to the shareholder, LH raised the importance of including the alternative option if additional funding was not forthcoming, noting that the alternative option was not likely to be palatable, particularly ahead of the next election. NR shared his view that the network requirement number was not going to be reduced in the next 2 – 3 years. LH replied that this was her point; something needed to be altered in order for the network number to be viable. ZP agreed with this approach, and that the downside plan needed to be set out in the case that additional funding was not forthcoming;
- TC noted the proposed increase in head count and queried whether this was reasonable. AC replied, advising that the additional headcount was predominately in relation to HMBU, the Inquiry and NBIT. In relation to NBIT, AC noted that the running of this would be insourced, so we needed to start building up the capability for this and we needed to do this now. TC took the point, however referenced the table in the paper where almost every line was proposed to increase. **ACTION** AC advised that he was happy to work through the detail with TC ahead of the Board meeting scheduled for 28 March alongside setting out the detail of how the additional IRRELEVANT in proposed cost savings identified by the GE had been worked up;

AC

MJ

AC



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- TC raised the issue of change spend and queried whether we were at risk of regret spend, and also queried the risk around reductions in NBIT scope. AC replied that for NBIT there was the risk that employees were recruited for now and we were delayed. In relation to external partners for delivering NBIT, there would be flexibility built in. NR contributed that ZM would be able to provide confidence that there was no regret spend. That said, we would need to take a decision shortly as to when rollout would commence. **ACTION** TC noted this, and noted that the Board could be required to take decisions in relation to NBIT ahead of the NBIT rollout plan being finalised. TC requested further detail in relation to this, which AC agreed to provide; AC
- **ACTION** In relation to the proposed spend on the Inquiry TC advised that he would like to see further detail. AC noted that this and advised that TC would be briefed on this; AC
- ZP queried whether the operational design of HMBU needed to be reviewed again, given the HMBU was moving into another phase. AC agreed with this, however thought that the design was correct for what the HMBU had to deliver. AC noted the possibility of deploying employees from HMBU to NBIT delivery in the future, given their understanding and familiarity with Post Office.

MJ left the meeting at 11:08. A 10 minute recess followed.

3. Revised NBIT Forecast

TABLED and **NOTED** were the following:

- (i) 'Revised NBIT Forecast SPMP/ NBIT financials update';
- (ii) 'SPMP/ NBIT Board Update'.

ZM joined the meeting at 11:10 and spoke to the SPMP/ NBIT Board Update. Key items covered included what Horizon was, when it was built, what the application provided and the rationale for replacing Horizon.

LH queried the length of time to train a Postmaster and Postmaster's staff on Horizon. SI replied that it was 6 months. ZM advised that the training for Drop and Collect on NBIT took 30 minutes; it was a much simpler product. SI contributed that the demonstrations he had seen were positive. ZP commented that the benefits side of NBIT could be emphasised further in the funding submission.

ZM spoke to the Revised NBIT Forecast SPMP/ NBIT financials update, detailing the main drivers of the costs increase. AC noted that the level of assurance being requested from end to end was such that, if agreed to, the project team would not be able to build at the same pace as currently, and a conversation on this needed to be had with the shareholder. ZP emphasised the need to have the right assurance strategy which should focus on aspects of the project that were particularly risky. ZM noted that a paper on the NBIT assurance programme was due to come to the 28 March Board. ZP advised that it would be useful for the Board to understand testing. ZM replied, detailing the system testing and business acceptance testing.

ZM detailed the cost increases associated with training and rollout, and referenced the training deep dive presented previously to the Board. AC noted the shift in expectations in respect of the NBIT training programme for Postmasters: the training needed to be completed, and the training test undertaken and passed, in order for Postmasters to trade.



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TC queried the expectations in respect of Postmaster training their staff. ZM replied that access to the training would be available to all Postmasters and their staff.

ZM outlined the contingency costs currently identified, and advised which items were included within the contingency and which were not. In terms of further cost increases, the risk was limited on the technology side, however the team still needed to go through the assurance exercise.

LH queried whether the Board would reach a point where completing NBIT approximated an abyss. AC shared his view that the Board would not arrive at a point where they felt Horizon was no longer going to be replaced, however the Board was reaching a point where they needed to determine whether completion of the rollout by March 2025 was viable, and if not, the re-programme then required. LH agreed with this, noting that it could be the rollout that held up implementation, not the technology. TC and AC discussed Belfast exit and the previous decisions made by the Board in relation to the project. ZP cautioned the need to try to learn from the Belfast exit project, and suggested that management identify a series of go/ no go points in relation to NBIT. LH agreed with this.

ZP queried whether any of the technical issues identified with NBIT at present were fundamental. ZM replied that none of the defects the team were experiencing at present were fundamental to the operation of the system. **ACTION** ZP requested that NBIT defects and their magnitude be reported to the Board periodically via dashboard reporting.

ZM

ZM detailed the business case for replacing Horizon, outlining the options identified and the cost impact of a delay of 12 months. TC noted the cost impact of delay, and shared his view that this would increase over time; in addition the business could change fundamentally during this period as well. EJ contributed that in his view there was no option to stay on Horizon; technology needed to be built to support the front line of the business and more automation was required. The Chair noted that all competitors on the High Street had high levels of automation.

The Chair noted that SI had had sessions in relation to NBIT and queried what his response had been. SI replied that he and EJ had had a short demonstration of the development version (pre-R2) of NBIT and that although not all functionality was operational, good progress was being made and their experience was positive. SI spoke to the simplification of the system and the ease of training. One of SI's branches was due to receive NBIT in the next few months and SI undertook to report back to the Board on his experience. HS asked EJ to share his view. EJ advised that NBIT was more intuitive and more efficient. What resonated with EJ particularly was the change to back office systems; EJ reflected on his experience attending the Inquiry last week and the lack of training provided historically for Postmasters on back offices processes, the NBIT training approach was very different. EJ noted that Postmasters would need the helpline to be available outside business hours to assist Postmasters with balancing on the new system. AC noted this, although thought that support services would be reduced, as the data would be easier for Postmasters to access, so it would be create a virtuous cycle. The Chair congratulated ZM on the comments of SI and EJ.

SI advised that he was still heavily in favour of customer facing screens being included as part of NBIT and queried whether there was a way to be more targeted with customer facing screens, for example, by supplying a restricted number. LH replied that Postmasters self-funding customer facing screens was another option. AC noted that one of the



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advantages of NBIT was that it was much quicker and cheaper to make changes in the future; we did not wish to invite delay and change the scope now. SI queried whether funding for customer facing screens could be applied for as part of our next funding submission. AC advised that his view was no; funds were being sought for costs over the next 2 years. NR noted that given the mails strategy there would be multiple choices that a customer could make, so we could need the customer facing screen at this point. ZP shared her view that the priority needed to remain to move off Horizon and onto NBIT and to make the build as risk free as possible; NBIT was a flexible system and in the next few years the correct network scale might be achieved with accompanying further investment at the right scale. LH agreed with this.

ZM provided an update on technical delivery, advising that there was significant evidence that what was being built was fit for purpose. Outside of technology the retail team were standing up the Retail Transformation Programme. NR detailed the work that had been undertaken on the rollout plan; it was very technical and complicated. LG queried whether there was any work that could be undertaken for Postmasters identified as being potentially difficult, such as training them early. NR advised that this analysis was being undertaken at present. AC detailed other 'housekeeping' activities that were planned ahead of the NBIT rollout, for example counting cash. TC queried how usable the Horizon data that existed at the day of transfer to NBIT would be. AC replied that this remained to be worked through, however in principle we would freeze the Horizon balance, then if Horizon provided that the Postmaster had a credit with the Company we would repay this, if there was a significant debt we would notify the police, and if there was a minor debt we would investigate this. NR noted LG's question in terms of what we were going to do about Postmaster losses over the next 12 months, and cautioned that we would need to be clear on what our rules were at the time of change over.

ZM/MR

ACTION SI queried whether, on the day of transitioning to NBIT, if Postmasters could be delivered fresh stock and cash. ZM advised that this could be considered. AC emphasised the need to build Postmaster trust in NBIT, and that it was fundamental to commence on a clean slate with NBIT. SI shared his view, that if NBIT was commenced this way, it would build Postmaster trust.

4. Shareholder Funding Request

TABLED and **NOTED** was a report, 'DBT Funding Submission Paper'.

5. NBIT Procurement

TABLED and **NOTED** was a report, 'NBIT Engineering Deployment'.

TM left the meeting at 12:43. LC joined the meeting at 12:43 and proceeded to outline the paper, noting the proposed change to the sourcing strategy. LH noted that two very different skill sets were proposed in the original sourcing strategy and queried whether by decoupling these would we end up paying double. AC replied to this. NR noted that there could be better options to secure an engineering supplier by launching procurement now. TC queried how the engineering supplier would carry out the service in practice. LC replied, and detailed the way in which branches had been categorised. TC raised procurement and delay risks. LC advised that the supplier selected would be incentivised to work flexibility to minimise any delay costs. SI queried the consequences if the supplier was late. LC detailed the maximum delay costs that could be imposed, as per the framework.



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The Board **RESOLVED** to **APPROVE**:

- (i) the revised sourcing strategy as set out in the paper for selecting a provider to become the main external engineering partner in the rollout of NBIT with a contract value up to IRRELEVANT
- (ii) the delegation of authority to GE do determine the contract award and to finalising the terms of contract; and
- (iii) any 2 Directors or any Director and the Company Secretary be authorised to execute the resulting contract and any ancillary documents.

LC and ZM left the meeting at 12:52.

6. Noting item with no presentation

Peak Trading 2022

TABLED and **NOTED** were the following papers:

- (i) 'Christmas Peak Trading Report 2022 – Cover Paper'; and
- (ii) 'Christmas Peak Trading Report 2022'.

7. Any Other Business

The Chair noted that it was ZP's last Board meeting ahead of stepping down and thanked ZP for her contribution. ZP replied, and acknowledged the executive leadership of of NR and AC.

There being no other business the Chairman declared the meeting closed at 12:54.

8. Date of next scheduled meeting

28 March 2023 13:00 – 17:30.

GRO

Chairman

04/04/2023 20:54

Voting Results for Board Minutes from 09.03.2023 (approved on 28.03.2023)

The signature vote has been passed. 1 votes are required to pass the vote, of which 0 must be independent.

Vote Response	Count (%)
For	1 (100%)
Against	0 (0%)
Abstained	0 (0%)
Not Cast	0 (0%)

Voter Status

Name	Vote	Voted On
Staunton, Henry	For	04/04/2023 20:54