



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 26 MAY 2020 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ BY CONFERENCE CALL AT 11:00 AM¹

Present:	Tim Parker	Chairman (TP)	
	Nick Read	Group Chief Executive Officer (NR)	
	Ken McCall	Senior Independent Director (KM)	
	Tom Cooper	Non-Executive Director (TC)	
	Carla Stent	Non-Executive Director (CS)	
	Zarin Patel	Non-Executive Director (ZP)	
	Lisa Harrington	Non-Executive Director (LH)	
	Alisdair Cameron	Group Chief Finance Officer (AC)	
	In attendance:	Veronica Branton	Group Company Secretary (VB)
		Max Jacobi	Head of Financial Performance and Analysis (MJ) (Item 5.)
Dan Zinner		Group Chief Strategy and Transformation Officer (DZ) (Items 5. & 7.)	
Owen Woodley		Group Chief Commercial Officer (OW) (Items 6. & 7.)	
Chrysanthy Pispinis		Director, Post Office Money (CP) (Item 7.)	
Jonathan Allen		Digital Briefing session from AWS (JA)	
Jeff Smyth		Interim Chief Information Officer (JS) (Digital briefing session)	
Julie Thomas		Operations Director (JT) (Item 8.)	
Ben Foat		Group General Counsel (BF) (Item 8.)	
Zoe Brauer		Head of Legal, Retail (ZB) (Item 8.)	
Catherine Emanuel	Herbert Smith Freehills (CE) (Item 8.)		
Alan Watts	Herbert Smith Freehills (AW) (Item 8.)		

Action

1. Welcome and Conflicts of Interest

A quorum being present, the Chairman opened the meeting. The 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.

2. Minutes of Previous Board meetings (08th April 2020, 17th April 2020, 27th April 2020 and 14th May 2020) including Status Report

The Board **APPROVED** the minutes of the Board meetings held on 08th April, 17th April, 27th April and 14th May 2020.

The Board **NOTED** progress with the completion of actions as shown on the action log. The majority of actions were to close but where they remained open we needed to confirm dates for coming back to Board.

3. Committee updates (verbal)

3.1 ARC

Carla Stent reported that the ARC had approved the Internal Audit Plan and Charter at its meeting on 19 May 2020. The Terms of Reference review had been completed and the Committee evaluation report discussed. The Committee was encouraged by the good response to Covid-19 and had noted the risks as we moved from the crisis phase into the recovery stage. Branch Hub had gone live and the majority of Postmasters should have registered by the end of June 2020. The Committee had considered our approach to situations where we were required to provide evidence to support law enforcement and [REDACTED] to reflect a number of points raised by the Committee. The ARC had agreed that the top 145 contracts should be reviewed and the

¹ Participation in the meeting was entirely via Microsoft Teams from participants' personal addresses. In such circumstances the Company's Articles of Association (Article 64) require that the location of the meeting be deemed as the chairman's location. However, it was not deemed appropriate to record personal addresses on the Company record. As such, the Registered Office is recorded as the meeting location.



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balance of 1,500 should be renewed in the normal course of business. Exceptions to compliant procurement processes would be coming to the Board for approval.

Performance and current issues

4. CEO Report

Nick Read introduced his report and highlighted how we had been dealing with the Covid -19 situation and were planning to move to the recovery phase. We felt that our relationship with Postmasters was continuing to improve with 5,800 now registered on Branch Hub which provided a better mechanism for staying in touch and providing support. There had been week-on-week improvements in the network, including opening hours and the number of branches open. Our assumption was that the travel market would start to reopen in the next couple of months. Irrelevant

Irrelevant We would be entering a more complicated phase as we moved to return to office work. A survey was going to be sent to employees to gauge concerns and to help inform how we should roll out the return to some office working. We did not envisage a rapid return to the office and certainly not before July 2020.

In our strategy paper we had tried to bring together Purpose, Strategy and Growth outputs with the NEO work programmes and the overlay of Covid -19 and the litigation position.

A number of initiatives had been pursued to support our vulnerable customers.

John Manzoni was remaining in government to support the digital identity agenda and we would be having conversations with his team in June 2020.

Nick Read had been speaking with John Ashworth, the former CEO of Collect+ about Bills Payments and how the Payzone network could be used which would link into our strategy discussions and how we should define a Post Office.

The approach to Postmaster remuneration during the Covid -19 crisis appeared to have been right, with no big major reaction to the approach we were proposing for June 2020. There had been fairly limited calls on the hardship scheme so far. Nevertheless, there was a challenging industrial relations position ahead of us with difficult conversations required with the unions and criticism anticipated with the resumption of DMB franchising.

Discussions with the Royal Mail Group (RMG) continued but had been slower than anticipated over the last two weeks. RMG would nevertheless want to use their results notifications in mid-June 2020 to announce a new deal with Post Office.

The quarterly Shareholder meeting had taken place on 30th April 2020 and subsequent meetings with the Minister at which the “good bank/ bad bank” idea had been noted. We did not yet have a date for the reconvened BEIS Select Committee on Horizon issues.

There had been an erroneous story in the Sunday Mirror about a Post Office re-branding spend for which we had sought a correction. The Radio 4 Series on the “Great Post Office Trial” had started on 25 May 2020 but had not included any issues of which we had been unaware. We were anticipating a busy week especially if the Minister made his statement in relation to a public inquiry on Post Office and the Horizon issues.

A number of points were raised, including:

- Zarin Patel asked whether we were concerned about the health of our partners, Irrelevant Irrelevant Nick Read reported that the CEO of WHSmith had requested a meeting last week. The company had raised an additional £150m at the start of crisis and their Post Office customer satisfaction scores had improved. Irrelevant
- Tom Cooper reported that the terms of reference (ToR) for the Post Office inquiry were likely to cover, 1) a) Has Post Office learnt lessons from the case and the judgments. b) Are there processes in place to make sure this does not happen again 2) Have Postmasters been able to tell their side of the story on the case. The ToR would have to be approved by the Cabinet Office but were likely to be issued this week. There could be a further inquiry if this review was principally future focussed.



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- Ken McCall asked about the functionality of Branch Hub and whether any reconciliations went through this system. It was reported that Branch Hub was largely a communications tool at the moment and was driving down call centre volumes. KM noted that it was an excellent development and that it would be helpful to understand all of the operational developments as we moved forward. NR agreed that the executive could bring Branch Hub and how it was going to be used back to the Board and show how it will drive greater efficiency
- Tom Cooper asked about the pay review situation and discussions with the CWU. NR reported that we had our quarterly meeting with CWU on 9 June 2020 and they were aware that we were suspending the pay review as we worked through the implications of Covid -19. There were likely to be some difficult conversations but most people would understand that this was not the right time to make pay rises, while individual organisations needed to be able to justify the decisions they made on bonuses.

NR

Irrelevant

5. Financial Performance Report

The Chairman welcomed Dan Zinner and Max Jacobi to the meeting. Al Cameron introduced the report, noting that our trading position was recovering quicker than anticipated although there was

Irrelevant

Irrelevant We had made a successful start to cost reductions and the security headroom position had been positive at the end of P1. We would be seeking an extension of the May 2020 waiver to June 2020 for the BEIS/ Santander inter-creditor security. Santander would be willing to waive the arrangement if we moved to next day payments. That timetable was likely to be tied to the PCI compliance work. We had submitted a 6 month waiver on security headroom and in respect of branch numbers. A number of conditions applied to the waiver but we had sought to increase the Change spend limit from

Irrelevant

Irrelevant

A number of questions were raised, including:

- Tim Parker asked whether Post Office's trading position had been less severely affected than many other types of business? Al Cameron confirmed that this was the case and that the trends were picking up week-by-week though we expected Travel to have a much longer recovery period. Enabling banks to move more business to us would be critical to the success of Banking Framework 3
- Ken McCall asked for confirmation that we had 52 people in group marketing. This was confirmed. We were reducing the overall marketing budget and had reduced discretionary spend significantly but had not made any redundancies yet as these costs had not been built into the plan and we needed to assess where the capabilities lay. KM noted that we needed to look at the ratios but also be sure that there was correct categorisation as the overhead numbers seemed to be out of kilter.
- **Irrelevant** We were considering the timings of our announcements on redundancies with the aim of completing a significant tranche by the end of the calendar year.
- **Irrelevant** Tim Parker noted that it was also worth looking at where information and reporting was adding value versus those things we could do without which equally applied to marketing spend
- Lisa Harrington noted that we needed to understand our IT capability needs clearly. AC concurred as this was the biggest area of non-staff costs outside agent remuneration and the hardest area for us to find comparators which was why we had avoided including overly ambitious targets for IT spend reductions. IT salaries were also a challenge
- Carla Stent asked why the trading profit figure in the 2020/21 budget had moved down from **Irrelevant** Al Cameron reported that a few upward changes had been made including how bonuses were provisioned



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- Tim Parker asked whether our revenue was likely to decline significantly with Banking Framework 3. Al Cameron thought that possible or that revenue would be comparable but that we would have to deliver more. TP suggested that this needed to be factored into our understanding of network requirements. Tom Cooper noted that we had recognised that we would need to make cost reductions when putting Banking Framework 2 in place and we might need to think differently about structure to give banks some certainty about their costs as cash demands reduced or offer the service on a regulated basis. We also needed to know how many branches banks wanted us to deliver to
- Carla Stent asked what measures we needed to consider to make Banking Framework 3 attractive to the banks. Nick Read reported that we had a number of meetings set up at a senior level with the banks over the next few weeks to explore this, and with HM Treasury on what strategic role we could play as a cash utility. Natalie Ceeney, Independent Chair, Access to Cash Review, thought we needed to independently broker Banking Framework 3 to understand the banks' needs fully.

Strategy and updates

6. Telecoms

The Chairman welcomed Owen Woodley and Meredith Sharples to the meeting.

Owen Woodley introduced the paper. Negotiations on the request for proposals (RFP) had continued until 25 May 2020 because of the condition precedent clause and the lawyers wanting to be sure that we had mitigated the risk of commercial misrepresentation if we signed the RFP and did not proceed with its implementation. However, it was noted that we had been clear with TalkTalk throughout the process that we wanted to proceed with a sale. If we did not sell, we would proceed with the RFP.

Meredith Sharples reported that we had worked on the assumption that a sale would go ahead while the contract with Fujitsu was in operation.

A number of points were raised, including:

- Tom Cooper sought confirmation that the draft budget for 2020/21 did not include provision for the RFP implementation costs and this was confirmed. TC advised that this was a short window in which to sell the business and that BEIS and HM Treasury could find these timelines difficult to accommodate. Cooperation would also be needed from Fujitsu to make the timetable viable
- Carla Stent noted that the Fujitsu relationship had been raised at the ARC on 19 May 2020 and that Jeff Smyth, CIO, would be preparing a paper for the Board on this issue. The Fujitsu CEO had recently indicated that they would like to explore a structured early exit agreement. A principles document was being drawn up over the next 2 to 3 weeks
- Lisa Harrington asked whether FirstSource was UK based and Meredith Sharples confirmed that it was. LH was surprised by the PJT advice that the telecoms business was operating largely as usual and thought this opinion might need to be tested as well as working timings back from the February 2021 break given how restricted a timeframe this was. LH also noted that it was unusual for the client to pay for the transition costs. MS explained that the distinction was that we were asking TalkTalk for a fully managed service. The cost of the switch should be minimal as the customers were already on the TalkTalk network. LH asked whether we had considered the impact on our own teams of managing two contractors and whether we had the capability to do this. MS reported that we would be employing two contract managers in the team. The Board noted the need to start the sale process as soon as feasible.

The Board **APPROVED**

- the Telecoms Request For Proposal (RFP) contract key terms
- submission to the Shareholder of the RFP contract key terms for approval
- delegated authority to the CEO and Chief Commercial Officer to proceed to contract signature with TalkTalk and FirstSource once shareholder approval had been received
- £0.4m of additional spend in relation to the sales process, subject to sign-off of the business case by the executive's Investment Committee.

Digital briefing session from AWS

Jonathan Allen provided a presentation to the Board on cloud migration.



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7. Strategy & Vision Update

Irrelevant



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Irrelevant

Network strategy – we had to meet the current Shareholder requirements until and unless different targets were agreed. Fundamental questions included whether there should be a target number of branches and product targets (our proposal was that Mails and Bills Payments services should be offered in all branches). Tom Cooper thought that the strategy could be broken down in a different way: a) the network we want to run commercially b) the network that would have to be paid for by the tax payer. Making these positions plain provided a clearer choice for Ministers. Tim Parker agreed that we needed to make clear our service obligation to Government. If Government wanted us to keep open more branches they could be given a menu of options such as offering cash but TP was concerned that we were trying to present ourselves as a social purpose organisation that therefore should be supported by the state, rather than a commercial organisation that provided some services which delivered a social purpose. TC noted that the deal with the Royal Mail Group would drive certain obligations and we would also have to operate some branches which were unprofitable to be attractive to clients. Al Cameron commented that there could be more Post Office outlets providing PUDO through the Payzone network which would give us more flexibility. From a commercial perspective we would not offer cash at every Post Office. Dan Zinner noted that we wanted to have a narrow universal offering of Mails and Bills Payments Services but have the flexibility to add on cash to deliver a social purpose where this was required. The requirement for the universal provision of a wide range of services added to our costs substantially. It would also help us to attract Postmasters if we could offer them a menu of services to choose from. TC noted that the social obligation was primarily connected to the provision of cash rather than mails which was driven by the RMG obligation² but that BEIS understood that cash requirements were changing. Lisa Harrington observed that Post Office's uniqueness was our network scale and we needed to make sure that we had the right partners. Dan Zinner noted that we were investigating being able to offer different pricing structures which would be important for the services we wanted to offer. TP noted that we would need to have a reasoned discussion about managing a sensible network of a suitable scale. Even a reduced network would be much larger compared with others and we could not retain uncommercial branches which were not funded to deliver particular services. The Board would need to see a clear set of options for the network in June 2020, including what happened to costs as you added or retracted services or reduced branch numbers. Al Cameron noted that there would inevitably be elements of the strategy we adopted now that turned out to be wrong in some respects or needed to be adjusted in a few years' time. For this reason it would be preferable to move away from a fixed set of rules and build in flexibility to be able to adapt to changing circumstances. It was agreed that this also needed to be part of the RMG contract discussions. TC reported that the BEIS view was that a public consultation was likely to be required to change the access criteria. The response to proposals to reduce branch numbers was likely to be less adverse if we could show that the access criteria that would still be met. Preparatory work was needed to get answers to questions Ministers were likely to be asked on the impact of removing some of the SGE Is. DZ noted that we would make sure this was addressed in the June and July Board sessions on the network

Cash supply chain – we needed to review the cash supply chain from a cost perspective, which to some extent tied into the size of the network. We could write a flexible contract on delivery numbers with an external supplier. We were reasonably efficient in how we operated the service now but were reviewing potential efficiencies and outsourcing again. Outsourcing would not be uncontroversial but if we retained the current redundancy provisions would be less contentious. Ken McCall noted that should be following the principle of consolidating the cash supply into the network on one platform

Fujitsu/ Horizon– we needed to assess our options. There were opportunities for transformation but we were circumscribed by costs of doing so. The work supported by McKinsey on exit strategies had begun and Lisa Harrington was participating in a deep dive to look at these. Nick Read reported that

² It was explained that a branch network number was not included in the contract with RMG but the requirement linked to RMG being able to deliver its Universal Service Obligation.



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we were holding discussion with Fujitsu and there were no arguments against looking at these options. Tim Parker suggested that in structuring our IT for the future, one of the ways of making our franchise more attractive was to have a simple, bolt-on IT component and that a key part of the strategy had to be making us one of the simplest franchises of which to be part. Lisa Harrington noted that there were options which entailed a business model change not just an IT change. Dan Zinner noted that we also wanted to hold Fujitsu to account for the work they needed to deliver under the contract

Irrelevant



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- We wanted to operate a smaller network that cost less but many questions still had to be addressed to enable these proposals to be delineated
- Further discussions would be needed on funding requirements
- We needed to rule out more and focus on a few core elements.

The Board **NOTED** the paper.

8.



8.1

The Chairman welcomed Ben Foat, Kate Emanuel, Alan Watts, Julie Thomas and Zoe Brauer to the meeting.



Part of this work would be scoping the first phase of the programme so the total budget had yet to be defined. Alan Watts reported that the costs for phase 1 should not exceed £50k. Tom Cooper reported that Tim McInnes at UKGI was going to consider what would be needed to take forward this piece of work and the Board **AGREED** that HSF should be involved if needed to once we had received Tim McInnes' thoughts.

The Board:

-
- **NOTED** the next steps for each work stream
-
- **AGREED** that the cost of the legal advice received should be included in the Board update reports.

BF/ CE/AW

8.2 Postmaster Contracts and Policies

Julie Thomas introduced the report which provided an update on operational improvements and on the work on Postmaster contracts, which the Board had asked to see in more detail. JT explained that the work on contracts had a number of parts:

- what we had done with new Postmaster contracts to align these with the findings of the Common Issues judgment. This had entailed codification to update the relevant clauses
 - how the judgment had impacted the contract of existing Postmasters. For these contracts we wanted to issue a restatement but this used legal language so we had been discussing the idea of having a Support Charter with the NFSP, which would set out in lay language what the judgment meant
 - the position with circa 600 Postmasters who did not have contractual obligations in place. In these cases t
- This risk was a pre-existing risk but the question of how we dealt with it and the sequencing remained to be resolved
- work on policies which had been redrafted to comply with the judgments.

It was noted that the documents were GDPR compliant.

IT noted that

This report would be shared with the Board.



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A number of points were raised, including:

- Zarin Patel asked about the status of the Support Charter. Julie Thomas reported that the Support Charter was intended to be a public document
- Ken McCall asked whether we had defined what constituted “adequate training”. KM thought that we needed to set out Post Office’s commitment to specifics like the number of days’ training provided, drawing on best practice principles. JT confirmed that we intended to include that sort of information in the Charter. KM also noted that the wording used such as the description of the Horizon system as “reasonably fit for purpose” was not helpful. JT explained that we had used Justice Fraser’s words from the judgments but wanted to bring to life in the Support Charter the actions we had taken to address the findings. We had, for example, been transparent about where bugs had been identified in the system and communicated the issue and the fix to Postmasters
- it was noted that the contract re-statement would need to use Justice Fraser’s wording. Ben Foat explained that we would issue the contract re-statement to make sure we complied with the judgments. In due course we would also look at modernising, automating and improving the contracts. Ken McCall asked how we could ensure that our operational processes satisfied the requirements of the judgments. BF thought that this could be set out in an underlying document and would ask for the team to consider this further
- Tom Cooper suggested that we take more time to consider the contracts and the underpinning policies. There were a number of fundamental issues that needed to be addressed and the contracts and policies also needed to be operable for the business
- Ken McCall noted that we needed to be able to show what we had in place to properly investigate any losses now and what we proposed to do in the future. Carla Stent noted that we needed to be able to confirm how we complied with all of the points that had to be addressed.

BF

The Board **AGREED** that a revised paper should be produced building in the points raised by the Board; this could be added to the agenda for one of the CCRC Board calls. Any further points should be sent to Julie Thomas.

All

9. Approvals

9.1

9.2

Irrelevant

AC/TC



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Irrelevant

10.1 **Irrelevant**

10.2 Sealings

The Board **APPROVED** the affixing of the Common Seal of the Company to the documents set out against items number 1931 to 1954 inclusive in the seal register.

10.3 Future Meeting Dates

The future meeting dates were **NOTED**.

10.4 Forward Agenda

This included the items set out in the Strategy & Vision Update paper, including the shape of the July Strategy sessions.

The forward agenda was **NOTED**.

11. Any other Business

There being no other business the Chairman declared the meeting closed at 16.00 hrs.

12. Date of next scheduled meeting

Additional meeting arranged for 30 June 2020. Next scheduled meetings 28 & 29 July 2020.

GRO

26/08/2020 12:20

CHAIRMAN

06/08/2020

DATE

Voting Results for Board Minutes - 26.05.2020

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
Parker, Tim	For	26/08/2020 12:20