POST OFFICE LIMITED BOARD MEETING

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON WEDNESDAY 08 APRIL 2020 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 09:00 AM VIA MICROSOFT TEAMS*

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)** (Items 6. & 7.)
	Richard Taylor	Group Corporate Affairs and Communications Director **(RT)** (Item 7.1)
	Lisa Cherry	Group Chief People Officer **(LC)** (Item 7.1)
	Caroline Scott	Programme Director, Covid-19 **(CS)** (Item 7.1)
	Dan Zinner	Group Chief Strategy and Transformation Officer **(DZ)** (Item 7.2)
	Owen Woodley	Group Chief Commercial Officer **(OW)** (Items 7.2, 8. & 9.)
	Amanda Jones	Group Retail and Franchise Network Director - Interim **(AJ)** (item 7.3)
	Mark Siviter	Managing Director, Mails **(MS)** (Item 8.)
	Jack Bertram	McKinsey **(JB)** (Item 8.)
	Martin Kearsley	Banking Director **(MK)** (Item 9.)
	Julie Thomas	Operations Director **(JT)** (Item 10.)
	Ben Foat	Group General Counsel **(BF)** (Items 10, 11. & 12.)
	Catherine Emanuel	HSF **(CE)** (Item 10.)
	Ainslie Cranwell	HSF (Item 11.)
	Barbara Brannon	Procurement Director **(BB)** (Item 12.)

**Participation in the meeting was entirely remotely 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.*

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. Appointment of Lisa Harrington as a Non-Executive Director of Post Office Limited and as a member of the Remuneration and Nominations Committee

The Board **APPROVED** the appointment of Lisa Harrington as a Non-Executive Director of Post Office Limited for a period of three years from 8th April 2020 to the nearest Board meeting three years from that date.

The Board **APPROVED** the appointment of Lisa Harrington as a member of the Remuneration Committee and the Nominations Committee on the recommendation of the Nominations Committee.

3. Minutes of Previous Board meetings (28th January, 10th March, and 16th March 2020) including Status Report

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The Board **APPROVED** the minutes of the Board meetings held on 28th January, 10th March, and 16th March 2020.

The Board **NOTED** the action log and status of the actions shown.

4. Committee updates (verbal)

4.1 ARC

The ARC had met on 24th March 2020 and as all of the Non-Executive Directors had attended the meeting a substantive update was not required; however, Carla Stent flagged two items to the Board: 1) that dangerous goods compliance was standing at 42% and 2) that the ARC had requested that a Procurement exemptions policy should be provided for discussion at the Board today.

4.2 Remuneration Committee

The Remuneration Committee had met on 11th February 2020. Ken McCall reported that the Committee had:

- agreed that private healthcare would not be offered as a benefit in kind to new colleagues at all grades from 1 July 2020
- discussed the impact on Post Office of a £95k redundancy cap if Treasury were to include Post Office in future legislation which could be applied retrospectively. Preliminary work suggested that 217 colleagues were potentially affected
- approved an amendment to 19/20 STIP EBITDAS threshold figure from 80% to 82% of target to take into account the principle that the threshold for the scheme must never be below the previous year's outturn
- approved the 19/22 LTIP target based on preliminary EBITDAS figures for 2020/21 but it was noted that these figures now needed to be revisited
- approved the tender process for the appointment of recruitment advisers to replace PWC
- discussed the content of the Directors' Remuneration Report for the 2019/20 Annual Report and Accounts and agreed that the draft Report should include all the requirements of the UK Corporate Governance Code and the Remuneration Committee and Shareholder could then decide whether there were any elements it was not appropriate to include
- received an update on the key HR issues from Lisa Cherry, Chief People Officer
- noted the Gender Pay Gap Reporting for 2019/20
- noted the exit packages for Debbie Smith and Shikha Hornsey
- discussed the 2020/21 STIP measures and 2020-23 LTIP measures and the balance between financial measures (including cash flow) and other measures which will need to be discussed further given the priorities that will be driven by the Covid-19 response.

4.3 Nominations Committee

Tim Parker reported that the Nominations Committee had met on 11th February 2020 and approved the Board and Committee evaluation questionnaires; noted the approach to implementing the new Articles of Association and Framework Document and approved Dan Zinner and Emma Springham's appointment to the Group Executive.

5. CEO Report

Nick Read provided an overview of his report and particularly the work taking place to respond to Covid-19, nearly a month into the pandemic. There had been a fundamental change in way we worked. The Group Executive was operating in two groups to respond to Covid-19: the "here and now" with a focus on protecting the work force, serving our elderly and vulnerable customers, managing our communications, making sure that the supply chain was running and keeping branches open. A weekly call was taking place with the Minister and the DWP. The second group was working on future state so that Post Office Limited could emerge as resiliently as possible. Meanwhile, Jeff Smyth and the IT Team had managed the shift to home working and the requirements underpinning this and the systems were working well.

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The new rhythm was operating effectively and we had created a clear dashboard and data set to enable us to know what was happening in branches and allow us to deploy our area managers appropriately and identify our 1,000 priority branches.

We were trading but mails, cash and banking transactions were 40 – 50% down. Verify was the exception, driven by changes to Universal Credit. We had 35,000 Verify customers a week, which could increase to between 50,000 – 100,000.

The position had improved on meeting the requirements of the British Gas contract, more pay stations had been rolled out and network coverage had improved.

The travel business had largely closed but 89 – 91% of the network was open compared with 60% of the banks' networks. However, this was seen as the "calm before the storm" and the position would be challenging for us when in the region of 2,000 branches were closed.

There had been an acceleration in the decline in the use of cash. We expected that Post Office Limited would be a major player in a smaller declining market which had implications for how we approached Banking Framework 3.

Discussions had been taking place with the unions who had concerns about safety and wanted opening hours in DMBs to be reduced to 10.00 am – 2.00 pm. Opening hours were 9.00 am – 3.00 pm, which we believed to be appropriate currently.

A number of points were raised, including:

- the Non-Executive Directors thanked the executive for all the work that was taking place to continue operating a service in testing times
- were we sure that we needed to keep as much as 80% of the network open if this was not necessary in order to serve our elderly and vulnerable customers? Would it help to reduce costs if we closed more branches? How were we determining our 1,000 priority branches? It was noted that we were able to map against our POca customer distribution. We looked at these customers' needs and where a branch closed, the proximity to other Post Offices. It was noted that only a small number of our 129 DMBS were in the top 1,000 branches. We were mapping transactions each day and at some point it might become uneconomic to keep some of our DMBs open, in which instances we would consider closure or restriction of opening hours. We were also thinking about how to mirror the supermarkets' approach for front line workers and elderly and vulnerable customers
- did we have links into other organisations which had employees represented by the CWU? It was reported that we had regular contact with the Royal Mail Group
- that from a customer perspective we needed to step into the spotlight so there was an awareness of the work we were undertaking to serve customers. This point was acknowledged. We had to be able to demonstrate our social purpose and it was noted that some of our Postmasters had received publicity for the work they were doing to support their communities **Executive**
- that it would be helpful to receive the revised business case for the Belfast exit plan
- that the funding position was going to be critical if the lock down continued. Did we have a Plan B?
- what was the position for our other partners and were they working with us collaboratively? It was reported that we had been active in sourcing supplies of hand sanitiser, gloves and masks and had distributed visuals on social distancing to branches. There had been difficult discussions with the unions in the last fortnight but we had received good feedback from postmasters on the remuneration guarantee for April and May 2020. Our multiple partners were disappointed that they we not included in the remuneration guarantee but we believed this to be the right approach.

6. Financial Performance Report

The Chairman welcomed Max Jacobi to the meeting. Al Cameron provided an overview of the trading position.

IRRELEVANT

IRRELEVANT Our focus was on cash and there had been a constriction of working capital in February 2020. The impact of Covid-19 on network numbers would not be apparent immediately but we had already signalled that we would not be able to maintain network numbers of 11,500 or higher.

It was **AGREED** that a separate line would be included for those GLO costs which were not change spend. **AC/ MJ**

It was noted that many of the IT incidents related to change, including supplier patches as well as our own planned change. Jeff Smyth was focused on understanding and resolving these issues.

It was **AGREED** that Max Jacobi would provide an explanation for Carla Stent on why there were different figures[1] for Payzone in different parts of the pack. **MJ**

7. Covid-19 Response and keeping the network open

7.1 Immediate actions and planning

The Chairman welcomed Caroline Scott, Lisa Cherry and Richard Taylor to the meeting.

Nick Read explained that the Covid-19 situation posed particular challenges for Post Office Limited because of the nature of its franchise estate. Many Postmasters wanted to stay open and we had to ensure the provision of essential services, including POca, Verify and cash but we did not want to increase the impact on us of the remuneration guarantee. We had restricted opening hours and services in DMBs. Loomis and RBS's support in delivering cash was helpful. We had repurposed our Hemel unit. We had re-defined access to POca and the encashment process could now be carried out by phone. Branch closures appeared to have levelled off. Transactions were forming into a new pattern, although were recognised that we had not reached the peak of the crisis. How Post Office Limited emerged from the Covid-19 crisis would be critically important.

Caroline Scott provided an overview of the areas we had been focussing on. Decisions were being taken on PPE, including purchasing masks at the end of last week to provide confidence for the front line. Social distancing and deep cleaning were in force in DMBs. We had started to explore what testing options we might have access to through Government and to which workers this would apply.

We had started to see a plateau in branch closures but were at an early stage. We were tracking Government announcements and how this affected branch closures and call centre volumes. We were using data to build a dashboard to gain insight into branch closures. Some branches were re-opening after 14 days of quarantine.

The 1,000 priority branches were selected according to accessibility requirements, service provision to the vulnerable and footfall. We were also identifying "cash deserts" and working to put in place emergency measures, through "Post Office in a Box", mobile vans etc. We were getting services into communities as fast as we could where a branch closed.

We had adopted some innovative approaches in Supply Chain with dynamic routing and using Loomis and RBS to help us deliver cash. The network was stabilising with declining levels of absenteeism leading to less reliance on agents. There had been a change in the demand for cash and we were focussed on the risks we needed to manage, such as cash balancing.

We had set in place arrangements for customers who could not access cash or arrange for another person to do so on their behalf to be sent their money. The utility companies had confirmed that supplies would not be cut off during this period. Compliance with the British Gas contract coverage requirements were being monitored daily. We were working to reduce the call times for Verify.

We were considering whether we could offer colleague support into DWP and the Department of Health and where not would explore furlough options.

We had set up a team to support colleagues who suffered a bereavement and were communicating regularly on issues such as working from home and well-being.

A second contact centre for POca had been set up using Payzone staff. We were supporting key worker status for our main suppliers, such as those providing us with IT services.

Our security headroom requirements were under discussion and UKGI/ BEIS had permitted a waiver on branch numbers for the immediate future. The FCA required all it regulatory requirements to be met. We needed to make sure that our temporary operators only sold products they were

[1] Plus 4 to minus 8 against budget.

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authorised to. We were reviewing our contracts from a legal perspective with a focus on Force Majeure and were running targeted training for the major contract owners.

We were working hard to get on front foot through proactive engagement with Government and scenario planning, such as how we would operate in the event of significant levels of absence in Supply Chain and branch. Online training had been set up for colleague volunteers. Work was taking place to increase the resilience of the IT system.

We had learnt yesterday of the death of a Postmaster in Dewsbury and a Payzone agent in London.

We were exploring what options we had to support Postmasters and building a list of self-help opportunities to minimise any funding requests to Government. FRES was furloughing 50% of its staff. We were seeking to reduce HMRC fees through removing foreign exchange from branches with low volumes of transactions. We were also seeking to reduce contractor costs. The next baseline plan for the Board would include all of the self-help measures.

Nick Read noted that the situation had accelerated the pace of change in a number of areas and we had managed home working and the adaptations to running the supply chain required well. Consideration was being given to how we benefited from this more agile way of working permanently. Owen Woodley and the team working on future state would bring this thinking to the Board meeting on 26th May 2020. This included the franchise structure were there was more Postmaster self-help (e.g. using Branch Hub rather that the call centre), the size and shape of the network, the FRES working model. We knew that trading conditions would be much more difficult and this meant that we would need to take some difficult decisions.

A number of points were raised, including:

- does this approach translate into a set of measures to enable customers to access cash etc.? It was noted that we were prioritising those branches where there were weekly POca visits. We were continuing to review, refine and fine tune the data
- were we seeing an increase in complaints, for example via social media? It was reported that the most frequent complaint on social media was branch opening hours online not aligning with the position on the ground. There was a lag in Postmasters advising us of closures and what customers were seeing online. From next week, Postmasters would be able to use Branch Hub to update opening hours themselves, which would go live after about 10 minutes
- why had we selected 1,000 branches? It was noted that this was a dynamic list and an internal mechanism for prioritising. The criteria was POca access, provision of services to the elderly and vulnerable, footfall, network access overall and preventing "cash deserts". "Cash deserts" were identified through branch and ATM closures, information on which was sent to the FCA which was then fed into the LINK data which informed which the branches we should be keeping open and where others needed to be opened as a priority
- could we stipulate that remuneration support for Postmasters was contingent on cash balancing? It was reported that discussions had taken place with UKGI on Postmaster remuneration and it had been agreed that there were behavioural and compliance requirements that would have to apply to a longer term support scheme were that needed. We had launched a simple scheme for the first couple of months to address the immediate needs
- it was reported that the acceptance rate for Verify was about 50% as getting through the validation process prevented completion in some instances. Caroline Scott would provide the data for Tom Cooper who would raise the issue with Cabinet Office **CS/ TC**
- what would the position be for DMB staff with reduced hours or other staff whose ability to carry out their normal roles was impacted by the current situation? It was reported that we were trying to do the right thing which we thought was 1) redeploy within the business on a voluntary basis 2) redeploy to support Government 3) furlough staff. Some of supply chain could be affected. We would seek BEIS's view and permission prior to furloughing any staff
- that many organisations were looking at voluntary salary sacrifice and/ or giving up bonuses for senior staff. Ken McCall reported that discussions had been taking place with UKGI/ BEIS on incentives now and for the future. It was also noted that there were many lower paid staff at Post Office Limited, which applied particularly to those in the front line, for whom we were considering how to reflect the service they were providing to keep the network open during the pandemic.

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The Board **RESOLVED** to delegate authority to Nick Read, Group Chief Executive Officer, for programme spend for Covid-19 of up to £10 m.

It was noted that the greatest costs were for the purchase of Personal Protective Equipment (PPE), where spend requirements were difficult to predict and where an element of contingency was necessary. Spend would be tracked carefully and the executive would return to Board if further funds were required.

7.2 Financial Viability (including change spend re- prioritisation)

Al Cameron introduced the financial viability report which included a series of ranges showing the potential financial impacts under different scenarios. All the scenarios were sobering and our task was to turn this data into a baseline plan. Trading was beginning to settle into a new pattern. Self-help measures would critical to off-setting some of the trading impacts. The proposed baseline plan would be produced in the next few weeks.

It was noted that in normal circumstances the spend associated with guaranteeing Postmaster remuneration would have been discussed at the Board and its approval sought in advance of an announcement. However, it had been considered imperative to take immediate action to reduce the number of branch closures occurring in response to Covid-19. Conversations needed to continue with UKGI on security headroom. In the short term the most significant cost saving we could make was by pausing change spend. Moving to a new organisation design would be costly because of the associated redundancy payments so this work was being paused in the short term. We were managing network cash well and the Bank of England had agreed a relaxation to the cap on the Note Recirculation Facility.

A number of points were raised, including:

- the non-staff costs were discussed and it was suggested that a targeted reduction should be considered (for example to get below £200m). It was noted that part of the self-help measures were going back to suppliers to seek cost reductions, evacuating more property quicker and asking for additional support from landlords. IT costs were the largest element of the non-staff costs and were largely fixed. The baseline plan would set out the proposed approach and subsequent reports would show what we had achieved. The timelines and speed with which we could implement the various elements of the self-help plan were requested **AC/ MJ to include in plan**
- that it would be helpful to clarify and understand the GLO costs in total and have an explanation of those. It was reported that we were forecasting the baseline litigation costs and had thought the historical shortfalls scheme claims costs might come into H1
- the discussions with BEIS and HMT about headroom security, the costs Post Office would have to incur to keep running and self-help measures were noted. We were prioritising the discussions with Santander about the £90m liability but were conscious that this was not a first order priority for them and that bank governance processes meant that decisions could take some time. We needed a sensible plan to address headroom security problems permanently. Tom Cooper offered to set up a connection with the outgoing chairman of Santander UK who was also the Chairman of Loomis to help expedite these discussions **TC**
- whether the alterations to the change plan would only have a £2.5m impact on the change benefits? It was felt that there was insufficient clarity on the change spend benefits and timing of those coming through. It was noted that most of the projects were requirements (GLO; PCI; Belfast exit plan) which did not deliver financial benefits. The next iteration of the plan to Board would set out the change spend plans and choices (e.g. DMB franchising) in detail **AC/ MJ/ DZ**
- that there were two tensions here: cash flow preservation and the need to bring down the break-even point for the business. We should not lose sight of the opportunity to restructure the business to make it stronger in the future. It was reported that the executive's preference was to accelerate the transformation of the business but redundancies would have to be addressed as part of that.

7.3 Postmaster Remuneration Plan

Nick Read and Al Cameron explained that time had been spent considering a comprehensive plan to support Postmasters but this was complex because of the behaviours that would need to be contingent on such support (e.g. branch opening hours, cash reconciliations) and funding requirements. An immediate short-term response had been thought imperative to stem significant

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branch closures and the reaction to the remuneration guarantees in April and May had been broadly positive. Any longer term support would need to be capped and designed in a way that did not allow profiteering. We were not moving to the provision of essential services only and had been explicit in communications that the measures were a short-term immediate reaction to a critical situation. As well as the immediate impact on services we knew that restarting closed Post Offices was costly. We were still exploring the options for longer term support for Postmasters, should this be required, and the collaboration with UKGI/ BEIS on this topic had been positive.

The Board requested to see the proposals for how Post Office would reward its front line staff and how others in the retail community were choosing to do so. **Executive**

It was recognised that the circumstances surrounding the decision had been unprecedented but the Board would prefer wherever feasible to convene a meeting at short notice than for decisions to be taken outside delegated authority.

The Board **RESOLVED** to **APPROVE** spend retrospectively of c. £10m to support a 100% remuneration guarantee for non-multiple branches in April 2020 and a 90% guarantee for May 2020[2]. This was in addition to an earlier guarantee that fixed pay would continue.

8. Royal Mail Group agreement

The Chairman welcomed Mark Siviter and Jack Bertram to the meeting. Owen Woodley explained that the case for winning in the Pick Up and Drop Off (PUDO) market was more compelling than ever. The new deal with Royal Mail Group still had scope to unwind while Covid-19 intensified existing trends, such as the shift to online. Gaining strength in the PUDO market would help to offset the downside risk of decline in mails and moving away from IRRELEVANT in the RMG contract.

Jack Bertram provided an overview of the proposed deal with the RMG and the broader thinking on the mails strategy. Rico Back, CEO for RMG, had delegated authority from its Board to sign the deal with Post Office Limited (POL). There would be consequences associated with deferring a deal. The deal proposed would enable POL to achieve revenue of IRRELEVANT if volumes were maintained. The downside risk of volumes not being maintained was estimated at between IRRELEVANT and this was the most significant risk for POL. The trend towards online provided both opportunities and risks for POL.

The PUDO strategy sought to offset some of the risk associated with volume decline. The risk of not IRRELEVANT required under the contract had not been mitigated and while we would prefer more flexibility here we did not think we were in a position to obtain it. We would need to continue having conversations with RMG about IRRELEVANT over the next few years but there could be significant delays if we did not finalise the deal soon. RMG was likely to go into loss this year and would be looking for cost saving opportunities so we did not want to re-open negotiations and risk a worse outcome.

A number of points were raised, including:

- why was RMG ready to sign and what was the urgency from their perspective? It was reported that RMG wanted to be able to demonstrate the certainty that the new deal provided
- that a summary of the terms should be provided to the Board and the final term sheet would be provided for the Board meeting on 26 May 2020 **MS**
- what was the evidence that PUDO and particularly click and collect would continue to grow? What would this mean for the retail strategy, including space requirements in store? It was reported that a number of elements had not yet been quantified, including agent pay but that e-commerce was expected to grow significantly and click and collect was growing quickly because it was convenient if an individual was not at home and it addressed environmental concerns about the volumes of trips associated with home deliveries. Returns were growing fast. Pursuing PUDO would extend our reach into the market four-fold. Investment in the retail network with our partners, branches, value streams and the importance of the customer journey would be the key elements of the successful executive of the PUDO strategy. There was a IRRELEVANT contribution from PUDO. The IRRELEVANT of PUDO parcels was about half that of a sales parcel. PUDO

[2] Tom Cooper, Non-Executive Director and Shareholder Representative, did not approve the decision and noted that it was outside the Board's normal governance structure. The decision was carried by a majority of the Board.

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locations would not necessarily be aligned with Post Office locations one-on-one and we would need to think about how we rolled out to new locations

- the wording in the contract IRRELEVANT for example, could we include IRRELEVANT
- investment in systems and capability and our ability to execute PUDO quickly would be essential for it to be successful. There were operational practicalities associated with being able to execute
- we needed to understand how aggressive RMG would be at driving business online, dictating pricing and offering better prices to others and whether we were being too optimistic about online competition and pricing. It was noted that RMG was cautious about driving customers online as there were losses associated with this. They could chose to give business to others but there were costs associated with this as well. There were concrete limits on how far and fast RMG could move away from Post Office Limited.

The Board **APPROVED** the mandate to progress MDA2 with Royal Mail Group through legal drafting on the basis of the commercial deal described in the Board paper but subject to the circulating the summary of terms to the Board.

The Board wished to discuss PUDO in the context of the overall mails strategy in more depth, including understanding the position of others in the market, how it might affect Post Office branch opening hours, remuneration rates and the sensitivities around this. The Board also needed to understand the potential for material adverse change under the new deal with RMB and the timeframes for this.

9. ATM Strategy

The Chairman welcomed Martin Kearsley to the meeting. MK provided an overview of the position. The Bank of Ireland was withdrawing from the provision of ATMs in the UK and prior to the Covid-19 pandemic a business case had been produced for Post Office Limited taking over 1,500 of this estate. The decline in ATM transactions was less for Post Office Limited than for the market overall, reflecting that we served customers who needed cash and that we were not charging for the withdrawal of cash. Post Office's physical location also made a difference and the volume of transactions was beginning to constitute a "new normal". We thought it likely that there would be fewer ATM providers and more chargeable ATMs leading to Post Office being the beneficiary of a larger share of the market, albeit with a smaller customer base. We could control which machines we purchased.

It was noted that charging customers for services would be the least attractive route for Post Office Limited to take. We had been meeting with LINK and would become a member of LINK. We would need to pay more for some ATM services than others, for example a rural service versus that offered at a railway station, and if LINK introduced such differentials we would be able to do more for Postmasters.

A number of points were made, including:

- were the economics underpinning this proposal robust? What was the break-even point for this proposal and how had agent pay been factored in? It was reported that there were baseline costs but all 1,500 ATMs were profitable and would pay for their own replacements. Less work would be entailed for Postmasters hosting the new ATMS. Under the previous model, the Postmaster was paid to run an ATM while the market model had reversed so that the agent normally paid to run an ATM
- how had the procurement been managed? It was reported that we were 95% of the way through the procurement process. The first three lots covered management software and we had been able to gather better information through this exercise and wanted to move to award. We should conclude the final phases of the procurement in the next month. The final two lots were with the same providers but were about different services and we would return to the Board with a proposed strategy for this in due course
- seven years was a long time to commit to a cash out strategy. It was suggested that it would be helpful to understand the proposal within the broader retail strategy and our approach to automation in branches. It was reported that many of the machines that we would be replacing were internal and could be replaced with machines that could process cash in and offer other functionality as well

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- when does the team expect to be able to present an automation strategy? It was reported that the ATM proposal was designed to maintain optionality and had been segmented so that we could proceed with the immediate requirements as well as considering the longer term needs. Automation was a broader piece of work and we had not determined the timeline for returning to the Board with proposals on this
- that it would be helpful to understand better the impact on customers of the proposals.

The Board **APPROVED:** **MK**

- the strategy to replace the Bank of Ireland ATM network with a network of ATMs owned and operated by Post Office under a new commercial & financial framework, subject to Martin Kearsley having a conversation with Tim Parker, Tom Cooper and Ken McCall about the economics, especially as the use of cash declines, and the choice of machines
- the completion of the OJEU process and appointment of the chosen vendors to support POL in delivering the solution.

10. GLO – subject to legal privilege

10.1 **Post GLO Implementation Plan Update**

The Chairman welcomed Ben Foat, Kate Emmanuel and Alan Watts to the meeting. Ben Foat introduced the paper and the recommendations. BF also noted the budget approval of £34.5m and described the breakdown of these figures. We had not received the statement of reasons from the CCRC but the team was working in the background, drawing on the Common Issues and Horizon judgments to inform what might be driving the CCRC's reasoning on abuse of process. A dashboard was being produced for the Historical Shortfalls Claims Scheme. We had not received an update about the BEIS Select Committee and when it would be re-scheduled.

The Board:

- **RATIFIED** the decision taken by the GE to defer the announcement and the opening of the Historical Shortfalls Scheme to 1 May 2020
- **AGREED** that the communications for the Scheme should to be updated with new messaging around (a) encouraging soft copy applications but to contact Post Office if you could not apply electronically); (b) potential delays to assessments arising out of hard-copy investigation documents; (c) that the Scheme closure date would be kept under review if Covid-19 restrictions remained in place **BF/ KE/ AW**
- **DELEGATED AUTHORITY** to Nick Read to decide whether to launch the Scheme on 1 May or defer for a further month in view of Covid-19
- **DETERMINED** that the appropriate approach to the treatment of distress cases which emerged in advance of the launch of the scheme was to escalate distress cases once the Scheme opened but to draw to the Board's attention any acute distress cases of which Post Office Limited became aware. The approach would be kept under review if the start date of the Scheme was delayed further
- **DETERMINED** that the decisions should be delegated to the Decision making panel after the financial envelope had been agreed
- **REQUESTED** a closed session with the Non-Executive Directors and HSF on Project Brisbane to understand the different governance groups and the membership of those groups. **KE/ AW**

10.2 The Chairman welcomed Julie Thomas to the meeting. JT outlined the operational improvements that had been made in response to the Common Issues and Horizon judgments. We had created a table of criticisms against the agent lifecycle. This work was almost complete but we still needed to consider cash and stamps accounting as some parts of these processes had to be completed manually. Norton Rose was carrying out a review of Womble Bond Dickinson's work on this. A second audit was planned for September 2020.

A key criticism had been the way in which we had interpreted our contract. Work on contracts had begun in January 2020 and [redacted] New Postmasters and agents would receive a new contract. [redacted]

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The Board:
- **NOTED** the progress made in updating Operational processes since the Common Issues Judgment in March 2019 and the forward plan
- **NOTED** our current contractual position post-GLO and the recommendations to regularise the position during 20/21 and beyond
- **NOTED** the current dispute process within new Operational processes and the work in progress to introduce independence to the decision making process
- **NOTED** the proposed governance structure for this work.

A number of points were raised, including:
- that the proposed terms for the new contracts for Postmasters and agents, the issues we had addressed, the material changes proposed, and the options we had considered and rejected, needed to be discussed at Board in advance of any external discussions **JT**
- we needed to reach a better position on the Branch Trading Statement where we had been heavily criticised by the Judge. If the Branch Trading Statement could not be replaced it needed to be supplemented by other information that made it fit for purpose. Communications to Postmasters on the status of the Branch Trading Statement contractually would be needed. It was noted that there had been a significant amount of communications about this. We were considering whether we could move the Branch Trading Statement off Horizon but migrating to another IT system could take a number of years. However, we were also looking at all the different parts of the accounting system and what our options were. If we had a running account with a Postmaster we would settle that account for remuneration and that would be transparent. We did not know yet if we could separate accounting from the Horizon system and place it elsewhere.

11. Stamps Reconciliation

The Chairman welcomed Ainslie Cranwell, HSF, to the meeting. Al Cameron explained the background to the paper which had arisen following a fraud investigation last year and where he had got involved with a branch which was struggling with a loss. It had been clear that the loss position had been more complicated because stamps were not being booked in. In the region of 4,000 branches were not balancing their books on any given night. AC had asked for work to be undertaken so that we could understand the situation and the reasons for it, noting that we did not do remming in and out of stamps as we did with cash.

The team was alert to problems with stamps reconciliation and were encouraging Postmasters to make these reconciliations promptly. Our hypothesis was that we able to correct the problem before it crystallised into a loss for a Postmaster but we wanted to bring in a third party firm to test this view. A project was in place to resolve the underlying problem and the reconciliations in Swindon. The longer term option was to build a formal remming in and out process but might not do this if we decided to move off the Horizon system.

Carla Stent noted that stamps reconciliation had been discussed at the ARC on 24 March 2020. The ARC's view was that the Steering Committee/ Working Party should be linked to the broader GLO work.

A number of points were raised, including:
- how would the work on the solutions proposed be reported through to the Board? AC reported that it would be part of the normal reporting to the Board on changes to processes. The third party review would be reported on as part of the GLO reporting and programme
- were there any other products that we should look at where there could be reconciliation issues e.g. scratch cards? AC noted that we had already looked at scratch cards as part of this review but we would make sure we had considered whether any other products could drive reconciliation issues
- that it was surprising that none of the auditors had picked up on this issue. It was noted that RMG had not raised stamps reconciliation with Post Office Limited.

The Board:
- **NOTED** the background and legal position set out in this paper
- **APPROVED** the recommendation to appoint an external accounting firm to investigate the issues set out in the paper presented to the Board on 8th April 2020

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- **APPROVED** the recommendation that a 'working group' and 'SteerCo' be formed to manage and oversee this work stream.

12. Procurement compliance and escalation policy

The Chairman welcomed Barbara Brannon to the meeting. Al Cameron reported that we had an established procurement compliance exceptions approach and that such exceptions were discussed at the Risk and Compliance Committee (RCC). We did not categorise a procurement as compliant unless it had been through a full OJEU process or where services were procured through a government framework, where a procurement was above the £189,000 threshold. There had been instances, such as the Fujitsu bid for the Telecoms RFP, where we had sought the Board's approval to an exception and to consider our proposals for minimising the risks associated with that exception. We had been thoughtful about risk mitigations and management. The ARC had discussed procurement compliance and escalations at its meeting on 24 March 2020 and had asked for a policy to be proposed for approval at the Board; this had coincided with a high incidence of non-compliance because of the Covid-19 demands. The recommendation was a modification of the current approach to exceptions.

A number of points were raised, including:

- that the ARC's request for a Board level policy on procurement compliance and exceptions had been prompted by the perception that a number of exceptions were coming through where the contract review had started too late leaving little option but to accept a non-compliant outcome. The ARC wanted to be sure that we had the right processes in place and that individuals were accountable for adhering to them. There was potential for reputational damage and while most of the exceptions currently were low risk we should be aware of these and have oversight to see that the processes were operating correctly. It was noted that there were often good reasons for exceptions being allowed and that the business had conversations with third parties that would be impacted in order to mitigate the exception risks
- there was a discussion about whether proposed exceptions should be considered at the Board or at the ARC and it was concluded that they should come to the Board
- that we needed to be less tolerant of non-compliance. It was noted that we were setting up framework arrangements where possible which would aid compliance in the future and were also planning to bring back risk appetite for discussion at Board.

Barbara Brannon explained the proposed amendment to the current process under which Risk Exceptions between £25k and £189k would be considered by the RCC, as was the case currently, but with a report of those exceptions provided to the ARC. In addition, delegated authority was sought for GE to approve procurement risk exceptions which met Regulation 32 and/or Regulation 72 exemptions supported by a Legal Risk Note and delegated authority was also ought to GE to approve emergency Covid-19 procurement activity which fell under PCR Regulation C32.2.c, as set out in the paper. All other exceptions would require prior Board approval and a monthly report would be produced for the Board seeking approval of any such exceptions. A legal risk note may be prepared but was not mandatory; however, procurement risk exception requests above £500,000 or with PCR regulatory exemptions would be the subject of a Legal Risk Note and legal review before submission to Board.

Lisa Harrington raised a concern about by the costs associated with McKinsey providing the consultancy for the technology strategy. It was noted that while the costs were high, Post Office Limited was focussed on buying individual partner knowledge and expertise rather than the firm's services generically. The Board **AGREED** that further work was needed on the McKinsey proposal. Lisa Harrington would be meeting with Jeff Smyth, Dan Zinner and McKinsey later in the week and the Board **DELEGATED AUTHORITY** to her to reach a satisfactory conclusion on the proposed approach, subject to which the risk exception would be approved by the Board [*Post-meeting note: Lisa Harrington confirmed by email on 17 April 2020 that a satisfactory position had been reached and the details of this are appended to the action log to the Board meeting on 26 May 2020]*.

The Board **RESOLVED**:

- that all Risk Exceptions would require Board approval and the process would be as set out in the paper presented to the Board on 8th April 2020, including that a monthly report would be submitted

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to Board under legal privilege for review, discussion and approval. Material >£500,000 and/or at medium/high risk of challenge may be the subject of an individual paper

- to **APPROVE** the Risk Exceptions 1-8 and 10 , as set out within Appendix A of the paper presented to the Board on 8th April 2020
- to **DELEGATE AUTHORITY** to the GE for emergency Covid-19 procurement activity which fell under PCR Regulation C32.2.c, as set out in the paper presented to the Board on 8th April 2020.

13. Approvals and Ratifications

13.1 Royal Mail Pouch Collection Services Contract

The Board **APPROVED** the spend of £ IRRELEVANT ncreased by RPI, for the revised Royal Mail Pricing Agreement for Pouch Collection Services covering existing Cheque Deposit Services. It was noted that the contract would expire at the end of November 2021.

13.2 Telecoms - Strategic Investment/Divestment Update

The Board **APPROVED**:

- the Sale and RFP Decision Costs of £3.0m, covering April-September 2020
- the Business as usual Customer router costs of £2.5m, covering April-September 2020

The Board **NOTED**:

- a revised timeline and the expected full year costs following the delay to the sale
- the governance approach being pursued with UKGI.

Tom Cooper noted that he had some concerns about the timetable and would discuss these with the team.

13.3 Verify new agreements with Cabinet Office & Digidentity

The Board **APPROVED** retrospectively the extension of our contract with Digidentity to support the continuity of our GOV.UK Verify service over the next 12 months to March 2021, with the following key terms:

- Post Office would pay Digidentity IRRELEVANT IRRELEVANT
- Post Office would contribute IRRELEVANT to support the costs of a new cloud-based data centre to provide additional capacity to cope with the higher volumes, with Digidentity covering the upfront migration costs;
- Both sides would agree to a joint commercialisation framework to enable the re-sale of Post Office and Digidentity's combined account pool to new private and public sector clients, with pre-agreed revenue shares depending on which party led the market engagement. These reciprocal resale rights would be non-exclusive and perpetual, with each specific opportunity to be agreed on a case-by-case basis.

It was noted that we did not have the capability to monetise the digital identity opportunities now and could not afford the risk of the capital outlay allowing us to do this currently. We were providing the footprint, the brand and the customer base. It was acknowledged that we needed to be sure of our position in 12 months' time and would be looking at the Request for Proposals (RFP) process and partnering/ licensing opportunities.

13.4 Thales contract

The Board **RATIFIED** its decision to **APPROVE** the extension of Post Office Limited's contract with Thales for the provision of Application, Enrolment & Identity services for a further 3 years to April 2023 IRRELEVANT and **NOTED** that the supporting revenue for the contract is IRRELEVANT

Noting and governance items

14. Annual Governance Report (including implementation plan for new Articles of Association and Framework Document)

The Board **APPROVED**:

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- the Matters Reserved to the Board incorporating the spend approval limits, authorised signatory and Company Seal authentication list, treatment of unlimited liabilities and table of delegated authorities
- the Terms of Reference for the Audit, Risk & Compliance Committee
- the Terms of Reference for the Nominations Committee
- the Terms of Reference for the Remuneration Committee

as attached in appendices 1 – 4 of the paper presented to the Board on 8th April 2020 to be effective from 9th April 2020 and to supersede all previous versions.

The Board **NOTED:**

- the obligations table, derived from the Framework Document, as attached in appendix 5 of the paper presented to the Board on 8th April 2020
- the other elements of the annual Governance Report to the Board, namely, the reviews against terms of reference for the Remuneration and Nominations Committees and the revised Register of Interests at appendix 6.

15. Board and Committee Evaluation Report

Ken McCall introduced the report. There had been a number of repeated themes from 2018/19 to 2019/20 and cultural change, delivery and engagement with Postmasters and customers were seen as critical. Some external perspective had been brought into Board discussions, including on the mails market and other postal services through McKinsey's analysis supporting the PSG work. There had been a period of uncertainty in IT with the change in CIO and subsequent departure of the new CIO. The Board still needed to see that investment spend was delivering the stated benefits.

The next steps would be to turn the recommendations into initiatives and report on this to the Board in May 2020 and we would also check progress against the actions mid-way through the year. Tim Parker would be happy to receive any further suggestions from the Board and he would work with Veronica Branton to map the proposals through Board agendas.

The Board **APPROVED** the recommended actions to address points raised and areas which may require development, as follows:

i. Include culture as part of the post GLO operations report to each Board meeting and include within the discussions at the Board Strategy days.

ii. Provide a bi-annual expert view to the Board on the customer/ market/ competitor landscape which should inform business priorities.

iii. Change spend: request that the executive provide a paper which shows change spend versus plan, the return on investment and how the projected benefits have flowed through to the P&L.

iv. External perspective and the postmaster voice: **A.** Introduce external speaker/ guest slots at Board dinners and/ or at Board, with Board Directors invited to provide suggestions. **B.** Inclusion of the postmaster voice to be considered as part of the wider discussion on communications and engagement post GLO, including the role of the National Federation of Sub postmasters (NFSP).

v. Select a past decision for review at the May or July 2020 Board meeting and plot reviews into the Board agenda periodically.

vi. Board training and development: **A.** Company Secretariat to provide details of PWC, legal firm and UKGI/ BEIS briefing sessions on topical Board issues (developments in governance, law, accounting, IT etc.) **B.** The executive to recommend briefing sessions where there is a Post Office angle or implication for an issue, such as cyber security.

vii. Increase the number of NED sessions from two to four a year and schedule in advance of every other Board meeting.

16.1 Health & Safety Report

The Board **NOTED** the Health & Safety Report.

16.2 Sealings

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The Board **APPROVED** the affixing of the Common Seal of the Company to the documents set out against items number 1901 to 1930 inclusive in the seal register.

16.3 Future Meeting Dates

The future meeting dates were **NOTED.**

16.4 Forward Agenda

The forward agenda was **NOTED.**

17. Any Other Business

The Chairman thanked the executive team again for the impressive manner in which it was performing during the Covid-19 crisis.

18. Date of next scheduled meeting

26 May 2020.

GRO

21/07/2020 23:58

Chairman

09/07/2020

Date

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Voting Results for Board Minutes - 08.04.2020

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	21/07/2020 23:58